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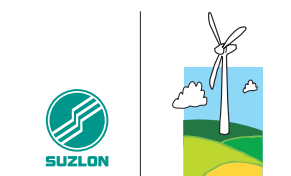
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## Offering Circular dated 23 July 2009



### SUZLON ENERGY LIMITED

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

#### **U.S.\$90,000,000 Zero Coupon Convertible Bonds Due 2014 Convertible into Ordinary Shares**

#### **ISSUE PRICE: 104.30 per cent.**

The U.S.\$90,000,000 Zero Coupon Convertible Bonds due 2014 (the "Bonds") 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 2 September 2009 up to the close of business on 18 July 2014 by holders of the Bonds into fully paid equity shares with full voting rights with a par value of Rs.2 each of the Company (the "Shares") at an initial Conversion Price (as defined in the "Terms and Conditions of the Bonds") of Rs.90.38 per Share with a fixed rate of exchange on conversion of Rs.48.1975 to U.S.\$1.00. The Conversion Price is subject to adjustment in certain circumstances (see "Terms and Conditions of the Bonds – Adjustments to Conversion Price"). The closing price of the Shares on the National Stock Exchange of India Limited (the "NSE") on 21 July 2009 was Rs.91.00 per Share and the closing price of the Shares on the Bombay Stock Exchange Limited (the "BSE") on 21 July 2009 was Rs.90.95 per Share.

Unless previously converted, redeemed or purchased and cancelled, the Bonds will be redeemed in U.S. dollars on 25 July 2014 at 134.198 per cent. of their principal amount. The Bonds may 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 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.

Application has been made for the listing of the Bonds on the Singapore Exchange Securities Trading Limited (the "SGX-ST"). The Company has undertaken to procure the listing of the Bonds on the SGX-ST within 15 business days from the Closing Date provided however that, if the Company cannot, after using best efforts, obtain or maintain such listing, it will use all reasonable endeavours to procure and maintain the admission to listing, trading and/or quotation of the Bonds by such other listing authorities, stock exchanges and/or quotation systems as it may decide. 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. 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. Application has been made for listing of the Shares issuable upon conversion of the Bonds to each of the NSE and the BSE. The issue of Bonds was authorised by a resolution of the Board of Directors passed on 20 July 2009 and by a resolution of the Shareholders passed on 30 July 2008. The floor price for the conversion of the Bonds is Rs.89.5250.

#### **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 24 July 2009 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 and the Shares to be issued upon conversion of the Bonds may only be offered or sold to persons in the United States who are qualified institutional buyers (as defined in Rule 144A under the Securities Act) ("QIBs") in transactions exempt from the registration requirements of the Securities Act. The Bonds and the Shares to be issued upon conversion of 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 "Plan of Distribution". 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 RBI, the Securities and Exchange Board of India (the "SEBI") and the Registrar of Companies of Gujarat, India for their information.

*Joint Lead Managers*



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, joint venture and associate company (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 and Macquarie Capital Securities (Singapore) Pte. Limited (the "Joint Lead Managers"), 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 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 Joint Lead Managers 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 "Plan of Distribution".

None of the Joint Lead Managers, 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 Joint Lead Managers, 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 Joint Lead Managers, the Trustee or the Agents or on any person affiliated with the Joint Lead Managers, 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.

**The Bonds and the Shares to be issued upon conversion of the Bonds have not been approved or disapproved by the U.S. Securities and Exchange Commission, any State securities commission in the United States or any other U.S. regulatory authority, nor have any of the foregoing authorities passed upon or endorsed the merits of the offering of the Bonds or the accuracy or adequacy of this Offering Circular. Any representation to the contrary is a criminal offence in the United States.**

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 Joint Lead Managers, 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 Joint Lead Managers, the Trustee or the Agents makes any representation as to the accuracy of that information.

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 Fiscal Years 2007, 2008 and 2009 which have all been prepared in accordance with Indian GAAP. Unless otherwise specified, financial information for the Group for the Fiscal Year 2007 set out herein is for the Group, excluding REpower.

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, all references to “S\$” are to Singapore dollars, all references to “A\$” are to Australian dollars and all references to “RMB” are to Chinese Renminbi. No representation is made that the Indian Rupee, Euro or United States dollar, Australian dollar or RMB amounts referred to herein could have been or could be converted into United States dollars, Euros, Indian Rupees, Australian dollars or RMB, as the case may be, at any particular 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 and section 44A of the Code of Civil Procedure, 1908 (the “Code”).

Under the Code, a court in India shall, upon the production of any document purporting to be a certified copy of a foreign judgment, presume that the judgment was pronounced by a court of competent jurisdiction, unless the contrary appears on record.

Section 44A of the 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 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 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. A judgment of a court in a jurisdiction which is not a reciprocating

territory may be enforced only by a new suit upon the judgement and not by proceedings in execution.

Section 13 of the 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. 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 execution. Any judgment in a foreign currency would be converted into Indian Rupees on the date of the judgement and not on the date of the payment. The Company cannot predict whether a suit brought in an Indian court will be disposed off in a timely manner or be subject to considerable delays.



## DEFINITIONS

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

Acquisition Facility . . . . .	The €1,355 million syndicated loan arranged by ABN AMRO Bank N.V. entered into on 9 February 2007, as amended
AERH . . . . .	AE-Rotor Holding B.V.
Affiliated Companies . . . . .	SIL, SRL, Kurumadikere Energy Limited, Shubh Realty (South) Private Limited
Articles/Articles of Association . .	The Articles of Association of the Company
Auditor . . . . .	The joint statutory auditors of the Company, being 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 annual World Market Update produced by BTM in March 2007 covering developments in the wind energy sector during the calendar year 2006
BTM 2008 Report . . . . .	The annual World Market Update produced by BTM in March 2008 covering developments in the wind energy sector during the calendar year 2007
BTM 2009 Report . . . . .	The annual World Market Update produced by BTM in March 2009 covering developments in the wind energy sector during the calendar year 2008
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 the Company, unless otherwise specified
DNV . . . . .	Det Norske Veritas
Elin . . . . .	Elin EBG Motoren GmbH, Austria
EPC . . . . .	Engineering, procurement and construction services
ESOP-2005 . . . . .	Employee stock option plan 2005
ESOP-2006 . . . . .	Employee stock option plan 2006
ESOP-2007 . . . . .	Employee stock option plan 2007
EWEA . . . . .	The European Wind Energy Agency
FCCB . . . . .	Foreign currency convertible bond
FCCB Scheme . . . . .	Foreign Currency Convertible Bonds and Ordinary Shares (Through Depository Receipt Mechanism) Scheme, 1933, as amended from time to time

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
Finance Act .....	The Finance Act, 2005, as amended from time to time
Fiscal Year .....	Period of 12 months ended 31 March of that particular year, unless otherwise stated
GL .....	Germanischer Lloyd
Group.....	The Company, its subsidiaries, associate company and joint venture
GWEC .....	Global Wind Energy Council
GWEC 2006 Report .....	The Global Wind 2006 report published by GWEC relating to the calendar year 2006
Hansen.....	Hansen Transmissions International N.V. and its subsidiaries
HUF .....	Hindu undivided family
IEA .....	The International Energy Agency
IFRS .....	International Financial Reporting Standards
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
KPMG.....	KPMG Deutsche Treuhand-Gesellschaft Aktiengesellschaft, Wirtschaftsprüfungsgesellschaft, being the auditors of REpower
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 the Company
MNRE.....	The Ministry for New and Renewable Energy of the Indian Government
MOF .....	The Ministry of Finance of the 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, Rambhaden 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 Ranchhodbhai HUF), Tulsi R. Tanti (as karta of Ranchhodbhai 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
REpower Group .....	REpower, its subsidiaries and joint ventures
REpower Offer .....	the Group’s formal tender offer for the outstanding equity share capital of REpower on 27 February 2007
RETC .....	The Renewable Energy Technology Centre GmbH
SBT .....	Suzlon Blade Technology B.V. (formerly AE-Rotor Techniek B.V.)
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 27 January 2000, as amended, including instructions and clarifications issued by SEBI from time to time
SE Forge .....	SE Forge Limited
SEG .....	Suzlon Energy GmbH
SEDT .....	SE Drive Technik GmbH
SERC .....	State Electricity Regulatory Commission
SEZ .....	Special Economic Zone
SGWPL .....	Suzlon Gujarat Wind Park Limited
Shareholder .....	A holder of Shares
Shares .....	Equity shares in the Company with a par value of Rs.2 each
SICA .....	Sick Industrial Companies (Special Provisions) Act, 1995
SIL .....	Suzlon Infrastructure Limited
SISL .....	Suzlon Infrastructure Services Limited
SNA .....	Suzlon North Asia Limited
SRL .....	Sarjan Realities Limited
State Governments .....	State governments of India

STSL .....	Suzlon Towers And Structures Limited
Suzlon Denmark .....	Suzlon Energy A/S (Denmark)
Suzlon Generators.....	Suzlon Generators Limited
Suzlon Structures .....	Suzlon Structures Limited
SWE .....	Suzlon Windenergie GmbH
SWECO .....	Suzlon Wind Energy Corporation
SWED.....	Suzlon Wind Energy A/S, Denmark
SWK.....	Suzlon Windkraft GmbH
THBV .....	Tarilo Holding B.V.
Union Territory .....	A sub-national administrative division of India
WTG.....	Wind turbine generator

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## SUMMARY

*This summary highlights information contained elsewhere in this Offering Circular. This summary does not contain all the information that should be considered before deciding to invest in the Bonds. The Company recommends reading this entire Offering Circular carefully, including the financial statements and related notes included elsewhere in this Offering Circular.*

### Overview

The Group (excluding REpower) is a leading manufacturer of WTGs and was ranked fifth in the world in terms of annual installations with a market share of 9 per cent. for the year ended 31 December 2008 and the Group (including REpower) was ranked third in the world in terms of annual installations with a market share of 12 per cent. for the year ended 31 December 2008. (Source: BTM Report 2009). The Group is the leading provider of integrated WTG solutions in India and has expanded its operations in international markets with a presence in the United States, Europe, China, Australia, Brazil, South Africa and South Korea. The Company was incorporated on 10 April 1995 by the Promoters. The Group's accumulated WTG sales from the Group's establishment (excluding REpower) were 3,547 MW, 5,859 MW and 8,649 MW as at 31 March 2007, 31 March 2008 and 31 March 2009, respectively. India, with 749 MW, and the international markets, with 2,041 MW, accounted for 26.84 per cent. and 73.16 per cent., respectively, of the Group's (excluding REpower) WTG sales (by volume) in the Fiscal Year 2009.

In the Fiscal Year 2007, the Company through its 100 per cent. owned subsidiary (as at 31 March 2009), AERH, acquired Hansen, the second largest gearbox and drive train manufacturer for WTGs worldwide. The Company, through AERH, held, as at 31 March 2009, an equity interest of 61.28 per cent. in Hansen. See "The Company's Subsidiaries and the Affiliated Companies". In the Fiscal Year 2008, the Group acquired a stake in REpower, and held, as at the date of this Offering Circular, an equity interest of 90.72 per cent. in REpower, one of the leading WTG producers in the German wind energy sector. See "Business – REpower Systems AG". Also, in Fiscal Year 2009, the Company, through AERH, sold 67,010,421 shares (constituting 10 per cent. equity base) in Hansen. Post-disposal, the Company retains 61.28 per cent. (as at 31 March 2009) of the voting and economic interest in Hansen. Finally, the Company's stake in SE Forge was reduced to 82.9 per cent. (as at 31 March 2009) following an issue of new equity shares by SE Forge in October 2008.

The Group develops and manufactures technologically advanced WTGs with an emphasis on high performance and cost-efficiency. Including REpower's WTG models, the Group's current product range includes 0.35 MW, 0.60 MW, 1.25 MW, 1.50 MW, 2.00 MW, 2.10 MW, 3.3 MW, 5 MW and 6 MW WTGs. It is among the first Asia-based companies to manufacture WTGs with multi-MW capabilities. The Group is an integrated developer of WTGs, focused on the design, engineering and development of WTGs and the majority of its components, including tubular towers, control panels, nacelle covers and generators, and the development and in-house manufacture of rotor blades for its sub-MW and multi-MW WTGs. 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 has completed the process of integrating the operations of Hansen into the Group and has recently begun sourcing approximately one-third of its gearbox requirements from them. The Group has also set up facilities to manufacture forging and foundry components that are required for the manufacture of WTGs and their components. The Group also expects to complete construction of the Suzlon Campus (the Company's new headquarters in Pune, India) in the first half of Fiscal Year 2010. The Group (excluding REpower) expects to invest a further Rs.2.53 billion towards its expansion plans during Fiscal Year 2010.

The Group conducts R&D activities primarily through the Company's subsidiaries, SEG, SBT and RETC. RETC is a 50:50 joint venture between the Company's subsidiaries, SEDT and REpower. These entities 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. See "Business – Research and Development" and "Business – REpower Systems AG – Research and Development." Further, the Group also conducts R&D in gearboxes through Hansen. The Group usually gets its design, manufacture, O&M services certified as ISO 9001:2000 by DNV. The Group's

WTG models are generally validated with type certification by either GL or CWET, an autonomous body attached to the MNRE.

With respect to the Indian market, the Group (excluding REpower), together with the Affiliated 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 undertakes the manufacturing and machining of large forge and casting products, catering primarily to the wind power industry through its 82.9 per cent. owned (as at 31 March 2009) subsidiary SE Forge. The Group also provides EPC and after-sales O&M services through SISL for WTGs it supplies in India. The Affiliated 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 operates as a manufacturer and supplier of WTGs and is involved in O&M and wind farm project activities. Through its subsidiary, Hansen, the Group is also involved in the manufacture of WTG gearboxes and industrial gearboxes. 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.

The Group's consolidated total income was Rs.80,822.30 million, Rs.139,474.01 million and Rs.265,305.44 million for the Fiscal Years 2007, 2008 and 2009, respectively. Net profit was Rs.8,640.32 million, Rs.10,300.98 million and Rs.2,364.81 million for the Fiscal Years 2007, 2008 and 2009, respectively.

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

	For the Fiscal Year					
	2007	Percentage of Total Income	2008	Percentage of Total Income	2009	Percentage of Total Income
	(in Rs. million, except percentages)					
<b>Sales:</b>						
WTG and its						
Components . . . . .	59,985.62	74.22	114,442.16	82.05	229,694.12	86.58
Gearboxes . . . . .	18,560.74	22.96	24,048.12	17.24	39,936.42	15.05
Foundry and Forging <sup>(1)</sup> . . . . .	–	–	0.14	–	171.82	0.06
Others . . . . .	1,321.32	1.63	247.24	0.18	360.61	0.14
Intersegment Sales . . . . .	(10.38)	(0.01)	(1,943.36)	(1.39)	(9,345.96)	(3.52)
<b>Total Sales . . . . .</b>	<b>79,857.30</b>	<b>98.81</b>	<b>136,794.30</b>	<b>98.08</b>	<b>260,817.01</b>	<b>98.31</b>
<b>Other Income<sup>(2)</sup> . . . . .</b>	<b>965.00</b>	<b>1.19</b>	<b>2,679.71</b>	<b>1.92</b>	<b>4,488.43</b>	<b>1.69</b>
<b>Total Income . . . . .</b>	<b>80,822.30</b>	<b>100.00</b>	<b>139,474.01</b>	<b>100.00</b>	<b>265,305.44</b>	<b>100.00</b>

Notes:

(1) New segment for reporting for the Fiscal Year 2009.

(2) Other income consists primarily of interest received, dividend income and other miscellaneous income.

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

	For the Fiscal Year		
	2007	2008 (per cent.)	2009
India .....	52.21	41.07	17.07
Europe .....	20.49	23.27	32.40
United States .....	20.68	18.68	28.09
China .....	3.94	3.50	4.85
Australia .....	—	7.48	11.24
Others .....	2.68	6.01	6.35
<b>Total</b> .....	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>

### Competitive Strengths

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

- *Focus on providing “integrated solutions” wind energy packages to customers in India.* The Group's (excluding REpower) business model for the Indian market involves, 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, together with the Affiliated Companies, the acquisition of sites; (e) developing these sites and installing WTGs and connecting them to the power grid; and (f) providing after-sales O&M services. This business model allows the Group's Indian customers to benefit from the cost-efficiencies and the economies of scale that wind farms can offer. At the same time, the Group's customers can avoid the need to undertake the cumbersome processes associated with developing wind farms, which require expertise in various areas such as wind study, land acquisition and project execution and management skills.
- *Track record of executing large-scale wind power projects.* The Group (excluding REpower), along with the Affiliated Companies, has 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 to develop the capabilities and expertise needed for wind farm projects and the Group's customers benefit from the experience the Group has gained through operating its WTGs in different 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 in-house design capabilities, the Group has been able to develop its sub-MW and multi-MW WTG models, as well as the rotor blades for these WTGs, including offshore WTGs. The Group has also been able to develop in-house many of the processes and technologies that enable it to manufacture certain key components, such as nacelle covers, nose cones, control panels, rotor blades and generators and gearboxes. It also has an in-house capability to construct tools and moulds used in the manufacture of rotor blades.
- *Cost-efficient manufacturing and supply-chain.* The Group's (excluding REpower) manufacturing facilities located in India and China give it a 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. Also, the new capacity located in the SEZs allows the Group to enhance its cost competitiveness. Further, the Group is able to 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, Germany and the United States, the Group has created a global production platform for supplying to key growth markets. In addition, the Group has an integrated manufacturing base with most of the key components such as rotor blades, generators, gearboxes, control panel, towers, nose



cones and nacelle covers manufactured in-house. The Group recently established facilities to manufacture forging and foundry components used in WTGs and their components. Its business model also enables it to offer a combination of low cost manufacturing and access to high end technology.

- *Market leader in India and presence in several other high growth markets.* For the last eight Fiscal Years, the Group has been the leading WTG manufacturer in India. During the year ended 31 December 2008, the Group (excluding REpower) held a 47 per cent. share of the India WTG market (installations by capacity), with India being the fifth largest wind power market in terms of annual installed capacity during the same period (Source: BTM Report 2009). The Group has established a market presence in eight states, among which are the states that have the highest installed capacity of wind energy, including Maharashtra, Tamil Nadu, Gujarat, Karnataka and Rajasthan. The Company has also entered the state of Kerala, with the commissioning of its first turbine there in August 2008. The Group's leading market share makes it well-positioned to leverage its reputation and existing customer relationships to take advantage of anticipated future growth in demand for renewable energy sources. The Group has also established a presence in some of the key wind markets such as the United States, Europe, China and Australia. It has implemented projects in the United States, Australia and China and is currently implementing projects in Brazil, Portugal, Italy, Sri Lanka and Nicaragua. The Group undertakes marketing activities in several parts of Europe. As at 31 December 2008, REpower was the third largest supplier of WTGs in Germany by market share (Source: BTM Report 2009).
- *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 has introduced a customer management system concept as part of its O&M services to provide 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 during adverse weather conditions. The Group believes this helps in reducing WTG downtime and maintenance costs. Further, the Group's R&D teams are able to use the operational data gathered by its O&M 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 senior management brings with them extensive experience in the design, engineering, manufacturing, marketing and maintenance of WTGs. The Group's senior management team, located primarily in India and Europe, oversees R&D, manufacturing, finance, sales, business development and strategic planning and has 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:

- *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 has been ranked as the number one WTG supplier in India for the last eight years (Source: BTM Report 2009). The Group intends to continue to focus on growing its India business by leveraging its status as the leading integrated solution provider in wind and by continuing to develop large-scale wind farm projects. The Group will also continue to utilise the experience and expertise gained through its Indian operations to seek to win and execute orders from international customers.
- *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 currently 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; key growth markets in Europe, including Germany, 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; and South America, where many optimal sites exist, including in Brazil and Nicaragua.

- *Expanding manufacturing capacity in domestic and key international markets.* The Group's strategy is to establish manufacturing facilities for WTGs and key components close to markets with growing demand for power generated by wind energy. Some of these facilities may be located in geographical locations that are eligible for fiscal incentives. The Group has recently commissioned manufacturing facilities in India and Europe for WTGs and key components. 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 the potential for growth and where the Group believes it will be able to develop a strong marketing foothold. The Group has recently expanded its manufacturing capacity for gearboxes in Belgium and has also set up new manufacturing capacities in India and China in order to cater for new customers, increasing demand from existing customers and some of the in-house requirements of the Group.
- *Expanding its WTG product line and improving existing models.* The Group intends to leverage its WTG design and development capabilities by implementing new technology that it has developed through the Company's R&D subsidiaries to enhance the Group's existing WTG models and develop new models, particularly in the multi-MW class. RETC, a 50:50 joint venture between the Company's subsidiaries SEDT and REpower, aims to develop innovative technology that will influence the next generation of wind turbines. RETC aims to undertake strategic development in the field of research and technical training in the future. The Company plans to establish international subsidiaries of RETC in the future, in order to leverage the knowledge and expertise available in particular areas. As part of RETC, an academy offering high-quality technical training and qualification schemes is also planned, initially on the basis of collaborations with universities. The Group aims to take advantage of its vertically integrated structure to combine WTG research with its R&D platform at the component level in order to design and develop more advanced and cost efficient WTGs. Further, pursuant to the acquisition of REpower, the Group plans to enter into the field of offshore WTGs.
- *Integrated manufacturing.* The Group has developed and continues to implement a strategy to take control of and/or build relationships with companies which are suppliers of key components of the Group's WTGs, such as rotor blades, tubular towers, generators, and control panels. The Group has also acquired Hansen, which is the second largest gearbox and drive train manufacturer for WTGs worldwide. In 2008, Hansen set up its manufacturing facilities by establishing gearbox manufacturing units in India and China. The Group established SE Forge with the objective of undertaking manufacturing and machining of large forging and casting products catering primarily to the wind power industry. Both the foundry and the forging unit of SE Forge started commercial production during Fiscal Year 2009. 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. It is also expanding its vendor base across countries to improve

supply chain efficiencies and to build a hedge against foreign currency risks. 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 acquired REpower and Hansen. See "Business – REpower Systems AG".

The Company has recently appointed Boston Consulting Group ("BCG") for a business transformation initiative, with a focus on financial and operational planning, delivery excellence and efficiency, product and technology and organisation and people.

## SUMMARY OF THE TERMS OF THE OFFERING

*The following is a 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 relevant Terms and Conditions of the Bonds.*

Company .....	Suzlon Energy Limited.
Bonds.....	U.S.\$90,000,000 Zero Coupon Convertible Bonds due 2014, convertible into fully-paid ordinary shares with a par value of Rs.2 each of the Company.
Issue Price of the Bonds .....	The Bonds will be issued at 104.30 per cent. of their principal amount.
Issue Date .....	On or about 24 July 2009.
Maturity Date of the Bonds. ....	25 July 2014.
Interest.....	The Bonds will not bear interest.
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 Bondholders into Shares, at any time on and after 2 September 2009, up to the close of business on 18 July 2014 or, if the Bonds shall have been called for redemption before the relevant 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.90.38 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.
Floor Price .....	The floor price for the conversion of the Bonds is Rs.89.5250. For further details see "Dividends and Dividend Policy" and "Foreign Investments and Exchange Controls".
Negative Pledge and Undertakings .....	So long as any Bond remains outstanding: <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 material part of its undertaking, assets or revenues, present or future, to secure any International Investment Securities or Promoter Group Loans, or to</li> </ul>

secure any guarantee of or indemnity in respect of any International Investment Securities;

- (ii) the Company will procure that no Subsidiary or other person creates or permits to subsist any Security upon the whole or any material 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 Promoter Group Loans or to secure any guarantee of or indemnity in respect of any of the Company's or any Subsidiary's International Investment Securities or Promoter Group Loans; and
- (iii) the Company will 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 or Promoter Group Loans,

unless, at the same time or prior thereto, the Company's obligations under the Bonds and the relevant 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" and "Terms and Conditions of the Bonds – Conversion – Undertakings".

Anti-dilution undertakings . . . . .

The Company has undertaken that it will not take any corporate or other action described in "Terms and Conditions of the Bonds – Adjustments to Conversion Price" unless:

- (a) the total aggregate decrease in the Conversion Price that would result from all corporate actions or other actions provided in "Terms and Conditions of the Bonds – Adjustments to Conversion Price" that occur from 20 July 2009 to and including the Maturity Date but that do not give rise to an adjustment to the Initial Conversion Price due to the fact that such adjustment would result in the Conversion Price being lower than the Regulatory Floor Price, is no greater than 15 per cent. of the Initial Conversion Price (inclusive of the impact of all Dividends, which are subject to further aggregate and annual limits as described in (b) and (c) below);
- (b) the total aggregate adjustment to the Conversion Price resulting from distribution of all Dividends from and including 20 July 2009 to and including the Maturity Date, is not more than 7.5 per cent. of the Initial Conversion Price; and
- (c) the total aggregate adjustment to the Conversion Price resulting from the distribution of all Dividends in any single financial year of the Issuer, is not more than 2.0 per cent. of the Initial Conversion Price.

Clean-up call . . . . .

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 134.198 per cent. of its principal amount on the relevant Maturity Date.

#### Redemption for Taxation

Reasons . . . . . At any time the Company may redeem all, and not some only, of the Bonds at the relevant 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 21 July 2009; 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 Company, 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, each Bondholder will have the right at such Bondholder’s option to require the Company to redeem in whole, but not in part, such Bondholder’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”.

#### 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 relevant Maturity Date.



## Form and Denomination of

Bonds .....	<p>The Bonds will each be issued in registered form in denominations of U.S.\$1,000 each or integral multiples thereof.</p> <p>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 the Clearing Systems.</p> <p>For as long as the Bonds are represented by the Global Certificate, the Global Certificate will be deposited with and registered in the name of a nominee of 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.</p>
Events of Default .....	<p>For a description of certain events that will permit acceleration of repayment of principal interest and premium (if any) on the Bonds, see "Terms and Conditions of the Bonds – Events of Default".</p>
Share Ranking .....	<p>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", "Terms and Conditions of the Bonds – Conversion".</p>
Market for the Shares, Listing and Share Ownership Restrictions .....	<p>The outstanding Shares of the Company are listed on the NSE and BSE. The Shares issued on conversion 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.</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 .....	<p>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.</p>
Indian Taxation .....	<p>All payments in respect of the Bonds by the Company 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</p>

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".

Offer and Selling Restrictions . . . There are restrictions on the offer, sale and/or transfer of the Bonds in, among others, the United Kingdom, the United States, India, Hong Kong, Japan and Singapore. For a description of the selling restrictions on offers, sales and deliveries of the Bonds, see "Plan of Distribution".

Listing . . . . . Application has been made for the listing of the Bonds on the SGX-ST. The Company has undertaken to procure the listing of the Bonds on the SGX-ST within 15 business days from the Closing Date provided however that, if the Company cannot, after using best efforts, obtain or maintain such listing, it will use all reasonable endeavours to procure and maintain the admission to listing, trading and/or quotation of the Bonds by such other listing authorities, stock exchanges and/or quotation systems as it may decide.

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.

Application has been made for listing of the Shares issuable upon conversion of the Bonds to 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.

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") on External Commercial Borrowings and Trade Credits dated 1 July 2009 issued by the RBI (the "Master Circular") permit Indian companies to issue 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 issue of the Bonds in accordance with these guidelines and regulations. See "Foreign Investment and Exchange Control".

Common Code for the Bonds . . . 044190265

ISIN for the Bonds . . . . . XS0441902656

## 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.*

*These risks and uncertainties are not the only issues relevant to the Bonds, the Shares or that the Group faces: additional risks and uncertainties not presently known to the Group or that the Group currently believes to be immaterial may also have an adverse effect on the business, results of operations and financial condition of the Group. Unless specified or quantified in the relevant investment consideration below, the Group is not in a position to quantify the financial or other implication of any of the risks described in this section.*

*Wherever used in this section "Investment Considerations", the term "Group" shall be deemed also to include REpower and its subsidiaries, unless otherwise stated.*

### RISK RELATING TO THE GROUP'S BUSINESS

**Projects included in the Group's order book may be delayed or modified, which could materially harm its cash flow position, financial conditions and results of operations.**

As at 25 June 2009, the Group (excluding REpower) had orders to supply 1,463 MW of capacity for wind power projects.

The Group's order book comprises firm orders that it has received from customers by means of a formal binding agreement. However, there can be no assurance that such orders will not be cancelled or reduced, or that the customers will perform in full its payment and other obligations in accordance with the agreements. Accordingly, the Group's order book should not be considered to represent future revenues. Its order book represents business that is considered likely, but cancellations or scope or schedule adjustments may and do occur. The Group may also encounter problems executing the project as ordered, or executing it on a timely basis. Moreover, adverse conditions in the global financial markets or other factors beyond the Group's control or the control of its customers may cause its customers or the Group to postpone a project or cause its cancellation, including delays or failures to obtain necessary permits, authorisations, permissions, and other types of difficulties or obstructions. Due to the possibility of cancellations or changes in project scope and schedule as a result of the exercises of any customer's discretion, or problems encountered by the Group in project execution, or reasons outside the Group's control or the control of its customers, the Group cannot predict with certainty when, if or to what extent an order book project will be performed. See the investment consideration "– Difficult conditions in the financial markets have had, and may continue to have, a material adverse effect on the business, results of operations, financial condition or prospects of the Group".

Even relatively short delays or surmountable difficulties in the execution of a project could result in the Group's failure to receive, on a timely basis or at all, all payments otherwise due to it on a project. In addition, even where a project proceeds as scheduled, it is possible that the contracting parties may default or otherwise fail to pay amounts owed. Any delay, reduction in scope, cancellation, execution difficulty, payment postponement or payment default in regard to order book projects, or disputes with customers in respect of any of the foregoing, could materially harm the Group's financial condition, results of operations and cash flows.

**The Group's multinational operations and its continued expansion into markets outside of India subject it to risk.**

The Group currently has a direct presence in several countries in addition to India, including China, Denmark, Belgium, Germany, the United States and Australia and intends to further expand

its operations in international markets. For the Fiscal Year 2009 the Group generated Rs.216,290.41 million in revenue from the sale of its WTGs, gearboxes, foundry and forging components and other business in foreign markets, corresponding to 83 per cent. of the total revenue of the Group.

The Group's international expansion plans will require the Group to establish new offices, expand its workforce and manage offices in widely disparate locations and will require significant management attention and financial resources. 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 any potential disagreement with its business partners.

The Group's expansion into foreign markets exposes it to risks associated with different taxation regimes and economic conditions in each country and to different (and potentially more onerous) legal regimes, including those relating to liability and warranty requirements. The Group's international expansion also increases 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 a material adverse effect on the Group's future prospects, financial condition and results of operations.

**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's investments in REpower and Hansen are notable examples of such strategy. However, the Group may not be able to identify suitable investment opportunities, partners or acquisition candidates. 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. Further, the Group may not be able to realise the expected strategic benefits of future alliances, investments, partnerships or acquisitions. In addition, the key personnel of an acquired company may decide not to work for the Group. If any of the strategic partners of the Group discontinues its arrangement with the Group, is unable to provide expected expertise, resources or assistance, or competes with the Group for business opportunities that are attractive to the Group, the Group may not be able to find a substitute for such strategic partner immediately or at all.

Additionally, 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 Indian Government 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 provide assurance that it will be able to arrange financing on acceptable terms, or at all, to complete any such transaction. Investments, partnerships or acquisitions financed by the issuance of new Shares would dilute the ownership interest of its Shareholders and the Holders, and debt financing would increase its leverage and financial risks. See also "– Risks Relating to REpower".

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

WTGs require certain components which are specifically designed for application in wind energy generation. The type and configuration of particular WTGs also require specifically designed components. WTG suppliers, including the Company and REpower, have in the past witnessed supply shortages of certain key components, such as WTG towers, due to the inability of

component suppliers to meet demand. In certain cases, this has also led to delay in supplying and commissioning WTGs, which in turn delays the timing of booking of sales. This occurred in the first quarter of the Fiscal Year 2009, when there were delays in the delivery of WTG towers to the Company. Unlike the Company, REpower historically has not manufactured the key components of its WTGs, such as towers, or rotor blades and as a result, has been more dependent on third party suppliers than the Company.

The Group sources raw materials (such as steel, glass fibre and epoxy resin for rotor blades) that it uses to manufacture certain WTG components, as well as several key WTG components (such as gearboxes, yaw and pitch drives, as well as a portion of its tower and generators requirements) from outside suppliers in India (in the case of the Company) and overseas. The quality of the Group's products (and consequently, customer acceptance of such products) depends on the quality of the raw materials and components and the ability of suppliers to deliver the materials. Suitable alternative suppliers that can meet the Group's technical and quality standards, and who can supply the necessary quantities, may be hard to find in the event of a supply failure. The failure of any of the Group's suppliers to deliver these raw materials or components in the necessary quantities, to adhere to delivery schedules, or to comply with specified quality standards and 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. This, in turn, could give rise to contractual penalties or liabilities for the Group, a loss of customers, and damage to its reputation, any of which could materially adversely affect the business, financial condition and results of operations of the Group.

**The Group is subject to the risk of increase in the price of raw materials and components.**

If the costs of raw materials and components required for making WTGs (including gearboxes) were to rise due to factors such as an increase in demand or commodity prices or shortages in supply, and the Group is not able to recover these costs through cost saving measures elsewhere or by increasing the prices of its WTGs, the Group's results of operations could be adversely affected. Where possible, the Group includes price escalation clauses in its purchase agreements with customers. However, the Group is not fully protected from price increases in key inputs. Should the 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.

**For the delivery of its products, and to receive materials and other supplies to conduct its operations, the Group is dependent on efficient transportation and logistics in India and in the other countries in which the Group, its suppliers and its customers have operations.**

The Group depends on various forms of transport, such as air, sea-borne freight, rail and road, to receive raw materials and components used in the WTG production and to deliver its products from its manufacturing facilities to its customers. Such transportation and logistics may not be adequate to support the Group's future or continued operations. Further, disruptions of transportation and logistical operations because of weather-related problems, strikes, lock-outs, inadequacies in road and rail infrastructure and port facilities, or other events, could impair the ability of the Group's suppliers to deliver raw materials and components, and this in turn will adversely affect the Group's ability to supply its products to its customers on time or at all. The Group also has limited storage facilities and may not be able to store sufficient WTG components and raw materials, and this makes the Group more dependent on efficient logistical operations.

The Group can provide no assurance that such disruptions due to the occurrence of any of the factors cited above will not occur in the future. Any of the foregoing factors could have a material adverse affect on the Group's business, financial condition and results of operations.

**The Group's new and existing manufacturing facilities may remain under utilised due to the downturn in the global economic outlook.**

The Group incurred significant capital expenditure in the Fiscal Year 2008 and Fiscal Year 2009 in creating new and expanded manufacturing facilities. Due to the current global economic crisis, customers may reconsider initiating new wind farm projects, may scale down existing orders



placed with the Group, or extend delivery schedules if they are unable to raise financing for the implementation of these projects. As a result, the Group's existing facilities, new manufacturing facilities and enhanced capacity at existing facilities may remain under utilised. To the extent that these completed facilities remain under utilised, this will adversely impact the Group's revenues, profitability and financial condition.

The size and timing of sales in a particular financial period can have a material impact on revenues and profits. Generally, the assumption of the risks of ownership by the customer coincides with the delivery of all key components of the WTGs. A delay in delivery of key WTG components results in such components being recognised as inventory. In sales contracts which satisfy the definition of "construction contract" as per Accounting Standard-7 issued by the Institute of Chartered Accountants of India (the "ICAI"), sales revenue is recognised in accordance with the "percentage of completion" method. Delays in the delivery of key WTG components, or delays in the construction schedule, could result in delays in the recognition of revenue cashflow and have a material adverse affect on 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 at 31 March 2009, the Group had outstanding indebtedness of Rs.148,695.71 million. The Group's leverage may constrain its ability to raise incremental financing or increase the cost at which it could raise any such financing. 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 restrictive covenants, such as requiring lender consent for, among other things, 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. The terms and conditions for some of these borrowings also contains 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, the terms and conditions for certain of these borrowings contains financial covenants which require the Group to maintain, amongst others, a specified net worth to debt ratio and debt service cover ratio. 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 financing document may also trigger cross-defaults under its other financing documents. An event of default under any financing document, if not cured or waived, could result in the acceleration of all or part of the Group's financial indebtedness and the enforcement by the Group's creditors of any security interests created by it in connection with such financing. It could also have a material adverse effect on the reputation and prospects of 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, R&D 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;
- adversely impact the credit rating of the Company; 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. The Group may need to refinance all or a portion of its other debt including its outstanding bonds, on or before maturity. In



addition, fluctuations in the exchange rate between the Rupee and the U.S. dollar may result in an increased outflow on the date for redemption of such bonds or other debt. The Group cannot provide any assurance that it will be able to refinance any of its debt on commercially reasonable terms, or at all.

**Difficult conditions in the financial markets have had, and may continue to have, a material adverse effect on the business, results of operations, financial condition or prospects of the Group.**

Since the second half of 2007, disruption in the global credit markets, coupled with the re-pricing of credit risk and the deterioration of the housing markets in the United States, United Kingdom and elsewhere, has created increasingly difficult conditions in the financial markets. These conditions have resulted in historic levels of volatility, less liquidity or no liquidity, widening of credit spreads and a lack of price transparency in certain markets and, more recently, the failures of a number of financial institutions in the United States and Europe and unprecedented action by governmental authorities and central banks around the world. These conditions may be exacerbated by persisting volatility in the financial sector and the capital markets, or concerns about, or a default by, one or more institutions, which could lead to significant market-wide liquidity problems, losses or defaults by other institutions. One consequence of these conditions is that the availability of lending has been reduced whilst the cost of most sources of lending has been significantly increased which may result in fewer completed property leaseings, WTG sales, wind farm project developments, corporate acquisitions and disposals, thereby having an adverse effect on the Group's revenues.

It is difficult to predict how long these conditions will exist or how the Group's business and the businesses of the Group's clients will be affected. This uncertainty makes it difficult for participants in the credit markets to plan for future developments and may lead market participants to plan and act more conservatively than in recent history.

The current trading environment has negatively affected the Group's financial condition. No assurance can be given that the trading environment will improve and, if it does not improve, this could have a material adverse effect on the Group's business, results of operations, financial condition or prospects.

**The Group recognised mark-to-market losses as at 31 March 2009 of Rs.3,538.43 million and as at 31 March 2008 of Rs.230.00 million on its derivatives portfolio and there is no assurance that the Group will not incur such losses in the future.**

In conducting its business, the Group uses various derivative and non-derivative instruments to manage the risks arising from fluctuations in exchange rates, interest rates and commodity prices. Such instruments are used for risk management purposes only.

The Group has recognised mark-to-market losses of Rs.3,538.43 million in respect of foreign exchange forward/option contracts, taken for hedging purposes during the Fiscal Year 2009 and Rs.230.00 million during the Fiscal Year 2008. There is no assurance that the Group will not incur such losses in the future or that the quantum of such losses will not increase, which in either case could have a material adverse effect on the Group's business, financial condition and results of operations.

**The Group is dependent on the Affiliated Companies to deliver integrated wind energy solutions to its customers in India.**

The Group's business strategy in India is supported by its ability to offer customers integrated solutions relating to wind power projects. This involves the acquisition and/or lease by certain of the Affiliated Companies of land identified by the Group as suitable for wind farms, which land is then sold or leased or sub-leased exclusively to its customers by the Affiliated Companies with the Company's consent. Certain Affiliated Companies are also involved in the acquisition of capacity allocations from State Governments. As with the land acquisitions, the Affiliated Companies transfer the capacity allocations to customers at the direction of the Company.

The Group cannot provide any assurance that customers will agree to use the land acquired by the Affiliated Companies. In the event that an Affiliated Company breaches its agreement with

the Group's customers, 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 investment, expense and risk, especially in the form of lawsuits by others claiming rights over the land acquired. Further, if the Group incurs higher costs than those that would have been incurred by the Affiliated 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, financial condition and results of operations.

**The Group and the Affiliated Companies in India may not be able to secure suitable locations for wind power projects.**

The ability of the Group and the Affiliated Companies in India to acquire sites that the Group has identified as suitable for wind power projects either through lease agreements or purchase agreements depends on many factors, including whether the land is private or state-owned, whether the land is classified in a manner that allows its use for a wind power project site, and the willingness of the owners to sell or lease their land. In many cases, the area identified as a suitable site is owned by numerous small landowners.

In certain states in India, affiliated companies are required to acquire the land on which a wind power project will be established directly. Acquisition of private land in India can involve many difficulties, including litigation relating to ownership, liens on the land, inaccurate title records, negotiations with numerous land owners, and obtaining government approvals. The Group may also become liable for environmental hazards on land that it acquires and may be subject to fines and other claims in connection therewith. See also the investment consideration "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 also faces competition from other WTG manufacturers and operators in the acquisition of suitable sites for wind power projects. Given that the acquisition of these sites is of fundamental importance to the Group's integrated solutions business strategy in India, and to further growth of its WTG business in international markets, difficulties in acquiring new sites could have a significant impact on future project development by the Group and the Affiliated Companies as well as its sales. Land negotiations can be time-consuming, require the Group to incur additional costs, and can involve a significant amount of attention and effort from its management. In certain cases, the Group and the Affiliated Companies may not be able to acquire land at all. Any of these factors could have a material adverse effect on the Group's business, financial condition and results of operations.

**The Company competes with the customers of some of its subsidiaries and this might affect the willingness of such customers to contract with the respective subsidiary.**

The Company is a direct competitor of certain entities which are also customers of one or more of the Company's subsidiaries, including Hansen, SE Forge, Suzlon Wind International Limited, SE Composites Limited and STSL. There can be no assurance that these customers might not in the future decide to reduce or cease their purchases from such subsidiaries due to their relationship with the Company, or they may decide to expand their own activities to produce any such products themselves. The loss of any key customer of any of the Company's production subsidiaries, or a reduction in orders from any such customer, could result in lower than expected revenue to such subsidiary and this could have a material adverse effect on such subsidiary's business, financial condition and/or results of operations. In light of the relatively small number of participants within the WTG market generally, the Group's production subsidiaries depend on a small number of customers within this market. The loss or substantial reduction of an existing customer relationship could ultimately have a material adverse effect on the business, financial condition and results of operations of the Group. See "Business – REpower Systems AG".

**The Group is dependent on the acceptance and marketability of its WTGs, the performance of which carries a high degree of technical risk.**

The Group's future performance depends almost entirely on the acceptance and marketability of its WTGs and, in particular, on the future success of the models which the Group currently

manufactures or is developing. The performance of the Group's WTGs in the medium and long-term is subject to important technical risks.

Although WTGs are generally 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 lifespan of WTGs is borne by the Group's customers, disputes between WTG manufacturers such as the Group and customers based on actual or alleged product defects may take place. The Group undertakes various testing processes on new models of WTGs and WTG components in different operating conditions to acquire data for making decisions for series production of 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 understanding with customers to whom such new models are sold, any loss incurred in the course of such tests is borne by the Group. Any product failure of WTGs or WTG components or any failure of such product to meet specified performance levels could damage the reputation of the Group and therefore impair the marketability of its products. REpower has recently assembled the first 6 MW WTGs for testing. If test results are unsatisfactory, this may impact the marketability of the 6 MW WTG.

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 the Group may be required to bear customer 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. During the Fiscal Year 2008, the Company made provision for an amount of Rs.1,217.09 million towards a retrofit programme announced to resolve a blade crack issue noticed in some of its S88 turbines, and during the Fiscal Year 2009 the Company made further provision for an amount of Rs.2,215.89 million towards the retrofit programme. The Company's final provision will be known when the retrofit programme is completed. The retrofit programme involves the structural strengthening of blades on S88 (2.1 MW) turbines. The retrofit programme has been implemented by maintaining a rolling stock of temporary replacement blades to minimise the downtime for operational turbines. The Company had faced certain issues with residents of Dhule and Sangli districts in Maharashtra, India resulting in disruption of smooth operations of the WTGs in these regions. For the Fiscal Year 2008 the Company incurred Rs.654.60 million towards restoration costs of these WTGs. In June 2008, Edison Mission Energy, a customer that encountered the blade crack issue, exercised its option not to purchase 150 WTGs in 2009.

Further, if demand for the Group's products declines, or the marketability or lifespan of its products diminishes so that the products can no longer be sold on the market or can only be sold in smaller 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. The development of new WTG models requires considerable investment. The Group plans to continue to invest in R&D and to commit a significant investment in personnel for product development over the next few years. The Group operates several research and testing centres in India and at overseas locations. It has recently established a joint research centre in Germany with REpower. See "Business – Research and Development". In relation to REpower, significant resources and investment are currently being focused on the development and expansion of its offshore WTGs.

There is a risk that the development of new and existing products may be delayed, may result in incurrence of higher than expected costs or may fail technologically. Further, there is the risk that the Group's competitors will develop new and technologically more advanced WTG models, which are better equipped to satisfy customer demand. See the investment consideration "The market for WTGs is highly competitive, which could limit the Group's ability to grow". There can be no assurance that the Group will be able to develop more cost-efficient products or that this will lead to increased profitability or that it will be able to continue to develop successfully and exploit its expertise in the future. In the offshore WTG sector, there is no assurance that REpower will be able

to successfully develop larger and more efficient turbines. Furthermore, the cost of developing new products may prove to 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 is exposed to unanticipated cancellations of orders, contract terminations and deferrals of wind power projects.**

In markets outside India, the Group generally enters into medium to long-term WTG supply contracts which require the supply of WTGs at various times over the life of the contract and provides for staggered payments to the Group. Entry into such contracts exposes the Group to certain risks including the unanticipated cancellation of orders or termination of contracts and deferrals of orders and projects. REpower has a more concentrated customer base than the Group and typically enters into longer term contracts with its customers. Longer term contracts increase counterparty risks such as bankruptcy or dissolution of customers. Although the Group's WTG supply contracts usually include penalties for failures or delays caused by the customer, the full value of orders will not be recoverable. Hence, any cancellations, deferrals or other unanticipated delays to orders and projects may have a material adverse effect on the Group's business, financial condition and results of operations.

**The Group may be liable for cancellations of orders, deferrals or other unanticipated delays caused by the Group**

The Group could be liable to pay liquidated damages, amounting to a certain percentage of the total order value, in the case that any delays or disruptions in delivery and installation of WTGs are caused by the Group. In some cases, corporate guarantees from the Company are also provided in its WTG supply contracts. As such, any cancellations, deferrals or other unanticipated delays which are the fault of the Group may have a material adverse effect on the Group's business, financial condition, reputation and results of operations.

**The Group faces product liability and warranty risks and may face related claims.**

The Group provides its customers with various types of warranties and guarantees. These include (a) free operations and maintenance warranties and performance guarantees, based on the percentage of time (generally 95 to 97 per cent.) per year that a WTG will be available, i.e. machine availability, and/or (b) absolute unit guarantees on the minimum number of units of electricity that will be generated by the WTG, subject to grid availability (although regardless of fluctuations in wind speed) and/or (c) power curve guarantees pursuant to which it warrants that a WTG will produce a specified number of units of electricity at different wind speeds. Until March 2007, the Group provided absolute unit guarantees to most of its WTG customers in India. Since March 2007, the Group has been providing absolute unit guarantees on a case-by-case basis. For the Fiscal Years 2009, 2008 and 2007, the Group paid customers Rs.5,953.84 million, Rs.1,332.25 million and Rs.632.31 million, respectively, arising from performance guarantee claims. While the Group believes it has made adequate provisions for potential claims arising from warranties and guarantees, there can be no assurance that the provisions it has made, or may in the future make, will be sufficient to cover these claims. With regard to customers to whom the Group has provided performance guarantees, there can be no assurance that wind patterns will be such that the level of performance so guaranteed will be achieved. In the event that 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.

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. An example would be the retrofit programme announced by the Company during the Fiscal Year 2008 to resolve a blade crack issue. See the investment consideration "The Group is dependent on the acceptance and marketability of its WTGs, the performance of which carries a high degree of technical risk."

The Group also offers O&M services for its WTGs in India and some select international markets, which involves monitoring, maintenance and repair of the WTGs. The Group's standard service package includes preventive and planned maintenance of WTGs, transformers and related structures and includes a warranty on machine availability (an "Availability Warranty"). Such an Availability Warranty typically ranges from 95 per cent. to 97 per cent. availability, as well as warranties relating to the maximum allowable percentages of reactive power and transmission losses. If the Availability Warranty is not met, the Group is liable to its customers for a part or the whole of the annual maintenance fees it receives for each WTG that was not available 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. 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.

Hansen's WTG customers and industrial gearbox customers currently have the benefit of a two-year and one year warranty, respectively, although in certain circumstances the warranty period may be longer at the customer's cost and, in certain cases, serial defect clauses may apply. Hansen has incurred and continues to incur warranty claims. Although warranty claims have not historically had a material effect on Hansen's financial condition, results of operations or reputation, there can be no assurance that Hansen will not face material claims in the future.

In addition, the Group does not obtain insurance coverage for product warranty claims for WTGs or WTG components sold. As such, product defect or warranty claims brought against it by its Indian customers may adversely affect its financial condition and results of operations. For WTGs and WTG components sold to customers outside India, the Group only carries insurance coverage covering claims arising from defects in the construction, materials and manufacture, including warranty claims. 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.

**The Group may be unable to seek compensation from suppliers for defective components or raw materials used in its products.**

In the event the Group becomes subject to product liability or warranty claims caused by defective components or raw materials obtained from a third party supplier, it can attempt to seek compensation from the relevant supplier. However, the Group's agreements with suppliers often include limitations on recovery including exclusions for recovery of 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 customers. Further, warranty claims against suppliers may be subject to certain conditions precedent which may not be satisfied. Also, the Group carries insurance coverage for 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 models or various WTG series, the Group's business, financial condition and results of operations could be materially adversely affected.

**Any disruption affecting the Group's manufacturing facilities or operations 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, Belgium and Germany. The manufacture of the Group's WTGs and WTG components involves 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, 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 that 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 earnings, results of operations and financial condition of the Group as a whole.

The Group also requires power for its manufacturing facilities. Industrial accidents, natural disasters or other factors 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.

The Group is exposed to the risk of strikes and other industrial actions. As at 31 March 2009, the Group (excluding REpower and Hansen) employed approximately 13,093 employees. Other than certain employees at its centres in Pondicherry and Satara and those employed by Hansen and REpower, none of its employees belong to a union. The Group believes that its relationship with its employees is generally good. However, there have been limited occasions in the past where short disruptions have occurred.

The Group cannot provide assurance 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 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 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 challenge these or past transactions successfully or require changes in its transfer pricing policies, the Company could be required to re-determine 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 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 could cause personal injury, loss of life, severe damage to or destruction of the Group's properties and the property of third parties and environmental pollution, and may result in the 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 entire operations globally. For international operations, the Group's business interruption insurance is generally limited to the WTG erection process. For Indian operations, the Group has recently commenced the insurance coverage for the WTG erection process in certain states. 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.

In addition, the Group's insurance coverage is generally subject to annual renewal. In the event that 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. If it is unable to pass these costs on 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.

**Any failure to keep the Group's technical knowledge confidential and protect its intellectual property could erode its competitive advantage.**

Like many of its competitors, the Group possesses extensive technical knowledge about its products. The Group's know-how is a significant independent asset, which may not be adequately protected by intellectual property rights such as patents copyrights and trademarks. Some know-how is protected only by secrecy. As a result, the Group cannot be certain that its know-how will remain confidential in the long run.

Even if all reasonable precautions, whether contractual or otherwise, are 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 industry could be harmed, which could have a material adverse effect on its business, future prospects, financial condition and results of operations.

**The Group may inadvertently infringe 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 any existing third party intellectual property rights which may force it to alter its technologies, obtain licences or cease some significant portions of its operations. The Group may also be susceptible to claims from third parties asserting infringement and other related claims. Regardless of whether 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 potentially expensive royalty or licensing agreements; and (g) require it to cease certain activities. 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.

**The Group is involved in litigation proceedings and cannot assure investors that it will prevail in these actions.**

There are outstanding litigation proceedings against certain members of the Group and one Director. These legal proceedings are pending at different levels of adjudication before various courts and tribunals. Should any new developments arise, such as a change in law or rulings against the relevant Group entity or Director by appellate courts or tribunals, the Company may need to make provisions in its financial statements, which could adversely impact its reported financial condition and results of operations. Furthermore, if significant claims are determined against the relevant Group entity or Director and the Group is required to pay all or a portion of the disputed amounts, there could be a material adverse effect on the Group's business, results of operations and financial condition.

For further details of the legal proceedings which the Company currently believes to be significant, see “Legal Proceedings”.

**Foreign currency fluctuations could adversely affect the costs of raw materials, the cost of borrowings and repayment of indebtedness, revenues from exports, profitability and the operating results of the Group.**

The Group generates revenues and makes payments in a number of different currencies, including Rupees, Euros, U.S. dollars, Chinese yuan, Brazilian Reals, Danish Kroner and Australian Dollars. The exchange rates between these currencies can fluctuate substantially, which could have a material adverse effect on the Group’s financial condition and results of operations.

The Group exports a significant amount of its products produced in India to overseas customers and generates significant revenues from such customers and receives payment from such customers in various foreign currencies, including U.S. dollars. As such, declines in the value of the Rupee against the U.S. dollar or other foreign currencies would increase the Rupee cost of servicing and repaying those borrowings and their value in the Group’s balance sheet. A depreciation of the Rupee increases the U.S. dollar value of the Group’s foreign currency borrowings. In addition, depreciation of the Rupee against the U.S. dollar increases the costs incurred by the Group in Rupee terms, thereby adversely affecting the competitive advantage that the Group derives from lower costs in its Indian manufacturing facilities.

REpower has historically generated revenues and made payments predominantly in Euros. However, as it expands, it expects more revenues to be generated in different foreign currencies, particularly the U.S. dollar. If REpower’s expenses remain predominantly in Euros and a greater portion of its revenues are made in U.S. dollars, an appreciation of the Euro against the U.S. dollar could cause REpower’s operating margins to decrease.

For the Fiscal Years 2007, 2008 and 2009, imported raw materials and components accounted for 59 per cent., 57 per cent. and 66 per cent., respectively, of the Company’s raw material costs. 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 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. 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 this could significantly impair the Group’s ability to develop and implement its business strategies. This could have a material adverse effect on the Group’s business, 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.**

If the Group fails to hire and retain sufficient numbers of qualified personnel for functions such as finance, marketing and sales, engineering, R&D and O&M 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 industry continues to expand. The Group might not be able to hire and retain sufficient numbers of such personnel to grow or sustain its business. There can be no assurance that the Group will be able to attract, assimilate or retain sufficiently qualified personnel successfully.

**The Group's capital expenditure plans are subject to delay and other risks and may not yield the benefits intended.**

The Group's operations require significant capital expenditure to be made for the purpose of setting up new manufacturing facilities and expanding its existing manufacturing and storage facilities. The Group's capital expenditure plans are based on management estimates, which may prove to be wrong or impossible to achieve. In addition, the Group's capital expenditure plans are subject to a number of risks including, among other, possible cost overruns, construction and/or development delays or defects, failure or delay in receiving governmental or other approvals, and the availability of financing on acceptable terms. The Group may also require additional financing to expand and upgrade existing facilities. Such financing may not be available on acceptable terms or at all. 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, economic, political and other conditions in India and internationally, regulatory changes, engineering design changes, weather-related delays and technological changes.

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. If the Group experiences significant delays and/or mishaps in the implementation of its capital expenditure plans and/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.

**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, Germany, 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 power projects 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, State Governments or Union Territories, or to any similar governmental or regulatory authority in the United States, Germany, China or Belgium, where certain of its manufacturing facilities and wind farms are located, or to private persons or other third parties. In addition, it may be required to incur costs to remedy the damage caused by any such discharges or environmental incidents, or pay fines or other penalties for non-compliance with applicable laws and/or regulations.

Further, the adoption or implementation 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 the Group to 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 the Affiliated 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 that the Group implements in order to comply with these new laws and regulations may not be deemed to be sufficient by governmental authorities and its compliance costs may significantly exceed current estimates. If the Group 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. This could have a material adverse effect on the Group's business, results of operations and financial condition.

**The Company's principal Shareholders have the ability to determine the outcome of any Shareholder resolution and the Company does not control the Affiliated Companies.**

The Company's principal Shareholders, comprising the Promoter Group, owned 59.82 per cent. of the Company's currently issued Shares as at 29 May 2009. As significant Shareholders, the Promoter Group may have interests that are adverse to the interests of other Shareholders and/or the Company and 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 the Affiliated Companies and so, with respect to dealings between the Company and the Affiliated Companies, there may be 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.

There are provisions in Indian law that may discourage a third party from attempting to take control of the Company, even if a change in control would result in the purchase of the Shares at a premium to the market price or would otherwise be beneficial to the Shareholders. Indian takeover regulations contain certain provisions that may delay, deter or prevent a future takeover or change in control.

As both the Group and the Affiliated Companies are controlled by the Promoter Group, there can be no assurance that transactions with Affiliated Companies will be entered into on an arm's-length basis. However, all transactions with Affiliated Companies are reviewed by the Company's audit committee. The Group's promoters, along with other members of the Promoter Group, are the controlling Shareholders of both the Group and the Affiliated Companies. If there is a conflict of interest with respect to dealings between the Group and the Affiliated Companies, there can be no assurance that any such dispute will be resolved in the Group's favour.

**The Group's earnings from subsidiaries based outside of India may be subject to double taxation**

A part of the Group's earnings may comprise dividends received from the Company's subsidiaries based outside of India. The Group may be subject to double taxation on any dividends paid by such subsidiaries based outside of India. Further, dividend payments will also be subject to foreign currency fluctuations. In such an event, the Group's earnings may be adversely affected. For details of which subsidiaries within the Group are based outside of India see "The Company's Subsidiaries and the Affiliated Companies".

**Certain events which have occurred to the Group in the last three years impair the ability to effectively compare the Group's consolidated financial statements.**

On 9 May 2006, the Company, through its subsidiary AERH purchased all of the share capital of Eve Holding N.V., formerly the holding company of Hansen, for a consideration of Rs.25,026.37 million. The Group's consolidated financial statements for the Fiscal Year 2007 include Hansen's results from 9 May 2006. Hansen listed its equity shares on London Stock Exchange on 11 December 2007. The shareholding of the Company in Hansen stood at 61.28 per cent. as at 31 March 2009 as against 71.28 per cent. as at 31 March 2008 and 100 per cent. as at 31 March 2007. As a result of the foregoing, the Group's consolidated financial statements for the Fiscal Years 2007, 2008 and 2009 are not directly comparable with the corresponding prior Fiscal Years/periods.

From 1 April 2007, the Company commenced erection, installation and commissioning activities for its WTG business in India and internationally through subsidiary companies. In India, these activities previously had been conducted by SIL, an Affiliated Company in which the Group does not hold any equity interest and which is not equity accounted by the Company. The Group's consolidated financial statements for the Fiscal Year 2008 therefore include the results of WTG erection, installation and commissioning activities for the relevant subsidiaries for the first time and are not directly comparable with the corresponding prior fiscal years/periods.

REpower is generally restrained from sharing any information with external parties without also making them available to all shareholders of REpower. The consolidated results of the Company for the Fiscal Year 2009 include the results of REpower as a subsidiary from 6 June 2008. As a result of the foregoing, the Group's consolidated financial statements for the Fiscal Year 2009 may not be directly comparable with the financial statements for the Fiscal Year 2008. The consolidated results of the Company for the Fiscal Year 2008 include the results of REpower, as an associate company, for the period 1 June 2007 to 31 December 2007 using the equity method of accounting, and without any reconciliation of differences in accounting policies. As a result of the foregoing, the Group's consolidated financial statements for the Fiscal Year 2008 are not directly comparable with its consolidated financial statements for the Fiscal Year 2007. See the investment consideration "Risks Relating to REpower".

## **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 the Indian economy or the economies of major international markets, such as the United States, China, Australia and Europe, do not grow, or if any of them enter a period of recession, or if there is an economic downturn (such as the current one caused by the ongoing global financial crisis), demand for electricity generally and demand for renewable energy sources such as wind power are likely to stagnate or decrease. For the Fiscal Year 2009, the Group derived 32 per cent., 28 per cent. and 17 per cent. of its total revenue from Europe, US and India, respectively. A significant and 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 electricity can be sold.**

The viability of wind power projects is dependent on the price at which electricity can be sold as well as 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 risk "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 projects require higher initial capital investment per kWh of energy produced as compared to that required for a fossil fuel-based power plant. The cost of electricity produced by wind power projects is dependent on the cost of establishment of the wind power projects themselves, including access to the electricity 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. Continued investment in product techniques and technical advances in WTG design has 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 significant developments 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 projects, which would have a material adverse effect on the Group's business, financial condition and results of operations.

**The viability and level of wind power generation is dependent on wind patterns, which are not constant and vary over time.**

The viability of wind power projects is primarily dependent on the wind patterns at project sites conforming to the patterns that had previously been recorded to determine the suitability of these sites for wind power projects. Although the Group conducts 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 have previously been identified as suitable for wind power projects could affect the Group's ability to sell WTGs to potential customers. Also, changes in wind patterns at wind power projects where the Group's WTGs have been installed could give rise to warranty claims from customers to whom the Group has provided an absolute unit warranty. For example, from 2007 to 2008 and from 2008 to 2009, generation guarantee claims were paid by the Group as a result of lower than expected wind patterns in certain States in India, and additional payments may be required to be made in the future. The Group has ceased to provide absolute unit warranties to most of its customers and provides availability warranties instead. Further, any change in wind patterns at sites the Group has identified as suitable for wind power projects could also damage its reputation and prospects. Any of these could have a material adverse effect on the Group's business, financial condition and results of operations.

**Wind power cannot be considered as a viable base load source of electricity.**

Wind power is generally not considered a viable base load source of electricity. This means that while demand for wind energy is expected to increase, it appears unlikely that it will be considered a large-scale substitute for nuclear or fossil-fuel generated power and for renewable energy from more reliable sources, such as hydropower. Additionally, there are several evolving options and segments within the alternative energy arena. There is a risk that innovation could lead to other technologies, such as solar or bio-diesels, emerging as more cost competitive, thereby taking market share away from wind technology. Although the demand for wind power is expected to rise steadily, developments or innovations in other such sectors may adversely affect the future growth prospects of the wind power industry in general and the Group's growth prospects in particular.

**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 generally 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 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 taxes being applied to those sources of energy, primarily fossil fuels, which cause carbon dioxide pollution. The imposition of these taxes has indirectly supported the expansion of power generated from renewable energy and, in turn, the wind power industry in general. Many of the Group's customers have purchased WTGs and participated in wind farm projects due to these policies.

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. For example, in the United States, the withdrawal of production tax credits ("PTC") for



wind energy led to a 2 per cent. market decline in the global market in 2004, following the 19 per cent. growth in 2003 prior to its withdrawal and the 45 per cent. growth in 2005 after PTC was re-introduced. This PTC will expire in 2012.

If direct and indirect government support for wind power was terminated or reduced in a key jurisdiction for the Group, this would make producing electricity from wind power less competitive. In addition, if policies change in a manner that makes it less attractive for investors to establish captive energy generating facilities in general, and wind power projects in particular, or if 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 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 preparatory activities on the 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 that legislation and regulation relating to the foregoing activities are made more stringent in a particular country, 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/or 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 developments could have a material adverse effect on the Group's business, financial condition and results of operations.

**The construction and operation of wind power projects has faced opposition from local communities and other parties in the past and there can be no assurance that the Group will not encounter similar opposition in the future, which could delay future construction or operations and impact the financial results of the Group.**

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. The Group has faced protests at certain of its wind farms in India and a number of its WTGs have been damaged in the course of these protests, requiring expensive and time-consuming repairs. For instance, in the past the Company has faced certain issues with residents of Dhule and Sangli districts in Maharashtra, India resulting in disruption of the smooth operations of the WTGs in these regions. For the Fiscal Year 2008, the Company incurred Rs.654.60 million towards restoration costs of these WTGs. WTGs also cause noise and are considered by some to be aesthetically unappealing. Certain environmental organisations have expressed opposition to WTGs based on the allegations that wind farms affect weather patterns, kill birds and have other adverse effects on the environment. Legislation is in place in many countries which regulates the acceptable distance between wind power plants and urban areas to guard especially against the effects of noise. 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 an adverse effect on the Group's business, financial condition and results of operations.

**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 WTG components involves rapidly evolving technology. WTGs are progressively becoming larger and their operational performance has improved, resulting in the Group's customers demanding more cost efficient WTGs. To maintain a successful business in the WTG sector, the Group 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 WTG industry in a timely manner could have a material adverse effect on its business, financial condition and results of operations.

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

The market for WTGs is intensely competitive. There have been recent announcements by medium and large corporate groups announcing their entry into the WTG market. Important factors affecting competition in the WTG 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, some of their competitors have longer industry experience and greater financial, technical, personnel, marketing and other resources. Some competitors may also be able to react faster to technological developments, 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 comparable products and services faster or at a lower price than it can. If the Group's competitors consolidate through joint ventures or cooperative agreements with each other, or otherwise, the Group may have difficulty competing with them.

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 business, financial condition and results of operations of the Group. The Group cannot give any assurance that it will be able to compete successfully against such competitors, or that it will not lose potential customers to such competitors.

**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.**

Most customers require bank financing for purchasing a WTG, and therefore the financing terms available in the market have a significant influence on the wind power industry's opportunities to sell its products. Higher interest rate levels cause the costs of investing in wind power to increase, making wind power a less attractive investment proposition. The creditworthiness of a wind power project sponsor 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 may be 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 availability of debt funds for new windpower projects has reduced significantly. See the investment consideration "Risks Relating to the Group's Business – Difficult conditions in the financial markets have had, and may continue to have, a material adverse effect on the business, results of operations, financial condition or prospects of the Group".

**RISKS RELATING TO REPOWER**

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

REpower made a net profit of €21.12 million in the year ended 31 December 2007, €1.38 million for the period ended 31 March 2008 and €51.94 million for the year ended

31 March 2009. In addition, the acquisition has resulted in the Group having to recognise a significant amount of goodwill pursuant to REpower becoming a subsidiary of the Company. Pursuant to Indian GAAP, the Group is required to assess in its annual financial statements whether such goodwill is impaired. Any future significant impairment charge may have a material adverse effect on the Group's results of operations.

The Group has increased its outstanding long-term debt in order to finance the acquisition of REpower. The Group has paid approximately €1,115 million for the aggregate number of REpower shares purchased or subscribed to 31 March 2009. See "Business – REpower Systems AG".

The REpower acquisition is subject to all the attendant risks associated with acquisitions. See the investment consideration "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".

### **The management of REpower is not bound to follow the directions of the Company**

To exercise control ("control", for this purpose, being understood as the legal ability to influence or direct a company's management) over a German stock corporation, such as REpower, German stock corporation law requires a so-called "domination agreement". Accordingly, in order to exercise control over REpower, the Group, through SEDT, had proposed entering into a "Domination Profit and Loss Transfer Agreement" with REpower (the "Domination Agreement"). In October 2008, the Company announced that, in the context of the current market environment, both parties had agreed to suspend the process of negotiating the Domination Agreement for the time being. Without a Domination Agreement in place, any transactions between the Group and REpower have to be made at arm's-length and may not create a status which would be irreversible in the event Suzlon were to dispose of its interest in REpower. In particular, without entering into a Domination Agreement, the Group cannot influence the management of REpower or participate in profits other than distributed dividends and the Group has no unilateral access to REpower's technology. The conclusion of the Domination Agreement requires a formal process pursuant to German stock corporation law, during which, *inter alia*, the Group is obliged to make an offer to buy out the minority shareholders of REpower at a fixed price and/or to pay an annual guaranteed dividend to the remaining minority shareholders. However, both the fixed price and the minimum dividend payable to the minority shareholders would be determined by a German court-appointed accountant. As no such agreement has been entered into, the businesses of the Company and REpower presently are and will remain operated on an arm's-length basis unless and until a Domination Agreement is concluded. See "Business – Acquisition of REpower". REpower is currently in the process of negotiating a stand-alone growth finance facility which is based on the assumption that no Domination Agreement will be concluded between REpower and the Group. Under such growth finance facility, apart from certain intra-group supply relationships, all component supplies by the Group to REpower will require certain lenders' consent. In addition, under the terms of the growth finance facility, REpower cannot pay dividends to its shareholders without the prior consent of the lenders thereunder. This may adversely impact the financial performance of the Group.

### **The Group may not be able to successfully integrate the business of REpower into its operations.**

There can be no assurance that the Company's strategy of ultimately integrating the business operations of REpower will be successful, which may impact the financial performance of the Group. There remains a risk that the integration plans of the Company may (i) take longer than expected; (ii) cost more than expected; or (iii) be impossible to implement at all. In addition, the Group's management may not be able to successfully integrate the business of REpower into its operations so as to result in long-term benefits to the Group. The Group will have to manage new offices in widely disparate locations which will require significant management attention and financial sources. There is no assurance that the Group's existing or future management, operational and financial systems, procedures and controls will be adequate to support the Group's integration plans, or that the Group will be able to recruit, retain and motivate new personnel arising from such integration or establish or develop business relationships beneficial to its future operations. Any delays in the integration plans of the Group or a failure by the Group to integrate the business of REpower into its operations may have a material adverse effect on the

Group's business, financial conditions or results of operations. See "Business – REpower Systems AG".

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

### **RBI approval is required for repayment of the Bonds prior to maturity.**

Under the guidelines on policies and procedures for external commercial borrowings issued by the RBI, any prepayment (except for the buyback/prepayment of FCCBs which is governed by the FCCB Buyback Guidelines and subsequent amendments thereto) 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 (except as otherwise stated in the FCCB Buyback Guidelines). There can be no assurance that RBI approval of such action would be obtained in a timely manner or at all. The Company may not be able to redeem all or any of such Bonds or pay all amounts due under the Bonds if the requisite RBI regulatory approval is not received.

### **Upon a change of control or delisting of the Shares from both the NSE and the BSE, 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 and/or the NSE, Bondholders may require the Company to redeem in whole but not in part such Bondholders' Bonds. Upon an acceleration of the Bonds following an event of default, the Company may 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) early redemption is not permitted by the RBI or (iii) the Company does not have sufficient cash flow to redeem or repay the Bonds.

### **Certain events may dilute the share capital of the Company without resulting in an adjustment to the conversion price of the Bonds**

The initial Conversion Price (as defined in "Terms and Conditions of the Bonds – Conversion – Conversion Right") is Rs.90.38 per Share. The Conversion Price is subject to adjustment in accordance with the Terms and Condition of the Bonds to protect the Bondholders from the effect of certain anti-dilutive events (see "Terms and Conditions of the Bonds – Conversion – Adjustments to Conversion Price"). However, the Conversion Price cannot in any event be adjusted below Rs.89.5250 (the "Regulatory Floor Price"). The Company has given certain undertakings not to take any corporate or other action which would, other than for the Regulatory Floor Price, have a dilutive effect above certain thresholds (see "Terms and Conditions of the Bonds – Conversion – Undertakings"). However, up to these thresholds, in the event that the adjustment would, but for the Regulatory Floor Price, lead to an adjustment to the Conversion Price below the Regulatory Floor Price, the Conversion Price will remain unchanged and the shareholding of Bondholders on conversion of their Bonds will be diluted.

### **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. Although an application has been made for the listing of the Bonds on the SGX-ST, no assurance can be given that the Bonds will be or will remain listed on the SGX-ST or 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 Bondholders will be able to sell their Bonds. 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 Company's financial condition, results of operations and future prospects.

**There is uncertainty surrounding the MOF rules affecting the conversion price of the Bonds.**

The MOF, through a notification dated 27 November 2008, amended 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 a convertible bond should not be lower than a “floor price” which is calculated with reference to the average of the weekly high and low of the closing prices of the related shares quoted on the stock exchange during the two weeks preceding the date of the meeting in which the Board of the Company or the Committee of Directors duly authorised by the Board of the Company decides to open the proposed 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 (see “Terms and Conditions of the Bonds – Adjustments to the Conversion Price”) would be permitted by the MOF 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 MOF 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 MOF 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.

**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. The price of the Shares has risen from Rs.33.0 on 12 March 2009 to Rs.136.8 on 4 June 2009. Trading prices of the Shares will be influenced by, among other things, the financial position of the Company and the results of the Company’s operations, 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.

**Bondholders may face uncertainties in their ability to convert Bonds into Shares and any such conversion may be subject to delay.**

India’s restrictions on foreign ownership of Indian companies limit the number of shares that may be owned by foreign investors and, in certain scenarios, require the Indian Government’s approval for foreign ownership. Investors who convert Bonds into Shares will be subject to Indian regulatory restrictions on foreign ownership upon such conversion. It is possible that the conversion process may be subject to delays. For a discussion of the legal restrictions triggered by conversion of the Bonds into Shares, see “Foreign Investment and Exchange Controls”.

**Future issues or sales of 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 pursuant to provisions in the relevant Terms and Conditions and the relevant Trust Deed.**

A future issue of Shares by the Company or the disposal of Shares by any of the Company’s major Shareholders or the perception that such issues or sales may occur, may significantly affect the trading price of the Bonds or the Shares. There is no restriction on the Company’s ability to issue 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 relevant Terms and Conditions and the relevant Trust Deed.

**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 all stock exchanges in India which does not allow transactions beyond a certain level of volatility in the price of the Shares. This circuit breaker operates independently of the index-based market-wide circuit breakers generally imposed by the SEBI on Indian stock exchanges. The percentage limit on the Company’s circuit breaker is set by the stock exchanges based on the historical volatility in the price and trading volume of the Shares. The 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 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 Shares or the price at which Shareholders may be able to sell their Shares at a particular point in time. For further details, see "The Securities Market of India".

## **RISKS RELATING TO INDIA**

### **The Group's growth is dependant on the Indian economy**

The Group's performance and the growth of its business are dependant on the performance of the Indian economy. India's economy has been adversely affected by the current global economic uncertainties and liquidity crisis, volatility in interest rates, currency exchange rates, commodity and electricity prices, adverse conditions affecting agriculture, and various other factors. Risk management techniques by banks and lenders in such circumstances could affect the availability of funds in the future or the withdrawal of existing credit facilities of the Group. The current slowdown in the Indian economy could adversely affect the Group's business, including its ability to implement its strategy and consider future expansion plans. The Indian economy is currently in a state of transition and it is difficult to predict the impact of certain fundamental economic changes upon the Group's business. Conditions outside India, such as a slowdown or recession in the economic growth of other major countries, especially the United States, have an impact on the growth of the Indian economy, and Indian Government policy may change in response to such conditions. While recent Indian governments have been keen on encouraging private participation in the industrial sector, any adverse change in policy could result in a further slowdown of the Indian economy. Additionally, these policies will need continued support from stable regulatory regimes that stimulate and encourage the investment of private capital into industrial development. Any downturn in the macroeconomic environment in India could materially and adversely affect the price of the Shares and the Bonds and the Group's business, financial condition and results of operations.

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

For the Fiscal Years 2007, 2008 and 2009, 52 per cent., 41 per cent. and 17 per cent., respectively, of the Group's total sales were derived from the Indian market. The Group's business may be affected by changes in Indian Government policy, taxation, social and civil unrest and other political, economic and 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 Government 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 and the Shares 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 a number of terrorist attacks in India, including recent terrorist attacks in Mumbai in November 2008. 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, financial condition and results of operations, its future financial performance and the trading price of the Shares and 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 Shares and the Bonds.

**Natural disasters could have a negative impact on the Indian economy and cause the Group's business to suffer.**

India has experienced significant natural disasters such as earthquakes, a tsunami, floods and drought in the past few years. The extent and severity of these natural disasters determines their impact on the Indian economy and infrastructure. Further, prolonged spells of below normal rainfall or other natural calamities could have a negative impact on the Indian economy, adversely affecting the Group's business and the price of the Shares and the Bonds.

**Financial instability in countries other than India could disrupt Indian markets and the Group's business, and cause the trading price of the Bonds and the Shares 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. Further, the current global financial crisis has had a significant impact on the Indian economy as well as the stability of the Indian financial markets. 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 have a negative 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, financial condition, results of operations, future financial performance and the trading price of the Shares and the Bonds.

**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 recent 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 Bonds and the Shares. These problems have included temporary exchange closures, broker defaults, settlement delays and strikes by brokers. A closure of, or trading stoppage on, either the BSE or the NSE could adversely affect the trading price of the Shares. Historical trading prices, therefore, may not be indicative of the prices at which the Bonds and the Shares will trade in the future. 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 have had a negative effect on market sentiment.

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

The Shares are not listed on any stock exchange outside India. 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 more developed countries, which could adversely affect the market for the Shares. As a result, investors may have access to less information about the Group's business, financial condition and results of

operation, on an ongoing basis, than investors may in the case of companies subject to reporting requirements of other countries.

**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.**

Inflation rates in India have been volatile in recent years, and such volatility may continue in the future. Increasing inflation in India could cause a rise in the price of transportation, wages, raw materials and other expenses, and the Group may be unable to reduce its costs or pass increased costs on to its consumers by increasing the price the Group charges for its products, and its results of operations and financial condition may therefore be adversely affected.

**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 and the Shares.**

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 on which such additional financing is available. This could have an adverse effect on the Group's business, financial condition, results of operations and future financial performance and the Group's ability to obtain financing to fund its growth, as well as the trading price of the Bonds and the Shares.

**The Group's profitability would decrease if the Indian Government reduced or withdrew tax benefits and other incentives that 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 provide assurance 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 under-developed 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. For example, effective Fiscal Year 2009, the tax exemption enjoyed by the Group's facilities in Pondicherry will be reduced from 100 per cent. to 30 per cent. under the Indian Income Tax Act.

The Group is also entitled to certain sales tax, excise and customs duty exemptions and concessions for the manufacture and sale of renewable energy products and the export of its products. There can be no assurance that similar tax benefits will remain in the future. When these tax benefits expire or terminate, the Group's tax expense could materially increase, thereby reducing its profitability.

**Significant differences exist between Indian GAAP and IFRS, which may be material to the financial information prepared and presented in accordance with Indian GAAP contained in this Offering Circular.**

The Company's 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 relating to the Group 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 IFRS. Significant differences exist between Indian GAAP and IFRS, which may be material to the financial information prepared and presented in accordance with Indian GAAP contained in this Offering Circular. In making an investment decision, potential investors must rely upon their own examination of the Group. See "Summary of Significant Differences between Indian GAAP and IFRS" and the investment consideration "Certain events which have occurred to the Group in the last three years impair the ability to effectively compare the Group's consolidated financial statements".

**Companies operating in India are subject to a variety of central and State Government taxes and surcharges.**

Tax and other levies imposed by the Indian Government and State Governments that affect the Company's tax liability include: (a) income tax; (b) fringe benefit tax (proposed to be removed by the Finance Bill, 2009); (c) excise duty; (d) value added tax; (e) turnover tax; (f) service tax; and (g) other special taxes and surcharges which are introduced on a temporary or permanent basis from time to time.

The Indian Government and State Government tax scheme in India is extensive and subject to change from time to time. The statutory corporate income tax in India, which includes a surcharge on the tax and an education cess on the tax and the surcharge, is currently 33.9 per cent. The provisions of the Indian Income Tax Act are amended on an annual basis by the Finance Act. The Finance Act introduced a new fringe benefits tax payable by companies on the taxable value of benefits received by its employees in respect of expenses incurred by the company on contribution to superannuation, expense on free or concessional tickets provided, entertainment, hospitality, conferences, certain sales promotion expenses, employee welfare, conveyance, use of hotels and other boarding and lodging facilities, maintenance of motor cars, maintenance of aircraft, provision of telephone lines, provision of guesthouses, festival celebrations, health club and similar facilities, other club facilities, gifts and scholarships. Accordingly there will be additional tax liability on the Company on account of fringe benefits tax for all such benefits provided to employees or expenses incurred by the Company.

The Indian Government or State Governments may in the future increase corporate income tax or other taxes that they impose. Any such future increases or amendments may affect the overall tax efficiency of companies operating in India and may result in significant additional taxes becoming payable. Additional tax exposure could have a material adverse effect on the Group's business, financial condition and results of operations.

## MARKET PRICE INFORMATION AND OTHER INFORMATION CONCERNING THE SHARES

The Company's Shares were listed on both the BSE and the NSE on 19 October 2005.

The table below sets forth, for the periods indicated, the high and low market prices for the Shares on the NSE and the BSE and the total trading volume of Shares trading on the NSE and the BSE.

	NSE			BSE		
	High (Rs.)	Low (Rs.)	Total Trading Volume	High (Rs.)	Low (Rs.)	Total Trading Volume
<b>Year Ending 31 December</b>						
<b>2006</b> .....	1,493.55	803.75	172,258,326	1,496.15	803.95	69,983,981
<b>2007</b> .....	2,095.15	952.35	179,760,198	2,094.25	952.10	53,050,980
<b>2008</b>						
First Quarter						
Pre stock split (up to and including 20 January 2008) <sup>(1)</sup> ..	2,273.05	1,896.90	8,609,421	2,273.55	1,899.90	2,741,788
Post stock split <sup>(1)</sup> .....	371.05	228.20	250,131,801	370.35	228.35	84,172,946
Second Quarter .....	318.45	215.95	392,983,629	318.35	215.90	148,882,465
Third Quarter .....	250.00	152.10	434,372,724	249.90	152.25	156,668,589
Fourth Quarter .....	150.80	36.90	1,950,326,512	150.85	36.90	847,118,262
<b>2009</b>						
First Quarter .....	67.75	33.30	1,411,455,258	67.75	33.30	564,590,402
Second Quarter .....	136.90	46.55	3,299,589,794	136.80	46.60	1,135,273,300
Third Quarter (up to and including 21 July 2009) .....	110.55	77.50	809,298,164	110.50	77.60	253,809,102

*Note:*

(1) The face value of the Shares of Rs.10 each were sub-divided into a face value of Rs.2 each as of 28 January 2008.

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

On 21 July 2009, the closing price of the Shares on the BSE was Rs.90.95 and on the NSE was Rs.91.00 per Share.

For as long as the Shares are listed on the BSE and NSE, the trading and closing price of the Shares will be available on [www.nseindia.com](http://www.nseindia.com) and [www.bseindia.com](http://www.bseindia.com).

As at 30 June 2009, there were 531,118 holders of the Shares according to the records of the Depositories.

## DIVIDENDS AND DIVIDEND POLICY

Under the Companies Act, an Indian company pays dividends upon a recommendation by its board of directors and approval by a majority of the shareholders, who have the right to decrease but not to increase the amount of the dividend recommended by the board of directors. Under the Companies Act, dividends may be paid out of profits of a company in the year in which the dividend is declared or out of the undistributed profits or reserves of previous Fiscal Years or out of both.

The Company does not have a formal dividend policy. The declaration and payment of dividend will be recommended by the Board of Directors and approved by its Shareholders, at their discretion, and will depend on a number of factors, including but not limited to its profits, capital requirements and overall financial condition.

The table below sets forth the details of the dividends declared by the Company on its Shares during the last five Fiscal Years:

<u>Fiscal Year</u>	<u>Interim Dividend per Share</u>	<u>Final Dividend per Share</u> (Rs.)	<u>Total Dividend per Share</u>	<u>Interim Dividend</u>	<u>Final Dividend</u> (in Rs. million)	<u>Total Dividend<sup>(1)</sup></u>
2004 .....	3.00 <sup>(2)</sup>	7.00 <sup>(2)</sup>	10.00 <sup>(2)</sup>	73.04	170.43	243.47
2005 .....	4.00 <sup>(2)</sup>	2.00 <sup>(2)</sup>	6.00 <sup>(2)</sup>	231.84	115.92	347.76
2006 .....	2.50 <sup>(2)</sup>	2.50 <sup>(2)</sup>	5.00 <sup>(2)</sup>	718.80	718.80	1,437.60
2007 .....	5.00 <sup>(2)</sup>	Nil <sup>(2)</sup>	5.00 <sup>(2)</sup>	1,438.82	Nil	1,438.82
2008 .....	Nil <sup>(3)</sup>	1.00 <sup>(3)</sup>	1.00 <sup>(3)</sup>	Nil	1,496.90	1,496.90
2009 .....	Nil	Nil	Nil	Nil	Nil	Nil

Notes:

- (1) Excluding Dividend Distribution Tax
- (2) per Share of Rs.10 each
- (3) per Share of Rs.2 each

The amounts paid as dividends in the past are not necessarily indicative of the dividend policy of the Company or dividend amounts, if any, in the future.

Dividends are payable within 30 days of approval by the Company's Shareholders at its annual general meeting. The Articles of Association also give the Board the discretion to declare and pay interim dividends without obtaining Shareholder approval. When dividends are declared, all the Shareholders whose names appear in the share register as at the "record date" or "book closure date" are entitled to be paid the dividend declared by the Company. Any Shareholder who ceases to be a Shareholder prior to the record date, or who becomes a Shareholder after the record date, will not be entitled to the dividend declared by the Company.

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

### Regulatory 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 average of the weekly high and low of the closing prices of the related shares quoted on the stock exchange during the two weeks preceding the date of the meeting in which the board of the company or a committee of directors duly authorised by the board of the company decides to open the proposed issue of FCCBs. The securities issue committee of the Board at its meeting dated 20 July 2009, decided to open the issue of Bonds.

The floor price calculated as aforesaid is Rs.89.5250.

## CAPITALISATION

The following table shows the Company's consolidated capitalisation as at 31 March 2009, adjusted to reflect the (i) the FCCB Restructuring (as defined below); (ii) the receipt of net proceeds of the offering of the Bonds and (iii) receipt of net proceeds of the offering of the GDRs (as defined below). The following table should be read in conjunction with the financial statements and schedules thereto included elsewhere in this Offering Circular.

	As at 31 March 2009			
	Actual	As Adjusted after FCCB Restructuring <sup>(2)</sup>	As Adjusted for the Offer of the Bonds <sup>(4)</sup>	As Adjusted for the Offer of the GDRs and the Bonds <sup>(6)</sup>
	(in Rs. million)			
<b>Indebtedness</b>				
Total Short-Term Debt . . . . .	54,854.93	54,854.93	54,854.93	54,854.93
Total Long-Term Debt . . . . .	93,840.78	88,214.91	92,778.81	92,778.81
<b>Total Indebtedness . . . . .</b>	<b>148,695.71<sup>(1)</sup></b>	<b>143,069.84<sup>(3)</sup></b>	<b>147,633.74<sup>(5)</sup></b>	<b>147,633.74<sup>(5)</sup></b>
<b>Shareholders' Funds</b>				
Share Capital:				
Authorised Capital				
2,225,000,000 Shares of Rs.2 each . . . . .	4,450.00	4,450.00	4,450.00	4,450.00
Issued and Subscribed Share Capital				
(i) prior to the offering of GDRs:				
1,498,295,400 Shares of Rs.2 each . . . . .	2,996.59	2,996.59	2,996.59	—
(ii) after the offering of GDRs:				
1,556,695,400 Shares of Rs.2 each . . . . .	—	—	—	3,113.39
Employee Stock Options . . . . .	104.39	104.39	104.39	104.39
Reserves and Surplus . . . . .	82,216.58	82,216.58	82,216.58	87,332.16
Total Shareholders Funds . . . . .	85,317.56	85,317.56	85,317.56	90,549.94
<b>Total Capitalisation<sup>(1)</sup> . . . . .</b>	<b><u>234,013.27</u></b>	<b><u>228,387.40</u></b>	<b><u>232,951.30</u></b>	<b><u>238,183.68</u></b>

### Notes:

- (1) Total long-term debt includes (i) U.S.\$300,000,000 Zero Coupon Convertible Bonds due 2012 issued in June 2007 convertible into Shares of Rs.2 each at a pre-determined price of Rs.359.68 per share at any time until June 5, 2012 at the option of the bondholders (the "June 2012 Bonds"); (ii) U.S.\$200,000,000 Zero Coupon Convertible Bonds due 2012 of issued in October 2007 convertible into Shares of Rs.2 each at a pre-determined price of Rs.371.55 per share at any time until 4 October 2012 at the option of the bondholders (the "October 2012 Bonds", and together with the June 2012 Bonds, the "2012 Bonds").
- (2) Adjusted to give effect to the FCCB Restructuring (as defined below), no other items have been adjusted for any other events after 31 March 2009. Between April and June of 2009, the Company restructured the 2012 Bonds to undertake liability management and amend certain financial covenants (the "FCCB Restructuring"). As a result of this restructuring, the Company inter alia issued U.S.\$56,388,000 aggregate principal amount of convertible bonds in exchange for U.S.\$94,004,000 aggregate principal amount of 2012 Bonds. See "Management's Discussion and Analysis of Financial Condition and Results of Operations – Recent Developments".
- (3) Total long-term debt includes: (i) U.S.\$211,302,000 of the June 2012 Bonds; (ii) U.S.\$121,368,000 of the October 2012 Bonds; (iii) U.S.\$35,592,000 7.50 per cent. convertible bonds due 2012 issued by the Company in May 2009 convertible into Shares of Rs.2 each at an initial conversion price of Rs.76.6755 per share at any time until 5 June 2012 at the option of the bondholders (the "June 2012 New Bonds"); and (iv) U.S.\$20,796,000 7.50 per cent. convertible bonds due 2012 issued by the Company in May 2009 convertible into Shares of Rs.2 each at a pre-determined price of Rs.76.6755 per share at any time until 4 October 2012 at the option of the bondholders (the "October 2012 New Bonds" and together with the June 2012 New Bonds, the "New Bonds"). The currency translation of the US dollar convertible bonds to Rupees is based on the 31 March 2009 exchange rate of US\$1:Rs.50.71 (Source: Reuters).
- (4) Adjusted to give effect to the FCCB Restructuring and the offering of the Bonds, no other items have been adjusted for any other events after 31 March 2009.
- (5) Total long-term debt includes: (i) U.S.\$211,302,000 of the June 2012 Bonds; (ii) U.S.\$121,368,000 of the October 2012 Bonds; (iii) U.S.\$35,592,000 of the June 2012 New Bonds; (iv) U.S.\$20,796,000 of the October 2012 New Bonds; and (v) the Bonds. The currency translation of the US dollar principal amount of the 2012 Bonds and the New Bonds to Rupees is based on the 31 March 2009 exchange rate of US\$1:Rs.50.71 (Source: Reuters).



- (6) Adjusted to give effect to the FCCB Restructuring, the offering of the Bonds and the issuance of 14,600,000 Global Depositary Receipts ("the GDRs"). The Company approved the issuance of GDRs with each GDR representing four Shares, proposed to be listed on the Luxembourg Stock Exchange and priced the offering of GDRs on 21 July 2009 with an issue size of U.S.\$108.04 million at an issue price of U.S.\$7.40 per GDR. The initial Conversion Price of the Bonds may be adjusted in accordance with Condition 6.3 of the Terms and Conditions of the Bonds as a result of the issuance of the GDRs.
- (7) Save as disclosed above, there has been no material change in the capitalisation of the Group since 31 March 2009.

## **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.\$91.87 million. The proceeds will be used for investments in joint ventures/wholly owned subsidiaries outside India, in accordance with applicable law.

## SELECTED FINANCIAL INFORMATION

The following tables set forth summary financial information derived from the Company's consolidated financial statements for the fiscal years ended, 31 March 2007, 2008 and 2009. The Company's consolidated financial statements have been prepared in accordance with Indian GAAP. The summary financial information presented below should be read in conjunction with the Company's consolidated financial statements, the notes included herein and "Management's Discussion and Analysis of Financial Condition and Results of Operations". Indian GAAP differs in certain significant respects from IFRS. For a narrative summary of these differences, please see "Summary of Significant Differences between Indian GAAP and IFRS".

The summary financial information in Rupees million for the Fiscal Years ended 31 March 2007, 2008 and 2009 have been extracted from the Company's consolidated financial statements. The financial information in US\$ is a convenience translation of the financial information in Rupees million as at and for the year ended 31 March 2009 based on an exchange rate of US\$1:Rs.50.71 (Source: Reuters).

### Consolidated Balance Sheet

	As at			
	31 March 2007	31 March 2008	31 March 2009	31 March 2009
	(in Rs. million)	(in Rs. million)	(in Rs. million)	(in U.S.\$ million)
<b>SOURCES OF FUNDS</b>				
<b>Shareholders' Funds</b>				
Share Capital . . . . .	2,877.65	2,993.90	2,996.59	59.09
Share Application Money Pending Allotment . .	0.02	—	—	—
Employee Stock Options . . . . .	117.11	102.19	104.39	2.06
Reserves and Surplus . . . . .	31,225.94	77,916.95	82,216.58	1,621.31
	<u>34,220.70</u>	<u>81,013.04</u>	<u>85,317.56</u>	<u>1,682.46</u>
<b>Preference Shares Issued by Subsidiary Company . . . . .</b>	25.00	25.00	25.00	0.49
Share application money pending refund . . . . .	—	—	950.00	18.73
<b>Management Option Certificates issued by Subsidiary Company . . . . .</b>	890.03	—	—	—
<b>Minority Interest . . . . .</b>	141.12	10,243.82	23,134.50	456.21
<b>Loan Funds</b>				
Secured Loans . . . . .	19,844.25	70,664.32	102,766.21	2,026.55
Unsecured Loans . . . . .	31,776.03	28,681.60	45,929.50	905.73
	51,620.28	99,345.92	148,695.71	2,932.28
Deferred Tax Liabilities . . . . .	1,624.89	2,058.94	4,417.43	87.11
	<u>88,522.17</u>	<u>192,686.72</u>	<u>262,540.20</u>	<u>5,177.29</u>
<b>APPLICATION OF FUNDS</b>				
<b>Fixed Assets</b>				
Gross Block . . . . .	43,210.76	55,998.38	151,024.08	2,978.19
Less – Accumulated Depreciation . . . . .	7,015.82	10,318.44	18,210.00	359.10
Net Block . . . . .	36,194.94	45,679.94	132,814.08	2,619.09
Capital work in progress . . . . .	4,536.81	11,196.74	19,840.18	391.25
	40,731.75	56,876.68	152,654.26	3,010.34
<b>Investments . . . . .</b>	155.66	31,417.78	50.83	1.00
<b>Deferred Tax Assets . . . . .</b>	1,448.10	1,840.88	2,549.27	50.27

	As at			
	31 March 2007 (in Rs. million)	31 March 2008 (in Rs. million)	31 March 2009 (in Rs. million)	31 March 2009 (in U.S.\$ million)
<b>Foreign currency monetary translation difference amount</b> . . . . .	—	—	3,980.13	78.49
<b>Current Assets, Loans and Advances</b>				
Inventories . . . . .	31,362.98	40,848.33	71,736.50	1,414.64
Sundry Debtors . . . . .	22,352.41	32,012.51	53,927.88	1,063.46
Cash and Bank Balances . . . . .	15,382.95	69,602.01	30,698.44	605.37
Other Current Assets . . . . .	3,351.61	14,893.48	33,457.12	659.77
Loans and Advances . . . . .	12,075.50	18,249.94	29,008.92	572.06
	84,525.46	175,606.27	218,828.86	4,315.30
<b>Less: Current Liabilities and Provisions</b>				
Current Liabilities . . . . .	33,340.00	64,830.12	105,947.29	2,089.28
Provisions . . . . .	4,998.80	8,224.77	9,575.86	188.84
	38,338.80	73,054.89	115,523.15	2,278.11
<b>Net Current Assets</b> . . . . .	46,186.65	102,551.38	103,305.71	2,037.19
<b>Miscellaneous Expenditure</b> . . . . .	—	—	—	—
(To the extent not written off or adjusted)				
	88,522.17	192,686.72	262,540.20	5,177.29

#### **Consolidated Profit & Loss Accounts**

	For the Fiscal Year Ended,			
	31 March 2007 (in Rs. million)	31 March 2008 (in Rs. million)	31 March 2009 (in Rs. million)	31 March 2009 (in U.S.\$ million)
<b>INCOME</b>				
Sales and service income . . . . .	79,857.30	136,794.30	260,817.01	5,143.31
Other income . . . . .	965.00	2,679.71	4,488.43	88.51
	80,822.30	139,474.01	265,305.44	5,231.82
<b>EXPENDITURE</b>				
Cost of goods sold . . . . .	47,881.55	88,701.82	168,568.03	3,324.16
Operating and other expenses . . . . .	12,077.12	16,807.17	42,675.48	841.56
Employees' remuneration and benefits . . . . .	6,682.43	10,430.05	21,657.51	427.09
Financial charges . . . . .	2,763.44	5,969.38	10,539.31	207.83
Depreciation . . . . .	1,717.98	2,893.64	5,731.42	113.02
Preliminary expenditure written off . . . . .	17.14	15.41	0.90	0.02
	71,139.66	124,817.47	249,172.65	4,913.68

	For the Fiscal Year Ended,			
	31 March 2007	31 March 2008	31 March 2009	31 March 2009
	(in Rs. million)	(in Rs. million)	(in Rs. million)	(in U.S.\$ million)
<b>PROFIT BEFORE TAX AND EXCEPTIONAL ITEMS</b> .....	9,682.64	14,656.54	16,132.79	318.14
Less: Exceptional items .....	—	(2,852.14)	(8,962.85)	(176.75)
<b>PROFIT BEFORE TAX</b> .....	9,682.64	11,804.40	7,169.94	141.39
Current tax .....	1,747.81	2,466.15	2,111.10	41.63
MAT Credit Entitlement .....	(512.32)	(956.75)	(40.31)	(0.79)
Earlier years' – current tax .....	(111.83)	2.31	(0.74)	(0.01)
Deferred tax .....	(125.70)	(22.77)	671.23	13.24
Fringe benefit tax .....	36.64	144.00	139.93	2.76
<b>PROFIT AFTER TAX</b> .....	8,648.04	10,171.46	4,288.73	84.57
Add: Share in associate's profit after tax .....	—	557.50	23.23	0.46
Add/(Less): Share of loss/(profit) of minority .....	7.72	(427.98)	(1,947.15)	(38.40)
<b>NET PROFIT</b> .....	8,640.32	10,300.98	2,364.81	46.63
Balance brought forward .....	7,948.07	11,630.38	16,901.07	333.29
<b>PROFIT AVAILABLE FOR APPROPRIATIONS</b> .....	16,588.39	21,931.36	19,265.88	379.92
Interim dividend on equity shares .....	1,442.20	—	—	—
Residual dividend of previous year .....	3.21	1,496.99	1.32	0.03
Dividend on preference shares .....	17.00	2.00	—	—
Tax on dividends .....	211.40	263.80	8.68	0.17
Transfer to general reserve .....	3,284.20	3,267.50	—	—
Balance carried to the Balance Sheet .....	<u>11,630.38</u>	<u>16,901.07</u>	<u>19,255.88</u>	<u>379.73</u>
Earnings per Share (in Rs.)				
Basic (Nominal Value of Shares Rs.2) .....	5.99*	7.07	1.58	0.03
Diluted (Nominal Value of Shares Rs.2) .....	5.98*	6.89	1.52	0.03

\* adjusted for share split in January 2008

## EXCHANGE RATES

The following table sets forth, for the periods indicated, certain information reported by the Reserve Bank of India concerning the exchange rates between Indian Rupees and U.S. dollars since 1999. The column entitled "Average" in the table below is the average of the daily closing rate on each business day during the period.

In 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. Recently, the exchange rate between the Rupee and U.S. dollar has been fluctuating. The exchange rate as at 20 July 2009 was Rs.48.1975 to U.S.\$1.00 (Source: Bloomberg).

<u>Calendar Year</u>	<u>Period End</u>	<u>Average</u>	<u>High</u>	<u>Low</u>
	(Indian Rupees per U.S.\$1.00)			
2004 .....	43.39	45.92	47.46	43.39
2005 .....	43.75	44.95	46.46	43.36
2006 .....	44.61	44.28	46.33	43.30
2007 .....	43.59	45.29	46.95	43.14
2008 .....	39.97	40.24	43.15	39.27
2009 .....	50.95	45.91	52.06	39.89
<u>Month</u>	<u>Period End</u>	<u>Average</u>	<u>High</u>	<u>Low</u>
April 2009 .....	50.22	50.06	50.53	49.49
May 2009 .....	47.29	48.53	49.83	47.19
June 2009 .....	48.51	47.75	48.91	46.84

Source: [www.rbi.gov.in](http://www.rbi.gov.in)



## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

*The following discussion should be read in conjunction with the Group's audited consolidated financial statements as at and for the years ended 31 March 2007, 2008 and 2009 and in each case, the notes thereto, which are prepared in accordance with Indian GAAP and included elsewhere in this Offering Circular. This discussion contains forward-looking statements that involve risks and uncertainties. Factors that might cause future results to differ significantly from those mentioned in the forward-looking statements include, but are not limited to, those discussed below and elsewhere in this Offering Circular, particularly in "Risk Factors". For purposes of this discussion, references to "Fiscal Year" are to the year ended and as at 31 March. For a discussion of certain significant differences between Indian GAAP and IFRS, see "Summary of Significant Differences between Indian GAAP and IFRS."*

*The Company has a complex group structure with subsidiary companies in India and overseas with varying levels of ownership. The group structure is detailed in the "Business – Structure of the Group" section of this Offering Circular. The group structure and ownership of the Company in its subsidiaries has undergone changes since April 2008 and some of the subsidiaries have commenced operations only during Fiscal Year 2009. Some of these changes include the increase of the Company's stake in REpower from 33.85 per cent. as at 6 June 2007 to 90.72 per cent. as at the date of this Offering Circular, reduction of the Company's stake in Hansen from 100.00 per cent. to 61.28 per cent. as at the date of this Offering Circular, commencement of operations of SE Forging and commencement of operations of Suzlon SEZ which also sells WTGs. As indicated in "– Outlook", the Fiscal Year 2010 outlook provided by the Company is in relation only to the Group (excluding REpower and Hansen).*

*Pursuant to such changes and the nature of the Group structure, the Company's consolidated as well as standalone financials for the Fiscal Years 2008, 2009 and 2010 are not likely to be directly comparable for the full year or on a quarterly basis. Furthermore, the Company's standalone financial results for the Fiscal Year 2010 will be limited to WTG sales made by the Company and will not include WTG sales made by any of its subsidiaries. Accordingly, investors should take these factors into consideration in reviewing any of the Company's financial statements.*

### Overview

The Group (excluding REpower) is a leading manufacturer of WTGs and was ranked fifth in the world in terms of annual installations with a market share of 9 per cent. for the year ended 31 December 2008 and the Group (including REpower) was ranked third in the world in terms of annual installations with a market share of 12 per cent. for the year ended 31 December 2008. (Source: BTM Report 2009). The Group is the leading provider of integrated WTG solutions in India and has expanded its operations in international markets with a presence in the United States, Europe, China, Australia, Brazil, South Africa and South Korea. The Company was incorporated on 10 April 1995 by the Promoters. The Group's accumulated WTG sales from the Group's establishment (excluding REpower) were 3,547 MW, 5,859 MW and 8,649 MW as at 31 March 2007, 31 March 2008 and 31 March 2009, respectively. India, with 749 MW, and the international markets, with 2,041 MW, accounted for 26.84 per cent. and 73.16 per cent., respectively, of the Group's (excluding REpower) WTG sales (by volume) in the Fiscal Year 2009.

In the Fiscal Year 2007, the Company through its 100 per cent. owned subsidiary (as at 31 March 2009), AERH, acquired Hansen, the second largest gearbox and drive train manufacturer for WTGs worldwide. The Company, through AERH, held, as at 31 March 2009, an equity interest of 61.28 per cent. in Hansen. See "The Company's Subsidiaries and the Affiliated Companies". In the Fiscal Year 2008, the Group acquired a stake in REpower, and held, as at the date of this Offering Circular, an equity interest of 90.72 per cent. in REpower, one of the leading WTG producers in the German wind energy sector. See "Business – REpower Systems AG". Also, in Fiscal Year 2009, the Company, through AERH, sold 67,010,421 shares (constituting 10 per cent. equity base) in Hansen. Post-disposal, the Company retains 61.28 per cent. (as at 31 March 2009) of the voting and economic interest in Hansen. Finally, the Company's stake in SE Forge was reduced to 82.9 per cent. (as at 31 March 2009) following an issue of new equity shares by SE Forge in October 2008.

The Group develops and manufactures technologically advanced WTGs with an emphasis on high performance and cost-efficiency. Including REpower's WTG models, the Group's current

product range includes 0.35 MW, 0.60 MW, 1.25 MW, 1.50 MW, 2.00 MW, 2.10 MW, 3.3 MW, 5 MW and 6 MW WTGs. It is among the first Asia-based companies to manufacture WTGs with multi-MW capabilities. The Group is an integrated developer of WTGs, focused on the design, engineering and development of WTGs and the majority of its components, including tubular towers, control panels, nacelle covers and generators, and the development and in-house manufacture of rotor blades for its sub-MW and multi-MW WTGs. 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 has completed the process of integrating the operations of Hansen into the Group and has recently begun sourcing approximately one-third of its gearbox requirements from them. The Group has also set up facilities to manufacture forging and foundry components that are required for the manufacture of WTGs and their components.

The Group conducts R&D activities primarily through the Company's subsidiaries, SEG, SBT and RETC. RETC is a 50:50 joint venture between the Company's subsidiaries, SEDT and REpower. These entities 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. See "– Research and Development" and "– REpower Systems AG – Research and Development." Further, the Group also conducts R&D in gearboxes through Hansen. The Group usually gets its design, manufacture, O&M services certified as ISO 9001:2000 by DNV. The Group's WTG models are generally validated with type certification by either GL or CWET, an autonomous body attached to the MNRE.

With respect to the Indian market, the Group (excluding REpower), together with the Affiliated 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 undertakes the manufacturing and machining of large forge and casting products, catering primarily to the wind power industry through its 82.9 per cent. owned (as at 31 March 2009) subsidiary SE Forge. The Group also provides EPC and after-sales O&M services through SISL for WTGs it supplies in India. The Affiliated 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 operates as a manufacturer and supplier of WTGs and is involved in O&M and wind farm project activities. Through its subsidiary, Hansen, the Group is also involved in the manufacture of WTG gearboxes and industrial gearboxes. 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.

The Group's consolidated total income was Rs.80,822.30 million, Rs.139,474.01 million and Rs.265,305.44 million for the Fiscal Years 2007, 2008 and 2009, respectively. Net profit was Rs.8,640.32 million, Rs.10,300.98 million and Rs.2,364.81 million for the Fiscal Years 2007, 2008 and 2009, respectively.

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

	For the Fiscal Year					
	2007	Per Cent. of Total Income	2008	Per Cent. of Total Income	2009	Per Cent. of Total Income
	(in Rs. million, except percentages)					
<b>Sales:</b>						
WTG and its Components . . . .	59,985.62	74.22	114,442.16	82.05	229,694.12	86.58
Gearboxes . . . . .	18,560.74	22.96	24,048.12	17.24	39,936.42	15.05
Foundry and Forging <sup>(1)</sup> . . . . .	—	—	0.14	—	171.82	0.06
Others . . . . .	1,321.32	1.63	247.24	0.18	360.61	0.14
Intersegment Sales . . . . .	(10.38)	(0.01)	(1,943.36)	(1.39)	(9,345.96)	(3.52)
<b>Total Sales . . . . .</b>	<b>79,857.30</b>	<b>98.81</b>	<b>136,794.30</b>	<b>98.08</b>	<b>260,817.01</b>	<b>98.31</b>
<b>Other Income<sup>(2)</sup> . . . . .</b>	<b>965.00</b>	<b>1.19</b>	<b>2,679.71</b>	<b>1.92</b>	<b>4,488.43</b>	<b>1.69</b>
<b>Total Income . . . . .</b>	<b>80,822.30</b>	<b>100.00</b>	<b>139,474.01</b>	<b>100.00</b>	<b>265,305.44</b>	<b>100.00</b>

*Notes:*

- (1) New segment for reporting for Fiscal Year 2009.
- (2) Other income consists primarily of interest received, profit on sale of investments, dividend income and other operating income.

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

	For the Fiscal Year		
	2007	2008	2009
	(per cent.)		
India . . . . .	52.21	41.07	17.07
Europe . . . . .	20.49	23.27	32.40
United States . . . . .	20.68	18.68	28.09
China . . . . .	3.94	3.50	4.85
Australia . . . . .	—	7.48	11.24
Others . . . . .	2.68	6.01	6.35
<b>Total . . . . .</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>

## Recent Developments

- Pursuant to an agreement dated 15 December 2008 entered into with the Martifer Group, the Company agreed to acquire Martifer's holdings of 22.4 per cent. in REpower through a subsidiary by making payments in three tranches: €65 million in December 2008, €30 million in April 2009 and the final tranche of €175 million in May 2009. As of the date of this Offering Circular, the Company's effective holding in REpower is 90.72 per cent. Out of borrowing from a Promoter Group entity, the Company has provided short term loan of Rs.4,500 million to its subsidiary in order to facilitate acquisition of Martifer's interest in REpower.
- As at 31 March 2009, the Company had outstanding (i) the June 2012 Bonds which are convertible into Shares at a pre-determined price of Rs.359.68 per Share, subject to any adjustments in accordance with their terms and conditions, at any time until 5 June 2012 at the option of the bondholders and (ii) the October 2012 Bonds which are convertible into Shares at a pre-determined price of Rs.371.55 per Share, subject to any adjustments in accordance with their terms and conditions, at any time until 4 October 2012 at the option of the bondholders. Between April and June of 2009, the Company restructured the 2012 Bonds to undertake liability management and amend certain financial covenants. As a result of this restructuring, the Company (i) issued U.S.\$56,388,000 aggregate principal amount of convertible bonds without any financial covenants and a new conversion price in exchange for U.S.\$94,004,000 aggregate principal amount of

2012 Bonds, (ii) paid U.S.\$39,999,882 to purchase U.S.\$73,326,000 aggregate principal amount of 2012 Bonds, and (iii) paid U.S.\$13,716,810 as a consent fee. The Group has also agreed certain amendments and obtained certain waivers (including with respect to financial covenants and permitted acquisitions) in respect of (a) the Acquisition Facility; (b) a U.S.\$135,000,000 guaranteed letter of credit facility agreement; (c) a €150,000,000 guaranteed letter of credit facility agreement.

- On 21 July 2009, the Company priced an offering of 14,600,000 GDRs at an issue price of U.S.\$7.40 per GDR and an aggregate issue size of U.S.\$108.04 million. Each GDR will represent four Shares of the Company.
- On 8 July 2009 the Company announced repeat orders to supply approximately 114 MW of capacity. These orders comprised of a repeat order from KS Oils Limited for 10 units of the S.82 1.5 MW turbine, a repeat order from Honiton Energy Group for 40 units of the S.64 1.25MW turbine and a repeat order from Datang Power Generation Co. for 39 units of S.64 1.25MW turbine.
- On 10 July 2009 the Company announced an additional order to supply approximately 224.5 MW of capacity after signing a new framework agreement with EUFER (a joint-venture between ENEL Green Energy and Spanish Utility UNION FENOSA for renewable energy business in Spain and Portugal). The agreement provides for the supply and installation of 2.1 MW wind turbines for seven wind farms in Andalusia, Spain.

### **Non-Comparability of Financial Statements for Certain Periods**

On 9 May 2006, the Company, through its subsidiary AERH purchased all of the share capital of Eve Holding N.V., formerly the holding company of Hansen, for a consideration of Rs.25,026.37 million. The Group's consolidated financial statements for the Fiscal Year 2007 include Hansen's results from 9 May 2006. Hansen listed its equity shares on London Stock Exchange on 11 December 2007. The shareholding of the Company in Hansen stood at 61.28 per cent. as at 31 March 2009, as against 71.28 per cent. as at 31 March 2008 and 100 per cent. as at 31 March 2007. As a result of the foregoing, the Group's consolidated financial statements for the Fiscal Years 2007, 2008, and 2009 are not directly comparable with the corresponding prior Fiscal Years/periods.

From 1 April 2007, the Company commenced erection, installation and commissioning activities for its WTG business in India and internationally through subsidiary companies. In India, these activities previously had been conducted by SIL, an Affiliated Company in which the Group does not hold any equity interest and which is not equity accounted by the Company. The Group's consolidated financial statements for the Fiscal Year 2008 therefore include the results of WTG erection, installation and commissioning activities for the relevant subsidiaries for the first time.

For accounting purposes, under Indian GAAP, REpower became a subsidiary of the Company with effect from 6 June 2008. As a German stock corporation, REpower is generally restrained from sharing any information with external parties without also making them available to all shareholders of REpower. The consolidated results of the Company for the Fiscal Year 2008 include the results of REpower, as an associate company, for the period 1 June 2007 to 31 December 2007 using the equity method of accounting, and without any reconciliation of differences in accounting policies. As a result of the foregoing, the Group's consolidated financial statements for the Fiscal Year 2008 are not directly comparable with its consolidated financial statements for the Fiscal Year 2007. Furthermore, the consolidated results of the Company for the Fiscal Year 2009 include the results of REpower as a subsidiary from 6 June 2008. As a result of the foregoing, the Group's consolidated financial statements for the Fiscal Year 2009 may not be directly comparable with the financial statements for the Fiscal Year 2008. See Risk Factors "Risks Relating to REpower"

### **Changes in Accounting Policies and Estimates**

Pursuant to revised Accounting Standards for employee benefits, in Fiscal Year 2007 the Company changed its accounting policy for long-term retention bonuses paid to employees. It

now accounts for these amounts as liabilities on the basis of actuarial valuation using the projected unit credit method instead of accounting for these amounts as costs as and when they are incurred. The transitional net liability arising from this change is Rs.25.8 million (net of tax), which has been charged to general reserves.

In line with notification of the Companies (Accounting Standards) Amendment Rules 2006 issued by Ministry of Corporate Affairs on 31 March 2009 amending Accounting Standard – 11 (AS-11) “The Effects of Changes in Foreign Exchange Rates” (revised 2003), the Company has amended its accounting policies such that exchange differences on all long term monetary items, with retrospective effect from 1 April 2007, are:

- (1) To the extent such items are used for the acquisition of a depreciable capital asset, added to / deducted from the cost of the asset and depreciated over the balance life of the asset. As a result, an amount of Rs.81.92 million (net of depreciation of Rs.7.82 million and tax of Rs. Nil) have been added to fixed assets, being the exchange difference on long term monetary items related to the acquisition of a depreciable capital asset.
- (2) In other cases, accumulated in the “Foreign currency monetary translation difference account” and amortised to the profit and loss account over the balance life of the long term monetary item but not beyond 31 March 2011.
- (3) As a result of (1) and (2) above, Rs 10.99 million (net of tax of Rs. Nil) was credited to general reserve which was recognised as loss in the profit and loss account till the previous financial year ended 31 March 2008.
- (4) Rs.1,307.93 million amortisation cost charged to the profit and loss account during the year.
- (5) Rs.3,980.13 million accumulated in the “Foreign currency monetary translation difference account”, being the amount remaining to be amortised as at 31 March 2009.

As a result of the above change in the Company’s accounting policy, the net profit before tax for Fiscal Year 2009 is higher by Rs.4,050.41 million.

### **Major Factors Affecting the Company’s Results of Operations**

Several factors influence the Company’s results of operations, financial condition and cash flow significantly, including:

*General economic and business conditions in India:* India has historically been the Company’s principal market and, although sales outside India presently contribute an increasing proportion of the Group’s revenues (which equalled 82.93 per cent. in 2009), it continues to derive a substantial portion of its revenues from the Indian market. It therefore is affected by general economic conditions in the country, particularly economic conditions affecting the Indian power sector. India’s GDP growth, industrial growth and power demand have been and will continue to be important factors in determining the Company’s operating results and future growth.

- *Demand for power, specifically from wind energy sources:* Changes in prices of oil, coal, natural gas and other conventional energy sources influence the demand for renewable energy sources such as wind power. The demand for power in general and from wind energy in particular has been and will continue to affect the Company’s operating results and future growth.
- *Government policies including taxes and duties affecting wind energy sector:* Historically, the wind energy industry has received fiscal benefits extended for investments in wind energy by state governments in India, the Indian central government and several international governments. The renewable energy sector in general is currently the focus of considerable government attention worldwide. Changes in government policies have affected, and will continue to affect, the Company’s growth and the investment plans of its customers.
- *Price and availability of raw materials and components:* Raw materials and components used in manufacturing WTGs are sourced from domestic as well as international suppliers and their prices depend on a variety of factors. Fluctuations in prices of



such raw materials and components and their availability (which are driven by several factors including strong demand in the Indian and Chinese markets and by suppliers' manufacturing capacities and capital expenditure plans, as components are primarily customised for the Company's requirements) will affect its operating results. The Company continues to invest in building in-house manufacturing capabilities with a view to reducing its dependency on outside suppliers for key components.

- *Fluctuations in exchange rates and interest rates:* Since the Company's imported purchases and export sales are invoiced in foreign currencies, the rate of exchange between such currencies and the Rupee will affect its operating results to the extent it is not passed on to customers by corresponding escalations in the Company's product prices. Similarly, changes in interest rates, both international and domestic, affect the Company's operating results and the viability of wind power projects in general, as interest rates affect the ability of potential customers to obtain financing for wind power projects.
- *Ability to source and manage working capital requirements:* Historically, the Company has been able to source the required working capital from banks and internal cash accruals. Its operating results and future growth will depend on its ability to optimise the working capital cycle time and to continue, source adequate working capital commensurate with the size of its business.

### **Critical Accounting Policies**

Critical accounting policies are those that require application of management's most difficult, subjective or complex judgments, often as a need to make estimates about the effects of matters that are inherently uncertain and may change in subsequent periods. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting the estimate may differ significantly from management's current judgments. For details of the Group's accounting policies see Schedule P of the financial statements for the year ended 31 March 2009 included elsewhere in this Offering Circular.

Described below are the critical accounting policies and management's view on the accounting policies, which the Group's management believes are the most significant judgments and estimates used in the preparation of the Group's financial statements.

### **Revenue Recognition**

Revenue is recognised to the extent it is probable that the economic benefits will flow to the Group and that the revenue can be reliably measured. Revenue comprises of sale of goods and services and is disclosed, net of discounts, excise duty, sales tax, service tax, VAT or other taxes, as applicable.

Revenue from sale of goods is recognised in the profit and loss account when the significant risks and rewards in respect of ownership of goods have been transferred to the buyer as per the terms of the respective sales order, and the income can be measured reliably and is expected to be received.

Fixed price contracts to deliver wind power systems (turnkey and supply-and-installation projects) are recognised in revenue based on the stage of completion of the individual contract using the percentage of completion method, provided the order outcome as well as expected total costs can be reliably estimated. Where the profit from a contract cannot be estimated reliably, revenue is only recognized equalling the expenses incurred to the extent that it is probable that the expenses will be recovered.

Contracts in progress, if any, are measured at the selling price of the work performed based on the stage of completion less interim billing and expected losses. The stage of completion is measured by the proportion that the contract expenses incurred to date bear to the estimated total contract expenses. The value of self-constructed components is recognised in "Contracts in progress" upon dispatch of the complete set of components which are specifically identified for a customer and are within the scope of supply, as per the terms of the respective sale order for the wind power systems. Where it is probable that total contract expenses will exceed total



revenues from a contract, the expected loss is recognised immediately as an expense in the profit and loss account.

Where the selling price of a contract cannot be estimated reliably, the selling price is measured only on the expenses incurred to the extent that it is probable that these expenses will be recovered. Prepayments from customers are recognised as liabilities. A contract in progress for which the selling price of the work performed exceeds interim billings and expected losses is recognised as an asset. Contracts in progress for which interim billings and expected losses exceed the selling price is recognised as a liability. Expenses relating to sales work and the winning of contracts are recognised in the income statement as incurred.

The Company's management believes that its accounting policies in respect of sale of goods are critical because delay in delivery of any components could result in delayed recognition of revenue, resulting in WTG components being recognised as inventory.

### ***Fixed Assets and Intangible 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. Assets held for disposal are stated at the lower of net book value and the estimated net realizable value.

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 create, produce and make the asset ready for its intended use. 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.

The carrying amount of the assets belonging to each cash generating unit ("CGU") are reviewed at each balance sheet date to assess whether the same are recorded in excess of their recoverable amounts and where carrying amounts exceed the recoverable amount of the assets with CGU, assets are written down to their recoverable amount. The recoverable amount is the greater of the asset's net selling price and value in use. The impairment loss recognised in the prior accounting period is reversed if there has been a change in estimates of the recoverable amount.

The excess of the cost to the Company of its investment in subsidiaries over the Company's portion of equity on the acquisition date is recognised in the Company's financial statements as goodwill and is tested for impairment. Following the acquisition of Hansen during Fiscal Year 2007 and the acquisition of REpower in Fiscal Year 2009, the consolidated financial statements of the Company as at 31 March 2009 showed goodwill of Rs.71,770.21 million. There was no impairment of goodwill as at 31 March 2009. The Company's management believes its accounting policies with respect to fixed and intangible assets (particularly goodwill) are critical because of the potential impact on its financial condition and results of operations.

### ***Depreciation and Amortisation***

Depreciation is provided on the written down value method (WDV) and is based on management's estimate of useful lives of the fixed assets or where applicable, at rates specified by respective statutes, whichever is higher. Intangible assets are amortised on a straight line basis over a period of five years.

The Company's management believes that the estimates and assumptions made in connection with its accounting policy with respect to depreciation and amortisation are critical because changes in these estimates or assumptions could increase or decrease expenses and therefore have a material impact on the Company's financial condition and results of operations.

## ***Inventories***

Inventories of raw materials, including stores, spares, and consumables, packing materials, semi-finished goods, work-in-progress, contracts in progress and finished goods are valued at the lower of cost and estimated net realisable value. Cost is determined on a weighted average basis. The cost of work-in-progress, project work-in-progress, semi-finished goods and finished goods includes the cost of material, labour and manufacturing overheads.

Determining the cost and realisable value of inventories requires management to make certain estimates, including regarding provisions for slow / non-moving / obsolete components, which may not reflect the actual costs and expense or the value that is obtained upon sale, as the case may be. The Company's management believes that these are critical accounting estimates because differences in actual realisation on sales of inventory could have a material impact on the Company's financial condition and results of operations.

## ***Investments***

Investments that are readily realisable and intended to be held for not more than a year are classified as current investments. All other investments are classified as long-term 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.

Investments in entities in which the Group has significant influence, but not a controlling interest, are reported according to the equity method, i.e. the investment is initially recorded at cost. Cost of investment in associates over the net assets at the time of acquisition of the investment in the associates is recognised in the financial statements as goodwill. Goodwill is tested for impairment annually. The carrying amount of the investment is adjusted thereafter for the post acquisition change in the Group's share of net assets of the associates. The consolidated profit and loss account includes the Group's share of the results of the operations of the associate.

## ***Foreign Currency Transactions***

Transactions in foreign currencies are recorded at the average exchange rate prevailing in the period during which the transactions occur.

Outstanding balances of, foreign currency monetary items are reported using the period end rates.

Pursuant to the notification of the Companies (Accounting Standards) Amendment Rules 2009 issued by Ministry of Corporate Affairs on 31 March 2009 amending Accounting Standard-11 (AS-11) 'The Effects of Changes in Foreign Exchange Rates (revised 2003), exchange differences relating to long term monetary items are dealt with in the following manner:

- (a) Exchange differences relating to long term monetary items, arising during the year, in so far as they relate to the acquisition of a depreciable capital asset are added to / deducted from the cost of the asset and depreciated over the balance life of the asset.
- (b) In other cases, such differences are accumulated in the "Foreign Currency Monetary Translation Difference Account" and amortised to the profit and loss account over the balance life of the long term monetary item but not beyond March 31, 2011.

All other exchange differences are recognised as income or expense in the profit and loss account.

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.

The Company's management believes that these are critical accounting policies because changes in estimates and foreign exchange rates could have material impact on the Company's results of operations.

## ***Derivatives***

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/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.

As per the Institute of Chartered Accountants of India ('ICAI') announcement, accounting for derivative contracts, other than those covered under AS-11, are marked to market on a portfolio basis and the net loss after considering the offsetting effect on the underlying hedge items is charged to the profit and loss account. Net gains on marked to market basis are not recognised.

## ***Foreign Operations***

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, the assets and liabilities, both monetary and non-monetary, are translated at the closing rate; income and expense items are translated at average exchange rates prevailing during the year and all resulting exchange differences are accumulated in a foreign currency translation reserve until the disposal of the net investment in the non-integral foreign operation.

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 classification.

The Company's management believes that these are critical accounting policies because changes in classification of foreign operations could have material impact on the Company's results of operations.

## ***Retirement and Other Employee Benefits***

Employee benefits in the nature of defined contributions are charged to the profit and loss account of the year when the contributions to the respective funds are due. There are no other obligations other than the contribution payable to the respective statutory authorities.

Retirement benefits in the form of gratuity and pension are defined benefit obligations, and are provided for on the basis of an actuarial valuation, using projected unit credit method as at the balance sheet date.

Defined contributions to the superannuation fund 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 on the basis of an actuarial valuation, using the projected unit credit method, as at the balance sheet date.

Actuarial gains/losses are taken to the profit and loss account and are not deferred.

The Company's management believes that these are critical accounting policies because changes to assumptions and estimates and differences in actual experience could have a material impact on the Company's results of operations.

## ***Provisions, Contingent Liabilities and Contingent Assets***

A provision is recognised when the Company has 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 accounts. Provision for performance guarantees represents the expected outflow of resources against claims for performance shortfalls expected in the future over the life of the guarantee assured. The period of performance guarantees varies for each customer according to the terms of the contract. Key assumptions in arriving at the performance guarantee provision include wind velocity, wind variation, plant load, grid availability, machine availability, load shedding and historical data. The provision for operation, maintenance and warranties represents the expected liability on account of field failure of WTG parts and expected expenditure on servicing the WTGs over the period of free operation, maintenance and warranty, which varies according to the terms of each purchase order. Provision for liquidated damages represents the expected claims which the Company may need to pay for non fulfilment of certain commitments as per the terms of the purchase order. These are determined on a case by case basis considering the circumstances of each individual purchase order and the factors relevant to that sale.

The Company's management believes that changes to assumptions and estimates and differences in actual results from those estimated have a material impact on the Company's financial condition and results of operations.

The payment of premium on redemption on the Company's convertible bond issuance is contingent in nature and no provision has been made by the Company in respect of such premium for the Fiscal Year ended 31 March 2009 amounting to Rs.2,261.10 million. Payment of premium on redemption of convertible bonds issued after 31 March 2009 is similarly contingent in nature.

### ***Deferred Tax Assets and Liabilities***

Deferred tax reflects the impact of current year timing differences between taxable income and accounting income for the year and reversal of timing difference 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 and deferred tax liabilities across various companies of operation are not set off against each other as the Group does not have a legal right to do so. Deferred tax assets are recognized 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 realized. If there is unabsorbed depreciation or carry forward of losses under tax laws, deferred tax assets are recognised only to the extent that there is virtual certainty supported by convincing evidence that sufficient future taxable income will be available against which such deferred tax assets can be realized.

Deferred tax resulting from timing differences which originate during the tax holiday period but are expected to reverse after such tax holiday period is recognised in the year in which the timing differences originate using the tax rates and laws enacted or substantively enacted at the balance sheet date.

Determining the probability of realisation of deferred tax assets requires the Company's management to make certain assumptions about its future income, which may be material to the Company's financial condition and results of operations.

## Results of Operations

The table below sets forth, for the periods indicated, certain revenue and expense items for the Group's consolidated operations, expressed as a percentage of total income:

	For the Fiscal Year ended 31 March		
	2007	2008	2009
	(percentage)		
<b>Income</b>			
Sales and service income . . . . .	98.81	98.08	98.31
Other income . . . . .	1.19	1.92	1.69
<b>Total income . . . . .</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>
<b>Expenditure</b>			
Costs of goods sold . . . . .	(59.24)	(63.60)	(63.54)
Operating and other expenses . . . . .	(14.94)	(12.05)	(16.09)
Employees' remuneration and benefits . . . . .	(8.27)	(7.48)	(8.16)
Financial charges . . . . .	(3.42)	(4.28)	(3.97)
Depreciation . . . . .	(2.13)	(2.07)	(2.16)
Preliminary expenditure written off . . . . .	(0.02)	(0.01)	(0.00)
<b>Total Expenditure . . . . .</b>	<b>(88.02)</b>	<b>(89.49)</b>	<b>(93.92)</b>
<b>Profit before Tax, Exceptional Items and Minority Interest . . . . .</b>	<b>11.98</b>	<b>10.51</b>	<b>6.08</b>
Exceptional Items . . . . .	—	(2.04)	(3.38)
Tax . . . . .	(1.28)	(1.17)	(1.09)
Minority Interest and share in associate's profit after tax . . . . .	(0.01)	(0.09)	(0.72)
<b>Net Profit . . . . .</b>	<b>10.69</b>	<b>7.39</b>	<b>0.89</b>

## Principal Components of Results of Operations

### *Sales and Service Income*

Sales and service income consists primarily of sales of WTGs, gearboxes and WTG components including rotor blades, nacelles and towers and foundry and forging components. The Group also derives income from WTG erection, installation and commissioning activities, sale and lease of land, power evacuation and O&M services.

Fees for O&M services are generally calculated as a fixed sum per WTG sold, according to the terms of the relevant purchase order. Electricity generated by WTGs owned by the Group is sold to state electricity boards in India and private parties.

### *Other Income*

Other income consists primarily of interest received from bank deposits, interest received from customers for delayed payments and interest on loans to associate companies as well as infrastructure development income, dividend income, net profit from the sale of investments and other operating income.

### *Cost of Goods Sold*

Cost of goods sold consists primarily of the consumption of raw materials and components utilised in the manufacture of WTGs and related equipment. Cost is measured using the value of the stock of raw materials and components at the beginning of the accounting period along with raw materials and components purchased during the period reduced by the value of the stock of raw materials and components at the close of the accounting period. Cost of goods sold also includes increases or decreases in inventory, which represents the difference between the value of the stock of semi-finished and finished goods and work-in-progress on the first and last days of the relevant fiscal year. Project execution and costs for heavy equipment hiring costs are included in cost of goods sold. In addition, the Group imports a portion of its raw materials and components requirements and these costs are affected by fluctuations in the value of the Rupee.

### ***Operating and Other Expenses***

Operating and other expenses principally consist of provisions for freight and packaging costs, provisions for performance guarantees and provision for operation, maintenance and warranty costs. Other key operating and other expense items include stores and consumables, travelling and communication expenses, other selling and administrative expenses, consultancy charges, liquidated damages design changes and technological upgrades, O&M charges, quality assurance expenses, product development and research, rent, rates and taxes, advertising and promotional costs, infrastructure development cost and net foreign exchange difference loss.

### ***Employees' Remuneration and Benefits***

Employees' remuneration and benefits consists of salaries, wages, allowances and bonuses, contributions to provident and other funds and staff welfare expenses. The Group operates an ESOP for eligible employees and the ability to exercise options is subject to the employee's continuing employment with the Group.

### ***Financial Charges***

Financial charges consist of interest on fixed loans, including term loans and acquisition financing loans, and bank charges. Other interest relates primarily to interest expenses on working capital and other short-term loans. Bank charges represent processing fees for loans and other credit facilities as well as for bank guarantees.

### ***Tax***

Taxes comprise both current and deferred taxes and fringe benefit tax. Provision for current and fringe benefit taxes is made after considering available deductions and exemptions under the Income Tax Act, including MAT credit entitlements. Provision also is made for earlier year current tax payments. Deferred taxes are provided for in accordance with applicable prudential norms.

### ***Minority Interest and Share in Associate's Profit After Tax***

The share of profit arising to minority shareholders for their interest is deducted from the Company's results and the share of the Company in its associate's profit after tax is added in to the Company's results.

## **Fiscal Years 2009 and 2008**

### ***Income***

Total income increased by 90 per cent. to Rs.265,305.44 million in Fiscal Year 2009 from Rs.139,474.01 million in Fiscal Year 2008.

### ***Sales***

Sales increased by 91 per cent. to Rs.260,817.01 million in Fiscal Year 2009 from Rs.136,794.30 million in Fiscal Year 2008. This increase was primarily due to consolidation of REpower from Fiscal Year 2009 onwards which contributed Rs 71,049.95 million, increase in the volume of WTG sales of the Group (excluding Repower), which increased to 2,790.45 MW in Fiscal Year 2009 from 2,311.40 MW in Fiscal Year 2008 and increased sales of Hansen.

### ***Other Income***

Other income increased by 67 per cent. to Rs.4,488.43 million in Fiscal Year 2009 from Rs.2,679.71 million in Fiscal Year 2008. This increase was primarily due to profit of Rs.928.57 million on 10 per cent. stake sale of Hansen and increased operating income of REpower and Hansen.

### ***Expenditure***

Expenditure increased by 100 per cent. to Rs.249,172.65 million in Fiscal Year 2009 from Rs.124,817.47 million in Fiscal Year 2008. This increase was primarily due to an increase in the cost of goods sold, operating and other expenses, employee's remuneration and benefits, financial



charges and depreciation/amortisation. Expenditure as a percentage of total income amounted to 94 per cent. in Fiscal Year 2009 compared to 89 per cent. in Fiscal Year 2008.

### ***Cost of Goods Sold***

Cost of goods sold increased by 90 per cent. to Rs.168,568.03 million in Fiscal Year 2009 from Rs.88,701.82 million in Fiscal Year 2008. The increase was primarily due to increase in sales volume. However, cost of goods sold as a percentage of sales declined marginally to 65 per cent. in Fiscal Year 2009 as compared to 65 per cent. in Fiscal Year 2008.

### ***Operating and Other Expenses***

Operating and other expenses amount to 16 per cent. of the sales as compared to 12 per cent. during the previous year. Freight outward and packing expense as a percentage of sales increased to Rs. 11,356.27 million (4 per cent. of sales) in Fiscal Year 2009 as compared to Rs. 4,663.21 million (3 per cent. of sales) The company has provided Rs.2,808.77 million towards performance guarantee and Rs.3,667.25 million towards operational and maintenance warranty and Rs. 2,843.30 million towards liquidated damages in Fiscal Year 2009 as compared to Rs.1,562.51 million and Rs.689.04 million and Rs. 244.50 million respectively in Fiscal Year 2008. The balance operating and other expenses stood at Rs.21,999.89 million in Fiscal Year 2009 as compared to Rs.9,647.91 million in Fiscal Year 2008, mainly due to significantly higher volume.

### ***Employee's Remuneration and Benefit Cost***

Employee remuneration and benefit cost increased by 108 per cent. to Rs.21,657.51 million in Fiscal Year 2009 from Rs.10,430.05 million in Fiscal Year 2008. In absolute terms the increase was account of inclusion of REPower amounting to Rs.4,908.32 million and the balance increase is primarily attributable to operationalisation of new facilities, requiring additional technical and managerial personnel.

### ***Financial Charges***

Financial charges increased by 77 per cent. to Rs.10,539.31 million in Fiscal Year 2008 from Rs.5,969.38 million in Fiscal Year 2008. The increase is primarily due to increased working capital requirements and bank charges.

### ***Depreciation***

The Company provided a sum of Rs.5,731.42 million and Rs.2,893.64 million towards depreciation for the Fiscal Years ended 31 March 2009 and 31 March 2008 respectively. The increase was primarily due to capacity expansion at the Company's manufacturing facilities and consolidation of REpower. Charge on account of depreciation as a percentage of sales amounts to 2 per cent. in Fiscal Year 2009 as compared to 2 per cent. in Fiscal Year 2008.

### ***Profit Before Tax and Exceptional Items***

As a result of the foregoing factors, profit before tax increased by 10 per cent. to Rs.16,132.79 million in Fiscal Year 2009 from Rs.14,656.54 million in Fiscal Year 2008. Profit before tax as a percentage of total income amounted to 3 per cent. in Fiscal Year 2009, compared to 9 per cent. in Fiscal Year 2008.

### ***Exceptional Items***

The Company classified the following as exceptional items during Fiscal Year 2009.

In Fiscal Year 2009, the Company continued a retrofit programme to resolve blade crack issues noticed in some of its S88 turbines. The retrofit programme involves the structural strengthening of blades on S88 (2.1MW) turbines. The retrofit programme will be carried out by maintaining a rolling stock of temporary replacement blades, to minimise the downtime for operational turbines. The Company provided for an amount of approximately Rs.2,215.89 million towards the same in Fiscal Year 2009, as well as an exceptional loss of Rs.1,895.05 million for the unavailability of the turbines as a result of the programme. The Group also incurred an exceptional

loss of Rs.3,538.43 million of mark to market losses on foreign exchange contracts taken for hedging purposes in Fiscal Year 2009. Finally, the Company incurred an exception loss of Rs.1,313.48 million in Fiscal Year 2009 for foreign exchange losses arising due to the restatement of its zero coupon convertible bonds at the end of the Fiscal Year.

Exceptional items increased from Rs.2,852.14 million in Fiscal Year 2008 to Rs.8,962.85 million in Fiscal Year 2009.

### ***Tax***

Tax expenses increased 76 per cent. to Rs.2,881.21 million in Fiscal Year 2009 from Rs.1,632.94 million in Fiscal Year 2008.

### ***Minority Interest.***

Minority interest increased to Rs.1,947.15 million in Fiscal Year 2009, compared to Rs.427.98 million in Fiscal Year 2008, due to REpower consolidation and increased profit of Hansen.

### ***Net Profit.***

As a result of the foregoing factors, net profit decreased from Rs.10,300.98 million in Fiscal Year 2008 to Rs.2,364.81 million in Fiscal Year 2009.

## **Fiscal Years 2008 and 2007**

### ***Income***

Total income increased by 73 per cent. to Rs.139,439.75 million in Fiscal Year 2008 from Rs.80,822.30 million in Fiscal Year 2007.

### ***Sales***

Sales increased by 71 per cent. to Rs.136,794.30 million in Fiscal Year 2008 from Rs.79,857.30 million in Fiscal Year 2007. This increase was primarily due to an increase in the volume of WTG sales, which increased to 2,311.40 MW in Fiscal Year 2008 from 1,456.25 MW in Fiscal Year 2007. The share of overseas business increased to 58 per cent. in Fiscal Year 2008 from 48 per cent. in Fiscal Year 2007. Hansen reported consolidated sales before elimination of Rs.24,048.12 million in Fiscal Year 2008 as compared to Rs.18,560.74 million in Fiscal Year 2007.

### ***Other Income***

Other income increased by 178 per cent. to Rs.2,679.71 million in Fiscal Year 2008 from Rs.965.00 million in Fiscal Year 2007. This increase was primarily due to interest on fixed deposits placed with banks.

### ***Expenditure***

Expenditure increased by 77 per cent. to Rs.125,763.73 million in Fiscal Year 2008 from Rs.71,139.66 million in Fiscal Year 2007. This increase was primarily due to an increase in the cost of goods sold, employee remuneration and benefit costs, operating and other expenses and financial charges. Expenditure as a percentage of total income amounted to 90 per cent. in Fiscal Year 2008 compared to 88 per cent. in Fiscal Year 2007.

### ***Cost of Goods Sold***

Cost of goods sold increased by 85 per cent. to Rs.88,701.82 million in Fiscal Year 2008 from Rs.47,881.55 million in Fiscal Year 2007. The increase was primarily due to increase in sales volume. However, cost of goods sold increased at a higher rate than sales due to change in the composition of the markets in which the Group operates (including diversification into markets of Australia, Brazil and Europe in addition to Suzlon's continuing Indian and other international markets), undertaking of WTG erection, installation and commissioning of project activities and changes in product mix. As a percentage of total income, cost of goods sold amounted to 64 per cent. in Fiscal Year 2008, compared to 59 per cent. in Fiscal Year 2007.

### ***Operating and Other Expenses***

Operating and other expenses increased by 47 per cent. to Rs.17,753.42 million in Fiscal Year 2008 from Rs.12,077.12 million in Fiscal Year 2007. This increase was primarily due to an increase in freight and packaging expenses (which amounted to approximately Rs.4,663.21 million during Fiscal Year 2008 as compared to Rs.2,286.41 million in Fiscal Year 2007) as a result of increased export volumes. The Group also provided Rs.2,356.96 million towards performance guarantee and Rs.689.04 million towards operation, maintenance and warranty in Fiscal Year 2008 as compared to Rs.1,026.96 million and Rs.859.07 million, respectively, in Fiscal Year 2007. The Company recognised an exchange gain of Rs.357.77 million in Fiscal Year 2008 as compared to exchange loss of Rs.492.04 million in Fiscal Year 2007. The balance operating and other expenses amounted to Rs.10,401.92 million in Fiscal Year 2008 as compared to Rs.7,412.64 million in Fiscal Year 2007 due to increased volume. As a percentage of total income, operating and other expenses amounted to 13 per cent. in Fiscal Year 2008, compared to 15 per cent. in Fiscal Year 2007.

### ***Employee Remuneration and Benefit Cost***

Employee remuneration and benefit cost increased by 56 per cent. to Rs.10,430.05 million in Fiscal Year 2008 from Rs.6,682.43 million in Fiscal Year 2007. Employee remuneration cost on account of ESOPs amounted to Rs.45.28 million in Fiscal Year 2008. The increase was primarily attributable to increased operations of Suzlon requiring additional technical and managerial personnel. As a percentage of total income, employee remuneration and benefits amounted to 7 per cent. in Fiscal Year 2008, compared to 8 per cent. in Fiscal Year 2007.

### ***Financial Charges***

Financial charges increased by 116 per cent. to Rs.5,969.38 million in Fiscal Year 2008 from Rs.2,763.44 million in Fiscal Year 2007. The increase in interest cost was primarily due to increased interest paid in Fiscal Year 2008 in connection with a loan taken for the acquisition of Hansen and the purchase of a stake in REpower as compared to interest paid in Fiscal Year 2007 for acquisition of Hansen, as well as increased working capital requirements. As a percentage of total income, financial charges amounted to 4 per cent. in Fiscal Year 2008, compared to 3 per cent. in Fiscal Year 2007.

### ***Depreciation***

Depreciation costs increased by 68 per cent. to Rs.2,893.64 million in Fiscal Year 2008 from Rs.1,717.98 million in Fiscal Year 2007. The increase was primarily due to capacity expansion at the Company's manufacturing facilities. As a percentage of total income, depreciation expenses amounted to 2 per cent. in Fiscal Year 2008 and Fiscal Year 2007.

### ***Profit Before Tax***

As a result of the foregoing factors, profit before tax increased 41 per cent. to Rs.13,676.02 million in fiscal year 2008 from Rs.9,682.64 million in Fiscal Year 2007. This increase was primarily due to an increase in volumes of WTG sales and an increase in share of consolidated sales of Hansen during Fiscal Year 2008. Profit before tax of a percentage of total income amounted to 10 per cent. in Fiscal Year 2008, compared to 12 per cent. in Fiscal Year 2007.

### ***Tax***

Tax expenses increased 93 per cent. to Rs.1,992.94 million in Fiscal Year 2008 from Rs.1,034.60 million in fiscal year 2007. This increase was mainly due to an increase in current tax to Rs.2,676.15 million in Fiscal Year 2008, which in turn was primarily due to increased profits and higher effective tax rates in respect of certain subsidiaries.

### ***Minority Interest***

Minority interest increased to Rs.427.98 million in Fiscal Year 2008, compared to Rs.7.72 million in Fiscal Year 2007, mainly due to dilution of Hansen stake. The Group's share of profit in Repower, which has been presented as a share of associate's profit after tax, was Rs.557.50 million for the period from 1 June 2007 to 31 March 2008.

## Net Profit

The Company classified an amount of Rs.1,511.69 million (net of tax of Rs.360.00 million) as exceptional items during Fiscal Year 2008.

The Company faced certain issues with residents of Dhule and Sangli, in Maharashtra, India resulting in the disruption of smooth WTG operations in these regions, which has resulted in a generation shortfall from that guaranteed. The Company incurred Rs.654.60 million towards restoration costs of these WTGs. The generation guarantee liability for the WTGs installed in the regions of Dhule and Sangli has been computed taking into account the events of *force majeure* and is based on the best estimates of the Company's management.

Also, the Company has announced a retrofit programme to resolve blade crack issues noticed in some of its S88 turbines in the United States and Portugal. The retrofit programme involves the structural strengthening of blades on S 88 (2.1MW) turbines. The retrofit programme will be carried out by maintaining a rolling stock of temporary replacement blades, to minimise the downtime for operational turbines. The Company provided for an amount of approximately Rs.1,217.09 million towards the same in Fiscal Year 2008.

As a result of the foregoing factors, in particular higher sales volume and the contribution of Hansen into the Group, net profit increased by 19 per cent. to Rs.10,300.98 million in Fiscal Year 2008 from Rs.8,640.32 million in Fiscal Year 2007.

## Liquidity and Capital Resources

	For the Fiscal Year Ended 31 March		
	2007	2008	2009
		(in Rs. million)	
Net cash (used in)/ generated from operating activities . .	7,372.33	12,042.56	(12,237.80)
Net cash flow from investing activities . . . . .	(37,199.05)	(46,399.94)	(73,217.78)
Net cash flow from financing activities . . . . .	39,694.85	88,141.00	38,738.22
Net increase in cash and cash equivalents. . . . .	9,868.13	53,816.62	(46,717.36)
Add: Cash and bank balances taken over on acquisition of subsidiary. . . . .	–	–	6,692.47
Add/(less): Effect of exchange difference on cash and cash equivalents. . . . .	–	73.34	37.61
Cash and cash equivalents at the beginning of the year . .	5,514.82	14,456.02	68,345.98
Cash and cash equivalents at the end of the year . . . . .	15,382.15	68,345.98	28,358.70

## Cash Flows

The Group needs cash primarily to fund its domestic and overseas organic and inorganic expansion, including the establishment of new industrial facilities in India and abroad, as well as to fund working capital needs. The Company funds these capital requirements through a variety of sources, including cash from operations, short- and long-term lines of credit and through the issuance of equity securities and convertible bonds. These sources of funding, and the Group's ability to fund its capital expenditure needs, could be adversely affected by: (i) the continued demand for the Group's products and selling prices it can charge, (ii) delays in shipping and transporting WTGs and WTG components or inability for any other reason to meet contractual milestones, (iii) capital expenditure overruns, (iv) higher than expected costs or lower than anticipated benefits of integrating Hansen or REpower or other acquisitions into the Group, (v) the Group's ability to manage and service current levels of indebtedness and changes in interest rates and (vi) the Group's inability to obtain funds from external sources on acceptable terms or in a timely manner.

## Cash, Working Capital and Indebtedness

As of 31 March 2009, 2008 and 2007 the Group had cash and bank balances of Rs.30,698.44 million, Rs.69,602.01 million and Rs.15,382.95 million, respectively. It recorded a decrease in cash and cash equivalents of Rs.38,903.57 million during the year ended 31 March 2009 primarily due to utilisation of funds for REpower acquisition and business expansion. It recorded an increase in cash and cash equivalents of Rs.54,219.06 million and Rs.9,868.13 million during the

year ended 31 March 2008 and 2007, respectively. The increase in cash and cash equivalents during the period ended 31 March 2008 and 2007 was primarily due to increased operations and the integration of Hansen.

The Group's total borrowings were Rs.148,695.71 million, Rs.9,9345.9 million and Rs.51,620.4 million as of 31 March 2009, 2008 and 31 March 2007, respectively. The Group funds short-term working capital requirements through cash flow from operations, overdraft, cash credit facilities with commercial banks and short- and medium-term borrowings from banks and financial institutions. As of 31 March 2009, 2008 and 2007, the Group had short-term borrowings (excluding the current portion of long-term borrowings) of Rs.54,854.93 million, Rs.16,422.8 million and Rs.17,768.3 million, respectively, including banks' lines of credit for working capital.

As of 31 March 2009, the Group had term loans outstanding of Rs.59,997.40 million, debentures of Rs.3,000.00 million, working capital facilities from banks and financial institutions of Rs.39,762.57 million and vehicle loans of Rs.6.24 million, out of Rs.102,766.21 million in total secured debt obligations as at that date. As of 31 March 2008, the Group had term loans outstanding of Rs.61,945.92 million, working capital facilities from banks and financial institutions of Rs.8,718.19 million and vehicle loans of Rs.0.21 million, out of Rs.70,664.32 million in total secured debt obligations as at that date. As of 31 March 2007, the Group had term loans outstanding of Rs.11,761.65 million, working capital facilities from banks and financial institutions of Rs.8,081.89 million and vehicle loans of Rs.0.71 million out of Rs.19,844.25 million in total secured debt obligations at that date.

Under the terms of certain of the Group's long-term borrowings, the Group is required to comply with various financial covenants, including, among others, maintaining a specified net worth to debt ratio, interest cover ratio, net borrowing to EBITDA and debt service cover ratio. Some of the Group's short-term loans and long-term borrowings require lender consent for certain matters, including the 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. Terms and conditions for 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. Debt under these borrowings may be accelerated if the Group or the Company defaults, including defaults triggered by failure to comply with these financial covenants. Payment defaults, as well as defaults under covenants leading to acceleration of debt repayment, in any of these borrowings could trigger a default in the other borrowings, and could have a material adverse affect on the Group by:

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

The Group currently is in compliance with these covenants and intends to obtain the relevant lender consents, if any required and to the extent applicable, prior to the date of this Offering Circular.



## Outlook

Based on current market conditions and the Group's (excluding REpower) order book of 1,463 MW as on 25 June 2009, the Group (excluding Hansen and REpower) expects WTG sales of between 2,400 MW and 2,600 MW in Fiscal Year 2010, with approximately 700-800 MW to come from sales within India. Based on these projections as well as public statements of REpower regarding expectations for its business, the Group also expects its consolidated total income to remain flat, with increased volumes (excluding REpower and Hansen) in the second half of the Fiscal Year compared to Fiscal Year 2009. Moreover, the Group (excluding REpower and Hansen) expects average realization per MW sold to decrease by 5 to 10 per cent. compared to Fiscal Year 2009.

Furthermore, based on guidance from REpower's management for the Fiscal Year 2010, REpower expects its sales to be within a range of €1.4 billion and €1.5 billion and expects to operate at an EBIT margin within a range of 7.5 per cent. and 8.5 per cent.

The Group is planning to initiate a cost reduction program, and is targeting an overhead reduction of Rs.5,000 million in Fiscal Year 2010.

The Company's consolidated financial statements for the three months ended 30 June 2009 are not available. The Company expects to publish such consolidated financial statements on 31 July 2009. As such, none of the Company or the Joint Lead Managers makes or can make any representation or gives or can give any assurance as to the financial condition, results of operations and prospects of the Company as will be disclosed in such consolidated financial statements on 31 July 2009. Furthermore, if such consolidated financial statements do not disclose positive results for the Group, this could have a negative impact on the trading price of the Bonds and the Shares.

**These forward looking statements have been provided based on the Company's best estimate assumptions regarding future events and actions. These future events may or may not take place. A forecast, by its very nature, is subject to business, economic and competitive uncertainties and unexpected events, many of which are beyond the control of the Company, and upon assumptions with respect to future business decisions, which are subject to change. Also, events and circumstances often do not occur as anticipated, and therefore the Group's actual results are likely to differ from the forecast, and the differences may be material. The Company cannot, and does not, guarantee the achievement of the forecasted results expressed above.**

**This information should be reviewed in conjunction with the description of the Group's business, its historical financial information and the other material contained in the Offering Circular, including the information set forth elsewhere in "Risk Factors" and "Forward Looking Information".**

**There is no intention to update this information or publish prospective financial information in the future.**



## INDUSTRY OVERVIEW

*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, GWEC and various trade associations, and has not been prepared or independently verified by the Company, or the Joint Lead Managers 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.*

*BTM describes itself as an independent consulting firm focusing on renewable energy resources 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 the BTM 2007 Report, the BTM 2008 Report and the BTM 2009 Report.*

*The figures which are sourced from GWEC in this Offering Circular are based on the GWEC 2006 Report.*

### Electricity Demand

#### **Global Electricity Demand**

The IEA in its World Energy Outlook 2006, estimates that 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.\$20,000,000 million 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 share of total electricity generation attributable to wind power will grow from 0.5 per cent. currently, 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 Ministry of Power of the Indian Government (the "MOP"), in the Fiscal Year 2008, demand for electricity exceeded supply by an estimated 9.0 per cent. (9.6 per cent. in the Fiscal Year 2007) in terms of total requirements and 15.2 per cent. (13.8 per cent. in the Fiscal Year 2007) 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 MOP, as at 31 January 2008, India's power system had an installed generation capacity of approximately 141,080 MW. Of the installed capacity, thermal power plants powered by coal, gas, naphtha or oil accounted for approximately 64.43 per cent. of total power capacity. Hydroelectric stations accounted for approximately 24.96 per cent., nuclear stations accounted for approximately 2.92 per cent. and renewable energy sources accounted for approximately 7.69 per cent. The National Electricity Policy ("NEP") stipulates power for all by 2012 and annual per capita consumption of electricity to rise to 1000 units from the present level of 631 units. To fulfil the objectives of the NEP a capacity addition of 78,577 MW has been proposed for the 11th plan. This capacity addition is expected to provide a growth of 9.5 per cent. to the power sector.

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, alternative sources of energy, such as wind energy and biomass, are likely to play an increasingly important role in bridging the demand-supply gap.

## Wind Energy Demand

### Global Wind Energy Demand

The total wind energy capacity installed worldwide in calendar year 2008 was 28,190 MW, an annual growth rate of 42.4 per cent. Total cumulative global wind energy capacity reached 122,158 MW by the end of calendar year 2008. The milestone figure of 100,000 MW was passed in spring 2008. The global financial crisis, which has resulted in a dramatic downturn in the world economy, was also felt in the wind industry at the end of the year, with fewer orders being placed for turbine components.

This continued strong growth during 2008 was mainly due to the PTC (Production Tax Credit) in the United States, which remains in force until the end of 2009. The other main contributor was an increase in China, which doubled its capacity compared to calendar year 2007. The American market grew rapidly not just because of the continuation in force of the PTC in the US. Both Canada and Brazil contributed to the overall result. The region as a whole achieved a total of 9,527 MW, equivalent to 33.8 per cent. of the world market in calendar year 2008. Europe maintained a steady rate of growth, but lost its position as the region with the highest annual installation. With 9,179 MW the region attained 32.6 per cent. of the world market. Europe is still by far the largest continent in cumulative terms, as it accounts for more than half of the installed capacity in the world. A significant fall in the Spanish market was balanced out by progress in France, Italy, the UK, Portugal and Turkey.

The ranking of the largest country markets for wind power changed in calendar year 2008. The United States was still in first place, with 8,358 MW installed, a record for a single country, followed by China, with 6,246 MW. China had the highest growth rate of any country. In third position came India with 1,810 MW. The former leading country, Germany maintained last year's level with 1,665 MW. Offshore installations in calendar year 2008 were 344 MW taking the cumulative installed offshore capacity to 1421 MW. (Source: BTM 2009 Report).

The following table illustrates the growth in the global wind power industry (including offshore installations):

Year	2003	2004	2005	2006	2007	2008
			(Figures in MW)			
Newly installed capacity. . . . .	8,344	8,154	11,542	15,016	19,791	28,190
Accumulated installed capacity by year end) . . . . .	40,301	47,912	59,399	74,306	94,005	122,158

(Source: BTM 2009 Report)

### Geographic Demand for Wind Power Globally

In calendar year 2008, Europe contributed 32.6 per cent. of the newly added capacity of 9,179 MW bringing the continent's total wind power generation capacity up to 65,971 MW. Last year nearly one third of all new capacity was installed in the Asian continent. The wind energy boom is continuing particularly strongly in China, which once again doubled its installed capacity by a further 6,246 MW, reaching a total of 12,121 MW.

In terms of cumulative installed wind power, the US is now again the world leader, with 25,147 MW. Next comes Germany, with 3,845 MW. Not since 1996 has the US held this leadership position. Germany became the largest country for installed wind capacity in 1997, and has kept that position until now. The following table sets forth the installed MW capacity (including offshore

installations) in the three calendar years ending 31 December 2008 and the cumulative installed MW capacity by country for the top ten markets:

Country	As at 31 December			Share (per cent.)
	2006	2007 (MW)	2008	
USA . . . . .	11,635	16,879	25,237	20.7
Germany . . . . .	20,652	22,277	23,933	19.6
Spain . . . . .	11,614	14,714	16,453	13.5
PR China . . . . .	2,588	5,875	12,121	9.9
India . . . . .	6,228	7,845	9,655	7.9
Italy . . . . .	2,118	2,721	3,731	3.1
France . . . . .	1,585	2,471	3,671	3.0
UK . . . . .	1,967	2,394	3,263	2.7
Denmark . . . . .	3,101	3,088	3,159	2.6
Portugal . . . . .	1,716	2,150	2,829	2.3

(Source: BTM 2009 Report)

According to the BTM 2009 Report, wind power as a percentage of global electricity supply crossed 1.3 per cent. by the end of 2008. At end of calendar year 2008, out of 19,489 TWh electricity generated worldwide, 254.16 TWh was contributed by wind energy. In Denmark, wind power contributed approximately 20 per cent. to that country's electricity supply, while Germany and Spain derive approximately 8 per cent. and 11.0 per cent., respectively, of their electricity requirements from wind.

As per the BTM 2009 Report, the ten largest markets in global wind power installations accounted for 85.2 per cent. Another noteworthy development is that WTGs continue to get larger, although the extent of this has varied across the different markets. The average overall size of the turbines is now close to the 1.56 MW mark. This is in spite of the fact that offshore installations, where larger turbines are generally used, only came to a total of 344 MW.

### Indian Wind Energy Demand

The cumulative installed MW capacity in India as at the end of the past three calendar years was as follows:

	As at 31 December		
	2006	2007 (MW)	2008
Cumulative installed capacity . . . . .	6,228	7,845	9,655

(Source: BTM 2009 Report)

### Key Growth Drivers for Wind Power

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 estimated that global electricity consumption would double between 2004 and 2030, with demand for electricity likely to increase at a much faster pace in developing countries such as India and China. The IEA also estimates that the share of wind power in total electricity generation will grow from 0.5 per cent. currently 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 had fallen from U.S.\$0.38 in the early 1980s to between 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. Further, higher oil prices and in turn higher gas prices, are pushing up the production cost of thermal power and therefore making wind power more economically attractive.

**Environmental awareness and government initiatives:** Generating electricity from fossil fuel energy sources releases carbon dioxide which contributes to global warming. As such, many countries, including India, the United Kingdom, the United States and Germany, have provided fiscal incentives and schemes to encourage the growth of renewable energy. 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.

Approximately 141 countries have adopted the Kyoto Protocol, which became effective in February 2005, and have agreed to a long-term reduction of their carbon-dioxide emissions by an average of 5.2 per cent. per annum by 2012, as compared to the level of emissions in 1990. 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 several 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, carbon trading has also been initiated in countries in the European Union and countries such as Japan. Carbon trading refers to a system whereby emitters of carbon dioxide and other harmful gases purchase Carbon Emission Receipts from clean energy producers, including renewable energy producers. Trading in Carbon Emission Receipts 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 and 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. The cumulative offshore installed capacity stood at 1,421 MW at 31 December 2008. With the introduction of larger WTGs targeted at the offshore market, significant developments are expected in the offshore market in the future. Cumulative offshore installations are expected to reach 8,155 MW as at 31 December 2012 and thus will contribute 3.6 per cent. of the expected capacity addition of 193,935 MW by 31 December 2012.

**Energy Security:** Increased concern about energy security, especially in the prevailing volatile geopolitical scenario is pushing the countries towards renewable sources of energy especially wind power.

## **Market Potential**

### ***Global Wind Energy Market Potential***

According to the BTM 2009 Report, the cumulative installed capacity for wind power is expected to grow from 122,158 MW in calendar year 2008 to 343,153 MW by 31 December 2013, representing an average growth rate of 15.7 per cent. per annum for new installations and with an average growth rate of 22.9 per cent. per annum for cumulative installations. Of the total newly installed capacity of 220,995 MW expected by 31 December 2013, 4.6 per cent. is expected to be contributed by the offshore segment. Further, according to the BTM 2009 Report, the total wind energy capacity is expected to be 833,546 MW by 31 December 2018.

The BTM 2009 Report estimates that Europe's share in cumulative installations will decline to 42.30 per cent. by 31 December 2013 from 54 per cent. in calendar year 2008, with the share of the Americas (including the United States) expected to increase from 23.67 per cent. in calendar year 2008 to 27.38 per cent. in calendar year 2013. Further, Europe's share in cumulative offshore installations is expected to fall from 100 per cent. as at 31 December 2008 to 92.57 per cent. as at 31 December 2013.

## **Indian Wind Energy Market**

India's wind power potential has been assessed at around 45,000 MW. This assumes sites with wind power density in excess of 200W/sq.m at 50 m hub height with 1 per cent. of land available for wind farms requiring 12 ha/MW. (Source: Annual Report (2007-08) of Ministry of New and Renewable Energy).

750 MW of installed capacity was added during calendar year 2007, taking the cumulative installed capacity to 7844 MW, mainly in Tamil Nadu, Gujarat, Maharashtra, Madhya Pradesh, Karnataka and Rajasthan. Cumulative wind power generation in the country crossed 37,000 MW, 60 per cent. of which was accounted for by Tamil Nadu. Wind electric generators of unit sizes between 225 kW and 1.65 MW have been deployed across the country. (Source: Annual Report (2007-08) of Ministry of New and Renewable Energy).

According to the BTM 2009 report, the cumulative installed wind power capacity in India is expected to increase from 9,655 MW as at 31 December 2008 to 25,505 MW as at 31 December 2013.

## **The Gearbox Industry**

In WTG applications, gearboxes are used to convert the very high torque produced by the spinning blades of a wind turbine to a speed sufficient to drive an electric generator. In most industrial applications, gearboxes are used to convert unsuitably high speeds, such as those produced by an electrical motor, to a slower speed at higher torque.

The market for gearboxes can be broadly separated into two segments: (i) enclosed gears; and (ii) open gears. Hansen operates within the enclosed gear segment and focuses in particular on the specialised subgrouping that comprises the supply of gearboxes for use in WTGs. It is the second largest gearbox and drive train manufacturer for WTGs in the world. Hansen also develops and supplies large enclosed standardised gearboxes for other industries.

## **The Market for WTG Gearboxes**

BTM 2007 Report estimates that approximately 85 per cent. of installed wind turbines used gearboxes in 2006. The production of these gearboxes for WTGs is largely concentrated in Europe and the market is composed of a relatively small number of manufacturers. BTM estimates that the top six suppliers of WTG gearboxes accounted for 92 per cent. of worldwide wind power capacity (by MW supplied) in 2005, with the top two manufacturers, Siemens (Winergy) and Hansen, accounting for 60 per cent. collectively of the total MW wind power capacity supplied (Source: International Wind Energy Development, Supply Chain Assessment 2006-2010, BTM Consult ApS December 2006). This is illustrated in the following table, which contains BTM's estimate of market shares for WTG gearboxes by major supplier in 2005:

<b>Company</b>	<b>Market Share 2007 (by MW supplied) (per cent.)</b>
Siemens (Winergy) . . . . .	35
Hansen . . . . .	25
Bosch Rexroth . . . . .	13
Moventas . . . . .	10
Echesa . . . . .	5
Eickhoff . . . . .	4
Others . . . . .	8

(Source: International Wind Energy Development, Supply Chain Assessment 2006-2010, BTM Consult ApS December 2006)

## **The Market for Industrial Gearboxes**

The industrial gearbox market is fragmented, with a large number of suppliers. There are large multinationals with broader product lines as well as small to medium sized companies with narrower product lines who focus on more selective applications or have a distinct regional focus. For industrial gearboxes, Hansen focuses on stationary enclosed gearboxes, where it supplies



standardised gearboxes for selected industries that require relatively high technical and performance requirements, such as the chemicals, energy, material handling, environmental, extraction, pulp and paper, steel and metal, food and beverages, and construction industries.

## **Renewable Energy Policies**

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

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

### ***Feed-in Tariffs/Fixed Tariffs***

Feed-in tariffs 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 a more secure income for a substantial part of the project lifetime. Many different adaptations of the instrument are applied. The level of the tariff need not bear any direct relation to either cost or price, but can be set at a level to encourage investment in green power production. Major countries following tariff regimes include Germany and Spain.

### ***Quotas/Renewable Portfolio Standards/Renewable Energy Credits***

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 and 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 countries in the European Union, China and Australia. More than 11 states in India have also enacted RPS regulations.

### ***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.

### ***Other Incentive Instruments***

Other complementary government initiatives to support development of renewable energy technologies include fiscal measures such as investment tax credit, production tax credit and low interest loans, loan guarantees and investment subsidies. Major countries following production tax credit and investment tax credits schemes include the United States and Canada (production tax credit schemes) and India (investment tax credit schemes).

Recently, the Ministry of New and Renewable Energy announced a scheme of Generation Based Incentive (“GBI”) for wind power projects announcing an “incentive” of Rs.0.50 per unit of electricity for wind power fed by the independent power producers into the grid. The GBI is aimed at increasing the amount of renewable energy fed into the grid.



## **Policy and Regulatory Environment in India**

Research, development, commercialisation and deployment of renewable energy systems and devices in the rural, urban, industrial and commercial sectors in India is administered by the MNRE. The MNRE has also established IREDA, a financial institution to complement the role of MNRE and to make available finance to renewable energy projects. In addition, the MNRE has also established CWET in Chennai, a specialised technical institution looking into technology development, testing and certification related to wind energy sector. In addition, it has also been participating in the wind resource assessment programme of the country.

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

Renewable energy generated product manufacturers are required to be registered with MNRE.

The guidelines from the MNRE set out the conditions that are required to be met for establishing windfarms and manufacturing and supplying equipment for wind power projects. These conditions include submission of detailed project reports, approval of sites for wind power installations and type certification by certification agencies (i.e., CWET).

For testing and certification, CWET has evolved a Type Approval Provisional Scheme 2000 ("TAPS 2000") for India, which is in line with international certification schemes for wind turbines. The TAPS 2000 undertakes the issuance of certificates for new WTGs as well as the approval of certificates for WTGs already possessing type certificates/approvals. TAPS 2000 is available to WTG manufacturers until the issue of final Type Approval Scheme and formal accreditation.

### ***Wind power generation***

Companies engaged in the generation of electricity from wind power are required to register the project being undertaken with the relevant state nodal agency and obtain permission for inter-grid connectivity from the utility.

The electricity generated from the wind power project can be used for captive consumption, sale to utilities or for transaction under open access as per prevailing state policy and regulation.

Various Indian state commissions have mandated a certain percentage of energy procurement from renewable energy sources and have also set tariffs for such procurement by various distribution companies as follows:

State	RPS Specified (Minimum) (per cent.)	Tariff Fixed by Commissions (in Rs. per kWh)	Period of PPA (years)	Charges for Captive Users (per cent.)	Cross Subsidy Surcharge for Sales to Third Party
Tamil Nadu . . . .	10	2.90 (fixed)	20	10 (includes 5 per cent. for banking if applicable)	Applicable
Maharashtra . . .	5 (for 2008-09)	3.50 + escalation of 0.15 on an annual basis	13	20-30 (approx)	Not applicable
Karnataka . . . . .	7-10	3.40 (fixed)	10	2 and 4	Applicable
Andhra Pradesh . . . . .	5	3.37 (fixed)	5	( <sup>1</sup> )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 eight years	20	10	Applicable
Madhya Pradesh . . . . .	10	4.03 reducing at 0.17 per year until the 4th year; subsequently fixed at 3.36 until 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 (for 2008-09)	4.08 (with 1.5 per cent. escalation per year)	Flexible	2	Applicable

*Note:*

- (1) Tariffs and Regulations are fixed by the Electricity Regulatory Commissions and are subjected to review based on the situation and changes in the respective states.

The parameters shown in the table above are based on the relevant tariff orders/regulations passed by the different regulatory commissions for specific states. Charges for captive users and sales to third party consumers, along with cross subsidy surcharge are at times independent of the tariff orders/regulations by the commission for specific technology. In this regard, the rates for captive/third party sales may change from year to year or may be fixed (if specified in the purchase contract for the wind energy generator).

## BUSINESS

*Unless the context otherwise requires, “Group” refers to Suzlon Energy Limited, its consolidated subsidiaries, associate company and joint venture and references to the “Issuer”, “Company”, “SEL” and “Suzlon” refer to Suzlon Energy Limited. Except where otherwise stated, historical financial data of the Group for the Fiscal Year 2007 does not consolidate financial data of REpower. Unless otherwise stated, historical financial information of the Group is derived from the Company’s consolidated financial statements under Indian GAAP. Historical financial information of REpower is derived from the consolidated financial statements of REpower under IFRS.*

*Unless otherwise stated, market share data for the Company refers to market share in the Indian market and has been sourced from the BTM 2009 Report.*

### Overview

The Group (excluding REpower) is a leading manufacturer of WTGs and was ranked fifth in the world in terms of annual installations with a market share of 9 per cent. for the year ended 31 December 2008 and the Group (including REpower) was ranked third in the world in terms of annual installations with a market share of 12 per cent. for the year ended 31 December 2008. (Source: BTM Report 2009). The Group is the leading provider of integrated WTG solutions in India and has expanded its operations in international markets with a presence in the United States, Europe, China, Australia, Brazil, South Africa and South Korea. The Company was incorporated on 10 April 1995 by the Promoters. The Group’s accumulated WTG sales from the Group’s establishment (excluding REpower) were 3,547 MW, 5,859 MW and 8,649 MW as at 31 March 2007, 31 March 2008 and 31 March 2009, respectively. India, with 749 MW, and the international markets, with 2,041 MW, accounted for 26.84 per cent. and 73.16 per cent., respectively, of the Group’s (excluding REpower) WTG sales (by volume) in the Fiscal Year 2009.

In the Fiscal Year 2007, the Company through its 100 per cent. owned subsidiary (as at 31 March 2009), AERH, acquired Hansen, the second largest gearbox and drive train manufacturer for WTGs worldwide. The Company, through AERH, held, as at 31 March 2009, an equity interest of 61.28 per cent. in Hansen. See “The Company’s Subsidiaries and the Affiliated Companies”. In the Fiscal Year 2008, the Group acquired a stake in REpower, and held, as at the date of this Offering Circular, an equity interest of 90.72 per cent. in REpower, one of the leading WTG producers in the German wind energy sector. See “—REpower Systems AG”. Also, in Fiscal Year 2009, the Company, through AERH, sold 67,010,421 shares (constituting 10 per cent. equity base) in Hansen. Post-disposal, the Company retains 61.28 per cent. (as at 31 March 2009) of the voting and economic interest in Hansen. Finally, the Company’s stake in SE Forge was reduced to 82.9 per cent. (as at 31 March 2009) following an issue of new equity shares by SE Forge in October 2008.

The Group develops and manufactures technologically advanced WTGs with an emphasis on high performance and cost-efficiency. Including REpower’s WTG models, the Group’s current product range includes 0.35 MW, 0.60 MW, 1.25 MW, 1.50 MW, 2.00 MW, 2.10 MW, 3.3 MW, 5 MW and 6 MW WTGs. It is among the first Asia-based companies to manufacture WTGs with multi-MW capabilities. The Group is an integrated developer of WTGs, focused on the design, engineering and development of WTGs and the majority of its components, including tubular towers, control panels, nacelle covers and generators, and the development and in-house manufacture of rotor blades for its sub-MW and multi-MW WTGs. 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 has completed the process of integrating the operations of Hansen into the Group and has recently begun sourcing approximately one-third of its gearbox requirements from them. The Group has also set up facilities to manufacture forging and foundry components that are required for the manufacture of WTGs and their components. The Group also expects to complete construction of the Suzlon Campus (the Company’s new headquarters in Pune, India) in the first half of Fiscal Year 2010. The Group (excluding REpower) expects to invest a further Rs.2.53 billion towards its expansion plans during Fiscal Year 2010.

The Group conducts R&D activities primarily through the Company’s subsidiaries, SEG, SBT and RETC. RETC is a 50:50 joint venture between the Company’s subsidiaries, SEDT and REpower. These entities 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. See “– Research and Development” and “– REpower Systems AG – Research and Development.” Further, the Group also conducts R&D in gearboxes through Hansen. The Group usually gets its design, manufacture, O&M services certified as ISO 9001:2000 by DNV. The Group’s WTG models are generally validated with type certification by either GL or CWET, an autonomous body attached to the MNRE.

With respect to the Indian market, the Group (excluding REpower), together with the Affiliated 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 undertakes the manufacturing and machining of large forge and casting products, catering primarily to the wind power industry through its 82.9 per cent. owned (as at 31 March 2009) subsidiary SE Forge. The Group also provides EPC and after-sales O&M services through SISL for WTGs it supplies in India. The Affiliated 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 operates as a manufacturer and supplier of WTGs and is involved in O&M and wind farm project activities. Through its subsidiary, Hansen, the Group is also involved in the manufacture of WTG gearboxes and industrial gearboxes. 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.

The Group’s consolidated total income was Rs.80,822.30 million, Rs.139,474.01 million and Rs.265,305.44 million for the Fiscal Years 2007, 2008 and 2009, respectively. Net profit was Rs.8,640.32 million, Rs.10,300.98 million and Rs.2,364.81 million for the Fiscal Years 2007, 2008 and 2009 respectively.

The following table sets forth the breakdown of the Group’s total consolidated income:

	For the Fiscal Year					
	2007	Percentage of Total Income	2008	Percentage of Total Income	2009	Percentage of Total Income
	(in Rs. million, except percentages)					
<b>Sales:</b>						
WTG and its						
Components . . . .	59,985.62	74.22	114,442.16	82.05	229,694.12	86.58
Gearboxes . . . . .	18,560.74	22.96	24,048.12	17.24	39,936.42	15.05
Foundry and Forging <sup>(1)</sup> . . . . .	—	—	0.14	—	171.82	0.06
Others . . . . .	1,321.32	1.63	247.24	0.18	360.61	0.14
Intersegment						
Sales . . . . .	(10.38)	(0.01)	(1,943.36)	(1.39)	(9,345.96)	(3.52)
<b>Total Sales . . . . .</b>	<b>79,857.30</b>	<b>98.81</b>	<b>136,794.30</b>	<b>98.08</b>	<b>260,817.01</b>	<b>98.31</b>
<b>Other Income<sup>(2)</sup> . . .</b>	<b>965.00</b>	<b>1.19</b>	<b>2,679.71</b>	<b>1.92</b>	<b>4,488.43</b>	<b>1.69</b>
<b>Total Income . . . . .</b>	<b>80,822.30</b>	<b>100.00</b>	<b>139,474.01</b>	<b>100.00</b>	<b>265,305.44</b>	<b>100.00</b>

*Notes:*

(1) New segment for reporting for the Fiscal Year 2009.

(2) Other income consists primarily of interest received, dividend income and other miscellaneous income.

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

	For the Fiscal Year		
	2007	2008 (per cent.)	2009
India .....	52.21	41.07	17.07
Europe .....	20.49	23.27	32.40
United States .....	20.68	18.68	28.09
China .....	3.94	3.50	4.85
Australia .....	—	7.48	11.24
Others .....	2.68	6.01	6.35
<b>Total</b> .....	<u>100.00</u>	<u>100.00</u>	<u>100.00</u>

## Competitive Strengths

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

- *Focus on providing “integrated solutions” wind energy packages to customers in India.* The Group's (excluding REpower) business model for the Indian market involves, 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, together with the Affiliated Companies, the acquisition of sites; (e) developing these sites and installing WTGs and connecting them to the power grid; and (f) providing after-sales O&M services. This business model allows the Group's Indian customers to benefit from the cost-efficiencies and the economies of scale that wind farms can offer. At the same time, the Group's customers can avoid the need to undertake the cumbersome processes associated with developing wind farms, which require expertise in various areas such as wind study, land acquisition and project execution and management skills.
- *Track record of executing large-scale wind power projects.* The Group (excluding REpower), along with the Affiliated Companies, has 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 to develop the capabilities and expertise needed for wind farm projects and the Group's customers benefit from the experience the Group has gained through operating its WTGs in different 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 in-house design capabilities, the Group has been able to develop its sub-MW and multi-MW WTG models, as well as the rotor blades for these WTGs, including offshore WTGs. The Group has also been able to develop in-house many of the processes and technologies that enable it to manufacture certain key components, such as nacelle covers, nose cones, control panels, rotor blades and generators and gearboxes. It also has an in-house capability to construct tools and moulds used in the manufacture of rotor blades.
- *Cost-efficient manufacturing and supply-chain.* The Group's (excluding REpower) manufacturing facilities located in India and China give it a 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. Also, the new capacity located in the SEZs allows the Group to enhance its cost competitiveness. Further, the Group is able to 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, Germany and the United States, the Group has created a global production platform for supplying to key growth markets. In addition, the Group has an integrated manufacturing base with most of

the key components such as rotor blades, generators, gearboxes, control panel, towers, nose cones and nacelle covers manufactured in-house. The Group recently established facilities to manufacture forging and foundry components used in WTGs and their components. Its business model also enables it to offer a combination of low cost manufacturing and access to high end technology.

- *Market leader in India and presence in several other high growth markets.* For the last eight Fiscal Years, the Group has been the leading WTG manufacturer in India. During the year ended 31 December 2008, the Group (excluding REpower) held a 47 per cent. share of the India WTG market (installations by capacity), with India being the fifth largest wind power market in terms of annual installed capacity during the same period (Source: BTM Report 2009). The Group has established a market presence in eight states, among which are the states that have the highest installed capacity of wind energy, including Maharashtra, Tamil Nadu, Gujarat, Karnataka and Rajasthan. The Company has also entered the state of Kerala, with the commissioning of its first turbine there in August 2008. The Group's leading market share makes it well-positioned to leverage its reputation and existing customer relationships to take advantage of anticipated future growth in demand for renewable energy sources. The Group has also established a presence in some of the key wind markets such as the United States, Europe, China and Australia. It has implemented projects in the United States, Australia and China and is currently implementing projects in Brazil, Portugal, Italy, Sri Lanka and Nicaragua. The Group undertakes marketing activities in several parts of Europe. As at 31 December 2008, REpower was the third largest supplier of WTGs in Germany by market share (Source: BTM Report 2009).
- *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 has introduced a customer management system concept as part of its O&M services to provide 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 during adverse weather conditions. The Group believes this helps in reducing WTG downtime and maintenance costs. Further, the Group's R&D teams are able to use the operational data gathered by its O&M 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 senior management brings with them extensive experience in the design, engineering, manufacturing, marketing and maintenance of WTGs. The Group's senior management team, located primarily in India and Europe, oversees R&D, manufacturing, finance, sales, business development and strategic planning and has 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:

- *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 has been ranked as the number one WTG supplier in India for the last eight years (Source: BTM Report 2009). The Group intends to continue to focus on growing its India business by leveraging its status as the leading integrated solution provider in wind and by continuing to develop large-scale wind farm projects. The Group will also continue to utilise the experience and expertise gained through its Indian operations to seek to win and execute orders from international customers.
- *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 currently 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; key growth markets in Europe, including Germany, 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; and South America, where many optimal sites exist, including in Brazil and Nicaragua.

- *Expanding manufacturing capacity in domestic and key international markets.* The Group's strategy is to establish manufacturing facilities for WTGs and key components close to markets with growing demand for power generated by wind energy. Some of these facilities may be located in geographical locations that are eligible for fiscal incentives. The Group has recently commissioned manufacturing facilities in India and Europe for WTGs and key components. 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 the potential for growth and where the Group believes it will be able to develop a strong marketing foothold. The Group has recently expanded its manufacturing capacity for gearboxes in Belgium and has also set up new manufacturing capacities in India and China in order to cater for new customers, increasing demand from existing customers and some of the in-house requirements of the Group.
- *Expanding its WTG product line and improving existing models.* The Group intends to leverage its WTG design and development capabilities by implementing new technology that it has developed through the Company's R&D subsidiaries to enhance the Group's existing WTG models and develop new models, particularly in the multi-MW class. RETC, a 50:50 joint venture between the Company's subsidiaries SEDT and REpower, aims to develop innovative technology that will influence the next generation of wind turbines. RETC aims to undertake strategic development in the field of research and technical training in the future. The Company plans to establish international subsidiaries of RETC in the future, in order to leverage the knowledge and expertise available in particular areas. As part of RETC, an academy offering high-quality technical training and qualification schemes is also planned, initially on the basis of collaborations with universities. The Group aims to take advantage of its vertically integrated structure to combine WTG research with its R&D platform at the component level in order to design and develop more advanced and cost efficient WTGs. Further, pursuant to the acquisition of REpower, the Group plans to enter into the field of offshore WTGs.
- *Integrated manufacturing.* The Group has developed and continues to implement a strategy to take control of and/or build relationships with companies which are suppliers of key components of the Group's WTGs, such as rotor blades, tubular towers, generators, and control panels. The Group has also acquired Hansen, which is the second largest gearbox and drive train manufacturer for WTGs worldwide. In 2008, Hansen set up its manufacturing facilities by establishing gearbox manufacturing units in India and China. The Group established SE Forge with the objective of undertaking manufacturing and machining of large forging and casting products catering primarily to the wind power industry. Both the foundry and the forging unit of SE Forge started commercial production during Fiscal Year 2009. 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

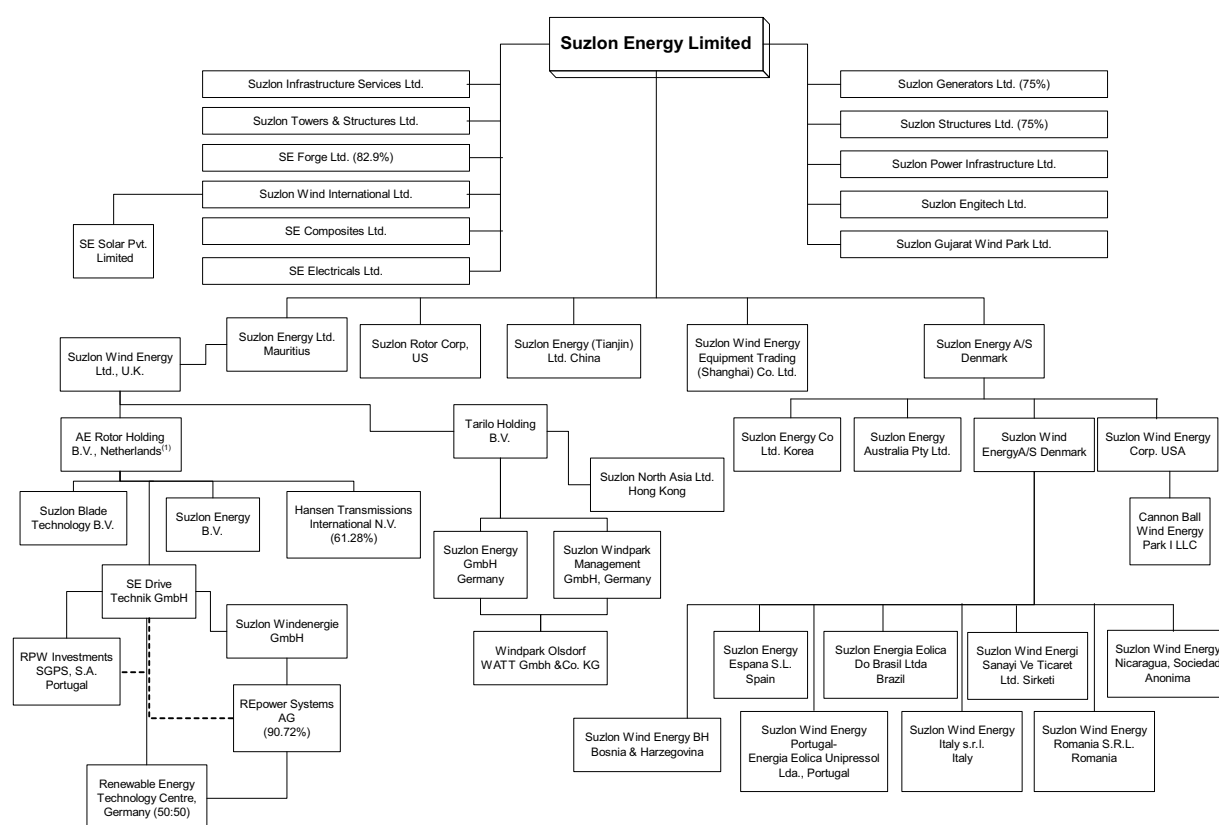
that offer an opportunity to grow its business and/or expand its capabilities or geographical reach. It is also expanding its vendor base across countries to improve supply chain efficiencies and to build a hedge against foreign currency risks. The Group intends only to pursue those transactions that complement its key strengths, are synergistic and, in its assessment, have manageable integration risks. In line with this strategy, the Group acquired REpower and Hansen. See “— REpower Systems AG”.

The Company has recently appointed Boston Consulting Group (“BCG”) for a business transformation initiative, with a focus on financial and operational planning, delivery excellence and efficiency, product and technology and organisation and people.

## Structure of the Group

The Group is comprised of the Company, its domestic and international subsidiaries and its joint ventures. Although the Group works closely with the Affiliated Companies, members of the Group do not own any equity interest in them and do not control them.

The following chart sets out the principal legal entities within the Group as at 30 June 2009. Entities are 100 per cent. owned unless otherwise indicated.



The Company, through its subsidiaries, held 35.83 per cent. of REpower’s share capital as at 31 March 2008. On 6 June 2008, the Company, through its subsidiaries SEDT and SWE further acquired approximately 30 per cent. of the equity capital of REpower held by Société de Participation du Commissaria a L’Energie Atomique (“AREVA”). Consequently, REpower has become a subsidiary of the Company with effect from 6 June 2008. Pursuant to an agreement dated 15 December 2008 entered into with Martifer, the Company agreed to acquire Martifer’s holdings of 22.4 per cent. in REpower through SEDT and SWE by making payments in three tranches: €65 million in December 2008, €30 million in April 2009 and the final tranche of €175 million in May 2009. The first tranche of €65 million was paid in December 2008, thereby increasing the Company’s effective holding in REpower to 73.65 per cent. as at 31 March 2009. Post 31 March 2009, the second and third tranches have been paid and consequently the Company’s effective holding in REpower as at the date of this Offering Circular is 90.72 per cent. See “— REpower Systems AG”.

## Products

The Group's core competencies are designing, developing and manufacturing cost-efficient WTGs, including developing and manufacturing some of the key WTG components for its sub-MW and multi-MW class of WTGs, such as rotor blades, control panels, nacelle covers, tubular towers, generators, and gearboxes, as well as forging and foundry work. 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 rotor blades. However, the generation of electricity by WTG is a result of the interplay between various highly developed and synchronised components:

- *The rotor blades.* The rotor blades form the motor of the WTG. The rotor blades collect kinetic energy from the wind and 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.
- *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 pitch regulation, adjust the angle of incidence of the rotor blades accordingly, ensuring that the WTG manufactures the maximum possible energy output from the wind in all wind conditions.
- *WTG towers.* Another component, the manufacture of which the Group is now developing expertise through its 75 per cent.-owned (as at 31 March 2009) subsidiary Suzlon Structures, is the tower of the WTG. Strong forces act on the mast, which is at a height of approximately 80 metres, 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 (excluding REpower) covers a wide range of WTG models, with a nominal output of 0.35 MW to 2.10 MW. In addition, REpower offers WTGs from a nominal output of 1.50 MW to 6 MW. See "REpower Systems AG – REpower's products and services". The Group's 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 advanced vacuum-assisted resin infusion moulding. 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 principal products of Suzlon are the 2/2.10 MW and the smaller 1.25/1.5 MW models. The Group introduced a 0.60 MW model 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 following table breaks down the Group's WTG sales (excluding REpower) for the periods indicated by number of WTG models sold and by MW capacity:

WTG Model	Fiscal Year 2007		Fiscal Year 2008		Fiscal Year 2009	
	Number of WTG	MW	Number of WTG	MW	Number of WTG	MW
0.35 MW .....	81	28.35	15	5.25	Nil	Nil
0.60 MW .....	190	114.00	181	108.60	93	55.80
1.25 MW .....	556	695.00	307	383.75	219	273.75
1.50 MW .....	169	253.50	449	673.50	452	678.00
1.80 MW .....	Nil	Nil	Nil	Nil	Nil	Nil
2.00 MW .....	Nil	Nil	Nil	Nil	Nil	Nil
2.10 MW .....	174	365.40	543	1,140.30	849	1,782.90
<b>Total</b> .....	<b>1,170</b>	<b>1,456.25</b>	<b>1,495</b>	<b>2,311.40</b>	<b>1,613</b>	<b>2,790.45</b>

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 relevant counterparty within the Group.

As at 25 June 2009, the Group (excluding REpower) had orders to supply 1,463 MW of capacity for wind power projects, representing a potential value of Rs.79.01 million. As part of its standard practices, the Group conducts credit checks and reviews the balance sheet of each potential customer in order to ensure that it has the financial capacity to acquire and operate WTGs.

## Services – India

In India, the Group (excluding REpower), along with the Affiliated 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, operation and maintenance.

In implementing the "integrated solutions" approach for its customers, the Group and the Affiliated Companies have developed and implemented several large-scale wind farms located throughout India. The cost 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 allowing the project costs to be spread across a larger number of WTGs. Similarly, larger projects have lower O&M costs per kWh due to efficiencies obtained in managing a larger wind farm.

Detailed studies on wind energy resources in India for the installation of wind power projects began in 1986 initially being carried out by MNRE and 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, the Affiliated Companies undertake land acquisition activities. The Group supplies customers with WTGs, including rotor blades and towers, which are installed and

commissioned by SISL, a 100 per cent. owned subsidiary of the Company. This activity was being carried out by an Affiliated Company, SIL, until 31 March 2007. O&M services for wind farms developed by the Group and the Affiliated Companies are provided by SISL.

On 12 January 2009 SGWPL, a 100 per cent. owned (as at 31 March 2009) subsidiary of the Company, announced the signing of a memorandum of understanding with the Government of Gujarat for developing wind power projects of up to 1,500 MW in the Kutch-Saurashtra region of Gujarat. It is proposed that SGWPL will act as project developer and provide an integrated solution to the investors in the project, facilitating permits and regulatory clearances, land, basic services and infrastructure.

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 that 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 Indian 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" (which is owned by the Indian Government) or forest land. Private land is purchased directly from its owner and if such land is agricultural land, it is converted into non-agricultural land if so required by the State Government. In the case of land owned by the Indian Government, it is made available by the respective State Governments on a long-term lease or out right sale basis as per the prevailing policies of the relevant State Government. Certain State Governments, like that of Gujarat and Rajasthan, have special policies for the allotment of revenue land 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.

Certain Affiliated Companies, including SRL and Shubh Realty (South) Private Limited, acquire suitable sites from private owners that the Group has identified and undertake to provide such sites exclusively to the Group's customers. This involves extensive negotiations with the landowners, particularly in the case of privately-owned land, and can involve litigation between the Affiliated Company and private landowners in which the Group may be named as a party. See "Legal Proceedings".

- *Development and technical design of wind farms.* The Group's services include micrositing, which involves the identification (through the use of sophisticated computer models) of the exact locations where a WTG will be installed, taking into consideration the distance requirements between two WTGs. Micrositing 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 the building of approach roads, power evacuation facilities (such as transmission lines to the nearest sub-stations and, in some cases, the sub-stations themselves) and levelling of land for WTG tower foundations, as well as the installation and commissioning of the WTGs. The Group also undertakes power evacuation activity. Some of these activities relating to wind farm site development and installation and commissioning of WTGs are undertaken by SISL.
- *Operation and maintenance services.* The Group offers O&M services for its WTGs, which include round-the-clock remote and on-site monitoring, and 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.

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, as from April 2004, the Group's income from sales also includes fees for O&M services provided to WTG customers in India and some select international markets. Fees for O&M 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.

The Group provides its customers with various types of warranties and guarantees. These include (a) free operations and maintenance warranties and performance guarantees, based on the percentage of time (generally 95 to 97 per cent.) per year that a WTG will be available, i.e machine availability, and/or (b) absolute unit guarantees on the minimum number of units of electricity that will be generated by the WTG, subject to grid availability (although regardless of fluctuations in wind speed) and/or (c) power curve guarantees pursuant to which it warrants that aWTG will produce a specified number of units of electricity at different wind speeds. Until March 2007, the Group provided absolute unit guarantees to most of its WTG customers in India. Since March 2007, the Group has been providing absolute unit guarantees on a case-by-case basis.

The Group also offers O&M services for its WTGs in India and some select international markets, which involves monitoring, maintenance and repair of the WTGs. The Group's standard service package includes preventive and planned maintenance of WTGs, transformers and related structures and includes an Availability Warranty. Such an Availability Warranty typically ranges from 95 per cent. to 97 per cent. availability, as well as warranties relating to the maximum allowable percentages of reactive power and transmission losses. If the Availability Warranty is not met, the Group is liable to its customers for a part or the whole of the annual maintenance fees it receives for each WTG that was not available 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.

### **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 O&M services on a project-specific basis in certain international markets.



## Manufacturing Facilities

The following tables set forth information regarding the Group's existing and proposed manufacturing facilities and the installed capacity of each of these facilities, including SEZ units.

### Manufacturing Locations

Location	Product	Unit	Quantity <sup>(1)</sup>	Commencement of Operations (Fiscal Year)
<b>India:</b>				
Diu.....	WTGs	Number of WTGs	100	1997
Daman.....	WTGs	Number of WTGs	300	2000
Daman.....	Rotor blades for WTGs	Number of sets of rotor blades	420	2002
Pondicherry.....	WTGs	Number of WTGs	720	2004
	Rotor blades for WTGs	Number of sets of rotor blades	790	2004
Daman.....	WTGs	Number of WTGs	600	2004
Maharashtra .....	Rotor blades for WTGs	Number of sets of rotor blades	300	2006
	Generators	MW capacity	2,000	2006
	Tubular towers	Metric tonnes	26,000	2007
Gujarat .....	Rotor blades for WTGs	Number of sets of rotor blades	200	2007
	Tubular towers	Metric tonnes	78,000	2005
	Forging and machining	Metric tonnes	70,000	2009
Karnataka .....	WTG	Number of WTGs	1,500	2009
	Rotor Blades for WTG	Number of sets of rotor blades	1,500	2009
Tamil Nadu .....	Foundry and machining	Metric tonnes	120,000	2009
	Gearboxes	MW capacity	5,000	2009
	Generators and Panel	MW capacity	3,000	2009
<b>Overseas:</b>				
United States .....	Rotor blades for WTGs	Number of sets of rotor blades	288	2007
China.....	WTGs	Number of WTGs	480	2007
	Rotor blades for WTGs	Number of sets of rotor blades	480	2007
	Gearboxes	MW capacity	3,000	2009
Belgium.....	Gearboxes	MW capacity	7,300	1939 <sup>(2)</sup>
Germany.....	WTGs	MW capacity	1,250	2001 <sup>(3)</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) The Group acquired the facility in the Fiscal Year 2007.
- (3) The Group acquired the facility in the Fiscal Year 2009.

During Fiscal Year 2008 and Fiscal Year 2009, the Group (excluding REpower and Hansen) undertook various expansion plans to add new manufacturing facilities and expand existing facilities. These include:

- *Expansion of the Group's integrated WTG manufacturing facility in India:* The Group (excluding Repower and Hansen) increased its overall integrated WTG manufacturing

capacity by approximately 35 per cent. or 1,500 MW from 2,700 MW as at 31 March 2008 to 4,200 MW as at 31 March 2009. The expansion of the integrated manufacturing facility included the establishment of a new unit in Udupi, India for manufacturing of WTGs and blades and other unit in Coimbatore, India for the manufacture of panels and generators. Commercial operation of the integrated WTG manufacturing unit commenced in the first half of Fiscal Year 2009.

- *Establishment of a new foundry unit near Coimbatore, India.* A new foundry unit has been constructed in a SEZ near Coimbatore with a manufacturing capacity of 120,000 MT per annum. Commercial operation of the forging unit commenced in the second half of Fiscal Year 2009. See also “The Company’s Subsidiaries and the Affiliated Companies – Domestic Subsidiaries”.
- *Construction of a new forging unit near Vadodora, India:* A new forging unit has a manufacturing capacity of approximately 42,000 rings (or 70,000 MT) per annum and the ability to produce rings up to 5,000 mm diameter, 600 mm in height and 4 MT in weight. Commercial operation of the forging unit commenced in the second half of Fiscal Year 2009. Full ramp-up is expected to happen in Fiscal Year 2010. See also “The Company’s Subsidiaries and the Affiliated Companies – Domestic Subsidiaries”.
- *Construction of a new rotor blade testing facility near Vadadora, India.* A new rotor blade testing facility will be the first of its kind in Asia. At present, only a small number of such facilities exist in Europe and the United States. The facility will be capable of conducting complete life cycle tests on rotor blades as well as static tests and is expected to develop advanced types of non-destructive testing methods. The rotor blade testing facility commenced operations in Fiscal Year 2009.

The Group (excluding REpower and Hansen) may plan to increase the manufacturing capacity of its integrated WTG unit by approximately 1,500 MW to 5,700 MW. The expected full ramp-up of the expansion would be achieved in Fiscal Year 2010.

Manufacturing units in Daman, Pondicherry, Tamil Nadu, Karnataka, Gujarat and Vadodara are currently eligible for various fiscal incentives.

Given (a) the size of the potential market for WTGs in China, (b) the 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, nacelle covers, generators and control panels. In Minnesota, United States, the Group has constructed a rotor blade manufacturing facility so as to reduce the cost associated with the outsourcing and/or shipping of this key WTG component and to ensure timely supply of WTGs to customers in certain regions of North America. The Group (including REpower) also has manufacturing facilities for WTGs in Germany through its recent acquisition of REpower. The Group also has manufacturing facilities for gearboxes in Belgium, China and India, through its recently acquired subsidiary, Hansen.

The Group’s strategy is to take control and/or build relationships with companies which supply 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 (as at 31 March 2009) 75 per cent.-owned subsidiary, Suzlon Structures. The Group also manufactures a significant portion of its generator requirements through its (as at 31 March 2009) 75 per cent.-owned subsidiary, Suzlon Generators. The Group acquired Hansen and has recently begun sourcing approximately one-third of its gearbox requirements from Hansen. Hansen, as at 31 March 2009, had a gearbox manufacturing capacity of 7,300 MW per annum, and intends to expand its manufacturing capacity to 14,300 MW by the end of Fiscal Year 2010, with new manufacturing facilities in both China and India. Both the facilities in India and China started commercial operations in Fiscal Year 2009.

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 (excluding REpower) 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 at Suzlon Denmark. The WTGs are supplied by SEL to its respective subsidiaries in various countries (excluding India and China, where WTGs are manufactured by the Group) and they are further sold to the ultimate customers by those subsidiaries. Suzlon Denmark 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 in India.

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) companies selling "Carbon Emission Receipts". These potential customers are contacted by the Group's marketing team, who introduce them to the Group and the potential benefits of wind power. The Group's marketing team conducts regular follow-up calls and visits and provides 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.

See "Investment Considerations – Projects included in the Group's order book may be delayed or modified, which could materially harm its cash flow position, financial condition and results of operations".

### **International Markets**

The Group is currently expanding its presence internationally, with an emphasis on the United States, Europe, China, Sri Lanka, South America, Australia and New Zealand. 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. See "Investment Considerations – Projects included in the Group's order book may be delayed or modified, which could materially harm its cash flow position, financial condition and results of operations".

The international markets are managed, supported and controlled by the international sales and marketing headquarters, Suzlon Denmark.

### **United States**

In 2001, the Group incorporated SWECO, a subsidiary of Suzlon Denmark, 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.

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 and O&M of WTGs.

### *Europe and South America*

The European and South American markets are managed by SWED, a subsidiary of Suzlon Denmark. The following markets are of particular strategic focus: Portugal, Spain, Italy, Greece and Brazil as they constitute growth markets within the world's largest markets 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.

### *China*

The Group has a representative office in Beijing and a manufacturing unit in Tianjin. As at 31 December 2007, China was among the top ten nations in terms of installed wind power capacity according to the BTM 2008 Report. The Chinese government is encouraging the 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. The manufacturing facility has 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.

### *Australia and New Zealand*

Marketing activities in Australia and New Zealand are conducted by Suzlon Energy Australia Pty. Ltd., a subsidiary of Suzlon Denmark. The Group believes that both Australia and New Zealand have the natural resources necessary to potentially generate substantial amounts of renewable energy. 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.

## **Customers**

Since 26 January 2009, significant sales orders for the Group (excluding REpower) include:

- A contract with AGL Energy Limited for an order of 54 WTGs of the S88 – 2.1 MW model to supply 113.4 MW of wind turbine capacity in Australia;
- A contract with Inner Mongolia North Longyuan Wind Power Corporation for an order of 80 WTGs of the S64 – 1.25 MW model to supply 100 MW of wind turbine capacity in the vicinity of Hohhot, Inner Mongolia Autonomous Region, China;
- A contract with Duke Energy, of Charlotte, North Carolina, to provide 20 units of the WTG S88 – 2.1 MW model to be delivered in July 2009 with construction to be completed and turbines online before the end of the Fiscal Year 2009; and
- A contract with AGL Energy Limited in Australia for the turnkey delivery of 63 WTGs of the S88 – 2.1 MW model to supply 132.30 MW of capacity and which includes the engineering, procurement and construction of a wind farm.

## **Quality Management Certification**

The Group's policy is that all design and manufacturing facilities and operation and maintenance services should be certified as ISO 9001:2000 by DNV. DNV is one of the world's leading certification bodies. It is an independent foundation with the purpose of safeguarding life, property and the environment. All of the Group's operations are either certified or in the process of obtaining such certification.

## **Product Certification**

The Group's WTGs are also designed to meet the standards set by independent international agencies such as 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 internationally accredited agencies such as GL, DNV and agencies such as 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 GmbH, Germany Windtest, Germany or CWET. The rotor blades also undergo extensive static and fatigue tests conducted by blade testing centres such as the Technical University of Delft. Typically, the type approval and certification process would take anywhere between nine to 15 months. The Group has established a rotor blade testing centre in Vadodara.

Details of the WTG certificates held or applied for as at 23 June 2009 are contained in the following table:

Type	kW	Rotor Blade Model	Freq <sup>(1)</sup> (hertz)	Hub Height (metres)	Tower <sup>(2)</sup>	Temp. <sup>(3)</sup>	Agency <sup>(4)</sup>	Key Certificate No.	Commencement Date of Certificate
<b>S52 PLATFORM</b>									
S52 .....	600	V2	50	75	LT	STV	GL	TC-GL-020A-2007, Rev. 1	09/10/2009
<b>S6X PLATFORM(5)</b>									
S64 .....	1250	AE31	50	57	TT	STV	GL	TC-GL-003A-2007, Rev. 1	31/10/2008
S64 .....	1250	AE31	50	65	LT	STV	GL	TC-GL-003A-2007, Rev. 1	31/10/2008
S64 .....	1250	AE31	50	65	TT	STV	GL	TC-GL-003A-2007, Rev. 1	31/10/2008
S64 .....	1250	AE31	50	75	TT	STV	GL	TC-GL-003A-2007, Rev. 1	31/10/2008
S6X .....	1250		60	75	TT	LTV	DNV	CPN-2153-1	NA
S66 .....	1250	AE32	50	65	LT	STV	GL	TC-GL-019A-2007	31/10/2008
S66 .....	1250	AE32	50	75	TT	STV	GL	TC-GL-019A-2007	31/10/2008
<b>S82 PLATFORM</b>									
S82 .....	1500	V1	50	78.5	TT	STV	GL	TC-GL-009A-2007, Rev. 1	10/03/2008
S82 .....	1500	V2	50	78	TT	STV	GL	TC-GL-009A-2007, Rev. 1	31/03/2010
S82 .....	1500	V2	50	78	TT	LTV	DNV	IEC-DE-217101-0	NA
<b>S88 PLATFORM</b>									
S88 .....	2100	V2	60	80	TT	STV	GL	TC-GL-001A-2007	11/09/2010
S88 .....	2100	V2A	50/60	80	TT	LTV	DNV	IEC-DE-220601-0 Rev. 1	NA
S88 .....	2100	V3	50	80	TT	STV	GL	TC-GL-011A-2007, Rev. 3	11/06/2010
S88 .....	2100	V3	60	80	TT	STV	GL	TC-GL-012-2008	21/12/2010
S88 .....	2100	V2 + V3	50	80	TT	NA	GL	TC-GL-007A-2008, Rev. 3	NA
S88 .....	2100	V3A	50/60	80	TT	STV	GL	In process	NA
S88 .....	2100	V3A	50	80	TT	LTV	DNV	In process	NA

**Notes:**

- (1) Frequency measured in hertz.
- (2) Tower Type: TT (Tubular Tower) or LT (Lattice Tower).
- (3) Temperature at which the type of WTG is designed to operate: LTV (Low Temperature Version) or STV (Standard Temperature Version).
- (4) Agency providing certification.

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 its WTGs on a "self-certification" basis.

## 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 WTGs 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 sub-MW and multi-MW WTG models substantially more expensive in certain regions.



## **Suppliers**

### ***Raw Materials***

Raw materials for rotor blades, such as glass fibre, foam and epoxy resin, are sourced from several suppliers, such as Kush Synthetics Pvt. Ltd., OCV Reinforcement, DOW Chemicals, Aditya Birla Chemicals, Diab Australia Pty Ltd and Gurit Tianjin Composite Material Co Ltd. The Group is able to source them from other suppliers in the event its current suppliers cannot meet the Group's manufacturing needs. The Group purchases rotor blades for its 0.35 MW WTG model solely from a supplier in India. The Group sources castings from two companies which are both located in China. For each of the Fiscal Years 2007, 2008 and 2009 on a standalone basis, the cost of imported raw materials as a percentage of the Company's cost of raw materials was 59 per cent., 57 per cent. and 66 per cent., respectively.

### ***Components***

The Group's strategy is to take control and/or build relationships with suppliers of key components of WTGs. 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. The Group provides some 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. Otherwise, payment terms are usually on a letter of credit or documents against acceptance basis.

*Tubular Towers:* The primary supplier of tubular towers for India is STSL, which is a 100 per cent. owned subsidiary of SEL. STSL through Suzlon Structures, which is a joint venture with the Kalthia Group, designs and manufactures tubular towers for primarily high and heavy WTG installations. STSL 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 tubular towers in March 2005 and the Group procures a significant portion of its tubular tower requirements from Suzlon Structures. The order requirements for South India are generally met through job work done by Toolfab Engineering Industries (P) Ltd and Jay Engineering Limited, which have been associated with Suzlon for the last five years.

*Gearboxes:* Gearboxes are currently supplied by Winergy AG, Winergy Drive System India (P) Ltd. and Hansen.

*Generators:* The main supplier of generators and generator components is Siemens Ltd. of India, however, the Group also manufactures a significant portion of its generator requirements through its subsidiary Suzlon Generators, a joint venture with Elin. Suzlon Generators manufactures slip ring generators required for WTGs. The Group provides management support and procurement services to Suzlon Generators. Elin is responsible for the initial start-up and commissioning of Suzlon Generators' 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.

*Gear Rims:* The Group purchases gear rims from IMO Momentenlager GmbH and PSM, Korea.

*Slewing Rings:* The Group purchases slewing rings from IMO Momentenlager GMBH, Schaeffler Group, Germany, Galperti, Italy and Kaydon, United States.

*Brake Callipers:* Brake callipers are purchased from Svendborg Brakes A/S and yaw and pitch drives from Bonfiglioli Riduttori Spa, Bonfiglioli Getriebe GmbH and Bonfiglioli Transmissions (Pvt) Ltd.



*Castings:* Castings for WTGs are purchased from several suppliers in India, in each case on a purchase order basis. Castings are also sourced from China from Jiangyin Jixin Machinery Company Limited and Zhejiang Jiali.

As part of its strategy to take control and/or build relationships with the suppliers of its key components for WTGs, 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. For the year ended 31 December 2008. The top ten of the world's approximately 20 suppliers of WTGs are responsible for more than 84 per cent. of the total supply of WTGs to the global market. 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 (See "– REpower Systems AG"). Based on annual installed capacity during 2008, the Group's (excluding REpower) market share is 9 per cent. (Source: BTM Report 2009)

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. During the year ended 31 December 2008, the Group (excluding REpower) held a 47 per cent. share of the Indian WTG market (installations by capacity) (Source: BTM Report 2009).

Although the Group has recently acquired REpower, it will remain a competitor of REpower in key markets, including Europe and the United States, unless and until the Domination Agreement is signed by the Company. See "– Acquisition of REpower".

## **Research and Development**

The Group places great emphasis on continued research and development and undertakes its research and development activities primarily through its 100 per cent. owned subsidiaries, SEG and SBT. For more details, see "The Company's Subsidiaries and the Affiliated Companies". The Group (excluding REpower and Hansen) intends to invest significant resources into research and development during the next five years. It has taken initiatives towards upgrading and increasing the cost-efficiency of its existing WTG models and designing, developing and stabilising new models to optimally extract energy from the wind.

Specifically, the Company has undertaken investments in the following areas of research: (i) aerodynamic performance enhancements; (ii) development of turbine variants for local markets; (iii) increasing reliability and automated operations; and (iv) continued initiatives on innovation projects.

Suzlon has established dedicated centres for gearbox technology in Belgium, technology innovation in Denmark, process engineering in India, aerodynamic development in the Netherlands, and composite wind turbine technology in Germany. The Company has established RETC, as a 50:50 joint venture (as at 31 March 2009) between the Company's subsidiaries, SEDT and REpower, which aims to co-operate strategically in the field of research and technical training in wind energy for the future.

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

The Group believes that securing patent and other intellectual property protection in respect of its technology is important to its business and that its future performance will depend in part on its ability to obtain and maintain patents, to maintain confidential information and trade secrets and to avoid infringing third party intellectual property rights. The technology used by the Group is protected through a combination of intellectual property rights owned by the Group, such as patents and trademarks, and procedures regarding confidential information.

The Group has been granted a trademark for the Suzlon circle logo and WTG illustration. As at 31 March 2009, the Company held six German patent applications, two valid German utility

models, one European patent application and three worldwide patent applications according to the Patent Corporation Treaty.

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, the Group has only made a limited number of applications for registration of any patents. 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 Company's 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.

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 Coverage**

The Group has insurance coverage, including for business interruptions, which the Group considers reasonably sufficient to cover all normal risks associated with its operations and which it believes is in accordance with industry standards in India. 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 is in the process of taking insurance cover during the installation of WTGs in Maharashtra, Gujarat, Rajasthan and Madhya Pradesh. In the case of overseas marketing subsidiaries (subsidiaries of Suzlon Energies A/S, Denmark) the erection is covered under an Erection All Risks ("EAR") policy for the period of erection subject to a specified termination date. If the owner/buyer is executing the erection works, the coverage is limited to cover in relation to the activities provided by the Company, such as supervision, testing or commissioning. It also includes a full 24-month extended maintenance cover from the Take-Over-Certificate (the "TOC") date for any damages after the TOC date due to an incidence occurring during the erection period (excluding, however, the defective part itself) or damages after the TOC date when repairing any defects from the construction period. However, warranty claims and repair costs of goods sold are not covered.

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.

### **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 it to attract and retain talented people. In line with its human resource strategy, the Group has also implemented various initiatives in order to build better organisational capability that the Group believes will enable it to sustain competitiveness in the global market. The Group believes its relationship with its employees is generally good. However, in the past the Group has occasionally experienced work stoppages of production facilities as a result of labour issues. In addition, there is currently a dispute with a past employee of SBT over the non-payment of certain incentives. See "Legal Proceedings" for further details. Other than the employees at the Group's centres at Pondicherry and Satara and those employed by Hansen and REpower, none of its employees belongs to a union.

The following table shows the number of people employed by the Group (excluding REpower and Hansen):

	As at 31 March		
	2007	2008	2009
<b>Total number of employees</b> . . . . .	<u>6,980</u>	<u>9,428</u>	<u>13,093</u>

The Group's compensation policy is performance based and the Group believes it is competitive with industry standards. The Group's compensation packages are generally 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.

The Group provides residential, medical, recreational and communications facilities, as part of the wind farm infrastructure, for employees forming part of the Group's O&M teams and who are based in remote wind farm sites.

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 stock option plan includes provision for the grant of options to employees of the Company and its subsidiaries (except the Company's subsidiaries in the United States). The Company has granted 921,000 options (subsequently adjusted to 4,605,000 options on account of Share split) under the terms of the ESOP-2005 and 103,900 options (subsequently adjusted to 519,500 options on account of share split) under the terms of the ESOP-2006 and 1,878,000 options under the terms of the ESOP-2007, which may be exercised by eligible employees and its subsidiaries within a period of five years from the date of their respective first vestings. Additionally, the Shareholders of the Company have also approved the Special ESOP-2007, however no options have yet been granted under the Special ESOP-2007.

The Group provides all its employees in India with group personal accident and life insurance. The Group also provides medical insurance coverage for all employees in India, including self, spouse and dependent children. The Company has also taken "key man" insurance for two of its directors.

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

The Group's corporate headquarters is currently located at the Godrej Millenium, 5th Floor, 9, Koregaon Park Road, Pune 411 001. However, the Group constructed a new Indian headquarters in Pune (Suzlon Campus) during 2009 at an estimated total development cost (including land) of approximately Rs.3,600 million. The Group expects to occupy these premises during the course of this Fiscal Year. The Group's manufacturing facilities are located at Maharashtra, Gujarat, Diu, Daman, Karnataka, Tamil Nadu and Pondicherry (India) and in Trampe, Husum (Germany), Tianjin (China), Minnesota (United States), Edegem and Lommel (Belgium).

The Group has approximately 15 properties located across India that it uses for the purpose of its factories and units, out of which 10 are owned by the Group and five are leased. There are approximately 120 properties located across India that the Group uses as office premises or storage facilities, of which approximately 20 are owned by the Group and approximately 100 are leased. The Group owns the properties located in Germany, China, United States and Belgium that it uses for the purpose of its factories and other 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 leases properties across India and outside India for the purpose of temporary accommodation for its employees.

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

The Group is subject to extensive, evolving and increasingly stringent occupational 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 expects 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 or the relevant authorities in Germany, China, the 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.

The Group is committed to maintaining a safe and healthy working environment. The Group has also been awarded an across-the-company single Integrated Management System (ISO: 9001, ISO: 14001 & OHSAS:18001) certification as an umbrella concept. This has replaced the independent company certifications of the different segments leading to synergising the supply chain, and bringing all manufacturing business units under a single certification programme. The Group also has a dedicated, qualified, experienced internal audit team for assessing and evaluating the quality, environment and safety ("QES") management system performance.

### **Corporate Social Responsibility ("CSR")**

The Promoter Group has specially formed "Suzlon Foundation", a non-profit company under Section 25 of the Companies Act, to facilitate inclusive development throughout the Group's business operations. It is determined to go beyond charitable and philanthropic acts. The Suzlon Foundation considers issues such as making money in a responsible way, looking at the Group's business cycle as a whole, and planning inclusive development to guarantee the future of the Group's business. Using the five essential capitals of good business – financial, natural, social, human and physical capital – Suzlon seeks to minimise the negative impacts of its business and promote the positive impacts through sustaining the environment, the community and its business simultaneously. Thus CSR is an integral process and not something that is done in addition to business at Suzlon. Suzlon has identified three levels of CSR: transformative projects to develop the Group's business practices internally; responsive projects to react to impacts and opportunities in the communities in which the Group operates; and proactive projects to address global issues beyond the Group's business.

### **Product Warranties**

The Group provides its customers with various types of warranties and guarantees. These include (a) free operations and maintenance warranties and performance guarantees, based on the percentage of time (generally 95 to 97 per cent.) per year that a WTG will be available, i.e. machine availability, and/or (b) absolute unit guarantees on the minimum number of units of electricity that will be generated by the WTG, subject to grid availability (although regardless of fluctuations in wind speed) and/or (c) power curve guarantees pursuant to which it warrants that a WTG will produce a specified number of units of electricity at different wind speeds. Until March 2007, the Group provided absolute unit guarantees to most of its WTG customers in India. Since March 2007, the Group has been providing absolute unit guarantees on a case-by-case basis. For the Fiscal Years 2009, 2008 and 2007, the Group paid customers Rs.5,953.84 million, Rs.1,332.25 million and Rs.632.31 million, respectively, arising from performance guarantee claims.

The Company has faced certain issues with residents of Dhule and Sangli in Maharashtra, India resulting in disruption of the smooth operations of WTG in these regions, which have in turn resulted in a generation shortfall below the guaranteed generation amounts. The Company has incurred Rs.654.60 million towards restoration costs of these WTGs in Fiscal Year 2008. The generation guarantee liability for the WTGs installed in the regions of Dhule and Sangli has been computed taking into account the events of force majeure and is based on the best estimates of the management.

The Company has announced a retrofit programme to resolve blade crack issues noticed in some of its S88 turbines in the United States and Portugal. The retrofit programme involves the structural strengthening of blades on S88 (2.1MW) turbines. The retrofit programme will be carried

out by maintaining a rolling stock of temporary replacement blades to minimise the downtime for operational turbines. In Fiscal Year 2008, the Company made a provision of Rs.1,217.09 million and, in Fiscal Year 2009, the Company made a provision of Rs.2,215.89 million towards the same.

### **Related Party Transactions**

The Group has in the past engaged, and is likely in the future to 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 the notes to the Company's financial statements included elsewhere in this Offering Circular.

### **REpower Systems AG**

#### ***Acquisition of REpower***

The Company indirectly holds 100 per cent. of the shares of SWE (as at 31 March 2009), which was set up as a joint venture vehicle between the Company and Martifer for the acquisition of shares of REpower, a German wind turbine producer.

On 9 February 2007, SWE announced its intention for a tender offer for the entire outstanding share capital of REpower. The REpower Offer was submitted on 27 February 2007. Following the completion of the REpower Offer, the Company held indirectly 33.85 per cent. as at 6 June 2007 of REpower's share capital through its subsidiaries SWE and SEDT. The Group has paid approximately €453 million for the aggregate number of REpower shares purchased or subscribed during the REpower Offer. The acquisition of the REpower shares was financed by certain tranches of the Acquisition Facility. The Acquisition Facility was refinanced in part from the proceeds of the issue of the 2012 Bonds and an issue of equity shares in the Fiscal Year 2008.

The offer by SWE for all shares in REpower was a competing offer against a previous public offer announced by AREVA. However, AREVA abandoned the competing bidding process and entered into a co-operation agreement ("Co-operation Agreement") with the Company and SEDT. AREVA at this point in time held 29.9 per cent. of REpower's share capital and under the Co-operation Agreement committed to vote in accordance with the Company's directions subject to customary minority protection. To accelerate the originally agreed acquisition mechanisms under the Co-operation Agreement, the Company, SEDT and AREVA entered into a share purchase agreement dated 5 June 2008 for the acquisition of AREVA's stake in REpower. This share purchase agreement has been fully closed and there are no outstanding obligations thereunder.

Martifer originally held directly and indirectly through its 100 per cent. owned subsidiary RPW Investments 25.4 per cent. of REpower's shares. On 9 February 2007, SWE, SEDT, Martifer, RPW Investments and the Company entered into a takeover, shareholders' and pooling agreement ("Takeover Agreement"). The main purpose of the Takeover Agreement was (i) to agree on the major terms and conditions of the REpower Offer; and (ii) the reciprocal relations following the completion of the offer. Subsequently, the parties entered into three Amendment Agreements which are dated 2 March 2007, 29 August 2008 and 15 December 2008, respectively. The transfer of the shares thereunder is made in three tranches against a total consideration of approximately €270 million. The first tranche of €65 million was paid in December 2008, thereby increasing the Company's effective holding in REpower to 73.65 per cent. as at 31 March 2009. Post 31 March 2009, the second tranche of €30 million and the third tranche of €175 million have been paid and consequently the Company's effective holding in REpower as at the date of this Offering Circular is 90.72 per cent.

See "Investment Considerations – Risks relating to REpower – The management of REpower is not bound to follow the directions of the Company".

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

The Executive Board and Supervisory Board of REpower see opportunities to establish a worldwide group for the development and production of WTGs in conjunction with the Group, thereby taking advantage of additional business opportunities. Further, they have stated that 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 intends to expand its existing technology activities in Germany, where most of the Group's R&D activities are already located. For this purpose, the Group, together with REpower, has established a global technology centre for wind power in Hamburg, Germany called RETC. See "Business – Research and Development".

The Group intends to build up a strong partnership and cooperation with REpower and its subsidiaries.

The Group intends to support the development of REpower by assisting the management in further strengthening its marketing and supply chain team. For example, the Group believes that a shift of sourcing in REpower's supply chain from partially low cost manufacturing centre and the Group's supply chain linkages to components such as rotor blades, gear boxes generators, control panels, forging and casting parts and converters, will enable REpower to accelerate its volumes and improve on its margins.

### ***REpower's business***

REpower is currently one of the leading WTG producers in the German wind energy sector. REpower focuses on the development, licensing, assembly, installation and service of multi-MW WTGs. 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.

For the calendar year ended 31 December 2008, REpower was the third largest manufacturer of WTGs in Germany by market share. REpower also has a presence in many of the major growth markets for wind energy in Europe (France, Portugal, Italy, Spain, the UK and Greece) and the United States, in addition to Asia (including Japan, China and India) and Australia. In the period from 1 January 2007 to 31 December 2007, REpower installed and recognised income from 636 WTGs with a total output of 1,297.50 MW.

During Fiscal Year 2009, REpower installed or delivered 613 WTGs corresponding to a total capacity of 1,253.3 MW and sales of €1,209 million. The breakdown of sales by WTG type for the Fiscal Year 2009 is set out below:

<b>WTG Type</b>	<b>For the Fiscal Year 2009</b>	
	<b>Number</b>	<b>MW</b>
6 M . . . . .	2	12.0
5 M . . . . .	6	30.0
3.XM . . . . .	1	3.3
MM92 . . . . .	358	716.0
MM82 . . . . .	242	484.0
MM70 . . . . .	4	8.0
MD77 . . . . .	–	–
MD70 . . . . .	–	–
<b>Total</b> . . . . .	<b><u>613</u></b>	<b><u>1,253.3</u></b>



As at 31 March 2009, REpower's order backlog stood at 620 WTGs, with a total rated power of 1,317.3 MW, as compared with 696 WTGs and a total output of 1,419 MW as at 31 March 2008. The orders correspond to a potential value of approximately €1,500 million. The breakdown of the order book by WTG Type at 31 March 2009 is set out below:

WTG Type	As at 31 March 2009	
	Number	MW
6 M	1	6.0
5 M	24	120.0
3.XM	1	3.3
MM92	411	822.0
MM82	183	366.0
MD70	–	–
MD77	–	–
<b>Total</b>	<b>620</b>	<b>1,317.3</b>

### ***REpower's products and services***

Unlike Suzlon, REpower historically has not manufactured the key components of its WTGs, such as towers and rotor blades. It maintains research and design control over key components and has strong relationships with third party suppliers who manufacture the key components to REpower's specifications. As a result, REpower has historically been dependent on these component suppliers. This was evident in the first half of 2007 where, due to a global shortage in certain components (such as gearboxes), delays in the delivery of components resulted in delays in the installation and completion of WTGs. The Group expects that its investment in REpower will improve the availability of key components to REpower, due to improved relationships with suppliers and sourcing of select components from the Group. REpower has recently begun designing and producing its own rotor blades for a number of its WTGs.

REpower's product range comprises several models of WTGs, ranging from outputs of 1.50 MW to 6 MW. REpower also specialises in offshore WTGs.

Type	Rated Power	Rotor Diameter	Power Control	Speed	Range of Application
6 M <sup>(1)</sup>	–	–	–	–	–
5 M	5.0 MW	126.0m	Pitch (electrical)	Variable	Onshore/Offshore
MM92	2.0 MW	92.5m	Pitch (electrical)	Variable	Onshore
3.XM <sup>(1)</sup>	3.3 MW	104.0m	Pitch (electrical)	Variable	Onshore
MM82	2.0 MW	82.0m	Pitch (electrical)	Variable	Onshore
MD70	2.0 MW	70.0m	Pitch (electrical)	Variable	Onshore
MD77	1.5 MW	76.5m	Pitch (electrical)	Variable	Onshore

*Note:*

(1) Under development; currently in testing phase.

REpower has recently announced that it has completed the assembly of its first three 6 MW WTGs, which are currently undergoing a comprehensive testing programme and further checks required for certification.

REpower intends to expand its offshore capabilities through its 5 MW and 6 MW WTGs. The Group expects that the offshore sector is an area where REpower's advanced technology and quality products can be best utilised. Therefore, it expects offshore WTG sales to contribute a greater proportion to REpower's overall WTG sales in the future.

A focus on design and quality control at all stages of the development and assembly process is of key importance to REpower's business. The output of REpower's WTGs for similar rated models is greater than that of some of its competitors. According to REpower's management, WTGs have historically satisfied quality controls and power generation specifications. In addition, there have been no material claims by customers under the operating availability or power curve guarantees provided by REpower on all of its WTGs.

REpower undertakes the construction of windparks, including all of the necessary construction requirements for infrastructure, the planning and realisation of the network connection, the design and development of the electrical network technology, construction requirements for the infrastructure and, in some cases, the evaluation of the potential location and the configuration of the windpark.

REpower also provides a range of services in relation to its WTGs including technical maintenance and 24-hour remote monitoring. All of REpower's WTGs in Germany are connected to the "Permanent Monitoring System" which enables remote monitoring of all facilities from the service headquarters in Husum, Germany. REpower has established a network of service locations throughout Germany to provide effective service to wind farm sites. REpower's logistics system allows it to source the necessary spare parts and components and to install them on site at short notice.

REpower is not generally involved in land acquisition or wind farm development activities.

### ***Production facilities***

In Germany, REpower has existing production facilities in the port of Husum and the city of Trampe. It also operates development centres in Osnabrück and Rendsburg. REpower has started production of its 5 MW offshore WTGs in two new production facilities at Bremerhaven and Osterrönnfeld.

Due to the large size of the 5 MW WTGs, transportation of completed WTGs can be expensive and cause logistical problems. REpower usually engages third-party contractors for the transportation of WTGs within Germany and overseas. In addition, REpower also uses mobile production sites for the assembly of its 5 MW WTGs. It is currently operating a mobile production site in Buttell, Germany for the construction of 5 MW WTGs for a wind farm on the site.

Outside of Germany, REpower has production facilities in China (operated by its joint venture REpower North (China) Co). REpower is currently planning to establish an assembly facility in Portugal as a consortium headed by Galp Energia and REpower won a bid for a government tender in Portugal to provide a wind energy project with a projected capacity of 500MW.

REpower, as at 31 March 2009, had a manufacturing capacity of 1,250 MW per annum, and intends to expand its manufacturing capacity by approximately 450 MW by Fiscal Year 2010.

### ***Sales and marketing***

REpower operates its sales and marketing division through decentralised teams in its key markets. Numerous subsidiaries and Affiliated Companies in France, Spain, Italy, UK, Portugal, Greece, Australia, China and the United States represent REpower in the international markets. In China, REpower is also represented through its licensees Zhejiang Windey Engineering Ltd. and Dongfang Steam Turbine Works and, in Japan, through its sales partner Meiden (see "REpower's subsidiaries, joint ventures and partners" below).

### ***Customers***

REpower has a limited number of customers, which typically include utilities and power companies. Long term relationships exist with most of its major customers. Purchase agreements with customers typically include the provision of WTGs over a number of years. Framework agreements entered into with customers commit them to accept a certain number of WTGs within certain timeframes. Under the framework agreements, REpower commits to providing such WTGs at an agreed price. Details for specific projects and the required WTG specifications must then be notified to REpower within time periods specified in the framework agreement. Only notified projects are included in REpower's order book and not the capacity included in the framework agreements.

### ***Suppliers and inputs***

REpower attempts to retain at least three different suppliers for each key component. Long term relationships have been developed with key suppliers. As REpower undertakes all R&D, suppliers plan and cooperate with REpower to produce components at the required specifications.

Before REpower enters into any supply arrangements with new suppliers, extensive testing and quality control is undertaken.

Some suppliers include price escalation clauses in their supply contracts. Where possible, price increases are passed on through price escalation clauses in purchase agreements with customers. However, REpower is not fully protected from price increases in key inputs.

As with Suzlon, key components for REpower's assembly process include rotor blades, generators, gearboxes, control panels and towers. Recently, WTG suppliers, including Suzlon and REpower, have experienced supply shortages of certain key components such as WTG towers and gearboxes due to the inability of component suppliers to match the demand. In certain instances, this has also led to delay in supplying and commissioning of WTGs which delays the timing of booking of sales. This occurred to REpower in the first half of 2007 where delays in the delivery of key WTG components resulted in delays in the installation and completion of WTGs.

During 2009, Suzlon shall commence supplying rotor blades to REpower from its facilities in India and China.

### **Competition**

REpower's primary competitors are the same as those for Suzlon and include Vestas Wind Systems A/S, G.E. Wind, Gamesa Eolica, Enercon GmbH and Nordex AG. The Group expects REpower to continue to compete directly with Suzlon in some key markets, including Europe and the United States unless it is decided in the future that a Domination Agreement will be executed.

### **Research and Development**

R&D is a core part of REpower's business. REpower believes one of its strengths is its advanced WTG technology. In order to maintain this advantage, R&D is focused on improving power and efficiency of the existing WTGs and, in particular, improving and expanding REpower's offshore capabilities.

RETC has been established as a global technology centre for wind power in Hamburg. As at 31 March 2009, the Company's subsidiaries, SEDT and REpower, each had an equal 50 per cent. ownership interest in RETC. RETC does not include the transfer of any existing technology or knowledge from any of the Company's subsidiaries and there is currently no specific product development planned. It is expected that RETC will undertake advanced research on specific areas of WTG materials, construction and operations. RETC aims to develop innovative technology that will influence the next generation of wind turbines. Among other things, RETC aims to undertake strategic development in the field of research and technical training in the future. Orders for research will be placed by either REpower or Suzlon and will be paid for by the requesting party.

### **Intellectual Property Rights**

Securing patent and other intellectual property protection in respect of its technology is important to the Group's business and that its future performance will depend in part on its ability to obtain and maintain patents, to maintain confidential information and trade secrets, and to avoid infringing third party intellectual property rights. The technology used by REpower is protected through a combination of intellectual property rights that it owns, such as patents and trademarks, and procedures regarding confidential information. REpower is not currently involved in any disputes, nor is it aware of any pending action against it, relating to intellectual property disputes.

The technologies developed by REpower are also offered as licensed products. License agreements exist for the 1.5 MW WTGs (models MD70 and MD77) as well as for the smaller 48/600 and 48/750 model WTGs, with the following licensing parties:

<u>Licensor</u>	<u>Model</u>	<u>Location</u>	<u>Exclusivity</u>	<u>Term</u>
Fuhrländer AG, Waigandsheim/Westerwald . . . .	MD70/MD77	Germany, Italy, Spain, Portugal, Brazil	No	Unlimited
Sudwind Energy GmbH (Nordex Gruppe), Norderstedt . . . . .	MD70/MD77	Worldwide (with the exception of France, Luxembourg, Belgium and Japan)	No	Unlimited
Goldwind Science & Technology Stock & Co., China . . . . .	48/600, 48/750	China	No	Unlimited
Zhejiang Windey Technology Co., China . . . . .	48/600, 48/750	China	No	Unlimited
Dongfang Steam Turbine Works, China . . . . .	MD70/MD77	China	No	Unlimited
Essar Group, India . . . . .	MD77	India, Maldives	Yes	Until 2017

## Human Resources

REpower has offices in Germany in the cities of Hamburg, Rendsburg, Husum, Osnabrück and Trampe. Subsidiaries and Affiliated Companies in France, Spain, UK, Greece, Australia, China, Portugal, Italy and other countries represent REpower in the international markets.

REpower's relationship with its employees is good with a low turnover of staff and no incidences of employee strikes or work stoppages.

## Litigation

Neither REpower nor any of its subsidiaries is a party to, and none of their respective property is subject to, any pending legal proceedings which the REpower considers to be potentially material to its business.

## REpower's Share Capital and Management

On 31 March 2009, the share capital (*Grundkapital*) of REpower as stated in the commercial register amounted to €9,177,039 and was divided into 9,177,039 non-par-value bearer common shares (*Inhaber-Stammaktien*) with a calculated value in the share capital (*rechnerischer Anteil am Grundkapital*) of €1.00 per share.

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 DE0006 177033 and over-the-counter (*Freiverkehr*) at the stock exchanges in Munich, Berlin, Düsseldorf, Hamburg, Hannover and Stuttgart.

Members of the management board of REpower are currently Per Hornung Pedersen (CEO), Pieter Wasmuth (CFO), Matthias Schubert (CTO) and Lars Rytter Kristensen (CSCO).

Members of the supervisory board of REpower are currently Tulsi R. Tanti (Chairman), Dr. Christof Maria Fritzen, Girish Tanti, Kai Trede, Kirtikant Vagadia and Alf Trede.

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.

## REpower's Recent Announcements

Some recent developments relating to REpower include the following:

*17 April 2009:* REpower announced the addition of the 6M turbine to its product portfolio. The 6M is designed for operation with a continuous power output of 6,150 kilowatts.

*26 May 2009:* REpower announced that it had signed an agreement with a consortium of banks for a syndicated loan of €600 million. In total, twelve German and international banks and loan insurance companies participated in the syndicate. €500 million of the loan proceeds are to be used for the provision of warranties and guarantees, and the remaining €100 million is to be used for working capital purposes.

*16 June 2009:* REpower announced that it had inaugurated the first of two planned wind farms in Rzeszow, near Krakow, in south east Poland. The project is a collaboration with international project developer Martifer Renewables, a subsidiary of the Portuguese Martifer Group. The project comprises five REpower MM92 turbines, each with a rated output of two megawatts. The total generation capacity of the project is 10 megawatts.

*1 July 2009:* REpower announced that it had signed an agreement with Valorem, a French wind farm developer, regarding the supply and construction of 21 wind turbines. The REpower MM92 turbines are intended for five wind farm projects in the Vendée and Loire Atlantique regions in the west of France, and are to be supplied and erected between March and June 2010.

## REpower's Subsidiaries, Joint Ventures and Partners

As at 31 March 2009, REpower's subsidiaries which were consolidated in the Company's audited consolidated financial statements for Fiscal Year 2009 were:

<b>Sales Corporations</b>	<b>REpower Share in the Nominal Capital (per cent.)</b>
REpower Espana S.L., Madrid, Spain . . . . .	100
REpower S.A.S., Courbevoie, France . . . . .	100
REpower Wind Systems, Beijing, People's Republic of China . . . . .	100
REpower Italia SRL, Mailand, Italy . . . . .	100
REpower Australia Pty. Ltd., Melbourne, Australia . . . . .	100
REpower Diekat A.E., Athens, Greece . . . . .	60
REpower UK Ltd., Edinburgh, U.K . . . . .	67
REpower USA Corp., Portland/Oregon, U.S. . . . .	100
REpower Canada Inc., Montreal, Canada . . . . .	100
REpower Benelux b.v.b.a., Brussels, Belgium . . . . .	100
REpower Wind Systems Trading (China) Ltd. . . . .	100
PowerBlades SA, Olivera des Frades, Portugal . . . . .	90
<b>Production and Services Companies</b>	<b>Group Share in the Nominal Capital (per cent.)</b>
PowerBlades GmbH, Bremerhaven, Germany: . . . . .	51
WEL Windenergie Logistik GmbH; Schloß Holte-Stukenbrock, Germany: . . . . .	100
<b>Project Companies</b>	
REpower Betriebs-und Beteiligungs GmbH, Rendsburg, Germany: . . . . .	100
REpower Investitions-und Projektierungs GmbH & Co. KG, Rendsburg, Germany: . .	100

Joint ventures in which REpower is currently involved include:

- REpower North (China) Co. Ltd is a joint venture established with North Heavy Industry Corporation and Honiton Energy in which REpower holds 50.01 per cent. It is based in Baotou, China and has been established to take advantage of wind farm opportunities in China.

- REpower and Suzlon have established RETC, a global technology centre for wind power in Hamburg. See “– Research and Development”
- REpower Portugal – Sistemas eólicos, S.A. was founded in June 2005 and is a joint venture between REpower and Martifer. Both companies possess 50 per cent. of the shares in REpower Portugal. REpower Portugal’s operations will involve the construction and marketing of WTGs. The joint venture is headquartered in Portugal in the city of Oliveira de Frades near Porto.

REpower also has a number of partners outside Europe who sell REpower’s technology in their domestic markets with a number of them also producing REpower WTGs under license. Key partners include:

- Meiden – a blue chip company in the Japanese electrical engineering sector which operates in four main areas: energy, the environment, IT and industrial systems. It markets REpower’s multi-MW technology in Japan.
- Zhejiang WINDEY Engineering Ltd. – a Chinese company formed by Zhejiang Institute of Mechanical & Electrical Engineering and Zhejiang Mech & Ele Group Ltd. Its business activities include production under licence and the sale of some of REpower’s WTGs, plus technical development, erection and after-sales service.
- Dongfang Steam Turbine Works – one of the leading Chinese manufacturers of steam and gas turbines. In November 2004, a licence agreement was entered into between Dongfang Steam Turbine Works and REpower for the production of certain WTGs.
- The Essar Group – one of India’s largest industrial enterprises that operates mainly in the steel production, construction and power-plant construction industries. A licence agreement was entered into in 2006 which enables the Essar Group to produce REpower’s 1.5 MW technology in India.

### **REpower’s Recent Reported Financial Performance**

REpower’s fiscal year used to be from 1 January until 31 December. However, at the Extraordinary General Meeting of REpower which took place on 17 October 2007, its shareholders resolved to change the fiscal year end date from 31 December to 31 March. As a result, the three-month period from 1 January 2008 to 31 March 2008 has been audited.

The Group’s consolidated financial statements for Fiscal Year 2009 incorporates the financials of REpower.



## THE COMPANY'S SUBSIDIARIES AND THE AFFILIATED COMPANIES

*The following discussion contains brief details about the Company's subsidiaries and the Affiliated Companies. For the purpose of brevity, only material subsidiaries and Affiliated Companies are discussed in the following sections.<sup>(1)</sup>*

*Shareholdings set out in these sections are as at 31 March 2009.*

### Domestic Subsidiaries

SISL, a 100 per cent. owned subsidiary of the Company, was incorporated on 27 July 1998 in the state of Gujarat. The registered office of SISL is presently situated in the state of Maharashtra. It is engaged in the business of providing O&M services for WTGs and also infrastructure development, civil foundation, erection, installation and commissioning of WTGs and manufacturing of transformers. SISL recorded turnover of Rs.10,263.55 million for the Fiscal Year 2009, a decrease of 1 per cent. compared to Rs.10,386.74 million for the Fiscal Year 2008. After providing for tax, SISL recorded a profit of Rs.30.36 million in the Fiscal Year 2009 against a loss of Rs.419.64 million in the Fiscal Year 2008.

STSL, a 100 per cent. owned subsidiary of the Company, was incorporated on 25 January 2000 in the state of Gujarat. It is engaged in the business of independent power projects and manufacturing and dealing in tubular towers for WTGs. STSL recorded turnover of Rs.6,758.11 million for the Fiscal Year 2009, a decrease of 13 per cent. compared to Rs.7,738.00 million for the Fiscal Year 2008. After providing for tax, STSL recorded a profit of Rs.197.86 million in the Fiscal Year 2009 against a profit of Rs.679.92 million in the Fiscal Year 2008, a decrease of 71 per cent.

Suzlon Generators, 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, in which the Company owns 75 per cent. of the equity. It is engaged in the business of manufacturing generators for WTGs. Suzlon Generators recorded turnover of Rs.2,189.97 million for the Fiscal Year 2009, an increase of 7 per cent. compared to Rs.2,046.58 million for the Fiscal Year 2008. After providing for tax, Suzlon Generators recorded a profit of Rs.36.30 million in the Fiscal Year 2009 against a profit of Rs.51.33 million in the Fiscal Year 2008, a decrease of 29 per cent.

Suzlon Structures, 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. It is engaged in the business of designing and manufacturing tubular towers. Day-to-day operations are the responsibility of the Kalthia Group, but overall control rests with the Group. Suzlon Structures recorded turnover of Rs.5,873.64 million for the Fiscal Year 2009, an increase of 14 per cent. compared to Rs.5,149.68 million for the Fiscal Year 2008. After providing for tax, Suzlon Structures recorded a loss of Rs.8.87 million in the Fiscal Year 2009 against a profit of Rs.170.39 million in the Fiscal Year 2008, a decrease of 105 per cent.

SGWPL, a 100 per cent. owned subsidiary of the Company, was incorporated on 5 July 2004 in the state of Gujarat. It is engaged in the business of development of wind farm projects, including the acquisition of land for setting up wind farms and power evacuation facilities. SGWPL recorded turnover of Rs.453.70 million for the Fiscal Year 2009, a decrease of 60 per cent. compared to Rs.1,132.31 million in the Fiscal Year 2008.

After providing for tax, SGWPL recorded a loss of Rs.251.65 million in the Fiscal Year 2009 against a profit of Rs.259.44 million in the Fiscal Year 2008, a decrease of 197 per cent.

Suzlon Wind International Limited ("SWIL"), a 100 per cent. owned subsidiary of the Company, was incorporated on 12 December 2006 in the state of Karnataka. It is engaged in the business of manufacturing WTGs and commenced commercial production in September 2008. SWIL recorded turnover of Rs.15,930.54 million for the Fiscal Year 2009, compared to

(1) The amounts of turnover and profit/loss after providing for tax disclosed in this section are as per the statement pursuant to Section 212 (8) of the Companies Act. These amounts are as per the accounting policies of these subsidiaries as per their respective GAAPs and accordingly are before inter-company eliminations and before any adjustments that are required for alignment of accounting policies of these companies with that of the Group.

Rs.84.73 million in the Fiscal Year 2008. After providing for tax, SWIL recorded a profit of Rs.5,550.40 million in the Fiscal Year 2009 against a loss of Rs.9.82 million in the Fiscal Year 2008.

SE Electricals Limited ("SEEL") (formerly known as Suzlon Electricals International Limited), a 100 per cent. owned subsidiary of the Company, was incorporated on 12 December 2006 in the state of Karnataka. It is engaged in the business of manufacturing generators and control panels and commenced commercial production in September 2008. SEEL recorded turnover of Rs.1,067.71 million for the Fiscal Year 2009. After providing for tax, SEEL recorded a profit of Rs.27.24 million in the Fiscal Year 2009.

SE Composites Limited ("SECL"), a 100 per cent. owned subsidiary of the Company, was incorporated on 12 December 2006 in the state of Karnataka. It is engaged in the business of manufacturing rotor blades and commenced commercial production in September 2008. SECL recorded turnover of Rs.3,762.91 million for the Fiscal Year 2009. After providing for tax, SECL recorded a profit of Rs.160.54 million in the Fiscal Year 2009.

Suzlon Power Infrastructure Limited ("SPIL"), a 100 per cent. owned subsidiary of the Company, was incorporated on 10 June 2004 in the state of Tamil Nadu. It is engaged in the business of building infrastructure for extracting and transmitting of power from wind power projects. SPIL recorded turnover of Rs.1,225.71 million for the Fiscal Year 2009, an increase of 149 per cent. compared to Rs.492.83 million for the Fiscal Year 2008. After providing for tax, SPIL recorded a profit of Rs.1.39 million in the Fiscal Year 2009 against a loss of Rs.76.64 million in the Fiscal Year 2008. It has also made an application for a transmission license to the Gujarat Electricity Regulatory Commission.

SE Forge, a subsidiary of the Company, was incorporated on 26 June 2006 in the state of Gujarat. It is engaged in the business of forging and foundry. On 17 October 2008 SE Forge raised equity investment of Rs.4,000.00 million from IDFC Private Equity Fund III pursuant to a Shareholders' Agreement and Share Subscription Agreement dated 27 September 2008 entered into between SE Forge, SEL, Tulsi R. Tanti, Vinod R. Tanti, Jitendra R. Tanti and Girish R. Tanti (collectively the Sponsor Group) and the IDFC Private Equity Fund III. As at 31 March 2009, the Company held 82.9 per cent. of the equity share capital of SE Forge. The Group has given SE Forge the objective of undertaking manufacturing and machining of large forging and casting products catering primarily to the wind power industry. The forging unit, set up in an SEZ near Vadodara, is expected to manufacture forged rings for WTGs, namely flanges for tubular towers, gear rim, ring gear for gearboxes and bearing rings which will be supplied to WTG and/or WTG component manufacturers. In phase one, the forging unit is establishing a capacity of approximately 42,000 rings per annum and can produce rings up to 5,000 mm diameter, 600 mm in height and 4 MT in weight. The facility is also suitable for manufacturing forged ring products for other industries like power, petrochemicals and material handling. SE Forge has also established a foundry unit in an SEZ near Coimbatore, the capacity of which is planned to be expanded up to 120,000 MT per annum. This unit will manufacture ductile iron castings of weights ranging from 1 to 25 MT per piece, though it can also produce castings of larger sizes. Initially serving the wind industry, the foundry unit will produce large castings like hub, rotor shaft, main frame and bearing housing used in manufacturing WTGs. The foundry unit also plans to cater to the needs of other industries like diesel engines, machine tools and engineering equipments. Both the foundry and the forging units of SE Forge started commercial production during the Fiscal Year 2009. SE Forge recorded turnover of Rs.171.82 million for the Fiscal Year 2009. After providing for tax, SE Forge recorded a loss of Rs.548.37 million in the Fiscal Year 2009 against a loss of Rs.82.10 million in the Fiscal Year 2008.

## **Research and Development Subsidiaries**

AERH is a holding company of SBT, Suzlon Energy B.V. ("SEBV"), SEDT and Hansen. SBT is a 100 per cent. owned subsidiary of AERH incorporated on 1 March 2001 which is engaged in R&D activities relating to rotor blade technology, a critical component of WTGs, including the development of moulds and tooling used for rotor blade construction. SBT 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 SBT, which are then built by the Group's engineering teams in India and used in its manufacturing facilities. SBT 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. SEBV was incorporated on 23 April 2001 as a 100 per cent. owned subsidiary of AERH for the purpose of marketing the Group's WTGs in the Netherlands. On standalone basis, AERH recorded turnover of Rs.64.72 million for the Fiscal Year 2009, compared to Rs. Nil for the Fiscal Year 2008. After providing for tax, AERH recorded a profit of Rs.112.05 million in the Fiscal Year 2009 against a loss of Rs.2,603.11 million in the Fiscal Year 2008.

SEG, is a 100 per cent. 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. The Group's SEG team developed the design for its sub-MW and multi-MW WTGs. 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, 1.50MW and 2.10MW 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 different climates. SEG is also involved in customising the various WTG components to suit variations in climate. SEG recorded turnover of Rs.1,289.10 million for the Fiscal Year 2009, an increase of 80 per cent. compared to Rs.717.08 million for the Fiscal Year 2008. After providing for tax, SEG recorded a profit of Rs.42.83 million in the Fiscal Year 2009 against a loss of Rs.52.86 million in the Fiscal Year 2008.

SEG (into which SWK was merged in November 2008) is involved in the design and development of WTGs, including mechanical and electronic aspects of design and development. In addition, the Group has incorporated a 100 per cent. owned subsidiary in Germany, SEDT, as a R&D subsidiary for the design, development and manufacture of WTGs and WTG components. This company, although not currently active in research and development, is a holding and investment company and is the holding company of REpower.

REpower and Suzlon have established RETC, a global technology centre for wind power in Hamburg. See "Business – REpower Systems AG – Research and Development".

### **Overseas Managing and Demonstration Companies**

AERH is a holding company of SBT, SEBV, SEDT and Eve Holding N.V., Belgium. Eve Holding N.V., Belgium was acquired as a 100 per cent. owned subsidiary on 9 May 2006 by AERH for a consideration of €431.43 million and was the holding company of Hansen. All the shares of Hansen have been transferred from Eve Holding N.V. to AERH and Eve Holding N.V. has been voluntarily liquidated. Hansen contributed 18 per cent. of the Group's total consolidated revenue and 14 per cent. of the Group's total consolidated net profit before any eliminations and inter-company adjustments for the Fiscal Year 2008. The Group has since October 2007, begun sourcing a limited part of its gearbox requirements from Hansen. Hansen ranks number one in the large size gearbox market.

Windpark Olsdorf Watt GmbH & Co., KG ("WOWG"), a joint venture between SEG and Suzlon Windpark Management GmbH ("SWMG"), is engaged in the business of setting-up and operating demonstration WTGs. WOWG was incorporated on 3 September 2002 in Germany. WOWG recorded turnover of Rs.20.68 million for the Fiscal Year 2009, a decrease of 27 per cent. compared to Rs.28.28 million for the Fiscal Year 2008. After providing for tax, WOWG recorded a profit of Rs.5.72 million in the Fiscal Year 2009 against a loss of Rs.46.88 million in the Fiscal Year 2008.

SWMG was incorporated as a 100 per cent. owned subsidiary on 23 August 2005 in Germany. This company has been incorporated to undertake the management of WOWG. SWMG has not recorded any turnover during the Fiscal Year 2009 or Fiscal Year 2008. After providing for tax, SWMG recorded a loss of Rs.0.21 million in the Fiscal Year 2009 against a loss of Rs.0.16 million in the Fiscal Year 2008.

Suzlon Energy Limited Mauritius ("SELM") was incorporated on 17 March 2006 as a 100 per cent. 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. SELM has not recorded any turnover during the Fiscal Year 2009 or Fiscal Year 2008. After providing for tax, SELM recorded a

loss of Rs.541.61 million in the Fiscal Year 2009 against a loss of Rs.876.28 million in the Fiscal Year 2008.

Suzlon Wind Energy Limited ("SWEL") was incorporated in the United Kingdom, on 7 April 2006 as a 100 per cent. owned subsidiary of SELM, to engage in the business of investment and holding. SWEL has not recorded any turnover during the Fiscal Year 2009 or Fiscal Year 2008. After providing for tax, SWEL recorded a loss of Rs.2.48 million in the Fiscal Year 2009 against a profit of Rs.64.90 million in the Fiscal Year 2008.

Suzlon Windenergie GmbH ("SWE") was incorporated on 4 December 2006. It was acquired by the Group on 12 January 2007 and is 100 per cent. owned by SEDT. For more information, see "Business – REpower Systems AG". SWE has not recorded any turnover during the Fiscal Year 2009 or Fiscal Year 2008. After providing for tax, SWE recorded a profit of Rs.2.77 million in the Fiscal Year 2009 against a profit of Rs.2.81 million in the Fiscal Year 2008.

SEDT was incorporated on 16 July 2005 in Germany and is a 100 per cent. owned subsidiary of AERH. This company, although not currently active in research and development, is an investment and holding company and is the holding company of REpower. SEDT recorded turnover of Rs.13.83 million for the Fiscal Year 2009, compared to Rs.19.61 million for the Fiscal Year 2008. After providing for tax, SEDT recorded a loss of Rs.1,574.03 million in the Fiscal Year 2009 against a profit of Rs.54.09 million in the Fiscal Year 2008.

THBV was acquired by the Group in June 2008 as a 100 per cent. owned subsidiary of Suzlon Wind Energy Limited to engage in the business of investment and holding.

SNA was incorporated in Hong Kong and is a 100 per cent. owned subsidiary of Suzlon Denmark. SNA is an investment and holding company.

#### **Overseas Manufacturing companies**

Suzlon Rotor Corporation ("SRC"), was incorporated on 10 August 2005 as a 100 per cent. owned subsidiary, in the United States 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. SRC recorded turnover of Rs.3,202.22 million for the Fiscal Year 2009, an increase of 143 per cent. compared to Rs.1,316.22 million for the Fiscal Year 2008. After providing for tax, SRC recorded a profit of Rs.10.64 million in the Fiscal Year 2009 against loss of Rs.694.64 million in the Fiscal Year 2008.

Suzlon Energy Tianjin Limited ("SETL") was incorporated on 4 January 2006 as a 100 per cent. 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 the Fiscal Year 2007. SETL recorded turnover of Rs.12,083.02 million for the Fiscal Year 2009, and recorded turnover of Rs.4,804.72 million for the calendar year 2008. After providing for tax, SETL recorded a profit of Rs.605.90 million in the Fiscal Year 2009 and a loss of Rs.116.49 million in the calendar year 2008.

Hansen was acquired by the Group as a 100 per cent. owned subsidiary in May 2006. AERH completed the purchase of 100 per cent. of the share capital of Eve Holding N.V. for a consideration of €431.43 million after having received all requisite approvals for the acquisition. 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. Hansen listed its shares on the London Stock Exchange in December 2007. The holding of the Company in Hansen stood at 71.28 per cent. as at 31 December 2008. Hansen has an independent management and operates on an arm's length basis

In accordance with an agreement dated 31 December 2008 with funds managed by Ecofin Limited, the Group sold, on 26 January 2009, a 10 per cent. shareholding, equal to 67,010,421 shares, in Hansen to such funds managed by Ecofin and, pursuant to this sale, the Group's voting and economic interest in Hansen decreased to 61.28 per cent. as at 31 March 2009.



The terms of the relationship agreement entered into between Hansen and the Company give the Company the right to appoint two non-executive directors to the Board of Hansen for so long as its shareholding in Hansen is at least 26 per cent. Under the terms of the agreement entered into with Ecofin, the Company has granted Ecofin the right to nominate one such director for so long as Ecofin's shareholding in Hansen is at least 8 per cent. Ecofin has exercised its right to nominate a director, and on 25 June 2009 a resolution to appoint the director was passed at Hansen's Annual shareholders meeting.

In June 2009, in response to media speculation, the Company made the following announcement to the London Stock Exchange – "With regard to the recent media speculation, Suzlon wishes to state that as part of its financing strategy, it considers on an ongoing basis various alternatives with respect to the future course of the company. Amongst other things, it is evaluating alternatives regarding its shareholding in Hansen and this may or may not lead to Suzlon disposing of some or all of its stake in Hansen to a third-party. These considerations are at an early stage and may or may not lead to any transaction. A further announcement will be made if appropriate".

As per Belgian GAAP, Hansen recorded turnover of Rs.40,414.34 million for the Fiscal Year 2009 compared to Rs.25,322.81 million for the Fiscal Year 2008. As per Belgian GAAP, after providing for tax, Hansen recorded a profit of Rs.2,912.76 million for the Fiscal Year 2009 and Rs.1,918.05 million for the Fiscal Year 2008.

Hansen manufactures sophisticated high performance standardised gearboxes for medium and heavy industrial applications that require specialised solutions. For the Fiscal Year 2009, 84.52 per cent. of Hansen's revenue was derived from sales of wind turbine gearboxes. Hansen's key products include WTG gearboxes and industrial gearboxes. Hansen also supplies drive package solutions for its industrial customers, comprising gearboxes, coupling, motors and housing.

Hansen's main manufacturing facilities are located in Edegem and Lommel, both in Belgium, and are supported by assembly facilities for the industrial gearbox sector in the UK, the United States, Australia, China and South Africa. Hansen is also undertaking projects to build fully-integrated manufacturing facilities in Coimbatore, India and in China for the manufacture of WTG gearboxes.

Hansen's manufacturing facility at its headquarters in Edegem (with a total surface area of approximately 50,000 square metres and factory building of approximately 30,000 square metres) currently produces both WTG and industrial gearboxes. This facility provides research and development, engineering, manufacturing, assembly, servicing, and sales services for Hansen's WTG and industrial gearboxes.

Hansen's dedicated WTG gearbox manufacturing facility at Lommel, Belgium is its primary WTG gearbox manufacturing facility. Hansen's Lommel facility currently has a manufacturing output of 6,000MW per annum.

In addition, Hansen has built an integrated WTG gearbox manufacturing plant in Coimbatore, India modelled on its facility at Lommel. The plant will cover a total surface area of approximately 220,000 square metres and a factory area of approximately 95,000 square metres. Manufacturing at the site is primarily focused on the important local and international WTG manufacturers located in the Asia Pacific region. The site in Coimbatore focuses on the assembly of WTG gearboxes and started production during the Fiscal Year 2008.

Hansen has also constructed an additional manufacturing facility for the production of WTG gearboxes in Tianjin, China. The site commenced assembly and testing of WTG gearboxes in September 2008. It is expected that the site will have an annual manufacturing capacity of 3,000 MW by April 2011, when it reaches its full manufacturing capacity.

In addition to its manufacturing plants, Hansen has assembly centres in Huddersfield (UK), Verona (Italy), Virginia (U.S.), Melbourne (Australia), Boksburg (South Africa) and Tianjin (China) for its industrial gearboxes. The facilities also provide refurbishment and repair services, application engineering and full technical support services to Hansen's industrial customers. Hansen also has a service centre serving its industrial customers in Schoten, Belgium.

In June 2008, REpower became a subsidiary of the Company. As at 31 March 2009, the Company (through its subsidiaries SWE and SEDT) holds 73.65 per cent. of the share capital of REpower and since 31 March 2009 (through its subsidiaries SWE and SEDT) the Company has increased its equity interest in REpower to 90.72 per cent. as at the date of this Offering Circular. See "Business – REpower Systems AG".

## **Marketing Subsidiaries**

Suzlon Denmark is a 100 per cent. 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 Company. Suzlon Denmark recorded turnover of Rs.6,611.58 million for the Fiscal Year 2009, an increase of 288 per cent. compared to Rs.1,703.84 million for the Fiscal Year 2008. After providing for tax, Suzlon Denmark recorded a loss of Rs.2,890.65 million in the Fiscal Year 2009 against a loss of Rs.890.07 million in the Fiscal Year 2008.

SWECO, is a 100 per cent. owned subsidiary of Suzlon Denmark that markets and sells WTGs in the United States. SWECO recorded turnover of Rs.57,057.74 million for the Fiscal Year 2009, an increase of 149 per cent. compared to Rs.22,937.64 million for the Fiscal Year 2008. After providing for tax, SWECO recorded a profit of Rs.299.74 million in the Fiscal Year 2009 against a loss of Rs.1,559.29 million in the Fiscal Year 2008.

Suzlon Energy Australia Pty. Ltd. ("SEAP"), is a 100 per cent. owned subsidiary of Suzlon Denmark that was incorporated in January 2004 in order to give the Group a presence in the emerging Australian market for WTGs. SEAP recorded turnover of Rs.24,340.57 million for the Fiscal Year 2009, an increase of 147 per cent. compared to Rs.9,867.98 million for the Fiscal Year 2008. After providing for tax, SEAP recorded a profit of Rs.479.32 million in the Fiscal Year 2009 against a profit of Rs.52.93 million in the Fiscal Year 2008.

SWED, is a 100 per cent. owned subsidiary of Suzlon 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 Company'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. SWED recorded turnover of Rs.7,395.15 million for the Fiscal Year 2009, an increase of 258 per cent. compared to Rs.2,068.26 million for the Fiscal Year 2008. After providing for tax, SWED recorded a loss of Rs.1,395.44 million in the Fiscal Year 2009 against a loss of Rs.168.53 million in the Fiscal Year 2008.

Suzlon Energy Italy Srl ("SEIS"), is a 100 per cent. owned subsidiary of SWED. It was incorporated in November 2006, in order to undertake marketing and sales activities in Italy. SEIS recorded turnover of Rs.301.23 million for the Fiscal Year 2009, which was a decrease of 51 per cent. compared to Rs.609.63 million for the Fiscal Year 2008. After providing for tax, SEIS recorded a profit of Rs.1.57 million in the Fiscal Year 2009 against a profit of Rs.20.36 million in the Fiscal Year 2008.

Suzlon Energy Portugal Energia Eolica Unipressol Lda ("Suzlon Portugal"), is a 100 per cent. owned subsidiary of SWED. Incorporated in September 2006, its role is to undertake marketing and sales activities in Portugal. Suzlon Portugal recorded turnover of Rs.1,631.64 million for the Fiscal Year 2009, compared to Rs.4,698.87 million for the Fiscal Year 2008. After providing for tax, Suzlon Portugal recorded a loss of Rs.24.52 million in the Fiscal Year 2009 against a loss of Rs.70.39 million in the Fiscal Year 2008.

Suzlon Energia Eolica do Brasil Ltda ("Suzlon Brazil"), is a 100 per cent. owned subsidiary of SWED. Incorporated in September 2006, it undertakes marketing and sales in Brazil. Suzlon Brazil recorded turnover of Rs.2,244.33 million for the Fiscal Year 2009, compared to Rs.6,845.61 million for the Fiscal Year 2008. After providing for tax, Suzlon Brazil recorded a loss of Rs.372.41 million in the Fiscal Year 2009 against a profit of Rs.875.44 million in the Fiscal Year 2008.

Suzlon Energy Korea Co., Ltd ("Suzlon Korea"), is a 100 per cent. owned subsidiary of Suzlon Denmark, which was incorporated in September 2006 to undertake marketing and sales activities in Korea. Suzlon Korea recorded turnover of Rs. Nil for the Fiscal Year 2009 and the Fiscal Year 2008.



After providing for tax, Suzlon Korea recorded a loss of Rs.0.32 million in the Fiscal Year 2009 against a loss of Rs.4.17 million in the Fiscal Year 2008.

Suzlon Wind Energy Espana S.L. ("SWEE") is a 100 per cent. owned subsidiary of SWED, which was incorporated in 2008, to undertake marketing and sales activities in Spain. SWEE recorded turnover of Rs.9,015.19 million for the Fiscal Year 2009 compared to Rs.9,172.60 million for the Fiscal Year 2008. After providing for tax, SWEE recorded a profit of Rs.3.04 million in the Fiscal Year 2009 against a profit of Rs.7.29 million in the Fiscal Year 2008.

### Summary of Material Subsidiaries

The details of the Company's material subsidiaries as at 31 March 2009 are as follows (information relating to portion of capital held by the Company are stated as at 31 March 2009, unless otherwise stated):

Subsidiary	REpower Systems AG
Registered office . . . . .	Überseering 10, D-22297, Hamburg, Germany
Main object . . . . .	Development, production and sale of regenerative energy products, particularly wind turbines, and to perform related services of all kinds
Field of activity . . . . .	Development, production and sale
Paid-up share capital . . . . .	€9.18 million
Portion of capital held by the Company . . . . .	Indirect Holding – 90.72 per cent. (as at 30 June 2009)
Reserves . . . . .	€297.19 million (additional paid-in capital); – €0.17 million (currency translation); €12.76 million (change in fair value of cash flow hedges) and €89.38 million (retained earnings)
Profit/(loss) arising from ordinary activities after tax, for the last financial year . . . . .	€51.94 million
Value at which the Company shows share held in its financial statements. . . . .	Nil
Amount still to be paid up on shares held . . . . .	Nil
Amount of dividends received in course of last financial year in respect of shares held . . . . .	Nil
Amount of debts owed to the Company with regard to subsidiary . . . . .	Nil
Amount of debts owed by the Company with regard to subsidiary . . . . .	Nil

<b>Subsidiary</b>	<b>Hansen Transmissions International NV</b>
Registered office . . . . .	Leonardo dv Vincilaan 1, B-2650 Edegem, Belgium
Main object . . . . .	Design, manufacture and supply of wind turbine gearboxes and industrial gearboxes
Field of activity . . . . .	Manufacturing
Paidup share capital . . . . .	€17.97 million
Portion of capital held by Company . . . . .	Indirect holding – 61.28 per cent. (as at 30 June 2009)
Reserves . . . . .	€565.86 million
Profit/(loss) arising from ordinary activities after tax, for the last financial year . . . . .	€45.04 million
Value at which the Company show share held in its financial statements. . . . .	Nil
Amount still to be paid up on shares held . . . . .	Nil
Amount of dividends received in course of last financial year in respect of shares held . . . . .	Nil
Amount of debts owed to the Company with regard to subsidiary . . . . .	Nil
Amount of debts owed by the Company with regard to subsidiary . . . . .	Nil

<b>Subsidiary</b>	<b>Suzlon Wind International Limited</b>
Registered office . . . . .	806, Prestige Towers, 100, Residency Road, Bangalore, India
Main object . . . . .	Manufacturing and sale of wind turbine generators and its parts
Field of activity . . . . .	Manufacturing
Paidup share capital . . . . .	Rs.100,000,000 divided into 10,000,000 equity shares of Rs.10 each and Rs.1,082,655,000 divided into 10,826,550 preference shares of Rs.100 each
Portion of capital held by company . . . . .	Direct holding – 100 per cent.
Reserves . . . . .	Rs.5,460.63 million
Profit/(loss) arising from ordinary activities after tax, for the last financial year . . . . .	Rs.5,550.40 million
Value at which the Company shows share held in its financial statements. . . . .	Rs.1,182.66 million
Amount still to be paid up on shares held . . . . .	Nil
Amount of dividends received in course of last financial year in respect of shares held . . . . .	Equity dividend – Nil. Preference share dividend book – Rs.67.66 million
Amount of debts owed to the Company with regard to subsidiary . . . . .	Rs.1,899.71 million
Amount of debts owed by the Company with regard to subsidiary . . . . .	Nil

<b>Subsidiary</b>	<b>Suzlon Wind Energy Corporation</b>
Registered office . . . . .	8750 West Bryn Mawr, Suite 720 Chicago, Illinois 60631, USA.
Main object . . . . .	The nature of business or purpose to be conducted or promoted is to engage in any lawful act of activity for which corporations may be organized under the General Corporation Law of Delaware
Field of activity . . . . .	Marketing and project execution of wind turbine generators
Paidup share capital . . . . .	U.S.\$1,000 divided into 1,000 equity shares of U.S.\$1 each.
Portion of capital held by company . . . . .	Direct holding – Nil, Indirect holding – 100%
Reserves . . . . .	(U.S.\$38.06 million)
Profit/(loss) arising from ordinary activities after tax, for the last financial year . . . . .	U.S.\$5.91 million
Value at which the Company shows share held in its financial statements. . . . .	Nil
Amount still to be paid up on shares held . . . . .	Nil
Amount of dividends received in course of last financial year in respect of shares held . . . . .	Nil
Amount of debts owed to the Company with regard to subsidiary . . . . .	Nil
Amount of debts owed by the Company with regard to subsidiary . . . . .	Nil
<b>Subsidiary</b>	<b>Suzlon Energy Australia Pty. Ltd.</b>
Registered office . . . . .	Level 42, 80 Collins Street, Melbourne 3000, Australia
Main object . . . . .	Marketing and project execution of wind turbine generators
Field of activity . . . . .	Marketing and project execution of wind turbine generators
Paidup share capital . . . . .	A\$5,550,001 divided into 5,550,001 equity shares of A\$1 each.
Portion of capital held by company . . . . .	Direct Holding – Nil, Indirect holding – 100 per cent.
Reserves . . . . .	A\$9.17 million
Profit/(loss) arising from ordinary activities after tax, for the last financial year . . . . .	A\$13.65 million
Value at which the Company shows share held in its financial statements. . . . .	Nil
Amount still to be paid up on shares held . . . . .	Nil
Amount of dividends received in course of last financial year in respect of shares held . . . . .	Nil
Amount of debts owed to the Company with regard to subsidiary . . . . .	Nil
Amount of debts owed by the Company with regard to subsidiary . . . . .	Nil

<b>Subsidiary</b>	<b>Suzlon Energy (Tianjin) Limited</b>
Registered office . . . . .	No. 15, Hi-Tech North Road, Huayuan Industrial Area Hi-Tech Industry Park, Tianjin 300384, China
Main object . . . . .	Manufacturing and sale of wind turbine generators and their parts
Field of activity . . . . .	Manufacturing
Paidup share capital . . . . .	U.S.\$55,000,000 (RMB408.42 million)
Portion of capital held by company . . . . .	Direct Holding – 100 per cent.
Reserves . . . . .	RMB126.00 million
Profit/(loss) arising from ordinary activities after tax, for the last financial year . . . . .	RMB81.65 million
Value at which the Company shows share held in its financial statements. . . . .	Rs.2,333.04 million
Amount still to be paid up on shares held . . . . .	Nil
Amount of dividends received in course of last financial year in respect of shares held . . . . .	Nil
Amount of debts owed to the Company with regard to subsidiary . . . . .	Nil
Amount of debts owed by the Company with regard to subsidiary . . . . .	Nil

### **Affiliated Companies**

Together with the Affiliated Companies, the Group offers integrated wind power solutions to customers in India. No member of the Group holds any equity and/or preference interest in any of the Affiliated Companies. No member of the Group has any ownership or exercise any control over the business activities of any Affiliated Companies. Members of the Group provide financing to and guarantee the obligations of the Affiliated Companies pursuant to arm's-length transactions as set forth in the terms of agreements for services which members of the Group have entered into with such Affiliated Companies. All loans and guarantees to Affiliated Companies are unsecured. As such, they are subordinate to the Group's secured third-party debt. As at 31 March 2009, there were outstanding loans to Affiliated Companies of Rs.1,162.50 million and there were no outstanding guarantees to the Affiliated Companies. Members of the Group also lease certain properties to the Affiliated Companies.

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 the 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.

SIL is primarily engaged in developing various infrastructure requirements of the Group and also SEZ development. The activities relating to infrastructure development and installation of WTGs are now being conducted by a 100 per cent. owned subsidiary of the Company, SISL, with effect from 1 April 2007, which were being undertaken by SIL.

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

From time to time, the Group also enters into agreements to supply WTGs and WTG components to the Affiliated 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.

## MANAGEMENT AND CORPORATE GOVERNANCE

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 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 one-third of the total number of directors, subject to a minimum of two directors.

### Board of Directors

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

<u>Name, Nationality and Designation of Directors</u>	<u>Nationality</u>	<u>Designation</u>
1. Tulsi R. Tanti . . . . .	Indian	Chairman & Managing Director
2. Girish R. Tanti . . . . .	Indian	Executive Director
3. Ajay Relan . . . . .	Indian	Independent Director
4. Ashish Dhawan . . . . .	Indian	Independent Director
5. Pradip Kumar Khaitan . . . . .	Indian	Independent Director
6. V. Raghuraman . . . . .	Indian	Independent Director

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

<u>Name</u>	<u>Address</u>
1. Mr. Tulsi R. Tanti . . . . .	Godrej Millennium, 5th Floor, 9, Koregaon Park Road, Pune – 411001
2. Girish R. Tanti . . . . .	Godrej Millennium, 5th Floor, 9, Koregaon Park Road, Pune – 411001
3. Ajay Relan . . . . .	C-121, Defence Colony, New Delhi – 110003
4. Ashish Dhawan . . . . .	55A, Jor Bagh, New Delhi – 110003
5. Mr. Pradip Kumar Khaitan . .	Khaitan & Co., Emerald House, 1B, Old Post Office Street, Kolkata – 700001
6. V. Raghuraman . . . . .	Confederation of Indian Industry, 249F, Sector 18, Udyog Vihar, Gurgaon – 122015

### Brief Biography of the Company's Directors

**Mr. Tulsi R. Tanti** is the founder of the Company and been the Chairman and Managing Director since its inception in 1995. Under Mr. Tulsi R. Tanti's stewardship, the Company has ranked as the fifth leading wind turbine manufacturer in the world. Mr. Tulsi R. Tanti is a commerce graduate and holds a diploma in mechanical engineering. He is responsible for the overall strategic direction of the Company and 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. The awards include "Champion of the Earth 2009" award by United Nations Environment Program; "Global Indian Award 2009" by Canada India Foundation; "Hero of the Environment Award" by TIME Magazine; "Rajiv Gandhi Award 2007" for the most successful industrialist in India; "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; "Best Renewable Man of the Decade" which is a lifetime achievement award from the Foundation of

Indian Industry and Economists in 2005; “World Wind Energy Award 2003” by World Wind Energy Association; “Business Leadership Award 2002” by Solar Energy Society of India, etc.

**Mr. Girish R. Tanti** is one of the Promoters and an executive director of the Company. He is the brother of Mr. Tulsi R. Tanti. He is an entrepreneur with over 11 years of experience in business management. Mr. Girish Tanti has been involved at the strategic and operational level since the formation of Suzlon Energy Limited in 1995. Mr. Girish Tanti is an engineer with a Master’s in Business Administration from the UK. He 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, internationalisation of Suzlon’s operations, developing and building Suzlon brand and information technology initiatives like the SAP implementation. Mr. Girish Tanti now works in a strategic, supervisory role as a mentor and member of the Board.

**Mr. Ajay Relan**, one of the founding directors of CX Advisors Private Limited, which provides investment advisory services to Private Equity firms, has over 25 years of corporate and investment banking experience in India, Saudi Arabia, Tunisia and Switzerland; prior to co-founding the Indian Sub-Advisor, Mr. Relan was the head of CVCI in India, a position that he held since the inception of that business in India in 1995. Prior to this, Mr. Relan worked with several financial firms in multiple geographies, starting with Citi in 1976 and the last being the CEO of a Citi-affiliated brokerage firm, Citicorp Securities & Investments Ltd. Mr. Relan has served on the boards of several CVCI portfolio companies, such as Suzlon, HT Media, Yes Bank, i-FLEX and Progeon, among others. Mr. Relan earned a Masters in Business Administration from the Indian Institute of Management, Ahmedabad and a B.A. in Economics from St. Stephen’s College, Delhi University where he was top ranked in the university. He was appointed on board of the Company as a nominee of Citicorp International Finance Corporation Inc. on 19 April 2004. He ceased to be a nominee on 29 January 2007 and was appointed as an independent director on the Board with effect from 29 January 2007.

**Mr. Pradip Kumar Khaitan** has a degree in a B.Com, LL.B. and is an 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. He was appointed to the Board with effect from 25 August 2004.

**Mr. V. Raghuraman** is currently the Principal Advisor and Chief Co-ordinator – Energy, Environment and Natural Resources of the Confederation of Indian Industry (CII) Energy Program. He is an internationally recognised specialist in energy management, energy efficiency, energy policy, and related regulatory and technology issues. He is a member of the Study Group on Nuclear Energy – An Indian Perspective (2000) of Indian National Academy of Engineering (INAE) and convener of the CII – USIIBC Working Group on Civil Nuclear Cooperation. Mr. V. Raghuraman is a Chemical Engineer by qualification and worked as a Consultant, Trainer, Researcher in National Productivity Council (NPC) and rose up to Deputy Director General. 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). He was appointed to the Board with effect from 29 October 2005.

**Mr. Ashish Dhawan** is the Senior Managing Director of ChrysCapital and is based in New Delhi. He is the co-founder of ChrysCapital, a private equity fund that manages approximately U.S.\$2,250 million across five funds. ChrysCapital’s investment strategy focuses on investing in export-oriented outsourcing services and high growth domestic services. Mr. Ashish Dhawan holds a masters degree in Business Administration 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 the board of the Company as a nominee of ChrysCapital III, LLC on 10 August 2004. He ceased to be a nominee on 22 December 2005 and was appointed as an independent director on the Board with effect from 28 December 2005.

### **Corporate Governance**

There are five Board Level Committees in the Company, which have been constituted and function in accordance with the relevant provisions of the Companies Act and the listing



agreements entered into by the Company with the NSE and the BSE (the “Listing Agreements”): (i) audit committee; (ii) remuneration committee; (iii) investors’ grievance committee; (iv) securities issue committee; and (v) ESOP committee. The Company is in compliance with the corporate governance requirements under each of the Listing Agreements.

Details of each Committee, its scope, composition and meetings for Fiscal Year 2009 is given below:

### ***Audit Committee***

#### ***Members***

- Mr. Ashish Dhawan (Chairman)
- Mr. Pradip Kumar Khaitan
- Mr. V. Raghuraman

The broad terms of reference includes the following as is mandated in Clause 49 of each of the Listing Agreements and Section 292A of the Companies Act, 1956:

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, 1956;
  - (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; and
  - (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, the statement of uses/application of funds raised through an issue (including a public issue, rights issue, or preferential issue), the statement of funds utilised for purposes other than those stated in the offer document/prospectus/notice and the report submitted by the monitoring agency monitoring the utilisation of proceeds of a public or rights issue and making appropriate recommendations to the Board to take up steps in this matter.
7. Reviewing, with the management, performance of statutory and internal auditors, adequacy of the internal control systems.
8. 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 overage and frequency of internal audit.
9. Discussion with internal auditors any significant findings and follow-up thereon.

10. 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.
11. 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.
12. 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.
13. To review the functioning of the whistle-blower mechanism, in case the same is existing.
14. Carrying out any other function as is mentioned in the terms of reference of the audit committee.

The Audit Committee met four times during Fiscal Year 2009.

### ***Remuneration Committee***

#### ***Members***

- Mr. Ashish Dhawan
- Mr. Pradip Kumar Khaitan
- Mr. V. Raghuraman

The broad terms of reference includes the following:

1. to determine the remuneration of the directors of the Company; and
2. for effective implementation and operations of various existing and future employee stock option plans of the Company to do all such acts, deeds, matters and things including but not limiting to:
  - (a) determining the number of options to be granted to each employee and in the aggregate and the times at which such grants shall be made;
  - (b) determining the eligible employee(s) to whom options be granted;
  - (c) determining the eligibility criteria(s) for grant of options;
  - (d) determining the performance criteria(s), if any for the eligible employees;
  - (e) laying down the conditions under which options vested in optionees may lapse in case of termination of employment for misconduct, etc.;
  - (f) determining the exercise price which the optionee should pay to exercise the options;
  - (g) determining the vesting period;
  - (h) determining the exercise period within which the optionee should exercise the options and that options would lapse on failure to exercise the same within the exercise period;
  - (i) specifying the time period within which the optionee shall exercise the vested options in the event of termination or resignation of the optionee;
  - (j) laying down the procedure for making a fair and reasonable adjustment to the number of options and to the exercise price in case of rights issues, bonus issues, sub-division, consolidation and other corporate actions;
  - (k) providing for the right to an optionee to exercise all the options vested in him at one time or at various points of time within the exercise period;
  - (l) laying down the method for satisfaction of any tax obligation arising in connection with the options or such shares;
  - (m) laying down the procedure for cashless exercise of options, if any;

- (n) providing for the grant, vesting and exercise of options in case of employees who are on long leave or whose services have been seconded to any other Company or who have joined any other subsidiary or other company at the instance of the employer company.

The Remuneration Committee met twice during Fiscal Year 2009.

### ***Investors' Grievance Committee***

#### ***Members***

- Mr. Pradip Kumar Khaitan
- Mr. Tulsi R. Tanti and
- Mr. Girish R. Tanti

The broad terms of reference includes the following:

1. Redressal of Shareholder and investors' complaints including but not limited to transfer of Shares and issue of duplicate share certificates, non-receipt of balance sheet, and non-receipt of declared dividends etc; and
2. Monitoring transfers, transmissions, dematerialisation, rematerialisation, splitting and consolidation of Shares.

The Investors' Grievance Committee met four times during Fiscal Year 2009.

### ***Securities Issue Committee***

#### ***Members***

- Mr. Tulsi R. Tanti
- Mr. Girish R. Tanti

The broad terms of reference includes the following:

1. Approval of issuance of fresh issue of shares, GDRs, ADRs, FCCBs, SPNs and/or such other securities convertible into or linked to shares;
2. To do all such acts, deeds, matters and things as might be required in connection with the issue of the securities; and
3. To allot equity shares of the Company, as may be required to be allotted to such bondholders of the zero coupon foreign currency convertible bonds on exercise of the conversion rights, as per the terms and conditions of the offer and issue of US\$300 million and US\$200 million zero coupon foreign currency convertible bonds due 2012 and to do all such other acts, deeds, matters and things as may be incidental and ancillary upon exercise of the conversion rights by such bondholders.

The Securities Issue Committee met four times during Fiscal Year 2009.

### ***ESOP Committee***

#### ***Members***

- Mr. Tulsi R. Tanti
- Mr. Girish R. Tanti

The broad terms of reference of the ESOP committee includes allotment of shares pursuant to exercise of options granted in terms of various employee stock option plans to the employees of the Company and its subsidiary companies as may be declared by the Company from time to time.

The ESOP Committee met three times during Fiscal Year 2009.

## Compensation of the Company's Directors

The following tables set forth all compensation paid by the Company to the Company's directors for the Fiscal Year 2009.

### (A) *Non-Executive Directors*

The non-executive directors are not paid any remuneration except sitting fees for attending the meetings of the Board of Directors and/or committees thereof. As regard payment of sitting fees to non-executive directors, the same is within the limits prescribed by the Companies Act. The Company does not have material pecuniary relationship or transactions with its non-executive directors. The details of the sitting fees paid, stock options granted and Shares held by the non-executive directors are as under:

Name of Non-Executive Director	Sitting Fees	Stock Options Granted	Shareholding in the Company (Rs.)
Mr. Ajay Relan <sup>(1)</sup> . . . . .	—	—	—
Mr. Ashish Dhawan . . . . .	240,000	—	—
Mr. Pradip Kumar Khaitan . . . . .	160,000	—	—
Mr. V. Raghuraman . . . . .	220,000	—	—

Note:

- (1) Since Mr. Ajay Relan had expressed his unwillingness to accept sitting fees, he has not been paid any sitting fees for attending the meetings of board of directors of the Company.

### (B) *Executive Directors*

Remuneration to the executive directors is decided based on the years of experience and contribution made by the respective executive directors and is consistent with the existing industry practice.

Name of the Director	Salary (Rs.)	Super- annuation (Rs.)	Commission/ Bonus/Stock Options	Total (Rs.)	Service Contract <sup>(1)</sup>	Notice Period
Mr. Tulsi R. Tanti Chairman & Managing Director . . . . .	12,332,651	2,160,950	—	14,493,601	Three years up to 31 March 2011	Three months
Mr. Girish R. Tanti Whole Time Director (Designated as Executive Director) . . . . .	4,933,056	829,455	—	5,762,511	Three years up to 31 March 2011	Three months

Note:

- (1) Mr. Tulsi R. Tanti and Mr. Girish R. Tanti have been appointed as Managing Director and Whole Time Director (designated as Executive Director) of the Company, respectively, on revised terms and conditions for a further period of three years with effect from 1 April 2008, as recommended by the Board in its meeting held on 29 January 2008 and approved by the Shareholders on 22 May 2008.

In terms of the special resolution approved by the members of the Company, the Company has been authorised to pay remuneration to the managerial personnel within the limits as prescribed under Section II (B) of Part II of Schedule XIII of the Act in case of loss or inadequacy of profits. Accordingly the Company has paid remuneration as per these limits and

the excess remuneration paid has been recovered from the directors. The remuneration paid to the executive directors after refund of excess amount stands reduced as under:

Name of the Director	Salary (Rs.)	Super- annuation (Rs.)	Commission/ Bonus/Stock Options	Total (Rs.)	Service Contract	Notice Period
Mr. Tulsi R. Tanti . . . . .	4,800,000	1,188,000	–	5,988,000	Three years up to 31 March 2011	Three months
Mr. Girish R. Tanti . . . . .	4,800,000	864,380	–	5,664,380	Three years up to 31 March 2011	Three months

#### **Terms of appointment of the Managing Director, Mr. Tulsi Tanti**

The Company, in terms of the approval granted by the Board and Shareholders at their respective meetings held on 29 January 2008 and 22 May 2008, has entered into an agreement dated 30 July 2008 (“MD Agreement”) with Mr. Tulsi R. Tanti, appointing him as the Managing Director of the Company for a term of three years commencing from 1 April 2008. Under the terms of the MD Agreement, Mr. Tulsi R. Tanti shall manage the affairs of the Company and shall exercise and perform such powers and duties as the Board may from time to time determine, and subject to the overall superintendence, control and direction of the Board, he shall have powers to do and perform all acts, deeds and things which in the ordinary course of business he may consider necessary or proper or in the interests of the Company. According to the terms of the MD Agreement, Mr. Tulsi R. Tanti is entitled to a remuneration consisting of salary of Rs.1.25 million per month and certain other perquisites.

The perquisites and allowance payable to Mr. Tulsi R. Tanti, according to the MD Agreement, shall include medical benefits for him and his family, personal accident and key man insurance, leave travel allowance for him and his family, encashment of leave, membership fee of up to two clubs, car(s) with driver, telephone, and contribution to the superannuation fund to a ceiling of 27 per cent. of his salary. However, total remuneration payable to Mr. Tulsi R. Tanti shall not exceed the limits prescribed under Section 198 and Section 309 of the Companies Act.

During the continuance of the MD Agreement, Mr. Tulsi R. Tanti shall not in any way engage in any other business of a similar nature or competitive with that carried on by the Company. In addition to the terms and conditions specified in the MD Agreement, Mr. Tulsi R. Tanti’s services will be governed by the Company’s existing service conditions as may be issued to him from time to time. Mr. Tulsi R. Tanti shall not be liable to retire by rotation.

#### **Terms of appointment of the Executive Director, Mr. Girish Tanti**

The Company, in terms of the approval granted by the Board and Shareholders at their respective meetings held on 29 January 2008 and 22 May 2008, has entered into an agreement dated 30 July 2008 (“WTD Agreement”) with Mr. Girish R. Tanti, appointing him as Whole Time Director designated as Executive Director of the Company for a term of three years commencing from 1 April 2008. Under the terms of the WTD Agreement, Mr. Girish R. Tanti shall manage the affairs of the Company and shall exercise and perform such powers and duties as the Board may from time to time determine, and subject to the overall superintendence, control and direction of the Board, Mr. Girish R. Tanti shall have powers to do and perform all acts, deeds and things which in the ordinary course of business he may consider necessary or proper or in the interests of the Company. According to the terms of the WTD Agreement, Mr. Girish R. Tanti is entitled to a remuneration consisting of salary of Rs.0.5 million per month and certain other perquisites.

The perquisites and allowance payable to Mr. Girish R. Tanti, according to the WTD Agreement, shall include medical benefits for him and his family, personal accident and key man insurance, leave travel allowance for him and his family, encashment of leave, membership fee of up to two clubs, car(s) with driver, telephone, and contribution to the superannuation fund to a ceiling of 27 per cent. of his salary. However, total remuneration payable to Mr. Girish R. Tanti shall not exceed the limits prescribed under Section 198 and Section 309 of the Companies Act.

During the continuance of the WTD Agreement, Mr. Girish R. Tanti shall not in any way engage in any other business of a similar nature or competitive with that carried on by the

Company. In addition to the terms and conditions specified in the WTD Agreement, Mr. Girish R. Tanti's services will be governed by the Company's existing service conditions as may be issued to him from time to time. Mr. Girish R. Tanti shall not be liable to retire by rotation.

### **Shareholding of the Directors of the Company**

The following table details the shareholding of the Directors in their personal capacity as at the date of this Offering Circular.

<u>Name of Directors</u>	<u>Number of Shares</u>
1. Tulsi R. Tanti . . . . .	10,962,000
2. Girish R. Tanti . . . . .	116,082,000
3. Ajay Relan . . . . .	—
4. Pradip Kumar Khaitan . . . . .	—
5. V. Raghuraman . . . . .	—
6. Ashish Dhawan . . . . .	—

*Note:* Tulsi R. Tanti also holds Shares as karta of Tulsi Ranchhodbhai HUF, as karta of Ranchhodbhai Ramjibhai HUF and jointly with Vinod R. Tanti and Jitendra R. Tanti and Girish R. Tanti also holds Shares as karta of Girish Ranchhodbhai HUF.

### **Loans and guarantees to directors and management**

There is no loan granted to any directors. As at 31 March 2009 outstanding balance of loans granted to affiliated companies was Rs.1,162.50 million, outstanding balance of deposits granted to affiliated companies was Rs.1,223.67 million and outstanding balance of guarantee given was Rs. Nil.

### **Unusual transactions**

There have been no transactions during the last audited financial year of the Company between any of the directors, or the key executives listed below, and the Company 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.

### **Borrowing Powers of the Board**

The Articles of Association authorise the Board, to borrow moneys and secure the payment of such sum or sums in such manner and upon such terms and conditions in all respects as it thinks fit. The Shareholders at a Shareholder meeting dated 6 December 2007, held by way of postal ballot, authorised the Board to borrow to an extent of Rs.70,000 million over and above the aggregate of the paid-up capital and free reserves of the Company.



## Senior Management Personnel of the Group

The details of the Senior Management Personnel of the Group are as follows:

Name	Designation
1. Sumant Sinha .....	Chief Operating Officer
2. Robin Banerjee .....	Chief Financial Officer
3. Vinod R. Tanti .....	Head – SCM
4. Kirti Vagadia .....	Head – Finance
5. Thomas Flower .....	Head – Technology
6. Shailesh Ghorpade .....	Head – Strategy & Planning
7. Vivek Kher .....	Head – Corporate Communications
8. Semantinee Khot .....	Head – CSR
9. Dr. V.V. Rao .....	Head – Quality
10. I.C. Mangal .....	Head – India
11. Erik Winther Pedersen .....	Head – EU
12. Andris E. Cukurs .....	Head – United States
13. Paulo Fernando Soares .....	Head – China
14. Dan Kofoed Hansen .....	Head – Australia and New Zealand
15. Samir Shah .....	Head – Corporate Finance
16. Simon Chau .....	Group Controller

The following Senior Management Personnel of the Group are permanent employees of the Group:

### ***Mr. Sumant Sinha – Chief Operating Officer***

Sumant Sinha is currently the Chief Operating Officer of the Company. He has a B.Tech from the Indian Institute of Technology, an MBA from the Indian Institute of Management and a masters degree from Columbia University's School of International and Public Affairs.

### ***Mr. Robin Banerjee – Chief Financial Officer***

Mr. Banerjee is a Chartered Accountant and has worked across a variety of sectors holding various corporate positions throughout his career, including the positions of Managing Director and Chief Financial Officer of Mittal Steel (Arcelor-Mittal) in Germany. Mr. Banerjee has also worked for TMD Friction GmbH and came to the Group from Essar Steel Holdings Ltd, where he held the position of Chief Financial Officer. Mr. Banerjee is a former Chairman of the International Trade Committee of Bombay Chamber of Commerce and Industries.

### ***Mr. Vinod R. Tanti – Head – SCM***

Mr. Tanti is a civil engineer with over 20 years of experience in business, initially in the infrastructure planning sector before moving to the wind energy industry. Mr. Tanti has extensive experience of the wind power industry and has managed various business units including installation and commissioning, operations and maintenance, wind resource mapping and land procurement. Mr. Tanti is a civil engineer.

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

Mr. Vagadia is a chartered accountant with over 20 years of experience in the areas of corporate finance, accounting, mergers and acquisitions and taxation. He is a key member of the senior management team of the Group and the Group Supervisory Counsel.

### ***Mr. Thomas Flower – Head – Technology***

Mr. Flower has over 17 years of international experience in the power generation sector. Prior to joining the Group, Mr. Flower worked for Siemens AG in Germany for 11 years. He has a PhD from Rheinisch-Westfälische Technische Hochschule Aachen University, the largest university of technology in Germany.

***Mr. Shailesh Ghorpade – Head – Strategy & Planning***

Mr. Ghorpade has 16 years of experience primarily in consulting, financial services, planning and strategy and business excellence in various industries with over a year's experience in the wind energy industry. Mr. Ghorpade holds a master's degree in business administration.

***Mr. Vivek Kher – Head – Corporate Communications***

Mr. Kher heads the Company's corporate communications function based out of its global headquarters in Pune, India. With a post-graduate degree in Business Management, he has over 25 years of experience with media and advertising agencies, working with various blue-chip Indian and multinational corporate brands. He joined the Company in 2004 and manages internal and external communications.

***Ms. Seemantinee Khot – Head – CSR***

Ms. Khot has 27 years of experience in various international organisations, primarily responsible for heading up large multi-location projects for sustainable development. Ms. Khot also holds consultancy positions for international development and United Nations organisations. Ms. Khot has a master's degree in rural development.

***Dr. V.V. Rao – Head – Quality***

Dr. Rao has over 18 years of experience in the field of practical business solutions, specialising in enterprise resource planning, IT strategy, human resources and quality management; Dr. Rao has developed such systems for approximately 60 companies during his career.

***Mr. I.C. Mangal – Head – India***

Mr. Mangal, has 14 years of experience in Marketing and Project management. He is a B.E. Mechanical and has a Diploma in Export – Import Management. He has worked with Rana Group and Shree Ganesh Group prior to joining Suzlon. He has presently been elevated to the position of President, India Business and has been entrusted with the responsibility of leading the India Business Unit of Suzlon Energy Limited.

***Mr. Erik Winther Pedersen – Head – EU and Rest of World***

Mr. Pedersen has 25 years of international experience in project sales and project execution, of which the last eight years have been in the wind energy industry. Mr. Pedersen is a mechanical engineer.

***Mr. Andris E. Cukurs – Head – United States***

Mr. Cukurs has over 22 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 – Head – China***

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

***Mr. Dan Kofoed Hansen – Head – Australia and New Zealand***

Mr. Hansen has 18 years of experience in the international general contracting industry, including 10 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. Samir Shah – Head – Corporate Finance***

Mr. Shah is a chartered accountant with over 20 years of experience in the areas of corporate finance & strategy and global investor relations. In Suzlon he is currently the head of Investor

Relations and also looks at various Corporate Finance activities for the company. He is a key member of senior management team.

***Mr. Simon Chau – Group Controller***

Mr. Chau has over 28 years of international experience in the automotive industry primarily responsible for various finance functions. Prior to joining the Group, Mr. Chau worked for Visteon Corporation for 8 years. He holds a Bachelor (Honours) degree in Economics and Social Administration for Newcastle University, United Kingdom.

**Compensation of the Company's Senior Management Personnel of the Group**

The Company paid to the Company's Senior Management Personnel an aggregate compensation (including benefits in kind) of Rs.198,480,749 during the Fiscal Year 2009.

**Shareholding of the Company's Senior Management Personnel of the Group**

The Company has granted to the Company's Senior Management Personnel under the employees stock option scheme an aggregate of 889,599 options.

The aggregate shareholdings held by the Company's Senior Management Personnel (excluding Mr. Vinod R. Tanti) in their personal capacity as at the date of this Offering Circular is approximately 344,000 Shares. See "Principal Shareholders" for the shareholdings held by Mr. Vinod R. Tanti.

## EMPLOYEE STOCK OPTION PLAN

The Company instituted the ESOP-2005 and ESOP-2006 for all eligible employees in pursuance of a special resolution approved by the Shareholders on 16 June 2005 and 10 March 2007 respectively. The ESOP-2005 and ESOP-2006 covers grant of options to specified permanent employees of the Company as well as its subsidiaries. The options were granted under ESOP-2005 on 16 June 2005 and under ESOP-2006 on 23 November 2007.

As at 31 March 2009, pursuant to the ESOP-2005, the Company granted 921,000 options of Rs.10 each (subsequently adjusted to 4,605,000 options on account of sub-division of face value of shares to Rs.2 per share) to eligible employees at an exercise price which is 50 per cent. of the final issue price determined in the 2005 initial public offering of the Company in accordance with SEBI Guidelines (i.e. Rs.510 per share (subsequently adjusted to Rs.51 per share on account of sub-division of face value of shares to Rs.2 per share)). Under the terms of the ESOP-2005, 30 per cent. of the options vested 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 on which the options were granted:

<u>Date of Vesting</u>	<u>Proportion of Vesting</u> (per cent.)
16 June 2006 .....	30
16 June 2007 .....	30
16 June 2008 .....	40

Pursuant to the ESOP-2006, the Company granted 103,900 options of Rs.10 each (subsequently adjusted to 519,500 options on account of sub-division of face value of shares to Rs.2 per share) to eligible employees at an exercise price, which is the average of daily weighted average price of the Company's shares listed on BSE for the period from 19 October 2005 to 31 March 2006 (i.e. Rs.961 per share (subsequently adjusted to Rs.192.20 per share on account of sub-division of face value of shares to Rs.2 per share)). Under the terms of the ESOP-2006, 50 per cent. of the options vested in the employees at the end of the first year, 25 per cent. at the end of the second year and the balance of 25 per cent. at the end of third year from the date on which the options were granted:

<u>Date of Vesting</u>	<u>Proportion of Vesting</u> (%)
23 November 2008 .....	50
23 November 2009 .....	25
23 November 2010 .....	25

The employee stock options granted are capable of being exercised within a period of five years from the date of first vesting under ESOP-2005 and ESOP-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 except as per the insider trading code of the Company. 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.

The changes in the stock options under the ESOP-2005 and the ESOP-2006 during the Fiscal Year 2009 are set out in the following table:

	<u>ESOP-2005</u>	<u>ESOP-2006</u>
<b>Options outstanding as at 1 April 2008</b> .....	1,858,000	519,500
Granted during the Fiscal Year 2009 .....	Nil	Nil
Forfeited/cancelled during the Fiscal Year 2009 .....	118,000	78,000
Exercised during the Fiscal Year 2009 .....	1,361,000	Nil
Expired during the Fiscal Year 2009 .....	Nil	Nil
<b>Options outstanding as at 31 March 2009</b> .....	379,000	441,500
Options exercisable at the end of the Fiscal Year 2009 .....	379,000	192,000*

*Note:*

\* Includes only those options which are vested as at 31 March 2009

The Company has charged a sum of Rs.49.72 million being the intrinsic value of option under the ESOP-2005 and the ESOP 2006 during the period from April 2008 to March 2009.

## PRINCIPAL SHAREHOLDERS

The shareholding pattern of the Company as at 29 May 2009 is as follows:

Category of Shareholders	Shareholding as at 29 May 2009	
	No. of Shares	Percentage of Shareholding
Promoters and Promoter Group . . . . .	896,268,000	59.82
Banks, Financial Institutions, Insurance Companies . . . . .	15,396,151	1.03
Foreign Institutional Investors . . . . .	251,216,796	16.77
Mutual Funds/UTI . . . . .	76,004,401	5.07
Private Corporate Bodies . . . . .	49,361,081	3.29
Indian Public . . . . .	166,088,679	11.09
NRIs/Foreign Nationals . . . . .	14,234,518	0.95
Clearing Members . . . . .	29,663,096	1.98
Trusts . . . . .	62,678	0.00
<b>Total</b> . . . . .	<b>1,498,295,400</b>	<b>100.00</b>

\* As at 31 March 2009, the Issuer has the following ESOPs outstanding: 379,000 Options in terms of Employee Stock Option Plan-2005 and 441,500 Options in terms of Employee Stock Option Plan-2006 and the following FCCBs outstanding: (i) the June 2012 Bonds (ii) the October 2012 Bonds.

Details of the shareholding of the Promoters and Promoter Group and directors in the Company as at 29 May 2009 are as follows:

Name of Entities	No. of Shares	Percentage of Shareholding
Tanti Holdings Limited . . . . .	130,329,000	8.70
Girish R. Tanti . . . . .	116,082,000	7.75
Lina J. Tanti . . . . .	70,182,000	4.68
Sangita V. Tanti . . . . .	70,182,000	4.68
Gita T. Tanti . . . . .	64,512,000	4.31
Vinod R. Tanti as Karta of Vinod Ranchhodbhai HUF . . . . .	63,000,000	4.20
Brij J. Tanti Through F/G. Jitendra R. Tanti . . . . .	60,417,000	4.03
Pranav T. Tanti . . . . .	59,067,000	3.94
Tulsi R. Tanti J/W. Vinod R. Tanti J/W Jitendra R. Tanti . . . . .	42,660,000	2.85
Tulsi R. Tanti as Karta of Ranchhodbhai Ramjibhai HUF . . . . .	42,570,000	2.84
Girish R. Tanti as Karta of Girish Ranchhodbhai HUF . . . . .	39,500,000	2.64
Tulsi R Tanti as Karta of Tulsi Ranchhodbhai HUF . . . . .	19,188,000	1.28
Jitendra R. Tanti as Karta of Jitendra Ranchhodbhai HUF . . . . .	19,188,000	1.28
Rajan V. Tanti Through F/G. Vinod R. Tanti . . . . .	16,605,000	1.11
Trisha J. Tanti Through F/G. Jitendra R. Tanti . . . . .	15,120,000	1.01
Nidhi T. Tanti . . . . .	15,052,000	1.00
Jitendra R. Tanti . . . . .	12,447,000	0.83
Vinod R. Tanti . . . . .	11,367,000	0.76
Tulsi R. Tanti . . . . .	10,962,000	0.73
Sugati Holdings Private Limited . . . . .	4,275,000	0.29
Sanman Holdings Private Limited . . . . .	4,275,000	0.29
Suruchi Holdings Private Limited . . . . .	4,275,000	0.29
Samanvaya Holdings Private Limited . . . . .	4,275,000	0.29
Rambhaben Ukabhai . . . . .	738,000	0.05
<b>Total</b> . . . . .	<b>896,268,000</b>	<b>59.82</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.\$90 million in aggregate principal amount of Zero Coupon Convertible Bonds Due 2014 (the "Bonds"), of Suzlon Energy Limited (the "Issuer"), was authorised by resolutions of the Board of Directors of the Issuer on 20 July 2009 and by the shareholders of the Issuer on 30 July 2008. The Bonds are constituted by a trust deed (as amended or supplemented from time to time) (the "Trust Deed") dated on or about 24 July 2009 (the "Closing Date") 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 on or about 24 July 2009 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 depositary 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 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 (and any accreted premium) 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 interest unless the Issuer fails to pay any sum in respect of the Bonds when the same becomes due and payable under these Conditions, in which event, such unpaid amount shall bear interest on the principal amount payable (inclusive of all accreted premium) in accordance with Condition 7.5.

## 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 2 September 2009 up to the close of business (at the place where the Certificate evidencing such Bond is deposited for conversion) on 18 July 2014 (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 the Maturity Date (as defined in Condition 8.1), 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 or benefits or (d) 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.48.1975 = U.S.\$1.00 (determined by reference to the Closing Exchange Rate available on the USD INR Currency on Bloomberg at a reasonably practicable time prior to launch on 20 July 2009, and such rate, 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 the date the Initial Conversion Price is determined 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 City) 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 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.90.38 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 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(ii)) 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 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 Condition 10) 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 (as defined below) 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 all accreted premium on the Bonds.

- (ii) 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 Condition 6.3 (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 (ii) 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).
- (iii) 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*

Subject to the provisions of Condition 6.4, 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 Dividend Distribution:

##### *Adjustment:*

If the Issuer shall pay or make to its Shareholders any distribution of a Dividend (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 Dividend by the number of Shares entitled to receive the relevant Dividend (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 Dividend distribution 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) if the Fair Market Value of the relevant Dividend 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:

“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 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”) 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 Financial Institution) the fair market value of such shares, options, warrants or other rights shall equal the arithmetic mean of the official 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, or series of Trading Days, 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, or series of Trading Days, provided that on any 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:

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

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 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:

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

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 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:

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

shall be restated as:

$$NCP = OCP \times \left[ \frac{N + v1 + v2 + v3}{N + n1 + n2 + n3} \right]$$

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.

“Regulatory Floor Price” means Rs.89.5250;

“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 on the BSE 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, 6.3.11 and 6.3.14 above, the following provisions shall be applicable:

- (c) in the case of the issue of Shares for cash, the consideration shall be the amount of such cash;
- (d) 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;
- (e) 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 1 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 (or if the initial conversion or exchange price or rate has been lowered after the issue of such securities, the lowered conversion or exchange price or rate) and (if applicable) the exercise of such rights or warrants at the initial subscription or purchase price or if the initial subscription or purchase price has been lowered after the issue of such securities, the lowered 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 or lowered conversion or exchange price or rate and (if applicable) the exercise of such rights or warrants at the initial or lowered subscription or purchase price;



- (f) 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 or if the initial subscription or purchase price has been lowered after the issue of such securities, the lowered 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 or lowered subscription or purchase price;
- (g) 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;
- (h) 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
- (i) 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, 6.3.7, 6.3.8, 6.3.9, 6.3.10, 6.3.11 and 6.3.14 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 per cent. 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 6.3, the Issuer covenants that the Conversion Price shall not be reduced below the par value of the Shares (Rs.2 at the date hereof) as a result of any adjustment made hereunder unless under applicable law then in effect the Bonds may be converted at such reduced Conversion Price into legally issued, fully-paid and non-assessable Shares.

Under applicable Indian laws, the Conversion Price cannot in any event be less than the Regulatory Floor Price.

#### 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 depository 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 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 16 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 described in Conditions 6.3.1 to 6.3.14 unless:
  - (a) the total aggregate decrease in the Conversion Price that would result from all corporate actions or other actions provided in Conditions 6.3.1 to 6.3.14 that occur from the 20 July 2009 to and including the Maturity Date (calculated in accordance with Condition 6.3) but that do not give rise to an adjustment to the Initial Conversion Price due to the fact that such adjustment would result in the Conversion Price being lower than the Regulatory Floor Price, is no greater than 15 per cent. of the Initial Conversion Price (inclusive of the impact of all Dividends, which are subject to further aggregate and annual limits as described in (b) and (c) below);
  - (b) the total aggregate adjustment to the Conversion Price resulting from distribution of all Dividends from and including 20 July 2009 to and including the Maturity Date (calculated in accordance with Condition 6.3.4 or 6.3.8, as applicable), is not more than 7.5 per cent. of the Initial Conversion Price; and
  - (c) the total aggregate adjustment to the Conversion Price resulting from the distribution of all Dividends in any single financial year of the Issuer, is not more than 2.0 per cent. of the Initial Conversion Price.

6.4.2 For so long as any Bonds or Shares to be issued upon conversion of the Bonds are “restricted securities” within the meaning of Rule 144(a)(3) under the Securities Act of 1933, as amended (the “Securities Act”), the Issuer will, during any period in which it is neither subject to Section 13 or 15(d) of the U.S. Securities Exchange Act of 1934 nor exempt from reporting pursuant to Rule 12g3-2(b) thereunder, provide to any holder or beneficial owner of such restricted securities or to any prospective purchaser of such restricted securities designated by such holder or beneficial owner upon the request of such holder, beneficial owner or prospective purchaser, the information required to be provided by and in the manner prescribed by Rule 144A(d)(4) under the Securities Act. At such time as any Bonds or Shares to be issued upon conversion of the Bonds cease to be “restricted securities” with the meaning of Rule 144(a)(3) under the Securities Act, the Issuer shall remove any restrictive legend on certificates representing such Bonds or Shares to be issued upon conversion of the Bonds upon the request of the holder thereof and issue new certificates in a timely manner to such holder in substitution thereof, provided that such holder has delivered to the Issuer satisfactory evidence, which may include an opinion of counsel, as may be reasonably required by the Issuer, that neither such restrictive legend nor the restrictions on transfer set forth therein are required to ensure compliance with the provisions of the Securities Act.

6.4.3 The Issuer undertakes that so long as any Bond remains outstanding (as defined in the Trust Deed):

- (a) the Issuer will not create any Security upon the whole or any part of its undertaking, assets or revenues, present or future, to secure any Promoter Group Loans (as defined below), or to secure any guarantee or indemnity in respect of any Promoter Group Loans;
- (b) the Issuer 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 Issuer’s or any Subsidiary’s Promoter Group Loans or to secure any guarantee of or in respect of any of the Issuer’s or any Subsidiary’s Promoter Group Loans; and
- (c) 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 Promoter Group Loans, 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 this Condition:

“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, 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.

“Promoter Group Loans” means any present or future indebtedness whether in the form of, or represented by, bonds, debentures, notes or other investment securities or bilateral or syndicated loans which are availed by the Issuer or its subsidiaries from any member of the Promoter Group;

6.4.4 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 shall 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 tradable 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 16 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.

## **7 Payments**

### **7.1 Principal and Premium**

Payment of principal, all accreted premium (if any) 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. For the avoidance of doubt, all references to payment of principal shall include all accreted premium due and payable in respect of the Bonds.

### **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 (including all accreted premium), if later, on the business day on which the relevant Certificate is surrendered at the specified office of an Agent.

### **7.5 Default Interest and Delay In Payment**

7.5.1 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 6.967 per cent. (calculated on a semi-annual basis) per annum (being the yield to maturity plus default interest) from the due date. Such default interest shall accrue on the basis of the actual number of days elapsed and a 360-day year.



For purposes of these Conditions, "LIBOR" shall mean the London Interbank Offered Rate for the relevant period which appears on the display designated as page "LIBOR01" on Reuters or designated as page "BBAM" on Bloomberg screen (or such other page or service as may replace it or them).

- 7.5.2 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 134.198 per cent. of their principal amount (including all accreted premium calculated at LIBOR (fixed as of 21 July 2009) plus 500 basis points, on a semi-annual basis)) on 25 July 2014 (the "Maturity Date"). The Issuer may not redeem the Bonds at its option prior to that date except as provided in Condition 8.3 below (but without prejudice to Condition 10).

### **8.2 Mandatory Conversion at the Option of the Issuer and Clean-up Call**

8.2.1 There shall be no mandatory Conversion at the option of the Issuer.

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, 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.

### **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 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 21 July 2009, 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 Indian Government 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 Indian Government or any authority thereof or therein having power to tax prior to the Closing Date 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, each Bondholder will have the right at such Bondholder's option to require the Issuer to redeem in whole but not in part such Bondholder's Bonds on the Relevant Event Put Date at their Early Redemption Amount. To exercise such right, the relevant Bondholder 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 16. 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 16) 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 100 per cent. owned direct or indirect subsidiaries;
- (ii) "Relevant Event" occurs when there has been a Change of Control in the Issuer;
- (iii) 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;

- (iv) "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;
- (v) "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).
- (vi) "Promoter Group" has the meaning given thereto in Condition 6.4.3; and
- (vii) "Early Redemption Amount" in respect of each U.S.\$1,000 principal amount of the Bonds, means the amount determined which represents for the holder thereof (i) in the case of a redemption on the Maturity Date, U.S.\$1,341.98, or (ii) in the case of a redemption of the Bonds pursuant to Condition 8.3 or 8.4 or if the Bonds become due and payable pursuant to Condition 10, the amount which is determined to be the amount which, represents for the Bondholder on the relevant date for determination of the Early Redemption Amount (the "Determination Date") for the Bondholder a gross yield of 5.967 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 a 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 24 January 2010, U.S.\$1,000)

<u>Semi-Annual Date</u>	<u>Early Redemption Amount</u>
24 January 2010. . . . .	U.S.\$1,029.84
24 July 2010. . . . .	U.S.\$1,060.56
24 January 2011. . . . .	U.S.\$1,092.20
24 July 2011. . . . .	U.S.\$1,124.79
24 January 2012. . . . .	U.S.\$1,158.35
24 July 2012. . . . .	U.S.\$1,192.91
24 January 2013. . . . .	U.S.\$1,228.50
24 July 2013. . . . .	U.S.\$1,265.15
24 January 2014. . . . .	U.S.\$1,302.89

r = 5.967 per cent., expressed as a fraction.

d = number of days from and including the immediately preceding Semi-Annual Date (or if Determination Date is before the 24 January 2010, from and including the Closing Date) to, but excluding, the Determination Date, 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 16) 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 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.

## **8.8 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.

## **8.9 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 16, 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 (including all accreted premium) of the Bonds outstanding as at the latest practicable date prior to the publication of the notice. No notice of redemption given under Condition 8.3 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.

## **8.10 Multiple Notices**

If more than one notice of redemption (which shall include any notice given by the Issuer pursuant to Condition 8.3.3 and any Relevant Event Put Exercise Notice or Delisting Put Notice given by a Bondholder pursuant to Condition 8.4.1 or 8.5.3) is given pursuant to this Condition 8, the first of such notices to be given shall prevail.

## **9 Taxation**

- 9.1 All payments of principal (including all accreted premium) and interest (if any) made 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 (if any) at the rate of up to 10 per cent. (plus applicable surcharge on such tax payable, education cess and higher and secondary education cess on the income tax and surcharge) the Issuer will increase the amount of premium or interest (if any) paid by it to the extent required so that the amount of premium or interest (if any) received by Bondholders (without prejudice to Condition 7.3) amounts to the relevant amount of the premium or interest (if any) payable pursuant to Condition 8, in the case of premium, and Condition 7.5, in the case of any interest.
- 9.3 In the event that any such withholding or deduction in respect of principal (inclusive of all accreted premium) or any such additional withholding or deduction in excess of 10 per cent. (plus applicable surcharge on such tax payable, education cess and higher and secondary education cess on the income tax and surcharge) in respect of premium or interest (if any) is required, the Issuer will pay such additional amounts by way of principal, all accreted premium or interest (if any) 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 accreted 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 to 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, accreted premium and interest (if any) 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 amounts 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, including without limitation, failure to comply fully with Condition 6.4.1(vi) 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 all accreted 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 (if any)) 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 default interest (if any) or premium 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 16.

### **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 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.

#### **17 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 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 to 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 16 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.

#### **18 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.

#### **19 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.

#### **20 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 Hackwood Secretaries Limited, currently at One Silk Street, London EC2Y 8HQ, United Kingdom, as its agent for service of process in England.

## **GLOBAL CERTIFICATE REPRESENTING THE BONDS**

*The Global Certificate contains provisions which apply to the Bonds in respect of which a Global Certificate is issued, some of which modify the effect of the Terms and Conditions of the relevant 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 relevant Conditions) of a 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 the relevant 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 the relevant Bonds in respect of which the Global Certificate has been issued to attend and speak (but not to vote) at a meeting of relevant 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 the 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 a 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 such Global Certificate.

### **Trustee's Powers**

In considering the interests of Bondholders while a 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 the relevant Bonds and (b) may consider such interests as if such accountholders were the holders of the relevant Bonds.

### **Enforcement**

For the purposes of enforcement of the provisions of the relevant 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 relevant Trust Deed to the extent of the principal amount of their interest in the relevant Bonds set out in the certificate of the holder as if they were themselves the holders of the relevant 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 the 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 the 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 relevant Bonds in the register of Bondholders of such Bonds.



## **Repurchase of the Bonds at the Option of Bondholders**

The put options of the Bondholders 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 the Bonds in respect of which the option is exercised and presenting such Global Certificate for endorsement or exercise within the time limits specified in such Conditions.

## **Bondholders 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 such Condition.

## **Registration of Title**

Certificates in definitive form for individual holdings of the Bonds will not be issued in exchange for interests in the Bonds in respect of which the Global Certificate is issued, except if either (i) the common depositary or any successor to the common depositary notifies the Company in writing that it is at any time unwilling or unable to continue to act as a depositary and a successor depositary 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 the Bonds represented by a Global Certificate will be made against presentation or, if no further payment is to be made in respect of the relevant Bonds, against presentation and surrender of such 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 any Bonds are represented by a 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 relevant 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 Joint Lead Managers, 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 either 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 depository 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 depository of Euroclear and Clearstream, Luxembourg. The Global Certificate will be held by a common depository 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

The authorised share capital of the Company is Rs.4,450 million divided into 2,225 million equity Shares of Rs.2 each. The Shares are listed on the BSE and the NSE. As at the date of this Offering Circular, 1,498,311,400 Shares were issued 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) remaining undistributed and 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 Government or State Government for payment of dividend in pursuance of a guarantee given by that government.

Under the Articles of Association, the Shareholders at a general meeting may declare a lower, but not higher, dividend than that recommended by the Board. Dividends are generally declared as a percentage of the par value. The dividend recommended by the Board 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 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 15 days from the date of approval by the Board and, where Shareholders' approval is required, the issue shall be completed within 60 days from the date of the meeting of the Board where the issue was announced.

### **Pre-emptive Rights and Alteration of Share Capital**

Subject to the provisions of the Companies Act, the Company may increase its share capital by issuing new Shares. In accordance with the provisions of Section 81 of the Companies Act, these 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.

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 Companies Act and the prescribed SEBI regulations.

The Articles provide that the Company may in a 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.

Further, preference shareholders are also allowed to vote on any resolutions which directly affect the rights attached to their preference shares, such as a resolution for the winding up of the Company or repayment or reduction of share capital.

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 securities 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. No business shall be transacted at any general meeting without the appropriate quorum.

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. Unless otherwise specified in the Articles, 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 in accordance with the Companies Act for the three financial years preceding the years in which it was decided to issue such shares; (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 or other securities. 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 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 in the aggregate 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 Fiscal 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, debentureholders, its indebtedness and other information within 60 days of the conclusion of its annual general meeting.

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 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 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 Sick Industrial Companies (Special Provisions) Act, 1985 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 enquiry 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 the same is yet to be notified and hence 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 Securities Market of India — 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.

### **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. 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.

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 or group of investment companies (other than a purchase of shares in accordance with a scheme for the purchase or subscription 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 on record and the holder on record to declare 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 of 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 Bonds, account of, such persons, unless the Company may determine otherwise in compliance with applicable law.

In terms of the policy relating to external commercial borrowings issued by the RBI on 31 January 2004 Indian companies are allowed to raise external commercial borrowings issued by the RBI 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 liberalisation made for external commercial borrowing was extended to FCCBs. This policy has been further liberalised by the RBI. 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. See "Investment Considerations – Upon a change of control or delisting of the Shares from both the NSE and the BSE, or upon acceleration following an event of default, the Company may not be in a position to redeem or repay the Bonds".

The Shares issued on conversion of the Bonds will be listed on the Indian stock exchanges on which the Shares are now listed. The Company undertakes to apply to have the Shares issuable on conversion of the Bonds approved for listing on the BSE, the NSE and on any other stock exchange in India on which the Shares are listed from time to time.

### **Filing**

This Offering Circular will be filed with the RBI, the BSE and the NSE, and the Registrar of Companies, Gujarat in Ahmedabad.

### **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 markets by the SEBI.



## TAXATION

*The following is a summary of the principal Indian tax consequences for non-resident investors of the Bonds and the Shares. The summary is based on the taxation law and practice in force at the time of this Offering Circular and is subject to change. Further, it only addresses the tax consequences for persons who are "non-resident" as defined in the Income Tax Act, 1961 (43 of 1961) (the "Indian Income Tax Act") who acquire the Bonds or Shares pursuant to this Offering Circular and who hold such Bonds or Shares 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 person continues to remain a non-resident when the income by way of dividends and capital gains are earned. Each investor in the Bonds is advised to consult its tax advisers about the particular tax consequences to it of an investment in the Bonds.*

The Indian Income Tax Act is the law relating to taxes on income in India. The Indian Income Tax Act provides for the taxation of persons resident in India on 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 Indian Income Tax Act set forth the circumstances under which persons not resident in India are subject to income tax in India.

The following discussion describes the material Indian income tax and stamp duty consequences of the purchase, ownership and disposal of the Bonds and Shares.

The summary is based on the special tax regime contained in laws and practices of the Indian Income Tax Act including Section 115AC and other significant applicable provisions of the Indian Income Tax Act, without reference to any double taxation avoidance agreements, and the Depositary Receipt Mechanism Scheme, as amended from time to time, promulgated by the Indian Government (together the "Section 115AC Regime"). The offering is in accordance with the Section 115AC Regime, and non-resident investors of the Bonds as well as Shares 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.1,000,000 and 2.5 per cent. of income tax for a company and a firm and could vary from year to year) and further, an education cess on income tax including surcharge at the rate of 3 per cent. The premium on redemption would also be taxed at the rate of 10 per cent., plus applicable rate of surcharge on income tax and education cess at the rate of 3 per cent. on income tax including surcharge if the Bonds are held for a period exceeding 12 months and in the case of Bonds held for a period less than 12 months, would be subject to tax at the applicable rates plus applicable rate of surcharge and education cess at the rate of 3 per cent. on income tax including surcharge.

This summary is not intended to constitute a complete analysis of the tax consequences or a legal opinion under Indian law of the acquisition, ownership and sale of the Bonds or Shares by non-resident investors. Potential investors should, therefore, consult their own tax advisers on the consequences of such acquisition, ownership and sale including specifically tax consequences under Indian law, the laws of the jurisdiction of their residence and any tax treaty between India and their country of residence or the country of residence of the Overseas Depositary Bank as applicable and, in particular, the application of the provisions of the Indian Income Tax Act and the Section 115AC Regime.

### **Taxation of Interest, Premium and Distributions and Provision of Tax Treaties**

The Section 115AC Regime provides that payment of interest, if any, on the Bonds paid to non-resident holders of the Bonds will be subject to withholding tax at the rate of 10 per cent., plus applicable rate of surcharge on the income tax, including education cess on income tax at the rate of 3 per cent. (or at any more favourable rate available under tax treaties entered into by India with the country of residence of the relevant holder of such Bonds). The Income Tax Act requires such tax to be withheld at the source. Where the tax is required to be deducted or withheld, the Company will gross up the taxable amount and will be required to account separately to the Indian tax authorities for any withholding taxes applicable on such amounts.

The premium payable by the Company on redemption of the Bonds will be taxed at the concessional rate of 10 per cent. (plus a surcharge at the applicable rate, including education cess on income tax at the rate of 3 per cent.), if the Bond is a long-term capital asset, i.e. it is held for more than 12 months, subject to any more favourable rate under the tax treaties entered into between India and the country of residence of the Bondholder. If it is held for less than 12 months, the premium will be taxed at the applicable rate (plus surcharge, including education cess on income tax at the rate of 3 per cent.). The Company will be under an obligation to deduct tax at source from the premium amount at the applicable rate.

Dividends paid on the Shares to non-resident holders are not presently liable to tax. The Company is liable to pay a “dividend distribution tax” currently at the rate of 15 per cent. (plus a surcharge at 10 per cent. and education cess on dividend distribution tax and surcharge at the rate of 3 per cent. at applicable rates) on the total amount distributed as dividend and dividends are not taxable in India in the hands of the recipient.

### **“Residence” for the Purpose of the Indian Income Tax Act**

For the purpose of the Indian Income Tax Act, an individual is said to be resident in India if, in any year ended 31 March the individual: (i) is in India for 182 days or more, or (ii) having been in India for 365 days or more during the four years preceding that year ended 31 March is in India for 60 days or more in that year ended 31 March. However, in the case of an Indian citizen or a person of Indian origin who is not resident in India and visits India during the Fiscal Year or an Indian citizen who leaves India as a member of a crew of an Indian ship or for the purpose of employment outside India during the year ended 31 March the 60-day period in (ii) above is extended to 182 days.

A company is resident in India in any year ended 31 March if it is an Indian company or if during that year the control and management of its affairs is situated wholly in India.

An Indian company means a company incorporated and registered under the Companies Act and includes a company incorporated and registered under any law relating to companies formerly in force in India or a corporation established by or under a central, state or provincial Act of India or an institution, association or a body declared by the Central Board of Direct Taxes of India to be a company for the purpose of the Indian Income Tax Act; provided that the registered office or, as the case may be, the principal office of the company, corporation, institution, association or body is in India.

A firm or other association of persons, and every other person is regarded as resident in India except where, during the year ended 31 March the control and the management of its affairs is situated wholly outside India.

### **Taxation of Distributions**

Distribution to non-residents of additional Shares without any consideration is not liable to Indian tax at the time of issuance. Similarly a right to subscribe for additional Shares (“Rights”) offered with respect to existing Shares is not subject to Indian tax at the time of subscription by the holder. However, on sale of such bonus shares, the cost of bonus shares will be nil.

### **Taxation on Acquisition of Shares upon Conversion of Bonds**

The acquisition by a non-resident holder of Shares upon conversion of Bonds does not constitute a taxable event for Indian income tax purposes. Such acquisition or exchange will, however, give rise to stamp duty as described below under “Stamp duty”.

### **Taxation of Capital Gains**

Under the Section 115AC Regime, a transfer of Bonds by a non-resident holder to another non-resident holder outside India is not regarded as a transfer for the purpose of capital gains tax and accordingly the gain, if any, realised on the transfer of Bonds is not subject to Indian capital gains tax and the capital losses, if any, arising from such transfer will not be available for set off or carry forward against other capital gains or any other income. The Section 115AC Regime does not specify whether capital gains derived from the sale of Rights to subscribe by a non-resident holder to another non-resident holder outside India will be subject to Indian capital gains tax.

With effect from 1 October 2004 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 in India, will not be subject to Indian capital gains tax if the Securities Transaction Tax ("STT") has been paid on the transaction. The STT is levied on and collected by a domestic stock exchange on which equity shares are sold, in the case of a contract for delivery or transfer of the shares, at the rate of 0.125 per cent. from the seller and at the rate of 0.125 per cent. from the purchaser on the total price at which the equity shares are sold. No surcharge or education cess is payable on STT.

Any gain realised on the sale of Shares to an Indian resident whether in India or outside India or to a non-resident in India 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 3 per cent. of sale of Shares on which no STT is paid.

Under the existing provisions of the Indian Income Tax Act, capital gains realised in respect of Shares held for more than 12 months sold on a recognised stock exchange and securities transaction tax on sale of such transaction that has been paid is not subject to any tax. Capital gain realised in respect of Shares held (calculated in the manner set forth in the previous paragraph) for 12 months or less (short-term gain) is subject to tax at normal rates of income tax applicable to non-residents under the provisions of the Indian Income Tax Act rate of 10 per cent., plus the 10 per cent. rate of surcharge on income tax and an education cess at the rate of 3 per cent. on the income tax and surcharge. In the event that no STT is paid, short-term gain is subject to tax at variable rates with the maximum rate of 40 per cent., plus applicable rate of surcharge on income tax and education cess. The actual rate of tax on short-term gains depends on a number of factors, including the legal status of the non-resident holder and the type of income chargeable in India.

Capital gains arising to non-resident investors on the transfer of the Shares in India will be subject to a withholding tax at applicable rates. The provisions of the Agreement for Avoidance of Double Taxation 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.

There is uncertainty under Indian law about the tax regime applicable to FII's that hold Shares. FII's are urged to consult with their Indian legal and tax advisers. Registered FII's are generally subject to tax under Section 115AD of the Income Tax Act. In the case of joint holders of Bonds, the stated benefit is available only to the first named holder.

## **Tax Treaties**

The provisions of the Agreement for Avoidance of Double Taxation 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. This will be applicable to all the existing provisions of the Indian Income Tax Act set out in this Section. During the period of fiduciary ownership of Shares in the hands of the Overseas Depository Bank, the provisions of the Double Taxation Avoidance Agreement entered into by the Indian Government with the country of residence of the Overseas Depository Bank will be applicable in the matter of taxation of capital gains on Shares.

Currently, dividend income is not subject to tax in India in the hands of the holder of the shares. If any equity Shares are held by a non-resident investor following withdrawal thereof from the depository facility under the Deposit Agreement, the provisions of any double taxation treaty entered into by India with the country of residence of such non-resident investor will be applicable to taxation of any capital gain.

## **Dividend**

Dividend income is not subject to tax in India in the hands of the holder of the equity shares. However, under the existing provisions of the Indian Income Tax Act, in addition to the income tax chargeable in respect of a domestic company for any assessment year, any amount declared, distributed or paid by such company by way of dividends (whether interim or otherwise), whether out of current or accumulated profits, shall be charged to additional income tax referred to as tax on distributed profits at the rate of 12.5 per cent. plus applicable surcharge at the rate of 10 per cent.

of the dividend distribution tax and education cess at the rate of 3 per cent. on aggregate of dividend distribution tax and surcharge.

Additionally, dividends declared or paid or distributed by the subsidiary company to the holding company shall be reduced from the dividends declared or paid or distributed by the holding company, if following conditions are satisfied:

- (a) such amount of dividend is received from its subsidiary;
- (b) the subsidiary has paid tax under this section on such dividend; and
- (c) the domestic company is not a subsidiary of any other company.

Further, it has been provided that the same amount of dividend shall not be reduced more than once.

A company shall be a subsidiary of another company, if such other company holds more than half of the nominal value of the equity share capital of the company.

### **Taxation on buy-back of Equity Shares**

If the Shares held by the investor are purchased by the Company from the investor, the investor will be liable to income tax in respect of the capital gains arising on such buy-back as per the provisions of the Indian Income Tax Act. Capital gains tax arising therefrom will be withheld at the source before repatriation of sale proceeds from India. The provisions of the Agreement for Avoidance of Double Taxation entered into by the Government of India 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.

### **Taxation on Payment on Liquidation or Reduction of Capital**

If any distribution is made by the Company to the Shareholders on its liquidation or on the reduction of the capital, to the extent to which the distribution is attributable to the accumulated profits, the same will be treated as deemed dividend income in the hands of the Shareholders and will be subject to tax under the Indian Income Tax Act. However, tax on such deemed dividend will be paid by the Company. Any gains accruing to the Shareholders on liquidation or reduction of capital, in excess of such accumulated profits, will be liable to income tax as capital gains in the hands of the Shareholders as per the provisions of the Indian Income Tax Act.

The provisions of the Agreement for Avoidance of Double Taxation 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.

### **Taxation of Rights Shares and Bonus Shares**

The issue of rights shares or bonus shares to the Shareholders will not give rise to a taxable event for Indian income tax purposes. The Shareholders will be subject to capital gains tax liability as per the provisions of the Indian Income Tax Act on the transfer of right shares or bonus shares. The provisions of the Agreement for Avoidance of Double Taxation 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. In the case of bonus shares, the cost will be deemed to be nil and in the case of right shares, the cost will be the amount paid by the Shareholder to acquire such rights.

### **Stamp Duty**

Under Indian law, the issue and transfer of Shares upon conversion of the Bonds will be not be liable to Indian stamp duty, as they are issued outside India. Purchasers of Shares who seek to register such Shares on the share register of the Company are required to pay Indian stamp duty at the rate of Rs.0.25 for every Rs.100 or part thereof of the market value of such Shares on the trade date, and such stamp duty is customarily borne by the transferee, that is, the purchaser. In order to register a transfer of Shares in physical form with the Company, it is necessary to present a stamped deed of transfer. An acquisition of Shares in physical form from the Depository in exchange for such Shares will not render an investor liable to Indian stamp duty but the

Company will be required to pay stamp duty at the applicable rate on the Share Certificate. However, since the Shares are compulsorily deliverable in dematerialised form (except for trades of up to 500 Shares which may be delivered in physical form), no stamp duty is payable on the acquisition or transfer of Shares in dematerialised form. There is no stamp duty liability on sale or transfer of Bonds outside India.

**Wealth Tax/Gift Tax/Estate Duty**

At present there are no taxes on wealth, gifts and inheritances, which apply to the Bonds and the Shares issuable upon conversion of the Bonds.

**Service Tax**

Brokerage or commission fees paid to stockbrokers in connection with the sale or purchase of Shares are now subject to an Indian service tax of 12 per cent. *ad valorem*. Further, an education cess of 3 per cent. is to be levied on service tax. The stockbroker is responsible for collecting such service tax at such rate and for paying the same to the relevant authority.

## PLAN OF DISTRIBUTION

The Joint Lead Managers and certain of their 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 Joint Lead Managers may, from time to time, engage in transactions with and perform services for the Company in the ordinary course of their businesses.

### 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.

### European Economic Area

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a "Relevant Member State"), each Joint Lead Manager has represented and agreed 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 which are the subject of the offering contemplated by this Offering Circular 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:

- (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 Joint Lead Managers; or
- (d) in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Bonds shall require the Company or either Joint Lead Manager to publish a prospectus pursuant to Article 3 of the Prospectus Directive or a supplement prospectus pursuant to Article 16 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.

### United Kingdom

Each Joint Lead Manager has further represented, warranted and agreed 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 to be issued upon conversion of the Bonds have not been and will not be registered under 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 of the United States in reliance on Regulation S. The Subscription Agreement provides that the Joint Lead Managers may directly or through their respective U.S. broker-dealer affiliates arrange for the offer and resale of Bonds within the United States only to qualified institutional buyers (as defined in Rule 144A under the Securities Act) (“QIBs”) pursuant to transactions exempt from or not subject to the registration requirements of the Securities Act.

In addition, until 40 days after commencement of the offering of the Bonds, an offer or sale of Bonds within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than pursuant to a transaction exempt from or not subject to the registration requirements of the Securities Act. Terms used in this paragraph have the meaning given to them by Regulation S under the Securities Act.

## **India**

Each Joint Lead Manager has represented, warranted and agreed 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.

## **Hong Kong**

Each Joint Lead Manager has represented, warranted and agreed 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 Financial Instruments and Exchange Law of Japan (Law No. 25 of 1948, as amended). Accordingly, each Joint Lead Manager has represented and agreed 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) under circumstances which will result in

compliance with all applicable laws, regulations and guidelines promulgated by the relevant Japanese government and regulatory authorities.

## **Singapore**

Each Joint Lead Manager has acknowledged that this Offering Circular has not been and will not be registered as a prospectus with the Monetary Authority of Singapore. Accordingly, Each Joint Lead Manager has represented, warranted and agreed that it has not offered or sold any Bonds or caused the Bonds to be made the subject of an invitation for subscription or purchase and it will not offer or sell any Bonds, or cause the 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 the 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 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.

## TRANSFER RESTRICTIONS

Each purchaser of Bonds within the United States, by accepting delivery of this Offering Circular, will be deemed to have represented, agreed and acknowledged that:

- (1) It is (a) a QIB, (b) acquiring such Bonds for its own account or for the account of a QIB and (c) aware, and each beneficial owner of such Bonds has been advised, that the sale of such Bonds to it is being made in reliance on an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act.
- (2) It understands that such Bonds and the Shares to be issued upon conversion of the Bonds have not been and will not be registered under the Securities Act and may not be offered, sold, pledged or otherwise transferred except (a) in accordance with Rule 144A to a person that it and any person acting on its behalf reasonably believe is a QIB purchasing for its own account or for the account of a QIB, (b) in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S or (c) pursuant to an exemption from registration under the Securities Act provided by Rule 144 thereunder (if available), in each case in accordance with any applicable securities laws of any State of the United States.
- (3) It understands that such Bonds, unless otherwise agreed between the Issuer and the Trustee in accordance with applicable law, will bear a legend to the following effect:

THE BONDS EVIDENCED BY THIS CERTIFICATE WERE ORIGINALLY ISSUED IN A TRANSACTION EXEMPT FROM REGISTRATION UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT") AND HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE SECURITIES ACT OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES. THE HOLDER HEREOF, BY PURCHASING THE BONDS, AGREES FOR THE BENEFIT OF SUZLON ENERGY LIMITED (THE "COMPANY"), DEUTSCHE BANK AG, HONG KONG BRANCH AND MACQUARIE CAPITAL SECURITIES (SINGAPORE) PTE. LIMITED THAT THE BONDS EVIDENCED HEREBY MAY ONLY BE OFFERED, SOLD, PLEDGED, OR OTHERWISE TRANSFERRED (A) IN ACCORDANCE WITH RULE 144A UNDER THE SECURITIES ACT ("RULE 144A") TO A PERSON THAT THE HOLDER AND ANY PERSON ACTING ON ITS BEHALF REASONABLY BELIEVE IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER, (B) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT OR (C) PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT PROVIDED BY RULE 144 THEREUNDER (IF AVAILABLE), IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES; PROVIDED HOWEVER, THAT PRIOR TO ANY SUCH OFFER, SALE, PLEDGE OR OTHER TRANSFER PURSUANT TO CLAUSE (C) THE TRANSFEROR SHALL PROVIDE TO THE COMPANY, DEUTSCHE BANK AG, HONG KONG BRANCH AND MACQUARIE CAPITAL SECURITIES (SINGAPORE) PTE. LIMITED AN OPINION OF COUNSEL SATISFACTORY TO THE COMPANY TO THE EFFECT THAT SUCH TRANSFER IS NOT REQUIRED TO BE REGISTERED UNDER THE SECURITIES ACT AND SHALL ALSO PROVIDE SUCH CERTIFICATIONS AND OTHER INFORMATION AS SHALL BE REQUIRED BY THE COMPANY, DEUTSCHE BANK AG, HONG KONG BRANCH AND MACQUARIE CAPITAL SECURITIES (SINGAPORE) PTE. LIMITED.

- (4) It understands that to exercise its right to convert the Bonds, it must make the representations, warranties and undertakings, including with respect to certain restrictions on transfer which may apply to the Shares received upon conversion, contained in the Conversion Notice described under "Terms and Conditions of the Bonds – Conversion".
- (5) The Issuer, the Registrar, the Joint Lead Managers and their affiliates, and others will rely upon the truth and accuracy of the foregoing acknowledgments, representations and agreements. If it is acquiring any Bonds for the account of one or more QIBs, it represents that it has sole investment discretion with respect to each such account

and that it has full power to make the foregoing acknowledgments, representations and agreements on behalf of each such account.

- (6) It agrees that for so long as the Bonds and the Conversion Shares are “restricted securities” within the meaning of Rule 144(a)(3) under the Securities Act, it will not deposit such Bonds or Conversion Shares in any unrestricted depositary facility established or maintained by a depositary bank.
- (7) It agrees to notify any transferee to whom it subsequently reoffers, resells, pledges or otherwise transfers the Bonds or the Shares of the foregoing restrictions on transfer.

## SUMMARY OF SIGNIFICANT DIFFERENCES BETWEEN INDIAN GAAP AND IFRS

The Company's financial statements have been prepared in accordance with the requirements of Indian GAAP, which differs in various aspects from International Financial Reporting Standards ("IFRS"). Given below is a general summary of significant differences between Indian GAAP and IFRS as applicable to the Company.

This is not an exhaustive list of differences between Indian GAAP and IFRS; rather, it indicates only those key differences which are considered to be more relevant to the financial position and results of operations of the Company.

IFRS and Indian GAAP considered for preparation of this summary are those which are applicable as at 31 March 2009. No attempt has been made to identify the impact of amendments or pronouncements which have been issued but would become applicable on a future date. For example, Accounting Standards 30, 31 and 32 on Financial Instruments issued under Indian GAAP, and the revision of IAS 23 under IFRS have not been considered in this summary. The summary below should not be construed to be exhaustive as no attempt has been made by the Company to quantify the effects of those differences, nor has a complete reconciliation of Indian GAAP to IFRS been undertaken by the Company. Had any such quantification or reconciliation been undertaken by the Company, other potential significant accounting and disclosure differences may have come to its attention, which were not identified below.

Finally, no attempt has been made to identify future differences between Indian GAAP and IFRS that may affect the financial information as result of transactions or events that may occur in the future.

No numerical reconciliation of the financial position and results of operations under Indian GAAP and under IFRS has been included in this Offering Circular. In the absence of such reconciliation, the Company is not in a position to state as to how the financial position and the results of operations would be impacted when computed under IFRS.

Subject	Indian GAAP	IFRS
Contents of Financial Statements	As per the requirements of Schedule VI to the Companies Act and Accounting Standards issued by the Institute of Chartered Accountants of India and notified under the Companies Accounting Standard Rules, 2006, the financial statements comprise of:  (a) Balance sheet;  (b) Profit and Loss Account;  (c) Cash flow statement (mandatory only for companies which are not SMCs);  (d) Notes to financial statements, including summary of accounting policies and the necessary explanatory notes thereon.	As per IAS 1, financial statements comprise of:  (a) Statement of Financial Position;  (b) Statement of Comprehensive Income;  (c) Statement of Changes in Equity;  (d) Statement of Cash Flows;  (e) Notes including summary of accounting policies and explanatory notes.
Balance Sheet	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 the 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.	There is no prescribed format. Certain minimum items must be presented on the face of the balance sheet and certain items should be presented either on face or in notes. An entity shall present current and non-current assets, and current and non-current liabilities, as separate classifications on the face of its balance sheet except when a presentation based on liquidity provides more relevant and reliable information.
Income Statement	Unlike the balance sheet, there is no standard format prescribed for the	There is no prescribed format. However, certain items are prescribed

Subject	Indian GAAP	IFRS
	Income Statement. However, Schedule VI to the Companies Act prescribes various requirements for the 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 the Profit and Loss Account. Profit or loss attributable to minority interests is disclosed as a deduction from the profit or loss for the period as an item of expense or income.	as a minimum disclosure on the face of the Income statement. An analysis of expenses is presented using a classification based on either the nature of expenses or their function within the entity, either on the face of the Income Statement or in notes. Profit or loss attributable to minority interests and equity holders of the parent are disclosed on the face of the comprehensive income statement as allocations of profit or loss for the period.
Statement of Comprehensive Income ("SOI"); and Statement of Changes in Equity ("SOCIE")	SOCI/SOCIE is not applicable under Indian GAAP. All items are recognised in the income statement in accordance with AS 5, unless required otherwise by any accounting standard. Considering these requirements, credits for certain items are directly taken to reserves and surplus, for example, revaluation of fixed assets. The transitional provisions of certain standards require first time adjustment and their consequential tax effect to be made directly into reserves and surplus. Schedule is given for equity and reserves and surplus showing opening, closing position as on the balance sheet date and movements along with other disclosures prescribed by Schedule VI of the Companies Act. The information relating to appropriation of profit is presented on the face of the Income Statement.	<p>An entity shall present all items of income and expense recognised in a period:</p> <ul style="list-style-type: none"> <li>(a) in a single statement of comprehensive income, or</li> <li>(b) in two statements: a statement displaying components of profit or loss (separate income statement) and a second statement beginning with profit or loss and displaying components of other comprehensive income (statement of comprehensive income).</li> </ul> <p>An entity shall present a statement of changes in equity showing in the statement:</p> <ul style="list-style-type: none"> <li>(a) total comprehensive income for the period, showing separately the total amounts attributable to owners of the parent and to minority interest;</li> <li>(b) for each component of equity, the effects of retrospective application or retrospective restatement recognised in accordance with IAS 8;</li> <li>(c) the amounts of transactions with owners in their capacity as owners, showing separately contributions by and distributions to owners; and</li> <li>(d) for each component of equity, a reconciliation between the carrying amount at the beginning and the end of the period, separately disclosing each change.</li> </ul>
Extraordinary items	<p>Extraordinary items are defined as events or transactions that are clearly distinct from the ordinary activities of the entity and are not expected to recur frequently and regularly.</p> <p>Extraordinary items are included in determination of net profit or loss for the period and disclosed separately in the profit and loss account. The nature and amount of each extraordinary item is separately disclosed so that its impact on current profit or loss is clearly perceived.</p>	Presentation of items of income or expense as extraordinary is specifically prohibited.
Disclosure of Judgements, etc	At present, there is no such disclosure requirement.	IAS 1 requires disclosure of critical judgements that management has made in the process of applying



Subject	Indian GAAP	IFRS
		accounting policies and key sources of estimation uncertainty that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.
Disclosures regarding capital	At present, there is no such disclosure requirement.	IAS 1 requires disclosure of information that enables users of its financial statements to evaluate the entity's objectives, policies and processes for managing capital.
Changes in accounting policies	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.	A change in an accounting policy should be applied retrospectively by restating comparatives and prior year opening retained earnings. Disclosures are required of the reasons for and the effect of the change, etc.
Errors/prior period items	AS 5 covers only items of income and expenses under the definition of prior period items. Balance sheet misclassifications, which do not have an income statement impact, are not included in the definition of an error. Material prior period items are included in determination of profit or loss for the period in which the error is discovered and are reported as a prior period adjustment in current year's profit and loss account.	The definition of prior period items is much broader under IAS 8 as compared to AS 5 since IAS 8 covers all items in the financial statements.  Material prior period 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.
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 not of 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	In case of non-financial entities, interest and dividends paid are required to be classified as financing activities. Interest and dividends received are required to be classified as investing activities.	For non-financial entities, interest and dividend paid should be disclosed as operating or financing cash flow. Interest and dividend received are disclosed either as operating or as investing cash flows.
Accounting for Fixed Assets and Depreciation	Indian GAAP recommends but does not mandate component accounting. It merely recognises the said approach in one paragraph by stating that accounting for a tangible fixed asset may be improved if total cost thereof is allocated to its various parts. Apart from this, no guidance is available on application of this approach.  Costs incurred for replacement of parts is capitalised only if it increases the future benefits from the asset beyond its previously assessed standard performance.  Fixed assets are depreciated over their estimated useful lives and rates of depreciation prescribed in	IAS 16 mandates component accounting. Under component accounting approach, each major part of an item of property plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately. As a corollary, cost of replacing such parts is capitalised, if recognition criteria are met with consequent derecognition of carrying amount of the replaced part.  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.

Subject	Indian GAAP	IFRS
	<p>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. AS 6 requires retrospective recomputation of depreciation and any excess/deficit on such recomputation is required to be adjusted in the period in which the change is effected.</p> <p>Under AS 6 (1994), annual review of useful life and residual value is not obligatory as it simply provides that useful life of an asset may be reviewed periodically.</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 and applied prospectively.</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>Revaluation is of fixed assets permitted. On revaluation, an entire class of assets is revalued, or selection of assets is made on a systematic basis. Regular updating of revaluation is not required. 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 updated 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 profit and loss account.</p>
Impairment of assets	<p>An entity is required to assess whether there is any indication that an asset is impaired at each balance sheet date. If yes, impairment loss (if any) is provided to the extent the carrying amount of assets exceeds their recoverable amount. Recoverable amount is the higher of an asset's net selling price (fair value less cost to sell) or its value in use. Value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life.</p> <p>An impairment loss recognised for an asset in prior accounting periods should be reversed if there has been a change in the estimates of cash inflows, cash outflows or discount rates used to determine the asset's recoverable amount since the last impairment loss was recognised. If this is the case, the carrying amount of the asset should be increased to its recoverable amount.</p> <p>An impairment loss recognised for goodwill should not be reversed in a subsequent period unless the impairment loss was caused by a specific external event of an exceptional nature that is not expected to recur and subsequent external events have occurred that reverse the effect of that event.</p>	<p>Similar to Indian GAAP except that an impairment loss recognised for goodwill shall not be reversed in a subsequent period.</p>
Investments	<p>Investments are classified as long-term or current, based on the</p>	<p>Investments are classified into held-for-trading, held-to-maturity or</p>

Subject	Indian GAAP	IFRS
	management's intention at the time of purchase. Long term investments are carried at cost less provision for other than temporary diminution in value. Current investments are carried at the lower of cost or fair value.	<p>available-for-sale categories. Investments acquired principally for the purpose of generating profits from short-term price fluctuations or dealers' margin are classified as being held-for-trading. Such investments are measured at fair value and consequent gain or loss is recognised in the profit or loss for the period.</p> <p>Held-to-maturity investments are investments with fixed or determinable payments and fixed maturity, together with entity's positive intent and ability to hold until maturity. These investments are recognised at amortised cost using the effective interest rate method.</p> <p>Available-for-sale investments are those investments that are either designated as such or do not qualify as held-for-trading or held-to-maturity investments. Such investments are measured at fair value, with movements in fair value reflected in equity.</p>
Post employment defined benefit plans such as pension, gratuity	Discount rate to be used for determining defined benefit obligation is by reference to market yields at the balance sheet date on government bonds of a currency and term consistent with the currency and term of the post-employment benefit obligations. Actuarial gain or loss should be recognised immediately in profit and loss account.	<p>Discount rate to be used for determining defined benefit obligation is by reference to market yields at the balance sheet date on high quality corporate bonds (or, in countries where there is no deep market in such bonds, government bonds) of a currency and term consistent with the currency and term of the post-employment benefit obligations.</p> <p>IAS 19 provides the following options to recognise actuarial gains and losses:</p> <ul style="list-style-type: none"> <li>• All actuarial gains and losses can be recognised immediately in the profit and loss account.</li> <li>• All actuarial gains and losses can be recognised immediately in other comprehensive income.</li> <li>• Actuarial gains and losses below the 10 per cent. corridor need not be recognised and above the 10 per cent. corridor can be deferred over the remaining service period of employees or on accelerated basis.</li> </ul> <p>Entity should select any of the above methods as its accounting policy and apply the same policy for recognition of actuarial gains and losses on consistent basis.</p>
Employee share-based payment	As per the Guidance Note issued by the ICAI as well as SEBI Guidelines on the subject, share-based payments granted to employees can be accounted for either as per intrinsic value method or as per the fair value method. When the intrinsic method is applied, fair value related disclosures are required to be made in the notes to accounts.	Amount to be recorded is measured at fair value of shares or share options granted.

Subject	Indian GAAP	IFRS
Consolidated Financial Statements	<p>AS 21 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 all listed entities to present consolidated financial statements.</p> <p>Control exists when (a) the parent owns, directly or indirectly through subsidiaries, more than one half of an entity's voting power or (b) it controls the 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. 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, unless, in exceptional circumstances, it can be clearly demonstrated that such ownership does not constitute control.</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).</p> <p>The existence of currently exercisable potential voting rights is also taken into consideration.</p>
Special Purpose Entities ("SPE")	No guidance on Special purpose entities (SPEs).	Special purpose entities controlled by an entity are also consolidated.
Method of consolidation.	<p>Goodwill/capital reserve arising on consolidation is calculated based on carrying amounts of assets and liabilities.</p> <p>Goodwill is tested for impairment whenever an indication of impairment exists at the CGU level. Though amortisation of goodwill arising on consolidation is not mandatory, it can be amortised on a systematic basis over its useful life.</p> <p>If the cost to the parent of its investment in a subsidiary is less than the parent's portion of equity of the subsidiary, at the date on which investment in the subsidiary is made, then the difference should be treated as a capital reserve in the consolidated financial statements.</p> <p>Similar to IFRS except that if it is impracticable to use uniform accounting policies, this fact and the line items and amounts to which different accounting policies have been applied are disclosed.</p> <p>Minority interests are presented in the consolidated balance sheet separately from liabilities and equity. No deferred tax adjustment is required. Deferred taxes presented in the CFS are a simple aggregation of the deferred taxes recognised by the group entities.</p>	<p>Goodwill/negative goodwill is calculated based on fair values of assets and liabilities.</p> <p>Goodwill is tested for impairment annually or more frequently at either CGU level/group of CGUs as applicable if there are indicators of impairment.</p> <p>Goodwill is not amortised.</p> <p>If the parent's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised exceeds the cost, the parent shall (i) reassess the identification and measurement of the assets, liabilities and contingent liabilities and the measurement of the cost; and (ii) recognise immediately in profit or loss any excess remaining after that reassessment.</p> <p>Consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances. Minority interests, rechristened as "Non-Controlling Interests", are presented in the consolidated balance sheet within equity, separately from the equity of the owners of the parent. Deferred tax adjustment are required, for example, for unrealised profits eliminated on consolidation.</p>
Changes in Parent's ownership in a subsidiary	No specific guidance available under Indian GAAP.	Changes in a parent's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions (i.e. transactions with owners in their capacity as owners).
Loss of Control	No specific guidance available under Indian GAAP.	<p>(a) derecognises the assets (including any goodwill) and liabilities of the subsidiary at their carrying amounts at the date when control is lost;</p> <p>(b) derecognises the carrying</p>

Subject	Indian GAAP	IFRS
		<p>amount of any non-controlling interests in the former subsidiary at the date when control is lost (including any components of other comprehensive income attributable to them);</p> <p>(c) recognises:</p> <p>(i) the fair value of the consideration received, if any, from the transaction, event or circumstances that resulted in the loss of control; and</p> <p>(ii) if the transaction that resulted in the loss of control involves a distribution of shares of the subsidiary to owners in their capacity as owners, that distribution;</p> <p>(d) recognises any investment retained in the former subsidiary at its fair value at the date when control is lost;</p> <p>(e) reclassifies to profit or loss, or transfers directly to retained earnings if required in accordance with other IFRSs, the amounts identified in paragraph 35; and</p> <p>(f) recognises any resulting difference as a gain or loss in profit or loss attributable to the parent.</p>
Accounting for 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 as described in IAS 39.
Exclusion of subsidiaries from consolidation.	Subsidiary is excluded from consolidation if it was acquired with the intent to dispose of within the near future (12 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.
Accounting for associates.		
Identification of goodwill	Equity method is required to be applied only if the entity prepares CFS. Where the reporting entity is not a parent, but has associates, it need not apply equity method to its associates.	Goodwill or capital reserves within the investment amount are not required to be separately identified.
Reporting dates	There is no limit of three months for difference between the reporting dates	Difference between the reporting date of the associate and that of the investor shall be no more than three months.
Accounting for investments in associates in separate financial statements	In separate financial statements: at cost less provision for other than temporary diminution in value of Investment.	In separate financial statements: at cost less impairment loss or as available for sale investments in accordance with IAS 39.

Subject	Indian GAAP	IFRS
Definition of joint venture	Similar to IFRS. However, sometimes though a contractual arrangement may suggest a joint venture, the investee is accounted as a subsidiary if the investors share in the investee's equity is greater than 50 per cent.	A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity, which is subject to a joint control. As per IAS 31, the existence of a contractual arrangement distinguishes interests that involve joint control from investments in associates in which the investor has significant influence. Activities that have no contractual arrangement to establish joint control are not joint ventures for the purposes of this Standard.
Accounting for jointly controlled entities	In consolidated financials, proportionate consolidation is used. In separate financial statements: at cost less provision for other than temporary diminution in value of Investment.	IAS 31 prescribes proportionate consolidation method for recognising interest in a jointly controlled entity in CFS. It, however, also allows the use of equity method of accounting as an alternate to proportionate consolidation. However, proportionate method of accounting is the more recommended.  In separate financial statements: at cost less impairment loss or as available for sale investments in accordance with IAS 39.
Provisions	Similar to IFRS, except that discounting is not permitted.	Provisions relating to present obligations arising from past events are recognised if outflow of resources embodying economic benefits is probable and amount can be reliably estimated. Provisions are discounted to their present value where the effect of time value of money is material.
Contingent gains	Contingent gains are neither recognised nor disclosed.	Contingent assets are disclosed in financial statements where an inflow of economic benefits is probable.
Restructuring provision	Restructuring provision should be made based on legal obligation.	Restructuring provision should be made based on constructive obligation.
Deferred income taxes	Deferred tax is accounted using the income statement approach or the timing differences approach. Timing differences are differences between the taxable income and accounting income for a period that originate in one period and are capable of reversal in one or more subsequent periods.  Deferred tax assets are recognised and carried forward only to the extent that there is a reasonable certainty that sufficient future taxable income will be available against which such deferred tax assets can be realised. However, deferred tax assets in situations of brought forward losses or unabsorbed depreciation are recognised only to the extent that there is virtual certainty supported by convincing evidence that sufficient future taxable income will be available against which the deferred tax assets can be realised.	IAS 12 is based on the balance sheet approach or the temporary differences approach. Temporary differences are differences between the tax bases of assets or liabilities and their book values that will result in taxable or tax deductible amounts in future years.  There are certain items which are temporary differences under IFRS but do not give rise to timing difference under Indian GAAP. For example <ul 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; and</li> <li>(e) Foreign currency translation adjustment.</li> </ul> Deferred tax assets are recognised only to the extent it is probable that taxable profits will be available against which the deferred tax asset can be utilised. Where an entity has a history of tax losses, the entity



Subject	Indian GAAP	IFRS
		recognises deferred tax asset only to the extent that the entity has sufficient taxable temporary differences or there is convincing other evidence that sufficient taxable profit will be available.
Recognition of deferred tax on investment made in subsidiaries, branches, associates and joint ventures (undistributed profits)	No deferred tax is recognised.	An entity should recognise a deferred tax liability for all taxable temporary differences associated with investments in subsidiaries, branches and associates, and interests in joint ventures, except to the extent that the parent, investor or venturer is able to control the timing of the reversal of the temporary difference; and it is probable that the temporary difference will not reverse in the foreseeable future.
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, even-though the same are declared after the balance sheet date.	Proposed dividends which are declared after balance sheet date are not recognised as liability in the financial statements. These are recognised in the period in which declared.
Effects of Changes in Foreign exchange rates	<p>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).</p> <p>There is no specific guidance on the issue if an entity adopts to publish its financial statements in other currencies. One view could be that the currency used for presentation of financial statements would be treated as reporting currency and all other currencies would be treated as foreign currencies and recording of transactions as well as recognition of gain loss would follow accordingly.</p>	<p>Current IAS 21 is based on the 'Functional Currency' approach as against the integral and non-integral approach. Functional currency is defined as the currency of the primary economic environment in which the entity operates.</p> <p>On an overall basis, both approaches give similar results except in some cases where functional currency and presentation currency are different. If the financial statements are presented in any other currency than the functional currency, the assets and liabilities are translated at closing rate and the income and expenses at an average rate. The resultant exchange gain/loss is recognised in SOCIE.</p>
Derivatives	<p>Presently, no specific standard on financial instruments containing comprehensive guidance on accounting for derivatives is applicable. AS 11 deals with accounting for foreign currency transactions in the nature of forward exchange contracts. It requires gain or loss arising on forward exchange contracts intended for trading or speculation purposes to be measured based on the forward rate available at the reporting date which is recognised immediately in the profit and loss account.</p> <p>With regard to Equity Index and Equity Stock Futures and Options, the Guidance Note issued by the ICAI requires a provision to be created in respect of loss on open futures contracts at the reporting date whereas gain, if any, is ignored. As per the Guidance Note, gains on such contracts are recognised only on</p>	<p>IAS 39 deals with accounting for derivatives in a comprehensive manner. As per IAS 39, derivatives are initially recognised at fair value.</p> <p>After initial recognition, an entity shall measure derivatives at their fair values, without any deduction for transaction costs. Changes in fair value are recognised in income statement unless derivative satisfies hedge criteria. Embedded derivatives need to be separated and fair valued.</p>

Subject	Indian GAAP	IFRS
	<p>actual settlement.</p> <p>Pursuant to the ICAI announcement dated 29 March 2008 on "Accounting for Derivatives", the Group has, based on the principles of prudence enunciated in AS 1 on "Disclosure of Accounting Policies", recognised mark to market ("MTM") losses on derivative contracts outstanding as at 31 March 2008 to the extent the losses are not offset by the fair value gain on the underlying hedge items. In determining the MTM losses, any compensating gains on underlying transactions (including firm commitments and highly probable forecast transactions) have been netted off and accordingly, the Group has recognised MTM losses of approximately Rs.230 million during the year ended 31 March 2008.</p>	
Hedging	<p>At present, no specific standard dealing with hedge accounting in comprehensive manner is applicable.</p> <p>Presently, AS 11 deals with forward exchange contracts entered into for hedging foreign currency risk of foreign currency assets and liabilities. AS 11 does not lay down any specific criteria for determining hedges accounting; rather, the treatment is based on the purpose for which such contracts are entered into.</p> <p>AS 11 does not classify hedging relationships into any particular categories.</p> <p>As per AS 11, the premium or discount arising at the inception of a forward exchange contract entered into for hedging purposes should be amortised as expense or income over the life of the contract. Exchange differences on such a contract should be recognised in the statement of profit and loss in the reporting period in which the exchange rates change. Any profit or loss arising on cancellation or renewal of such a forward exchange contract should be recognised as income or as expense for the period.</p>	<p>IAS 39 deals with the requirements concerning hedge accounting in a comprehensive manner. It defines the terms such as hedged item, hedging instruments. It also lays down strict documentation and hedge effectiveness criteria which need to be satisfied for application of hedge accounting.</p> <p>As per IAS 39, hedging relations are of three types, viz., fair value hedge, cash flow hedge and hedge of net investment in a foreign operation. Accounting for hedged item and hedging instrument depends upon type of hedging relationship between hedged item and hedging instrument.</p>
Classification of financial instrument between liability and equity.		
Compound financial instruments	<p>Classification is based on legal form rather than substance.</p> <p>All preference shares are disclosed separately as share capital under shareholders funds. This is as per the requirements of the Companies Act.</p>	<p>No split accounting is done. Financial instrument is classified as either liability or equity, depending on nature of instrument. A convertible debenture would be treated as a liability, and a convertible preference share would be treated as equity.</p>
Financial liabilities	<p>Liabilities are normally carried at amount received. Interest expense on liabilities is recognised on time-proportion basis as per the rates mentioned in the loan agreement.</p>	<p>Financial liability is classified into either of two categories (1) financial liability at fair value through P&amp;L; or (b) residual category. All derivatives that are liabilities (except qualifying hedging instruments) are trading liabilities. Other trading liabilities may include a short position in securities.</p> <p>Initial measurement of financial liabilities is at cost, being the fair</p>

Subject	Indian GAAP	IFRS
		value of a consideration received, less transaction costs. Financial liabilities at fair value through profit or loss (including trading) liabilities are measured at fair value and change in fair value is recognised in the income statement for the period. All other financial liabilities are carried at amortised cost using effective interest rate.
Intangible Assets	<p>After initial recognition, an intangible asset is carried at its cost less any accumulated amortisation and any accumulated impairment losses. Revaluation of intangible assets is not permitted.</p> <p>There is no concept of intangible assets with indefinite useful life. There is a rebuttable presumption that the useful life of an intangible asset will not exceed 10 years from the date when the asset is available for use. All assets are amortised over their respective useful life.</p>	<p>An entity shall choose either the cost model or the revaluation model as its accounting policy. If an intangible asset is accounted for using the revaluation model, all the other assets in its class shall also be accounted for using the same model, unless there is no active market for those assets.</p> <p>An entity shall assess whether the useful life of an intangible asset is finite or indefinite. An intangible asset shall be regarded as having an indefinite useful life when, based on an analysis of all of the relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows for the entity. Assets with finite useful life are amortised over their respective useful lives. There is no rebuttable presumption regarding maximum useful life of an asset.</p>
Business Combinations	<p>There is no comprehensive standard dealing with all business combinations. AS 14 applies only to amalgamation. AS 1 applies to accounting for investments in subsidiaries. AS 10 applies where a demerged division is acquired on a lump-sum basis by another entity. There is uniformity in the treatment prescribed these Standards.</p> <p>AS 14 recognises both purchase method and pooling of interest method with regard to accounting for amalgamation. There are five conditions which need to be fulfilled for application of the pooling method.</p> <p>Acquisition accounting under AS 21 is done on book value basis. Acquisition accounting under AS 10 is done on fair value basis. AS 14 recognises both fair value accounting and book value accounting in relation to purchase method.</p> <p>No specific guidance is available for recognition of unrecognised intangible assets and contingent liabilities and accounting for asset held for sale.</p> <p>No specific guidance available for treatment post acquisition of specific assets and liabilities acquired.</p> <p>Acquisition accounting in all cases is based on form. Legal acquirer is treated as acquirer and legal acquiree is treated as acquiree for legal as well as accounting purposes. No specific guidance on treatment of acquisition</p>	<p>IFRS 3 applies to most business combination.</p> <p>Use of pooling of interest is prohibited.</p> <p>The acquirer shall, at the acquisition date, allocate the cost of a business combination by recognising the acquiree's identifiable assets, liabilities and contingent liabilities at their fair values at that date, except for non-current assets (or disposal groups) that are classified as held for sale which shall be recognised at fair value less costs to sell. It is irrelevant if the acquiree had recorded those assets/liabilities.</p> <p>Specific guidance on measurement and accounting post acquisition for specific assets acquired, liabilities assumed or incurred and equity instruments issued in a business combination:</p> <ul style="list-style-type: none"> <li>(a) reacquired rights;</li> <li>(b) contingent liabilities recognised as of the acquisition date;</li> <li>(c) indemnification assets; and</li> <li>(d) contingent consideration.</li> </ul> <p>Acquisition accounting is based on substance. Accordingly, in case of reverse acquisition, legal acquirer is treated as acquiree and legal acquiree is treated as acquirer for IFRS 3 purposes.</p> <p>Acquisition related costs to be expensed to profit and loss account</p>

Subject	Indian GAAP	IFRS
	<p>related costs. Except AS 14, no guidance on accounting for contingent consideration. Goodwill has different treatment under different standards. AS 14 requires goodwill arising on amalgamation to be amortised over five years. There is no such requirement under AS 21 for goodwill arising on consolidation. No specific guidance on capital reserves arising out of business combinations, and are disclosed under Reserves and Surplus (Equity).</p>	<p>in the period in which such costs are incurred.</p> <p>IFRS 3 deals with the accounting for contingent consideration in a comprehensive manner. Goodwill is not amortised; rather, tested for impairment in all cases.</p> <p>No concept of capital reserves. Excess of net assets over purchase consideration paid/payable considered as "gain on bargain purchase", and is recognised in the profit and loss account.</p>

## 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 SEBI, the BSE and the NSE, and has not been prepared or independently verified by the Company or the Joint Lead Managers or any of their respective 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

India's stock exchanges are regulated primarily by the SEBI, as well as by the Indian Government acting through the MOF, Capital Markets Division, under the Securities Contracts (Regulation) Act, 1956 (the "SCRA"), as amended, and the Securities Contracts (Regulation) Rules, 1957 ("SCR Rules"), as amended. The SCR Rules, along with the rules, by-laws and regulations of the respective stock exchanges, regulate 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 grants SEBI powers to regulate the business of Indian securities markets, including stock exchanges and other financial intermediaries, promote and monitor self-regulatory organisations, prohibit fraudulent and unfair trade practices and insider trading, and regulate substantial acquisitions of shares and takeovers of companies. SEBI may make or amend a stock exchange's by-laws and rules, overrule a stock exchange's governing body and withdraw recognition of a stock exchange. SEBI has also issued guidelines concerning minimum disclosure requirements by public companies, rules and regulations concerning investor protection, insider trading, substantial acquisitions of shares and takeovers of companies, buy-backs of securities, delisting of securities, employee stock option schemes, stockbrokers, merchant bankers, underwriters, mutual funds, foreign institutional investors, 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 SCR Rules, the SEBI Act and various guidelines issued by SEBI and the listing agreements of the respective stock exchanges. Under the SCR Rules, the governing body of each stock exchange is empowered to suspend trading of or dealing in a listed security for breach of an issuer's obligations under such listing agreement or for any other reason, subject to the issuer receiving prior notice of the intent of the 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 the Securities Appellate Tribunal ("SAT") established under the SEBI Act to set aside the suspension. SEBI has the power to veto stock exchange decisions in this regard. SEBI also has the power to amend such listing agreements and the by-laws of the stock exchanges in India.

All listed companies are required to ensure a 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 20 million or more outstanding shares; (iii) have a market capitalisation of Rs.10,000 million 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 above-mentioned requirement.

### Delisting of Securities

SEBI has, pursuant to a notification dated 10 June 2009, notified the SEBI (Delisting of Equity Shares) Regulations, 2009 ("Delisting Guidelines"). The Delisting Guidelines are applicable to: (i) voluntary delisting of securities by promoters of a company; (ii) any acquisition of shares of a

company (either by a promoter or by any other person) or a scheme or arrangement, consequent to which the public shareholding in such company falls below the minimum limits specified in the listing conditions or listing agreement that may result in delisting of securities; (iii) promoters of companies who voluntarily seek to delist their securities from some or all stock exchanges on which the security is listed; (iv) cases where a person in control of the management is seeking to consolidate his holdings in a company in a manner that would result in the public shareholding in the company falling below the limit specified in the listing conditions or in the listing agreement that may have the effect of company being delisted; and (v) companies which may be compulsorily delisted by the stock exchanges on account of, among other things, violation of stock exchange by-laws. Following a compulsory delisting, a company, its whole time directors, its promoters and the firms promoted by any of them cannot directly or indirectly access the securities market or seek listing of any equity shares for a period of 10 years from the date of such delisting.

No company can apply for permission to delist: (i) pursuant to a buy back of equity shares or preferential allotment made by a company or (ii) unless a period of three years has elapsed since the listing of that class of equity shares on any recognized stock exchange. Furthermore, if any instruments issued by the company which are convertible into the same class of equity shares that are sought to be delisted, are outstanding, delisting is disallowed.

The Delisting Guidelines allow a company to delist its equity shares from all or only recognised stock exchanges on which they are listed, provided an exit opportunity is given to shareholders. However they provide that an exit opportunity need not be given to the shareholders in cases where the securities continue to be listed on a stock exchange having nationwide trading terminals. Presently, only the BSE and the NSE have nationwide trading terminals. When an exit option is required, the Delisting Guidelines require a promoter or an acquirer intending to delist securities of a company to obtain the prior approval of the shareholders by a special resolution, make a public announcement in the manner provided for in the Delisting Guidelines and make an in-principle application to and obtain final approval of the stock exchanges within one year of the passing of the shareholders resolution for delisting. A proposed delisting where no exit option is required to be given, does not require a shareholders resolution and a resolution of the board of directors is sufficient.

The floor price for delisting will be determined by calculating the average of the weekly high and low of the closing prices during the last 26 weeks or two weeks preceding the date on which the recognised stock exchanges were notified. The offer must fulfil the criteria prescribed in the Delisting Guidelines to be successful. Upon closure of the open offer process, all shareholders whose equity shares are verified will be paid the final price stated in the public announcement within 10 working days.

Further, the Ministry of Finance has, on 10 June 2009, proposed certain amendments to the Securities Contracts (Regulation) Rules, 1957 ("MoF Notification") in relation to voluntary and compulsory delisting, to bring them in line with the Delisting Guidelines. The MoF Notification shall become effective from the date that it is published in the Official Gazette. Due to their recent issuance, the applicability of the Delisting Guidelines and MoF Notification have not been tested in any manner and hence it is possible that some of the clauses may be amended to make either the Delisting Guidelines or the MoF Notification more effective or clarify any ambiguities contained therein. Investors are also requested to consult their advisors before taking any steps under the Delisting Guidelines.

In order to restrict abnormal price volatility in any particular stock, the SEBI has instructed stock exchanges to apply daily circuit breakers which do not allow transactions beyond a certain level of price volatility. The index-based market-wide circuit breaker system (equity and equity derivatives) 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 coordinated 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.

In addition to the market-wide index-based circuit breakers, there are currently in place varying individual scrip-wise price bands. However, no price bands are applicable on scrips on which derivative products are available or scrips included in indices on which derivative products are available.



The stock exchanges in India 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 the stockbrokers.

### **Disclosures under the Companies Act and Securities Guidelines**

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 and the SEBI Guidelines on Disclosure and Investor Protection 2000, as amended (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, Gujarat at Ahmedabad located at ROC Bhavan, CGO Complex, Opposite Rupal Park, Near Ankur Bus Stand, Navrangpura, Ahmedabad 380013. A company’s directors and promoters may be subject to civil and criminal liability for misstatements 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. Pursuant to the provisions of the SEBI Act, the SEBI has issued detailed guidelines concerning disclosures by public companies and investor protection. The SEBI Guidelines permit companies to freely price their issues of securities.

All companies, including public limited companies, are required under the Companies Act to prepare, file with the Registrar of Companies and circulate to their shareholders audited annual accounts, which comply with the disclosure requirements of the Companies Act and regulations governing their manner of presentation, which include sections pertaining to corporate governance and the management’s discussion and analysis. In addition, 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 is 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”).

The ICAI and SEBI have implemented changes which require Indian companies to account for deferred taxation, consolidate their accounts (subsidiaries only), provide segment-wise reporting and disclosure of related party transactions from 1 April 2001 and accounting for investments in affiliated companies and joint ventures in consolidated accounts from 1 April 2002.

As of 1 April 2003, accounting of intangible assets is also regulated by accounting standards set by the ICAI and as of 1 April 2004 accounting standards set by the ICAI will regulate accounting for impairment of assets.

The ICAI has recently announced that all listed companies and public interest entities have to comply with International Financial Reporting Standards from 1 April 2011.

### **Indian Stock Exchanges**

There are currently 19 recognised stock exchanges in India. Most of the stock exchanges have their own governing board for self-regulation. The BSE and NSE together hold a dominant position among the stock exchanges in terms of the number of listed companies, market capitalisation and trading activity.

#### **NSE**

The NSE was established by financial institutions and banks to provide nationwide, online, satellite-linked, screen-based trading facilities for market-makers and electronic clearing and settlement for securities including government securities, debentures, public sector bonds and units. The NSE was recognised as a stock exchange under the SCRA in April 1993 and commenced operations in the wholesale debt market segment in June 1994. The capital market (equities) segment commenced operations in November 1994 and operations in the derivatives segment commenced in June 2000. In March 2009, the average daily traded value of the capital market segment was Rs.101,400 million. As of 31 March 2008, the NSE had 1,075 trading members and

over 21,083 registered sub-brokers on the capital market segment and the wholesale debt market segment. 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. As of 17 April 2009, the market capitalisation of the NSE was approximately Rs.33,106 billion. With a wide network in major metropolitan cities, screen-based trading, a central monitoring system and greater transparency, the NSE has lately recorded high volumes of trading.

## **BSE**

The BSE is the Company's primary stock exchange in India. Established in 1875, it is the oldest stock exchange in India. In 1956 it became the first stock exchange in India to obtain permanent recognition from the Indian Government under the SCRA. It has evolved over the years into its present status as the premier stock exchange of India. Recently, pursuant to the SEBI's BSE (Corporatisation and Demutualisation) Scheme, 2005, with effect from 20 August 2005 the BSE has been corporatised and demutualised and is now a company under the Companies Act. The BSE switched over from an open outcry trading system to an online trading network in May 1995 and has today expanded this network to over 349 cities in India.

As of March 2009, the BSE had 1,007 members, comprising 175 individual members, 809 Indian companies and 23 FIIs. Only a member of the BSE has the right to trade in the stocks listed on the BSE. As of March 2009, there were 4,929 listed companies trading on the BSE and the estimated market capitalisation of stocks trading on the BSE was Rs.30,861 billion. In March 2009, the average daily turnover on the BSE was Rs.34,895 million. As of March 2009, the BSE had 15,402 trader work stations spread over 349 cities.

## ***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 the 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.

## **Listing Agreements**

The Company has entered into Listing Agreements with each of the Indian stock exchanges on which the Company's shares are listed i.e. BSE and NSE. Each of the listing agreements provides that if a purchase of a listed company's shares results in the purchaser and its affiliates holding more than 5 per cent. of the company's outstanding equity shares or voting rights, the purchaser and the company must, in accordance with the provisions of the Takeover Code (see below), as amended to date, report its holding to the company and the relevant stock exchange(s). The listing agreements 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 Takeover Code. In addition, 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.

## **Takeover Code**

Disclosure and mandatory bid obligations for listed Indian companies under Indian law are governed by the Securities and Exchange Board of India (Substantial Acquisition of Shares and Takeovers) Regulations, 1997 (the "Takeover Code"), which prescribes certain thresholds or trigger points that give rise to these obligations. The Takeover Code is under constant review by the SEBI and was last amended on 28 January 2009. Since the Company is an Indian listed company, the provisions of the Takeover Code apply to the Company.

The salient features of the Takeover Code are as follows:

- The term “shares” is defined under the Takeover Code to mean equity shares or any other security, which entitles a person to receive shares with voting rights but does not include preference shares.
- Any acquirer (meaning 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 with him) who acquires shares or voting rights that would entitle him to more than 5 per cent., 10 per cent., 14 per cent., 54 per cent. or 74 per cent. of the shares or voting rights 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 at every such stage within two days of (i) the receipt of intimation of allotment of shares or (ii) the acquisition of shares or voting rights, as the case may be. Such 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 an annual disclosure of his holdings to that company within 21 days of the financial year ending on 31 March (which in turn is required to disclose the same to each of the stock exchanges on which that company’s shares are listed). Further, such 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 aggregating 2 per cent. of the share capital of a company along with the aggregate shareholding after such acquisition or sale, to that company (which in turn is 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 on which the shares of the company are listed within two days of (i) the receipt of intimation of the allotment of shares or (ii) the acquisition of shares or voting rights, as the case may be.
- Promoters or persons in control of a company are also required to make periodic disclosure of their holdings or the 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 each financial year as well as from the record date for entitlement of dividends. The company is also required to disclose the holdings of its promoters or persons in control as of 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. In addition, promoters or persons forming part of the promoter group of the company are also required to disclose to the company the details of the shares of the company pledged by them within seven days of the creation, or invocation, of the pledge, as the case may be. The company is, in turn, required to disclose the information to the stock exchanges within seven days of receipt of such information, if during any quarter ending March, June, September and December of any year: (i) the aggregate number of pledged shares taken together with the shares already pledged during that quarter exceeds 25,000, or (ii) the aggregate total pledged shares taken together with the shares already pledged during that quarter exceeds 1 per cent. of the total shareholding or voting rights of the company, whichever is lower.
- An acquirer who, together with persons acting in concert with him, acquires or agrees to acquire 15 per cent. or more (taken together with existing equity shares or voting rights, if any, held by it or by persons acting in concert with it) of the shares or voting rights of a company would be required to make a public announcement offering to acquire a further minimum of 20 per cent. of the shares of the company at a price not lower than the price determined in accordance with the Takeover Code. Such offer has to be made to all public shareholders of a company (public shareholding is defined as shareholding held by persons other than the promoters) and within four working days of entering into an agreement for the acquisition of or of the decision to acquire shares or voting rights which exceed 15 per cent. or more of the voting rights in a company. A copy of the public announcement is required to be delivered on the date on which such announcement is

published to SEBI, the company and the stock exchanges on which a company's equity shares are listed.

- An acquirer who, together with persons acting in concert with him, has acquired 15 per cent., or more, but less than 55 per cent. of the shares or voting rights in the shares of 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 of 20 per cent. of the shares of the company at a price not lower than the price determined in accordance with the Takeover Code.
- An acquirer who, together with persons acting in concert with him, if any, holds 55 per cent. or more but less than 75 per cent. of the shares or voting rights (or, where the company concerned 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 SCR Rules, less than 90 per cent. of the shares or voting rights in the company) in a company cannot acquire additional shares entitling him to exercise voting rights or voting rights unless such acquirer makes a public announcement offering to acquire a further minimum of 20 per cent. of the shares of the company at a price not lower than the price determined in accordance with the Takeover Code.
- However, an acquirer may acquire, together with persons acting in concert with him, additional shares or voting rights that would entitle him to exercise up to 5 per cent. voting rights in the company, without making a public announcement as aforesaid if (i) the acquisition is made through open market purchase in normal segment on the stock exchange but not through bulk/block deal/negotiated deal/preferential allotment, or the increase in the shareholding or voting rights of the acquirer is pursuant to a buy-back of shares by the company; and (ii) the post acquisition shareholding of the acquirer together with persons acting in concert with him shall not increase beyond 75 per cent.
- 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 (or, where the company concerned obtained 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 SCR Rules, 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 through an open offer under the 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, i.e. up to the delisting threshold (75 per cent. or 90 per cent., as the case may be).
- 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 of the company. In addition, the Takeover Code introduces the "chain principle" by which the acquisition of a holding company will obligate the acquirer to make a public offer to the shareholders of each of its subsidiary companies which is listed. However, the public announcement requirement will not apply to any change in control which takes place pursuant to a special resolution passed by way of postal ballot by shareholders. The Takeover Code sets out the contents of the required public announcements as well as the minimum offer price. The minimum offer price depends on whether the shares of the company are "Frequently" or "Infrequently" traded (as defined in the Takeover Code). In the case of shares which are Frequently traded, the minimum offer price shall be the highest of:
  - (a) the negotiated price under the agreement for the acquisition of shares or voting rights in the company;

- (b) the highest price paid by the acquirer or persons acting in concert with him/her for any acquisitions, including through an allotment in a public, preferential or rights issue, during the 26-week period prior to the date of the public announcement; or
  - (c) the average of the weekly high and low of the closing prices of the shares of the company as quoted on the stock exchange where the shares of the company are most frequently traded during the 26-week period prior to the date of the public announcement or the average of the daily high and low of the prices of the shares as quoted on the stock exchange where the shares of the company are most frequently traded during the two-week period prior to the date of the public announcement, whichever is higher.
- The open offer for the acquisition of a further minimum of 20 per cent. of the shares of a company has to be made by way of a public announcement which is to be made within four working days of entering into an agreement for the acquisition or the decision to acquire shares or voting rights exceeding the relevant percentages or within four working days after the decision to make any such change(s) is made which would result in acquisition of control.
  - The Takeover Code provides that an acquirer who seeks to acquire any shares or voting rights which would result in the public shareholding in the target company being reduced to a level below the limit specified in the listing agreement with the stock exchange for the purpose of listing on a continuous basis, shall take the necessary steps to facilitate the compliance by the company with the relevant provisions of such listing agreement, within the time period mentioned therein. Further, the Takeover Code contains penalties for the violation of any provisions.
  - The Takeover Code permits conditional offers as well as the acquisition and subsequent delisting of all shares of a company 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 a percentage of the total consideration for such offer in an escrow account. This amount will be forfeited in the event that the acquirer does not fulfil his/her obligations.

The public offer provisions of the Takeover Code (subject to certain specified conditions), do not apply, *inter alia*, to certain specified acquisitions, including the acquisition of shares (i) by allotment in a public and rights issue subject to the fulfilment 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 arrangement or reconstruction including an amalgamation or demerger, under any law or regulation of India or any other country, (vi) pursuant to a scheme under Section 18 of the Sick Industrial Companies (Special Provisions) Act, 1985 ("SICA"), (vii) 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, (viii) through inheritance on succession, (ix) resulting from transfers by Indian venture capital funds or foreign venture capital investors registered with the SEBI, to their respective promoters or to other venture capital undertakings, (x) 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, (xi) pursuant to a change in control by the takeover/restoration of the management of a borrower company by a secured creditor under the terms of the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002, (xii) by acquisition of shares by a person in exchange for equity shares received under a public offer made under the Takeover Code, and (xiii) in terms of guidelines and regulations relating to delisting of securities as specified by SEBI. The Takeover Code does not apply to acquisitions in the ordinary course of business by public financial institutions, either on their own account or as a pledgee. An application may also be filed with the SEBI seeking exemption from the requirements of the Takeover Code.



## Depositories

In August 1996, the Indian Parliament enacted the Depositories Act, 1996 (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) Rules and Regulations, 1996 which provide *inter alia*, for the formation of such depositories, the registration of participants as well as the rights and obligations of the depositories, participants, companies and beneficial owners. The depository system has significantly improved the operation of the Indian securities markets. The Depositories Act requires that every person subscribing to securities offered by an issuer has the option either to receive the security certificate or hold the securities with a depository.

The National Securities Depository Limited and the Central Depository Services Limited are two depositories that provide electronic depository facilities for the trading of equity and debt securities in India.

Trading of securities in book-entry form commenced in December 1996. In order to encourage “dematerialisation” of securities, SEBI has set up a working group on dematerialisation of securities comprising foreign institutional investors, custodians, stock exchanges, mutual funds and the National Securities Depository Limited to review the progress of securities and trading in dematerialised form and to recommend scrips for compulsory, dematerialised trading in a phased manner. In January 1998, the SEBI notified scrips of various companies for compulsory dematerialised trading by certain categories of investors such as foreign institutional investors and other institutional investors and has also notified compulsory dematerialised trading in specified scrips for all retail investors. SEBI has subsequently significantly increased the number of scrips in which dematerialised trading is compulsory for all investors. SEBI has also provided that the issue and allotment of shares in public offers, rights offers or offers for sale after specified dates to be notified from time to time by SEBI shall only be in dematerialised form and an investor shall be compulsorily required to open a depository account with a participant. Under the Depositories Act, a company shall give the option to subscribers/shareholders to receive the security certificates or hold securities in dematerialised form with a depository.

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 for 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, 1996. 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 company’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 be subject to all liabilities in respect of his/her securities held by a depository.

The Companies Act compulsorily provides that Indian companies making any initial public offerings of securities for or in excess of Rs.100 million should issue the securities in dematerialised form in accordance with the provisions of the Depositories Act of 1996 and the Regulations made thereunder.

## Insider Trading Regulations

The SEBI (Prohibition of Insider Trading) Regulations, 1992 (the “Insider Trading Regulations”) prevent insider trading in India by prohibiting and penalising an “insider” from dealing, either on his/her 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 “unpublished” and “price-sensitive information” are defined by the Insider Trading Regulations. The insider is also prohibited from communicating, counselling or procuring, directly or indirectly, any unpublished price-sensitive information while in possession



of such information. The prohibition under the Insider Trading Regulations also extends to a company dealing in securities, while in the possession of unpublished price-sensitive information, and is not restricted to insiders alone. It is to be noted that SEBI amended the Insider Trading Regulations in 2002 to provide certain defences to the prohibition on insiders in possession of unpublished price-sensitive information dealing in securities.

On a continuing basis under the Insider Trading Regulations, any person who holds more than 5 per cent. of the shares or of the voting rights in any listed company is required to disclose to the company the number of shares or voting rights held by him and any change in such 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 since 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 (i) the receipt or intimation of the allotment of the shares or (ii) the acquisition or the sale of the shares or voting rights.

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 thereof. 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 is to be implemented by all listed companies and other such entities. 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 a holder, within four working days of:

- (1) the receipt of formal intimation of the allotment of shares; or
- (2) the acquisition or sale of shares or voting rights, as the case may be.

All directors, officers and substantial shareholders in a listed company are required to make periodic disclosure of their shareholdings as specified in the Insider Trading Regulations.

### **Derivatives (Futures and Options)**

Trading in derivatives 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 by the SCRA. Trading in derivatives in India takes place either on separate and independent derivatives exchanges or on a separate segment 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 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.

## 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.

The Foreign Exchange Management (Transfer or Issue of Security by a Person Resident Outside India) Regulations, 2000, as amended from time to time (the "FEM Securities Regulations") regulate the issue of Indian securities including global depository receipts 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"). Further, pursuant to Press Note 2 of 2009, investments by FIIs (holding as on 31 March), Non-Resident Indians, ADRs, GDRs, FCCBs, FDI, convertible preference shares and convertible currency debentures are required to be taken together for calculating the foreign investment in a company.

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 the 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. 01/2009-10 dated 1 July 2009 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;
- housing and real estate business (permitted subject to certain conditions only); 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”. The automatic route is not available to foreign investors who have or have had previous financial or technical trade mark collaboration with an existing domestic company engaged in the same field of activity. The automatic route is also not available where the investment is beyond the sectoral cap on investments specified in industries referred to in Press Note 4 of 2006 dated 10 February 2006 issued by the Department of Industrial Policy and Promotion of the Indian Government.

Subject to certain exceptions, FDI and investment by NRIs 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. On 13 February 2009, the Indian Government issued two press notes setting out guidelines for foreign investment in India. Press Note 2 of 2009 prescribes the guidelines for the calculation of total foreign investment (direct and indirect) in Indian companies. Press Note 3 of 2009 prescribes the transfer of ownership or control of Indian companies in sectors with caps from resident Indian citizens to non-resident entities. Additionally, Press Note 4 of 2009 issued on 25 February 2009 clarifies the guidelines on downstream investments by Indian companies. 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 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 the SEBI and the RBI. 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 Regulation 5A of Schedule I (in the case of a public issue) and Regulation 5 (in all other cases) thereof.

Regulation 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.

Regulation 5 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 the 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 the 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 the SEBI (Foreign Institutional Investor) Regulations 1995 ("FII Regulations") to register with the SEBI and obtain a general permission from the RBI. However, since the SEBI provides a single window clearance, a single application must be made to the SEBI.

Foreign investors are not necessarily required to register with the 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 the 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 on the stock exchange, 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. 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 by a listed Indian company to fewer than five FIIs, the price is not less than the average of the weekly high and low of the closing prices of the related shares quoted on a stock exchange during the two weeks preceding the

date, which is 30 days prior to the date on which the meeting of the shareholders is held to consider the issue.

The 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. In June 2008, SEBI amended the definition of a “regulated entity” to mean:

- any person that is regulated/supervised and licensed/registered by a foreign central bank;
- any person that is registered and regulated by a securities or futures regulator in any foreign country or state;
- any broad based fund or portfolio incorporated or established outside India or proprietary fund of a registered foreign institutional investor or university fund, endowment, foundation, charitable trust or charitable society whose investments are managed by a person covered by Clauses (i), or (ii) above.

Registered FIIs are generally subject to tax under Section 115AD of the Indian Income Tax Act, 1961. The Shares and the Shares which are represented by GDSs are subject to tax under the Section 115AC Regime. There is uncertainty under Indian law as to the tax regime applicable to FIIs that hold and trade in GDSs and Shares. See “Taxation”.

Foreign investors are not necessarily required to register with the 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. In this connection, the RBI has issued the Foreign Exchange Management (Withdrawal of General Permission to Overseas Corporate Bodies) Regulations, 2003 notified pursuant to Notification No. FEMA 101/2003-RB dated 3 October 2003 pursuant to which with effect from 16 September 2003 the facilities for Overseas Corporate Bodies under various FEMA and the rules issued by the RBI thereunder stand withdrawn.

### **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.

Further, the RBI has granted, by master circular dated 1 July 2009, general permission for the transfer of shares by a person resident outside India to a person resident in India, subject to compliance with certain terms, conditions and reporting requirements. A resident who wishes to purchase shares from a non-resident must, pursuant to the relevant notice requirements, file a declaration with an authorized dealer in the prescribed Form FC-TRS, together with the relevant documents and file an acknowledgment thereof with the Indian company to effect transfer of the shares. Pursuant to the RBI circular dated 22 April 2009, the sale consideration in respect of equity instruments purchased by a person resident outside India, remitted into India through normal banking channels, shall be subjected to a KYC check by the remittance receiving AD Category – I bank at the time of receipt of funds. Further, the form FC-TRS should be submitted to the AD Category – I bank, within 60 days from the date of receipt of the amount of consideration. The onus of submission of the form FC-TRS within the given timeframe would be on the transferor or transferee which is resident in India.

Pursuant to a recent liberalisation, non-residents (other than erstwhile overseas corporate bodies, foreign nationals, Non-Resident Indians, and FII)s 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, FII)s 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. Any Non-Resident of India seeking to sell shares received upon conversion of GDSs or otherwise transfer such shares within India, whether or not through the BSE, NSE or any other stock exchange, should seek advice from their Indian legal advisers as to applicable requirements.

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 Takeover Code is applicable, in cases where approvals are required from the Reserve Bank/ 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 the SEBI or through a stock broker registered with the stock exchange.

In the event of a sale of the underlying shares withdrawn from a GDS programme, where such sale is made in compliance with the above-mentioned procedures, remittance overseas of the proceeds from such sale of the underlying shares is permitted.

However, where the foreign investor has an existing joint venture or technology transfer or trade mark agreement in the same field, the prior approval of the Indian Government will not be required in the case of (i) investments made by venture capital funds registered with the SEBI; or (ii) investments by multinational financial institutions; or (iii) where an existing joint venture investment by either of the parties is less than 3 per cent.; or (iv) where the existing venture or collaboration is sick or defunct; or (v) where the proposals for investment by the foreign investor in the Information Technology and in the Mining sector for the same area/mineral. 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.

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 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 FCCBs is required to comply with certain reporting requirements prescribed by the RBI. The relevant regulations read with the Master Circular on External Commercial Borrowings and Trade Credits dated 1 July 2009 issued by the RBI, from time to time are also applicable to FCCBs.

An Indian corporation may raise funds up to U.S.\$500 million or equivalent in any one financial year under the automatic route and with the approval of the RBI, for amounts up to U.S.\$750 million or equivalent. These limits are also applicable to FCCBs under the External Commercial Borrowings 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. The RBI has issued a circular dated 8 December 2008, listing various conditions pursuant to which Indian companies may buyback/prepay their outstanding FCCBs. See “– FCCB Buyback Guidelines”;
- (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) 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 3.0 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 5.0 per cent. Pursuant to the RBI circular dated 2 January 2009, borrowers proposing to use external commercial borrowings beyond the permissible all-in-cost ceilings may approach the RBI for its approval until June 2009;
- (vi) 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) in the real sector-industrial sector including small and medium enterprises 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’s 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;
- (vii) FCCB proceeds may not be used for on-lending and investment in stock markets and real estate (other than permitted development of integrated townships), or acquiring a company (or part thereof) in India by a corporate;

- (viii) 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;
- (ix) private placement shall be with banks, multilateral and bilateral financial institutions, foreign collaborators or foreign equity holders having a minimum holding of 5 per cent. of the paid up capital of the issuing company. The private placement of FCCBs with unrecognised sources is prohibited;
- (x) 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
- (xi) 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 the 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 the SEBI are not eligible to subscribe to the FCCBs.
3. The MOF has issued a notification dated 27 November 2008 amending the pricing norms for FCCB issues. The pricing of FCCBs is now as follows:

“The pricing of the FCCBs should not be less than the average of the weekly high and low of the closing prices of the shares quoted on the stock exchanges during the two weeks preceding the relevant date. The “relevant date” is the date of the meeting in which the board of directors of the company or a committee of directors duly authorised by the board of directors of the company decides to open the proposed issue.”

The securities issue committee of the Board at its meeting dated 20 July 2009, decided to open the issue of Bonds.

The floor price calculated as aforesaid is Rs.89.5250.

#### **FCCB Buyback Guidelines**

The RBI has, by its circular dated 8 December 2008 (as amended by the circular dated 13 March 2009) permitted Indian companies to buyback/prepay their outstanding FCCBs for a period until 31 December 2009. Such prepayment/buyback may be conducted by the Company with or without the consent of the RBI, but in either case, subject to the conditions set forth in the circular dated 8 December 2008.

## LEGAL PROCEEDINGS

Except as described below, the Group is not involved in any legal proceedings, and no proceedings are threatened, which may have, or have had, a material adverse effect on the business, properties, financial condition or operations of the Group. The Group believes that the number of proceedings in which the Group is involved in is not unusual for a company of its size in the context of doing business in India.

1. The Company was given a notice dated 9 September 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 the 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 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 and 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 SIL received a similar notice dated 24 October 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 6 November 2001 was subsequently passed, imposing a liability of Rs.28,632,044, comprising a 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 6 November 2001. The Company has filed an appeal before the Aurangabad Bench of the High Court, Bombay pleading for a stay against the recovery of the balance amount of Rs.16,070,530. SIL is also a petitioner in this matter. The Company has initially deposited Rs.7,500,000 against the interim order of the High Court. This appeal is pending.

2. SWECO, a subsidiary of the Company, is disputing a personal injury claim filed against it in a United States federal district court. The case involves negligence and other claims from injuries to a subcontractor employee while loading WTG blades on 23 February 2007. The case is being handled by SWECO's insurance carrier. Although it is not possible to quantify or estimate the amount of any damages which SWECO may be required to pay if it was ultimately found liable, SWECO is disputing all claims made against it.
3. Transport Corporation of India ("TCI") has filed a case against the Company and certain Group companies. TCI had placed purchase orders dated 24 November 2006 with the Company for the supply of two WTGs of 1500KW, with SIL for the erection, installation and commissioning of its WTGs, and with STSL for the supply of towers. However, due to local agitation of villagers and other unforeseen conditions beyond the control of the Company, the activities proposed to be conducted at the site could not start. TCI was appraised of the site situation, much before the scheduled date of commission, about the constraints faced by the Company and its subsidiaries in finalisation of the site and therefore offered other options of alternative sites which were not acceptable to TCI. Since only one WTG could be commissioned despite its best efforts, the Company offered to pay the liquidated damage as per the contract. The post-dated cheques for Rs.80,960,000 and Rs.27,040,000 given to the Company and STSL for the supplies already made were also dishonoured.

TCI, by legal notices dated 13 September 2007 and 26 September 2007, claimed loss of tax benefit, adjustment of advance amount of the second WTG with the first WTG, claim of compensation for loss of business revenue and cost of legal notice, and other costs, totalling Rs.38,500,000. The same has been disputed by the Company and TCI has invoked arbitration under the agreement. Since the Company has not accepted the arbitrator proposed by TCI, TCI has approached the court for the appointment of an arbitrator.

4. The Company has filed two applications before the Metropolitan Magistrate, New Delhi against TCI for the discrediting of a cheque amounting to Rs.80,960,000. The matter is adjourned for issuing summons.
5. The Tehsildar, Jaisalmer has, by a notice dated 2 February 2009 demanded approximately Rs.17,000,000 claimed to be payable by the Company as the increased lease rent and sub-lease rent pursuant to certain amendments in the notifications issued by the Government of Rajasthan. The Company had replied to the notice disputing the claim. The Tehsildar passed the order on 18 March 2009 justifying the increase of rent.  
The matter is currently pending with the Principal Revenue Secretary, State of Rajasthan.
6. The Sub-Registrar (Registration) Jaisalmer, has, by a notice dated 29 September 2008, demanded stamp duty to be paid on machinery (WTG) at a rate of 0.5 per cent. of the cost, amounting to approximately Rs.80,000,000, transferred to various investors, treating them as movable property. The Company has filed a reply to the notice. The matter is currently pending before the Deputy Inspector General, Stamps, Jodhpur.
7. Certain Gram Panchayats of villages in the Sangli district have claimed an amount of approximately Rs.14,000,000 from SISL, allegedly as property tax payable by SISL. SISL filed a writ petition in the High Court of Mumbai challenging their demand for property taxes as illegal and arbitrary. The court passed an interim order restraining the Gram Panchayats from taking any coercive steps against SISL for recovery of the disputed amounts. Additionally, SISL was required to deposit Rs.14 million with the court.
8. Salora International Limited ("Salora") placed a purchase order, dated 25 March 2006, with the Company for the supply of five WTGs of 1.25 MW each at the Dhulia Site. Due to certain events beyond the control of the Company, the stated generation was not achieved. Salora sent the Company a notice dated 15 September 2008 claiming the amount of Rs.32,029,161.10 towards generation shortfall. Initially the Company had agreed to settle their claim for sum of Rs.18,918,683. However, inadvertently, the Company arrived at the settlement number without taking into consideration the force majeure. Subsequently, at a meeting held on 12 May 2008, it was agreed by the parties that the claim by Salora would be settled for an amount of Rs.5,498,000. Salora subsequently denied agreeing to settle the claim and has initiated arbitration proceedings before the sole arbitrator and has filed its statement of claim dated 18 November 2008 for an amount of Rs.32,029,161.10. The Company has filed its written statement and has asked for dismissal of the claim with costs. The matter is currently pending.
9. The legal representative of Ventus de Nicaragua S.A ("Vensa"), a company based in Nicaragua, has commenced an arbitration in Miami against Suzlon Energy, AS demanding immediate payment of commission amounting to approximately U.S.\$1,000,000. In January 2006 Suzlon Energy, AS had entered into a commission agreement with Vensa. The commission agreement is subject to the laws of Florida and the venue is arbitration in Miami. Vensa was entitled to commission, if Suzlon Energy, AS, with support from Vensa, completed the sale of Project Amayo in Nicaragua. Such payment of commission was to be made subsequent to Suzlon Energy, AS being fully paid by the purchaser. However, the purchaser has to date paid only 85 per cent. of the amount due and payable to Suzlon, as a result of which Suzlon Energy, AS has contended that it is not required to pay the commission of U.S.\$1,000,000.
10. The Service Tax Department issued a notice to SISL demanding Rs.8.75 million as service tax payable by SISL towards repair and maintenance activities conducted by SISL. The Commissioner, Central Excise, Pune II issued an order on 21 November 2006 confirming the demand and additionally levied penalty of Rs.8.75 million. The Company has filed an appeal before the CESTAT, Mumbai challenging this order of the Commissioner.
11. A notice has been issued by the Additional Director General, DGCEI, Kolkata to Electrosteel Casting Ltd. and its non-executive director Mr. Pradip Kumar Khaitan, who is also a director of the Company, in October 2006 for alleged contravention of certain excise laws. The matter is still pending.

## GENERAL INFORMATION

1. The Company is incorporated in India under the Corporate Identity Number (CIN) – L40100GJ1995PLC025447. The Company's registered office is "Suzlon", 5, Shrimali Society, Near Shri Krishna Complex, Navrangpura, Ahmedabad – 380009, India and its Corporate office is 5th Floor, Godrej Millennium, 9, Koregaon Park Road, Pune – 411001, India.
2. The issue of the Bonds and the Shares issuable on conversion of the Bonds was authorised by Shareholders of the Company on 30 July 2008. The offering and the issue of the Bonds were approved by resolution of the Board of Directors passed on 20 July 2009. The securities issue committee of the Board at its meeting dated 27 April 2009, decided to open the issue of Bonds. The floor price for the conversion of the Bonds is Rs.89.5250.
3. Application has been made to each of the NSE and the BSE to list the Shares issuable upon conversion of the Bonds; and application has been made for the listing of the Bonds on the SGX-ST. 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 the Global Certificate is exchanged for Certificates in definitive form. In addition, in the event that the 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 and 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. The Company's audited consolidated financial statements as at and for the Fiscal Years 2007, 2008 and 2009 have been jointly audited by SNK & Co., Chartered Accountants and S.R. Batliboi & Co., Chartered Accountants. Copies in English of the Company's audited consolidated financial statements as at and for the Fiscal Years 2007, 2008 and 2009 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. REpower's audited consolidated financial statements as at and for the years ended 31 December 2006 and 31 December 2007 and for the three month period ended 31 March 2008 have been audited by KPMG. Copies in English of REpower's audited consolidated financial statements as at and for the years ended 31 December 2006 and 31 December 2007 and for the three month period ended 31 March 2008 and the audited consolidated financial statements as at and for Fiscal Year 2009, prepared in accordance with IFRS (as adopted by the EU), 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.
7. The Bonds have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The Bonds have a Common Code of 044190265. The International Securities Identification Number for the Bonds is XS044190265.
8. The Company has obtained all consents, approvals and authorisations in India required in connection with the issue of the Bonds.
9. There has been no significant change in the financial or trading position of the Company since 31 March 2009 and no material adverse change in the financial position or prospects of the Company since 31 March 2009.
10. 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.



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(1) The financial statements originally attached to the Auditors' Reports were expressed in Indian Rupees Crores. However for convenience of the readers the financials set out herein are expressed in Indian Rupees millions and there may be rounding off differences.



**REpower Systems AG**

**Audited Consolidated Financial Statements for the calendar year 2007**

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SNK & Co.  
Chartered Accountants  
E-2-B, The Fifth Avenue  
Dhole Patil Road  
Near Regency Hotel  
Pune 411 001

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, 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  
Dhole Patil Road  
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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
		Rs. Million	Rs. Million
<b>I. Sources of Funds</b>			
1. <b>Share Holders' Funds</b>			
(a) Share Capital . . . . .	A	3,025.31	2,877.65
(b) Share Application Money Pending Allotment . . . . .		1.87	0.15
(c) Employee Stock Options . . . . .	B	103.64	117.11
(d) Management Option Certificates issued by Subsidiary Company [See Schedule P, Note(6)(b)]. . . . .			890.03
(e) Reserves and Surplus . . . . .	C	24,217.12	31,225.94
		<u>27,347.94</u>	<u>35,110.88</u>
2. <b>Preference Shares Issued by Subsidiary Company [See Schedule P, Note(6)(d)]. . . .</b>		25.00	25.00
3. <b>Minority Interest . . . . .</b>		74.69	141.12
4. <b>Loan Funds</b>			
(a) Secured Loans . . . . .	D	3,899.05	19,844.25
(b) Unsecured Loans . . . . .	E	608.10	31,776.03
		<u>4,507.15</u>	<u>51,620.28</u>
5. <b>Deferred Tax Liability (Net) . . . . .</b>		—	176.78
Total . . . . .		<u>31,954.78</u>	<u>87,074.06</u>
<b>II. Application of Funds</b>			
1. <b>Fixed Assets . . . . .</b>	F		
Gross Block . . . . .		6,288.52	43,210.76
Less - Accumulated Depreciation . . . . .		<u>1,531.45</u>	<u>7,015.82</u>
Net Block . . . . .		4,757.07	36,194.94
Capital work in progress . . . . .		<u>1,651.60</u>	<u>4,498.17</u>
		6,408.67	40,693.11
2. <b>Preoperative Expenses, pending allocation</b>		16.66	38.64
3. <b>Investments . . . . .</b>	G	76.10	155.66
4. <b>Deferred Tax Asset (Net) . . . . .</b>		817.59	—

Particulars	Schedule	As at March 31,	
		2006	2007
		Rs. Million	Rs. Million
5. <b>Current Assets, Loans and Advances</b>	H		
(a) Inventories . . . . .		13,801.99	31,362.98
(b) Sundry Debtors . . . . .		16,473.10	25,704.02
(c) Cash and Bank Balances . . . . .		5,514.82	15,382.95
(d) Loans and Advances . . . . .		5,897.22	12,075.50
		<u>41,687.13</u>	<u>84,525.45</u>
<b>Less : Current Liabilities and Provisions</b>	I		
(a) Current Liabilities . . . . .		12,977.04	33,340.00
(b) Provisions . . . . .		4,082.82	4,998.80
		<u>17,059.86</u>	<u>38,338.80</u>
<b>Net Current Assets . . . . .</b>		24,627.27	46,186.65
6. <b>Miscellaneous Expenditure (To the extent not written off or adjusted) . . . . .</b>	J	8.49	—
<b>Total . . . . .</b>		<u>31,954.78</u>	<u>87,074.06</u>

**Significant Accounting Policies and Notes to the Consolidated Financial Statements**

P

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
		Rs. Million	Rs. Million
<b>Income</b>			
Sales and Service Income . . . . .		38,410.30	79,857.30
Other Income . . . . .	K	744.64	965.00
		<u>39,154.94</u>	<u>80,822.30</u>
<b>Expenditure</b>			
Cost of Goods Sold . . . . .	L	23,278.90	48,113.65
Operating and other Expenses . . . . .	M	5,121.39	12,031.55
Employees' Remuneration and Benefits . . . . .	N	1,215.88	6,495.90
Financial Charges . . . . .	O	647.78	2,763.44
Depreciation . . . . .	F	715.90	1,717.98
Preliminary Expenditure Written Off . . . . .	J	1.80	17.14
		<u>30,981.65</u>	<u>71,139.66</u>
<b>Profit Before Tax and Minority Interest</b> . . . . .		8,173.29	9,682.64
Current Tax . . . . .		1,103.00	1,747.81
Less: MAT Credit Entitlement . . . . .			(512.32)
Earlier Year - Current Tax . . . . .		1.70	(111.83)
Deferred Tax . . . . .		(568.20)	(125.70)
Fringe Benefit Tax . . . . .		31.60	36.64
		<u>568.10</u>	<u>1,034.60</u>
<b>Profit before Minority Interest</b> . . . . .		7,605.19	8,648.04
Add/(Less): Share of loss/(profit) of Minority . . . . .		(10.20)	(7.72)
<b>Net Profit</b> . . . . .		7,594.99	8,640.32
Balance brought forward . . . . .		5,016.58	7,948.07
<b>Profit Available for Appropriations</b> . . . . .		12,611.57	16,588.39
Interim Dividend on Equity Shares . . . . .		718.80	1,442.20
Proposed Dividend on Equity Shares . . . . .		720.30	3.21
Dividend on Preference Shares . . . . .		16.60	17.00
Tax on Dividends . . . . .		207.80	211.40
Transfer to General Reserve . . . . .		3,000.00	3,284.20
		<u>4,663.50</u>	<u>4,958.01</u>
<b>Balance Carried to Balance Sheet</b> . . . . .		<u>7,948.07</u>	<u>11,630.38</u>
Earnings Per Share (in Rs.)			
Basic (Nominal Value of shares Rs.10 (Previous Year Rs.10)) [See Schedule P, Note(9)] . . . .		27.73	29.96
Diluted (Nominal Value of shares Rs.10 (Previous Year Rs.10)) [See Schedule P, Note(9)] . . . .		27.68	29.91

**Significant Accounting Policies and Notes to the Consolidated Financial Statements**

P

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
	Rs. Million	Rs. Million
<b>A. CASH FLOW FROM OPERATING ACTIVITIES</b>		
<b>Profit Before Tax</b> . . . . .	8,173.29	9,682.64
<b>Adjustments for</b>		
Depreciation . . . . .	715.90	1,717.98
Loss/(Profit) on sale of Investments . . . . .	—	(76.47)
Loss on Sale/disposal of Assets . . . . .	5.30	15.76
Preliminary Expenses incurred . . . . .	(6.20)	(8.65)
Preliminary Expenses Written Off . . . . .	1.80	17.14
Interest Expenses . . . . .	507.62	2,522.60
Interest Income . . . . .	(311.75)	(491.80)
Dividend Income . . . . .	(4.18)	(6.26)
Provision (reversal) for Doubtful Debts/Loans . . . . .	(48.20)	39.76
Employee stock option scheme . . . . .	103.64	73.00
Adjustments for consolidation . . . . .	36.00	80.32
Provision for operation maintenance and warranty . . . . .	857.70	859.07
Provision for performance guarantee . . . . .	1,065.14	1,026.96
Wealth Tax . . . . .	0.18	0.30
<b>Operating Profit before Working Capital Changes</b> . . . . .	11,096.24	15,452.35
<b>Movements in Working Capital:</b>		
(Increase)/Decrease in loans and advances . . . . .	(2,960.94)	(2,651.53)
(Increase)/Decrease in sundry debtors . . . . .	(9,502.14)	(5,737.44)
(Increase)/Decrease in inventories . . . . .	(8,035.22)	(14,393.78)
Increase/(Decrease) in current liabilities . . . . .	7,169.42	15,451.14
<b>Cash (used in)/generated from operations</b> . . . . .	(2,232.64)	8,120.74
Direct Taxes Paid (net of refunds) . . . . .	(1,307.60)	(748.40)
<b>Net cash (used in)/generated from operating activities</b> . . . . .	(3,540.24)	7,372.34
<b>B. CASH FLOW FROM INVESTING ACTIVITIES</b>		
Purchase of fixed assets . . . . .	(4,059.72)	(10,195.85)
Proceeds from sale of fixed assets . . . . .	21.56	80.12
Paid for Acquisition of Subsidiaries . . . . .	(33.90)	(25,026.37)
Purchase of Investments . . . . .	(4.94)	(154.78)
Sale/Redemption of Investments . . . . .	6.50	151.66
Inter-corporate deposits repaid/(granted) . . . . .	31.80	(2,583.63)
Preoperative expenses incurred . . . . .	(16.66)	(21.98)
Interest received . . . . .	246.54	545.51
Dividends received . . . . .	4.18	6.26
<b>Net Cash Flow from Investing Activities</b> . . . . .	(3,804.64)	(37,199.06)

Particulars	April 1, 2005 to March 31, 2006	April 1, 2006 to March 31, 2007
	Rs. Million	Rs. Million
<b>C. CASH FLOW FROM FINANCING ACTIVITIES</b>		
Redemption of Preference share capital . . . . .	(1,000.00)	(150.00)
Proceeds from issuance of share capital including premium . . . .	13,648.94	—
Issuance of share capital under Employee Stock Option Scheme .	—	59.53
Share Application Money received. . . . .	1.37	(1.72)
Share issue expenses . . . . .	(406.70)	—
Issuance of Management Profit certificates . . . . .	—	890.03
Proceeds from borrowings . . . . .	5,783.85	61,773.41
Repayment of borrowings . . . . .	(5,238.84)	(17,862.43)
Interest paid . . . . .	(501.64)	(2,508.94)
Dividends paid . . . . .	(849.86)	(2,190.24)
Tax on dividends paid . . . . .	(122.06)	(314.79)
<b>Net cash from financing activities . . . . .</b>	<b>11,315.06</b>	<b>39,694.85</b>
<b>Net increase in cash and cash equivalents (A + B + C) . . . . .</b>	<b>3,970.18</b>	<b>9,868.13</b>
<b>Cash and cash equivalents at the beginning of the year. . . . .</b>	<b>1,544.64</b>	<b>5,514.82</b>
<b>Cash and cash equivalents at the end of the year. . . . .</b>	<b>5,514.82</b>	<b>15,382.95</b>
	<b>As at March 31, 2006</b>	<b>As at March 31, 2007</b>
<b>Components of cash and cash equivalents</b>		
Cash and cheques on hand . . . . .	13.35	706.49
With banks		
- in current account. . . . .	327.04	861.82
- in Term deposit accounts . . . . .	3,895.27	2,857.77
With non-scheduled banks - on current account . . . . .	1,279.16	10,956.87
	<u>5,514.82</u>	<u>15,382.95</u>

**Notes:**

1. Purchase of fixed assets includes payments for items in capital work in progress and advance for purchase of fixed assets.
2. Previous year's figures have been regrouped/reclassified, wherever necessary.

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
	Rs. Million	Rs. 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
1,500,000 (11,500,000) Preference Shares of Rs.100/- each . . . . .	1,150.00	150.00
	<u>4,450.00</u>	<u>4,450.00</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
<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	—
<b>Total</b> . . . . .	<u>3,025.31</u>	<u>2,877.65</u>
<b>Schedule - B: Employee Stock Options</b>		
Employee Stock Options Outstanding . . . . .	224.44	156.88
Less: Deferred Employee Compensation Expense Outstanding . . . . .	120.80	39.77
	<u>103.64</u>	<u>117.11</u>
<b>Schedule - C: Reserves and Surplus</b>		
Capital Reserve on Consolidation . . . . .	0.30	0.30
<b>Securities Premium Account</b>		
As per last Balance Sheet . . . . .	298.51	13,110.26
Add: Addition during the year . . . . .	13,381.34	116.68
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>
<b>General Reserve</b>		
As per last Balance Sheet . . . . .	1,708.49	3,158.49
Add: Transfer from Consolidated Profit and Loss Account . . . . .	3,000.00	3,284.20
Less: Adjustment for Employee Benefits provision [See Schedule P, Note(4)] [Net of Tax Benefit Rs. 3.10 million (Rs. NIL)] . . . . .	—	29.19
Less: Capitalisation by way of Issue of Bonus Shares . . . . .	1,550.00	—
Less: Transfer to Capital Redemption Reserve . . . . .	—	150.00
	<u>3,158.49</u>	<u>6,263.50</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
	Rs. Million	Rs. Million
<b>Foreign Currency Translation Reserve</b>		
Exchange differences during the year on net investment in Non-integral operations . . . . .	—	(45.18)
<b>Capital Redemption Reserve</b> . . . . .	—	150.00
<b>Profit and Loss Account</b> . . . . .	7,948.07	11,630.38
<b>Total</b> . . . . .	<u>24,217.12</u>	<u>31,225.94</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
From Others [See Schedule P, Note 6(e)(ii)] . . . . .	1,517.94	1,215.49
	<u>2,544.09</u>	<u>11,761.65</u>
<b>Working Capital Facilities from Banks and Financial Institutions</b> [See Schedule P, Note 6(e)(iii)] . . . . .	1,353.81	8,081.89
	<u>1,353.81</u>	<u>8,081.89</u>
<b>Vehicle Loans</b> [See Schedule P, Note 6(e)(iv)] . . . . .	1.15	0.71
<b>Total</b> . . . . .	<u>3,899.05</u>	<u>19,844.25</u>
 <b>Schedule - E: Unsecured Loans</b>		
<b>Long Term</b>		
From banks . . . . .	—	21,886.44
From other than banks . . . . .	293.38	203.20
	<u>293.38</u>	<u>22,089.64</u>
<b>Short Term</b>		
From banks . . . . .	—	9,666.39
From other than banks . . . . .	314.72	20.00
	<u>314.72</u>	<u>9,686.39</u>
<b>Total</b> . . . . .	<u>608.10</u>	<u>31,776.03</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	Additions	Acquisitions (See Note 2)	As at March 31, 2007	As at April 1, 2006	For the Period	Acquisitions (See Note 2)	Deductions	As at March 31, 2007	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
Goodwill on Consolidation . . . . .	14.09	17,629.15	—	17,643.24	—	—	—	—	17,643.24	14.09
Freehold Land . . . . .	202.30	173.12	281.60	631.43	—	—	—	—	631.43	202.30
Leasehold Land . . . . .	150.91	5.28	—	156.19	1.71	2.81	—	—	151.67	149.20
Building - Factory and Office . . . . .	1,790.85	2,247.84	2,751.72	6,773.27	224.63	229.57	180.90	6.52	6,144.69	1,566.22
Plant and Machinery . . . . .	2,897.78	4,186.20	8,019.28	14,963.78	869.68	1,078.15	3,102.12	84.99	9,998.82	2,028.10
Wind Research and Measuring Equipment . . . . .	132.68	46.17	—	174.42	72.91	38.28	—	3.55	66.78	59.77
Computer and Office Equipments . . . . .	440.75	518.23	823.43	1,779.08	160.96	222.96	485.59	1.73	911.30	279.79
Furniture and Fixtures . . . . .	202.48	155.54	80.61	436.12	67.14	48.94	48.09	1.94	273.89	135.34
Vehicles - Motor Cars and Trucks . . . . .	75.43	26.23	8.28	106.35	30.55	15.32	7.81	1.46	54.13	44.88
Intangible Assets . . . . .	—	—	—	—	—	—	—	—	—	—
- Design and Developments . . . . .	301.56	96.53	—	398.09	74.10	30.72	—	—	293.27	227.46
- Software . . . . .	79.69	69.10	—	148.79	29.77	93.30	—	—	25.72	49.92
Total . . . . .	6,288.52	25,153.39	11,964.92	43,210.76	1,531.45	1,760.05	3,824.51	100.19	36,194.94	4,757.07
Capital Work-in-Progress . . . . .	—	—	—	—	—	—	—	—	—	—
Total . . . . .	6,288.52	25,153.39	11,964.92	43,210.76	1,531.45	1,760.05	3,824.51	100.19	40,693.11	6,408.67
Previous Year . . . . .	3,596.89	2,746.52	—	6,288.52	807.68	751.80	—	28.03	4,498.17	1,651.60
									40,693.11	6,408.67
									4,757.07	

**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
	Rs. Million	Rs. 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
(ii) Trade Investments . . . . .	60.00	0.03
(iii) Other than Trade Investments . . . . .	15.75	155.26
<b>Total Investments . . . . .</b>	<b>76.10</b>	<b>155.66</b>
<b>Schedule - H: Current Assets, Loans and Advances</b>		
<b>Current Assets</b>		
<b>Inventories</b>		
Raw Materials . . . . .	10,430.31	16,933.14
Semi Finished Goods, Finished Goods and Work-in-Progress . . . . .	2,969.95	14,227.95
Land and Land Lease Rights . . . . .	394.09	164.39
Stores and Spares . . . . .	7.64	37.50
	<b>13,801.99</b>	<b>31,362.98</b>
<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
- Considered Doubtful . . . . .	62.22	104.30
	<b>2,115.13</b>	<b>2,775.31</b>
Others, Considered Good . . . . .	14,420.19	23,033.01
	<b>16,535.32</b>	<b>25,808.32</b>
Less : Provision for doubtful debts . . . . .	62.22	104.30
	<b>16,473.10</b>	<b>25,704.02</b>
<b>Cash and Bank Balances</b>		
Cash on hand . . . . .	8.38	9.38
Cheques on hand . . . . .	4.97	697.11
Balances with Scheduled Banks . . . . .		
- in Current Accounts . . . . .	327.04	861.82
- in Term Deposit Accounts . . . . .	3,895.27	2,857.77
	<b>4,222.31</b>	<b>3,719.59</b>
Balance with Non Scheduled Banks in Current Accounts . . . . .	1,279.16	10,956.87
	<b>5,514.82</b>	<b>15,382.95</b>
<b>Loans and Advances</b>		
(Unsecured and considered good, except otherwise stated)		
<b>Deposits</b>		
- With Customers as Security Deposit . . . . .	259.44	357.23
- Others . . . . .	821.77	548.09
Advance Income Tax (Net) . . . . .	109.13	821.52
Advances recoverable in cash or in kind or for value to be received*		
- Considered Good . . . . .	4,706.88	10,348.66
- Considered Doubtful . . . . .	27.01	27.01
	<b>5,924.23</b>	<b>12,102.51</b>
Less : Provision for doubtful loans and advances . . . . .	27.01	27.01
	<b>5,897.22</b>	<b>12,075.50</b>
 * 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>	<b>41,687.13</b>	<b>84,525.45</b>

**SUZLON ENERGY LIMITED AND ITS SUBSIDIARIES**  
**Schedules annexed to and forming part of the Consolidated Balance Sheet**

Particulars	As at March 31,	
	2006	2007
	Rs. Million	Rs. Million
<b>Schedule - I: Current Liabilities and Provisions</b>		
<b>Current Liabilities</b>		
Sundry Creditors. . . . .	7,027.03	15,686.98
Acceptances. . . . .	225.85	342.04
Other Current Liabilities . . . . .	2,176.96	6,097.82
Interest accrued but not due . . . . .	13.60	27.26
Advances from Customers . . . . .	3,533.60	11,185.90
	12,977.04	33,340.00
<b>Provisions</b>		
Gratuity, Superannuation and Leave Encashment. . . . .	68.48	388.74
Generation Guarantee, LD, Operation, Maintenance and Warranty. . . . .	3,170.83	4,597.77
Dividend . . . . .	736.90	9.07
Tax on Dividend . . . . .	106.61	3.22
	4,082.82	4,998.80
<b>Total</b> . . . . .	<u>17,059.86</u>	<u>38,338.80</u>
<b>Schedule - J: Miscellaneous Expenditure</b> (To the extent not adjusted or written off)		
<b>Preliminary Expenses</b>	4.09	8.49
Add: Addition during the year . . . . .	6.20	8.65
Less: Written off during the year . . . . .	1.80	17.14
<b>Total</b> . . . . .	<u>8.49</u>	<u>—</u>

**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
	<u>Rs. Million</u>	<u>Rs. Million</u>
<b>Schedule - K: Other Income</b>		
Interest Received		
From Banks . . . . .	161.83	178.66
From Others . . . . .	149.92	313.14
Dividends . . . . .	4.18	6.26
Infrastructure Development Income . . . . .	269.66	134.53
Miscellaneous Income . . . . .	159.05	332.41
Total . . . . .	<u>744.64</u>	<u>965.00</u>
<b>Schedule - L: Cost of Goods Sold</b>		
<b>Consumption of Raw Material:</b>		
Opening Stock . . . . .	4,591.32	10,430.31
Add: Purchases. . . . .	31,556.20	65,644.78
	36,147.52	76,075.09
Less: Closing Stock . . . . .	10,430.31	16,933.14
	<u>25,717.21</u>	<u>59,141.95</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
Land and Land Lease Rights . . . . .	104.69	394.09
	1,164.36	3,364.04
<b>Closing Balance:</b>		
Semi Finished Goods, Finished Goods and Work-in-Progress . . . . .	2969.95	14,227.95
Land and Land Lease Rights . . . . .	394.09	164.39
	3,364.04	14,392.34
(Increase)/Decrease in Stock . . . . .	(2,199.68)	(11,028.30)
Less: Tranfer to Designs and Drawings . . . . .	238.63	—
Total . . . . .	<u>23,278.90</u>	<u>48,113.65</u>

Particulars	April 1, 2005 to March 31, 2006	April 1, 2006 to March 31, 2007
	Rs. Million	Rs. Million
<b>Schedule - M: Operating and other Expenses</b>		
Stores and Spares . . . . .	177.79	1,093.73
Power and Fuel . . . . .	40.65	306.54
Factory Expenses . . . . .	171.58	212.65
Repairs and Maintenance . . . . .		
Plant and Machinery . . . . .	14.81	13.59
Building . . . . .	19.25	34.37
Others . . . . .	30.58	94.12
Design change and Technological Upgradation Charges . . . . .	51.61	551.08
Operation and Maintenance Charges . . . . .	146.68	183.07
Other Manufacturing and Operating Expenses . . . . .	—	—
Insurance . . . . .	59.64	194.61
Quality Assurance Expenses . . . . .	165.6	147.84
R & D, Certification and Product Development . . . . .	95.3	117.47
Rent . . . . .	91.48	283.02
Rates and Taxes . . . . .	51.22	87.57
Provision for Operation, Maintenance and Warranty . . . . .	857.7	859.07
Provision For Power Generation Guarantee . . . . .	1,065.14	1,026.96
Advertisement and Sales Promotion . . . . .	155.36	390.03
Infrastructure Development Expenses . . . . .		—
Freight Outward and Packing Expenses . . . . .	796.42	2,286.41
Sales Commission . . . . .	232.47	238.23
Travelling, Conveyance and Vehicle Expenses . . . . .	335.23	872.23
Communication Expenses . . . . .	55.48	217.31
Auditors' Remuneration . . . . .	30.44	58.29
Consultancy Charges . . . . .	161.93	760.97
Charity and Donations . . . . .	21.15	167.60
Other Selling and Administrative Expenses . . . . .	250.13	1,360.60
Exchange Differences, net. . . . .	32.7	492.04
Provision for doubtful debts and advances . . . . .	5.75	39.76
Bad Debts written off. . . . .	—	3.10
Loss/(Profit) on sale of Investment . . . . .	—	(76.47)
Loss on Assets Sold/Discarded, net. . . . .	5.3	15.76
Total . . . . .	<u>5,121.39</u>	<u>12,031.55</u>
<b>Schedule - N: Employees' Remuneration and Benefits</b>		
Salaries, Wages, Allowances and Bonus . . . . .	1,126.03	6,259.51
Contribution to Provident and Other Funds . . . . .	36.42	78.53
Staff Welfare Expenses . . . . .	53.43	157.86
Total . . . . .	<u>1,215.88</u>	<u>6,495.90</u>
<b>Schedule - O: Financial Charges</b>		
Interest		
Fixed Loans . . . . .	129.2	1,660.14
Others . . . . .	378.42	862.46
<b>Bank Charges . . . . .</b>	<u>140.16</u>	<u>240.84</u>
Total . . . . .	<u>647.78</u>	<u>2,763.44</u>

**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:

	Year ended March 31, 2006	Year ended March 31, 2007
<b>Obligation on non-cancellable operating leases</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:

Date of Vesting	Proportion of Vesting
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>	889,000
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>	630,600
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 4, 2006, November 6, 2006, December 2, 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>	898.85	1607.20
<b>Deferred Tax Liability</b> . . . . .		
Difference in depreciation of fixed assets . . . . .	105.46	1803.14
Others . . . . .	—	0.55
<b>(b)</b>	105.46	1803.69
<b>Deferred Tax Asset / (Liability) (Net)</b> . . . . .		
<b>[(c )=(a)-(b)]</b>	793.39	(196.49)
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> . . . . .	817.59	(176.79)

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
<b>Less:</b> Dividend and tax thereon . . . . .	18.96	23.03
<b>Net Profit attributable to equity shareholders</b> <b>[Numerator for computation of basic and diluted EPS](a)</b> . . . . .	7,576.03	8,617.29
Weighted average number of equity shares in calculating basic EPS <b>[Denominator for computation of basic EPS] (b)</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 <b>[Denominator for computation of Diluted EPS] (c)</b> . . . . .	273,664,207	288,134,232
<b>Basic earning per share of face value of Rs. 10/- each</b> <b>(a/b *10,000,000)</b> . . . . .	27.73	29.96
<b>Diluted earning per share of face value of Rs. 10/- each</b> <b>(a/c *10,000,000)</b> . . . . .	27.68	29.91

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> . . . . .	17.90	16.62

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

### Option contract outstanding as at Balance Sheet date

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

### Target redemption forward contract

Euro NIL (0.25 Million / Euro 0.50 Million) per week for 18 weeks Hedge forex Euro liabilities)

### Range accrual interest rate swap

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**

Particulars	Associate	Entities where KMP/ RKMP has significant influence	KMP	RKMP	Employee Funds
<b>Transactions</b>					
Purchase of fixed assets	28.96	2.68	—	—	—
(including intangibles)	(3.10)	(—)	(—)	(—)	(—)
Sale of Fixed Assets	0.34	—	—	—	—
	(0.05)	(—)	(—)	(—)	(—)
Subscription to / purchase of equity shares	—	—	0.15	0.35	—
	(—)	(—)	(0.34)	(3.53)	(—)
Redemption of Preference Shares	—	43.58	13.10	82.50	—
	(—)	(—)	(—)	(—)	—
Sale of investments	—	22.03	—	48.70	—
	(6.50)	(—)	(—)	(—)	(—)
Sale of goods	1,080.46	28.18	142.47	142.47	—
	(546.89)	(—)	(—)	(—)	(—)
Purchase of goods and services	1,895.84	446.87	—	—	—
	(199.26)	(0.66)	(—)	(—)	(—)
Loans / Deposit Given	4,820.50	172.30	—	—	—
	(2,040.20)	(—)	(—)	(—)	(—)
Interest received / receivable	173.82	68.96	—	—	—
	(107.70)	(—)	(—)	(—)	(—)
Dividend received	6.30	—	—	—	—
	(4.17)	(—)	(—)	(—)	(—)
Dividend paid	—	599.91	191.88	726.95	—
	(—)	(89.01)	(75.89)	(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
	Entities where KMP/RKMP has significant influence	Sarjan Realities Limited	3.10	2.24
		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
	Entities where KMP/RKMP has significant influence	Jitendra R Tanti	—	10.00
	RKMP	Rambhaben Ukabhai	—	22.90
	RKMP	Nidhi T Tanti	—	12.90
	RKMP	Trisha J Tanti	—	12.90
	Associate	Aspen Infrastructures Limited (Formerly Suzlon Infrastructure Limited)	6.50	—

Type of the Transaction	Type of relationship	Name of the entity/person	March 31, 2006	March 31, 2007
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

	<b>Name</b>	<b>Amount outstanding as at March 31, 2007</b>	<b>Maximum Amount outstanding during the year</b>
<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

SNK & Co.  
Chartered Accountants  
E-2-B, The Fifth Avenue  
Dhole Patil Road  
Near Regency Hotel  
Pune 411 001

S.R. BATLIBOI & Co.  
Chartered Accountants  
Panchshil Techpark  
C-401, Fourth Floor  
Near Don Bosco School, Yerwada  
Pune 411 006

## **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'), its subsidiaries, associate and joint venture (together referred to as 'the Group', as described in Schedule P, Note I (a)) as at March 31, 2008 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 and have been prepared by management on the basis of separate financial statements and other financial information regarding components. 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall 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 certain subsidiaries, whose financial statements reflect Group's share of total assets of Rs. 1,271.01 crore as at March 31, 2008 and Group's share of total revenue of Rs. 806.07 for the year ended on that date. These financial statements and other financial information have been audited solely by SNK & Co. on which, S. R. Batliboi & Co. has placed reliance for the purpose of this report.
4. We did not jointly audit the financial statements of certain subsidiaries, whose financial statements reflect Group's share of total assets of Rs. 2,074.49 crore as at March 31, 2008 and Group's share of total revenue of Rs. 2,303.54 crore for the year ended on that date. These financial statements and other financial information have been audited solely by S. R. Batliboi & Co. on which, SNK & Co. has placed reliance for the purpose of this report.
5. We did not audit the financial statements of certain subsidiaries, whose financial statements reflect Group's share of total assets of Rs. 17,504.66 crore as at March 31, 2008 and Group's share of total revenue of Rs. 5,820.70 for the year ended on that date. These financial statements and other financial information have been audited by other auditors whose reports have been furnished to us, and our opinion is based solely on the report of other auditors.
6. We did not audit the financial statements of an associate, whose financial statements reflect Group's share of results in associate's profit after tax of Rs. 55.75 crore for the year ended March 31, 2008. These financial statements used for equity accounting of the associate's results for the year ended March 31, 2008 are based on management certified financial statements and therefore unaudited.
7. 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, Accounting Standard 23, Accounting for Investments in Associates in Consolidated Financial Statements and Accounting Standard 27, Financial Reporting of Interests in Joint Ventures notified by the Companies (Accounting Standards) Rules, 2006.

SNK & Co.  
Chartered Accountants  
E-2-B, The Fifth Avenue  
Dhole Patil Road  
Near Regency Hotel  
Pune 411 001

S.R. BATLIBOI & Co.  
Chartered Accountants  
Panchshil Techpark  
C-401, Fourth Floor  
Near Don Bosco School, Yerwada  
Pune 411 006

8. Based on our audit and on consideration of reports of other auditors on separate financial statements and on the other financial information of the components, and to the best of our information and according to the explanations given to us, we are of the opinion that 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, 2008;
  - (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 ended on that date.

**SNK & Co.**  
**Chartered Accountants**

**S.R. BATLIBOI & Co.**  
**Chartered Accountants**

per Jasmin B. Shah  
Partner  
Membership No: 46238  
Pune  
May 20, 2008

per Arvind Sethi  
Partner  
Membership No: 89802  
Pune  
May 20, 2008

**SUZLON ENERGY LIMITED**  
**Consolidated Balance Sheet as at March 31, 2008**  
All amounts in rupees million unless otherwise stated

Particulars	Schedule	As at March 31,	
		2008	2007
<b>SOURCES OF FUNDS</b>			
<b>Shareholders' funds</b>			
Share capital . . . . .	A	2,993.90	2,877.65
Employee stock options . . . . .	B	102.19	117.11
Share application money pending allotment . . . . .		—	0.15
Reserves and surplus . . . . .	C	77,916.95	31,225.94
		<b>81,013.04</b>	<b>34,220.85</b>
<b>Preference shares issued by subsidiary company . . . . .</b>		<b>25.00</b>	<b>25.00</b>
<b>Management option certificates issued by subsidiary company . . . . .</b>		<b>—</b>	<b>890.03</b>
<b>Minority interest . . . . .</b>		<b>10,243.82</b>	<b>141.12</b>
<b>Loan funds</b>			
Secured loans . . . . .	D	70,664.32	19,844.25
Unsecured loans . . . . .	E	28,681.60	31,776.03
		<b>99,345.92</b>	<b>51,620.28</b>
<b>Deferred tax liability . . . . .</b>		<b>2,058.94</b>	<b>1,624.89</b>
		<b>192,686.72</b>	<b>88,522.17</b>
<b>APPLICATION OF FUNDS</b>			
<b>Fixed assets</b>	F		
Gross block . . . . .		55,998.38	43,210.76
Less: Accumulated depreciation / amortisation . . . . .		10,318.44	7,015.82
Net block . . . . .		45,679.94	36,194.94
Capital work-in-progress . . . . .		11,196.74	4,536.81
		<b>56,876.68</b>	<b>40,731.75</b>
<b>Investments . . . . .</b>	G	<b>31,417.78</b>	<b>155.66</b>
<b>Deferred tax assets . . . . .</b>		<b>1,840.88</b>	<b>1,448.10</b>
<b>Current assets, loans and advances</b>	H		
Inventories . . . . .		40,848.33	31,362.98
Sundry debtors . . . . .		32,012.51	22,352.41
Cash and bank balances . . . . .		69,602.01	15,382.95
Other current assets . . . . .		14,893.48	3,351.61
Loans and advances . . . . .		18,249.94	12,075.51
		<b>175,606.27</b>	<b>84,525.46</b>
<b>Less: Current liabilities and provisions . . . . .</b>	I		
Current liabilities . . . . .		64,830.12	33,340.00
Provisions . . . . .		8,224.77	4,998.80
		<b>73,054.89</b>	<b>38,338.80</b>
<b>Net current assets . . . . .</b>		<b>102,551.38</b>	<b>46,186.66</b>
<b>Miscellaneous expenditure . . . . .</b>	J	<b>—</b>	<b>—</b>
(To the extent not written off or adjusted)			
		<b>192,686.72</b>	<b>88,522.17</b>
Significant accounting policies and notes to consolidated accounts . . . . .	P		

The schedules referred to above and the notes to accounts form an integral part of the 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  
Membership No. 46238

per Arvind Sethi  
Partner  
Membership No. 89802

Hemal A. Kanuga  
Company Secretary

**Girish R. Tanti**  
Director

Place: Pune  
Date: May 20, 2008

Place: Pune  
Date: May 20, 2008

Place: Mumbai  
Date: May 20, 2008



**SUZLON ENERGY LIMITED**  
**Consolidated Profit and Loss Account for the year ended March 31, 2008**  
All amounts in rupees million unless otherwise stated

Particulars	Schedule	April 01, 2007 to March 31, 2008	April 01, 2006 to March 31, 2007
<b>INCOME</b>			
Sales . . . . .		136,794.30	79,857.30
Other income . . . . .	K	<u>2,645.45</u>	<u>965.00</u>
		<b>139,439.75</b>	<b>80,822.30</b>
<b>EXPENDITURE</b>			
Cost of goods sold . . . . .	L	88,701.82	47,881.55
Operating and other expenses . . . . .	M	17,753.36	12,077.12
Employees' remuneration and benefits . . . . .	N	10,430.05	6,682.43
Financial charges . . . . .	O	5,969.38	2,763.44
Depreciation/amortisation . . . . .	F	2,893.64	1,717.98
Preliminary expenditure written off . . . . .	J	<u>15.41</u>	<u>17.14</u>
		<b>125,763.66</b>	<b>71,139.66</b>
<b>PROFIT BEFORE TAX AND EXCEPTIONAL ITEMS . . . . .</b>		<b>13,676.09</b>	<b>9,682.64</b>
Current tax . . . . .		2,676.15	1,747.81
MAT credit entitlement . . . . .		(806.75)	(512.32)
Earlier year — current tax . . . . .		2.31	(111.83)
Deferred tax . . . . .		(22.77)	(125.70)
Fringe benefit tax . . . . .		<u>144.00</u>	<u>36.64</u>
<b>PROFIT AFTER TAX AND BEFORE EXCEPTIONAL ITEMS . . . . .</b>		<b>11,683.15</b>	<b>8,648.04</b>
Exceptional items (Net of tax) [See Schedule P, Note 5] . . . . .		<u>1,511.69</u>	<u>—</u>
<b>PROFIT AFTER TAX AND EXCEPTIONAL ITEMS . . . . .</b>		<b>10,171.46</b>	<b>8,648.04</b>
Add : Share in associate's profit after tax . . . . .		557.50	—
Less: Share of profit of minority . . . . .		<u>(427.98)</u>	<u>(7.72)</u>
<b>NET PROFIT . . . . .</b>		<b>10,300.98</b>	<b>8,640.32</b>
Balance brought forward . . . . .		<u>11,630.38</u>	<u>7,948.07</u>
<b>PROFIT AVAILABLE FOR APPROPRIATIONS . . . . .</b>		<b>21,931.36</b>	<b>16,588.39</b>
<b>APPROPRIATIONS</b>			
Interim dividend on equity shares . . . . .		—	1,442.20
Proposed dividend on equity shares . . . . .		1,496.93	3.21
Dividend on preference shares . . . . .		2.00	17.00
Tax on dividends . . . . .		263.80	211.40
Transfer to general reserve . . . . .		<u>3,267.50</u>	<u>3,284.20</u>
<b>Surplus carried to balance sheet . . . . .</b>		<b>16,901.13</b>	<b>11,630.38</b>
<b>Earnings per share (in Rs) [See Schedule P, Note 13]</b>			
Before exceptional items			
- Basic [Nominal value of share Rs 2] . . . . .		<b>8.11</b>	<b>5.99</b>
- Diluted [Nominal value of share Rs 2] . . . . .		<b>7.90</b>	<b>5.98</b>
After exceptional items			
- Basic [Nominal value of share Rs 2] . . . . .		<b>7.07</b>	<b>5.99</b>
- Diluted [Nominal value of share Rs 2] . . . . .		<b>6.89</b>	<b>5.98</b>
Significant accounting policies and notes to consolidated accounts . . . . .	P		

The schedules referred to above and the notes to accounts form an integral part of the 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  
Membership No. 46238

per Arvind Sethi  
Partner  
Membership No. 89802

**Hemal A. Kanuga**  
Company Secretary

**Girish R. Tanti**  
Director

Place: Pune  
Date: May 20, 2008

Place: Pune  
Date: May 20, 2008

Place: Mumbai  
Date: May 20, 2008

**SUZLON ENERGY LIMITED**  
**Consolidated Cash Flow Statement for the year ended March 31, 2008**  
All amounts in rupees million unless otherwise stated

Particulars	Year Ended March 31,	
	2008	2007
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>		
Profit before taxation and exceptional item . . . . .	<b>13,676.09</b>	<b>9,682.64</b>
<b>Adjustments for:</b>		
Depreciation/amortisation . . . . .	2,893.64	1,717.98
(Profit)/loss on assets sold/discarded, net . . . . .	35.67	15.76
(Profit)/loss on sale of investments, net. . . . .	(34.26)	(76.47)
Preliminary expenses incurred . . . . .	(15.41)	(8.65)
Preliminary expenses written off . . . . .	15.41	17.14
Interest income . . . . .	(2,328.87)	(491.80)
Interest expenses . . . . .	5,320.27	2,522.60
Dividend income . . . . .	(0.01)	(6.26)
Provision for operation, maintenance and warranty . . . . .	689.04	859.07
Provision for performance guarantee . . . . .	2,356.96	1,026.96
Bad debts . . . . .	157.22	3.10
(Reversal)/Provision for doubtful debts and advances. . . . .	172.29	39.76
Adjustments for consolidation . . . . .	3,822.44	80.31
Exchange differences, net . . . . .	(195.39)	—
Employee stock option scheme . . . . .	45.28	73.00
Wealth-tax . . . . .	0.35	0.30
<b>Operating profit before working capital changes . . . . .</b>	<b>26,610.72</b>	<b>15,455.44</b>
<b>Movements in working capital</b>		
(Increase)/decrease in sundry debtors and unbilled revenue . . . . .	(21,478.78)	(5,740.54)
(Increase)/decrease in inventories . . . . .	(9,485.35)	(14,393.78)
(Increase)/decrease in loans and advances . . . . .	(8,741.75)	(2,651.53)
Increase/(decrease) in current liabilities . . . . .	29,530.01	15,451.14
Cash (used in)/generated from operations . . . . .	16,434.85	8,120.73
Direct taxes paid (net of refunds) . . . . .	(2,477.83)	(748.40)
<b>Net cash (used in)/generated from operating activities before exceptional items . . . . .</b>	<b>13,957.02</b>	<b>7,372.33</b>
Less — Exceptional item (Net of tax) [See Schedule P, Note 5] . . . . .	(1,511.69)	—
<b>Net cash (used in)/generated from operating activities . . . . .</b>	<b>12,445.33</b>	<b>7,372.33</b>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>		
Purchase of fixed assets . . . . .	(21,287.17)	(10,217.82)
Proceeds from sale of fixed assets . . . . .	82.72	80.12
Paid for acquisition of subsidiaries . . . . .	—	(25,026.37)
Purchase of investments . . . . .	(30,704.62)	(154.78)
Sale/redemption of investments . . . . .	—	151.66
Inter-corporate deposits repaid/(granted) . . . . .	4,433.40	(2,583.63)
Interest received . . . . .	1,108.66	545.51
Dividend received . . . . .	—	6.26
<b>Net cash flow from investing activities . . . . .</b>	<b>(46,367.01)</b>	<b>(37,199.05)</b>

Particulars	Year Ended March 31,	
	2008	2007
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>		
Redemption of preference share capital . . . . .	—	(150.00)
Share application money . . . . .	—	(1.72)
Proceeds from issuance of share capital including premium, under stock option scheme . . . .	60.20	59.53
Proceeds from issuance of share capital including premium to qualified institutional buyers . .	21,826.96	—
Zero coupon convertible bond and share issue expenses . . . . .	(491.86)	—
Proceeds from issuance of share capital by subsidiary (net of issue expense) . . . . .	26,607.50	
Issuance/(buy back) of management option certificates . . . . .	(284.74)	890.03
Proceeds from long term borrowings . . . . .	45,142.44	28,423.28
Proceeds from issuance of zero coupon convertible bonds . . . . .	20,099.00	—
Repayment of long term borrowings . . . . .	(18,193.72)	(612.10)
(Repayment)/proceeds from short term borrowings, net . . . . .	(1,555.56)	16,099.80
Interest paid . . . . .	(5,057.51)	(2,508.94)
Dividend paid . . . . .	(8.66)	(2,190.24)
Tax on dividend paid . . . . .	(3.25)	(314.79)
<b>Net cash flow from financing activities . . . . .</b>	<b>88,140.80</b>	<b>39,694.85</b>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS . . . . .</b>	<b>54,219.06</b>	<b>9,868.13</b>
Cash and cash equivalents at the beginning of the year . . . . .	15,382.95	5,514.82
Cash and cash equivalents at the end of the year . . . . .	69,602.01	15,382.95

Components of cash and cash equivalents	As at March 31,	
	2008	2007
Cash and cheques on hand . . . . .	934.26	706.49
With scheduled banks		
in current account . . . . .	1,527.23	861.82
in margin account . . . . .	1,256.00	926.88
in term deposit accounts . . . . .	6,041.10	1,930.89
With non-scheduled banks		
in current account . . . . .	9,911.46	10,956.87
in margin account . . . . .	29,836.29	—
in term deposit accounts . . . . .	20,095.67	—
	<b>69,602.01</b>	<b>15,382.95</b>

*Notes*

1 The figures in brackets represent outflows.

2 Previous period's figures have been regrouped/reclassified, wherever necessary.

The schedules referred to above and the notes to accounts form an integral part of cash flow statement.

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**  
**Membership No. 46238**

**per Arvind Sethi**  
**Partner**  
**Membership No. 89802**

**Hemal A. Kanuga**  
**Company Secretary**

**Girish R. Tanti**  
**Director**

**Place: Pune**  
**Date: May 20, 2008**

**Place: Pune**  
**Date: May 20, 2008**

**Place: Mumbai**  
**Date: May 20, 2008**

**SUZLON ENERGY LIMITED**  
**Schedules to the Consolidated Balance Sheet**  
**as at March 31, 2008**

Particulars	As at March 31,	
	2008	2007
<b>SCHEDULE - A: SHARE CAPITAL</b>		
<b>Authorised</b>		
2,225,000,000 equity shares of Rs 2/- each	4,450.00	4,300.00
(March 31, 2007: 430,000,000 equity shares of Rs 10/- each)		
Nil (1,500,000) preference shares of Rs 100/- each	—	150.00
	<u><b>4,450.00</b></u>	<u><b>4,450.00</b></u>
<b>Issued, subscribed</b>		
<b>Equity</b>		
1,496,934,400 equity shares of Rs 2/- each fully paid-up	2,993.90	2,877.65
(March 31, 2007: 287,764,780 equity shares of Rs 10/- each)		
[Of the above equity shares, 1,259,276,500 (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]		
[Outstanding Employee Stock Options exercisable into 246,000 equity shares of Rs. 2 each fully paid [49,200 equity share of Rs. 10/- each]] (See Schedule P, Note 11(d))		
	<u><b>2,993.90</b></u>	<u><b>2,877.65</b></u>
<b>SCHEDULE - B: EMPLOYEE STOCK OPTIONS</b>		
<b>Employee stock options</b>	178.32	156.88
Less: Deferred employee compensation expense outstanding	76.13	39.77
	<u><b>102.19</b></u>	<u><b>117.11</b></u>
<b>SCHEDULE - C: RESERVES AND SURPLUS</b>		
<b>Capital redemption reserve</b>		
As per last balance sheet	150.00	—
Add: Transferred from general reserve	—	150.00
	<u>150.00</u>	<u>150.00</u>
<b>Unrealised gain on dilution</b> [See Schedule P, Note 7]	12,002.48	—
<b>Securities premium account</b>		
As per last balance sheet	13,226.94	13,110.26
Add: Additions during the year	21,831.15	116.68
	<u>35,058.09</u>	<u>13,226.94</u>
Less: Expenses on issuance of equity shares to qualified institutional buyers (See Schedule P, Note 14)	262.66	—
Expenses on issuance of zero coupon convertible bonds (See Schedule P, Note 8)	229.20	—
	<u>34,566.23</u>	<u>13,226.94</u>
<b>General reserve</b>		
As per last balance sheet	6,263.50	3,158.49
Add: Transferred from profit and loss account	3,267.50	3,284.20
	<u>9,531.00</u>	<u>6,442.69</u>
Less: Adjustment for employee benefits provision [Net of tax benefit Rs Nil (Rs 3.1 million)]	2.83	29.19
Transferred to capital redemption reserve	—	150.00
	<u>9,528.17</u>	<u>6,263.50</u>
<b>Capital reserve on consolidation</b>	0.30	0.30
<b>Foreign currency translation reserve</b>		
(Exchange differences during the year on net investment in non-integral operations)		
As per last balance sheet	(45.18)	—
Movement during the year	4,813.82	(45.18)
	<u>4,768.64</u>	<u>(45.18)</u>
<b>Profit and loss account</b>	<u>16,901.13</u>	<u>11,630.38</u>
	<u><b>77,916.95</b></u>	<u><b>31,225.94</b></u>

**SUZLON ENERGY LIMITED**  
**Schedules to the Consolidated Balance Sheet**  
**as at March 31, 2008**

<b>Particulars</b>	<b>As at March 31,</b>	
	<b>2008</b>	<b>2007</b>
<b>SCHEDULE - D: SECURED LOANS [See Schedule P, Note 11(h)]</b>		
<b>Term loans</b>		
From banks and financial institutions . . . . .	61,758.35	10,546.16
From others . . . . .	187.57	1,215.49
	<b>61,945.92</b>	<b>11,761.65</b>
<b>Working capital facilities from banks and financial institutions . . . . .</b>	<b>8,718.19</b>	<b>8,081.89</b>
<b>Vehicle loans . . . . .</b>	<b>0.21</b>	<b>0.71</b>
	<b><u>70,664.32</u></b>	<b><u>19,844.25</u></b>
<b>SCHEDULE - E: UNSECURED LOANS</b>		
<b>Long-term</b>		
Zero coupon convertible bonds . . . . .	20,055.00	—
From banks and financial institutions . . . . .	810.76	21,886.44
From others . . . . .	111.23	203.20
	<b>20,976.99</b>	<b>22,089.64</b>
<b>Short-term</b>		
From banks and financial institutions . . . . .	7,686.11	9,666.39
From others . . . . .	18.50	20.00
	<b><u>7,704.61</u></b>	<b><u>9,686.39</u></b>
	<b><u>28,681.60</u></b>	<b><u>31,776.03</u></b>

**SUZLON ENERGY LIMITED**  
**Schedules to the Consolidated Balance Sheet**  
**as at March 31, 2008**

**SCHEDULE - F: FIXED ASSETS**

Assets	Gross Block				Depreciation/Amortisation					Net Block		
	As at 1st April 2007	Additions	Translation Adjustment	Deductions/ Adjustments	As at 31 March 2008	As at 1st April 2007	For the Period	Translation Adjustment	Deductions/ Adjustments	As at 31 March 2008	As at 31 March 2008	As at 31 March 2007
Goodwill on consolidation . . . . .	17,643.24	—	1,344.10	5,064.20	13,923.14	—	—	—	—	—	13,923.14	17,643.24
Freehold land . . . . .	631.43	807.03	34.05	—	1,472.51	—	—	—	—	—	1,472.51	631.43
Leasehold land . . . . .	156.19	10.62	3.77	—	170.58	4.52	3.20	0.09	—	7.81	162.77	151.67
Buildings . . . . .	6,773.27	2,953.61	552.91	10.55	10,269.24	628.58	353.12	26.59	7.76	1,000.53	9,268.71	6,144.69
Plant and machinery . . . . .	14,963.78	9,817.02	1,302.90	152.12	25,931.58	4,964.96	1,902.18	356.84	77.23	7,146.75	18,784.83	9,998.82
Wind research & measuring equipments . . . . .	174.42	84.94	—	11.82	247.54	107.64	45.92	—	9.95	143.61	103.93	66.78
Computer and office equipments . . . . .	1,779.08	588.31	122.61	44.69	2,445.31	867.78	367.12	64.39	8.34	1,290.95	1,154.36	911.30
Furniture & fixtures . . . . .	436.12	211.53	17.61	0.93	664.33	162.23	89.28	6.77	0.30	257.98	406.35	273.89
Vehicles . . . . .	106.35	58.15	2.23	4.62	162.11	52.22	22.04	0.92	2.74	72.44	89.67	54.13
Intangible assets . . . . .	—	—	—	—	—	—	—	—	—	—	—	—
Designs and drawings . . . . .	449.43	102.75	15.16	—	567.34	179.91	135.84	5.74	0.02	321.47	245.87	269.52
SAP software . . . . .	97.45	47.25	—	—	144.70	47.98	28.92	—	—	76.90	67.80	49.47
	<u>43,210.76</u>	<u>14,681.21</u>	<u>3,395.34</u>	<u>5,288.93</u>	<u>55,998.38</u>	<u>7,015.82</u>	<u>2,947.62</u>	<u>461.34</u>	<u>106.34</u>	<u>10,318.44</u>	<u>45,679.94</u>	<u>36,194.94</u>
Capital work-in-progress . . . . .	—	—	—	—	—	—	—	—	—	—	11,196.74	4,536.81
<b>TOTAL . . . . .</b>	<b><u>43,210.76</u></b>	<b><u>14,681.21</u></b>	<b><u>3,395.34</u></b>	<b><u>5,288.93</u></b>	<b><u>55,998.38</u></b>	<b><u>7,015.82</u></b>	<b><u>2,947.62</u></b>	<b><u>461.34</u></b>	<b><u>106.34</u></b>	<b><u>10,318.44</u></b>	<b><u>56,876.68</u></b>	<b><u>40,731.75</u></b>
Previous year . . . . .	6,288.52	37,118.31	—	196.07	43,210.76	1,531.45	5,584.56	—	100.19	7,015.82	36,194.94	—

*Note:*

- Depreciation charge for the current period amounting to Rs 2,947.62 million (Rs 1,760.05 million) is including Rs 53.97 million (Rs 31.10 million) which has been capitalised as part of self manufactured assets and Rs Nil (Rs 10.85 million) capitalised to operational assets being pre-operative in nature.  
The depreciation charged in the profit and loss account amounting to Rs 2,893.65 million (Rs 1,717.98 million) is net of the amount capitalised.
- Capital work in progress includes advances for capital goods Rs 1,718.75 million (Rs 667.80 million).



**SUZLON ENERGY LIMITED**  
**Schedules to the Consolidated Balance Sheet**  
**as at March 31, 2008**

<b>Particulars</b>	<b>As at March 31,</b>	
	<b>2008</b>	<b>2007</b>
<b>SCHEDULE - G: INVESTMENTS</b>		
<b>LONG-TERM INVESTMENTS</b>		
<b>In associates</b> [See Schedule P, Note 2]		
Investment in associates . . . . .	30,852.58	—
Add: Share of post acquisition profit . . . . .	557.50	—
	<b>31,410.08</b>	<b>—</b>
<b>Others (at cost, fully paid)</b>		
Government and other securities (non trade) . . . . .	0.40	0.37
Trade investments* . . . . .	—	0.03
Other non trade investments . . . . .	7.30	155.26
* amount below Rs 0.1 million . . . . .	7.70	155.66
	<b>31,417.78</b>	<b>155.66</b>
<b>SCHEDULE - H: CURRENT ASSETS, LOANS AND ADVANCES</b>		
<b>Current assets</b>		
<b>Inventories</b>		
Raw materials . . . . .	19,574.28	16,933.14
Semi finished goods, finished goods, work-in-progress and contracts in progress . . . . .	20,953.21	14,227.95
Land and land lease rights . . . . .	118.81	164.39
Stores and spares . . . . .	202.03	37.50
	<b>40,848.33</b>	<b>31,362.98</b>
<b>Sundry debtors</b>		
(Unsecured)		
Outstanding for a period exceeding six months		
Considered good . . . . .	4,159.28	2,671.01
Considered doubtful . . . . .	223.89	104.30
	4,383.17	2,775.31
Others, considered good . . . . .	27,853.23	19,681.40
	32,236.40	22,456.71
Less: Provision for doubtful debts . . . . .	223.89	104.30
	<b>32,012.51</b>	<b>22,352.41</b>
<b>Cash and bank balances</b>		
Cash on hand . . . . .	11.41	9.38
Cheques on hand . . . . .	922.85	697.11
Balances with scheduled banks		
in current accounts . . . . .	1,527.23	861.82
in margin accounts . . . . .	1,256.00	926.88
in term deposit accounts . . . . .	6,041.10	1,930.89
Balances with non scheduled banks		
in current accounts . . . . .	9,911.46	10,956.87
in margin accounts . . . . .	29,836.29	—
in term deposit accounts . . . . .	20,095.67	—
	<b>69,602.01</b>	<b>15,382.95</b>
<b>Other current assets</b>		
(Unsecured and considered good)		
Due from customers . . . . .	14,893.48	3,351.61
	<b>14,893.48</b>	<b>3,351.61</b>

**SUZLON ENERGY LIMITED**  
**Schedules to the Consolidated Balance Sheet**  
**as at March 31, 2008**

<b>Particulars</b>	<b>As at March 31,</b>	
	<b>2008</b>	<b>2007</b>
<b>Loans and advances</b>		
(Unsecured and considered good, except otherwise stated)		
Deposits		
with customers as security deposit . . . . .	308.35	357.23
with others . . . . .	503.41	548.09
Advance against taxes . . . . .	—	309.21
[Net of provision for income tax and fringe benefit tax Rs Nil (Rs 2,783.2 million)]		
MAT credit entitlement . . . . .	1,457.71	512.32
Advances recoverable in cash or in kind or for value to be received		
Considered good . . . . .	15,980.47	10,348.66
Considered doubtful . . . . .	22.14	27.01
	16,002.61	10,375.67
Less: Provision for doubtful loans and advances . . . . .	22.14	27.01
	15,980.47	10,348.66
	<b>18,249.94</b>	<b>12,075.51</b>
	<b>175,606.27</b>	<b>84,525.46</b>
<b>SCHEDULE - I: CURRENT LIABILITIES AND PROVISIONS</b>		
<b>Current liabilities</b>		
Sundry creditors . . . . .	30,435.19	16,029.02
Other current liabilities. . . . .	11,872.21	6,097.82
Interest accrued but not due . . . . .	290.02	27.26
Due to customers . . . . .	7,937.06	—
Advances from customers . . . . .	14,295.64	11,185.90
	<b>64,830.12</b>	<b>33,340.00</b>
<b>Provisions</b>		
Provision for taxes. . . . .	110.38	—
Gratuity, superannuation and leave encashment . . . . .	385.14	388.74
Performance guarantee, operation, maintenance and warranty, liquidated damages . . . . .	5,950.02	4,597.77
Dividend . . . . .	1,513.06	9.07
Tax on dividend. . . . .	266.17	3.22
	<b>8,224.77</b>	<b>4,998.80</b>
	<b>73,054.89</b>	<b>38,338.80</b>
<b>SCHEDULE - J: MISCELLANEOUS EXPENDITURE (To the extent not adjusted or written off)</b>		
Preliminary expenses. . . . .	—	8.49
Add: Addition during the year . . . . .	15.41	8.65
Less: Written off during the year. . . . .	15.41	17.14
	—	—

**SUZLON ENERGY LIMITED**  
**Schedules to the Consolidated Profit and Loss Account**  
**for the year ended March 31, 2008**

<b>Particulars</b>	<b>April 01, 2007 to March 31, 2008</b>	<b>April 01, 2006 to March 31, 2007</b>
<b>SCHEDULE - K: OTHER INCOME</b>		
Interest income		
From banks . . . . .	1,866.31	178.66
From others . . . . .	462.56	313.14
Dividend income* . . . . .	0.01	6.26
Income from infrastructure development . . . . .	—	134.53
Miscellaneous income . . . . .	316.57	332.41
	<u>2,645.45</u>	<u>965.00</u>
<b>SCHEDULE - L: COST OF GOODS SOLD</b>		
<b>Raw materials consumed, including project business and traded goods</b>		
Opening stock . . . . .	16,933.14	10,430.31
Add: Purchases, including purchases for project business and traded goods . . . . .	98,022.64	65,412.68
	<u>114,955.78</u>	<u>75,842.99</u>
Less: Closing stock . . . . .	19,574.28	16,933.14
<b>(A)</b>	<u>95,381.50</u>	<u>58,909.85</u>
<b>(Increase)/Decrease in stock</b>		
<b>Opening balance:</b>		
Semi finished goods, finished goods, work-in-progress and contracts in progress . . . . .	14,227.95	2,969.95
Land and land lease rights . . . . .	164.39	394.09
<b>(B)</b>	<u>14,392.34</u>	<u>3,364.04</u>
<b>Closing balance:</b>		
Semi finished goods, finished goods, work-in-progress and contracts in progress . . . . .	20,953.21	14,227.95
Land and land lease rights . . . . .	118.81	164.39
<b>(C)</b>	<u>21,072.02</u>	<u>14,392.34</u>
<b>(Increase)/Decrease in stock</b>		
<b>(B)-(C)=(D)</b>	<u>(6,679.68)</u>	<u>(11,028.30)</u>
<b>(A)+(D)</b>	<u>88,701.82</u>	<u>47,881.55</u>

**SUZLON ENERGY LIMITED**  
**Schedules to the Consolidated Profit and Loss Account**  
**for the year ended March 31, 2008**

Particulars	April 01, 2007 to March 31, 2008	April 01, 2006 to March 31, 2007
<b>SCHEDULE - M: OPERATING AND OTHER EXPENSES</b>		
Stores and spares . . . . .	1,701.29	1,093.73
Power and fuel . . . . .	463.74	306.54
Factory expenses . . . . .	488.49	212.65
Repairs and maintenance:		
Plant and machinery . . . . .	42.02	13.59
Building . . . . .	40.32	34.37
Others . . . . .	110.42	94.12
Operation and maintenance charges . . . . .	128.73	183.07
Design change and technological upgradation charges . . . . .	511.81	551.08
Rent . . . . .	504.36	283.02
Rates and taxes . . . . .	154.66	87.57
Provision for operation, maintenance and warranty . . . . .	689.04	859.07
Provision for performance guarantee . . . . .	2,356.96	1,026.96
Quality assurance expenses . . . . .	75.83	147.84
R & D, certification and product development . . . . .	104.22	117.47
Insurance . . . . .	252.05	194.61
Advertisement and sales promotion . . . . .	547.54	390.03
Infrastructure development expenses . . . . .	22.01	—
Freight outward and packing expenses . . . . .	4,663.21	2,286.41
Sales commission . . . . .	121.94	238.23
Travelling, conveyance and vehicle expenses . . . . .	1,550.40	917.80
Communication expenses . . . . .	340.82	217.31
Auditors' remuneration and expenses . . . . .	93.62	58.29
Consultancy charges . . . . .	842.73	760.97
Charity and donations . . . . .	91.65	167.60
Other selling and administrative expenses . . . . .	1,882.35	1,360.60
Exchange differences, net . . . . .	(357.77)	492.04
Bad debts written off . . . . .	157.22	3.10
Provision for doubtful debts and advances . . . . .	172.29	39.76
(Profit)/loss on sale of investments, net . . . . .	(34.26)	(76.47)
(Profit)/loss on assets sold/discarded, net . . . . .	35.67	15.76
	<b><u>17,753.36</u></b>	<b><u>12,077.12</u></b>
<b>SCHEDULE - N: EMPLOYEES' REMUNERATION AND BENEFITS</b>		
Salaries, wages, allowances and bonus . . . . .	9,800.19	6,446.04
Contribution to provident and other funds . . . . .	323.70	78.53
Staff welfare expenses . . . . .	306.16	157.86
	<b><u>10,430.05</u></b>	<b><u>6,682.43</u></b>
<b>SCHEDULE - O: FINANCIAL CHARGES</b>		
Interest		
Fixed loans . . . . .	3,817.07	1,660.14
Others . . . . .	1,503.20	862.46
	—	—
Bank charges . . . . .	649.11	240.84
	<b><u>5,969.38</u></b>	<b><u>2,763.44</u></b>

## SUZLON ENERGY LIMITED

### SCHEDULE P: SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in rupees million unless otherwise stated)

#### I SIGNIFICANT ACCOUNTING POLICIES

##### a) Basis of Accounting

The Consolidated Financial Statements relate to Suzlon Energy Limited ('SEL' or 'the Company') and its subsidiaries, associate and joint venture (together referred to as 'Suzlon' or 'the Group'). The Consolidated Financial Statements are prepared under the historical cost convention, on accrual basis of accounting to comply in all material respects, with the mandatory accounting standards as notified by the Companies (Accounting Standards) Rules, 2006 ('the Rules') and in conformity with accounting principles generally accepted in India ('Indian GAAP') as applicable, and the relevant provisions of the Companies act, 1956 ('the Act'). The accounting policies have been consistently applied by the Group; and the accounting policies not referred to otherwise, are in conformity with Indian GAAP.

##### b) Principles of Consolidation

The Consolidated Financial Statements of the Group are prepared in accordance with Accounting Standard 21 — 'Consolidated Financial Statements', Accounting Standard 23 — 'Accounting for Investments in Associates in Consolidated Financial Statements' and Accounting Standard 27 — 'Financial Reporting of Interests in Joint Ventures' as notified by the Rules.

#### ***Subsidiaries***

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 eliminating intra group balances and intra group transactions. The unrealized profits or losses resulting from the intra group transactions and intra group balances have been eliminated.

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 recognized in the financial statements as goodwill and is tested for impairment annually. The excess of Company's portion of equity of the Subsidiary over the cost of investment therein is treated as Capital Reserve. 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.

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.

Share of Minority Interest in the net profit is adjusted against the income to arrive at the net income attributable to shareholders. Minority Interest's share of net assets is presented separately in the balance sheet.

#### ***Associates***

Investments in entities in which the Group has significant influence but not a controlling interest, are reported according to the equity method i.e. the investment is initially recorded at cost. Cost of investment in associates, over the net assets at the time of acquisition of the investment in the associates is recognised in the financial statements as Goodwill or Capital Reserve, as the case may be. Goodwill is tested for impairment annually. The carrying amount of the investment is adjusted thereafter for the post acquisition change in the Group's share of net assets of the

associates. The consolidated profit and loss account includes the Group's share of the results of the operations of the associate.

The consolidated financial statements are presented, to the extent possible, in the same format as that adopted by the Company for its independent financial statements.

### ***Joint Venture***

Interests in joint venture have been accounted by using the proportionate method as per Accounting Standard 27 — Financial Reporting of Interests in Joint Ventures as notified by the Rules.

### **c) Use of Estimates**

The presentation of financial statements in conformity with the Indian GAAP requires the management to make estimates and assumptions that may affect the balances of assets and liabilities and disclosures relating to contingent liabilities as at the date of the financial statements and the reported amounts of incomes and expenses during the reporting period. Although these estimates are based upon management's best knowledge of current events and actions, actual results could differ from those estimated.

### **d) Revenue Recognition**

Revenue is recognised to the extent it is probable that the economic benefits will flow to the Company and that the revenue can be reliably measured. Revenue comprises of sale of goods and services and is disclosed, net of discounts, excise duty, sales tax, service tax, VAT or other taxes, as applicable

### ***Sales***

Revenue from sale of goods is recognised in the profit and loss account when the significant risks and rewards in respect of ownership of goods has been transferred to the buyer as per the terms of the respective sales order, and the income can be measured reliably and is expected to be received.

Fixed price contracts to deliver wind power systems (turnkey and supply-and-installation projects) are recognised in revenue based on the stage of completion of the individual contract using the percentage-of completion method, provided the order outcome as well as expected total costs can be reliably estimated. Where the profit from a contract cannot be estimated reliably, revenue is only recognised equalling the expenses incurred to the extent that it is probable that the expenses will be recovered.

Contracts in progress, if any are measured at the selling price of the work performed based on the stage of completion less interim billing and expected losses. The stage of completion is measured by the proportion that the contract expenses incurred to date bear to the estimated total contract expenses. The value of self-constructed components is recognised in 'Contracts in progress' upon dispatch of the complete set of components which are specifically identified for a customer and are within the scope of supply, as per the terms of the respective sale order for the wind power systems.. Where it is probable that total contract expenses will exceed total revenues from a contract, the expected loss is recognised immediately as an expense in the profit and loss account.

Where the selling price of a contract cannot be estimated reliably, the selling price is measured only on the expenses incurred to the extent that it is probable that these expenses will be recovered. Prepayments from customers are recognised as liabilities. A contract in progress for which the selling price of the work performed exceeds interim billings and expected losses is recognised as an asset. Contracts in progress for which interim billings and expected losses exceed the selling price is recognised as a liability. Expenses relating to sales work and the winning of contracts are recognised in the income statement as incurred.



### ***Project Execution Income***

Revenue from services relating to project execution are recognized on completion of the respective service, as per terms of 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 recognised on the proportionate basis for the period for which the service is provided, net of taxes.

### ***Interest Income***

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 Income***

Dividend income from investments is recognised when the right to receive payment is established.

## **e) Fixed Assets and Intangible 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 capitalized upon the commencement of commercial production. Assets held for disposal are stated at the lower of net book value and the estimated net realizable value.

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 create produce and make the asset ready for its intended use. 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.

The carrying amount of the assets belonging to each cash generating unit (CGU) are reviewed at each balance sheet date to assess whether the same are recorded in excess of their recoverable amounts and where carrying amounts exceed the recoverable amount of the assets with CGU, assets are written down to their recoverable amount. The recoverable amount is the greater of the asset's net selling price and value in use. The impairment loss recognised in prior accounting period is reversed if there has been a change in estimates of recoverable amount.

## **f) Depreciation and Amortisation**

Depreciation/amortisation is provided on management's estimate of useful lives of the fixed assets or intangible assets or where applicable, at rates specified by respective statutes, whichever is higher.

#### **g) Inventories**

Inventories of raw materials including stores; spares and consumables; packing materials; semi-finished goods; work-in-progress, contracts in progress and finished goods are valued at the lower of cost and estimated net realizable value. Cost is determined on weighted average basis.

The cost of work-in-progress, project work-in-progress, semi-finished goods and finished goods includes the cost of material, labour and manufacturing overheads.

Stock of land and land lease rights is valued at lower of cost and estimated net realisable value. Cost is determined on weighted average basis. Net realisable value is determined by management using technical estimates.

#### **h) Investments**

Long-term investments are carried at cost. However, provision is made to recognize 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.

#### **i) Foreign Currency Transactions**

Transactions in foreign currencies are normally recorded at the average exchange rate prevailing in the period during which the transactions occur.

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.

#### ***Derivatives***

The Company is exposed to foreign currency fluctuations on foreign currency assets and forecasted cash flows denominated in foreign currency. The Company limits the effects of foreign exchange rate fluctuations by following established risk management policies including the use of derivatives. The Company enters into forward exchange and option contracts, where the counterparty is a bank. The forward contracts or options are not used for trading or speculation purposes.

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/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.

To designate a forward contract or option as an effective hedge, management objectively evaluates and evidences with appropriate supporting documents at the inception of each contract whether the contract is effective in achieving offsetting cash flows attributable to the hedged risk. To the extent, hedges are designated effective, neither gain nor loss is recognised in the profit and loss account. In the absence of a designation as an effective hedge, loss is recognised in the profit and loss account.

#### ***Foreign Operations***

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 the consolidated 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 average exchange rates 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 classification.

#### **j) Borrowing Costs**

Borrowing costs that are directly attributable to the acquisition, construction or production of qualifying assets are capitalized 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 profit and loss account.

#### **k) Retirement and Other Employee Benefits**

Employee benefits in the nature of defined contributions are charged to the profit and loss account of the year when the contributions to the respective funds are due. There are no other obligations other than the contribution payable to the respective statutory authorities.

Retirement benefits in the form of gratuity and pension are defined benefit obligations, and are provided for on the basis of an actuarial valuation, using projected unit credit method as at the balance sheet date.

Defined contributions to superannuation fund through its employees' trust are charged to the profit and loss account on accrual basis.

Short-term compensated absences are provided based on estimates. Long term compensated absences are provided based for on the basis of an actuarial valuation, using projected unit credit method, as at the balance sheet date.

Actuarial gains/losses are taken to profit and loss account and are not deferred.

#### **l) Provisions, Contingent Liabilities and Contingent Assets**

A provision is recognised when the Company has 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 accounts.

Contingent assets are not recognised.

#### **m) Taxes on Income**

Tax expense for a year comprises of current tax, deferred tax and fringe benefit tax.

Current tax and fringe benefit tax are measured after taking into consideration, the deductions and exemptions admissible under the applicable tax laws.

Deferred tax reflects the impact of current year timing differences between taxable income and accounting income for the year and reversal of timing difference 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 and deferred tax liabilities across various companies of operation are not set off against each other as the Group does not have a legal right to do so. 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 realized. If there is unabsorbed depreciation or carry forward of losses under tax laws, deferred tax assets are recognised only to the extent that there is virtual certainty supported by convincing evidence that sufficient future taxable income will be available against which such deferred tax assets can be realized.

Deferred tax resulting from timing differences which originate during the tax holiday period but are expected to reverse after such tax holiday period is recognised in the year in which the timing differences originate using the tax rates and laws enacted or substantively enacted at the balance sheet date.

Minimum alternative tax (MAT) credit, by whatever name known 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 applicable tax laws. In the year, in which the MAT credit becomes eligible to be recognised as an asset in accordance with the recommendations contained in the guidance note issued by the ICAI, the said asset is created by way of a credit to the profit and loss account and shown as MAT credit entitlement. The Company reviews the same at each balance sheet date and writes down the carrying amount of MAT credit entitlement to the extent there is no longer convincing evidence to the effect that Company will pay income tax higher than MAT during the specified period.

#### **n) Operating Leases**

Assets acquired on lease, 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 operating lease are expensed off in the year in which such costs are incurred.

#### **o) 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.

#### **p) Employee Stock Options**

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.

## II NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 1. List of subsidiaries 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,	
		2008	2007
AE-Rotor Holding B.V. . . . .	Netherlands	100%	100%
AE-Rotor Techniek B.V. . . . .	Netherlands	100%	100%
Cannon Ball Wind Energy Park-1, LLC . . . . .	USA	100%	100%
Eve Holding NV . . . . .	Belgium	—	100%
Hansen Drives Limited . . . . .	India	71.28%	—
Hansen Transmissioes Mechanicas Ltda . . . . .	Brazil	71.28%	100%
Hansen Transmissions Inc . . . . .	USA	71.28%	100%
Hansen Transmissions International NV . . . . .	Belgium	71.28%	100%
Hansen Transmissions Limited . . . . .	United Kingdom	71.28%	100%
Hansen Transmissions Pty Limited . . . . .	Australia	71.28%	100%
Hansen Transmissions South Africa Pty Limited . . . . .	South Africa	71.28%	100%
Hansen Transmissions Tianjin Industrial Gearboc Co. Limited . . . . .	Peoples Republic of China	71.28%	100%
Lommelpark NV . . . . .	Belgium	71.28%	—
S E Drive Technik GmbH . . . . .	Germany	100%	100%
SE Composites Limited (formerly Suzlon Towers International Limited) . . . . .	India	100%	100%
SE Forge Limited . . . . .	India	100%	100%
Suzlon Electricals International Limited (formerly Suzlon Rotor International Limited) . . . . .	India	100%	100%
Suzlon Energia Elocia do Brasil Lda . . . . .	Brazil	100%	100%
Suzlon Energy (Tianjin) Limited . . . . .	China	100%	100%
Suzlon Energy A/S . . . . .	Denmark	100%	100%
Suzlon Energy Australia Pty. Limited . . . . .	Australia	100%	100%
Suzlon Energy B.V. . . . .	Netherlands	100%	100%
Suzlon Energy GmbH . . . . .	Germany	100%	100%
Suzlon Energy Italy Srl . . . . .	Italy	100%	100%
Suzlon Energy Korea Co Limited . . . . .	Republic of South Korea	100%	100%
Suzlon Energy Limited, Mauritius . . . . .	Mauritius	100%	100%
Suzlon Energy Portugal Energia Elocia Unipessoal Lda . . . . .	Portugal	100%	100%
Suzlon Engitech Private Limited . . . . .	India	100%	100%
Suzlon Generators Private Limited . . . . .	India	75%	75%
Suzlon Gujarat Windpark Limited . . . . .	India	100%	100%
Suzlon Infrastructure Services Limited . . . . .	India	100%	100%
Suzlon Power Infrastructure Private Limited . . . . .	India	100%	100%
Suzlon Rotor Corporation . . . . .	USA	100%	100%
Suzlon Structures Private Limited . . . . .	India	75%	75%
Suzlon Towers and Structures Limited . . . . .	India	100%	100%
Suzlon Wind Energy A/S . . . . .	Denmark	100%	100%
Suzlon Wind Energy Corporation . . . . .	USA	100%	100%
Suzlon Wind Energy Espana, S.L . . . . .	Spain	100%	—
Suzlon Wind Energy Limited . . . . .	United Kingdom	100%	100%
Suzlon Wind International Limited . . . . .	India	100%	100%
Suzlon Windenergie GmbH . . . . .	Germany	100%	75%
Suzlon Windkraft GmbH . . . . .	Germany	100%	100%
Suzlon Windpark Management GmbH . . . . .	Germany	100%	100%
Windpark Olsdorf Watt GmbH & Co KG . . . . .	Germany	100%	100%

**2. Details of the Company's ownership interest in associate, which have been included in the consolidation are as follows:-**

<u>Name of Company</u>	<u>% Shares Held</u>	<u>Original Cost of Investment</u>	<u>Goodwill/ (Capital Reserve)</u>	<u>Accumulated Profit/(Loss) as at March 31, 2008*</u>	<u>Carrying Amount of Investments as at March 31, 2008</u>
REpower Systems AG, Germany* (Including its subsidiaries and jointly managed and associated companies) . . . . .	35.83	30,852.58	24,259.50	557.45	31,410.03

\* See Note 9

The Group's share of goodwill and share of profits have been computed based on the financial statements of REpower Systems AG, Germany for the period June 1, 2007 to December 31, 2007, which have been certified by management. These financial statements have been prepared based on the audited results published by REpower Systems AG, Germany for the year ended December 31, 2007.

**3. Details of the Company's ownership interest in joint ventures, which have been included in the consolidation are as follows:-**

<u>Name of Company</u>	<u>% Shares Held</u>	<u>Country of Incorporation</u>	<u>Carrying Amount of Investments as at March 31, 2008</u>
Renewable Energy Technology Centre GmbH . . . . .	50.00	Germany	0.80

**4. Impact of ICAI Announcement on Derivatives**

Pursuant to ICAI Announcement dated March 29, 2008 on "Accounting for Derivatives", the Group has, based on the principles of prudence enunciated in Accounting Standard-1 on "Disclosure of Accounting Policies", recognised mark to market ('MTM') losses on derivative contracts outstanding as at March 31, 2008 to the extent the losses are not offset by the fair value gain on the underlying hedge items. In determining the 'MTM' losses, any compensating gains on underlying transactions (including firm commitments and highly probable forecast transactions) have been netted off and accordingly, the Group has recognized MTM losses of approximately Rs 230 million during the year ended March 31, 2008.

**5. Exceptional Items**

Details of exceptional items aggregating to Rs 1,511.69 million (net of taxes of Rs 360.00 million) are as below.

- The Company has faced certain issues with residents of Dhule and Sangli, in Maharashtra, India resulting into disruption of the smooth operations of the WTGs in these regions, which have resulted into generation shortfall from that guaranteed. The Company has incurred Rs 654.60 million towards restoration costs of these WTGs. The Company is of the opinion that this event is "force majeure". The generation guarantee liability for the WTGs installed in the regions of Dhule and Sangli has been computed taking into account the events of force majeure and are based on the best estimate of the management.
- The Company has announced a retrofit program to resolve blade crack issues noticed in some of its S88 turbines in the United States and Portugal. The retrofit program involves the structural strengthening of blades on S 88 (2.1 MW) turbines. The retrofit program will be carried out by maintaining a rolling stock of temporary replacement blades, to minimise the downtime for operational turbines. The Company has provided for an amount of approximately Rs 1,217.09 million towards the same.



## 6. Disclosures pursuant to Accounting Standard-7 (AS-7) 'Construction Contracts'

Particulars	April 1, 2007 to March 31, 2008	April 1, 2006 to March 31, 2007
Contract revenue recognised during the year. . . . .	57,346.29	18,065.48
Aggregate amount of contract cost incurred and recognised profits (less recognised losses) for all contracts in progress up to the reporting date . . . . .	60,725.56	16,963.29

Particulars	As at March 31, 2008	As at March 31, 2007
Amount of customer advances outstanding for contracts in progress up to the reporting date . . . . .	16,072.73	482.20
Retention amount due from customers for contract in progress up to the reporting date . . . . .	Nil	Nil
Due from Customers . . . . .	14,893.48	3,351.60
Due to Customers . . . . .	7,937.06	Nil

7. Hansen Transmissions International NV, Belgium ('Hansen'), an erstwhile 100% subsidiary, allotted 181,800,458 shares to Institutional Investors through a fresh 'issue of shares, raising approximately Euro 440 million (gross) and the trading of these shares commenced in December 2007 on London Stock Exchange. Hansen plans to use the net proceeds primarily to fund the expansion of its manufacturing capacity through the construction of integrated manufacturing facilities in India and China. Following the fresh issue of the shares by Hansen, the effective stake of the Company in Hansen has reduced to approximately 71.28%. As a result of dilution of effective stake of the Company in Hansen, there is a gain on dilution, of Rs 12,002.48 million, which has been credited to reserves in the consolidated financial statements.

## 8. Zero Coupon Convertible Bonds

On June 11, 2007 the Company has made an issue of zero coupon convertible bonds aggregating USD 300 Million (approximately Rs 12,237.00 million) comprising of 300,000 Zero Coupon Convertible Bonds due 2012 of USD 1,000 each ('Phase I Bonds'), which are:

- 1) convertible by the holders at any time on or after July 22, 2007 but prior to close of business on June 5, 2012. Each bond will be converted into 22.70 fully paid up equity shares with face value of Rs 10 per share (since adjusted to 113.50 fully paid up equity shares with face value of Rs 2 per share [See note 11(d)]) at an initial conversion price of Rs 1,798.40 per equity share of Rs 10 each (since adjusted to Rs 359.68 per equity share of Rs 2 each [See note 11(d)]) at a fixed exchange rate conversion of Rs 40.83 = USD 1.
- 2) convertible in whole but not in part at the option of the Company at any time on or after June 11, 2009 subject to satisfaction of certain conditions.
- 3) redeemable in whole but not in part at the option of the Company at any time if less than 10 percent of the aggregate principal amount of the Bonds originally issued is outstanding, subject to satisfaction of certain conditions.
- 4) redeemable on maturity date at 145.23% of its principal amount if not redeemed or converted earlier.

Further, on October 10, 2007 the Company has made an additional issue of zero coupon convertible bonds aggregating USD 200 Million (approximately Rs 7,862.00 million) comprising of 200,000 Zero Coupon Convertible Bonds due 2012 of USD 1,000 each ('Phase II Bonds'), which are:

- 1) convertible by the holders at any time on or after November 20, 2007 but prior to close of business on October 4, 2012. Each bond will be converted into 21.46 fully paid up equity shares with face value of Rs 10 per share (since adjusted to 107.30 fully paid up equity shares with face value of Rs 2 per share [See note 11(d)]) at an initial conversion price of Rs 1,857.75 per equity share of Rs 10 each (since adjusted to Rs 371.55 per equity share of Rs 2 each [See note 11(d)]) at a fixed exchange rate conversion of Rs 39.87 = USD 1.
- 2) convertible in whole but not in part at the option of the Company at any time on or after October 10, 2009 subject to satisfaction of certain conditions.

- 3) redeemable in whole but not in part at the option of the Company if less than 10 percent of the aggregate principal amount of the Bonds originally issued is outstanding, subject to satisfaction of certain conditions.
- 4) redeemable on maturity date at 144.88% of its principal amount, if not redeemed or converted earlier.

The Phase I and Phase II bonds are redeemable subject to satisfaction of certain conditions mentioned in their respective offering circulars, and hence have been currently designated as a monetary liability. Further, the Company has not provided for the proportionate premium on redemption of the Phase I and Phase II Bonds for the period up to March 31, 2008 amounting to Rs 725.86 million (approximately USD 18,096,735) and Rs 284.93 million (approximately USD 7,103,641) respectively. In the opinion of the management, the likelihood of redemption cannot presently be ascertained. Accordingly, no provision for any liability has been made in the consolidated financial statements and hence, the proportionate premium on redemption has been disclosed as a contingent liability.

Following are the details of utilisation of Zero Coupon Convertible Bonds:

Sl. No.	Description	As at March 31, 2008
I.	Sources of Funds	
	Proceeds . . . . .	20,099.00
	Issue expenses . . . . .	(229.16)
	<b>Net Proceeds . . . . .</b>	<b>19,869.84</b>
II.	Application of Funds	
	Repayment of acquisition facility loans . . . . .	19,869.84
	<b>Total . . . . .</b>	<b>19,869.84</b>
III.	<b>Unutilised Funds . . . . .</b>	<b>—</b>

9. The Company has through its subsidiaries purchased 33.85% stake in REpower Systems AG ('REpower') for a consideration of approximately Euro 453 Million and simultaneously also has voting pooling agreements with Areva and Martifer who in aggregate hold approximately 53.25% on June 6, 2007, the date of final settlement of the takeover offer. Since REpower is a listed entity in Germany, the Company has been informed that, REpower is restrained from sharing any information with external parties before they are made available to all the shareholders of REpower. In order to smoothen the process of consolidation of the financials of REpower with the Company and based on the guidance provided in the relevant accounting standards issued by the ICAI, the financials of REpower are being consolidated with a three-month lag to that of the Company. Further, the Company has been informed that based on laws currently prevailing in Germany, the Company has restricted access to information and cannot get access to accounting records and information more than that provided to any other investor holding shares in REpower. Accordingly, the results of REpower for the period June 1, 2007 to December 31, 2007 have been consolidated in the results of the Company for the year ended March 31, 2008 using equity method of accounting and without making any adjustments for alignment of accounting policies.

## 10. Employee Stock Option Scheme

- a) Suzlon Energy employee stock option plan 2005 (Scheme I)

The Company instituted the 2005 Plan for all eligible employees in pursuance of a special resolution approved by the shareholders at the extraordinary general meeting held on June 16, 2005 (grant date). Scheme I covers grant of options to specified permanent employees of the Company as well as its subsidiaries.

Pursuant to Scheme I, the Company has granted 921,000 options of Rs 10 each (since adjusted to 4,605,000 options of Rs 2 each [See Note 11(d)]) to eligible employees at an exercise price of Rs 255 per equity share of Rs 10 each (since adjusted to Rs 51 per equity share of Rs 2 each [See Note 11(d)]), 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 of Rs 10 each (since adjusted to Rs 102 per equity share of Rs 2 each [See Note 11(d)]). Under the terms of Scheme I,

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, 2008, vesting rights were exercised by employees for 236,100 shares of Rs 10 each (since adjusted to 1,180,500 shares of Rs 2 each [See Note 11(d)]). Further, 75,500 employee stock options of Rs 10 each (since adjusted to 377,500 options of Rs 2 each [See Note 11(d)]) were cancelled 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>Particulars</b>	<b>Year Ended as at March 31,</b>	
	<b>2008</b>	<b>2007</b>
Options outstanding at April 1, 2007 . . . . .	<b>3,153,000</b>	4,445,000
Granted during the year . . . . .	<b>Nil</b>	Nil
Forfeited/cancelled during the year . . . . .	<b>114,500</b>	125,000
Exercised during the year . . . . .	<b>1,180,500</b>	1,167,000
Expired during the year . . . . .	<b>Nil</b>	Nil
Options outstanding at March 31, 2008 . . . . .	<b>1,858,000</b>	3,153,000
Exercisable at the end of the year (included in options outstanding as at March 31, 2008). . . . .	<b>246,000</b>	160,500

**b) Suzlon Energy employee stock option plan 2006 (Scheme II)**

The Company instituted the 2006 Plan for all eligible employees in pursuance of a special resolution approved by the shareholders at the extraordinary general meeting held on November 23, 2007 (grant date). Scheme II covers grant of options to specified permanent employees of the Company as well as its subsidiaries.

Pursuant to Scheme II, the Company has granted 103,900 options of Rs 10 each (since adjusted to 519,500 options of Rs 2 each [See Note 11(d)]) to eligible employees at an exercise price of Rs 961 per equity share of Rs 10 each (since adjusted to Rs 192.20 per equity share of Rs 2 each [See Note 11(d)]), which is 51.28% of the weighted average price over a period of six months prior to date of grant, i.e., Rs 1,874 per equity share of Rs 10 each (since adjusted to Rs 374.80 per equity share of Rs 2 each [See Note 11(d)]). Under the terms of Scheme II, 50% of the options will vest in the employees at the end of the first year, 25% at the end of the second year and the balance of 25% at the end of third year from the grant date in the following manner:

<b>Date of Vesting</b>	<b>Proportion of Vesting</b>
November 23, 2008 . . . . .	50%
November 23, 2009 . . . . .	25%
November 23, 2010 . . . . .	25%

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. November 23, 2008. 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. The movement in the stock options during the year was as per the table given below:

Particulars	Year Ended as at March 31, 2008
Options outstanding at April 1, 2007	Nil
Granted during the year	519,500
Forfeited/cancelled during the year	Nil
Exercised during the year	Nil
Expired during the year	Nil
Options outstanding at March 31, 2008	519,500
Exercisable at the end of the year (included in options outstanding as at March 31, 2008)	Nil

### Fair Value of the Option

The Company applies the intrinsic value based method of accounting for determining compensation cost for Scheme I and Scheme II.

The Company has charged Rs 21.41 million (Rs 72.99 million) and Rs 23.88 million (Rs Nil) at the rate of Rs 51 per option and Rs 182.60 per option respectively, being the intrinsic value of options under the Scheme I and Scheme II for the year ended March 31, 2008. Had the Company adopted the fair value method based on 'Black-Scholes' model for pricing and accounting the options, the cost would have been Rs 68.39 per option (Rs 66.32 per option) and Rs 284.10 per option (Rs Nil) for the Scheme I and Scheme II respectively, and accordingly, the profit after tax would have been lower by Rs 33.39 million (Rs 24.87 million).

Consequently the basic and diluted earnings per share after factoring the above impact would be as follows:

Particulars	As at March 31, 2008	As at March 31, 2007
Earnings per share (before exceptional items)		
- Basic	8.09	5.97
- Diluted	7.88	5.96
Earnings per share (after exceptional items)		
- Basic	7.05	5.97
- Diluted	6.87	5.96

### 11. Other Notes

- 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 25,026.37 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, 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, inter alia include the financial statements of Eve Holding N.V., Belgium from May 9, 2006. Accordingly, the consolidated financial statements for the year ended March 31, 2008 are to that extent not comparable with the consolidated financial figures of the prior periods presented.
- In preparation for the listing, all the shares of Hansen have been transferred from EVE to AE-Rotor in the month of November 2007. The Company approved the dissolution of EVE which was put into liquidation on November 19, 2007. In accordance with a pre-listing agreement involving the managers, certain managers have acquired 8,529

ordinary shares in Hansen. The shares were transferred by AE-Rotor to the relevant managers. AE-Rotor has bought back the management option certificates issued to certain key management personnel.

- c) On December 20, 2007, the Company has raised Rs 21,826.96 million through allotment of 11,386,000 Equity Shares of Rs 10 each (since adjusted to 56,930,000 equity shares of Rs 2 each [See Note 11(d)]) at a price of Rs 1,917 per equity share of Rs 10 each (since adjusted to Rs 383.40 per equity share of Rs 2 each[See Note 11(d)]) to selected Qualified Institutional Buyers pursuant to the Guidelines for Qualified Institutional Placements (QIP) under Chapter XIII-A of the SEBI (DIP) Guidelines, 2000.
- d) Effective January 28, 2008, the Company has subdivided the face value of equity shares from Rs 10 each to Rs 2 each (share split), after obtaining shareholders approval vide resolution passed through postal ballot dated December 6, 2007. Accordingly, the figures for number of equity shares and price of shares disclosed in the financial statements have been adjusted for the impact of share split except in case of disclosures under 'Schedule A- Share Capital'. Further, the basic and diluted earnings per share disclosed have been computed for the current year and recomputed for the previous year based on the revised face value of Rs 2 each.
- e) Effective April 1, 2007, Suzlon Infrastructure Services Ltd ('SISL') has commenced activities related to erection, installation and commissioning of WTGs.
- f) Suzlon Power Infrastructure Private Limited ('SPIPL'), a 100% subsidiary of the Company, has made an application for a Transmission license to the Gujarat Electricity Regulatory Commission, Ahmedabad ('GERC') on January 28, 2008. The transmission lines covered under the application will support the power evacuation arrangements and transmission of power for the wind sites and any other generating sources located in the Kutch region of Gujarat, India. In expectation of receipt of the license by SPIPL, Suzlon Gujarat Wind Park Private Limited, has inventorised the costs incurred by it on developing a part of these lines till March 31, 2008 aggregating Rs 548.78 million. The extent of the costs which can be inventorised has been determined based on lower of cost incurred and valuation conducted by an external valuer. These lines would eventually be transferred to SPIPL, based on a valuation of the investment approved by the regulator.
- g) The Company has made a provision for dividend in the books of account considering the number of equity shares outstanding as at the balance sheet date. However, the Company is obliged to pay dividend to those share holders and bond holders, if any who convert their stock options into equity shares and bonds into Equity Shares respectively after the balance sheet date and upto the book closure date for dividend purposes. Incremental dividend and dividend distribution tax thereon if any will be paid out of the balance available in the profit and loss account
- h) **Details of security for the secured loans in consolidated financial statements are as follows:**

(i) **Term Loans from banks and financial institutions**

- Rs 77.54 million (Rs 104.78 million) secured by way of first charge on specific plant and machinery, land, second charge on windmills and corporate guarantee of the Company.
- Rs Nil million (Rs 24.15 million) secured by way of hypothecation of stocks, debtors and on specific receivables.
- Rs 619.07 million (Rs 643.80 million) secured by way of mortgage of plant and machinery and other fixed assets, hypothecation on current assets and corporate guarantee of the Company.
- Rs 200.76 million (Rs 217.68 million) secured by hypothecation of plant and machinery and other fixed assets.
- Rs 69.99 million (Rs 828.08) secured by way of first charge on certain immovable and movable fixed assets and second charge on current assets.

- Rs 313.36 (Rs Nil) secured by way of first charge on all plant and machineries and other fixed assets and second charge on all current assets and corporate guarantee of the Company.
- Rs 185.25 million (Rs Nil) secured by way of first charge on certain immovable and movable fixed assets and second charge on current assets, personal guarantee of directors and corporate guarantee of the Company.
- Rs 986.40 million (Rs 601.08 million) secured by charge on moveable properties receivables of the power generated from windmill.
- Rs 12,351.63 million (Rs 7,870.32 million) secured by way of first rank mortgage and floating charge on assets.
- Rs 265.21 million (Rs 256.33 million) secured by way of first rank mortgage and floating charge on assets and corporate guarantee of the Company.
- Rs 80.20 million (Rs 111.71 million) secured by way of first charge windmills and land, personal guarantee of directors and corporate guarantee of the Company.
- Rs 46,608.93 million (Rs Nil) secured against pledge/ negative lien on shares of certain subsidiaries, pledge on shares of REpower Systems AG and corporate guarantee of the Company.

(ii) **Term loans from others**

- Rs Nil (Rs 862.50 million) secured by way of first charge on certain immovable properties.
- Rs 150.65 million (Rs 199.31 million) secured by way of first charge on certain immovable and movable fixed assets, specific security deposits, book-debts and second charge on current assets.
- Rs 36.92 million (Rs 41.97 million) secured by charge on certain windmills, receivables of the power generation from windmills and mortgage of land.

(iii) **Working capital facilities from banks and financial institutions**

- Rs 8,159.10 million (Rs 7,516.72 million) secured by hypothecation of inventories, book debts and other current assets, both present and future and first and second charge on certain immovable fixed assets.
- Rs 353.03 million (Rs 160.08 million) secured by hypothecation of inventories, book debts and other current assets, both present and future, second charge on certain immovable fixed assets and corporate guarantee of the Company.
- Rs Nil (Rs 405.09 million) secured by first rank mortgage and floating charge on assets of the Company.
- Rs 116.69 million (Rs Nil) secured by lien on inventories, book debts, all deposit accounts, certain fixed assets and corporate guarantee of the Company.
- Rs 89.37 million (Rs Nil) secured by hypothecation of all current assets, second charge on fixed assets and corporate guarantee of the Company.

(iv) **Vehicle loan**

- Rs 0.21 million (Rs 0.71 million) secured against vehicle under hire purchase contract.

**i) 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 220.70 million (Rs 126.56 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 415.53 million (Rs 156.56 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,</b>	
	<b>2008</b>	<b>2007</b>
Not later than one year . . . . .	<b>488.97</b>	102.71
Later than one year and not later than five years . . . . .	<b>758.53</b>	177.60
Later than five years . . . . .	<b>52.71</b>	49.46

**j) Post employment benefits**

SEL and certain subsidiary companies have defined benefit plans.

The following table summarises the components of net benefit expense recognised 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,</b>	
	<b>2008</b>	<b>2007</b>
Current service cost . . . . .	<b>68.82</b>	48.93
Interest cost on benefit obligation . . . . .	<b>26.07</b>	21.01
Expected return on plan assets . . . . .	<b>(17.12)</b>	(12.38)
Net actuarial (gain) / loss recognised in the year . . . . .	<b>8.51</b>	(0.58)
Past service cost . . . . .	<b>Nil</b>	21.80
Net Benefit expense . . . . .	<b>86.28</b>	78.78

Details of defined benefit obligation

<b>Particulars</b>	<b>Year Ended March 31,</b>	
	<b>2008</b>	<b>2007</b>
Defined benefit obligation . . . . .	<b>540.65</b>	539.08
Fair value of plan assets . . . . .	<b>397.58</b>	337.72
Present value of unfunded obligations . . . . .	<b>7.76</b>	7.40
Less: Unrecognised past service cost . . . . .	<b>Nil</b>	Nil
Plan Liability . . . . .	<b>143.07</b>	201.36

Changes in the present value of the defined benefit plan are as follows:

<b>Particulars</b>	<b>Year Ended March 31,</b>	
	<b>2008</b>	<b>2007</b>
Opening defined benefit obligation . . . . .	<b>539.18</b>	461.02
Interest cost . . . . .	<b>25.98</b>	21.01
Current service cost . . . . .	<b>69.48</b>	72.43
Benefits paid . . . . .	<b>(31.47)</b>	(17.98)
Actuarial (gains) / losses on obligation . . . . .	<b>(62.03)</b>	2.79
Closed defined benefit obligation . . . . .	<b>540.61</b>	539.27

Changes in the fair value of plan assets are as follows:

<b>Particulars</b>	<b>Year Ended March 31,</b>	
	<b>2008</b>	<b>2007</b>
Opening fair value of plan assets . . . . .	<b>337.74</b>	241.76
Expected return . . . . .	<b>17.10</b>	12.32
Contributions by employer* . . . . .	<b>83.08</b>	111.35
Benefits paid . . . . .	<b>(31.52)</b>	(18.05)
Actuarial gains / (losses) . . . . .	<b>(8.82)</b>	(9.69)
Closing fair value of plan assets . . . . .	<b>397.58</b>	337.69

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.

#### k) 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>Operation, Maintenance and Warranty</b>	<b>Provision for Liquidated Damages</b>
Opening balance . . . . .	<b>1,809.15</b> (1,414.50)	<b>2,529.18</b> (1,728.99)	<b>259.44</b> (27.30)
Additions due to acquisition . . . . .	— (—)	— (436.00)	— (—)
Additions . . . . .	<b>2,357.01</b> (1,026.96)	<b>1,646.70</b> (1,520.59)	<b>431.96</b> (363.10)
Utilization . . . . .	<b>1,332.32</b> (632.31)	<b>1,366.74</b> (1,156.40)	<b>197.01</b> (130.96)
Reversal . . . . .	— (—)	— (—)	187.46 (—)
Closing balance . . . . .	<b>2,833.94</b> (1,809.15)	<b>2,809.24</b> (2,529.18)	<b>306.93</b> (259.44)

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, machine availability etc.

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 WTGs and components there of over the period of free O&M, which varies according to the terms of each sales order.

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 and components there of, on the field under warranty. The charge to the profit and loss account is the balancing figure. However, the breakup of charge to profit and loss account of "provision for operation, maintenance and warranty" is as under:

- a) Amount of provision required for the WTGs sold during the year Rs 1,646.70 million (Rs 1,520.59 million)
- b) Less: Utilization against opening provision, booked by the subsidiary under various expenditure by nature Rs 957.66 million (Rs 661.52 million)
- c) Charge to profit and loss account Rs 689.04 million (Rs 859.07 million)

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.

- l) The standalone profit and loss account includes a charge of Rs 541.00 million (Rs 584.84 million) on account of design change and technological upgradation charges and Rs 201.53 million (Rs 143.70 million) on account of operation and maintenance charges part of 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.

**12. Break-up of the accumulated deferred tax asset/(liability), net is given below:**

Particulars	Deferred Tax Asset/(Liability) as at March 31	
	2008	2007
<b>Deferred tax assets:</b>		
Unabsorbed losses and depreciation . . . . .	1,239.32	511.28
Employee benefits . . . . .	161.11	84.91
Provision for performance guarantee, LD and operation, maintenance and warranty . . . . .	867.59	953.90
Provision for doubtful debts . . . . .	64.36	23.84
Others . . . . .	147.88	33.27
	<b>(a) 2,480.26</b>	<b>1,607.20</b>
<b>Deferred tax liability</b>		
Difference in depreciation of fixed assets . . . . .	2,713.17	1,803.14
Others . . . . .	0.19	0.55
	<b>(b) 2,713.36</b>	<b>1,803.69</b>
<b>Deferred tax asset/(liability) (net)</b> . . . . .	<b>[(c )=(a)-(b)] (233.10)</b>	<b>(196.49)</b>
Tax effect of share issue expenses eligible for income tax deduction U/s 35D, credited to securities premium . . . . .	<b>(d) 15.10</b>	<b>19.70</b>
<b>Total deferred tax asset/(liability)</b> . . . . .	<b>(c )+(d) (218.00)</b>	<b>(176.79)</b>

**13. Earnings Per Share (EPS)**

Particulars	All Amounts in Rupees Million Except per Share Data	
	As at March 31,	
	2008	2007
<b>Basic</b>		
Profit after share of profit of associates and minority interest . . .	<b>10,300.99</b>	8,640.32
Less: Preference dividend and tax thereon . . . . .	<b>2.34</b>	23.03
Profit attributable to equity shareholders . . . . .	<b>A 10,298.65</b>	8,617.29
Add: Exceptional items, net of taxes . . . . .	<b>1,511.69</b>	—
Profit before exceptional items . . . . .	<b>B 11,810.34</b>	8,617.34
Weighted average number of equity shares . . . . .	<b>C 1,455,672,492</b>	1,43,83,63,468
<b>Basic EPS (Rs) of face value of Rs 2 each</b>		
- before exceptional items . . . . .	<b>B/C 8.11</b>	5.99
- after exceptional items . . . . .	<b>A/C 7.07</b>	5.99
<b>Diluted</b>		
Weighted average number of equity shares . . . . .	<b>C 1,45,56,72,492</b>	1,43,83,63,468
Add: Equity shares for no consideration arising on grant of share options under ESOP 2005 and ESOP 2006 . . . . .	<b>D 16,09,325</b>	23,07,690
Add: Potential equity shares that could arise on conversion of zero coupon convertible bonds . . . . .	<b>E 3,75,93,265</b>	—
Weighted average number of equity shares for diluted EPS. . . . .	<b>F = (C+D+E) 1,494,875,082</b>	1,440,671,158
<b>Diluted EPS (Rs) of face value of Rs 2 each</b>		
- before exceptional items . . . . .	<b>B/F 7.90</b>	5.98
- after exceptional items . . . . .	<b>A/F 6.89</b>	5.98

#### 14. Statement showing the use of proceeds from Initial Public Offer up to March 31, 2008

S. No.	Description	As at March 31, 2008
I.	Sources of Funds	
	IPO Proceeds . . . . .	13,648.97
	Issue Expenses . . . . .	(406.71)
	<b>Net Proceeds . . . . .</b>	<b>13,242.26</b>
II.	Application of Funds	
i)	Setting up and expansion of manufacturing facilities in India . . . . .	1,177.45
ii)	Capitalization of subsidiaries . . . . .	3,193.34
iii)	Setting up of new corporate house and corporate learning centre . . . . .	427.34
iv)	Redemption of preference shares allotted to the private equity investors . . . . .	1,000.00
	Growth opportunities in domestic and international markets and general corporate purposes . . . . .	5,735.77
v)	Reallocation of funds vide special resolution at AGM dated July 25, 2007 for capitalisation of subsidiaries and / or for growth opportunities in domestic and international markets. . . . .	1,708.36
	<b>Total . . . . .</b>	<b>13,242.26</b>
III.	<b>Unutilised Funds . . . . .</b>	<b>—</b>

#### 15. Statement showing the use of proceeds from Qualified Institutional Placements up to March 31, 2008

On December 20, 2007, the Company has raised Rs. 21,826.96 million through allotment of 11,386,000 Equity Shares of Rs. 10 each (since adjusted to 56,930,000 equity shares of Rs 2 each [See Note 11(d)]) at a price of Rs 1,917 per equity share of Rs 10 each (since adjusted to Rs 383.40 per equity share of Rs 2 each[See Note 11(d)]) to selected Qualified Institutional Buyers pursuant to the Guidelines for Qualified Institutional Placements (QIP) under Chapter XIII-A of the SEBI (DIP) Guidelines, 2000. The details of utilization of QIP proceeds are given below:

Sl. No.	Description	As at March 31, 2008
I.	Sources of funds	
	Proceeds from Issue . . . . .	21,826.96
	Issue Expenses . . . . .	(262.63)
	<b>Net Proceeds . . . . .</b>	<b>21,564.33</b>
II.	Utilisation of funds	
	Repayment of Acquisition facility loans . . . . .	11,292.29
	Working Capital requirement and General corporate purposes . . . . .	3,411.17
	Investments in subsidiaries for Capital expenditure and Working Capital requirement . . . . .	1,353.70
	<b>Total . . . . .</b>	<b>16,057.16</b>
III.	<b>Unutilised funds . . . . .</b>	<b>5,507.17</b>

Of the unutilised funds, Rs 5,500.00 million is lying as fixed deposits with Industrial Development Bank of India, India and the balance Rs 7.10 million is lying in the escrow account with Housing Development Finance Corporation Bank, India.

#### 16. Managerial Remuneration to Directors

Particulars	Year Ended March 31,	
	2008	2007
Salaries . . . . .	13.00	13.00
Contribution to Superannuation Fund . . . . .	2.74	2.70
Sitting Fees . . . . .	0.20	0.42
	<b>15.94</b>	<b>16.12</b>

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.

## 17. a. Contingent liabilities

Particulars	As at March 31	
	2008	2007
Guarantees given on behalf of other companies in respect of loans granted to them by banks . . . . .	Nil	3.60
Guarantees given in connection with acquisition of shares of REpower . . . . .	46,936.20	Nil
Claims against the Company not acknowledged as debts . . . . .	3.83	13.67
Disputed labour cost liabilities . . . . .	0.17	3.18
Disputed service tax liabilities . . . . .	27.12	17.51
Premium on redemption of zero coupon convertible bonds . . . . .	1,010.79	Nil

The disputed Income tax demand outstanding as on date is Rs 192.30 million. Based on the decisions of the Appellate authorities and the interpretations of other relevant provisions, the Company is of the opinion that the demand is likely to be either deleted or substantially reduced and accordingly no provision has been made.

## b. Capital commitments

Estimated amount of contracts remaining to be executed on capital accounts and not provided for, net of advances is Rs 18,999.18 million (Rs 11,930.89 million).

## 18. Derivative Instruments and Unhedged Foreign Currency Exposure

Particulars of Derivatives	Purpose
<b>Forward contract outstanding as at balance sheet date:</b>	
Buy Euro 150,522,982 (Euro 38,619,539)	Hedge of forex Euro liabilities
Buy GBP Nil (GBP 51,966)	Hedge of forex GBP liabilities
Buy USD 309,759,304 (USD 311,404,324)	Hedge of forex USD liabilities
Sell DKK Nil (DKK 10,928,006)	Hedge of forex DKK receivable
Sell USD 286,961,890 (USD 33,369,600)	Hedge of forex USD receivable
Sell Euro 118,198,046 (Euro 21,500,000)	Hedge of forex Euro receivable
Sell AUD 32,500,000 (AUD Nil)	Hedge of forex AUD receivable

### Option contract outstanding as at balance sheet date:

USD 135.00 million (10.00 million) zero cost 1:2 forward put options outstanding

USD Nil (16.50 million) call spread options outstanding

Euro 177.50 million (12.00 million) zero cost barrier call options outstanding

Euro 115.00 million (Nil) zero cost put spread options outstanding

### Particulars of unhedged foreign currency exposure as at the balance sheet

Particulars	Year Ended March 31,	
	2008	2007
Creditors . . . . .	4,319.59	2,465.75
Debtors . . . . .	16,206.43	2,011.38
Loans given . . . . .	3,441.50	2,778.44
Loans received . . . . .	5,965.62	1,927.25
Bank balance in current accounts and term deposit accounts . . . . .	3,535.65	923.85
Zero coupon convertible bonds . . . . .	20,055.00	Nil

## 19. Related Party Disclosures

### (A) Related parties with whom transactions have taken place during the year

#### a) *Entities where Key Management Personnel (KMP)/ Relatives of Key Management Personnel ("RKMP") has significant influence*

Sarjan Realities Limited, Suzlon Infrastructure Limited (formerly Aspen Infrastructures Limited), Senergy Global Private Limited, SE Shipping Lines Pte Ltd, Shubh Realty (South) Private Limited, Sugati Holdings Private Limited, Samanvaya Holdings Private Limited, Sanman Holdings Private Limited,

Suruchi Holdings Private Limited, Tanti Holdings Limited, Vinod R. Tanti (HUF), Girish R. Tanti (HUF), Jitendra R. Tanti (HUF)

Note- Sarjan Realities Limited and Suzlon Infrastructure Limited (formerly Aspen Infrastructures Limited) were associates in FY 2006-07.

b) **Key Management Personnel**

Tulsi R. Tanti, Girish R. Tanti

c) **Relatives of Key Management Personnel**

Gita T. Tanti, Jitendra R. Tanti, Lina J. Tanti, Nidhi T. Tanti, Pranav T. Tanti, Rambhaben Ukabhai, Sangita V. Tanti, Trisha J. Tanti, Vinod R. Tanti, Esha G. Tanti,

d) **Employee Funds**

Suzlon Energy Ltd. - Superannuation Fund

Suzlon Energy Ltd. - Employees Group Gratuity Scheme

Suzlon Infrastructure Services Ltd. - Superannuation Fund

Suzlon Infrastructure Services Ltd. - Employees Group Gratuity Scheme

Suzlon Towers & Structure Ltd. - Superannuation Fund

Suzlon Towers & Structure Ltd. - Employees Group Gratuity Scheme

Suzlon Power Infrastructure Pvt. Ltd. - Superannuation Fund

Suzlon Power Infrastructure Pvt. Ltd - Employees Group Gratuity Scheme

Suzlon Generators Pvt. Ltd. - Superannuation Fund

Suzlon Generators Pvt. Ltd. - Employees Group Gratuity Scheme

(B) **Transactions between the group and related parties during the year and the status of outstanding balances as at March 31, 2008**

Particulars	Associate	Entities Where KMP/RKMP Has Significant Influence	KMP	RKMP	Employee Funds
<b>Transactions</b>					
Purchase of fixed assets (including intangibles) . .	—	<b>378.32</b>	—	—	—
	(28.96)	(2.68)	(—)	(—)	(—)
Sale of fixed assets . . . . .		<b>0.59</b>	—	—	—
	(0.34)	(—)	(—)	(—)	(—)
Subscription to/purchase of equity shares . . . . .	—	—	—	—	—
	(—)	(—)	(0.15)	(0.35)	(—)
Redemption of preference shares . . . . .	—	—	—	—	—
	(—)	(43.58)	(13.10)	(82.50)	(—)
Sale of investments . . . . .	—	—	—	—	—
	(—)	(22.03)	(—)	(48.70)	(—)
Sale of goods . . . . .	—	<b>54.59</b>	—	—	—
	(1,080.46)	(28.18)	(142.47)	(142.47)	(—)
Purchase of goods and services . . . . .	—	<b>2,539.06</b>	—	—	—
	(1,898.40)	(446.87)	(—)	(—)	(—)
Transformer division acquisition . . . . .	—	<b>42.47</b>	—	—	—
	(—)	(—)	(—)	(—)	(—)
Loans/deposit given . . . . .	—	<b>3,204.90</b>	—	—	—
	(4,820.50)	(172.30)	(—)	(—)	(—)
Interest received/receivable . . . . .	—	<b>193.00</b>	—	—	—
	(173.82)	(68.96)	(—)	(—)	(—)
Interest paid . . . . .	—	<b>15.85</b>	—	—	—
	(—)	(—)	(—)	(—)	(—)
Dividend received/receivable . . . . .	—	—	—	—	—
	(6.30)	(—)	(—)	(—)	(—)
Dividend paid . . . . .	—	—	—	—	—
	(—)	(599.91)	(191.88)	(726.95)	(—)



Particulars	Associate	Entities Where KMP/RKMP Has Significant Influence	KMP	RKMP	Employee Funds
Rent received . . . . .	— (—)	— (0.11)	— (—)	— (—)	— (—)
Leaser rent paid . . . . .	(—) (—)	<b>767.73</b> (0.10)	(—) (—)	<b>0.60</b> (—)	(—) (—)
Managerial Remuneration . . . . .	— (—)	— (—)	<b>15.72</b> (15.72)	— (—)	— (—)
Contribution to various funds . . . . .	— (—)	— (—)	— (—)	— (—)	<b>87.03</b> 39.54
<b>Outstanding balances</b>					
Advances from customers . . . . .	— (—)	— (—)	<b>7.50</b> (7.50)	<b>7.50</b> (7.50)	— (—)
Sundry debtors . . . . .	— (2.09)	<b>37.29</b> (—)	— (—)	— (—)	— (—)
Loans/deposits outstanding . . . . .	— (3,682.78)	— (757.20)	— (—)	— (—)	— (—)
Advances/deposits to supplier . . . . .	— (17.58)	<b>129.77</b> (0.02)	— (—)	<b>0.50</b> (—)	— (—)
Sundry creditors . . . . .	— (20.30)	<b>245.78</b> (14.18)	— (—)	— (—)	— (—)
Corporate guarantees . . . . .	— (3.04)	— (—)	— (—)	— (—)	— (—)

Note: Figures in brackets pertain to balances as on March 31, 2007

**(C) Disclosure of significant transactions with related parties**

Type of the Transaction	Type of Relationship	Name of the Entity/Person	Year Ended March 31	
			2008	2007
Purchase of fixed assets (including intangibles) . . . . .	Entities where KMP/ RKMP has significant influence	Suzlon Infrastructures Limited (Formerly Aspen Infrastructure Ltd)	<b>172.76</b>	26.72
Sale of Fixed Assets . . . . .	Entities where KMP/ RKMP has significant influence	Sarjan Realities Ltd	<b>163.39</b>	2.24
		Suzlon Infrastructures Limited (Formerly Aspen Infrastructure Ltd)	<b>0.30</b>	0.34
		Sarjan Realities Ltd	<b>0.10</b>	—
Subscription to/purchase of equity shares . . . . .	RKMP	Shubh Realty (South) Pvt. Ltd.	<b>0.19</b>	—
		Lina J. Tanti	—	0.08
		Sangita V. Tanti	—	0.08
		Gita T. Tanti	—	0.08
		Girish R. Tanti	—	0.08
		Vinod R. Tanti	—	0.08
Redemption of preference shares . . . . .	Entities where KMP/ RKMP has significant influence	Tulsi R. Tanti	—	0.08
		Tanti Holdings Ltd	—	25.58
Sale of investments . . . . .	Entities where KMP/ RKMP has significant influence	Vinod R. Tanti	—	10.00
		Rambhaben Ukabhai	—	22.90
		Nidhi T. Tanti	—	12.90
		Trisha J. Tanti	—	12.90
Loan/deposits given . . . . .	Entities where KMP/ RKMP has significant influence	Suzlon Infrastructures Ltd (Formerly Aspen Infrastructure Ltd)	<b>2,647.30</b>	3,525.50
		Sarjan Realities Ltd	<b>420.10</b>	1,295.000
		Shubh Realty (South) Pvt Ltd	<b>137.50</b>	150.00

Type of the Transaction	Type of Relationship	Name of the Entity/Person	Year Ended March 31	
			2008	2007
Sale of goods . . . . .	Entities where KMP/ RKMP has significant influence	Suzlon Infrastructures Limited (Formerly Aspen Infrastructure Ltd)	—	1,080.10
Purchase of goods and services . . . . .	Entities where KMP/ RKMP has significant influence	Sarjan Realities Ltd	—	0.35
		Suzlon Infrastructures Limited (Formerly Aspen Infrastructure Ltd)	<b>2,007.37</b>	1,879.20
Interest received . . . . .	Entities where KMP/ RKMP has significant influence	S E Shipping Lines PTE,Ltd	<b>510.71</b>	—
		Sarjan Realities Ltd	<b>75.79</b>	112.38
Dividend received . . . . .	Entities where KMP/ RKMP has significant influence	Suzlon Infrastructures Limited (Formerly Aspen Infrastructure Ltd)	<b>79.86</b>	61.43
		Shubh Realty (South) Pvt Ltd	<b>37.35</b>	67.65
		Suzlon Infrastructures Ltd (Formerly Aspen Infrastructure Ltd)	—	5.00
Dividend paid . . . . .	KMP	Sarjan Realities Ltd	—	1.30
		Tulsi R. Tanti and Girish R. Tanti	—	191.88
	RKMP	Relatives of KMP	—	726.95
	Entities where KMP/ RKMP has significant influence	Tanti Holdings Ltd (formerly known as Suzlon Capital Ltd)	—	599.91
Interest paid/payable . . . . .	Entities where KMP/ RKMP has significant influence	Suzlon Infrastructure Ltd. (Formerly Aspen Infrastructure Ltd.)	<b>15.85</b>	—
Rent received . . . . .	Entities where KMP/ RKMP has significant influence	Synergy Global Pvt Ltd	—	0.11
Leaser rent paid . . . . .	Entities where KMP/ RKMP has significant influence	Suzlon Infrastructures Ltd (Formerly Aspen Infrastructure Ltd)	<b>767.67</b>	
Managerial Remuneration . . . . .	KMP	Tulsi R. Tanti	<b>11.64</b>	11.64
	KMP	Girish R. Tanti	<b>4.08</b>	4.07
Contribution to various funds . . . . .	Employee Funds	Suzlon Energy Limited Superannuation Fund	<b>35.27</b>	28.78
	Employee Funds	Suzlon Energy Limited Employees Group Gratuity Scheme	<b>29.08</b>	1.42
	Employee Funds	Suzlon Infrastructure Services Limited Superannuation Fund	<b>13.62</b>	4.69

## 20. Disclosure as required by Clause 32 of Listing Agreement with Stock Exchanges

Type of Relationship	Name	Amount Outstanding as at March 31, 2008	Maximum Amount Outstanding During the Year
Companies in which directors are interested . . . . .	Sarjan Realities Limited	—	1,712.30
	Suzlon Infrastructure Limited (formerly Aspen Infrastructures Limited)	—	2,985.00
	Shubh Realty (South) Private Limited	—	894.70

Note:

- No loans have been granted by the Company to any person for the purpose of investing 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.

## 21. Segment Reporting

The Company has disclosed business segment as the primary segment. Segments have been identified taking into account the nature of the products, the differing risks and returns, the organisation structure and internal reporting system.

The Company's operations predominantly relate to manufacture and sale of WTGs and gear box. Others mainly include sale/sub-lease of land, infrastructure development income and power generation income.

Segment revenue, segment results, segment assets and segment liabilities include the respective amounts identifiable to each of the segments as also amounts allocated on a reasonable basis.

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

	Year Ended March 31, 2008					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 . . . . .	1,12,614.83	22,129.00	2,050.47	—	1,36,794.30	59,975.24	18,560.74	1,321.32	—	79,857.30
Add: Inter segment sales . . . . .	24.24	1,919.12	—	(1,943.36)	—	10.38	—	—	(10.38)	—
Segment revenue . .	1,12,639.07	24,048.12	2,050.47	(1,943.36)	1,36,794.30	59,985.62	18,560.74	1,321.32	(10.38)	79,857.30
Segment results . . .	14,754.05	2,320.96	355.68	(129.50)	17,301.19	9,246.56	2,222.60	313.66	—	11,782.82
<b>Add/(Less) items to reconcile with profit as per profit and loss account</b>										
<b>Add:</b>										
Other Income . . . .					2,359.73					680.40
<b>Less:</b>										
Financial charges . .					(5,969.38)					(2,763.44)
<b>Less:</b>										
Preliminary exp w/off . . . . .					(15.41)					(17.14)
Profit before tax and exceptional items . . . . .					13,676.13					9,682.64
Provision for current tax . . . . .					2,678.51					1,635.98
MAT credit Entitlement . . . . .					(806.75)					(512.32)
Deferred Tax . . . . .					(22.76)					(125.70)
Fringe benefit tax . .					144.00					36.64

	Year Ended March 31, 2008					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 tax . . . . .					1,992.99					1,034.60
Profit before tax and exceptional items . . . . .					11,683.14					8,648.04
Exceptional items (net of tax) . . . . .					1,511.69					—
Profit after tax and exceptional items . . . . .					10,171.45					8,648.04
<b>Add:</b> Share in associate's profit after tax . . . . .					557.50					—
<b>Less:</b> Minority interest . . . . .					(427.98)					(7.72)
Net profit . . . . .					10,300.97					8,640.32
<b>Segment assets</b> . . .	136,230.39*	49,784.09	6,814.08	—	192,828.56	62,156.90	38,875.08	3,543.99	—	1,04,575.97
Common assets . . .					71,072.13					20,836.94
Enterprise assets . .					23,900.69					1,25,412.90
<b>Segment liabilities</b> . . . . .	58,697.99	11,293.73	883.62	—	70,875.34	30,851.35	7,036.22	438.92	—	38,326.49
Common liabilities . . . . .					112,012.24					51,975.62
Enterprise liabilities . . . . .					182,887.58					90,302.11
<b>Capital expenditure during the year</b> . .	8,967.86	11,329.34	1,044.00	—	21,341.20	5,714.80	3,491.29	954.58	—	10,160.67
<b>Segment depreciation</b> . . . .	1,587.94	1,190.19	115.52	—	2,893.65	945.30	695.42	77.28	—	1,718.00
Non-cash expenses other than depreciation . . . .	15.41				15.41	17.00	—	0.10		17.10
*includes equity- accounted investments . . . . .	31,410.03	—	—	—	31,410.03	—	—	—	—	—

## B) Geographical Segment

Particulars	Year Ended March 31, 2008						Year Ended March 31, 2007					
	India	Europe	USA	China	Others	Total	India	Europe	USA	China	Others	Total
Segment revenue . . . . .	56,186.98	31,824.37	25,553.80	4,785.28	18,443.90	136,794.33	41,693.25	16,363.46	16,517.48	3,142.93	2,140.18	79,857.30
Segment assets . . . . .	64,701.12	95,204.42	13,742.47	9,407.35	9,773.24	1,92,828.60	45,256.05	42,082.89	11,206.59	4,827.21	1,203.23	104,575.97
Capital expenditure incurred . . . . .	8,429.23	11,949.23	269.57	579.20	113.97	21,341.20	3,268.81	4,718.10	868.41	1,291.58	13.77	10,160.67

22. Prior year amounts have been reclassified wherever necessary to confirm with current year presentation. Figures in the brackets are in respect of the previous year.

Signatures to 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 and Managing Director

Per Jasmin B. Shah  
Partner  
Membership No. 46238

per Arvind Sethi  
Partner  
Membership No. 89802

Hemal A. Kanuga Company  
Secretary

Girish R. Tanti  
Director

Place : Pune  
Date : May 20, 2008

Place: Pune  
Date : May 20, 2008

Place: Mumbai  
Date : May 20, 2008

SNK & Co.  
Chartered Accountants  
E-2-B, The Fifth Avenue  
Dhole Patil Road  
Near Regency Hotel  
Pune 411 001

S. R. BATLIBOI & Co.  
Chartered Accountants  
C-401, Fourth Floor  
Panchshil Techpark  
Yerwada  
Pune 411 006

## **Auditor's Report**

### **The Board of Directors 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 as described in Schedule P, Note 1 and joint venture as described in Schedule P, Note 2 (together referred to as the 'Group') as at March 31, 2009, and also the consolidated profit and loss account and the consolidated cash flow statement for the year ended on that date annexed thereto ("consolidated financial statements"). These consolidated financial statements are the responsibility of SEL's management and have been prepared by management on the basis of separate financial statements and other financial information regarding components. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.
2. We conducted our audit in accordance with the auditing standards generally accepted in India. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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 audit the financial statements of certain subsidiaries, whose audited financial statements, reflect Group's share of total assets of Rs. 998.13 Crores as at March 31, 2009, Group's share of total revenues of Rs. 1,650.11 Crores and Group's share of total cash flows of Rs. (8.54) Crores for the year then ended. These financial statements and other financial information have been audited solely by SNK & Co. on which, S. R. Batliboi & Co. has placed reliance for the purpose of this report.
4. We did not audit the financial statements of certain subsidiaries, whose audited financial statements, reflect Group's share of total assets of Rs. 957.45 Crores as at March 31, 2009, Group's share of total revenues of Rs. 5,539.83 Crores and Group's share of total cash flows of Rs. 163.09 Crores for the year then ended. These financial statements and other financial information have been audited solely by S. R. Batliboi & Co. on which, SNK & Co. has placed reliance for the purpose of this report.
5. We did not audit the financial statements of certain subsidiaries, whose audited financial statements, reflect Group's share of total assets of Rs. 40,159.69 Crores as at March 31, 2009, Group's share of the total revenue of Rs. 18,157.09 Crores and Group's share of total cash flows amounting to Rs. (3,543.73) Crores for the year then ended. These financial statements and other financial information have been audited by other auditors whose reports have been furnished to us, and our opinion is based solely on the report of other auditors.

These financial statements include the audited financial statements of subsidiaries, having Group's share of total assets of Rs. 37,036.50 Crores as at March 31, 2009, Group's share of total revenues of Rs. 11,284.44 Crores and Group's share of total cash flows amounting to Rs. (4,226.46) Crores for the year then ended, which have been audited by member firms of Ernst & Young Global in the relevant countries and whose reports have been furnished to us, and our opinion is based solely on their reports.

6. We did not audit the financial statements of certain subsidiaries, whose financial statements, reflect Group's share of total assets of Rs. 1.00 Crores as at March 31, 2009, Group's share of total revenues of Rs. 0.41 Crores and Group's share of total cash flows amounting to Rs. 3.76

SNK & Co.  
Chartered Accountants  
E-2-B, The Fifth Avenue  
Dhole Patil Road  
Near Regency Hotel  
Pune 411 001

S. R. BATLIBOI & Co.  
Chartered Accountants  
C-401, Fourth Floor  
Panchshil Techpark  
Yerwada  
Pune 411 006

Crores for the year then ended. These financial statements and other financial information have been certified by management and our opinion is based solely on these management certified accounts.

7. We did not audit the financial statements of joint ventures, whose financial statements, reflect Group's share of total assets of Rs. 71.05 Crores as at March 31, 2009, Group's share of total revenues of Rs. 339.63 Crores and Group's share of total cash flows amounting to Rs. 62.67 Crores for the year then ended. These financial statements and other financial information have been certified by management, and our opinion is based solely on these management certified accounts.
8. Without qualifying our opinion, we draw attention to Schedule P, Note 9 regarding non-provision of proportionate premium on redemption of 'US\$500 Million Zero Coupon Convertible Bonds due 2012' amounting to Rs. 226.11 Crores which has been considered by the Group as a contingent liability.
9. We report that the consolidated financial statements have been prepared by SEL's management in accordance with the requirements of Accounting Standards (AS) 21, Consolidated financial statements, Accounting Standards (AS) 23, Accounting for Investments in Associates in Consolidated Financial Statements and Accounting Standard (AS) 27, Financial Reporting of Interests in Joint Ventures notified pursuant to the Companies (Accounting Standards) Rules, 2006.
10. Based on our audit and on consideration of reports of other auditors on separate financial statements and on the other financial information of the components, and to the best of our information and according to the explanations given to us, we are of the opinion that 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, 2009;
  - (b) in the case of the consolidated profit and loss account, of the profit for the year ended on that date; and
  - (c) in the case of the consolidated cash flow statement, of the cash flows for the year ended on that date.

**SNK & Co**  
**Chartered Accountants**

per Jasmin B. Shah  
Partner  
Membership No 46238  
Place: Mumbai  
Date: June 27, 2009

**S. R. Batliboi & Co**  
**Chartered Accountants**

per Arvind Sethi  
Partner  
Membership No 89802  
Place: Mumbai  
Date: June 27, 2009



**SUZLON ENERGY LIMITED**  
**Consolidated Balance Sheet as at March 31, 2009**  
All amounts in rupees million unless otherwise stated

Particulars	Schedule	As at March 31,	
		2009	2008
<b>SOURCES OF FUNDS</b>			
<b>Shareholders' funds</b>			
Share capital . . . . .	A	2,996.59	2,993.90
Employee stock options outstanding . . . . .	B	104.39	102.19
Reserves and surplus . . . . .	C	82,216.58	77,916.95
		<b>85,317.56</b>	<b>81,013.04</b>
Preference shares issued by subsidiary company . . . . .		25.00	25.00
Share application money pending refund [See Schedule P, Note 11(d)] . . . . .		950.00	—
Minority interest . . . . .		23,134.50	10,243.82
<b>Loan funds</b>			
Secured loans . . . . .	D	102,766.21	70,664.32
Unsecured loans . . . . .	E	45,929.50	28,681.60
		<b>148,695.71</b>	<b>99,345.92</b>
<b>Deferred tax liabilities</b> . . . . .		<b>4,417.43</b>	<b>2,058.94</b>
		<b>262,540.20</b>	<b>192,686.72</b>
<b>APPLICATION OF FUNDS</b>			
<b>Fixed assets (including intangible assets)</b> . . . . .	F		
Gross block . . . . .		151,024.08	55,998.38
Less: Accumulated depreciation/amortisation . . . . .		18,210.00	10,318.44
Net block . . . . .		132,814.08	45,679.94
Capital work-in-progress . . . . .		19,840.18	11,196.74
		<b>152,654.26</b>	<b>56,876.68</b>
<b>Investments</b> . . . . .	G	50.83	31,417.78
<b>Deferred tax assets</b> . . . . .		2,549.27	1,840.88
<b>Foreign currency monetary translation difference account</b> . . . . .		3,980.13	—
[See Schedule P, Note 3]			
<b>Current assets, loans and advances</b> . . . . .	H		
Inventories . . . . .		71,736.50	40,848.33
Sundry debtors . . . . .		53,927.88	32,012.51
Cash and bank balances . . . . .		30,698.44	69,602.01
Other current assets . . . . .		33,457.12	14,893.48
Loans and advances . . . . .		29,008.92	18,249.94
		<b>218,828.86</b>	<b>175,606.27</b>
<b>Less : Current liabilities and provisions</b> . . . . .	I		
Current liabilities . . . . .		105,947.29	64,830.12
Provisions . . . . .		9,575.86	8,224.77
		<b>115,523.15</b>	<b>73,054.89</b>
<b>Net current assets</b> . . . . .		<b>103,305.71</b>	<b>102,551.38</b>
<b>Miscellaneous expenditure</b> . . . . .	J	—	—
(To the extent not written off or adjusted)			
		<b>262,540.20</b>	<b>192,686.72</b>
Significant accounting policies and notes to consolidated financial statements . .	P		

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  
Membership No. 46238

per Arvind Sethi  
Partner  
Membership No. 89802

Hemal A. Kanuga  
Company Secretary

Girish R. Tanti  
Director

Place: Mumbai  
Date : June 27, 2009

Place: Mumbai  
Date : June 27, 2009

Place: Mumbai  
Date : June 27, 2009

**SUZLON ENERGY LIMITED**  
**Consolidated Profit and Loss Account for the year ended March 31, 2009**  
All amounts in rupees million unless otherwise stated

Particulars	Schedule	April 01, 2008 to March 31, 2009	April 01, 2007 to March 31, 2008
<b>INCOME</b>			
Sales and service income . . . . .		260,817.01	136,794.30
Other income . . . . .	K	<u>4,488.43</u>	<u>2,679.71</u>
		<b>265,305.44</b>	<b>139,474.01</b>
<b>EXPENDITURE</b>			
Cost of goods sold . . . . .	L	168,568.03	88,701.82
Operating and other expenses . . . . .	M	42,675.48	16,807.17
Employees' remuneration and benefits . . . . .	N	21,657.51	10,430.05
Financial charges . . . . .	O	10,539.31	5,969.38
Depreciation/amortisation . . . . .	F	5,731.42	2,893.64
Preliminary expenditure written off . . . . .	J	<u>0.90</u>	<u>15.41</u>
		<b>249,172.65</b>	<b>124,817.47</b>
<b>PROFIT BEFORE TAX AND EXCEPTIONAL ITEMS . . . . .</b>		<b>16,132.79</b>	<b>14,656.54</b>
Less: Exceptional items [See Schedule P, Note 5] . . . . .		(8,962.85)	(2,852.14)
<b>PROFIT BEFORE TAX . . . . .</b>		<b>7,169.94</b>	<b>11,804.40</b>
Current tax . . . . .		2,111.10	2,316.15
MAT credit entitlement . . . . .		(40.31)	(806.75)
Earlier year — current tax . . . . .		(0.74)	2.31
Deferred tax . . . . .		671.23	(22.77)
Fringe benefit tax . . . . .		<u>139.93</u>	<u>144.00</u>
<b>PROFIT AFTER TAX . . . . .</b>		<b>4,288.73</b>	<b>10,171.46</b>
Add : Share in associate's profit after tax . . . . .		23.23	557.50
Less: Share of profit of minority . . . . .		<u>(1,947.15)</u>	<u>(427.98)</u>
<b>NET PROFIT . . . . .</b>		<b>2,364.81</b>	<b>10,300.98</b>
Balance brought forward . . . . .		<u>16,901.07</u>	<u>11,630.38</u>
<b>PROFIT AVAILABLE FOR APPROPRIATIONS . . . . .</b>		<b>19,265.88</b>	<b>21,931.36</b>
<b>APPROPRIATIONS</b>			
Proposed dividend on equity shares . . . . .		—	—
Residual dividend of previous year . . . . .		1.32	1,496.99
Dividend on preference shares . . . . .		—	2.00
Tax on dividends . . . . .		8.68	263.80
Transfer to general reserve . . . . .		<u>—</u>	<u>3,267.50</u>
<b>Surplus carried to balance sheet . . . . .</b>		<b>19,255.88</b>	<b>16,901.07</b>
<b>Earnings per share (in Rs) [See Schedule P, Note 16]</b>			
- Basic [Nominal value of share Rs 2] . . . . .		<b>1.58</b>	7.07
- Diluted [Nominal value of share Rs 2] . . . . .		<b>1.52</b>	6.89
Significant accounting policies and notes to consolidated financial statements . . . . .	P		

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  
Membership No. 46238

per Arvind Sethi  
Partner  
Membership No. 89802

Hemal A. Kanuga  
Company Secretary

Girish R. Tanti  
Director

Place: Mumbai  
Date : June 27, 2009

Place: Mumbai  
Date : June 27, 2009

Place: Mumbai  
Date : June 27, 2009

**SUZLON ENERGY LIMITED**  
**Consolidated Cash Flow Statement for the year ended March 31, 2009**  
All amounts in rupees million unless otherwise stated

Particulars	Year Ended March 31,	
	2009	2008
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>		
Profit before tax and exceptional items . . . . .	<b>16,132.79</b>	<b>14,656.54</b>
Adjustments for:		
Depreciation/ amortisation . . . . .	5,731.42	2,893.64
Loss on assets sold / discarded, net . . . . .	0.15	35.67
Profit on sale of investments, net . . . . .	(931.82)	(34.26)
Preliminary expenses incurred . . . . .	(0.90)	(15.41)
Preliminary expenses written off . . . . .	0.90	15.41
Interest income . . . . .	(1,769.26)	(2,328.87)
Interest expenses . . . . .	9,012.09	5,320.27
Dividend income* . . . . .	(0.02)	(0.01)
Premium on redemption of preference shares of subsidiary . . . . .	(16.43)	—
Provision for operation, maintenance and warranty . . . . .	3,667.25	689.04
Provision for performance guarantee . . . . .	2,808.77	1,562.51
Provision for liquidated damages . . . . .	2,843.30	244.50
Bad debts written off . . . . .	37.91	157.22
Provision for doubtful debts and advances . . . . .	210.23	172.29
Adjustments for consolidation . . . . .	(326.66)	3,747.22
Exchange differences, net . . . . .	(6.00)	(149.89)
Employee stock option scheme . . . . .	84.47	45.28
Wealth-tax . . . . .	0.58	0.35
<b>Operating profit before working capital changes . . . . .</b>	<b>37,478.77</b>	<b>27,011.50</b>
Movements in working capital		
(Increase) / decrease in sundry debtors and unbilled revenue . . . . .	(26,572.04)	(21,478.78)
(Increase) / decrease in inventories . . . . .	(18,490.78)	(9,485.35)
(Increase) / decrease in loans and advances . . . . .	(4,351.80)	(8,741.76)
(Increase) / decrease in margin money deposits . . . . .	(1,083.71)	(329.10)
Increase / (decrease) in current liabilities and provisions . . . . .	8,567.19	27,838.51
Cash (used in) / generated from operations . . . . .	(4,452.37)	14,815.02
Direct taxes paid (net of refunds) . . . . .	(2,372.18)	(2,117.82)
<b>Net cash (used in) / generated from operating activities before exceptional items . . . . .</b>	<b>(6,824.55)</b>	<b>12,697.20</b>
Exceptional items paid . . . . .	(5,413.25)	(654.64)
<b>Net cash (used in) / generated from operating activities . . . . .</b>	<b>(12,237.80)</b>	<b>12,042.56</b>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>		
Purchase of fixed assets . . . . .	(33,308.43)	(21,287.16)
Proceeds from sale of fixed assets . . . . .	142.21	82.72
Paid for acquisition of subsidiaries . . . . .	(41,775.74)	—
Purchase of investments . . . . .	(4,000.76)	(30,704.62)
Sale / redemption of investments . . . . .	4,003.31	—
Inter-corporate deposits repaid / (granted) . . . . .	(1,157.80)	4,433.34
Interest received . . . . .	2,862.98	1,108.77
Dividend received* . . . . .	0.02	0.01
Premium on redemption of preference shares of subsidiary . . . . .	16.43	—
<b>Net cash flow used in investing activities . . . . .</b>	<b>(73,217.78)</b>	<b>(46,366.94)</b>

Particulars	Year Ended March 31,	
	2009	2008
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>		
Share application money received . . . . .	950.00	—
Proceeds from issuance of share capital including premium, under stock option scheme . . .	69.41	60.20
Proceeds from issuance of share capital including premium to qualified institutional buyers . . . . .	—	21,826.96
Debenture, zero coupon convertible bond and share issue expenses . . . . .	(50.55)	(491.86)
Proceeds from issuance of share capital by subsidiary, net of issue expense . . . . .	3,944.60	26,607.50
Proceeds on sale of stake of subsidiary, net . . . . .	4,772.53	—
Buy back of management option certificates . . . . .	—	(284.69)
Proceeds from issuance of debentures . . . . .	3,000.00	—
Proceeds from long term borrowings . . . . .	14,862.40	45,142.44
Proceeds from issuance of zero coupon convertible bonds . . . . .	—	20,099.00
Repayment of long term borrowings . . . . .	(16,169.48)	(18,193.56)
Proceeds /(Repayment) from short term borrowings, net . . . . .	38,392.61	(1,555.48)
Interest paid . . . . .	(9,256.67)	(5,057.55)
Dividend paid . . . . .	(1,514.38)	(8.78)
Tax on dividend paid . . . . .	(262.25)	(3.18)
<b>Net cash flow from financing activities . . . . .</b>	<b>38,738.22</b>	<b>88,141.00</b>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS . . . . .</b>	<b>(46,717.36)</b>	<b>53,816.62</b>
Add: Cash and bank balances taken over on acquisition of subsidiary . . . . .	6,692.47	—
Add/(less): Effect of exchange difference on cash and cash equivalents . . . . .	37.61	73.34
<b>Total . . . . .</b>	<b>(39,987.28)</b>	<b>53,889.96</b>
Cash and cash equivalents at the beginning of the year . . . . .	68,345.98	14,456.02
Cash and cash equivalents at the end of the year . . . . .	28,358.70	68,345.98

Components of Cash and Cash Equivalents	As at March 31,	
	2009	2008
Cash and cheques on hand . . . . .	436.51	934.26
With scheduled banks		
in current account . . . . .	8,042.14	11,438.69
in margin account . . . . .	6,791.34	31,092.29
in term deposit accounts . . . . .	15,428.45	26,136.77
less: in margin money deposits . . . . .	(2,339.74)	(1,256.03)
	<b>28,358.70</b>	<b>68,345.98</b>

#### Notes

1 The figures in brackets represent outflows.

2 Previous period's figures have been regrouped / reclassified, wherever necessary to confirm to current year presentation.

\* Amount below Rs. 0.10 million

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**  
**Membership No. 46238**

**per Arvind Sethi**  
**Partner**  
**Membership No. 89802**

**Hemal A. Kanuga**  
**Company Secretary**

**Girish R. Tanti**  
**Director**

**Place: Mumbai**  
**Date : June 27, 2009**

**Place: Mumbai**  
**Date : June 27, 2009**

**Place: Mumbai**  
**Date : June 27, 2009**

**SUZLON ENERGY LIMITED**  
**Schedules to the Consolidated Balance Sheet**  
**as at March 31, 2009**

All amounts in rupees million unless otherwise stated

Particulars	As at March 31,	
	2009	2008
<b>SCHEDULE - A : SHARE CAPITAL</b>		
<b>Authorised</b>		
2,225,000,000 (2,225,000,000) equity shares of Rs 2/- each . . . . .	4,450.00	4,450.00
	<b>4,450.00</b>	<b>4,450.00</b>
<b>Issued and subscribed</b>		
<b>Equity</b>		
1,498,295,400 (1,496,934,400) equity shares of Rs 2/- each fully paid-up . . . . .	2,996.59	2,993.90
[Of the above equity shares, 1,259,276,500 (1,259,276,500) shares of Rs 2/- each were allotted as fully paid bonus shares by utilisation of Rs 1,740.40 million (Rs 1,740.40 million) from general reserve, Rs 10.30 million (Rs 10.30 million) from capital redemption reserve and Rs 768 million (Rs 768 million) from securities premium account]		
[Outstanding Employee Stock Options exercisable into 571,000 (246,000) equity shares of Rs 2/- each fully paid ] [See Schedule P, Note 10] . . . . .		
	<b>2,996.59</b>	<b>2,993.90</b>
<b>SCHEDULE - B : EMPLOYEE STOCK OPTIONS OUTSTANDING</b>		
<b>Employee stock options outstanding</b> . . . . .	121.99	178.32
Less: Deferred employee compensation outstanding . . . . .	17.60	76.13
	<b>104.39</b>	<b>102.19</b>
<b>SCHEDULE - C : RESERVES AND SURPLUS</b>		
<b>Capital redemption reserve</b>		
As per last balance sheet . . . . .	150.00	150.00
<b>Unrealised gain on dilution</b> [See Schedule P, Note 6 and Note 7] . . . . .	14,029.33	12,002.48
<b>Securities premium account</b>		
As per last balance sheet . . . . .	34,566.24	13,226.94
Add : Additions during the year . . . . .	136.10	21,831.15
	34,702.34	35,058.09
Less : Expenses on issue of equity shares to qualified institutional buyers . . . . .	—	262.66
Expenses on issue of debentures [See schedule P, Note 11(a)] . . . . .	50.55	—
Expenses on issue of zero coupon convertible bonds . . . . .	—	229.20
	<b>34,651.79</b>	<b>34,566.23</b>
<b>General reserve</b>		
As per last balance sheet . . . . .	9,528.17	6,263.50
Add : Transferred from profit and loss account . . . . .	—	3,267.50
Add : Adjustment as per transitional provisions of AS-11 (net of tax of Rs Nil) . . . . .	10.99	—
[See Schedule P, Note 3]		
	9,539.16	9,531.00
Less: Adjustment for employee benefits provision . . . . .	—	2.83
	<b>9,539.16</b>	<b>9,528.17</b>
<b>Capital reserve on consolidation</b> . . . . .	<b>0.30</b>	<b>0.30</b>
<b>Foreign currency translation reserve</b>		
(Exchange differences during the year on net investment in non-integral operations)		
As per last balance sheet . . . . .	4,768.70	(45.18)
Movement during the year . . . . .	(178.58)	4,813.88
	<b>4,590.12</b>	<b>4,768.70</b>
<b>Profit and loss account</b> . . . . .	<b>19,255.88</b>	<b>16,901.07</b>
	<b>82,216.58</b>	<b>77,916.95</b>

**SUZLON ENERGY LIMITED**  
**Schedules to the Consolidated Balance Sheet**  
**as at March 31, 2009**

Particulars	As at March 31,	
	2009	2008
<b>SCHEDULE - D : SECURED LOANS</b> [See Schedule P, Note 11(e)]		
<b>12.5% secured redeemable non-convertible debentures</b> . . . . .	<b>3,000.00</b>	<b>—</b>
[See Schedule P, Note 11(a)]		
<b>Term loans</b>		
From banks and financial institutions . . . . .	59,819.93	61,758.35
From others . . . . .	177.47	187.57
	<b>59,997.40</b>	<b>61,945.92</b>
<b>Working capital facilities from banks and financial institutions</b> . . . . .	<b>39,762.57</b>	<b>8,718.19</b>
<b>Vehicle loans</b> . . . . .	<b>6.24</b>	<b>0.21</b>
	<b><u>102,766.21</u></b>	<b><u>70,664.32</u></b>
<b>SCHEDULE - E : UNSECURED LOANS</b>		
<b>Long-term</b>		
Zero coupon convertible bonds [See Schedule P, Note 9] . . . . .	25,355.00	20,055.00
Capital from profit participation rights [See Schedule P, Note 11(b)] . . . .	675.20	
From banks and financial institutions . . . . .	140.55	810.76
From others . . . . .	4,666.39	111.23
	<b>30,837.14</b>	<b>20,976.99</b>
<b>Short-term</b>		
From banks and financial institutions . . . . .	14,430.46	7,686.11
From others . . . . .	661.90	18.50
	<b>15,092.36</b>	<b>7,704.61</b>
	<b><u>45,929.50</u></b>	<b><u>28,681.60</u></b>



**SUZLON ENERGY LIMITED**  
**Schedules to the Consolidated Balance Sheet**  
**as at March 31, 2009**

**SCHEDULE - F : FIXED ASSETS (INCLUDING INTANGIBLE ASSETS)**

Assets	Gross Block					Depreciation/Amortisation			Net block			
	As at April 1, 2008	Additions	Acquisition (See Note 3)	Translation Adjustment	Deductions/ Adjustments	As at March 31, 2009	For the Year	Acquisition (See Note 3)	Translation Adjustment	Deductions/ Adjustments	As at March 31, 2009	As at March 31, 2008
Goodwill on consolidation . . . . .	13,923.14	57,929.47	—	1,841.63	1,924.03	71,770.21	—	—	—	—	71,770.21	13,923.14
Freehold land . . . . .	1,472.51	24.08	209.99	30.92	—	1,737.50	—	—	—	—	1,737.50	1,472.51
Leasehold land . . . . .	170.58	377.03	—	42.53	—	590.14	7.81	—	1.84	—	565.33	162.77
Buildings . . . . .	10,269.24	8,969.62	640.79	877.00	16.49	20,740.16	1,000.53	112.29	49.31	3.83	18,964.80	9,268.71
Site development . . . . .	—	999.97	—	—	—	999.97	21.18	—	—	—	978.79	—
Plant and machinery . . . . .	25,931.58	15,117.49	1,164.72	1,562.76	119.13	43,657.42	7,146.75	391.95	427.14	61.97	32,160.97	18,784.83
Wind research and measuring equipments . . . . .	247.54	10.96	—	2.07	—	260.57	143.61	—	0.02	—	74.84	103.93
Computer and office equipments . . . . .	2,445.31	976.04	261.49	126.97	61.92	3,747.89	1,290.95	13.56	69.71	41.67	1,921.87	1,154.36
Furniture and fixtures . . . . .	664.33	978.69	1,648.60	73.47	46.80	3,318.29	257.98	806.16	30.78	35.36	1,890.26	406.35
Vehicles . . . . .	162.11	110.70	—	6.66	13.44	266.03	72.44	—	2.47	9.84	163.08	89.67
Intangible assets . . . . .	—	—	—	—	—	—	—	—	—	—	—	—
Designs and drawings . . . . .	567.34	1,091.18	1,160.54	33.77	—	2,852.83	321.47	45.91	9.63	—	2,189.09	245.87
SAP software . . . . .	144.70	172.42	792.95	18.04	45.04	1,083.07	76.90	318.92	7.26	—	397.34	67.80
	<u>55,998.38</u>	<u>86,757.65</u>	<u>5,879.08</u>	<u>4,615.82</u>	<u>2,226.85</u>	<u>151,024.08</u>	<u>10,318.44</u>	<u>1,688.79</u>	<u>598.16</u>	<u>152.67</u>	<u>132,814.08</u>	<u>45,679.94</u>
Capital work-in-progress . . . . .	—	—	—	—	—	—	—	—	—	—	—	—
TOTAL . . . . .	<u>55,998.38</u>	<u>86,757.65</u>	<u>5,879.08</u>	<u>4,615.82</u>	<u>2,226.85</u>	<u>151,024.08</u>	<u>10,318.44</u>	<u>1,688.79</u>	<u>598.16</u>	<u>152.67</u>	<u>152,654.26</u>	<u>56,876.68</u>
Previous year . . . . .	43,210.76	14,681.21	—	3,395.34	5,288.93	55,998.38	7,015.82	—	461.34	106.34	45,679.94	—

**Note:**

1. Depreciation charge for the current year amounting to Rs 5,757.28 million ( Rs 2,947.62 million) includes Rs 25.88 million (Rs 53.97 million) which has been capitalised as part of self manufactured assets. The depreciation charged in the profit and loss account amounting to Rs 5,731.42 million (Rs 2,893.64 million) is net of the amount capitalised.
2. Capital work in progress includes advances for capital goods Rs 613.40 million (Rs 1,718.75 million).
3. Additions to gross block and depreciation charge for the current year includes balances taken over on account of REpower Systems AG, on June 06, 2008 which amounts to Rs 5,879.08 million and Rs 1,688.79 million respectively. [Also see Schedule P, Note 4]

**SUZLON ENERGY LIMITED**  
**Schedules to the Consolidated Balance Sheet**  
**as at March 31, 2009**

Particulars	As at March 31,	
	2009	2008
<b>SCHEDULE - G : INVESTMENTS</b>		
<b>LONG-TERM INVESTMENTS</b>		
<b>In associates</b>		
Cost of Investment . . . . .	—	30,852.58
Add: Share of post acquisition profit . . . . .	—	557.50
	—	<b>31,410.08</b>
<b>Others (at cost, fully paid)</b>		
Government and other securities (non trade) . . . . .	0.19	0.40
Trade investments . . . . .	—	—
Other non trade investments . . . . .	50.64	7.30
	<b>50.83</b>	7.70
* amount below Rs 0.01 million		
	<b>50.83</b>	<b>31,417.78</b>
<b>SCHEDULE - H : CURRENT ASSETS, LOANS AND ADVANCES</b>		
<b>Current assets</b>		
<b>Inventories</b>		
Raw materials . . . . .	38,112.02	18,835.22
Semi finished goods, finished goods, work-in-progress and contracts in progress . . . . .	31,597.74	20,953.21
Land and land lease rights . . . . .	335.73	118.81
Stores and spares . . . . .	1,691.01	941.09
	<b>71,736.50</b>	<b>40,848.33</b>
<b>Sundry debtors</b>		
(Unsecured)		
Outstanding for a period exceeding six months		
Considered good . . . . .	8,525.08	4,159.28
Considered doubtful . . . . .	402.76	223.89
	8,927.84	4,383.17
Others, considered good . . . . .	45,402.80	27,853.23
	54,330.64	32,236.40
Less: Provision for doubtful debts . . . . .	402.76	223.89
	<b>53,927.88</b>	<b>32,012.51</b>
<b>Cash and bank balances</b>		
Cash on hand . . . . .	14.75	11.41
Cheques on hand . . . . .	421.76	922.85
Balances with scheduled banks		
in current accounts . . . . .	741.07	1,527.23
in margin accounts . . . . .	1,949.84	1,256.03
in term deposit accounts . . . . .	1,599.10	6,041.10
Balances with non scheduled banks		
in current accounts . . . . .	7,301.07	9,911.46
in margin accounts . . . . .	4,841.50	29,836.26
in term deposit accounts . . . . .	13,829.35	20,095.67
	<b>30,698.44</b>	<b>69,602.01</b>

**SUZLON ENERGY LIMITED**  
**Schedules to the Consolidated Balance Sheet**  
**as at March 31, 2009**

Particulars	As at March 31,	
	2009	2008
<b>Other current assets</b>		
(Unsecured and considered good)		
Due from customers . . . . .	33,457.12	14,893.48
	<b>33,457.12</b>	<b>14,893.48</b>
<b>Loans and advances</b>		
(Unsecured and considered good, except otherwise stated)		
Deposits		
with customers as security deposit . . . . .	195.56	308.35
with others . . . . .	1,553.88	503.41
Advance against taxes, net . . . . .	505.30	—
MAT credit entitlement . . . . .	1,511.62	1,457.71
Inter corporate deposits . . . . .	1,162.50	4.70
Advances recoverable in cash or in kind or for value to be received		
Considered good . . . . .	24,080.06	15,975.77
Considered doubtful . . . . .	65.57	22.14
	24,145.63	15,997.91
Less: Provision for doubtful loans and advances . . . . .	65.57	22.14
	24,080.06	15,975.77
	<b>29,008.92</b>	<b>18,249.94</b>
	<b>218,828.86</b>	<b>175,606.27</b>
<b>SCHEDULE - I : CURRENT LIABILITIES AND PROVISIONS</b>		
<b>Current liabilities</b>		
Sundry creditors . . . . .	59,961.70	30,435.19
Other current liabilities . . . . .	18,278.84	11,872.21
Interest accrued but not due . . . . .	438.83	290.02
Due to customers . . . . .	135.20	7,937.06
Advances from customers . . . . .	27,132.72	14,295.64
	<b>105,947.29</b>	<b>64,830.12</b>
<b>Provisions</b>		
Provision for taxes, net . . . . .	—	110.38
Gratuity, superannuation and leave encashment . . . . .	731.98	385.14
Performance guarantee, operation, maintenance and warranty, liquidated damages . . . . .	8,831.28	5,950.02
Dividend . . . . .	—	1,513.06
Tax on dividend . . . . .	12.60	266.17
	<b>9,575.86</b>	<b>8,224.77</b>
	<b>115,523.15</b>	<b>73,054.89</b>
<b>SCHEDULE - J : MISCELLANEOUS EXPENDITURE</b>		
(To the extent not adjusted or written off)		
Preliminary expenses . . . . .	—	—
Add : Addition during the year . . . . .	0.90	15.41
Less : Written off during the year . . . . .	0.90	15.41
	<b>—</b>	<b>—</b>

**SUZLON ENERGY LIMITED**  
**Schedules to the Consolidated Profit and Loss Account**  
**for the year ended March 31, 2009**

All amounts in rupees million unless otherwise stated

Particulars	April 01, 2008 to March 31, 2009	April 01, 2007 to March 31, 2008
<b>SCHEDULE - K : OTHER INCOME</b>		
Interest income		
From banks . . . . .	1,472.28	1,866.31
From others . . . . .	296.98	462.56
Dividend income* . . . . .	0.02	0.01
Premium on redemption of preference shares of subsidiary . . . . .	16.43	—
Profit on sale of investments, net [See Schedule P, Note 7] . . . . .	931.82	34.26
Other operating income . . . . .	1,770.90	316.57
* Amount below Rs 0.01 million		
	<u><b>4,488.43</b></u>	<u><b>2,679.71</b></u>
<b>SCHEDULE - L : COST OF GOODS SOLD</b>		
<b>Raw materials consumed, including project     business</b>		
Opening stock . . . . .	18,835.22	16,933.14
Add : Purchases, including purchases for project business . . . . .	198,479.89	97,021.55
	<u><b>217,315.11</b></u>	<u><b>113,954.69</b></u>
Less : Closing stock . . . . .	38,112.02	18,835.22
	<b>(A) 179,203.09</b>	<b>95,119.47</b>
<b>Trading purchases . . . . .</b>	<b>(B) 226.39</b>	<b>262.03</b>
<b>(Increase)/ Decrease in stock</b>		
<b>Opening balance:</b>		
Semi finished goods, finished goods, work-in-progress and contracts in progress . .	20,953.21	14,227.95
Land and land lease rights . . . . .	118.81	164.39
	<b>(C) 21,072.02</b>	<b>14,392.34</b>
<b>Closing balance:</b>		
Semi finished goods, finished goods, work-in-progress and contracts in progress . .	31,597.74	20,953.21
Land and land lease rights . . . . .	335.73	118.81
	<b>(D) 31,933.47</b>	<b>21,072.02</b>
<b>(Increase)/Decrease in stock . . . . .</b>	<b>(E) = (C) – (D) (10,861.45)</b>	<b>(6,679.68)</b>
	<b>(A)+(B)+(E) 168,568.03</b>	<b>88,701.82</b>
<b>SCHEDULE - M : OPERATING AND OTHER     EXPENSES</b>		
Stores and spares . . . . .	3,275.55	1,701.29
Power and fuel . . . . .	922.74	463.74
Factory expenses . . . . .	657.03	488.49
Repairs and maintenance:		
Plant and machinery . . . . .	149.62	42.02
Building . . . . .	51.43	40.32
Others . . . . .	124.10	110.42

**SUZLON ENERGY LIMITED**  
**Schedules to the Consolidated Profit and Loss Account**  
**for the year ended March 31, 2009**

<b>Particulars</b>	<b>April 01, 2008 to March 31, 2009</b>	<b>April 01, 2007 to March 31, 2008</b>
Operation and maintenance charges. ....	1,288.03	128.73
Design change and technological upgradation charges .....	943.64	511.81
Rent. ....	1,204.20	504.36
Rates and taxes .....	218.19	154.66
Provision for operation, maintenance and warranty .....	3,667.25	689.04
Provision for performance guarantee .....	2,808.77	1,562.51
Liquidated damages .....	2,843.30	244.50
Quality assurance expenses .....	476.00	75.83
R & D, certification and product development ..	574.77	104.22
Insurance .....	660.55	252.05
Advertisement and sales promotion .....	716.77	547.54
Infrastructure development expenses .....	23.26	22.01
Freight outward and packing expenses .....	11,356.27	4,663.21
Sales commission .....	112.45	121.94
Travelling, conveyance and vehicle expenses. . .	2,702.75	1,550.40
Communication expenses .....	933.80	340.82
Auditors' remuneration and expenses .....	206.46	93.62
Consultancy charges .....	2,535.21	842.73
Charity and donations .....	173.74	91.65
Other selling and administrative expenses .....	3,220.52	1,637.85
Exchange differences, net .....	580.79	(543.77)
Bad debts written off .....	37.91	157.22
Provision for doubtful debts and advances. ....	210.23	172.29
Loss on assets sold/discarded, net .....	0.15	35.67
	<b><u>42,675.48</u></b>	<b><u>16,807.17</u></b>
<b>SCHEDULE - N : EMPLOYEES' REMUNERATION AND BENEFITS</b>		
Salaries, wages, allowances and bonus .....	19,463.85	9,800.19
Contribution to provident and other funds .....	1,592.58	323.70
Staff welfare expenses .....	601.08	306.16
	<b><u>21,657.51</u></b>	<b><u>10,430.05</u></b>
<b>SCHEDULE - O : FINANCIAL CHARGES</b>		
Interest		
Fixed loans .....	3,812.83	3,817.07
Debentures .....	97.59	—
Others .....	5,101.67	1,503.20
Bank charges .....	1,527.22	649.11
	<b><u>10,539.31</u></b>	<b><u>5,969.38</u></b>

## **SCHEDULE P: SIGNIFICANT ACCOUNTING POLICIES AND NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**(All amounts in rupees million unless otherwise stated)**

### **I SIGNIFICANT ACCOUNTING POLICIES**

#### **a) Basis of Accounting**

The consolidated financial statements relate to Suzlon Energy Limited ('SEL' or 'the Company') and its subsidiaries, associates and joint venture (together referred to as 'Suzlon' or 'the Group'). The consolidated financial statements are prepared under the historical cost convention, on accrual basis of accounting to comply in all material respects, with the mandatory accounting standards as notified by the Companies (Accounting Standards) Rules, 2006 as amended ('the Rules') and the relevant provisions of the Companies Act, 1956 ('the Act'). The accounting policies have been consistently applied by the Group; and the accounting policies not referred to otherwise, are in conformity with Indian Generally Accepted Accounting Principles ('Indian GAAP').

#### **b) Principles of Consolidation**

The consolidated financial statements of the Group are prepared in accordance with Accounting Standard 21 — 'Consolidated Financial Statements', Accounting Standard 23 — 'Accounting for Investments in Associates in Consolidated Financial Statements' and Accounting Standard 27 — 'Financial Reporting of Interests in Joint Ventures' as notified by the Rules.

#### ***Subsidiaries***

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 eliminating intra group balances and intra group transactions. The unrealised profits or losses resulting from the intra group transactions and intra group balances have been eliminated.

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 excess of Company's portion of equity of the Subsidiary over the cost of investment therein is treated as Capital Reserve. 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 the charge/(reversal) on account of realignment is adjusted to the accumulated reserves and surplus of the subsidiaries at the date of acquisition.

The consolidated financial statements are prepared using uniform accounting policies for like transactions and events in similar circumstances and necessary adjustments required for deviations, if any to the extent possible, are made in the consolidated financial statements and are presented in the same manner as the Company's standalone financial statements.

Share of minority interest in the net profit is adjusted against the income to arrive at the net income attributable to shareholders. Minority interest's share of net assets is presented separately in the balance sheet.

#### ***Associates***

Investments in entities in which the Group has significant influence but not a controlling interest, are reported according to the equity method i.e. the investment is initially recorded at cost. Cost of investment in associates, over the net assets at the time of acquisition of the investment in the associates is recognised in the financial statements as Goodwill or Capital Reserve, as the case may be. Goodwill is tested for impairment annually. The carrying amount of the investment is adjusted thereafter for the post acquisition change in the Group's share of net assets of the associates. The consolidated profit and loss account includes the Group's share of the results of the operations of the associate.



## ***Joint Venture***

Interests in joint venture have been accounted by using the proportionate consolidation method as per Accounting Standard 27 — Financial Reporting of Interests in Joint Ventures as notified by the Rules.

The consolidated financial statements are presented, to the extent possible, in the same format as that adopted by the Company for its independent financial statements.

### **c) Use of Estimates**

The presentation of financial statements in conformity with the Indian GAAP requires the management to make estimates and assumptions that may affect the balances of assets and liabilities and disclosures relating to contingent liabilities as at the date of the financial statements and the reported amounts of incomes and expenses during the reporting period. Although these estimates are based upon management's best knowledge of current events and actions, actual results could differ from these estimates.

### **d) Revenue Recognition**

Revenue is recognised to the extent it is probable that the economic benefits will flow to the Group and that the revenue can be reliably measured. Revenue comprises of sale of goods and services and is disclosed, net of discounts, excise duty, sales tax, service tax, VAT or other taxes, as applicable.

## ***Sales***

Revenue from sale of goods is recognised in the profit and loss account when the significant risks and rewards in respect of ownership of goods has been transferred to the buyer as per the terms of the respective sales order, and the income can be measured reliably and is expected to be received.

Fixed price contracts to deliver wind power systems (turnkey and supply-and-installation projects) are recognised in revenue based on the stage of completion of the individual contract using the percentage-of-completion method, provided the order outcome as well as expected total costs can be reliably estimated. Where the profit from a contract cannot be estimated reliably, revenue is only recognised equalling the expenses incurred to the extent that it is probable that the expenses will be recovered.

Contracts in progress, if any are measured at the selling price of the work performed based on the stage of completion less interim billing and expected losses. The stage of completion is measured by the proportion that the contract expenses incurred to date bear to the estimated total contract expenses. The value of self-constructed components is recognised in 'Contracts in progress' upon dispatch of the complete set of components which are specifically identified for a customer and are within the scope of supply, as per the terms of the respective sale order for the wind power systems.. Where it is probable that total contract expenses will exceed total revenues from a contract, the expected loss is recognised immediately as an expense in the profit and loss account.

Where the selling price of a contract cannot be estimated reliably, the selling price is measured only on the expenses incurred to the extent that it is probable that these expenses will be recovered. Prepayments from customers are recognised as liabilities. A contract in progress for which the selling price of the work performed exceeds interim billings and expected losses is recognised as an asset. Contracts in progress for which interim billings and expected losses exceed the selling price are recognised as a liability. Expenses relating to sales work and the winning of contracts are recognised in the income statement as incurred.

## ***Project Execution Income***

Revenue from services relating to project execution is recognised on completion of the respective service, as per the terms of 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 recognised on the proportionate basis for the period for which the service is provided, net of taxes.

### ***Interest Income***

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 Income***

Dividend income from investments is recognised when the right to receive payment is established.

## **e) Fixed Assets and Intangible 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 capitalized upon the commencement of commercial production. Assets held for disposal are stated at the lower of net book value and the estimated net realisable value.

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 create produce and make the asset ready for its intended use. 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.

The carrying amount of the assets belonging to each cash generating unit (CGU) are reviewed at each balance sheet date to assess whether the same are recorded in excess of their recoverable amounts and where carrying amounts exceed the recoverable amount of the assets with CGU, assets are written down to their recoverable amount. The recoverable amount is the greater of the asset's net selling price and value in use. The impairment loss recognised in prior accounting period is reversed if there has been a change in estimates of recoverable amount.

## **f) Depreciation and Amortisation**

Depreciation is provided on the written down value method (WDV) and is based on management's estimate of useful lives of the fixed assets or where applicable, at rates specified by respective statutes, whichever is higher. Intangible assets are amortised on a straight line basis over a period of five years.

## **g) Inventories**

Inventories of raw materials including stores; spares and consumables; packing materials; semi-finished goods; work-in-progress, contracts 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, project work-in-progress, semi-finished goods and finished goods includes the cost of material, labour and manufacturing overheads.

Stock of land and land lease rights is valued at lower of cost and estimated net realisable value. Cost is determined on weighted average basis. Net realisable value is determined by management using technical estimates.

#### **h) Investments**

Investments that are readily realisable and intended to be held for not more than a year are classified as current investments. All other investments are classified as long term 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.

#### **i) Foreign Currency Transactions**

Transactions in foreign currencies are recorded at the average exchange rate prevailing in the period during which the transactions occur.

Outstanding balances of, foreign currency monetary items are reported using the period end rates.

Pursuant to the notification of the Companies (Accounting Standards) Amendment Rules 2009 issued by Ministry of Corporate Affairs on March 31, 2009 amending Accounting Standard-11 (AS-11) 'The Effects of Changes in Foreign Exchange Rates (revised 2003), exchange differences relating to long term monetary items are dealt with in the following manner:

- a) Exchange differences relating to long term monetary items, arising during the year, in so far as they relate to the acquisition of a depreciable capital asset are added to / deducted from the cost of the asset and depreciated over the balance life of the asset.
- b) In other cases, such differences are accumulated in the "Foreign Currency Monetary Translation Difference Account" and amortised to the profit and loss account over the balance life of the long term monetary item but not beyond March 31, 2011.

All other exchange differences are recognised as income or expense in the profit and loss account.

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.

#### **Derivatives**

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/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.

As per the Institute of Chartered Accountants of India ('ICAI') announcement, accounting for derivative contracts, other than those covered under AS-11, are marked to market on a portfolio basis and the net loss after considering the offsetting effect on the underlying hedge items is charged to the profit and loss account. Net gains on marked to market basis are not recognised.

#### **Foreign Operations**

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, the assets and liabilities, both monetary and non-monetary, are translated at the closing rate; income and expense items are translated at average exchange rates prevailing during the year and all resulting exchange differences are accumulated in a foreign currency translation reserve until the disposal of the net investment in the non-integral foreign operation.

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 classification.

#### **j) 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 profit and loss account.

#### **k) Retirement and Other Employee Benefits**

Employee benefits in the nature of defined contributions are charged to the profit and loss account of the year when the contributions to the respective funds are due. There are no other obligations other than the contribution payable to the respective statutory authorities.

Retirement benefits in the form of gratuity and pension are defined benefit obligations, and are provided for on the basis of an actuarial valuation, using projected unit credit method as at each balance sheet date.

Short-term compensated absences are provided based on estimates. Long term compensated absences are provided based for on the basis of an actuarial valuation, using projected unit credit method, as at each balance sheet date.

Actuarial gains/losses are taken to profit and loss account and are not deferred.

#### **l) Provisions, Contingent Liabilities and Contingent Assets**

A provision is recognised when the Group has 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 the 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 accounts.

Contingent assets are not recognised or disclosed.

#### **m) Taxes on Income**

Tax expense for a year comprises of current tax, deferred tax and fringe benefit tax.

Current tax and fringe benefit tax are measured at the amount expected to be paid to the tax authorities, after taking into consideration, the applicable deductions and exemptions admissible under the applicable tax laws.

Deferred tax reflects the impact of current year timing differences between taxable income and accounting income for the year and reversal of timing difference 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 and deferred tax liabilities across various companies of operation are not set off against each other as the Group does not have a legal right to do so. 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 there is unabsorbed depreciation or carry forward of losses under tax laws, deferred tax assets are recognised only to the extent that there is virtual certainty supported by convincing

evidence 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 are expected to reverse after such tax holiday period is recognised in the year in which the timing differences originate using the tax rates and laws enacted or substantively enacted at the balance sheet date.

Minimum alternative tax (MAT) credit, by whatever name known is recognised as an asset only when and to the extent there is convincing evidence that the Group will pay income tax higher than that computed under MAT, during the period under which MAT is permitted to be set off under the applicable tax laws. In the year, in which the MAT credit becomes eligible to be recognised as an asset, the said asset is created by way of a credit to the profit and loss account and shown as MAT credit entitlement. The Group reviews the same at each balance sheet date and writes down the carrying amount of MAT credit entitlement to the extent there is no longer convincing evidence to the effect that the Group will pay income tax higher than MAT during the specified period.

#### **n) Operating Leases**

Assets acquired on lease, 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.

#### **o) 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.

#### **p) Employee Stock Options**

Stock options granted to employees under the employees' stock option scheme are accounted as per the intrinsic value method permitted by the SEBI (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999 and 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.

#### **q) Government Grants**

Government grants are recognised where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the period necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, it is set up as deferred income. Where the Group receives non-monetary grants, the asset and that grant are

recorded at nominal amounts and are released to the profit and loss account over the expected useful life of the relevant asset by equal annual instalments.

**r) Cash and Cash Equivalents**

Cash and cash equivalents in the cash flow statement comprise cash at bank and in hand and short term investments with an original maturity of three months or less.



## II NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 1. a. List of subsidiaries 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,	
		2009	2008
AE-Rotor Holding B.V. . . . . .	The Netherlands	100.00%	100.00%
Cannon Ball Wind Energy Park-I, LLC . . . . .	USA	100.00%	100.00%
Eve Holding NV** . . . . .	Belgium	—	—
Hansen Drives Limited . . . . .	India	61.28%	71.28%
Hansen Drives Limited . . . . .	Hong Kong	61.28%	—
Hansen Drives Pte Limited . . . . .	Singapore	61.28%	—
Hansen Transmissions Inc . . . . .	USA	61.28%	71.28%
Hansen Transmissions International NV. . . . .	Belgium	61.28%	71.28%
Hansen Transmissions Ltd. . . . .	United Kingdom	61.28%	71.28%
Hansen Transmissions Mecanicas Ltda . . . . .	Brazil	61.22%	71.21%
Hansen Transmissions Pty Ltd. . . . .	Australia	61.28%	71.28%
Hansen Transmissions Pty Ltd. . . . .	South Africa	61.28%	71.28%
Hansen Transmissions Tianjin Industrial Gearbox Co., Ltd. . . . .	PR China	61.22%	71.21%
Hansen Wind Energy Drives (China) Co Ltd. . . . .	PR China	60.67%	—
Lommelpark NV . . . . .	Belgium	61.28%	71.28%
PowerBlades GmbH**** . . . . .	Germany	37.57%	—*
PowerBlades SA . . . . .	Portugal	66.29%	—*
REpower Australia Pty Ltd. . . . .	Australia	73.65%	—*
REpower Benelux b.v.b.a . . . . .	Belgium	73.65%	—*
REpower Betriebs — und Beteiligungs GmbH. . . . .	Germany	73.65%	—*
REpower Canada Inc . . . . .	Canada	73.65%	—*
REpower Diekat S.A.**** . . . . .	Greece	44.19%	—*
REpower Espana S.L . . . . .	Spain	73.65%	—*
REpower Investitions — und Projektierungs GmbH & Co. KG . . . .	Germany	73.65%	—*
REpower Italia s.r.l. . . . .	Italy	73.65%	—*
REpower S.A.S . . . . .	France	73.65%	—*
REpower Systems AG . . . . .	Germany	73.65%	—*
REpower UK Ltd. . . . .	United Kingdom	73.65%	—*
REpower USA Corp. . . . .	USA	73.65%	—*
REpower Wind Systems Trading (China) Ltd. . . . .	PR China	73.65%	—*
RETC Renewable Energy Technology Centre . . . . .	Germany	86.83%	50.00%
SE Composites Limited . . . . .	India	100.00%	100.00%
SE Drive Technik GmbH . . . . .	Germany	100.00%	100.00%
SE Electricals Limited (Formerly Suzlon Electricals International Limited) . . . . .	India	100.00%	100.00%
SE Forge Limited . . . . .	India	82.90%	100.00%
SE Solar Private Limited. . . . .	India	100.00%	—
Sunrise Wind Project Private Limited . . . . .	India	61.28%	—
Suzlon Blade Technology B.V. (Formerly AE Rotor Technik B.V.) . .	The Netherlands	100.00%	100.00%
Suzlon Energia Eolica do Brasil Ltda . . . . .	Brazil	100.00%	100.00%
Suzlon Energy (Tianjin) Limited . . . . .	PR China	100.00%	100.00%
Suzlon Energy A/S . . . . .	Denmark	100.00%	100.00%
Suzlon Energy Australia Pty. Ltd. . . . .	Australia	100.00%	100.00%
Suzlon Energy B.V. . . . .	Netherlands	100.00%	100.00%
Suzlon Energy GmbH. . . . .	Germany	100.00%	100.00%
Suzlon Energy Korea Co., Ltd. . . . .	Republic of South Korea	100.00%	100.00%
Suzlon Energy Limited . . . . .	Mauritius	100.00%	100.00%
Suzlon Engitech Limited (Formerly Suzlon Engitech Private Limited) . . . . .	India	100.00%	100.00%
Suzlon Generators Limited (Formerly Suzlon Generators Private Limited) . . . . .	India	75.00%	75.00%
Suzlon Gujarat Wind Park Limited. . . . .	India	100.00%	100.00%

Name of the Subsidiary	Country of Incorporation	Effective Ownership in Subsidiaries as at March 31,	
		2009	2008
Suzlon Infrastructure Services Limited . . . . .	India	100.00%	100.00%
Suzlon North Asia Ltd . . . . .	Hong Kong	100.00%	—
Suzlon Power Infrastructure Limited (Formerly Suzlon Power Infrastructure Private Limited) . . . . .	India	100.00%	100.00%
Suzlon Rotor Corporation . . . . .	USA	100.00%	100.00%
Suzlon Structures Limited (Formerly Suzlon Structures Private Limited) . . . . .	India	75.00%	75.00%
Suzlon Towers and Structures Limited . . . . .	India	100.00%	100.00%
Suzlon Wind Energy A/S . . . . .	Denmark	100.00%	100.00%
Suzlon Wind Energy Corporation . . . . .	USA	100.00%	100.00%
Suzlon Wind Energy Equipment Trading (Shanghai) Co. Ltd. . . . .	PR China	100.00%	—
Suzlon Wind Energy Espana, S.L . . . . .	Spain	100.00%	100.00%
Suzlon Wind Energy Italy s.r.l. (Formerly Suzlon Energy Italy s.r.l.) . . . . .	Italy	100.00%	100.00%
Suzlon Wind Energy Limited . . . . .	United Kingdom	100.00%	100.00%
Suzlon Wind Energy Nicaragua Sociedad Anonima . . . . .	Nicaragua	100.00%	—
Suzlon Wind Energy Portugal Energia Elocia Unipessoal Lda (Formerly Suzlon Energy Portugal Energia Elocia Unipessoal Lda) . . . . .	Portugal	100.00%	100.00%
Suzlon Wind Energy Romania SRL . . . . .	Romania	100.00%	—
Suzlon Wind Enerji Sanayi Ve Ticaret Limited Sirketi . . . . .	Turkey	100.00%	—
Suzlon Wind International Limited . . . . .	India	100.00%	100.00%
Suzlon Windenergie GmbH . . . . .	Germany	100.00%	100.00%
Suzlon Windkraft GmbH*** . . . . .	Germany	—	100.00%
Suzlon Windpark Management GmbH . . . . .	Germany	100.00%	100.00%
Tarilo Holding B.V . . . . .	Netherlands	100.00%	—
WEL Windenergie Logistik GmbH . . . . .	Germany	73.65%	—*
Windpark Olsdorf Watt GmbH & Co. KG . . . . .	Germany	100.00%	100.00%

\* The Company through its subsidiaries held 35.83% in REpower Systems AG ('REpower') as on March 31, 2008 and hence investments in REpower has been accounted as an associate using equity method in the consolidated financial statements for the year ended March 31, 2008.

\*\* The liquidation process of Eve Holding NV has been completed during the year.

\*\*\* Suzlon Windkraft GmbH has been merged with Suzlon Energy GmbH during the year.

\*\*\*\* The Group holds 73.65% in REpower and REpower holds more than 50% stake in these companies

**b. List of subsidiaries which are not included in the consolidation based on materiality:**

Name of the Subsidiary	Country of Incorporation	Effective Ownership in Subsidiaries as at March 31,	
		2009	2008
REpower Geothermie GmbH . . . . .	Germany	73.65%	—
REpower Windpark Betriebs GmbH . . . . .	Germany	73.65%	—
Sister — sistemas e Tecnologia de Energias renovaveis Lda . . . . .	Portugal	55.24%	—
Windpark Blockland GmbH & Co KG . . . . .	Germany	73.65%	—
Windpark Meckel/Gilzem GmbH & Co KG . . . . .	Germany	73.65%	—

- c. In respect of the following components of consolidated financial statements, the accounting policies followed by the subsidiary companies are different from that of the Company:

Components of Consolidated Financial Statements	Particulars	Amount as at March 31, 2009	Proportion of the Component
Depreciation . . . . .	Some of the subsidiaries have provided depreciation on straight line method as against the written down value method followed by the Company	4,212.87	73.51%
Accumulated depreciation . . . . .	Some of the subsidiaries have provided depreciation on straight line method as against the written down value method followed by the Company	13,364.90	73.39%
Inventory . . . . .	Some of the subsidiaries have determined cost of inventory by using the first-in first-out (FIFO) cost formula as against the weighted average cost formula followed by the Company	14,437.22	20.13%
Employee compensation expenses for stock options . . . . .	Some of the subsidiaries have accounted stock options granted to employees using the fair value method as against the intrinsic value method followed by the Company	502.94	91.01%

2. Details of the Company's ownership interest in joint ventures, which have been included in the consolidation are as follows:-

Name of Company	% Shares Held	Country of Incorporation	Contingent Liabilities as at March 31, 2009	Capital Commitments as at March 31, 2009
REpower Portugal — Sistemas Eolicos, S.A. . .	50.00	Portugal	Nil	Nil
REpower North (China) Ltd.	50.01	PR China	Nil	Nil

### 3. Change in Accounting Policy

In line with notification of the Companies (Accounting Standards) Amendment Rules 2006 issued by Ministry of Corporate Affairs on March 31, 2009 on March 31, 2009 amending Accounting Standard-11 (AS-11) 'The Effects of Changes in Foreign Exchange Rates (revised 2003), the Company has chosen to exercise the option under para 46 inserted in the standard by the notification. Accordingly, exchange differences on all long term monetary items, with retrospective effect from April 01, 2007, are:

- To the extent such items are used for the acquisition of a depreciable capital asset, added to / deducted from the cost of the asset and depreciated over the balance life of the asset. As a result, an amount of Rs 81.92 million [net of depreciation of Rs. 7.82 million and tax of Rs. Nil] have been added to fixed assets, being the exchange difference on long term monetary items related to the acquisition of a depreciable capital asset.
- In other cases, accumulated in the "Foreign currency monetary translation difference account" and amortised to the profit and loss account over the balance life of the long term monetary item but not beyond March 31, 2011.
- As a result of point (a) and (b) above, Rs 10.99 million [net of tax of Rs. Nil] was credited to general reserve which was recognised as loss in the profit and loss account till the previous financial year ended March 31, 2008.
- Rs 1307.93 million amortisation cost charged to the profit and loss account during the year.
- Rs 3,980.13 million accumulated in the "Foreign currency monetary translation difference account", being the amount remaining to be amortised as at March 31, 2009.

As a result of the above change in the accounting policy, the net profit before tax for the year is higher by Rs 4050.41 million.

#### **4. REpower Systems AG**

The Company through its subsidiaries held 35.83% in REpower Systems AG ('REpower') as at March 31, 2008. On June 6, 2008, the Company, through its subsidiary further acquired approximately 30% of the equity capital of REpower Systems AG ('REpower') held by Areva. Consequently, REpower has become a subsidiary of the Company with effect from June 6, 2008. Accordingly, the consolidated financial statements for the year ended March 31, 2009 are to that extent not comparable with the consolidated financial statements of March 31, 2008. Further, pursuant to an agreement dated December 15, 2008 entered into with the Martifer Group, the Company agreed to acquire Martifer's holdings of 22.4% in REpower through a subsidiary by making payments in three tranches: Euro 65 Million in December 2008, Euro 30 Million in April 2009 and the final tranche of Euro 175 Million in May 2009. The first tranche of Euro 65 Million has been paid in December 2008, thereby increasing its effective holding in REpower to 73.65% as at March 31, 2009. Post year-end, the second and third tranches have been paid and consequently its effective holding in REpower is 90.72%.

In financial year 2007-2008, the financials of REpower have been consolidated using equity method of accounting with a three-month time lag to that of the Company and accordingly, the financial statements of REpower for the period June 1, 2007 to December 31, 2007 have been consolidated in the financial statements of the Company for the year ended March 31, 2008. Appropriate entries have been effected in the consolidated financial statements of the Company for the year ended March 31, 2009, wherein the aforesaid three-month time lag on consolidation of REpower financials as at March 31, 2008 has been adjusted.

#### **5. Exceptional Items**

The details of exceptional items aggregating to 8,962.85 million (Rs 2,852.14 million) are as below

- a) Foreign exchange losses of Rs 1,313.48 million (foreign exchange gain of Rs 44.00 million) arising due to restatement of zero coupon convertible bonds of USD 500 million at year end exchange rates.
- b) Provision for blade retrofit/replacement costs aggregating Rs 2,215.89 million (Rs 1,217.09 million) and consequential generation/availability costs of Rs 1,895.05 million (Rs 203.71 million).
- c) Costs of site restoration aggregating Rs Nil (Rs 654.60 million) and cost of consequential generation losses aggregating Rs Nil (Rs 590.74 million) relating to disruption of operation of WTG's in Dhule and Sangli by local residents.
- d) Mark-to-market losses of 3,538.43 million (Rs 230.00 million) in respect of foreign exchange forward / option contracts, taken for hedging purposes.

Exceptional items for the prior year comparatives include amounts in respect of items which have been classified as exceptional in current year.

6. SE Forge Limited ('SEFL'), an erstwhile 100% subsidiary of the Company, allotted 41,254,125 equity shares to IDFC Private Equity Fund III, through a fresh 'issue of shares', raising Rs 3,944.60 million (net of issue expenses). Following the fresh issue of shares by SEFL, the effective stake of the Company in SEFL has reduced to 82.90%. As a result of dilution of effective stake of the Company in SEFL, there is a resultant gain of Rs 2,951.31 million which has been credited to "Unrealised gain on dilution" disclosed under "Reserves and Surplus" in the consolidated financial statements.
7. On January 26, 2009, AE-Rotor Holding B.V. ('AERH'), a wholly owned subsidiary of the Company has sold 67,010,421 shares (10% equity) in Hansen Transmissions International NV ('Hansen') to funds managed by Ecofin Limited ("Ecofin"), a London based specialized investment firm. Following this disposal, the Suzlon Group has a voting and economic interest in Hansen of 61.28%. As a result of sale, the goodwill of Rs 1,924.03 million and unrealised gain on dilution of Rs 1,672.21 million has been reduced proportionately and the

profit on sale Rs 928.57 million has been shown as "Profit on sale of investments" under "Other Income".

#### 8. Disclosures pursuant to Accounting Standard-7 (AS-7) 'Construction Contracts'

Particulars	April 1, 2008 to March 31, 2009	April 1, 2007 to March 31, 2008
Contract revenue recognised during the year . . . . .	<b>16,5513.96</b>	57,346.29

Particulars	As at March 31,	
	2009	2008
Aggregate amount of contract cost incurred and recognised profits (less recognised losses) for all contracts in progress up to the reporting date . . . . .	<b>126,917.98</b>	6,0725.56
Amount of customer advances outstanding for contracts in progress up to the reporting date . . . . .	<b>Nil</b>	16,072.73
Retention amount due from customers for contract in progress up to the reporting date . . . . .	<b>7,127.87</b>	Nil
Due from customers . . . . .	<b>33,457.12</b>	14,893.48
Due to customers . . . . .	<b>135.20</b>	7,937.06

#### 9. Zero Coupon Convertible Bonds

On June 11, 2007 the Company made an issue of zero coupon convertible bonds aggregating USD 300 million (Rs 12,237.00 million) comprising of 300,000 Zero Coupon Convertible Bonds due 2012 of USD 1,000 each ('Phase I Bonds'), which were:

- 1) convertible by the holders at any time on or after July 22, 2007 but prior to close of business on June 5, 2012, each bond to be converted into 113.50 fully paid up equity shares with face value of Rs 2 per share at an initial conversion price of Rs 359.68 per equity share of Rs 2 each at a fixed exchange rate conversion of Rs 40.83 = USD 1.
- 2) convertible in whole but not in part at the option of the Company at any time on or after June 11, 2009 subject to satisfaction of certain conditions.
- 3) redeemable in whole but not in part at the option of the Company at any time if less than 10 percent of the aggregate principal amount of the Phase I Bonds originally issued is outstanding, subject to satisfaction of certain conditions.
- 4) redeemable on maturity date at 145.23% of its principal amount if not redeemed or converted earlier.

Further, on October 10, 2007 the Company made an additional issue of zero coupon convertible bonds aggregating USD 200 Million (Rs 7,862.00 million) comprising of 200,000 Zero Coupon Convertible Bonds due 2012 of USD 1,000 each ('Phase II Bonds'), which were:

- 1) convertible by the holders at any time on or after November 20, 2007 but prior to close of business on October 4, 2012, each bond to be converted into 107.30 fully paid up equity shares with face value of Rs 2 per share at an initial conversion price of Rs 371.55 per equity share of Rs 2 each at a fixed exchange rate conversion of Rs 39.87 = USD 1.
- 2) convertible in whole but not in part at the option of the Company at any time on or after October 10, 2009 subject to satisfaction of certain conditions.
- 3) redeemable in whole but not in part at the option of the Company if less than 10 percent of the aggregate principal amount of the Phase II Bonds originally issued is outstanding, subject to satisfaction of certain conditions.
- 4) redeemable on maturity date at 144.88% of its principal amount, if not redeemed or converted earlier.

Subsequent to the year-end, the Company proposed a restructuring of its Zero Coupon Convertible Bonds, with an approval of the Reserve Bank of India ('RBI') and the bondholders were offered the following options as part of the restructuring;

- Cash buyback of bonds @ 54.55% of the face value of US \$1000 per bond
- Issue of new bonds in place of old bonds at a fixed ratio of 3:5 (60 cents to dollar) bearing a coupon of 7.5 per cent per annum, payable semi-annually. Unless previously redeemed, converted or purchased and cancelled, the Company will redeem each June 2012 New Bond at 150.24 per cent of its principal amount and each October 2012 New Bond at 157.72 per cent of its principal amount on the relevant Maturity Date. The conversion price is set at Rs 76.68 per share. These bonds do not have any financial covenants and are of the same maturity as the old bonds.
- Consent fee of US\$15 Million to be paid across both the series, for those bondholders who consent to the relaxation of covenants

As a result of the restructuring, the outstanding position of the zero coupon convertible bonds is as follows;

Particulars	Phase I Bonds (USD)	Phase II Bonds (USD)	Total (USD)
Old bonds exchanged [A] . . . . .	59,332,000	34,672,000	94,004,000
New Bonds issued in the ratio of 3:5 [B] . . . . .	35,592,000	20,796,000	56,388,000
Bonds bought back for cash [C] . . . . .	29,366,000	43,960,000	73,326,000
Cash paid for buyback [D] . . . . .	16,019,702	23,980,180	39,999,882
Old bonds o/s [E] . . . . .	211,302,000	121,368,000	332,670,000
Value of total bonds outstanding [F]=B+E . . . . .	246,894,000	142,164,000	389,058,000
Value of old bonds G=A+C+E . . . . .	300,000,000	200,000,000	500,000,000
Consent Fee paid . . . . .	11,846,947	1,869,863	13,716,810

The Phase I and Phase II bonds are redeemable subject to satisfaction of certain conditions mentioned in their respective offering circulars, and hence has been currently designated as a monetary liability. Further, the Company has not provided for the proportionate premium on redemption of the Phase I and Phase II Bonds for the period up to March 31, 2009 amounting to Rs 1,547.34 million (approximately USD 30,513,445) and Rs 713.75 million (approximately USD 14,075,009) respectively. In the opinion of the management, the likelihood of redemption cannot presently be ascertained. Accordingly, no provision for any liability has been made in the financial statements and hence, the proportionate premium on redemption has been disclosed as a contingent liability.

## 10. Employee Stock Option Scheme

### a) Suzlon Energy employee stock option plan 2005 (Scheme I)

The Company instituted the 2005 Plan for all eligible employees in pursuance of a special resolution approved by the shareholders at the extraordinary general meeting held on June 16, 2005 (grant date). Scheme I covers grant of options to specified permanent employees of the Company as well as its subsidiaries.

Pursuant to Scheme I, the Company has granted 4,605,000 options of Rs 2 each to eligible employees at an exercise price of Rs 51 per equity share of Rs 2 each, 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 102 per equity share of Rs 2 each. Under the terms of Scheme I, 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:

Date of Vesting	Proportion of Vesting
June 16, 2006 . . . . .	30%
June 16, 2007 . . . . .	30%
June 16, 2008 . . . . .	40%

The employee stock options granted shall be capable of being exercised into equity shares within a period of five years from the date of first vesting i.e. till June 16, 2011. 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 except for the lock-in, if any, in terms of the Insider Trading Code of the Company. 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, 2009, vesting rights were exercised by employees for 1,361,000 (1,180,500) shares of Rs 2 each under scheme I. Further, 118,000 (114,500) employee stock options of Rs 2 each under scheme I were cancelled during the year as certain employees resigned from the services of the Company. The movement in the stock options during the year ended March 31, 2009 was as per the table below:

<b>Particulars</b>	<b>As at March 31,</b>	
	<b>2009</b>	<b>2008</b>
Opening balance of options outstanding .....	<b>1,858,000</b>	3,153,000
Granted during the year .....	<b>Nil</b>	Nil
Forfeited/cancelled during the year .....	<b>118,000</b>	114,500
Exercised during the year .....	<b>1,361,000</b>	1,180,500
Expired during the year .....	<b>Nil</b>	Nil
Closing balance of options outstanding .....	<b>379,000</b>	1,858,000
Exercisable at the end of the year (Included in closing balance of option outstanding) .....	<b>379,000</b>	246,000

b) Suzlon Energy employee stock option plan 2006 (Scheme II)

The Company instituted Scheme II for all eligible employees with effect from November 23, 2007 (grant date) in pursuance of a special resolution approved by the shareholders at the extraordinary general meeting held on March 10, 2007. Scheme II covers grant of options to specified permanent employees of the Company as well as its subsidiaries.

Pursuant to Scheme II, the Company has granted 519,500 options of Rs 2 each to eligible employees at an exercise price of Rs 192.20 per equity share of Rs 2 each which is 51.28% of the weighted average price over a period of six months prior to date of grant, i.e., Rs 374.80 per equity share of Rs 2 each. Under the terms of Scheme II, 50% of the options will vest in the employees at the end of the first year, 25% at the end of the second year and the balance of 25% at the end of third year from the grant date in the following manner:

<b><u>Date of Vesting</u></b>	<b><u>Proportion of Vesting</u></b>
November 23, 2008 .....	50%
November 23, 2009 .....	25%
November 23, 2010 .....	25%

The employee stock options granted shall be capable of being exercised into equity shares within a period of five years from the date of first vesting i.e. till November 23, 2013. 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 except for the lock-in, if any, in terms of the Insider Trading Code of the Company. 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, 2009, vesting rights were exercised by employees for Nil (Nil) shares of Rs 2 each. Further, 78,000 (Nil) employee stock options of Rs 2 each were cancelled

during the year as certain employees resigned from the services of the Company. The movement in the stock options during the year ended March 31, 2009 was as per the table below:

Particulars	As at March 31,	
	2009	2008
Opening balance of options outstanding . . . . .	519,500	Nil
Granted during the year . . . . .	Nil	519,500
Forfeited/cancelled during the year . . . . .	78,000	Nil
Exercised during the year . . . . .	Nil	Nil
Expired during the year . . . . .	Nil	Nil
Closing balance of options outstanding . . . . .	441,500	519,500
Exercisable at the end of the year (Included in closing balance of option outstanding) . . . . .	192,000	Nil

### Fair Value of the Option

The Company applies the intrinsic value based method of accounting for determining compensation cost for Scheme I and Scheme II.

The Company has charged Rs 10.42 million (Rs 21.41 million) and Rs 39.30 million (Rs 23.88 million) at the rate of Rs 51 per option and Rs 182.60 per option respectively, being the difference between intrinsic value of options and exercise price under the Scheme I and Scheme II for the year ended March 31, 2009. Had the Company adopted the fair value method based on 'Black-Scholes' model for pricing and accounting the options, the cost would have been Rs 63.34 per option (Rs 68.39 per option) and Rs 272.37 per option (Rs 284.10 per option) for the Scheme I and Scheme II respectively, and accordingly, the net profit after tax would have been lower by Rs 15.53 million (Rs 33.39 million).

Consequently the basic and diluted earnings per share after factoring the above impact would be as follows:

Particulars	As at March 31,	
	2009	2008
Earnings per share		
- Basic . . . . .	1.57	7.05
- Diluted . . . . .	1.51	6.87

### 11. Other Notes

- During the current year, the Company has issued 12.50% secured redeemable Non-Convertible Debentures ('NCDs') aggregating Rs 3000.00 million to Life Insurance Corporation of India ('LIC'). The Company has incurred expenses amounting to Rs 50.56 million towards issue of NCDs. These NCDs are secured by pledge of shares of the Company held by promoters to the extent of 1.5 times the NCD amount and subservient charge on the Pondicherry factory. The company is required to maintain minimum security cover of 1.5 times at all times during the tenor of the debenture. The tenor of the debentures is seven years and they shall be redeemed in three equal annual instalments commencing from the end of the 5th year from the date of allotment.
- REpower Systems AG ('REpower'), a subsidiary of the Company had issued profit participation certificates of EURO 10 Million in May 2004. For profit participation certificates, a basic interest rate of 7.90% in addition to a variable interest rate dependent on net income is paid. The participation right has a maturity of seven years and the same falls due at the end of May 2011 and the same has been disclosed under unsecured loans.
- Borrowing costs amounting to Rs 393.39 million (Rs 49.37 million) have been capitalised to qualifying assets.
- During the current year, the Board of Directors of the Company had approved a rights issue of equity shares of the Company to a maximum extent of Rs 18,000.00 million. In

anticipation of the right issue, the Company had received Rs 2,000.00 million from a promoter group company as advance towards the share application money. The rights issue was suspended due to market conditions prevailing at that time; and Rs 1,050.00 million out of Rs. 2,000.00 million was refunded to the promoter group company. Subsequently on March 27, 2009, the Company considering the market conditions and in turn its inability to come out with a right issue, has decided to refund the remaining advance amount outstanding towards share application money. Accordingly, the amount has been refunded post the balance sheet date.

- e) Details of security for the secured loans in consolidated financial statements are as follows:

(i) **Term Loans from banks and financial institutions**

- Rs 34,019.89 million (Rs 46,608.93 million) secured against pledge/ negative lien on shares of certain subsidiaries and corporate guarantee of the Company.
- Rs 13,166.48 million (Rs 12,351.63 million) secured by way of first rank mortgage and floating charge on assets.
- Rs 5,643.13 million (Rs 69.99 million) secured by way of first charge on certain immovable and movable fixed assets and second charge on current assets.
- Rs 4,000.00 million (Rs Nil) secured by way of first charge on certain immovable and movable fixed assets, second charge on current assets, first mortgage and charge on fixed asset of subsidiary and pledge of share of subsidiary.
- Rs 943.58 million (Rs Nil) secured by way of charge on land and assignments of electricity proceeds.
- Rs 806.47 million (Rs 986.40 million) secured by charge on moveable properties and receivables of the power generated from windmill.
- Rs 589.98 million (Rs 619.07 million) secured by way of mortgage of plant and machinery and other fixed assets, hypothecation on current assets and corporate guarantee of the Company.
- Rs 261.74 million (Rs 313.36 million) secured by way of first charge on all plant and machinery and other fixed assets and second charge on all current assets and corporate guarantee of the Company.
- Rs 177.49 million (Rs 200.76 million) secured by hypothecation of plant and machinery and other fixed assets.
- Rs 111.69 million (Rs 185.25 million) secured by way of first charge on certain immovable and movable fixed assets and second charge on current assets, personal guarantee of directors and corporate guarantee of the Company.
- Rs 50.83 million (Rs 80.20 million) secured by way of first charge on windmills, land, personal guarantee of directors and corporate guarantee of the Company.
- Rs 48.57 million (Rs 77.54 million) secured by way of first charge on specific plant and machinery, land, second charge on windmills and corporate guarantee of the Company.
- Rs Nil (Rs 265.21 million) secured by way of first rank mortgage and floating charge on assets and corporate guarantee of the Company.

(ii) **Term loans from others**

- Rs 148.33 million (Rs 150.65 million) secured by way of first charge on certain immovable and movable fixed assets, second charge on current assets and movable fixed assets.

- Rs 29.15 million (Rs 36.92 million) secured by charge on certain windmills, receivables of the power generation from windmills and mortgage of land.

(iii) **Working capital facilities from banks and financial institutions**

- Rs 38,988.18 million (Rs 8,159.10 million) secured by hypothecation of inventories, book debts and other current assets, both present and future and first and second charge on certain immovable and movable fixed assets.
- Rs 490.41 million (Rs 353.03 million) secured by hypothecation of inventories, book debts and other current assets, both present and future, second charge on certain immovable fixed assets and personal guarantee of the director.
- Rs 151.99 million (Rs 116.69 million) secured by lien on inventories, book debts, all deposit accounts, certain fixed assets and corporate guarantee of the Company.
- Rs 131.97 million (Rs 89.37 million) secured by hypothecation of all current assets, second charge on fixed assets and corporate guarantee of the Company.

(iv) **Vehicle loan**

- Rs 6.24 million (Rs 0.21 million) secured against vehicle under hire purchase contract.
- f) The profit and loss account of the Company includes a charge of Rs 1,000.58 million (Rs 541.00 million) on account of design change and technological upgradation charges and Rs 1,132.62 million (Rs 201.53 million) on account of operation and maintenance charges, part of which have got eliminated on consolidation. However, the costs incurred by the subsidiary for rendering the services/ affecting the sales have been booked under various expenditure heads based on their nature.
- g) Miscellaneous income includes income in the nature of government grant aggregating Rs 543.12 million (Rs 131.46 million). Other current liabilities include deferred grants of Rs 474.26 million (Rs 554.81 million).
- h) The Group through one of its subsidiaries has agreed with one of its customers to extend deferred credit of Rs 10,446.26 million. The amount would be received on achievement of performance milestone by the WTGs covered under this agreement or at the end of the agreed credit period, whichever is earlier. The subsidiary will have first charge on the WTGs covered under this agreement. Further, the outstanding amount would earn interest at an agreed rate.

## 12. Operating leases

### Premises

The Group has taken certain premises on cancellable operating leases. The total rental expense under cancellable operating leases during the period was Rs 338.53 million (Rs 220.70 million).

The Group has also taken furnished/unfurnished offices and certain other premises under non-cancellable operating lease agreements. The lease rental charge during the year is Rs 842.46 million (Rs 415.53 million) and maximum obligation on long-term non-cancellable operating lease payable as per the rentals stated in respective agreement is as follows:

<b>Obligation on Non-Cancellable Operating Leases</b>	<b>Year Ended March 31,</b>	
	<b>2009</b>	<b>2008</b>
Not later than one year . . . . .	748.92	488.97
Later than one year and not later than five years . . . . .	1,593.69	758.53
Later than five years . . . . .	590.76	52.71

### 13. Post employment benefits

Net employees benefit expense recognised in the profit and loss account:

Particulars	Year Ended March 31,	
	2009	2008
Current service cost . . . . .	80.45	69.52
Interest cost on benefit obligation . . . . .	32.77	25.97
Expected return on plan assets . . . . .	(21.46)	(17.12)
Net actuarial loss recognised in the year . . . . .	33.82	8.51
Past service cost . . . . .	(0.68)	Nil
Net Benefit expense . . . . .	124.90	86.88

Details of defined benefit obligation

Particulars	Year Ended March 31,	
	2009	2008
Defined benefit obligation . . . . .	707.68	540.65
Fair value of plan assets . . . . .	493.56	397.58
Present value of unfunded obligations . . . . .	214.13	143.07
Less: Unrecognised past service cost . . . . .	Nil	Nil
Plan Liability . . . . .	214.12	143.07

Changes in the present value of the defined benefit plan are as follows:

Particulars	Year Ended March 31,	
	2009	2008
Opening defined benefit obligation . . . . .	540.65	539.19
Interest cost . . . . .	32.77	25.98
Current service cost . . . . .	80.45	69.52
Benefits paid . . . . .	(30.88)	(31.47)
Actuarial (gains) / losses on obligation . . . . .	53.59	(62.57)
Exchange rate variation . . . . .	31.09	—
Closed defined benefit obligation . . . . .	707.67	540.65

Changes in the fair value of plan assets are as follows:

Particulars	Year Ended March 31,	
	2009	2008
Opening fair value of plan assets . . . . .	397.56	337.72
Expected return . . . . .	21.46	17.10
Contributions by employer . . . . .	98.75	83.08
Benefits paid . . . . .	(30.72)	(31.52)
Actuarial gains / (losses) . . . . .	(15.59)	(8.82)
Exchange rate variation . . . . .	22.08	—
Closing fair value of plan assets . . . . .	493.54	397.56

Amounts for the current and previous periods are as follows:

Particulars	Year Ended March 31,		
	2009	2008	2007
Defined benefit obligation . . . . .	707.68	540.65	539.27
Plan assets . . . . .	493.56	397.58	337.69
Surplus / (deficit) . . . . .	214.12	143.07	201.58
Experience adjustments on plan liabilities . . . . .	Nil	Nil	Nil
Experience adjustments on plan assets . . . . .	Nil	Nil	Nil

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 plan obligations differs from subsidiary to subsidiary.

The estimates of future salary increases take into account the inflation, seniority, promotion and other relevant factors.

#### 14. Provisions

In pursuance of Accounting Standard-29 (AS-29) "Provisions, Contingent Liabilities and Contingent Assets", the provisions required have been incorporated in the books of accounts in the following manner:

<u>Particulars</u>	<u>Performance Guarantee</u>	<u>Operation, Maintenance and Warranty</u>	<u>Provision for Liquidated Damages</u>
Opening balance . . . . .	<b>2,833.86</b> (1809.15)	<b>2,809.24</b> (2,529.18)	<b>306.92</b> (259.44)
Additions due to acquisition . . . . .	— (—)	<b>1,272.79</b> (—)	— (—)
Additions . . . . .	<b>4,703.82*</b> (2,356.96)	<b>4,609.72</b> (1,646.74)	<b>2,843.30</b> (431.96)
Utilisation . . . . .	<b>5,953.84</b> (1,332.35)	<b>2,055.79</b> (1,366.68)	<b>2,538.73</b> (197.01)
Reversal . . . . .	— (—)	— (—)	— (18.75)
Closing balance . . . . .	<b>1,583.84</b> (2,833.86)	<b>6,635.95</b> (2,809.24)	<b>611.49</b> (306.92)

\* includes Rs 1,895.05 million (Rs 794.40 million) classified as exceptional item.

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, machine availability etc.

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 WTGs and components thereof over the period of free O&M, which varies according to the terms of each sales order.

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 and components thereof, on the field under warranty. The break up of charge to profit and loss account of "provision for operation, maintenance and warranty" is as under:

- Amount of provision required for the WTGs sold during the year Rs 4,609.72 million (Rs 1,646.74 million)
- Less: Utilization against opening provision, booked by the subsidiary under various expenditure heads by their nature amounting to Rs 942.47 million (Rs 957.66 million)
- Charge to profit and loss account Rs 3,667.25 million (Rs 689.04 million)

Provision for liquidated damages (LD) represents the expected claims which the Group 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.



**15. Break-up of the accumulated deferred tax asset/(liability), net is given below:**

Particulars	As at March 31	
	2009	2008
<b>Deferred tax assets:</b>		
Unabsorbed losses and depreciation . . . . .	<b>1,689.26</b>	1,239.32
Employee benefits . . . . .	<b>120.64</b>	161.11
Provision for guarantee and warranty . . . . .	<b>1,143.27</b>	867.59
Provision for doubtful debts . . . . .	<b>78.88</b>	64.36
Others . . . . .	<b>270.16</b>	162.98
<b>(a) . . . . .</b>	<b>3,302.21</b>	2,495.36
<b>Deferred tax liabilities</b>		
Difference in depreciation of fixed assets . . . . .	<b>3,757.32</b>	2,713.17
Others . . . . .	<b>1,412.99</b>	0.19
<b>(b) . . . . .</b>	<b>5,170.31</b>	2,713.26
<b>Deferred tax liabilities (net) [(c)=(a) – (b)] . . . . .</b>	<b>(1,868.10)</b>	(218.00)

**16. Earnings Per Share ('EPS')**

Particulars		As at March 31,	
		2009	2008
		All amounts in Rupees million except per share data	
<b>Basic</b>			
Net Profit after share of profit of associates and minority interest. . . . .		<b>2,364.81</b>	10,300.98
Less: Preference dividend and tax thereon . . . . .		<b>0.00</b>	2.34
Profit attributable to equity shareholders . .	A	<b>2,364.81</b>	10,298.64
Weighted average number of equity shares . . . . .	B	<b>1,497,932,537</b>	1,455,672,492
<b>Basic EPS (Rs) of face value of Rs 2 each . .</b>	A/B	<b>1.58</b>	7.07
<b>Diluted</b>			
Weighted average number of equity shares . . . . .	B	<b>1,497,932,537</b>	1,455,672,492
Add: Equity shares for no consideration arising on grant of share options . . . . .	C	<b>28,507</b>	16,09,325
Add: Potential equity shares that could arise on conversion of zero coupon convertible bonds . . . . .	D	<b>55,516,717</b>	37,593,265
Weighted average number of equity shares for diluted EPS . . . . .	E = (B+C+D)	<b>1,553,477,761</b>	1,494,875,082
<b>Diluted EPS (Rs) of face value of Rs 2 each . . . . .</b>	A/E	<b>1.52</b>	6.89

**17. Statement showing the use of proceeds from Qualified Institutional Placements up to March 31, 2009**

On December 20, 2007, the Company has raised Rs 21,826.96 million through allotment of 56,930,000 equity shares of Rs 2 each at a price of Rs 383.40 per equity share of Rs 2 each to selected Qualified Institutional Buyers pursuant to the Guidelines for Qualified Institutional Placements (QIP) under Chapter XIII-A of the SEBI (DIP) Guidelines, 2000. The details of utilisation of QIP proceeds are given below:

Sl. No.	Description	As at March 31, 2009
<b>I</b>	<b>Sources of funds</b>	
	Proceeds from Issue . . . . .	21,826.96
	Issue Expenses . . . . .	(262.70)
	<b>Net Proceeds</b> . . . . .	<b>21,564.26</b>
<b>II</b>	<b>Utilisation of funds</b>	
	Repayment of Acquisition facility loans . . . . .	13,504.02
	Working Capital requirement and General corporate purposes . . . . .	3,411.18
	Investments in subsidiaries for Capital expenditure and Working capital requirement . . . . .	4,649.06
	<b>Total</b> . . . . .	<b>21,564.26</b>
<b>III</b>	<b>Unutilised funds</b> . . . . .	<b>Nil</b>

**18. Managerial remuneration to Directors**

Particulars	Year Ended March 31,	
	2009	2008
Salaries . . . . .	12.56	13.00
Contribution to superannuation fund and provident fund. . . . .	2.10	2.74
Sitting Fees . . . . .	0.72	0.20
<b>Total</b> . . . . .	<b>15.38</b>	<b>15.94</b>

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.

In terms of the special resolution approved by the members of the Company, the Company has been authorised to pay remuneration to the managerial personnel within the limits as prescribed under Section II (B) of Part II of Schedule XIII of the Act in case of loss or inadequacy of profits. Accordingly the Company has paid remuneration as per these limits and the excess remuneration paid has been recovered from the directors post the year end.

**19. a. Contingent liabilities**

Particulars	As at March 31	
	2009	2008
Premium on redemption of zero coupon convertible bonds . . . . .	2,261.08	1,010.79
Claims against the Group not acknowledged —		
Excise, custom, service and vat . . . . .	207.56	29.62
Income-tax . . . . .	152.30	192.30
State levies . . . . .	39.79	—
Labour related . . . . .	1.60	1.50
Suppliers and service providers . . . . .	270.10	—
cumulative preference share dividend of subsidiary payable to minority. . . . .	2.00	—

**b. Capital commitments**

Particulars	As at March 31	
	2009	2008
Guarantees given in connection with acquisition of shares of REpower. . . . .	13,854.19	46,936.20
Estimated amount of contracts remaining to be executed on capital accounts and not provided for, net of advances . . . . .	10,695.87	18,999.18

## 20. Derivative instruments and unhedged foreign currency exposure

Particulars of Derivatives	Purpose
<b>Forward contract outstanding as at balance sheet date:</b>	
Buy EURO 17,778,459 (EURO 150,522,982)	Hedge of forex EURO liabilities
Buy USD 96,334,246 (USD 309,759,304)	Hedge of forex USD liabilities
Buy CAD 4,733,000 (CAD Nil)	Hedge of forex CAD liabilities
Sell USD 186,439,861 (USD 286,961,890)	Hedge of forex USD receivable
Sell EURO 55,236,982 (EURO 118,198,046)	Hedge of forex EURO receivable
Sell AUD 61,500,000 (AUD 325,00,000)	Hedge of forex AUD receivable

### Option contract outstanding as at balance sheet date:

USD 55.00 million (USD 135.00 million) zero cost 1:1.5 forward put options outstanding

USD 246.20 million (USD Nil) long European knock in option outstanding

EURO Nil (EURO 177.50 million) zero cost barrier call options outstanding

EURO Nil (EURO 115.00 million) zero cost put spread options outstanding

### Particulars of unhedged foreign currency exposure as at the balance sheet

Particulars	As at March 31,	
	2009	2008
Current liabilities . . . . .	17,551.38	4,319.59
Debtors . . . . .	2,302.94	1,044.53
Loans received . . . . .	18,740.56	5,965.62
Bank balance in current accounts and term deposit accounts . . . . .	1,083.74	3,535.65
Zero coupon convertible bonds . . . . .	25,355.00	20,055.00

## 21. Related party disclosures

### (A) Related parties with whom transactions have taken place during the year

#### a) **Joint Ventures**

REpower Portugal — Sistemas Eolicos, S.A., REpower North (China) Ltd.

#### b) **Entities where Key Management Personnel (KMP)/ Relatives of Key Management Personnel ('RKMP') has significant influence**

Sarjan Realities Limited, Suzlon Infrastructure Limited, Senenergy Global Limited, Shubh Realty (South) Private Limited, Tanti Holdings Limited, Suzlon Foundation, Girish R. Tanti (HUF), SE Steel Limited

#### c) **Key Management Personnel of Suzlon Energy Limited**

Tulsi R. Tanti, Girish R. Tanti

#### d) **Relatives of Key Management Personnel of Suzlon Energy Limited**

Vinod R. Tanti, Jitendra R. Tanti

e) **Employee Funds**

SE Composites Limited	Superannuation Fund
SE Composites Limited	Employees Group Gratuity Scheme
SE Electricals Limited	Superannuation Fund
SE Electricals Limited	Employees Group Gratuity Scheme
Suzlon Energy Limited	Superannuation Fund
Suzlon Energy Limited	Employees Group Gratuity Scheme
Suzlon Generators Limited	Superannuation Fund
Suzlon Generators Limited	Employees Group Gratuity Scheme
Suzlon Gujarat Wind Park Limited	Superannuation Fund
Suzlon Gujarat Wind Park Limited	Employees Group Gratuity Scheme
Suzlon Infrastructure Services Limited	Superannuation Fund
Suzlon Infrastructure Services Limited	Employees Group Gratuity Scheme
Suzlon Power Infrastructure Limited	Superannuation Fund
Suzlon Power Infrastructure Limited	Employees Group Gratuity Scheme
Suzlon Structures Limited	Employees Group Gratuity Scheme
Suzlon Towers & Structure Limited	Superannuation Fund
Suzlon Towers & Structure Limited	Employees Group Gratuity Scheme
Suzlon Wind International Limited	Superannuation Fund
Suzlon Wind International Limited	Employees Group Gratuity Scheme

(B) **Transactions between the Group and related parties during the year and the status of outstanding balances as at March 31, 2009**

Particulars	Joint Ventures	Entities Where KMP/ RKMP Has Significant Influence	KMP	RKMP	Employee Funds
<b>Transactions</b>					
Purchase of fixed assets (including intangibles) . . . .	—	<b>1,731.32</b>	—	—	—
	(—)	(378.32)	(—)	(—)	(—)
Sale of fixed assets . . . . .	—	—	—	—	—
	(—)	(0.59)	(—)	(—)	(—)
Sale of goods and services . . . . .	<b>1,902.82</b>	<b>4.33</b>	<b>0.58</b>	<b>0.61</b>	—
	(—)	(54.59)	(—)	(—)	(—)
Purchase of goods and services . . . . .	—	<b>307.43</b>	—	—	—
	(—)	(2,028.34)	(—)	(—)	(—)
Transformer division acquisition . . . . .	—	—	—	—	—
	(—)	(42.47)	(—)	(—)	(—)
Loans given . . . . .	—	<b>2,209.70</b>	—	—	—
	(—)	(3,148.80)	(—)	(—)	(—)
Loans taken . . . . .	—	<b>1,480.00</b>	—	—	—
	(—)	(—)	(—)	(—)	(—)
Share application money received . . . . .	—	<b>2,000.00</b>	—	—	—
	(—)	(—)	(—)	(—)	(—)
Deposits given . . . . .	—	<b>1,223.83</b>	<b>0.16</b>	—	—
	(—)	(67.50)	(—)	(—)	(—)
Interest received . . . . .	—	<b>106.87</b>	—	—	—
	(—)	(193.00)	(—)	(—)	(—)
Interest paid . . . . .	—	<b>7.79</b>	—	—	—
	(—)	(15.85)	(—)	(—)	(—)
Rent received . . . . .	—	<b>0.70</b>	—	—	—
	(—)	(—)	(—)	(—)	(—)
Leaser rent paid . . . . .	—	<b>157.93</b>	<b>0.19</b>	—	—
	(—)	(767.73)	(—)	(0.60)	(—)
Donation given . . . . .	—	<b>94.50</b>	—	—	—
	(—)	(—)	(—)	(—)	(—)
Managerial Remuneration . . . . .	—	—	<b>14.86</b>	—	—
	(—)	(—)	(15.72)	(—)	(—)
Contribution to various funds . . . . .	—	—	—	—	<b>59.04</b>
	(—)	(—)	(—)	(—)	(87.03)

Particulars	Joint Ventures	Entities Where KMP/ RKMP Has Significant Influence	KMP	RKMP	Employee Funds
<b>Outstanding balances</b>					
Advances from customers . . . . .	—	—	7.50	7.50	—
	(—)	(—)	(7.50)	(7.50)	(—)
Sundry debtors . . . . .	1,694.53	0.65	0.25	0.29	—
	(—)	(37.29)	(—)	(—)	(—)
Loans outstanding . . . . .	—	1,162.50	—	—	—
	(—)	(—)	(—)	(—)	(—)
Deposits outstanding . . . . .	—	1,223.67	0.16	—	—
	(—)	(6.75)	(—)	(—)	(—)
Advances to supplier and other assets . . . . .	—	60.59	8.68	—	—
	(—)	(62.30)	(—)	(0.50)	(—)
Sundry creditors . . . . .	—	496.89	—	—	—
	(—)	(187.35)	(—)	(—)	(—)
Share application money pending refund . . . . .	—	950.00	—	—	—
	(—)	(—)	(—)	(—)	(—)

Note: Figures in brackets pertain to balances as on March 31, 2008

**(C) Disclosure of significant transactions with related parties**

Type of the Transaction	Type of Relationship	Name of the Entity/Person	Year Ended March 31	
			2009	2008
Purchase of fixed assets (including intangibles) . . . . .	Entities where KMP/ RKMP has significant influence	Suzlon Infrastructure Limited	1,728.28	172.76
		Sarjan Realities Limited	1.22	163.39
Sale of fixed assets . . . . .	Entities where KMP/ RKMP has significant influence	Suzlon Infrastructure Limited	—	0.30
		Sarjan Realities Limited	—	0.10
		Shubh Realty (South) Private Limited	—	0.19
Sale of goods . . . . .	Joint Ventures	REpower Portugal — Sistemas Eolicos, S.A.	1,340.21	—
		REpower North (China) Ltd.	562.61	—
	Entities where KMP/ RKMP has significant influence	Suzlon Infrastructure Limited	2.87	54.59
Purchase of goods and services . . . . .	Entities where KMP/ RKMP has significant influence	Suzlon Infrastructure Limited	170.18	2,007.37
		Synergy Global Limited	102.95	11.78
Loans given . . . . .	Entities where KMP/ RKMP has significant influence	Suzlon Infrastructure Limited	500.00	2,591.20
		Sarjan Realities Limited	1,407.20	420.10
		Shubh Realty (South) Private Limited	302.50	137.50
Loans taken . . . . .	Entities where KMP/ RKMP has significant influence	Tanti Holdings Limited	1,480.00	—
Share application money received . . . . .	Entities where KMP/ RKMP has significant influence	Tanti Holdings Limited	2,000.00	—
Deposits given . . . . .	Entities where KMP/ RKMP has significant influence	Suzlon Infrastructure Limited	1,223.67	67.50

Type of the Transaction	Type of Relationship	Name of the Entity/Person	Year Ended March 31	
			2009	2008
Interest received. . . . .	Entities where KMP/ RKMP has significant influence	Suzlon Infrastructure Limited	28.27	79.86
		Sarjan Realities Limited	71.80	75.79
		Shubh Realty (South) Private Limited	6.80	37.35
Interest paid . . . . .	Entities where KMP/ RKMP has significant influence	Tanti Holdings Limited	7.79	—
Rent received. . . . .	Entities where KMP/ RKMP has significant influence	SE Steel Limited	0.70	—
Lease rent paid . . . . .	Entities where KMP/ RKMP has significant influence	Suzlon Infrastructure Limited	157.93	767.67
Donation given . . . . .	Entities where KMP/ RKMP has significant influence	Suzlon Foundation	94.50	—
Managerial Remuneration. . . . .	KMP	Tulsi R.Tanti	8.33	11.64
	KMP	Girish R. Tanti	6.67	4.77
Contribution to various funds . . . . .	Employee Funds	Suzlon Energy Limited Superannuation Fund	15.38	35.27
		Suzlon Energy Limited Employees Group Gratuity Scheme	25.25	29.08
		Suzlon Infrastructure Services Limited Superannuation Fund	5.30	13.62

The below table provides the transactions between the Group and promoter group entities which are not related parties in accordance with Accounting Standard-18 (AS 18) — 'Related Party Disclosures'

		Year Ended March 31	
Type of the Transaction	Name of the Entity	2009	2008
Transactions			
Sale of goods . . . . .	Super Wind Projects Private Limited	1,976.90	711.84
	Simran Wind Projects Private Limited	698.10	3,843.99
Freight outward . . . . .	S E Shipping Lines Pte Ltd.	3,555.67	510.71
Outstanding Balances			
Debtors . . . . .	Super Wind Projects Private Limited	1,624.92	—
	Simran Wind Projects Private Limited	650.26	714.12
Creditors . . . . .	S E Shipping Lines Pte Ltd.	1,534.02	58.43

## 22. Disclosure as required by Clause 32 of Listing Agreement with stock exchange

Type of Relationship	Name	Amount Outstanding As at March 31, 2009	Maximum Amount Outstanding During the Year
Companies in which directors are interested . . . . .	Sarjan Realities Limited	1,162.50	1,390.70
	Suzlon Infrastructures Limited — loan	Nil	500.00
	Suzlon Infrastructures Limited — deposit	1,223.67	1,223.67
	Shubh Realty (South) Private Limited	Nil	165.00

*Note:*

No loans have been granted by the Company to any person for the purpose of investing in the shares of Suzlon Energy Limited or any of its subsidiaries.



**23. Details of the Company's share in joint ventures included in the consolidated financial statements are as follows (Before inter company eliminations):**

<b>Balance Sheet</b>	<b>As at March 31, 2009</b>	<b>Profit and Loss Account</b>	<b>Year Ended March 31, 2009</b>
Share capital . . . . .	454.54	Sales	3,396.28
Reserves and surplus . . . .	87.68	Other income	50.50
Secured loans . . . . .	168.24	Total income	3,446.78
Total sources of funds . . .	710.46	Cost of good sold	3,164.20
Fixed assets . . . . .	411.96	Operating and other expenses	(20.18)
Cash and bank balances . .	626.71	Employee's remuneration and benefits	72.13
Inventories . . . . .	1,700.11	Financial charges	10.75
Sundry debtors . . . . .	1,354.83	Depreciation/amortisation	21.02
Loans and advances . . . . .	960.81	Total expenditure	3,247.92
Total current assets . . . . .	4,642.40	Profit before tax	198.86
Current liabilities . . . . .	4,343.90	Tax	70.84
Net current assets . . . . .	298.50	Profit after tax	128.02
Total application of funds . . . . .	710.46		

**24. Segment Reporting**

The Company has disclosed business segment as the primary segment. Segments have been identified taking into account the nature of the products, the differing risks and returns, the organisation structure and internal reporting system.

The Group's operations predominantly relate sale of WTGs and allied activities including sale/sub-lease of land, infrastructure development income; sale of gear boxes; and sale of foundry and forging components. Others primarily include power generation operations.

The Company has classified the activities of sale/sub-lease of land and infrastructure development as part of 'WTG Segment' instead of 'Others Segment' for the year ended March 31, 2009, and has reclassified the corresponding previous period numbers.

The change has caused a reduction in the segment revenue, segment results, segment assets and segment Liabilities by Rs 1,260.33 million, Rs 759.07 million, Rs 6,206.56 million, and Rs 1,637.27 million respectively for the year ended March 31, 2009; and a reduction in the segment revenue, segment result, segment assets and segment liabilities by Rs 1,803.30 million, Rs 329.30 million, Rs 4,463.80 million and Rs 733.90 million, respectively for the year ended March 31, 2008 in 'Others Segment'. There is a corresponding increase in the segment revenue, segment results, segment assets and segment liability amounts as disclosed for the 'WTG Segment' for the respective periods mentioned above.

The company has also reclassified the amounts pertaining to sale of Foundry and Forging Components from 'WTG Segment' to a new segment- 'Foundry and Forging Segment' for the year ended March 31, 2009. The previous period figures have been reclassified for the previous year.

The change has caused a reduction in the segment revenue, segment results, segment assets and segment liabilities by Rs 171.82 million, Rs (429.97) million, Rs 10,129.92 million, and Rs 1,154.33 million respectively for the year ended March 31, 2009; and a reduction in the segment revenue, segment results, segment assets and segment liabilities by Rs 0.14 million, Rs (64.33) million, Rs 3,595.38 million and Rs 906.31 million respectively for the year ended March 31, 2008; in 'WTG Segment'

Segment revenue, segment results, segment assets and segment liabilities include the respective amounts identifiable to each of the segments allocated on a reasonable basis.

Inter segment transfers have been carried out at mutually agreed prices.

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, 2009						Year Ended March 31, 2008					
	WTG	Gear Box	Foundry & Forging	Others	Elimination	Total	WTG	Gear Box	Foundry & Forging	Others	Elimination	Total
Total external sales . . . . .	229,652.34	30,793.72	10,34	360.61	—	260,817.01	114,417.92	22,129.00	0.14	247.24	—	136,794.30
Add: Inter segment sales . . . . .	41.78	9,142.70	161.48	—	(9,345.96)	—	24.24	1,919.12			(1,943.36)	—
Segment revenue . . . . .	229,694.12	39,936.42	171.82	360.61	(9,345.96)	260,817.01	114,442.16	24,048.12	0.14	247.24	(1,943.36)	136,794.30
Segment results before exceptional items . . . . .	19,245.88	5,686.57	(427.97)	211.09	(760.10)	23,955.47	16,128.10	2,320.96	(64.33)	26.45	(129.53)	18,281.65
Exceptional items . . . . .	8,962.85					8,962.85	2,852.14					2,852.14
Segment results after exceptional items . . . . .	10,283.03	5,686.57	(427.97)	211.09	(760.10)	14,992.62	13,275.96	2,320.96	(64.33)	26.45	(129.53)	15,429.51
<b>Add/(Less) Items to reconcile with profit/(loss) as per profit and loss account</b>												
Add: other income . . . . .						2,717.53						2,359.70
Less: Financial charges . . . . .						(10,539.31)						(5,969.40)
Less: Preliminary expense written off . . . . .						(0.90)						(15.41)
Profit before tax . . . . .						7,169.94						11,804.40
current tax . . . . .						2,110.36						2,468.46
MAT credit entitlement . . . . .						(40.31)						(956.75)
Deferred tax . . . . .						671.23						(22.77)
Fringe benefit tax . . . . .						139.93						144.00
Total tax . . . . .						2,881.21						1,632.94
Profit after tax . . . . .						4,288.73						10,171.46
Add: Share in associate's profit after tax . . . . .						23.23						557.50
Less: Share of profit of minority . . . . .						(1,947.15)						(427.98)
Net profit/ (loss) . . . . .						2,364.81						10,300.98
Segment assets . . . . .	255,107.27	69,951.87	10,129.92	2,416.21	—	337,605.27	137,098.84	49,784.09	3,595.38	2,350.29	—	192,828.60
Common assets . . . . .						40,458.01						72,913.01
Enterprise assets . . . . .						378,063.28						265,741.61
Segment liabilities . . . . .	99,440.90	14,407.59	1,154.33	69.00	—	115,071.82	58,525.48	11,293.73	906.31	149.73		70,875.25
Common liabilities . . . . .						177,673.92						113,853.12
Enterprise liabilities . . . . .						292,745.74						184,728.37
Capital expenditure during the year . . . . .	16,658.40	15,266.86	5,504.60	41.76		37,471.62	6,679.06	11,329.34	3,163.04	169.76	—	21,341.20
Segment depreciation . . . . .	3,361.99	2,050.62	175.68	143.14	—	5,731.43	1,594.37	1,190.19	—	109.08		2,893.64
Non-cash expenses other than depreciation . . . . .	0.90					0.90	15.41					15.41
*includes equity accounted investments . . . . .	—					—	31,410.08					31,410.08

## B) Geographical Segment

Particulars	Year Ended March 31, 2009							Year Ended March 31, 2008						
	India	Europe	USA	China	Australia and New Zealand	Others	Total	India	Europe	USA	China	Australia and New Zealand	Others	Total
Segment revenue . . . . .	44,526.60	84,503.23	73,272.86	12,658.72	29,305.76	16,549.84	260,817.01	56,186.96	31,824.36	25,553.80	4,785.28	10,227.98	8,215.92	136,794.30
Segment assets . . . . .	94,369.20	171,569.92	30,194.91	19,969.88	8,550.51	12,950.85	337,605.27	64,701.12	95,204.42	13,742.46	9,407.35	4,090.13	5,683.12	192,828.60
Capital expenditure incurred . . . . .	16,313.42	18,415.03	283.53	1,673.02	658.54	128.08	37,471.62	8,429.23	11,949.23	269.57	579.20	51.58	62.39	21,341.20

25. Prior year amounts have been reclassified wherever necessary to confirm with current year presentation. Figures in the brackets are in respect of the previous year.

**Signatures to 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 and Managing Director**

**per Jasmin B. Shah  
Partner  
Membership No. 46238**

**per Arvind Sethi  
Partner  
Membership No. 89802**

**Hemal A. Kanuga  
Company Secretary**

**Girish R. Tanti  
Director**

**Place: Mumbai  
Date: June 27, 2009**

**Place: Mumbai  
Date: June 27, 2009**

**Place: Mumbai  
Date: June 27, 2009**

## Consolidated Balance Sheet of REpower Systems AG

Assets	Notes	31.12.2007 EUR	31.12.2006 EUR
<b>Current assets</b> . . . . .	4.1.		
Liquid funds . . . . .	4.1.1.	144,908,913	120,066,967
Interests in project companies . . . . .		14,850	40,000
Gross amount due from customers for contract work . . . . .	4.1.2.	61,270,776	36,985,072
Trade receivables . . . . .	4.1.3.	200,301,030	95,105,017
Receivables from participations . . . . .	4.1.4.	534,084	417,566
Receivables from associates and joint ventures . . . . .	4.1.5.	10,536,060	1,565,348
Inventories . . . . .	4.1.6.	97,510,839	66,212,982
Other financial assets . . . . .	4.1.7.	5,025,357	4,526,409
Other miscellaneous current assets . . . . .	4.1.7.	63,381,752	26,717,435
Other current assets . . . . .	4.1.7.	68,407,109	31,243,844
<b>Total current assets</b> . . . . .		<b>583,483,661</b>	<b>351,636,796</b>
<b>Non-current assets</b> . . . . .	4.2.		
Property, plant and equipment . . . . .	4.2.1.	49,734,401	22,035,649
Other intangible assets . . . . .	4.2.2.	20,440,223	13,764,693
Goodwill . . . . .		1,388,710	1,329,667
Investments in associates and joint ventures . . . . .	4.2.3.	4,547,200	2,999,372
Other financial assets . . . . .		626,116	611,763
Loans granted . . . . .	4.2.4.	7,003,266	6,581,639
Deferred taxes . . . . .	4.2.5.	5,009,542	7,352,094
Other miscellaneous non-current assets . . . . .		1,463,002	2,339,515
Other non-current assets . . . . .		1,463,002	2,339,515
<b>Total non-current assets</b> . . . . .		<b>90,212,460</b>	<b>57,014,392</b>
<b>Total assets</b> . . . . .		<b>673,696,121</b>	<b>408,651,188</b>

<b>Shareholders' Equity and Liabilities</b>	<b>Notes</b>	<b>31.12.2007</b>	<b>31.12.2006</b>
		<b>EUR</b>	<b>EUR</b>
<b>Current liabilities</b> . . . . .	4.3.		
Current loans and current portion of long-term loans . . . . .		473,978	109
Trade payables . . . . .		108,117,135	76,945,568
Liabilities to associates and joint ventures . . . . .		494,054	0
Advance payments received . . . . .	4.3.1.	176,966,589	91,407,273
Provisions . . . . .	4.3.2.	20,765,434	16,969,740
Deferred revenue . . . . .	4.3.3.	8,403,055	248,922
Income tax liabilities . . . . .	4.3.4.	982,784	530,130
Other financial liabilities . . . . .	4.3.5.	8,060,688	3,099,829
Other miscellaneous liabilities . . . . .	4.3.5.	2,360,859	11,935,396
Other current liabilities . . . . .	4.3.5.	10,421,547	15,035,225
<b>Total current liabilities</b> . . . . .		<b>326,624,576</b>	<b>201,136,967</b>
<b>Non-current liabilities</b> . . . . .	4.4.		
Non-current loans . . . . .	4.4.	1,406,818	2,354,760
Capital from profit participation rights . . . . .	4.4.	10,000,000	10,000,000
Deferred taxes . . . . .	4.2.5.	9,400,139	7,329,672
<b>Total non-current liabilities</b> . . . . .		<b>20,806,957</b>	<b>19,684,432</b>
<b>Shareholders' equity</b> . . . . .	4.5.		
Subscribed capital . . . . .	4.5.1.	8,993,576	8,101,797
Share issue for capital increase . . . . .		0	16,200
Additional paid-in capital . . . . .	4.5.2.	280,895,128	165,346,006
Currency translation . . . . .		64,948	(30,461)
Retained earnings . . . . .		35,597,083	14,374,915
<b>Equity relating to shareholders</b> . . . . .		<b>325,550,735</b>	<b>187,808,457</b>
Minority interests . . . . .	4.5.3.	713,853	21,332
<b>Total shareholders' equity</b> . . . . .		<b>326,264,588</b>	<b>187,829,789</b>
<b>Total shareholders' equity and liabilities</b> . . . . .		<b>673,696,121</b>	<b>408,651,188</b>

## Consolidated Income Statement of REpower Systems AG

Income Statement	Notes	Pre-Year	
		01.01.-31.12.2007	01.01.-31.12.2006
		EUR	EUR
Revenue . . . . .	5.1.	680,159,952	458,834,909
Changes in work in progress . . . . .		(2,006,782)	2,705,553
<b>Total performance . . . . .</b>		<b>678,153,170</b>	<b>461,540,462</b>
Other operating income . . . . .	5.2.	7,003,546	3,034,112
Cost of materials/cost of purchased services . . . . .		(552,110,733)	(386,506,723)
Personnel expenses . . . . .	5.3.	(49,554,898)	(28,504,173)
Depreciation on property, plant and equipment and amortization on intangible assets . . . . .		(6,589,209)	(4,318,263)
Other operating expenses . . . . .	5.4.	(48,699,560)	(33,060,350)
<b>Operating result . . . . .</b>		<b>28,202,316</b>	<b>12,185,065</b>
Interest and similar finance income . . . . .		6,237,142	2,333,185
Interest and similar finance expenses . . . . .		(4,866,456)	(3,567,866)
Share of result from associates . . . . .		(113,863)	249,798
<b>Profit before income tax . . . . .</b>		<b>29,459,139</b>	<b>11,200,182</b>
Taxes on income . . . . .		(8,004,235)	(3,988,859)
Other taxes . . . . .		(336,465)	(157,768)
<b>Profit for the year . . . . .</b>		<b>21,118,439</b>	<b>7,053,555</b>
Share of net income for the year attributable to minority interests . . . .		(103,729)	(9,160)
Share of net income for the year attributable to shareholders of the parent company . . . . .		21,222,168	7,062,715
Earnings per share (undiluted) . . . . .	5.5.	2.43	0.94
Earnings per share (diluted) . . . . .	5.5.	2.28	0.91



## Cash Flow Statement

Cash Flow Statement	Notes	2007 EUR	Pre-Year 2006 EUR
<b>Cash flow from operating activities</b> . . . . .	10.		
Profit for the period before taxes . . . . .		29,459,139	11,200,182
Adjustments for:			
Depreciation on property, plant and equipment, amortization of intangible assets and write-down of financial assets . . . . .		6,589,209	4,318,263
Write-down of loans granted . . . . .		209,813	0
Profits /losses from associates . . . . .		113,863	(249,798)
Interest income . . . . .		(6,237,142)	(2,333,186)
Interest expenses . . . . .		4,656,643	3,567,866
Increase/decrease in provisions . . . . .		3,795,694	(248,537)
Profit/loss on disposal of fixed assets . . . . .		99,627	(113,811)
Change in working capital . . . . .		(82,384,396)	26,730,379
Interest received . . . . .		6,237,142	1,404,068
Interest paid . . . . .		(4,656,643)	(3,567,866)
Income tax paid/received . . . . .		(75,108)	488,568
Other non-cash income and expenditure . . . . .		(735,742)	(1,944,266)
<b>Cash flows from/used in operating activities</b> . . . . .		<b>(42,927,901)</b>	<b>39,251,862</b>
<b>Cash flow from investing activities:</b> . . . . .	10.		
Proceeds from the sale of fixed assets . . . . .		2,346,212	187,816
Payments for the purchase of intangible assets . . . . .		(8,868,846)	(13,192,700)
Payments for the purchase of property, plant and equipment . . . . .		(34,598,139)	(8,750,473)
Payments for the further purchase of shares in associates and joint ventures . . . .		(940,300)	(799,999)
<b>Cash flows used from investing activities</b> . . . . .		<b>(42,061,073)</b>	<b>(22,555,356)</b>
<b>Cash flow from financing activities</b> . . . . .	10.		
Proceeds from increase in shareholders' equity . . . . .		110,937,821	79,169,633
Loans issued . . . . .		(632,828)	(492,717)
Loan repayments . . . . .		(947,942)	(960,346)
<b>Cash flows used in/from financing activities</b> . . . . .		<b>109,357,051</b>	<b>77,716,570</b>
<b>Increase in cash and cash equivalents</b> . . . . .		<b>24,368,077</b>	<b>94,413,076</b>
Cash and cash equivalents at the beginning of the period . . . . .		120,066,858	25,653,782
<b>Cash and cash equivalents at the end of the period</b> . . . . .		<b>144,434,935</b>	<b>120,066,858</b>
Cash in bank . . . . .	10.	144,908,913	120,066,967
Current bank liabilities . . . . .	10.	(473,978)	(109)
<b>Cash and cash equivalents at the end of the period</b> . . . . .	10.	<b>144,434,935</b>	<b>120,066,858</b>

## Statement of Changes in Consolidated Shareholders' Equity

	Subscribed Capital	Share Issue for Capital Increase	Additional Paid-In Capital	Currency Translation	Retained Earnings	Equity Attributable to Shareholders	Minority Interests	Total Shareholders' Equity
	In EUR	In EUR	In EUR	In EUR	In EUR	In EUR	In EUR	In EUR
<b>Balance at 01.01.2006 . . . . .</b>	<b>5,941,198</b>	<b>0</b>	<b>86,670,543</b>	<b>(18,505)</b>	<b>7,312,200</b>	<b>99,905,436</b>	<b>30,492</b>	<b>99,935,928</b>
Capital increase including transaction costs for capital increase less tax advantages . . . . .	2,160,599		78,172,486			80,333,085		80,333,085
Shares issued (not yet registered) . . . . .		16,200				16,200		16,200
Share option plans . . . . .			502,977			502,977		502,977
Foreign currency translation . . . . .				(11,956)		(11,956)		(11,956)
Net result for the year . . . . .					7,062,715	7,062,715	(9,160)	7,053,555
Group result . . . . .				(11,956)	7,062,715	7,050,759	(9,160)	7,041,599
<b>Balance at 31.12.2006 . . . . .</b>	<b>8,101,797</b>	<b>16,200</b>	<b>165,346,006</b>	<b>(30,461)</b>	<b>14,374,915</b>	<b>187,808,457</b>	<b>21,332</b>	<b>187,829,789</b>
<b>Balance at 01.01.2007 . . . . .</b>	<b>8,101,797</b>	<b>16,200</b>	<b>165,346,006</b>	<b>(30,461)</b>	<b>14,374,915</b>	<b>187,808,457</b>	<b>21,332</b>	<b>187,829,789</b>
Capital increase including transaction costs for capital increase less tax advantages . . . . .	826,379	(16,200)	110,238,566			111,048,745		111,048,745
Shares issued (not yet registered) . . . . .	65,400					65,400		65,400
Successive acquisitions of shares in other entities with existing controlling interests . . . . .							796,250	796,250
Share option plans . . . . .			5,310,556			5,310,556		5,310,556
Foreign currency translation . . . . .				95,409		95,409		95,409
Net result for the year . . . . .					21,222,168	21,222,168	(103,729)	21,118,439
Group result . . . . .				95,409	21,222,168	21,317,577	(103,729)	21,213,848
<b>Balance at 31.12.2007 . . . . .</b>	<b>8,993,576</b>	<b>0</b>	<b>280,895,128</b>	<b>64,948</b>	<b>35,597,083</b>	<b>325,550,735</b>	<b>713,853</b>	<b>326,264,588</b>

## Segment Reporting REpower Systems-Group

<b>Revenues</b>		
	<b>01.01.-31.12.2007</b>	<b>01.01.-31.12.2006</b>
	<b>In TEUR</b>	<b>In TEUR</b>
Germany . . . . .	237,710,924	190,245,452
Outside Germany . . . . .	442,449,028	268,589,457
	<b>680,159,952</b>	<b>458,834,909</b>
<b>Assets</b>		
	<b>31.12.2007</b>	<b>31.12.2006</b>
	<b>In TEUR</b>	<b>In TEUR</b>
Germany . . . . .	667,624,331	401,258,205
Outside Germany . . . . .	6,071,790	7,392,983
	<b>673,696,121</b>	<b>408,651,188</b>
<b>Debts</b>		
	<b>31.12.2007</b>	<b>31.12.2006</b>
	<b>In TEUR</b>	<b>In TEUR</b>
Germany . . . . .	336,931,937	209,425,522
Outside Germany . . . . .	2,546,660	5,033,969
	<b>339,478,597</b>	<b>214,459,491</b>
<b>Investments</b>		
	<b>31.12.2007</b>	<b>31.12.2006</b>
	<b>In TEUR</b>	<b>In TEUR</b>
Germany . . . . .	45,120,250	24,817,165
Outside Germany . . . . .	591,743	612,788
	<b>45,711,993</b>	<b>25,429,953</b>
<b>Write Offs</b>		
	<b>01.01.-31.12.2007</b>	<b>01.01.-31.12.2006</b>
	<b>In TEUR</b>	<b>In TEUR</b>
Germany . . . . .	6,329,686	4,182,440
Outside Germany . . . . .	259,523	135,823
	<b>6,589,209</b>	<b>4,318,263</b>

**REpower Systems AG**  
**Statement of Consolidated Fixed Assets 2007**

	Acquisition and Production Costs						Depreciation and Amortization				Balance		Book Values	
	Balance		Disposals		Balance		Additions		Reclassifications		Disposals		Balance	
	01.01.2007	31.12.2007	01.01.2007	31.12.2007	01.01.2007	31.12.2007	EUR	EUR	EUR	EUR	EUR	EUR	31.12.2007	31.12.2006
	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR
<b>I. Property, plant and equipment</b>														
1. Land, leasehold rights and buildings, including buildings on non-owned land . . . . .	7,543,073	2,435,768	381,353	(135,881)	10,224,313	1,291,444	255,931	0	0	1,547,375	8,676,938	6,251,629		
2. Technical equipment, plant and machinery . . . . .	10,221,610	3,845,624	(999,767)	(23,756)	13,043,711	3,651,938	1,429,247	(122,608)	(17,488)	4,941,089	8,102,622	6,569,672		
3. Other equipment, fixtures, fittings and equipment . . . . .	16,980,737	6,146,749	333,034	(1,011,461)	22,449,059	8,687,040	2,772,252	122,608	(758,910)	10,822,990	11,626,069	8,293,698		
4. Advance payments and plant and machinery in process of construction . .	920,650	22,169,998	285,380	(2,047,256)	21,328,772	0	0	0	0	0	21,328,772	920,650		
<b>Total property, plant and equipment . . . . .</b>	<b>35,666,070</b>	<b>34,598,139</b>	<b>0</b>	<b>(3,218,354)</b>	<b>67,045,855</b>	<b>13,630,421</b>	<b>4,457,430</b>	<b>0</b>	<b>(776,398)</b>	<b>17,311,454</b>	<b>49,734,401</b>	<b>22,035,649</b>		
<b>II. Intangible assets</b>														
1.1. Software and other licences . . . . .	9,647,911	1,686,348	0	(2,493)	11,331,766	2,566,173	1,742,636	0	0	4,308,809	7,022,957	7,081,739		
1.2. Development costs . . . . .	6,776,109	7,123,455	0	0	13,899,564	93,155	389,143	0	0	482,298	13,417,266	6,682,954		
1. Intangible assets . . . . .	16,424,020	8,809,803	0	(2,493)	25,231,330	2,659,328	2,131,779	0	0	4,791,107	20,440,223	13,764,693		
2. Goodwill . . . . .	4,567,363	59,043	0	0	4,626,406	3,237,696	0	0	0	3,237,696	1,388,710	1,329,667		
<b>Total intangible assets . . . . .</b>	<b>20,991,383</b>	<b>8,868,846</b>	<b>0</b>	<b>(2,493)</b>	<b>29,857,736</b>	<b>5,897,024</b>	<b>2,131,779</b>	<b>0</b>	<b>0</b>	<b>8,028,803</b>	<b>21,828,933</b>	<b>15,094,360</b>		
<b>Total . . . . .</b>	<b>56,657,453</b>	<b>43,466,985</b>	<b>0</b>	<b>(3,220,847)</b>	<b>96,903,591</b>	<b>19,527,446</b>	<b>6,589,209</b>	<b>0</b>	<b>(776,398)</b>	<b>25,340,257</b>	<b>71,563,334</b>	<b>37,130,009</b>		

## Investments of REpower Systems AG as per 31.12.2007:

Companies	Company Share in %
<b>Investments in associated companies</b>	
REpower Betriebs- und Beteiligungs GmbH, Rendsburg . . . . .	100.00
BWU Projekt GmbH, Trampe. . . . .	100.00
REpower Investitions- & Projektierungs GmbH & Co. KG, Rendsburg . . . . .	100.00
REpower North (China) Ltd., Baotou, People's Republic of China. . . . .	50.01
REpower Espana S.L., Madrid, Spain . . . . .	100.00
REpower Italia S.r.l., Mailand, Italy . . . . .	100.00
REpower S.A.S., Nanterre, France . . . . .	100.00
Eolis S.a.r.l., Nanterre, France . . . . .	100.00
Fermes Eoliennes de France S.A.S., Surennes, Franc (in liquidation). . . . .	100.00
REpower Australia Pty. Ltd., Melbourne, Australia . . . . .	100.00
REpower Diekat S.A., Athens, Greece. . . . .	60.00
REpower UK Ltd., Edinburgh, Great Britain . . . . .	67.00
Windpark Großvargula Betriebs GmbH, Breydin <sup>1</sup> (in liquidation). . . . .	100.00
REpower USA Corp., Portland, Oregon, USA . . . . .	100.00
REpower Benelux bvba., Brussels, Belgium. . . . .	100.00
REpower Wind Systems Trading (China), Beijing, People's Republic of China . . .	100.00
Powerblades GmbH, Lemwerder . . . . .	51.00
<b>Other Investments</b>	
Energy Wind Czech s.r.o., Mostkovice, Czech Republic . . . . .	50.00
REpower Portugal Sistemas Eolicos S.A., Oliveira de Frades, Portugal . . . . .	50.00
Sister Lda, Lisbon, Portugal . . . . .	37.50
Windpark Finsterwalde GmbH, Finsterwalde . . . . .	30.00
Wasserkraft Finowkanal, GmbH, Breydin . . . . .	100.00
REpower Geothermie GmbH, Breydin . . . . .	24.90
RETC Renewable Energy Technology Centre, Hamburg . . . . .	100.00

1) Shareholding via REpower Betriebs- und Beteiligungs GmbH

As per 31.12. 2007 100% owned by REpower Systems AG, traded under the name Verwaltungsgesellschaft 144. Alster mbH, with Intent to resale 50%.

## **1. Introduction**

The REpower Systems Group with REpower Systems AG, Überseering 10, 22297, Hamburg, Federal Republic of Germany, as a listed parent company, operates in the area of manufacturing and selling wind energy turbines as well as in projecting and providing turnkey wind farms.

REpower Systems AG has a duty to prepare consolidated financial statements for the fiscal year ended 31 December 2007. The consolidated financial statements for the year ended 31 December 2007 were prepared in accordance with Article 315a of the German Commercial Code in conjunction with Article 4 of Regulation (EC) no. 1606/2002 of the European Parliament and the European Council of 19 July 2002 concerning the adoption of international accounting standards in the currently valid version of the International Financial Reporting Standards (IFRS), applicable in the European Union. The IFRS comprise the International Financial Reporting Standards (IFRSs) and International Accounting Standards (IASs) published by the International Accounting Standards Board (IASB), as well as interpretations of the International Financial Reporting Interpretations Committee (IFRICs) and its predecessor, the Standing Interpretations Committee (SICs). IFRS requirements were fulfilled completely and led to the presentation of a true and view of the actual situation with regards to the REpower System Group's net assets, financial position and results of operations.

The consolidated financial statements of the company are published in the electronic Federal Gazette (elektronischer Bundesanzeiger).

Individual balance sheet and income statement items as well as the balance sheet are summarised in order to improve the clarity of presentation. These items are explained in the notes. The consolidated financial statements were prepared with the euro as the functional currency. The income statement is broken down according to the total cost method.

The preparation of the consolidated financial statements is carried out on the basis of accounting for assets and liabilities at amortised cost. Excluded from this are derivative financial instruments, which are carried at fair value as of the balance sheet date.

On 25 August 2007, the Supervisory Board resolved to propose a changeover of the parent company's fiscal year to a period of 1 April to 31 March of the following year. The period from 1 January 2008 to 31 March 2008 is thus a short fiscal year. At the Extraordinary General Meeting on 17 October 2007, the company's shareholders endorsed this amendment to the Articles of Association. The financial statements following the consolidated financial statements will thus be to 31 March 2008.

## **2. Consolidation**

### **2.1. Principles of Consolidation**

All significant German and foreign subsidiaries are included in this consolidated financial statements where REpower Systems AG has direct or indirect control of the financial and business policies of these companies.

Capital consolidation of subsidiaries is performed in line with the purchase method. In this process, the cost of the investments acquired is offset against the fair value of the net assets of the subsidiary attributed to the parent company at the time of acquisition. An asset difference resulting from company purchases is capitalised as derivative goodwill. Negative goodwill, which results from capital consolidation at the time of acquisition, is recognised in income immediately. Derivative goodwill is examined at least once annually in the following periods with regards to the value of goodwill and in the event of impairment, amortised if necessary to the lower recoverable amount. Hidden reserves and charges disclosed as a result of fair value accounting of the assets and liabilities as part of a first-time consolidation are carried, amortised or realised in the following periods according to the development of assets and liabilities. Expenses and income, intergroup transactions as well as the receivables and liabilities between the companies included in the consolidation were eliminated in compliance with IAS 27.

Companies which the company manages in conjunction with other partners, as well as associated companies in which the Group has a significant influence on financial and business policy, but without the possibility of control, are included in the consolidated financial statements



according to the equity method. In determining goodwill as well as the proportionate fair value of assets and liabilities, the principles of full consolidation apply. Inclusion in accordance with the equity method is based on the IFRS financial statements of these companies at the Group reporting date. Losses from associated companies which exceed the equity holding's carrying amount or other noncurrent receivables from financing the company are not recognised as long as there is no obligation of supplementary payments. Significant receivables and liabilities were eliminated.

The REpower Systems AG financial statements as well as those of the subsidiaries, associated companies and joint ventures are prepared in accordance with a uniform accounting policy. The financial statements of companies included in the consolidation are prepared to the REpower Systems AG reporting date. Intercompany assets and liabilities from subsidiaries whose functional currency is not the euro are translated at the currency exchange rate applicable on the reporting date. Income statement items are translated at the transaction rate for the relevant year. Subsidiaries' equity capital components are translated at the corresponding historical rate when they occur. Exchange differences resulting from translation are recognised as adjustment items for currency translation within Group equity capital.

## 2.2. Scope of Consolidation

### 2.2.1. Fully Consolidated Companies

The scope of consolidation includes the following German and international companies which are fully consolidated in the consolidated financial statements:

<b>Project Companies</b>	<b>Share in %</b>
REpower Betriebs- und Beteiligungs GmbH, Rendsburg	100.00
Windpark Großvargula Betriebs GmbH, Breydin (in liquidation)	100.00
REpower Investitions- & Projektierungs GmbH & Co. KG, Rendsburg	100.00
Eolis S.a.r.l., Nanterre, France	100.00
PowerBlades GmbH, Lemwerder	51.00
<b>Sales companies</b>	
REpower Espana S.L., Madrid, Spain	100.00
FEdeF S.A.S., Suresnes, Frankreich (in Liquidation)	100.00
REpower S.A.S., Nanterre, France	100.00
REpower Diekat, Athens, Greece	60.00
REpower UK Ltd., Edinburgh, Great Britain	67.00
REpower Italia SRL., Milan, Italy	100.00
REpower Australia Pty Ltd. Melbourne, Australia	100.00
REpower Wind Systems, Peking, People's Republic of China	100.00
REpower USA Corp., Portland, U.S.A.	100.00
REpower Benelux b.v.b.a., Brussels, Belgium	100.00

REpower Betriebs- und Beteiligungsgesellschaft mbH, Rendsburg, and Windpark Großvargula Betriebs GmbH, Breydin, have investments in German wind farm companies, but no operations. Die Großvargula Betriebs GmbH, which was active exclusively as a general partner to Windpark Großvargula GmbH & Co. KG, a company sold in the 2003 fiscal year, has been in liquidation since 1 January 2007.

REpower Investitions- & Projektierungs GmbH & Co. KG, Rendsburg was founded as a project company and implemented the first reference project for 5-MW type series wind turbines at Büttel in Schleswig-Holstein, Germany in December 2007. During the 2007 fiscal year, after the disposal of the interest was initially planned, the complete net assets of REpower Investitions- & Projektierungs GmbH & Co. KG were sold to an investor as part of an asset deal. Since all company shares on the reporting date remain assigned indirectly or directly to REpower Systems AG, the company shell is included unchanged in the course of full consolidation in the consolidated financial statements.

On 5 June 2007, all shares of the shell company 142. Alster GmbH were purchased for a cash price of TEUR 25 and the company was renamed Power Blades GmbH. 49 percent of the shares were then sold to the Abeking & Rasmussen Group at the pro rata purchase price, so that REpower Systems AG is in possession of 51 percent of Power Blades GmbH shares. In the future, Power Blades GmbH will operate a manufacturing site in Bremerhaven for the manufacture of blades for wind turbines. On the balance sheet date, the company had commenced operations at a low level. The completion of manufacturing site is planned for the middle of 2008. As a result of the REpower

Systems AG's controlling interest in Power Blades GmbH, the company is fully consolidated in the consolidated financial statements.

There are investments in ten foreign marketing companies with the purpose of marketing REpower Systems AG wind turbines in Europe (previous year: seven). REpower Wind System Trading (People's Republic of China), with its headquarters in Peking, was founded in 2007 and manages sales activities for the REpower Group in China. The company FEdeF S.A.S. ceased operation of its business activities in the 2006 fiscal year. In the fourth quarter of 2007, the companies REpower U.S.A. Corp, Portland, U.S.A. and REpower Benelux bvba., Brussels, Belgium were newly founded by cash subscriptions of TEUR 50 and TEUR 25 and commences operations. The company REpower U.S.A. Corp. serves to develop the market in the United States of America. REpower Benelux bvba. was formed as a sales and service company for the Belgian market and is responsible for the first offshore project with 5-MW type series equipment at the Thorntonbank wind farm.

### 2.2.2. Jointly Managed and Associated Companies

In the consolidated financial statements, the following material jointly controlled entities and associated companies are consolidated at equity:

	Group Share of Nominal Capital	
	31.12.2007 In %	31.12.2006 In %
REpower Portugal — Sistemas Eólicos S.A., . . . . .	50.00	50.00
Oliveira de Frades, Portugal		
REpower (North) China Ltd., Baotou, People's Republic of China . . . . .	50.01	50.01

The companies serve as sales companies to develop sales markets in foreign countries.

REpower (North) China Ltd. was founded in fiscal year 2006 as part of a joint venture and first operated in the 2007 fiscal year. REpower Systems AG acquired a share of EUR 1.9 million in the company's subscribed capital and provided non-cash contributions of licences and expertise. Further contributions were made in 2007. REpower Systems AG obtained the majority of voting rights and is in the position to exert a material influence on the company's financial and business policies. However, it is barred from controlling REpower (North) China Ltd. due to the rights granted to other shareholders.

## 3. Accounting Policies

The accounting policies applied in the consolidated financial statements for 2007 are unchanged as against the fiscal year 2006.

With regards to presentation, the following changes were made to the previous year's financial statements, which led to an adjustment of the previous year's information in this financial statement in order to enable comparability. The following information relates to figures from the previous year:

Advance payments on inventories (TEUR 11,932) are allocated to the other assets balance sheet items. In the previous year's financial statements these were allocated to inventories.

Liabilities with a small degree of uncertainty with regards to the probability of occurrence and the amount were reported as provisions in the previous year and are now reported as trade accounts payable (TEUR 8,022) or other current liabilities (TEUR 2,766).

The presentation of other operating income and expenses was adjusted so that this is reported as TEUR 1,306 less.

### 3.1. Liquid Funds

Liquid funds consist primarily of cash in bank and are carried at nominal value. Amounts in foreign currency are measured as of the reporting date.

### **3.2. Shares in Project Companies**

Shares in project companies are classified as “available-for-sale” as defined by IAS 39 and recognised on the reporting date at fair value or, provided it can be reliably measured, at amortised cost.

### **3.3. Receivables and Other Financial Assets**

Trade receivables, intra-group receivables, receivables from project companies and other primary financial assets allocated to the category “loans and receivables” are carried at the time of preparing the consolidated financial statements at fair value plus transaction costs. Subsequent measurement is performed at amortised cost taking the effective interest rate into account. Default risks are taken into account with appropriate valuation allowances which are determined on the basis of experience and individual risk assessments.

### **3.4. Inventories**

Inventories comprise raw materials and supplies and work in progress. Raw materials and supplies are carried at the lower of cost or net realisable value. Work in progress for which no legally effective, customer-specific order exists is measured at the lower of cost or net realizable value. In addition to material and production overheads, manufacturing costs comprise overheads attributable as per IAS 2, but not financing costs.

### **3.5. Property, Plant and Equipment**

Items of property, plant and equipment are carried at cost and depreciated on a straight-line basis over their economic life. Cost includes all expenses for purchasing the assets, insofar as these can be reliably calculated or estimated. The manufacturing costs of internally generated equipment comprise direct costs as well as attributable overheads. Loan interest costs are not included.

The assessment of depreciation is based on the following estimated economic lives:

	<b>Economic Life</b>
	<b>Years</b>
Buildings . . . . .	10-50
Plant and machinery . . . . .	2-21
Other equipment, office and operating equipment . . . . .	3-10

### **3.6. Intangible Assets**

Acquired intangible assets are measured at cost and amortised on a straight-line basis over the respective economic life.

Research costs are reported as current expenses. Development costs for future products and other internally generated intangible assets are capitalised at cost, provided that the manufacture of these products is likely to generate an economic benefit to the REpower Systems Group. In the event that the requirements for capitalisation are not given, expenses are recognized directly in income the year in which they occur.

Capitalised development costs comprise all direct costs and overheads attributable to the development process. Financing costs are not capitalised. Amortisation is performed in relation to quantity or on a straight line basis. If the volume of sales can be estimated with reasonable assurance, amortisation is performed according to quantity in relation to the total volume of sales expected. With development costs not related to quantity, amortisation is performed on a straight line basis from the start of production for the expected duration of the developed models.

The following economic lives have been applied:

	<b>Economic Life</b>
	<b>Years</b>
Capitalised development costs . . . . .	5*
Licences, software . . . . .	3-10

\* Years or according to quantity

### **3.7. Impairment on Property, Plant and Equipment and Intangible Assets**

REpower Systems AG examines the value of fixed assets (property plant and equipment as well as intangible assets) with regards to any impairment requirement.

When carrying out impairment tests derivative goodwill is allocated to the reporting entities for which allocation of derivative goodwill is implemented in the Group's internal reporting system. The reporting units generally correspond to individual Group companies. Payment streams of the reporting entities are discounted by a cost of capital rate orientated to comparable companies. Impairment is performed if the capital value of the streams of payment is less than the carrying amount of intangible assets and property, plant and equipment as well as the net financial instruments of the reporting entity including the allocated derivative goodwill.

Impairment of other intangible assets and property, plant and equipment is performed if certain events or developments result in the carrying amount of the asset no longer being covered by expected disposal proceeds or the discounted net payment streams from any further use. The payment streams are also discounted at a cost of capital rate orientated towards comparable companies. If a determination of the recoverable amount for individual assets is not possible, the stream of payments is determined for the next highest group of assets for which such a stream of payments can be determined. Reversals are performed if the reasons for impairment are inapplicable in the following period.

Reversal is performed to a level which does not exceed the amount without impairment. A reversal of an impairment of goodwill is not carried out.

### **3.8. Loans Granted**

Loans granted which are allocated to the category "loans and receivables" are carried at fair value upon initial recognition. Subsequent measurement is performed at amortised cost taking the effective interest rate into account.

### **3.9. Share Options**

In the consolidated financial statements, share options granted to members of executive bodies and executives are carried in line with the regulations of IFRS 2. Share options grant subscription rights to new company shares from contingent capital and are a form of remuneration. Transactions which are to be fulfilled by granting shares are measured at fair value as of the day they are granted. The fair value of share options on the day they are granted is determined by an external assessor using the Monte Carlo simulation method. The calculated expense is distributed over the period in which the options can be exercised on a straight-line basis and the attributable staff costs of the relevant fiscal year are recognised directly in income in the capital reserves.

### **3.10. Provisions**

Provisions are made for all third party obligations where it is probable that the fulfilment of the obligations will result in outflows of resources and a reliable estimate of the amount of the obligation can be made.

Warranty provisions are made both for known individual risks and for general risks. Specific technical warranty risks can be individually quantified by comprehensive documentation and are taken into consideration by individual provisions. The economic risk and the level of provisioning are evaluated on an ongoing basis in coordination with the technical departments taking into account existing risks.

Provisions are recognised for general risks on the basis of experience. The system for establishing collective warranty provisions is as follows:

For turbines erected, provisions are made for the anticipated actual costs per year of the warranty of the contractual warranty period. The actual costs are determined on the basis of past experience and examined on an ongoing basis.

For wind farm projects (turnkey), project-specific provisions are established in respect to guarantee commitments for the park infrastructure. The individual level of the provision depends on the park size and the location of the park in Germany or internationally.

If the provision amounts are material, they are discounted.

### **3.11. Liabilities**

Liabilities are measured at amortised cost corresponding to the repayment amount. If the liability amounts are material, they are discounted on the basis of the effective interest rate method.

### **3.12. Transaction Costs Incurred for Issuing Equity Instruments**

If transaction costs are incurred for issuing equity instruments these are deducted on equity from the issue proceed minus any related income tax advantages. Only directly attributable external costs are recognised as costs for an equity transaction.

### **3.13. Revenue Recognition**

Sales include all proceeds from the sale of wind energy turbines, license revenues and revenues from service and maintenance contracts.

For wind turbine construction orders where on the reporting date both a specific legally effective customer order exists and where the order outcome as well as the expected total costs can be reliably estimated on the basis of Group budgeting and cost accounting, the percentage of completion method in accordance with IAS 11 is used. The degree of completion is calculated according to the cost-to-cost method. Only the costs relating directly to the service rendered are taken into account. Borrowing costs are recognised as an expense. Advance payments received for contracts are deducted directly from future receivables from construction contracts. Contracts for the delivery of wind turbines to customers are considered completed from the initial installation of the equipment. If no installation is agreed, sales are realised at the time that the benefits and risks are passed on to the purchaser and the payment is probable.

License revenues result not only from quota licenses, but also single licenses independent of time or units. Proceeds from licences are realised on installation. In the case of single licenses, sales are realised when the license is granted. Advance payments received on quota licenses are deferred in equity and recognised in income in line with the economic substance of the contract.

Revenues for service and maintenance contracts are realised insofar as the respective services have been rendered.

### **3.14. Taxes on Income**

REpower Systems AG recognises current taxes when they are caused at the level of the amount due. Deferred taxes are recognised according to the liability method, after deferred tax assets or deferred tax liabilities are carried with future tax effects which arise as a result of differences between IFRS and tax accounting of assets and liabilities. The effects of tax rate changes on deferred taxes are recognised in income in the reporting period in which the legislative procedure the change in tax rate is passed. However, the effects of tax changes on equity are also recognised in equity without any effect on income. If the realisation of deferred tax assets does not appear reasonably likely in the future, no recognition occurs.

### **3.15. Borrowing Costs**

Borrowing costs are recorded as an expense and not included in cost of the asset.

### **3.16. Government Assistance (Investment Subsidies)**

Government assistance is recognised according to the character of the subsidised expenses. Insofar as subsidies relate to capitalised assets, the assistance granted reduces the cost of the subsidised assets. Assistance granted as an expenditure allowance is realised in the income statement of the fiscal year in which the subsidised expenses were incurred.

### **3.17. Transactions in Foreign Currencies**

Purchases and sales in foreign currencies are translated using the current price applicable at the time of the transaction. On the balance sheet date, these are recognised using the exchange rate valid at this time. The gains and losses resulting from foreign currency exchange in the translation are recognised in income.

### **3.18. Financial Instruments**

Financial assets are recognised on delivery, i.e. the date of order fulfilment.

Financial instruments consist on the one hand of liquid funds, receivables and other financial assets as well as financial liabilities and loans insofar as these relate to a contract. The initial recognition of financial assets is performed at fair value plus directly attributable transaction costs, insofar as the financial assets are not allocated to the category "at fair value through profit and loss". The REpower Group has no primary financial assets to be allocated to this category. Subsequent measurement of financial assets is carried out either at fair value or at amortised cost taking the effective interest rate into account depending on the allocation of the individual financial instruments to the categories in accordance with IAS 39.

At initial consolidation financial obligations are carried at fair value minus transaction costs and in subsequent measurement at amortised cost.

Financial assets are derecognised provided that either the rights to streams of cash payments resulting from assets have expired or almost all risk of any form have been passed on to a third party so that the criteria for derecognition are met. Financial obligations are derecognised if obligations have either expired or were cancelled.

### **3.19. Use of Assumptions**

The preparation of these consolidated financial statements requires that the management make estimates and assumptions on which the value of assets and liabilities, contingent liabilities and other financial obligations as of the balance sheet date and sales and expenses in the fiscal year depend. Key estimates and assumptions relate to impairment tests (see note 4.2), guarantee provisions (see note 4.3.2), measurement of share options (see note 4.5.2), the realisation of sales according to the percentage-of-completion method (see note 4.1.2) and the value of deferred tax assets (see note 4.2.5). The actual situation which occurs may differ from these assumptions. Also, changes in the current economic conditions and other events may have a material impact on the actual figures.

### **3.20. New Accounting Standards and Their Application**

The following standards published by the IASB and the IFRIC were applied by the company for the first time in the 2007 fiscal year:

IFRS 7 (Financial Instruments: Disclosure) and the amendments to IAS 1 (Presentation of Financial Statements: Equity Disclosures) require information on the importance of financial instruments to the financial position and results of operations of the company and qualitative and quantitative information on the nature and extent of risks which the company is subject to as a result of the financial instruments to the reporting date and how they are managed. The information to be disclosed as per IAS 32 "Financial Instruments: Presentation" and IAS 30 "Disclosures in Financial Statements of Banks and Similar Financial Institutions" are combined and supplemented with new information to be disclosed. IFRS 7 and the change to IAS 1 are mandatory for fiscal years beginning on or after 1 January 2007. In applying IFRS 7 and IAS 1 comprehensive information arises in relation to financial instruments and their relevance to the assessment of net assets, financial position and results of operations as well as a qualitative and quantitative presentation of the nature and extent of risks associated with financial instruments.

IFRIC 7 "Applying the Restatement Approach under IAS 29 'Financial Reporting in Hyperinflationary Economies'", IFRIC 8 "Scope of IFRS 2", IFRIC 9 "Reassessment of Embedded Derivatives", and IFRIC 10 "Interim Financial Reporting and Impairment" are mandatory for fiscal years beginning on or after 1 January 2007 but due to the nature of



business activities they had no material effects on Group net assets, financial position and results of operations at REpower Systems AG.

The application of the following standards and interpretations published by the IASB in 2006 and 2007 is not yet mandatory for the REpower Systems Group in the consolidated financial statements as of 31 December 2007:

In November 2006, the IASB published IFRS 8 “Operating Segments”. IFRS 8 replaces IAS 14 “Segment Reporting” and adapts the regulations for segment reporting to the US Statement of Financial Accounting Standards regulation (SFAS) 131 “Disclosures about Segments of an Enterprise and Related Information” with the exception of minor differences. This standard requires that companies disclose quantitative and qualitative information with regards to their reporting segments. Reporting segments are operating segments or combinations of operating segments which fulfil particular criteria. Operating segments are the components of a company for which separate financial information is available, which is regularly examined by the Chief Operating decision maker, in order to evaluate the success of the company and decided how resources are to be distributed. In general, this financial information must be reported on the basis of internal management. On this basis the management can evaluate the business success of operating segments and decide how to allocate resources to the operating segments. IFRS 8 is mandatory for fiscal years beginning on or after 1 January 2009. Earlier adoption is permitted. The company has not yet fully assessed the possible effects of IFRS 8 on segment reporting.

In March 2007, the IASB published amendments to IAS 23 “Borrowing Costs”. The material changes to the standards concern the discontinuation of the option of directly recognising borrowing costs as an expense which can attributed to the acquisition, construction or production of a qualifying asset. Such borrowing costs must be capitalised as part of the cost of the qualifying asset. This standard applies for the first time to borrowing costs for qualifying assets where capitalisation occurs on or after January 2009. Earlier adoption is permitted. The company has not yet finally assessed the impact of introducing the changes of IAS 23 with regards to the company’s net assets, financial position and results of operations.

In September 2007, a revised standard, IAS 1 “Presentation of Financial Statements” was published. The revision aims to improve the possibilities for analysis as well as aiding comparison of financial statements for their users. IAS 1 prescribes the presentation and structure of the financial statements. In addition, it contains the minimum requirements for the content of financial statements. The new standard is mandatory for fiscal years beginning on or after 1 January 2009. Earlier adoption is permitted. The company has not yet finally assessed the effect of introducing the changes in accordance with IAS 1 with regards to the company’s net assets, financial position and results of operations.

In November 2006, IFRIC 11 “IFRS 2 — Group and Treasury Share Transactions” was published. This regulation deals with the issue of how group-wide, share-based remuneration should be recognised, the effects of employee changes within a group and how share-based remuneration should be treated when the company issues treasury shares or acquires third-party shares. IFRIC 11 is mandatory for fiscal years beginning on or after 1 March 2007. Earlier adoption is permitted. The company has not yet finally assessed the effect of introducing IFRIC 11 with regards to the company’s net assets, financial position and results of operations.

In November 2006, IFRIC 12 “Service Concession Agreements” was also published. Service concession agreements are agreements which are made between the government and private companies in order to provide public services such as roads, energy supply and transport. The interpretation prescribes the accounting policies of such agreements between government and private companies. IFRIC 12 is mandatory for fiscal years beginning on or after 1 January 2008. Earlier adoption is permitted. As the Group does not have any service concession agreements as per IFRIC 12, IFRIC 13 has no material effect on Group net assets, financial position and results of operations at REpower Systems AG.

In June 2007, IFRIC 13 “Customer Loyalty Programmes” was published. IFRIC 13 prescribes the accounting policies for revenues from sales processes, and related expenses for obligations arising from customer loyalty programmes such as award, bonus or loyalty programmes. IFRIC 13 clarifies that such business is to be regarded as multi-component transactions where the part of sales which is due to premiums is recognised as a liability until the customer either exercises his

premium right or forfeits it. IFRIC 13 is mandatory for fiscal years beginning on or after 30 June 2008. Earlier adoption is permitted. Due to the nature of the Group's business activities, IFRIC 14 has no material effects on Group net assets, financial position of results of operation for REpower Systems AG.

In July 2007, IFRIC 14 "The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction" was published. IFRIC 14 contains general guidelines for determining the excess limit of a pension fund which can be recognised as an asset in accordance with IAS 19 "Employee Benefits". The interpretation also describes how regulatory or contractual minimum financing regulations can have an effect on a pension fund's assets or liabilities. IFRIC 14 is mandatory for fiscal years beginning on or after 1 January 2008. Earlier adoption is permitted. As the Group does not have any pension funds as per IAS 19, IFRIC 13 has no material effect on Group net assets, financial position and results of operations at REpower Systems AG.

#### 4. Information on Individual Balance Sheet Items

##### 4.1. Current Assets

###### 4.1.1. Liquid Funds

The company has only restricted access to cash in bank amounting to TEUR 144,909 (2006: TEUR 120,067), since from these assets, a cash deposit amounting to TEUR 40,401 (previous year: TEUR 65,696) serves as collateral for payments, contract performance and warranty guarantees granted by banks to customers. The reduction of the cash deposit in 2007 is based on a reduction of deposit quotas at the banks and credit insurers who finance us.

###### 4.1.2. Gross Amount Due from Customers for Contract Work

	<u>31.12.2007</u>	<u>31.12.2006</u>
	In TEUR	In TEUR
Receivables . . . . .	90,182	51,597
Less advance payments received . . . . .	(28,911)	(14,612)
	<u>61,271</u>	<u>36,985</u>

This item lists work in progress as of the reporting date which was reported according to the percentage-of-completion method in compliance with IAS 11. Advance payments on contracts recognised are deducted directly. These contracts incurred material costs amounting to TEUR 75,349 (previous year: TEUR 44,306). In 2007, the contribution to the operating result by these projects totalled TEUR 14,833 (previous year: TEUR 7,291).

###### 4.1.3. Trade Receivables

Trade receivables relate primarily to receivables from customers resulting from the delivery of wind turbines.

	<u>31.12.2007</u>	<u>31.12.2006</u>
	In TEUR	In TEUR
Trade receivables . . . . .	200,301	95,105
	<u>200,301</u>	<u>95,105</u>

Total specific valuation allowances of TEUR 2,239 were recognised for receivables as of 31 December 2007 (as against TEUR 2,430 as of 31 December 2006).

	<u>2007</u>	<u>2006</u>
	In TEUR	In TEUR
<b>Specific valuation allowances</b>		
As of beginning of fiscal year . . . . .	4,030	3,580
Reversal . . . . .	(709)	(1,980)
Addition . . . . .	<u>2,239</u>	<u>2,430</u>
<b>As of end of fiscal year . . . . .</b>	<u>5,560</u>	<u>4,030</u>

#### 4.1.4. Receivables from Participations

Items are composed as follows:

	<u>31.12.2007</u>	<u>31.12.2006</u>
	<u>In TEUR</u>	<u>In TEUR</u>
<b>Receivables from participations</b>		
Loan to Energy Wind Czech s.r.o., (Czech Republic) . . . . .	71	67
Loan to Windpark Finsterwalde GmbH, Finsterwalde . . . . .	364	218
Loan to Sister Ltd., Portugal . . . . .	99	94
Other . . . . .	0	38
	<u>534</u>	<u>417</u>

#### 4.1.5. Receivables from Associated Companies and Joint Ventures

Receivables from associated companies amounting to TEUR 10,536 comprise TEUR 5,190 from REpower Portugal — Sistemas éólicos, S.A. (Portugal) and TEUR 5,346 from REpower North (China) Ltd., Baotou, People's Republic of China. Receivables are primarily due to the delivery of wind turbines.

#### 4.1.6. Inventories

Valuation allowances for inventories amount to TEUR 1,523 as of 31 December 2007 (previous year: EUR 0). TEUR 1,523 of this was recognised in 2007. The carrying amount of inventories which are recognised as expenses during the fiscal year amounts to TEUR 554,117 (previous year: TEUR 383,801).

	<u>31.12.2007</u>	<u>31.12.2006</u>
	<u>In TEUR</u>	<u>In TEUR</u>
Raw materials and supplies . . . . .	86,119	51,854
Work in progress . . . . .	11,392	14,359
	<u>97,511</u>	<u>66,213</u>

Raw materials and supplies relate to inventories for the production of wind energy turbines. Work in progress relates to turbines under construction.

#### 4.1.7. Other Current Assets

	<u>31.12.2007</u>	<u>31.12.2006</u>
	<u>In TEUR</u>	<u>In TEUR</u>
<b>Other miscellaneous current assets</b>		
Advance payments . . . . .	40,599	11,932
Accounts due from sales tax refunds . . . . .	18,489	10,586
Refund for equipment . . . . .	2,548	1,186
Prepaid insurance premiums (ISK) . . . . .	801	1,069
Other . . . . .	945	1,945
	<u>63,382</u>	<u>26,718</u>
<b>Other financial assets</b>		
Loans . . . . .	280	608
Receivables from insurance companies . . . . .	3,211	1,650
Other . . . . .	1,534	2,268
	<u>5,025</u>	<u>4,526</u>
	<u>68,407</u>	<u>31,244</u>

#### 4.2. Non-Current Assets

##### 4.2.1. Non-Current Assets

Land and buildings relate primarily to the production sites used by the company.

Plant and machinery relate primarily to facilities for the production of wind turbines.

Assets under construction on the reporting date relates primarily to expenses for the extension of production locations as well as blade moulds.

The development in property, plant and equipment is shown in the statement of consolidated fixed assets.

#### 4.2.2. Other Intangible Assets

In the 2007 fiscal year, research and development expenses amounted to TEUR 13,375 (previous year: TEUR 14,018), of which TEUR 7,123 was capitalised (previous year: TEUR 5,664).

#### 4.2.3. Jointly Ventures and Associated Companies

Joint ventures and associated companies which are recognised using the equity method achieved a result of TEUR -235 (previous year TEUR 250) in the 2007 fiscal year as well as sales of TEUR 13,085 (previous year: TEUR 18,516). These companies' non-current assets as of 31 December 2007 amounted to TEUR 6,519 (previous year: TEUR 93). Current assets amounted to TEUR 56,353 (previous year: TEUR 10,269), non-current liabilities TEUR 15,481 (previous year: TEUR 6,442) as well as current liabilities TEUR 34,164 (previous year: TEUR 1,586).

#### 4.2.4. Loans Granted

The items contain loans granted to wind farm project companies. If the loans are interest bearing, the interest rates fluctuate in a range between 2.05 percent and 7.0 percent per annum.

#### 4.2.5. Income Tax

Taxes on income are as follows:

	<u>2007</u>	<u>2006</u>
	<u>In TEUR</u>	<u>In TEUR</u>
Current income taxes . . . . .	3,734	241
Income tax assets from previous years . . . . .	(319)	(407)
Deferred tax expense. . . . .	<u>4,589</u>	<u>4,155</u>
<b>Taxes on income . . . . .</b>	<b><u>8,004</u></b>	<b><u>3,989</u></b>

Deferred taxes are calculated on the basis of future tax rates.

The corporate tax rate for companies in Germany was 25.0 percent for 2007 (previous year: 25.0 percent) in addition to the solidarity surcharge of 5.5 percent (previous year: 5.5 percent). The total rate of corporation tax is thus 26.38 percent. When trade taxes are taken into account, the total tax rate amounts to 40.0 percent (previous year 40.0 percent). This total rate of tax will be reduced to 30.0 percent from 2008 as a result of the company tax reform in 2008. 15.83 percent of this relates to corporation tax of 15 percent in addition to 5.5 percent solidarity surcharge on corporation tax and 14.17 percent to trade tax. The reduction in the tax rate was taken into account when determining the deferred tax assets and liabilities for the German companies. This result in deferred tax income amounting to TEUR 1,463, results which is fully recognised in income.

In the 2007 fiscal year, the current tax advantage of TEUR 176 (previous year: TEUR 1,163) is directly offset against equity capital since these costs are directly related to a capital increase. We refer to note 4.5.2.

The causes for the deviation between the Group's expected and actual tax expense is presented below. Expected tax expense is calculated using the total domestic tax rate of 40 percent for the 2007 and 2006 fiscal years:

	<u>2007</u>	<u>2006</u>
	<u>In TEUR</u>	<u>In TEUR</u>
Expected tax expense . . . . .	11,649	4,417
Employee option programmes/share options . . . . .	2,124	201
No measurement of capitalised deferred taxes on tax loss carryforwards . . . . .	190	—
Income taxes for previous years . . . . .	178	(407)
Non deductible operating expenses. . . . .	32	31
Tax-free profit distributions . . . . .	(18)	0
Tax loss carryforwards not capitalised in previous years . . . . .	(3,707)	—
Reduction of corporate tax in Germany . . . . .	(1,463)	—
Varying tax rates for income and municipal taxes (trade tax) . . . . .	(729)	(194)
Losses from partnerships . . . . .	—	(100)
Other tax effects . . . . .	<u>(252)</u>	<u>41</u>
<b>Actual tax income . . . . .</b>	<b><u>8,004</u></b>	<b><u>3,989</u></b>

Due to the earnings trend, the tax loss carryforwards not taken into account in previous years are valuable. Initial capitalisation led to an improvement of the result amounting to TEUR 3,707.

Expenses from employee option programmes have influenced the Group's tax rate as these expenses are not deductible as expenses for tax purposes. The tax effect from this amounts to TEUR 2,124. We refer to the information on the share option programme.

The corporation tax credit of TEUR 301 which has not been paid out as a result of a moratorium in German tax law will be paid to REpower Systems AG in instalments from 30 September 2008.

Deferred tax assets and deferred tax liabilities are divided into the following items:

	<u>31.12.2007</u>	<u>31.12.2006</u>
	In TEUR	In TEUR
<b>Assets</b>		
Tax loss carryforwards . . . . .	3,977	7,233
Provisions . . . . .	827	13
Intercompany profits . . . . .	36	103
Other . . . . .	169	3
<b>Deferred tax assets . . . . .</b>	<b><u>5,009</u></b>	<b><u>7,352</u></b>
<b>Liabilities</b>		
Gross amount due from customers for contract work . . . . .	4,372	2,917
Development costs . . . . .	4,025	2,673
Property, plant and equipment . . . . .	990	1,569
Other . . . . .	13	171
<b>Deferred tax liabilities . . . . .</b>	<b><u>9,400</u></b>	<b><u>7,330</u></b>
<b>Offsetting</b>		
Deferred tax assets . . . . .	868	1,379
Deferred tax liabilities . . . . .	5,259	1,357

Deferred taxes on tax loss carryforwards were recognised at the level of the tax impact of the expected usable tax losses of the German and international Group companies. The key factor for determining the value of deferred tax assets is the estimation of probability of a reversal of measurement differences and the utility of tax loss carryforwards which led to deferred tax assets. These depend on the occurrence of future taxable profit during the periods in which measurement differences relating to tax are reversed and tax loss carryforwards can apply. According to the current status, tax loss carryforwards can be carried forward without restriction in subsequent years in all countries where tax loss carryforwards occur. Due to the expected taxable income situation, it is assumed that appropriate benefits can be realised from deferred tax assets.

For deferred tax assets from tax loss carryforwards, it is expected that TEUR 3,109 will be utilised in the next year. The remaining amount will be used in subsequent periods. All other deferred tax assets will be utilised in the 2008 fiscal year in their full amount (TEUR 1,032). It is expected that in the 2008 fiscal year deferred tax liabilities of TEUR 5,030 will be deployed, and an amount of TEUR 4,370 in the following year.

In the fiscal year tax loss carryforwards amounting to TEUR 190 were not applied (previous year: TEUR 3,707) since their realisation is unlikely.

### **4.3. Current Liabilities**

#### **4.3.1. Advance Payments Received**

Advance payments received relate to advance payments by customers which are not related to construction contracts.

#### **4.3.2. Provisions**

Provisions relate primarily to deferrals for guarantee expenses. Assuming a level of EUR 16.4 million in the previous year and a utilisation of EUR 7.8 million and additions of EUR 11.6 million, on the balance sheet date, taking reversals of EUR 1.0 million into account, there are provisions for guarantees of EUR 19.2 million.

Taking utilisation and additions are taken into account, other provisions increased from EUR 0.5 million to EUR 1.5 million.

#### 4.3.3. Deferred Revenue

Advance payments for revenue are reported as deferred revenue.

#### 4.3.4. Income Tax Liabilities

Income tax liabilities primarily relate to current deferred taxes for the fiscal year.

#### 4.3.5. Other Current Liabilities

Other current liabilities are composed as follows:

	<u>31.12.2007</u>	<u>31.12.2006</u>
	<u>In TEUR</u>	<u>In TEUR</u>
<b>Other financial liabilities</b>		
Liabilities to employees . . . . .	6,199	3,100
Customers with credit balances . . . . .	1,685	0
Other . . . . .	177	0
	<u>8,061</u>	<u>3,100</u>
<b>Other miscellaneous liabilities</b>		
Sales tax. . . . .	1,454	10,946
Other liabilities to the tax office . . . . .	537	557
Social security liabilities. . . . .	340	196
Other . . . . .	30	236
	<u>2,361</u>	<u>11,935</u>
	<u>10,422</u>	<u>15,035</u>

#### 4.4. Noncurrent Loans and Capital From Profit Participation Rights

Of a total of non-current loans and profit participation rights which amount to TEUR 11,407 (previous year: TEUR 12,355), TEUR 10,000 relates to a profit participation right taken up in May 2004 that has a duration to 2011 as well as liabilities to banks amounting to EUR 1,047. For profit participation rights, a basic interest rate of 7.9 percent in addition to a variable interest rate dependent on net income is paid. In fiscal year 2007, this amounted to TEUR 200 (previous year: EUR 0). The interest rate for bank loans was between 3.0 percent and 8.0 percent per year. Non-current bank liabilities amounting to TEUR 1,407 (previous year: TEUR 2,350) are secured by liens and assignments of security from electricity proceeds as well as from claims from insurance contracts.

#### 4.5. Equity Capital

The change to equity capital components is represented in the statement of changes to Group equity.

##### 4.5.1. Subscribed Capital

The subscribed capital of REpower Systems AG as of 31 December 2007 was EUR 8,993,576 (previous year: EUR 8,117,997) and is divided into 8,993,576 (previous year: 8,117,997) no-par value ordinary bearer shares, each with a notional share of capital of EUR 1.00. This includes 65,400 shares (previous year: 16,200) issued as part of an employee option programme which is entered into the commercial register after the reporting date. In the previous year, it was shown in a special equity item.

In the 2007 fiscal year, 810,179 shares (previous year: 2,160,599) were issued as part of a capital increase from authorised capital against cash contributions and 65,400 shares issued as part of the employee option programme. As part of the share issue, an amount of TEUR 110,503 (previous year: TEUR 79,918) was transferred to capital reserves. The total issue amount totalled TEUR 111,329 (previous year: TEUR 82,078).

#### Authorised Capital

By way of resolution passed by the Annual General Meeting on 30 May 2006, the Executive Board was authorised, with the approval of the Supervisory Board, to increase the share capital of REpower Systems AG on one or several occasions by issuing new shares against cash or non-cash



contributions up to EUR 4,050,898 up to 29 May 2011. After a partial utilisation of EUR 810,179 in the 2007 fiscal year, EUR 3,240,719 still remains available for future capital increases.

### Contingent Capital

There is a contingent capital increase of subscribed capital of up to EUR 2,475,000.00. The contingent capital increase is to be carried out only in the event of an option or convertible bond issue.

Furthermore, there is a contingent capital increase of subscribed capital of up to EUR 504,300. The contingent capital increase is carried out with the issue of up to 504,300 new ordinary bearer shares only insofar as the holders of subscription rights exercise their rights in the context of employee option programmes.

### Issuing Profit Participation Certificates

The company was authorised by the Annual General Meeting on 9 June 2004 to issue further profit participation certificates amounting to up to EUR 20,000,000 by 8 June 2009. REpower Systems AG has not yet exercised this right.

#### 4.5.2. Capital Reserve

The development of the capital reserve is presented in the statement of changes in shareholders' equity.

As part of the capital increases described in note 4.5.1 "Subscribed capital", funds of TEUR 110,503 (previous year: EUR 79,918) were provided in the form of capital reserve.

The issuing costs attributable to the capital increase amounted to TEUR 441 (previous year: TEUR 2,908) minus applicable tax benefits amounting to TEUR 177 (previous year: TEUR 1,163) were deducted from the capital reserve resulting from the issue of new shares.

### Share Option Programme

REpower Systems AG operates a share option programme which offers beneficiaries the right to acquire one share per option at an established basis price. A cash payment is not possible. The options can be exercised during an agreed time period each with a duration of five years, but no earlier than two years after they are granted (blocking period). Options may only be exercised when the relevant employee at the time of exercise is still employed at REpower Systems Group and the XETRA share price of REpower Systems AG at any time (for options issued in 2007: at least 21 days) has been at least 120 percent of the basis price.

As of 31 December 2007, as part of the share option programme, shares issued to the Executive Board and company management in the years from 2005 to 2007 performed as follows in the 2007 fiscal year:

	<u>Number</u>	<u>Basis Price or Share Price Upon Exercise (Weighted Average)</u>
		<u>In EUR</u>
Options outstanding at the beginning of the fiscal year . . . . .	259,100	37.33
Granted . . . . .	234,715	112.20
Exercised . . . . .	(65,400)	125.03
Forfeited/lapsed . . . . .	(2,215)	112.20
<b>Options outstanding at the end of the fiscal year . . . . .</b>	<b><u>426,200</u></b>	<b><u>80.40</u></b>
<b>Of which exercisable . . . . .</b>	<b><u>1,750</u></b>	<b><u>9.34</u></b>

The fair value of share options granted on the grant date is determined by an external assessor on the basis of the following assumptions and factors:

<b>Granted in Fiscal Year</b>	<b>2007</b>	<b>2006</b>
Basic price . . . . .	EUR 112.20	EUR 46.79
Share price of REpower Systems AG shares . . . . .	EUR 122.50	EUR 44.32
Risk-free interest rate . . . . .	4.47%	3.71%
Expected volatility . . . . .	43.37%	43.30%
Remaining blocking period (in months) . . . . .	24	24
Remaining maturity . . . . .	60	48
Fair value per share option . . . . .	EUR 50.32	EUR 13.91

Expected volatility is based on historical volatility which is determined from daily closing prices for REpower Systems AG shares. The REpower Systems share performance in the first half of 2007 was influenced significantly by a takeover battle for REpower Systems AG carried out by two companies. Due to the one-off nature of this event and the extreme share price fluctuations involved, the historical data was adjusted for the period of the takeover battle.

The Monte Carlo simulation method used maps the performance target in the form of an increase in the share price of REpower Systems by at least 20 percent compared to the basis price and allows for the possibility of early exercise within the time period for exercising options and the beneficiaries' early exercise behaviour, i.e. the possibility that employees exercise their option before the end of the time period.

On 20 March 2007, as a result of the capital increase (see above) resolved by the REpower Systems AG Executive Board with the approval of the Supervisory Board, the company reduced the basis price of outstanding options in relation to the dilution resulting from the capital increase. The increase in total fair value of the 2006 tranche which resulted totalled TEUR 403. The total fair value for the 2005 tranche decreased to TEUR 17 and was thus not taken into account on the balance sheet. Since the blocking period for the 2006 tranche at the time of the change had not yet expired, an amount of TEUR 242 was recognized as an expense on a straight line basis for the previously concluded part attributable to the blocking period.

The value of changed share options as of 20 March 2007 is determined by an external assessor on the basis of the following assumptions and factors:

<b>Granted in Fiscal Year</b>	<b>2006</b>	
	<b>Originally</b>	<b>20.03.2007</b>
Basis price . . . . .	EUR 46.79	EUR 42.54
REpower Systems AG share price . . . . .	EUR 44.32	EUR 150.89
Risk-free interest rate . . . . .	3.71%	3.88%
Expected dividend — 2008 . . . . .	EUR 0.53	EUR 0.41
Expected dividend — 2009 . . . . .	EUR 1.05	EUR 0.73
Expected dividend — 2010 . . . . .	EUR 1.16	EUR 0.80
Expected volatility . . . . .	43.30%	38.79%
Remaining blocking period (in months) . . . . .	24	24
Remaining maturity (in months) . . . . .	48	48
Fair value per share option . . . . .	EUR 13.91	EUR 111.84

Since the performance target of an increase in the REpower Systems share price by at least 20 percent more than the basis price was already achieved, modelling early exercise was not undertaken for this calculation.

At the Annual General Meeting of 21 June 2007, a resolution was made to adjust the option conditions for the 2006 share option plan to the conditions of the newly established 2007 share option plan. The fair value of amended share options as of 21 June 2007 is determined by an external assessor on the basis of the following assumptions and factors:

Granted in Fiscal Year	2006	
	20.03.2007	21.06.2007
Basis price . . . . .	EUR 42.54	EUR 42.54
REpower Systems AG share price . . . . .	EUR 150.89	EUR 127.93
Risk-free interest rate . . . . .	3.88%	4.48%
Expected dividend — 2008 . . . . .	EUR 0.41	EUR 0.41
Expected dividend — 2009 . . . . .	EUR 0.73	EUR 0.73
Expected dividend — 2010 . . . . .	EUR 0.80	EUR 0.80
Expected volatility . . . . .	38.79%	41.30%
Remaining blocking period (in months) . . . . .	24	24
Remaining maturity (in months) . . . . .	48	60
Fair value per share option . . . . .	EUR 111.84	EUR 91.43

In the 2007 fiscal year, the company recognised staff costs from share-based payments totalling TEUR 5,310 (previous year: TEUR 503).

#### 4.5.3. Minority Interests

Minority interests relate to the shares of third parties in German and international Group companies.

## 5. Information on the Income Statement

### 5.1. Revenue

In 2007 and 2006, the operations of companies in the REpower Systems Group related almost exclusively to developing, manufacturing and projecting wind turbines. 34.9 percent (previous year: 41.5 percent) of sales in the turbine business were generated from the German market, 65.1 percent (previous year: 58.5 percent) from international markets.

	2007	2006
	In TEUR	In TEUR
Revenue from the sale of wind turbines . . . . .	630,742	419,061
Service/maintenance and sales of materials . . . . .	30,288	25,064
Electricity proceeds . . . . .	1,607	1,519
Licence revenues . . . . .	8,614	5,117
Other . . . . .	8,909	8,074
	<b>680,160</b>	<b>458,835</b>

### 5.2. Other Operating Income

Other operating income breaks down as follows:

	2007	2006
	In TEUR	In TEUR
Insurance payments/compensation . . . . .	5,212	2,352
Income from exchange rate differences . . . . .	450	162
Investment subsidies, research and development subsidies . . . . .	368	52
Income from the disposal of fixed assets . . . . .	56	60
Land income . . . . .	12	13
Other . . . . .	905	395
	<b>7,003</b>	<b>3,034</b>

The item insurance payments/compensation includes payments by insurers and suppliers. The rise in this item is primarily due to the settlement of a marine transport claim and contractually agreed penalties for delays in delivery delay.

### 5.3. Personnel Expenses

	2007	2006
	In TEUR	In TEUR
Wages and salaries . . . . .	42,316	22,540
Social security contributions . . . . .	7,239	5,964
	<u>49,555</u>	<u>28,504</u>

The average annual number of employees was:

	2007	2006
Salaried employees . . . . .	714	494
Waged employees . . . . .	372	278
	<u>1,086</u>	<u>772</u>

### 5.4. Other Operating Expenses

Other operating expenses are composed as follows:

	2007	2006
	In TEUR	In TEUR
Guarantee expenses . . . . .	10,125	2,412
Legal and consulting costs . . . . .	7,541	5,755
Travel expenses . . . . .	4,922	3,797
Purchased services . . . . .	4,667	3,343
Office and land costs . . . . .	4,023	2,117
Costs of training and appointing staff . . . . .	2,857	1,748
Administrative costs . . . . .	2,459	1,823
IT & telecommunication costs . . . . .	2,390	1,619
Vehicle costs . . . . .	2,195	1,386
Write-off/impairment of receivables . . . . .	1,530	2,063
Advertising and trade fair expenses . . . . .	1,234	963
Costs of monetary transactions . . . . .	1,077	970
Repairs and maintenance . . . . .	979	2,886
Insurance costs . . . . .	402	716
Other . . . . .	2,298	1,462
	<u>48,699</u>	<u>33,060</u>

### 5.5. Earnings Per Share

Basic earnings per share is generated by dividing the REpower Systems AG shareholders' share of earnings and the weighted average number of shares in circulation during the fiscal year. A dilution of earnings per share results from what is known as potential shares. This include options which only dilute earnings if these result in an issue of shares at a value below the average share price. There was a dilution effect in both tranches of the share option plan.

	2007	2006
	In EUR	In EUR
Consolidated net profit assigned to REpower Systems AG shareholders . . . . .	21,222,168	7,062,715
In addition: dilutive effects of share options . . . . .	0	0
Fully diluted consolidated net profit assigned to REpower Systems AG shareholders . . .	21,222,168	7,062,715
Weighted average of shares outstanding (basic) . . . . .	8,731,325	7,507,801
Effect of share options . . . . .	588,938	259,350
Weighted average of shares outstanding (fully diluted) . . . . .	9,320,263	7,767,151
<b>Earnings per share (basic) . . . . .</b>	<b>2.43</b>	<b>0.94</b>
<b>Earnings per share (fully diluted) . . . . .</b>	<b>2.28</b>	<b>0.91</b>

## 6. Contingent Liabilities and Other Financial Obligations

	<u>31.12.2007</u> In TEUR	<u>31.12.2006</u> In TEUR
<b>Other financial obligations</b>		
Obligations from lease and rental contracts		
Due within one year . . . . .	3,720	1,619
Due between 1 and 5 years . . . . .	10,765	5,138
Due in more than 5 years . . . . .	334	354
	<u>14,819</u>	<u>7,111</u>
<b>Contingent liabilities</b>		
Land charges . . . . .	3,068	3,068
Letters of comfort . . . . .	12,412	360
	<u>15,480</u>	<u>3,428</u>

At REpower Systems AG and in the companies included in the scope of consolidation, all leases are operating leases. Lease payments are recognised on a straight-line basis directly in the P&L account over the contract period. Obligations from lease and rental contracts relate primarily to obligations from the rental of office and warehouse space. Expenses amounting to TEUR 2,424 (previous year: TEUR 1,065) were recognised for lease and rental contracts.

On the balance sheet date, letters of comfort for associated companies and joint ventures amounted to EUR 12.4 million (previous year: EUR 0.36 million).

As of the balance sheet date there are purchase commitments amounting to approximately EUR 551.6 million (previous year: EUR 419.7 million) to purchase inventories and approximately EUR 21.4 million (previous year: EUR 15.5 million) to purchase property, plant and equipment.

## 7. Financial Risks and Financial Instruments

### 7.1. Principles of Risk Management

With regard to financial assets, financial liabilities and planned transactions, REpower Systems AG is subject to risks from changes in the price of raw material and purchasing prices, exchange rates, interest rates and the share price. The aim of financial risk management is to limit the market risks through current operating and financially orientated activities. In order to do this, specific hedging instruments are used according to the assessment of risk. Risks are only hedged if they have an effect on the Group's cash flow. Derivative financial instruments are only used in exceptional circumstances to hedge exchange rate risks in customer contracts and are not used for trading or speculative purposes.

The principles of financial policy are agreed on an annual basis by the Executive Board and monitored by the Supervisory Board. The implementation of financial policy as well as ongoing risk management is the responsibility of Group Treasury, with the involvement of Group Controlling. Certain transactions require only the prior consent of the Executive Board, which is also regularly informed of the scope and amount of current risk exposure. Treasury regards effective management of financial instruments as one of its main functions. In order to assess the effects of different events on the market, simulation calculations using various worst-case and market scenarios are undertaken.

### 7.2. Information About the Nature and Extent of Risks Associated With Financial Instruments

Primary financial instrument assets in line with IFRS 7 include receivables and other assets, provided that they are based on a contract, as well as liquid funds. Primary financial instrument liabilities in line with IFRS 7 include all sub-groups of liabilities with the exception of provisions, deferred sales and deferred taxes as well as liabilities from income taxes. Furthermore, those items which do not relate to a contract are also not included. Derivatives are deployed only to a limited extent.

The credit and default risk of financial assets is constantly monitored. Before closing transactions, the Group checks the customer's rating and also has corresponding collateral provided. The credit and default risk of financial assets corresponds to the maximum amounts posted on the assets side. There is no material concentration of default risks in the Group.

Currency risks exist only insofar as deliveries are made outside the euro zone countries. Risks as per IFRS 7 arise through financial instruments which are denominated in a currency other than the functional currency and are of a monetary nature. Differences due to exchange rates arising from the translation of financial statements in the Group currency are not taken into account. In the 2007 fiscal year, no hedging transactions were used. Gains and losses from hedging transactions are reported in the income statement. The company did not use hedges.

The liquidity risk is monitored as part of continuous liquidity planning.

Interest rate risks are generally not hedged. The acquisition of a hedging transaction was undertaken once on the basis of a hedging opportunity at relatively low cost. As of 29 November 2006, REpower Systems AG had utilised publicly funded loans with a total value of TEUR 2,368. In an effort to streamline interest payments, individual loans were converted into a variable-rate Euro loan of the same amount, the interest on which was optimised by entering into a swap. The term of the interest rate swap covers the period from 1 December 2006 to 2 December 2013.

The interest derivatives concluded have the following fair values as of 31 December 2007 including accrued interest which was calculated according to a mark-to-market valuation:

<u>Product</u>	<u>Nominal Amount</u> <u>In EUR million</u>	<u>Final Maturity</u>	<u>Fixed Interest</u> <u>Rate/Strike</u>	<u>Valuation on</u> <u>Reporting Date</u> <u>In EUR</u>
Cap . . . . .	0.66	28.06.13	5	2,061
Swap . . . . .	1.59	02.12.13	3.5	46,509

Within the Group, interest rate changes result primarily in an increase or decrease of the interest for loans and overdrafts. These financial instruments serve as advance financing for wind turbine supply contracts. A change of interest rates thus directly impacts the project result.

As part of the disclosure of market risks, IFRS 7 requires information about how hypothetical changes to risk variables affect the price of financial instruments. The purchase price for components as well as the share or index prices are particularly significant risk variables. The material market risk from component price development is offset by contracts with suppliers related to time or quantity, or by direct participation of supplier in joint ventures.

### **7.3. Information on the Significance of Financial Instruments for the Consolidated Financial Statements**

Based on the relevant balance sheet items, the relationships of the categorisation of financial instruments as per IFRS 7 and the financial instrument carrying amounts are listed in the following tables. Furthermore, liquid funds are listed which are not allocated to any category of IAS 39. For comparison, the figures from the previous year as of 31 December 2006 are shown separately in the following table.

<u>2007</u>	<u>Category*</u>	<u>Carrying</u> <u>Amount</u> <u>In TEUR</u>	<u>Amortised</u> <u>Cost</u> <u>In TEUR</u>	<u>Fair Value</u> <u>Not Affecting</u> <u>Income</u> <u>In TEUR</u>	<u>Fair Value</u> <u>Affecting</u> <u>Income</u> <u>In TEUR</u>
Cash and cash equivalents . . . . .		144,909	144,909	0	0
Shares in project companies . . . . .	AFS	15	15	0	0
Gross amount due for construction					
contracts . . . . .	L+R	61,271	61,271	0	0
Trade receivables . . . . .	L+R	200,301	200,301	0	0
Receivables from investment companies . . . .	L+R	534	534	0	0
Receivables from associated companies and					
jointly ventures . . . . .	L+R	10,536	10,536	0	0
Other financial assets — loans . . . . .	L+R	1,743	1,743	0	0
Other financial assets — other . . . . .	L+R	4,745	4,745	0	0
Other financial assets . . . . .	AFS	626	626	0	0
Loans granted . . . . .	L+R	7,003	7,003	0	0

\* AFS: available-for-sale

L+R: loans and receivables



<b>2006</b>	<b>Category</b>	<b>Carrying Amount</b>	<b>Amortised Cost</b>	<b>Fair Value Not Affecting Income</b>	<b>Fair Value Affecting Income</b>
		<b>In TEUR</b>	<b>In TEUR</b>	<b>In TEUR</b>	<b>In TEUR</b>
Cash and cash equivalents . . . . .		120,067	120,067	0	0
Shares in project companies . . . . .	AFS	40	40	0	0
Gross amount due for construction contracts . . . . .	L+R	36,985	36,985	0	0
Trade receivables . . . . .	L+R	95,105	95,105	0	0
Receivables from investment companies . . . . .	L+R	418	418	0	0
Receivables from associated companies and jointly ventures . . . . .	L+R	1,565	1,565	0	0
Other financial assets — loans . . . . .	L+R	2,947	2,947	0	0
Other financial assets — other . . . . .	L+R	3,918	3,918	0	0
Other financial assets . . . . .	AFS	612	612	0	0
Loans granted . . . . .	L+R	6,582	6,582	0	0

The carrying amounts of the financial assets measured at fair value correspond to the market values. Financial instruments measured at amortised cost are listed with their fair value and carrying amount in the following table and the figures for the previous year are listed for comparison:

		<b>31.12.2007</b>		<b>31.12.2006</b>	
	<b>Category</b>	<b>Carrying Amount</b>	<b>Fair Value</b>	<b>Carrying Amount</b>	<b>Fair Value</b>
		<b>In TEUR</b>	<b>In TEUR</b>	<b>In TEUR</b>	<b>In TEUR</b>
Cash and cash equivalents . . . . .		144,909	144,909	120,067	120,067
Shares in project companies . . . . .	AFS	15	15	40	40
Gross amount due for construction contracts . . . . .	L+R	61,271	61,271	36,985	36,985
Trade receivables . . . . .	L+R	200,301	200,301	95,105	95,105
Receivables from investment companies . . . . .	L+R	534	534	418	418
Receivables from associated companies and joint ventures . . . . .	L+R	10,536	10,536	1,565	1,565
Other financial assets — loans . . . . .	L+R	1,743	1,743	2,948	2,948
Other financial assets — other . . . . .	L+R	4,745	4,745	3,918	3,918
Other financial assets . . . . .	AFS	626	626	62	62
Loans granted . . . . .	L+R	7,003	7,003	6,582	6,582

Liquid funds, construction contracts carried as assets, intragroup receivables, receivables from associated companies and joint ventures, trade accounts receivable and other financial assets generally have a duration period of not more than 12 months. Therefore, the carrying amounts on the reporting date correspond closely to the fair values. This also applies to liabilities.

The fair values of noncurrent receivables as well as financial investments classified as “available for sale” with a duration period of over one year correspond to the present value of the payments related to these assets, taking into account the current parameters which reflect the conditions and expectations related to the market and partners.

The fair values of liabilities to banks and other financial institutions are determined on the basis of the present value of payments relating to the debts applying the current rate of interest.

The following table shows financial liabilities:

<b>2007</b>	<b>Category*</b>	<b>Carrying Amount</b>	<b>Amortised Cost</b>	<b>Fair Value Recognised in Equity</b>	<b>Fair Value Recognised in Income</b>
		<b>In TEUR</b>	<b>In TEUR</b>	<b>In TEUR</b>	<b>In TEUR</b>
Current loans . . . . .	OL	474	474	0	0
Trade payables . . . . .	OL	108,117	108,117	0	0
Liabilities to associated companies and joint ventures . . . . .	OL	494	494	0	0
Other current financial liabilities . . . . .	OL	8,061	8,061	0	0
Non-current loans . . . . .	OL	1,407	1,407	0	0
Capital from profit participation rights . . . . .	OL	10,000	10,000	0	0

\* OL: Other liabilities

2006	Category	Carrying Amount In TEUR	Amortised Cost In TEUR	Fair Value Recognised in Equity In TEUR	Fair Value Recognised in Income In TEUR
Current loans . . . . .	OL	0	0	0	0
Trade payables . . . . .	OL	76,946	76,946	0	0
Liabilities to associated companies and joint ventures . . . . .	OL	0	0	0	0
Other current financial liabilities . . . . .	OL	3,100	3,100	0	0
Non-current loans . . . . .	OL	2,355	2,355	0	0
Capital from profit participation rights . . . . .	OL	10,000	10,000	0	0

		31.12.2007		31.12.2006	
	Category	Carrying Amount In TEUR	Fair Value In TEUR	Carrying Amount In TEUR	Fair Value In TEUR
Current loans . . . . .	OL	474	474	0	0
Trade payables . . . . .	OL	108,117	108,117	76,946	76,946
Liabilities to associated companies and joint ventures . . . . .	OL	494	494	0	0
Other current financial liabilities . . . . .	OL	8,061	8,061	3,100	3,100
Noncurrent loans . . . . .	OL	1,407	1,407	2,355	2,355
Capital from profit participation rights . . . . .	OL	10,000	10,000	10,000	10,000

Loans are determined as the present value of cash flow expected in the future. The normal market interest rate is used for discounting, in relation to maturities. For the loan it is assumed that the carrying amount corresponds closely to the fair value.

Due to the short term of trade accounts payable as well as other financial liabilities, it is assumed that carrying amounts correspond to fair value.

Book profits or losses for credits and liabilities consist primarily of results from impairment losses and reversals. With regard to impairment losses, we refer to the notes on trade accounts receivable (4.1.3) as well as other current assets (4.1.7). Results from impairment losses and reversals are primarily reported as other operating expenses.

Book profits or losses of financial assets available for sale consist primarily of net income from investments.

With regard to collateral provided, we refer to note 4.4.

The group holds collateral amounting to TEUR 426,244 (previous year: TEUR 196,192), which correspond to the fair value of the security. These are standard industry guarantees which are provided by our customers and suppliers in order to secure the fulfilment of contractual obligations.

## 8. Capital Management

The objective of the Group's capital management is to ensure that it maintains a good equity ratio and high credit rating in order to support its business activities and maximise shareholder value. This is especially significant in the context of growth targets.

REpower Systems AG has a balanced capital structure. Equity capital covers non-current assets by more than 100 percent.

The Group monitors its capital with regards to the equity ratio as a ratio of equity reported in the IFRS consolidated financial statements to total assets.

The company is not subject to any statutory capital requirements.

## 9. Notes on Segment Reporting

The activities of the REpower Group consist of the development, production and marketing of wind turbines. In addition to development and production, preliminary work is done for project development to support sales, the appropriate rights are acquired and the infrastructure is created to erect turbines at appropriate locations.

The primary segment reporting format at the REpower Group is geographic segments since, in terms of business activities it is essentially a single-purpose enterprise. REpower distinguishes between the two reporting segments "Germany" and "Rest of world". The "Rest of world" reporting segment includes the segments Asia, Europe (not including Germany) and Australia.

The notes on segment reporting includes data on segment income, assets, liabilities as well as investments and depreciation for each reporting geographic segment.

## 10. Notes to the Cash Flow Statement

In compliance with IAS 7, the consolidated cash flow statement is divided into the areas of operating activities, investing activities and financing activities. The funds reported in the cash flow statement include cash and cash equivalents. Current bank liabilities were deducted. The liquid funds are composed as follows:

	<u>2007</u>	<u>2006</u>
	In TEUR	In TEUR
<b>Cash and cash equivalents at the beginning of the period</b>		
Cash, bank balances. . . . .	120,067	67,427
Less current bank liabilities. . . . .	0	(41,773)
<b>Total . . . . .</b>	<b><u>120,067</u></b>	<b><u>25,654</u></b>
<b>Liquid funds at the end of the period</b>		
Cash, bank balances. . . . .	144,909	120,067
Less current bank liabilities. . . . .	(474)	0
<b>Total . . . . .</b>	<b><u>144,435</u></b>	<b><u>120,067</u></b>

In determining the cash flow from operating activities, the indirect method was selected. The cash flow statement begins with the income for the period before taxes. The outflow of funds from interest and taxes was allocated to operating activities and reported separately in that item.

Cash flow from investing activities includes payments for investments in intangible assets, property, plant and equipment and financial assets and proceeds from disposals of fixed assets. Interest received was not allocated to cash flow from investing activities as in the previous year, but to cash flow from operating activities. The previous year was adapted accordingly.

The change in cash flow from financing activities results largely from inflows of EUR 111.0 million from the share capital increase. This item also shows changes in non-current bank liabilities.

## 11. Related Party Disclosures

The Executive Board and Supervisory Board of REpower Systems AG and companies in which these parties hold the majority of company shares, are classified as related parties. In 2007, Windpark Pattensen GmbH & Co. KG (currently still trading as Orbis GmbH & Co Energie- und Umwelttechnik Zweiundzwanzigste KG) with its headquarters in Rothenburg/Wümme acquired two wind turbines from REpower Systems AG. Three members of the REpower Systems AG Executive Board have holdings in the company as limited partners. The wind turbines' purchase prices corresponded to the market price. Other than this, there were no business dealings between related parties and the companies included in the consolidated financial statements.

Suzlon Shareholder Group, represented by SE Drive Technik GmbH, AE-Rotor Holding BV, Suzlon Wind Energy Limited and Suzlon Energy Limited, holds 33.66 percent of REpower Systems AG voting rights. In addition, the Commissariat à l'énergie atomique (CEA), Gif-Sur-Yvette, France, and Martifer — Construções Metalomecânicas, S.A. with headquarters in Oliveira des Frades, Portugal, hold a further 29.9 percent and 23.0 percent of voting rights respectively. The shares are attributed to Sulzon Shareholder Group as part of an agreement to pool voting rights, which also counts as a related party due to its controlling interest.

To a minor extent, REpower Systems AG purchased components from AREVA Group companies, which were settled at market prices. In addition, wind turbines for an amount of EUR 6.5 million (previous year: EUR 18.5 million) were sold to the associated company REpower Portugal S. A., as well as wind turbines amounting to a total of EUR 4.0 million (previous year EUR 0 million) to the joint venture REpower North China Ltd., which sold these on to external customers.

The remuneration of the Executive Board and the Supervisory Board is stated in detail under note 14.

## 12. Information on the Corporate Bodies of REpower Systems AG, Hamburg

The following are/were appointed as members of the Supervisory Board:

- Mr Tulsi R. Tanti, Pune, India (member since 21 June 2007)
- Mr Bertrand Durrande, Paris, France (member until 21 June 2007, Deputy Chairman from 22 June 2007 until 7 February 2008)
- Prof. Fritz Vahrenholt, Hamburg (member since 10 January 2008, Deputy Chairman since 7 February 2008)
- Mr Andre Horbach, Amsterdam, Netherlands, operations technician (member since 10 March 2008)
- Mr Jorge Martins, Sever do Vouga (member until 31 December 2007, Deputy Chairman until 21 June 2007)
- Dr Hans-Joachim Reh, Bargteheide (until 31 December 2007)
- Dr Rolf Bierhoff, Essen (member until 18 June 2007)
- Mr Oliver Heinecke, Hamburg
- Mr Alf Trede, Schwesing

The following persons are/were appointed as members of the REpower Systems AG Executive Board of in the 2006 fiscal year:

- Prof. Fritz Vahrenholt, Hamburg (member until 31 December 2007)
- Mr Per Hornung Pedersen, Hamburg, (member since 1 January 2008)
- Mr Matthias Schubert, Rendsburg
- Mr Pieter Wasmuth, Hamburg

## 13. Declaration of Conformity with the German Corporate Governance Code

The declaration of conformity with the German Corporate Governance Code was submitted by the Executive Board and Supervisory Board and published promptly on the company's Web site. This declaration is permanently accessible.

## 14. Remuneration for the Supervisory Board and Executive Board of REpower Systems AG

In line with the Articles of Association of REpower Systems AG, the remuneration paid to the members of the Supervisory Board for the 2007 fiscal year is as follows:

<u>Name</u>	<u>Attendance Fees 2007</u>	<u>Fixed Remuneration 2007</u>	<u>Total 2007</u>	<u>Total 2006</u>
	<u>EUR</u>	<u>EUR</u>	<u>EUR</u>	<u>EUR</u>
Tulsi R. Tanti . . . . .	5,000	10,000	15,000	—
Bertrand Durrande . . . . .	11,000	17,500	28,500	26,000
Jorge Martins. . . . .	7,250	12,500	19,750	20,250
Dr. Rolf Bierhoff . . . . .	3,500	5,000	8,500	13,500
Dr. Hans-Joachim Reh. . . . .	6,000	10,000	16,000	13,000
Oliver Heinecke . . . . .	6,000	10,000	16,000	7,833
Alf Trede . . . . .	6,000	10,000	16,000	7,833
	<u>44,750</u>	<u>75,000</u>	<u>119,750</u>	<u>88,416</u>

The members of the Executive Board of REpower Systems AG are paid a fixed remuneration, the amount of which can be derived from the following table. In addition to a fixed annual salary, each member also receives a performance-related bonus of 30 percent of the fixed annual salary if REpower Systems AG's EBIT amounts to at least 75 percent of the annually budgeted figure. This bonus rises to 40 percent of the fixed annual salary if EBIT reaches the annually budgeted level. It rises further to 50 percent of the fixed annual salary if EBIT reaches 125 percent of the budgeted amount (maximum bonus).

As part of the existing share option programme (see note 4.5.2), share option rights were also granted to members of the Executive Board in the 2006 and 2007 fiscal years. The options can only be exercised if the share price of REpower Systems shares rises to at least 120 percent of the base price at any time. The fair value of options as of 31 December 2007 was TEUR 3,772 (previous year: TEUR 783). At the time of the granting in 2006, the fair value per option was EUR 13.91, for 2007 the fair value per option was EUR 50.32.

Name	Options 2006	Options 2007	Total
	Quantity	Quantity	Quantity
Prof. Dr. Fritz Vahrenholt . . . . .	20,000	24,000	44,000
Matthias Schubert . . . . .	15,000	14,000	29,000
Pieter Wasmuth . . . . .	15,000	19,000	34,000
	<u>50,000</u>	<u>57,000</u>	<u>107,000</u>

In addition to the above remuneration, the Executive Board member who left in the fiscal year 2005, Thomas Franck, was also granted share-based remuneration which depends on the future development of profits. The remuneration was paid in cash in the 2007 fiscal year. Provisions made in previous years covered this payment obligation adequately.

The remuneration paid to the members of the Executive Board for the fiscal year 2007 was as follows:

Name	Fixed Remuneration	Variable Remuneration	Pension	Options
	EUR	EUR	EUR	Quantity
Prof. Dr. Fritz Vahrenholt . . . . .	250,000	66,000	80,000	24,000
Matthias Schubert . . . . .	180,000	48,000	60,000	14,000
Pieter Wasmuth . . . . .	171,750	48,000	68,250	19,000
	<u>601,750</u>	<u>162,000</u>	<u>208,250</u>	<u>57,000</u>

The payment of remaining contractual entitlements on the balance sheet date for Prof. Fritz Vahrenholt who left his position as Chairman of the Executive Board amounting to EUR 1,631,500 were agreed. From this, EUR 1,072,500 was paid in 2007, the remaining amount of EUR 559,000 was transferred to provisions.

As of 31 December 2007, the shares held by the Executive Board are as follows:

Name	Shares	Additions and Disposals in 2007	Total Shares
	Quantity	Quantity	Quantity
Per Hornung Pedersen . . . . .	0	0	0
Prof. Dr. Fritz Vahrenholt . . . . .	25,800	(25,800)	0
Matthias Schubert . . . . .	21,700	(11,700)	10,000
Pieter Wasmuth . . . . .	0	0	0
	<u>47,500</u>	<u>(37,500)</u>	<u>10,000</u>

## 15. Information on Fees Paid to Auditors

A fee of EUR 210,000 (previous year: EUR 163,000) has been recognised for the audit of the financial statements in the fiscal year. EUR 3,144 was paid for other audit or consultancy work in the 2007 fiscal year.

## 16. Appropriation of REpower Systems AG Result

The Executive Board of REpower Systems AG, Hamburg, proposes that the retained earnings reported in the annual financial statements as of 31 December 2007, prepared in accordance with the provisions of the German Commercial Code and the German Stock Corporation Act, is carried forward for new account.

The single-entity financial statements and consolidated financial statements of REpower Systems AG, Hamburg, will be published in the electronic Federal Gazette (elektronischer Bundesanzeiger).

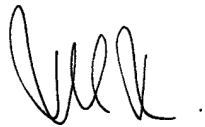
## 17. Material Events After the Reporting Date

With regards to the changes in the composition of the Executive Board and Supervisory Board, we refer to note 12.

The consolidated financial statements were prepared by the Executive Board on 11 March 2008 and thus submitted to the Supervisory Board for approval. The consolidated financial statements will be presented to the Supervisory Board at the Supervisory Board meeting on 20 March 2008 for approval.

Hamburg, 11 March 2008

The Executive Board



Per Hornung Pedersen



Pieter Wasmuth



Matthias Schubert



## **Auditor's Report**

We have audited the consolidated financial statements prepared by REpower Systems AG, Hamburg, comprising the balance sheet, the income statement, statement of changes in equity, cash flow statement and the notes to the consolidated financial statements, together with the report on the position of the company and the group for the business year from 1 January to 31 December 2007. The preparation of the consolidated financial statements and the group management report in accordance with IFRSs, as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB are the responsibility of the parent company's management. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with § 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRSs, as adopted by the EU, the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Hamburg  
March 11, 2008

KPMG Deutsche Treuhand-Gesellschaft  
Aktiengesellschaft  
Wirtschaftsprüfungsgesellschaft

Papenberg  
Wirtschaftsprüfer

Frahm  
Wirtschaftsprüferin

## Consolidated Balance Sheet of REpower Systems AG

Assets	Notes	31.03.2008 EUR	31.12.2007 EUR
<b>Current assets</b> . . . . .	4.1.		
Liquid funds . . . . .	4.1.1.	177,578,201	144,908,913
Interests in project companies . . . . .		25,999	14,850
Gross amount due from customers for contract work . . . . .	4.1.2.	118,945,782	144,146,522
Trade receivables . . . . .	4.1.3.	51,193,348	117,425,284
Receivables from participations . . . . .	4.1.4.	526,387	534,084
Receivables from associates and joint ventures . . . . .	4.1.5.	21,278,088	10,536,060
Inventories . . . . .	4.1.6.	144,840,304	112,178,249
Other financial assets . . . . .	4.1.7.	2,835,643	5,025,357
Other miscellaneous current assets . . . . .	4.1.7.	60,962,815	63,381,752
Other current assets . . . . .	4.1.7.	63,798,458	68,407,109
<b>Total current assets</b> . . . . .		<b>578,186,567</b>	<b>598,151,071</b>
<b>Non-current assets</b> . . . . .	4.2.		
Other intangible assets . . . . .	4.2.2.	22,279,552	20,440,223
Goodwill . . . . .		1,387,367	1,388,710
Property, plant and equipment . . . . .	4.2.1.	77,172,317	49,734,401
Investments in associates and joint ventures . . . . .	4.2.3.	4,497,432	4,547,200
Other financial assets . . . . .		625,518	626,116
Loans granted . . . . .	4.2.4.	6,728,527	7,003,266
Deferred taxes . . . . .	4.2.5.	1,039,962	5,009,542
Other miscellaneous non-current assets . . . . .		1,596,603	1,463,002
Other non-current assets . . . . .		1,596,603	1,463,002
<b>Total non-current assets</b> . . . . .		<b>115,327,278</b>	<b>90,212,460</b>
<b>Total assets</b> . . . . .		<b>693,513,845</b>	<b>688,363,531</b>

<b>Shareholders' Equity and Liabilities</b>	<b>Notes</b>	<b>31.03.2008</b>	<b>31.12.2007</b>
		<b>EUR</b>	<b>EUR</b>
<b>Current liabilities</b> . . . . .	4.3.		
Current loans and current portion of long-term loans . . . . .		668,536	473,978
Trade payables . . . . .		92,396,012	108,117,135
Liabilities to associates and joint ventures . . . . .		11,472,547	494,054
Advance payments received . . . . .	4.3.1.	202,239,688	191,633,999
Provisions . . . . .	4.3.2.	20,451,201	20,765,434
Deferred revenue . . . . .	4.3.3.	7,003,186	8,403,055
Income tax liabilities . . . . .	4.3.4.	1,524,010	982,784
Other financial liabilities . . . . .	4.3.5.	5,197,143	8,060,688
Other miscellaneous liabilities . . . . .	4.3.5.	5,063,031	2,360,859
Other current liabilities . . . . .	4.3.5.	10,260,174	10,421,547
<b>Total current liabilities</b> . . . . .		<b>346,015,354</b>	<b>341,291,986</b>
<b>Non-current liabilities</b> . . . . .	4.4.		
Non-current loans . . . . .	4.4.	1,375,059	1,406,818
Capital from profit participation rights . . . . .	4.4.	10,000,000	10,000,000
Deferred taxes . . . . .	4.2.5.	7,005,713	9,400,139
<b>Total non-current liabilities</b> . . . . .		<b>18,380,772</b>	<b>20,806,957</b>
<b>Shareholders' equity</b> . . . . .	4.5.		
Subscribed capital . . . . .	4.5.1.	8,993,576	8,993,576
Additional paid-in capital . . . . .	4.5.2.	282,441,254	280,895,128
Currency translation . . . . .		(6,185)	64,948
Retained earnings . . . . .		37,076,530	35,597,083
<b>Equity relating to shareholders</b> . . . . .		<b>328,505,175</b>	<b>325,550,735</b>
Minority interests . . . . .	4.5.3.	612,544	713,853
<b>Total shareholders' equity</b> . . . . .		<b>329,117,719</b>	<b>326,264,588</b>
<b>Total shareholders' equity and liabilities</b> . . . . .		<b>693,513,845</b>	<b>688,363,531</b>

## Consolidated Income Statement of REpower Systems AG

Income Statement	Notes	Pre-Year	
		01.01.-31.03.2008	01.01.-31.12.2007
		EUR	EUR
Revenue . . . . .	5.1.	147,405,839	679,832,618
Changes in work in progress . . . . .		2,678,962	(2,006,782)
Company-produced additions to plant and equipment . . . . .		77,291	327,334
<b>Total performance . . . . .</b>		<b>150,162,092</b>	<b>678,153,170</b>
Other operating income . . . . .	5.2.	2,435,934	7,003,546
Cost of materials/cost of purchased services . . . . .		(120,478,805)	(552,110,733)
Personnel expenses . . . . .	5.3.	(14,274,286)	(49,554,898)
Depreciation on property, plant and equipment and amortization on intangible assets . . . . .		(1,970,683)	(6,589,209)
Other operating expenses . . . . .	5.4.	(12,823,369)	(48,699,560)
<b>Operating result . . . . .</b>		<b>3,050,883</b>	<b>28,202,316</b>
Interest and similar finance income . . . . .	5.5.	2,174,642	6,237,142
Interest and similar finance expenses . . . . .	5.5.	(1,913,481)	(4,866,456)
Share of result from associates and joint-ventures . . . . .	5.5.	102,172	(113,863)
<b>Profit before income tax . . . . .</b>		<b>3,414,216</b>	<b>29,459,139</b>
Taxes on income . . . . .		(2,036,078)	(8,004,235)
Other taxes . . . . .		0	(336,465)
<b>Profit for the year . . . . .</b>		<b>1,378,138</b>	<b>21,118,439</b>
Share of net income for the year attributable to minority interests . . . .		(101,309)	(103,729)
Share of net income for the year attributable to shareholders of the parent company . . . . .		1,479,447	21,222,168
Earnings per share (undiluted) . . . . .	5.6.	0.16	2.43
Earnings per share (diluted) . . . . .	5.6.	0.15	2.28

**REpower Systems AG**  
**Cash Flow Statement 01.01.-31.03.2008**  
**(Comparison Period 01.01.-31.12.2007)**

<b>Cash Flow Statement</b>	<b>01.01.-31.03.2008</b>	<b>Pre-Year 01.01.-31.12.2007</b>
	<b>EUR</b>	<b>EUR</b>
<b>Cash flow from operating activities</b>		
Profit for the period before taxes . . . . .	3,414,216	29,459,139
Adjustments for:		
Depreciation on property, plant and equipment, amortization of intangible assets and write-down of financial assets . . . . .	1,970,683	6,589,209
Write-down of loans granted . . . . .	0	209,813
Profits/losses from associates . . . . .	102,172	113,863
Interest income . . . . .	(2,174,642)	(6,237,142)
Interest expenses . . . . .	1,220,709	4,656,643
Decrease/increase in provisions . . . . .	(314,233)	3,795,694
Profit/loss on disposal of fixed assets . . . . .	(11,115)	99,627
Change in working capital . . . . .	58,688,888	(82,384,397)
Interest received . . . . .	1,872,421	6,237,142
Interest paid . . . . .	(1,220,709)	(4,656,643)
Income tax received/paid . . . . .	166,260	(75,108)
Other non-cash income and expenditure . . . . .	(247,010)	(735,743)
<b>Cash flows from/used in operating activities . . . . .</b>	<b>63,467,640</b>	<b>(42,927,902)</b>
<b>Cash flow from investing activities:</b>		
Proceeds from the sale of fixed assets . . . . .	803,053	2,346,211
Payments for the purchase of intangible assets . . . . .	(2,317,939)	(8,868,845)
Payments for the purchase of property, plant and equipment . . . . .	(28,955,913)	(34,598,139)
Payments for the further purchase of shares in associates and joint ventures . . . . .	(240,243)	(940,300)
<b>Cash flows used from investing activities . . . . .</b>	<b>(30,711,042)</b>	<b>(42,061,073)</b>
<b>Cash flow from financing activities</b>		
Proceeds from increases in shareholder equity . . . . .	0	110,937,821
Loans issued . . . . .	(250,111)	(632,828)
Loan repayments . . . . .	(31,759)	(947,942)
<b>Cash flows used in/from financing activities . . . . .</b>	<b>(281,870)</b>	<b>109,357,051</b>
<b>Increase in cash and cash equivalents . . . . .</b>	<b>32,474,729</b>	<b>24,368,076</b>
Cash and cash equivalents at the beginning of the period . . . . .	144,434,935	120,066,858
<b>Cash and cash equivalents at the end of the period . . . . .</b>	<b>176,909,664</b>	<b>144,434,934</b>
Cash in bank . . . . .	177,578,201	144,908,913
Current liabilities . . . . .	(668,536)	(473,978)
<b>Cash and cash equivalents at the end of the period . . . . .</b>	<b>176,909,665</b>	<b>144,434,935</b>

**REpower Systems AG**  
**Statement of Changes in the Shareholders' Equity**

	Notes	Subscribed Capital	Share Issue for Capital Increase	Additional Paid-In Capital	Currency Translation	Retained Earnings	Equity Attributable to Shareholders	Minority Interests	Total Shareholders' Equity
		In EUR	In EUR	In EUR	In EUR	In EUR	In EUR	In EUR	In EUR
<b>Balance at 01.01.2007</b> . . . . .		<b>8,101,797</b>	<b>16,200</b>	<b>165,346,006</b>	<b>(30,461)</b>	<b>14,374,915</b>	<b>187,808,457</b>	<b>21,332</b>	<b>187,829,789</b>
Capital increase including transaction costs for capital increase less tax advantages . . . . . 4.5.1.		826,379	(16,200)	110,238,566			111,048,745		111,048,745
Shares issued (not yet registered) . . . . . 4.5.1.		65,400					65,400		65,400
Successive acquisitions of shares in other entities with existing controlling interests . . . . .								796,250	796,250
Share option plans . . . . . 4.5.2.				5,310,556			5,310,556		5,310,556
Foreign currency translation . . .					95,409		95,409		95,409
Net result for the year . . . . .						21,222,168	21,222,168	(103,729)	21,118,439
Group result . . . . .					95,409	21,222,168	21,317,577	(103,729)	21,213,848
<b>Balance at 31.12.2007</b> . . . . .		<b>8,993,576</b>	<b>0</b>	<b>280,895,128</b>	<b>64,948</b>	<b>35,597,083</b>	<b>325,550,735</b>	<b>713,853</b>	<b>326,264,588</b>
<b>Balance at 01.01.2008</b> . . . . .		<b>8,993,576</b>	<b>0</b>	<b>280,895,128</b>	<b>64,948</b>	<b>35,597,083</b>	<b>325,550,735</b>	<b>713,853</b>	<b>326,264,588</b>
Share option plans . . . . . 4.5.2.				1,546,126			1,546,126		1,546,126
Foreign currency translation . . .					(71,133)		(71,133)		(71,133)
Net result for the year . . . . .						1,479,447	1,479,447	(101,309)	1,378,138
Group result . . . . .					(71,133)	1,479,447	1,408,314	(101,309)	1,307,005
<b>Balance at 31.03.2008</b> . . . . .		<b>8,993,576</b>	<b>0</b>	<b>282,441,254</b>	<b>(6,185)</b>	<b>37,076,530</b>	<b>328,505,175</b>	<b>612,544</b>	<b>329,117,719</b>



**Repower Systems-Group**  
**Segment Reporting to 31.03.08**

		<b>Revenues</b>	
		<u>01.01.-31.03.2008</u>	<u>01.01.-31.12.2007</u>
		<u>In EUR</u>	<u>In EUR</u>
Germany . . . . .		17,282,844	237,383,589
Outside Germany . . . . .		130,122,995	442,449,029
		<u>147,405,839</u>	<u>679,832,618</u>

		<b>Assets</b>	
		<u>31.03.2008</u>	<u>31.12.2007</u>
		<u>In EUR</u>	<u>In EUR</u>
Germany . . . . .		685,320,688	682,291,741
Outside Germany . . . . .		8,193,157	6,071,790
		<u>693,513,845</u>	<u>688,363,531</u>

		<b>Debts</b>	
		<u>31.03.2008</u>	<u>31.12.2007</u>
		<u>In EUR</u>	<u>In EUR</u>
Germany . . . . .		352,203,466	351,599,347
Outside Germany . . . . .		4,967,237	2,546,660
		<u>357,170,703</u>	<u>354,146,007</u>

		<b>Investments</b>	
		<u>31.03.2008</u>	<u>31.12.2007</u>
		<u>In EUR</u>	<u>In EUR</u>
Germany . . . . .		31,053,527	45,120,250
Outside Germany . . . . .		220,325	591,743
		<u>31,273,852</u>	<u>45,711,993</u>

		<b>Write Offs</b>	
		<u>01.01.-31.03.2008</u>	<u>01.01.-31.12.2007</u>
		<u>In EUR</u>	<u>In EUR</u>
Germany . . . . .		1,811,899	6,329,686
Outside Germany . . . . .		158,784	259,523
		<u>1,970,683</u>	<u>6,589,209</u>

**REpower Systems AG**  
**Statement of Consolidated Fixed Assets 2008**

	Balance 01.01.2008		Acquisition and Production Costs		Balance 31.03.2008		Balance 01.01.2008		Depreciation and Amortization		Balance 31.03.2008		Book Values	
	EUR		EUR		EUR		EUR		EUR		EUR		EUR	
<b>1. Property, plant and equipment</b>														
1. Land, leasehold rights and buildings, including buildings on non-owned land . . . . .	10,224,313	212,432	1,050,209	0	11,486,954	1,547,376	64,339	0	1,611,715	9,875,239	8,676,937			
2. Technical equipment, plant and machinery . . .	13,043,711	1,059,356	3,056,484	0	17,159,551	4,941,089	552,810	0	5,493,899	11,665,652	8,102,622			
3. Other equipment, fixtures, fittings and equipment . . . . .	22,449,059	1,566,777	0	(132,234)	23,883,602	10,822,989	874,924	0	(106,310)	12,291,999	11,626,070			
4. Advance payments and plant and machinery in process of construction . . . . .	21,328,772	26,117,348	(4,106,693)		43,339,427	0	0	0	0	43,339,427	21,328,772			
<b>Total property, plant and equipment . . . . .</b>	<b>67,045,855</b>	<b>28,955,913</b>	<b>0</b>	<b>(132,234)</b>	<b>95,869,534</b>	<b>17,311,454</b>	<b>1,492,073</b>	<b>0</b>	<b>(106,310)</b>	<b>18,697,217</b>	<b>77,172,317</b>	<b>49,734,401</b>		
<b>II. Intangible assets</b>														
1.1. Software and other licences . . . . .	11,331,766	153,545	0	0	11,485,311	4,308,809	335,430	0	0	4,644,239	6,841,071	7,022,957		
1.2. Development costs . . .	13,899,564	2,164,394	0	0	16,063,958	482,298	143,179	0	0	625,477	15,438,481	13,417,266		
1. Intangible assets . . . . .	25,231,330	2,317,939	0	0	27,549,269	4,791,107	478,609	0	0	5,269,716	22,279,552	20,440,223		
2. Goodwill . . . . .	4,626,406	0	0	(1,343)	4,625,063	3,237,696	0	0	0	3,237,696	1,387,367	1,388,710		
<b>Total intangible assets . . .</b>	<b>29,857,736</b>	<b>2,317,939</b>	<b>0</b>	<b>(1,343)</b>	<b>32,174,332</b>	<b>8,028,803</b>	<b>478,609</b>	<b>0</b>	<b>0</b>	<b>8,507,412</b>	<b>23,666,919</b>	<b>21,828,933</b>		
<b>Total</b>	<b>96,903,591</b>	<b>31,273,852</b>	<b>0</b>	<b>(133,577)</b>	<b>128,043,866</b>	<b>25,340,257</b>	<b>1,970,683</b>	<b>0</b>	<b>(106,310)</b>	<b>27,204,630</b>	<b>100,839,236</b>	<b>71,563,334</b>		

## List of shareholdings

Disclosure in line with Article 313 (2) nos. 1 to 4 HGB

Companies	Shareholding	Equity as at End of the FY	Earnings
	In %	In EUR	In EUR
REpower Betriebs- und Beteiligungs GmbH, Rendsburg <sup>9</sup>	100.00	17,665	(62,589)
REpower Windpark Betriebs GmbH, Hamburg <sup>1,3,6,9</sup>	100.00	20,144	(400)
REpower Investments- & Projektierungs GmbH & Co. KG, Rendsburg <sup>3,9</sup>	100.00	(78,062)	(32,066)
Windpark Blockland GmbH & Co. KG, Hamburg <sup>3,7</sup>	100.00	(78,062)	0
Windpark Meckel/Gilzem GmbH & Co. KG, Hamburg <sup>3,7</sup>	100.00	1,000	0
Windpark GroBvargula Betriebs GmbH, Breydin <sup>3,9</sup> (in liquidation)	100.00	(1,667)	0
REpower Espana S.L., Madrid, Spain <sup>10</sup>	100.00	405,703	(30,727)
REpower Italia S.r.l., Milan, Italy <sup>10</sup>	100.00	856,600	71,776
REpower S.A.S., Courbevoie, France <sup>10</sup>	100.00	1,786,022	(497,749)
Eolis S.a.r.l., Suresnes, France <sup>2,9</sup>	100.00	1,915	(17,457)
REpower Australia Pty. Ltd., Melbourne, Australia <sup>10</sup>	100.00	(101,226)	(19,515)
REpower Diekat S.A., Athens, Greece <sup>10</sup>	60.00	8,912	(1,566)
REpower UK Ltd., Edinburgh, United Kingdom <sup>10</sup>	67.00	121,979	91,061
REpower USA Corp., Portland, Oregon, USA <sup>10</sup>	100.00	252,655	55,059
REpower Benelux bvba., Brussels, Belgium <sup>10</sup>	100.00	21,141	(2,859)
REpower Wind Systems Trading (China), Beijing, People's Republic of China <sup>10</sup>	100.00	39,017	26,023
Powerblades GmbH, Bremerhaven <sup>10</sup>	51.00	1,179,809	(251,575)
REpower Canada Inc., Montreal, Canada <sup>10</sup>	100.00	(1,513)	(1,623)
REpower North (China) Ltd., Qingshan, Baotou, People's Republic of China <sup>10</sup>	50.01	6,319,876	(488,740)
REpower Portugal Sistemas Eólicos S.A., Oliveira de Frades, Portugal <sup>9</sup>	50.00	4,470,028	693,344
RETC Renewable Energy Technology Centre GmbH, Hamburg <sup>4,9</sup>	50.00	23,761	(645)
Energy Wind Czech s.r.o., Mostkovice, Czech Republic <sup>9</sup>	50.00	(12,101) <sup>1</sup>	(2,041) <sup>1</sup>
Sister Lda, Lisbon, Portugal <sup>5,9</sup>	37.50	(47,366) <sup>1</sup>	(13,528) <sup>1</sup>
Windpark Finsterwalde GmbH, Finsterwalde <sup>9</sup>	30.00	1,676,220 <sup>1</sup>	(192,992) <sup>1</sup>
Wasserkraft Finowkanal, GmbH, Breydin <sup>2,8,9</sup>	100.00	(92,796)	(36,954)
REpower Geothermie GmbH, Breydin <sup>9</sup>	24.90	(67,900) <sup>1</sup>	(5,093) <sup>1</sup>

<sup>1</sup> Figures from 31 December 2006

<sup>2</sup> Figures from 31 December 2007

<sup>3</sup> Shares held indirectly through REpower Betriebs- und Beteiligungs GmbH

<sup>4</sup> Trading as at 31 March 2008 as Verwaltungsgesellschaft 144. Alster mbH, 50% owned by REpower Systems AG, 50% sold to SE Drive Technik GmbH, Renamed as RETC GmbH on 28 May 2008.

<sup>5</sup> A further 37.5% of shares were acquired by REpower Systems AG after the balance sheet date.

<sup>6</sup> REpower Windpark Betriebs GmbH traded until 9 April 2008 as BWU Projekt GmbH, headquartered in Trampe. At the same time, the company was sold by REpower Systems AG to Betrieb- und Beteiligungsgesellschaft GmbH.

<sup>7</sup> The company was formed in 2008. Therefore there are no figures for the past fiscal year.

<sup>8</sup> The company was sold in full on 21 May 2008.

<sup>9</sup> Calculated in line with national accounting standards.

<sup>10</sup> Calculated in line with IFRS - Group Accounting Manual REpower Systems AG.

## **1. Introduction**

The REpower Systems Group with REpower Systems AG, Überseering 10, 22297, Hamburg, Federal Republic of Germany, operates in the area of manufacturing and selling wind energy turbines and in developing and providing turnkey wind farms as a listed parent company.

REpower Systems AG has a duty to prepare consolidated financial statements for the short fiscal year ended 31 March 2008. The consolidated financial statements for the year ended 31 March 2008 were prepared in accordance with Article 315a of the German Commercial Code in conjunction with Article 4 of Regulation (EC) no. 1606/2002 of the European Parliament and the European Council of 19 July 2002 concerning the adoption of international accounting standards in the currently valid version of the International Financial Reporting Standards (IFRS), applicable in the European Union. The IFRSs comprise the International Financial Reporting Standards (IFRS) and International Accounting Standards (IAS) published by the International Accounting Standards Board (IASB), and the interpretations of the International Financial Reporting Interpretations Committee (IFRIC) and its predecessor, the Standing Interpretations Committee (SIC). IFRS requirements have been fulfilled completely and result in a true and fair view of the net assets, financial position and results of operations of the REpower System Group.

The consolidated financial statements of the company and the combined management report are published in the electronic Federal Gazette (elektronischer Bundesanzeiger).

Individual items of the balance sheet and the income statement have been summarised to improve the clarity of presentation. These items are explained in the notes. The consolidated financial statements are prepared with the euro as the functional currency. The income statement is broken down according to the nature of expense method.

The consolidated financial statements were prepared on the basis of assets and liabilities recognised at amortised cost. This does not include derivative financial instruments, which are carried at fair value as at the balance sheet date.

On 25 August 2007, the Supervisory Board resolved to propose changing the fiscal year of the parent company to a period from 1 April to 31 March of the subsequent year. At an extraordinary General Meeting on 17 October 2007, the start of REpower Systems AG's fiscal year was moved, with the approval of 100% of the capital in attendance, to 1 April each year. Accordingly, the fiscal year will end on 31 March of the following year. The period from 1 January 2008 to 31 March 2008 is to be a short fiscal year. The figures reported in these notes to the consolidated financial statements compare the figures for the short fiscal year of 2008 with the figures for the full fiscal year of 2007. Owing to the different timeframes of three months in fiscal 2008 and twelve months in fiscal 2007, the figures in the income statement and segment reporting can only be compared to a limited extent.

## **2. Consolidation**

### **2.1. Principles of Consolidation**

Included in these consolidated financial statements are all significant German and foreign subsidiaries at which REpower Systems AG has direct or indirect control of the financial and business policies of these companies.

Capital consolidation of subsidiaries is performed in line with the purchase method. In this process, the cost of investments acquired is offset against the fair value of the net assets of the subsidiary attributed to the parent company at the time of acquisition. An asset difference resulting from company purchases is capitalised as derivative goodwill. Negative goodwill arising from capital consolidation at the time of acquisition is taken directly to profit or loss. Derivative goodwill is examined for impairment at least once annually in subsequent periods and written down to the lower recoverable amount as required. Hidden reserves and charges disclosed as a result of the measurement at fair value of the assets and liabilities in first-time consolidation are carried, amortised or realised in subsequent periods in line with the development of assets and liabilities. Expenses and income, intragroup transactions and receivables and liabilities between the companies included in consolidation were eliminated in compliance with IAS 27.

Companies which the company manages jointly with other partners and associated companies in which the Group can exert a significant influence on the financial and business

policy but which it cannot control are included at equity in the consolidated financial statements. In determining goodwill and the pro rata fair value of assets and liabilities, the principles of full consolidation apply. Inclusion at equity is based on the IFRS financial statements of these companies at the Group reporting date. Losses from associated companies which exceed the equity holding's carrying amount or other non-current receivables from financing these companies are not recognised as long as there is no obligation of supplementary payments. Significant intragroup transactions were eliminated.

At the date at which shares in companies included in the scope of consolidation were sold or at the date that the Group can no longer control these companies, these are withdrawn from the scope of consolidation. As part of deconsolidation, the pro rata assets and liabilities allocated to the Group are eliminated at amortised Group carrying amounts, including any goodwill. The difference between the disposal value and the disposal proceeds of the shares is recognised in income in the consolidated income statement. The income and expenses incurred from the beginning of the respective fiscal year up to the point of withdrawal from the scope of consolidation are recognised in the consolidated income statement.

The REpower Systems AG financial statements and those of the subsidiaries, associated companies and joint ventures are prepared in accordance with uniform accounting policies. The financial statements of companies included in the consolidation are prepared as at the REpower Systems AG reporting date. The assets and liabilities of subsidiaries whose functional currency is not the euro are translated at the exchange rate applicable at the balance sheet date. Income statement items are translated at the transaction rate for the respective year. Subsidiaries' equity components are translated at the corresponding historical rate as they occur. Differences resulting from currency translation are recognised as adjustment items for currency translation within consolidated equity.

## 2.2. Scope of Consolidation

### 2.2.1. Fully Consolidated Companies

The scope of consolidation includes the following German and international companies, which are recognised as fully consolidated in the consolidated financial statements:

<b>Project Companies</b>	<b>Share in %</b>
REpower Betriebs- und Beteiligungs GmbH, Rendsburg . . . . .	100.00
REpower Investitions- & Projektierungs GmbH & Co. KG, Rendsburg . . . . .	100.00
PowerBlades GmbH, Bremerhaven . . . . .	51.00
<b>Sales companies</b>	
REpower Espana S.L., Madrid, Spain . . . . .	100.00
REpower S.A.S., Courbevoie, France . . . . .	100.00
REpower Italia SRL., Milan, Italy . . . . .	100.00
REpower Australia Pty Ltd. Melbourne, Australia . . . . .	100.00
REpower Wind Systems, Beijing, PR China . . . . .	100.00
REpower USA Corp., Portland, U.S.A. . . . .	100.00
REpower Canada Inc., Montreal, Canada . . . . .	100.00
REpower Benelux b.v.b.a., Brussels, Belgium . . . . .	100.00
REpower UK Ltd., Edinburgh, UK. . . . .	67.00
REpower Diekat, Athens, Greece . . . . .	60.00

REpower Investitions- & Projektierungs GmbH & Co. KG, Rendsburg was founded as a project company and implemented its first reference project for 5-MW class turbines at Büttel in Schleswig-Holstein, Germany in December 2007. REpower Betriebs- und Beteiligungsgesellschaft mbH, Rendsburg is a fully liable partner with no business activities of its own in German wind farm companies and has the legal form of a partnership.

In future, Power Blades GmbH, Bremerhaven will operate a manufacturing site in Bremerhaven for the manufacture of blades for wind turbines. The company commenced operations on a modest scale in 2007. The completion of the manufacturing site is scheduled for mid-2008.

There are investments in ten foreign sales and service companies with the purpose of marketing REpower Systems AG wind turbines in Europe (previous year: ten). In fiscal 2008, the company REpower Canada Inc. was founded in Montreal, Canada, by way of cash subscription, and commenced operations. The purpose of the company is to develop the sales market in

Canada. It has won tenders to supply wind turbines with an output of 954 MW for a consortium between the parent company and other partners.

The liquidation of the two companies Windpark Großvargula GmbH and FEdeF S.A.S. is currently under way or has been concluded respectively. The companies withdrew from the scope of consolidation by way of deconsolidation. The deconsolidation resulted in a gain on deconsolidation of EUR 2 thousand for Windpark Großvargula Betriebs GmbH and of EUR 245 thousand for FEdeF S.A.S. The proceeds from deconsolidation are reported under other operating income. The carrying amounts of the investments were written down on account of their liquidation. This is reported under interest and similar financing expenses.

### **2.2.2. Jointly Managed and Associated Companies**

The following material jointly controlled entities and associated companies are carried at equity in the consolidated financial statements:

	<b>Group Share of Nominal Capital</b>	
	<b>31.03.2008</b>	<b>31.12.2007</b>
	<b>In %</b>	<b>In %</b>
REpower Portugal — Sistemas Eólicos S.A., . . . . .	50.00	50.00
Oliveira de Frades, Portugal . . . . .		
REpower (North) China Ltd., Baotou, PR China . . . . .	50.01	50.01

The companies serve as sales companies to develop sales markets in foreign countries.

## **3. Accounting Policies**

The accounting policies applied in the consolidated financial statements for 2008 are unchanged as against fiscal 2007.

The following reporting changes were made as against the previous year's financial statements, which led to an adjustment of the information on the previous year in these financial statements to ensure comparability. The following information relates to figures from the previous year:

In the previous year's financial statements, advance payments on work in progress (EUR 14,667 thousand) were deducted from inventories under assets. In the financial statements for the short fiscal year, these advance payments are shown under the item "advance payments received" in the balance sheet.

Advance payments on construction contracts (EUR 206,212 thousand) are deducted from positive net construction contract receivables; these were netted against trade receivables in the previous year.

In the previous year's financial statements, own work capitalized (EUR 327 thousand) was netted against sales. In the financial statements for the short fiscal year this is assigned to its own item in the income statement.

### **3.1. Cash and Cash Equivalents**

Cash and cash equivalents consist primarily of bank balances and are carried at nominal value. Amounts in foreign currency are measured as at the reporting date.

### **3.2. Shares in Project Companies**

Shares in project companies are classified as available for sale as defined by IAS 39 and recognised on the reporting date at fair value or, if this cannot be reliably measured, at amortised cost.

### **3.3. Receivables and Other Financial Assets**

Trade receivables, intra-group receivables, receivables from project companies and other primary financial assets allocated to the loans and receivables category are carried at fair value plus transaction costs on first-time recognition. Subsequent measurement is at amortised cost using the effective interest rate method. Risks of default are taken into account with appropriate



valuation allowances, which are determined on the basis of empirical values and individual risk assessments.

### **3.4. Inventories**

Inventories comprise raw materials and supplies and work in progress. Raw materials and supplies are carried at the lower of cost or net realisable value. Work in progress for which no legally effective, customer-specific order exists is measured at the lower of cost or net realizable value. In addition to material and production overheads, manufacturing costs comprise overheads attributable as per IAS 2, but not financing costs.

### **3.5. Property, Plant and Equipment**

Items of property, plant and equipment are carried at cost and depreciated on a straight-line basis over their useful life. Cost includes all expenses for acquiring the assets, insofar as these can be reliably calculated or estimated. The manufacturing costs of internally generated equipment comprise direct costs as well as attributable overheads. Loan interest costs are not included.

Depreciation is measured on the basis of the following estimated useful lives:

	<b>Useful Life</b> <b>In years</b>
Buildings . . . . .	10-50
Technical equipment and machinery . . . . .	2-21
Operating and office equipment . . . . .	3-10

### **3.6. Intangible Assets**

Acquired intangible assets are measured at cost and amortised on a straight-line basis over the respective useful life.

Research costs are reported as current expenses. Development costs for future products and other internally generated intangible assets are capitalised at cost, provided that the manufacture of these products is likely to generate an economic benefit for the REpower Systems Group. In the event that the requirements for capitalisation are not satisfied, expenses are recognized directly in income in the year in which they occur.

Capitalised development costs comprise all direct costs and overheads attributable to the development process. Financing costs are not capitalised. Amortisation is recognised on the basis of quantity or on a straight-line basis. If the volume of sales can be estimated with reasonable assurance, amortisation is recognised according to quantity as a ratio of wind turbines recognised in sales to the total sales volume expected. With development costs not related to quantity, amortisation is recognised on a straight-line basis from the start of production for the expected duration of the developed models.

The following economic lives were used as a basis:

	<b>Useful Life</b> <b>In years</b>
Capitalised development costs . . . . .	5*
Licences, software . . . . .	3-10

\* in years or quantity-based

### **3.7. Impairment of Property, Plant and Equipment and Intangible Assets**

REpower Systems AG submits property, plant and equipment and intangible assets to impairment tests.

When carrying out impairment tests, derivative goodwill is allocated to the same reporting entities for which allocation of derivative goodwill is implemented in the Group's internal reporting system. The reporting units generally correspond to individual Group companies. The cash flows of the reporting entities are discounted by a cost of capital rate based on comparable companies. Impairment is recognised if the capital value of cash flows is less than the carrying amount of intangible assets and property, plant and equipment and the net current assets of the reporting unit including the allocated derivative goodwill.

Impairment is recognised on other intangible assets and property, plant and equipment if certain events or developments result in the carrying amount of the asset no longer being covered by expected disposal proceeds or the discounted net cash flows from any further use. Cash flows are also discounted at a cost of capital rate based on comparable companies. If the recoverable amount of individual assets cannot be calculated, the cash flow is calculated for the next highest group of assets is for which such a cash flow can be calculated. Impairment is reversed if the reasons for it no longer apply in subsequent periods.

Impairment cannot be reversed any higher than the carrying amount that would have been if no impairment had been recognised. Impairment on goodwill cannot be reversed.

### **3.8. Loans Granted**

Loans granted are allocated to the loans and receivables category and carried at fair value on first-time recognition. Subsequent measurement is at amortised cost using the effective interest rate method.

### **3.9. Share Options**

In the consolidated financial statements, share options granted to members of executive bodies and executives are carried in line with the regulations of IFRS 2. Share options grant subscription rights to new company shares from contingent capital and are a form of remuneration. Transactions which are to be fulfilled by granting shares are measured at fair value as at the day they are granted. The fair value of share options on the day they are granted is determined by an external assessor using the Monte Carlo simulation method. The calculated expense is distributed over the period in which the options can be exercised on a straight-line basis and the attributable staff costs of the relevant fiscal year are recognised directly in income in the capital reserves.

### **3.10. Provisions**

Provisions are recognised for all obligations to third parties where it is probable that the fulfilment of the obligations will result in outflows of resources and a reliable estimate of the amount of the obligation can be made.

Warranty provisions are made both for known individual risks and for general risks. Specific technical warranty risks can be individually quantified on the basis of comprehensive documentation and are accounted for by individual provisions. The economic risk and the amount of provisions are evaluated on an ongoing basis in coordination with the technical departments taking into account existing risks.

Provisions are recognised for general risks on the basis of experience. The system for establishing collective warranty provisions is as follows:

For turbines erected, provisions are recognised for the anticipated actual costs per year of the warranty of the contractual warranty period. The actual costs are determined on the basis of past experience and examined on an ongoing basis.

For wind farm projects (turnkey), project-specific provisions are recognised for guarantee commitments for the farm infrastructure. The amount of the provision depends on the size and location of the farm in Germany or internationally.

Provision amounts are discounted if material.

### **3.11. Liabilities**

Liabilities are measured at amortised cost, making them equal to the repayment amount. If the liability amounts are material they are discounted using the effective interest rate method.

### **3.12. Transaction Costs Incurred for Issuing Equity Instruments**

If transaction costs are incurred for issuing equity instruments these are deducted in equity from the issue proceeds less any related income tax benefits. Only directly attributable external costs are recognised as costs for an equity transaction.

### **3.13. Revenue Recognition**

Sales include all proceeds from the sale of wind energy turbines, license revenues and revenues from service and maintenance contracts.

For wind turbine construction contracts for which both a specific legally effective customer order exists and where the order outcome and the expected total costs can be reliably estimated on the basis of Group budgeting and cost accounting as at the balance sheet date, the percentage of completion method is used in accordance with IAS 11. The percentage of completion is calculated according to the cost-to-cost method. Only the costs relating directly to the service rendered are taken into account. Borrowing costs are recognised as an expense. Advance payments received for contracts are deducted directly from future receivables from construction contracts. Contracts for the delivery of wind turbines to customers are considered completed from the initial installation of the equipment. If no installation is agreed, sales are recognised at the time that the benefits and risks are passed on to the purchaser and the payment is probable.

Licence proceeds result not only from quota licences but also single licences independent of time or quantity. Proceeds from quota licences are realised on installation. In the case of single licences, sales are realised when the licence is granted. Advance payments received on quota licences are deferred and recognised in income in line with the economic substance of the contract.

Proceeds from service and maintenance contracts are realised insofar as the respective services have been rendered.

### **3.14. Taxes on Income**

REpower Systems AG recognises current taxes when they are caused at the level of the amount due. Deferred taxes are recognised according to the liability method, i.e. deferred tax assets or deferred tax liabilities are carried with future tax effects which arise as a result of differences between IFRS and tax accounting of assets and liabilities. The effects of tax rate changes on deferred taxes are recognised in income in the reporting period in which the legislative procedure the change in tax rate is passed. However, the effects of tax changes on equity are also recognised in equity. If the realisation of deferred tax assets does not appear reasonably likely in the future they are not recognised.

### **3.15. Borrowing Costs**

Borrowing costs are recognised as an expense and not included in cost of the asset.

### **3.16. Government Grants (Investment Subsidies)**

Government grants are recognised according to the character of the subsidised expenses. Insofar as subsidies relate to capitalised assets, the grants received reduce the cost of the subsidised assets. Grants provided as an expenditure allowance are recognised in the income statement of the fiscal year in which the subsidised expenses are incurred.

### **3.17. Transactions in Foreign Currencies**

Purchases and sales in foreign currencies are translated using the current price applicable at the time of the transaction. As at the balance sheet date, these are recognised using the exchange rate valid at this time. The gains and losses resulting from foreign currency exchange in the translation are recognised in income.

### **3.18. Financial Instruments**

Financial assets are recognised on delivery, i.e. the date of order fulfilment.

Financial instruments consist on the one hand of cash and cash equivalents, receivables and other financial assets as well as financial liabilities and loans insofar as these relate to a contract. First-time recognition of financial assets is at fair value plus directly attributable transaction costs, insofar as the financial assets are not allocated to the category of "at fair value through profit and loss". The REpower Group has no financial assets that can be allocated to this category. Subsequent measurement of financial assets is either at fair value or amortised cost using the

effective interest rate depending on the allocation of the individual financial instruments to the categories of IAS 39.

On first-time recognition, financial liabilities are carried at fair value less transaction costs and at amortised cost on subsequent measurement.

Financial assets are derecognised provided that either the rights to cash flows resulting from assets have expired or virtually all risks have been passed on to a third party so that the criteria for derecognition are met. Financial obligations are derecognised if obligations have either expired or have been cancelled.

### **3.19. Use of Assumptions**

The preparation of these consolidated financial statements requires that the management make estimates and assumptions that act as a basis for the value of assets and liabilities, contingent liabilities and other financial obligations as at the balance sheet date and sales and expenses in the fiscal year. Key estimates and assumptions relate to impairment tests (see note 4.2), warranty provisions (see note 4.3.2), measurement of share options (see note 4.5.2), the realisation of revenue according to the percentage-of-completion method (see note 4.1.2) and the value of deferred tax assets (see note 4.2.5). The actual situation which occurs may differ from these assumptions. Also, changes in the current economic conditions and other events may have a material impact on the actual figures.

### **3.20. New Accounting Standards and their Application**

The following standards published by the IASB and the IFRIC were applied by the company for the first time in the 2008 short fiscal year:

In November 2006, IFRIC 11 „IFRS 2 — Group and Treasury Share Transactions” was published. This regulation deals with the issues of how group-wide, share-based remuneration should be recognised, what the effects of employee changes within a group are, and how share-based remuneration should be treated when the company issues treasury shares or acquires third-party shares. IFRIC 11 is mandatory for fiscal years beginning on or after 1 March 2007. The adoption of this standard did not have any material effect on the Group’s assets, liabilities, financial position or results of operations.

In November 2006, IFRIC 12 „Service Concession Agreements” was also published. Service concession agreements are agreements which are made between the government and private companies in order to provide public services such as roads, energy supply and transport. The interpretation prescribes the accounting policies of such agreements between government and private companies. IFRIC 12 is mandatory for fiscal years beginning on or after 1 January 2008. As the Group does not maintain any service concession agreements as defined by IFRIC 12, IFRIC 12 has no material effect on the Group’s net assets, financial position or results of operations.

In July 2007, IFRIC 14 „The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction” was published. IFRIC 14 contains general guidelines for determining the excess limit of a pension fund which can be recognised as an asset in accordance with IAS 19 „Employee Benefits”. The interpretation also describes how regulatory or contractual minimum financing regulations can have an effect on a pension fund’s assets or liabilities. IFRIC 14 is mandatory for fiscal years beginning on or after 1 January 2008. As the Group does not maintain any pension funds as defined by IAS 19, IFRIC 14 has no material effect on the Group’s net assets, financial position or results of operations.

The application of the following standards and interpretations published by the IASB in 2006, 2007 and 2008 is not yet mandatory for the REpower Systems Group in the consolidated financial statements as at 31 March 2008:

In November 2006, the IASB published IFRS 8 „Operating Segments”. IFRS 8 replaces IAS 14 „Segment Reporting” and adapts the regulations for segment reporting to the US Statement of Financial Accounting Standards regulation (SFAS) 131 „Disclosures about Segments of an Enterprise and Related Information” with the exception of minor differences. This standard requires that companies disclose quantitative and qualitative information with regards to their reporting segments. Reporting segments are operating segments or combinations of operating

segments which fulfil particular criteria. Operating segments are the components of a company for which separate financial information is available, which is regularly examined by the company's chief operating decision maker to evaluate the success of the company and decided how resources are to be distributed. In general, this financial information must be reported on the basis of internal management. On this basis the management can assess the business success of operating segments and decide how to allocate resources to the operating segments. IFRS 8 is mandatory for fiscal years beginning on or after 1 January 2009. Earlier adoption is permitted. The company has not yet fully assessed the possible effects of IFRS 8 on segment reporting.

In March 2007, the IASB published amendments to IAS 23 „Borrowing Costs“. The material changes to the standards concern the discontinuation of the option of directly recognising borrowing costs as an expense which can be attributed to the acquisition, construction or production of a qualifying asset. Such borrowing costs must be capitalised as part of the cost of the qualifying asset. This standard applies for the first time to borrowing costs for qualifying assets where capitalisation occurs on or after January 2009. Earlier adoption is permitted. The company has not yet definitively assessed the effect of introducing the changes in accordance with IAS 23 on its net assets, financial position and results of operations.

In September 2007, a revised standard, IAS 1 „Presentation of Financial Statements“ was published. The revision aims to improve the possibilities for analysis as well as aiding comparison of financial statements for their users. IAS 1 prescribes the presentation and structure of the financial statements. In addition, it contains the minimum requirements for the content of financial statements. The new standard is mandatory for fiscal years beginning on or after 1 January 2009. Earlier adoption is permitted. The company has not yet definitively assessed the effect of introducing the changes in accordance with IAS 1 on its net assets, financial position and results of operations.

In June 2007, IFRIC 13 „Customer Loyalty Programmes“ was published. IFRIC 13 prescribes the accounting policies for revenues from sales processes, and related expenses for obligations arising from customer loyalty programmes such as award, bonus or loyalty programmes. IFRIC 13 clarifies that such business is to be regarded as multi-component transactions where the part of sales which is due to premiums is recognised as a liability until the customer either exercises his premium right or forfeits it. IFRIC 13 is mandatory for fiscal years beginning on or after 30 June 2008. Earlier adoption is permitted. Due to the nature of the Group's business activities, IFRIC 13 has no material effect on the Group's net assets, financial position or results of operation.

In January 2008, amendments to the IFRS standard IFRS 3, „Business Combinations“, and additions to IAS 27, „Consolidated and Separate Financial Statements“, were published. These amendments must be adopted for fiscal years beginning on or after 1 July 2009. Earlier adoption is permitted. The effect of introducing the amendments to IAS 27 and IFRS 3 will depend on the corporate acquisitions and disposals of shares in companies that the Group effects when the standards are in effect.

In January 2008, the draft of an amendment to IFRS 2, „Share-based Payment: Vesting Conditions and Cancellations“, was published. The amendments are mandatory for fiscal years beginning on 1 January 2009. The adoption of the amendments is not expected to have any significant effect on the Group's net assets, financial position or results of operations.

In February 2008, amendments to IAS 32, „Financial Instruments: Presentation“, and IAS 1 were published. These additions permit exceptions to the classification of financial instruments that grant the bearer a claim to repayment as liabilities. These are not expected to have a material effect on the Group's net assets, financial position or results of operations.

#### **4. Notes to Individual Balance Sheet Items**

##### **4.1. Current Assets**

###### **4.1.1. Cash and Cash Equivalents**

The company has only limited access to bank balances of EUR 177,578 thousand (2007: EUR 144,909 thousand) as an amount of EUR 40,256 thousand (previous year: EUR 40,401 thousand) is serving as collateral for payment, contract performance and warranty guarantees granted by banks to customers.

#### 4.1.2. Gross Amount Due from Customers for Contract Work

	<u>31.03.2008</u>	<u>31.12.2007</u>
	In TEUR	In TEUR
Receivables . . . . .	325,157	245,472
Less advance payments received . . . . .	(206,212)	(101,325)
	<u>118,945</u>	<u>144,147</u>

This item includes work in progress as at the reporting date which was reported using the Percentage-of-completion method in compliance with IAS 11. Advance payments on contracts recognised are deducted directly. These contracts incurred material costs of EUR 75,513 thousand (previous year: EUR 207,165 thousand) in the short fiscal year 2008. The net contribution of sales and costs of materials to operating earnings from these projects in 2008 was EUR 4,182 thousand (previous year: EUR 38,307 thousand).

#### 4.1.3. Trade Receivables

Trade receivables relate primarily to receivables from customers resulting from the delivery of wind turbines.

	<u>31.03.2008</u>	<u>31.12.2007</u>
	In TEUR	In TEUR
Trade receivables . . . . .	51,193	117,425
	<u>51,193</u>	<u>117,425</u>

In the short fiscal year 2008, specific valuation allowances of EUR 92 thousand were recognised on trade receivables (31 December 2007: EUR 2,239 thousand).

	<u>2008</u>	<u>2007</u>
	In TEUR	In TEUR
<b>Development of specific valuation allowances:</b>		
As at the start of the fiscal year . . . . .	5,560	4,030
Reversals . . . . .	(87)	(709)
Additions . . . . .	92	2,239
<b>As at the end of the fiscal year . . . . .</b>	<u>5,565</u>	<u>5,560</u>

#### 4.1.4. Receivables from Participations

This item breaks down as follows:

	<u>31.03.2008</u>	<u>31.12.2007</u>
	In TEUR	In TEUR
<b>Receivables from participations</b>		
Loan to Windpark Finsterwalde GmbH, Finsterwalde . . . . .	357	364
Loan to Sister Ltd., Portugal . . . . .	99	99
Loan to Energy Wind Czech s.r.o., Czech Republic . . . . .	71	71
	<u>527</u>	<u>534</u>

#### 4.1.5. Receivables from Associated Companies and Joint Ventures

Receivables from associated companies of EUR 21,278 thousand comprise EUR 16,737 thousand from REpower Portugal — Sistemas éólicos, S.A. (Portugal) and EUR 4,541 thousand from REpower North (China) Ltd., Baotou, People's Republic of China. Receivables essentially relate to the delivery of wind turbines.

#### 4.1.6. Inventories

Valuation allowances for inventories amounted to EUR 395 thousand as at 31 March 2008 (previous year: EUR 1,523 thousand). Of this, EUR 395 thousand was recognised in 2008.

	<u>31.03.2008</u>	<u>31.12.2007</u>
	In TEUR	In TEUR
Raw materials and supplies . . . . .	116,102	86,119
Work in progress . . . . .	19,747	26,059
Finished goods and goods for resale . . . . .	8,991	0
	<u>144,840</u>	<u>112,178</u>



Raw materials and supplies relate to inventories for the production of wind energy turbines. Work in progress relates to turbines under construction.

#### 4.1.7. Other Current Assets

	31.03.2008 In TEUR	31.12.2007 In TEUR
<b>Other miscellaneous current assets</b>		
Advance payments . . . . .	32,854	40,599
Sales tax refund receivables . . . . .	15,924	18,489
Refund for equipment . . . . .	3,094	2,548
Income tax receivables from the tax office . . . . .	2,641	0
Prepaid insurance premiums (ISK) . . . . .	806	801
Creditors with debit balances . . . . .	292	541
Others . . . . .	5,351	404
	<b>60,962</b>	<b>63,382</b>
<b>Other financial assets</b>		
Receivables from insurance companies . . . . .	2,584	3,211
Loans . . . . .	161	280
Others . . . . .	91	1,534
	<b>2,836</b>	<b>5,025</b>
	<b>63,798</b>	<b>68,407</b>

## 4.2. Non-Current Assets

### 4.2.1. Non-Current Assets

Land and buildings relate primarily to production sites internal to the company.

Technical equipment and machinery relate primarily to facilities for the production of wind turbines.

As at the balance sheet date, assets under construction essentially relate to expenses for expanding production locations, the construction of rotor moulds and the construction of a 5M prototype in Bremerhaven.

The development of property, plant and equipment is shown in the statement of changes in consolidated fixed assets.

### 4.2.2. Other Intangible Assets

In fiscal 2008, research and development expenses amounted to EUR 4,035 thousand (previous year: EUR 13,375 thousand), EUR 2,021 thousand of which was capitalised (previous year: EUR 7,123 thousand).

### 4.2.3. Joint Ventures and Associated Companies

Joint ventures and associated companies carried at equity generated earnings of EUR 102 thousand (previous year: EUR -235 thousand) in fiscal 2008 and sales of EUR 19,656 thousand (previous year: EUR 13,085 thousand). The non-current assets of these companies as at 31 March 2008 amounted to EUR 6,354 thousand (previous year: EUR 6,519 thousand). Current assets amounted to EUR 63,154 thousand (previous year: EUR 56,353 thousand), non-current liabilities to EUR 4,823 thousand (previous year: EUR 15,481 thousand) and current liabilities to EUR 55,370 thousand (previous year: EUR 34,164 thousand).

The average number of employees as at 31 March 2008 was 98 (previous year: 65).

### 4.2.4. Loans Granted

This item includes loans granted to wind farm project companies. If the loans are interest bearing, the interest rates fluctuate in between 2.05% and 7.0% per annum.

#### 4.2.5. Income Tax

The current taxes on income in the individual countries and deferred taxes are reported as income taxes. Income tax expense comprises the following:

	<u>2008</u>	<u>2007</u>
	In TEUR	In TEUR
Current taxes . . . . .	299	3,734
Current taxes from previous years . . . . .	375	(319)
Deferred taxes . . . . .	<u>1,362</u>	<u>4,589</u>
<b>Income taxes . . . . .</b>	<b><u>2,036</u></b>	<b><u>8,004</u></b>

Current taxes are calculated using the respective tax rates applicable in the individual countries.

Deferred taxes result from temporary differences in the carrying amount in the companies' tax accounts and the carrying amounts in the consolidated accounts. They are calculated using the liability method used in financial statements and the tax rates applicable in the respective countries at the dates on which the differences are reversed, to the extent that they apply as at the balance sheet date or are reasonably assured to apply.

The corporation tax rate for companies in Germany was 15.0% for 2008 (previous year: 25.0%) plus the solidarity surcharge of 5.5% (previous year: 5.5%). The total rate for corporation tax was therefore 15.825% (previous year: 26.375%). Including trade taxes, the total tax rate was 30.0% (previous year: 40.0%).

The corporation tax credit of EUR 301 thousand that has not been paid out as a result of a moratorium in German tax law will be paid to REpower Systems AG in instalments from 30 September 2008. The corporation tax credit was discounted using an interest rate of 6%.

The current income tax expense in the short fiscal year of EUR 2,036 thousand (previous year: EUR 8,004 thousand in total) is EUR 1,086 thousand higher than the expected income tax expense of EUR 950 thousand (previous year EUR 11,649 in total). The reasons for the deviation between the Group's expected and actual tax expense are shown below. Expected tax expense is calculated using the total domestic tax rate of 30% for fiscal 2008 and 40% for fiscal 2007:

	<u>2008</u>	<u>2007</u>
	In TEUR	In TEUR
Expected tax expense . . . . .	950	11,649
Employee option programmes/share options . . . . .	464	2,124
Income taxes for previous years . . . . .	375	178
Ineligible foreign withholding taxes . . . . .	189	0
Other tax effects . . . . .	54	(252)
Non-recognition of capitalised deferred taxes on loss carryforwards . . . . .	27	190
Non-deductible operating expenses . . . . .	17	32
Different tax rates . . . . .	(40)	(729)
Lowering of tax rates in Germany . . . . .	0	(1,463)
Initial recognition of loss carryforwards not recognised in previous years . . . . .	<u>0</u>	<u>(3,707)</u>
<b>Actual tax income . . . . .</b>	<b><u>2,036</u></b>	<b><u>8,022</u></b>

Expenses from employee option programmes have influenced the Group's tax rate as these expenses are not deductible as expenses for tax purposes. The tax effect of this for the short fiscal year was EUR 464 thousand (previous year: EUR 2,124 thousand in total). Please see the notes on the share option programme.

The reduction of tax rates resulted in a reduction in deferred tax assets and liabilities at the German companies in the previous year. This resulted in deferred tax income of EUR 1,463 thousand, which was fully recognised in income.

Deferred tax assets and deferred tax liabilities break down into the following items:

	<u>31.03.2008</u>	<u>31.12.2007</u>
	<u>In TEUR</u>	<u>In TEUR</u>
<b>Deferred tax assets:</b>		
Tax loss carryforwards . . . . .	3,926	3,977
Provisions . . . . .	785	827
Cash and cash equivalents . . . . .	166	0
Property, plant and equipment . . . . .	123	0
Intercompany profits . . . . .	0	36
Others . . . . .	(38)	169
Total deferred tax assets . . . . .	4,962	5,009
Netting . . . . .	<u>(3,922)</u>	<u>(4,141)</u>
<b>Deferred tax assets after netting . . . . .</b>	<b><u>1,040</u></b>	<b><u>868</u></b>
<b>Deferred tax liabilities:</b>		
Gross amount due from customers for contract work . . . . .	5,181	4,372
Development costs . . . . .	4,631	4,025
Property, plant and equipment . . . . .	1,090	990
Others . . . . .	25	13
Total deferred tax liabilities . . . . .	10,927	9,400
Netting . . . . .	<u>(3,922)</u>	<u>(4,141)</u>
<b>Deferred tax liabilities after netting . . . . .</b>	<b><u>7,005</u></b>	<b><u>5,259</u></b>

Deferred taxes on tax loss carryforwards are recognised in the amount of the tax impact of the expected usable tax losses of the German and international Group companies. The key factor for determining the value of deferred tax assets is the estimation of probability of a reversal of measurement differences and the utility of tax loss carryforwards which led to deferred tax assets. These depend on the occurrence of future taxable profit during the periods in which measurement differences relating to tax are reversed and tax loss carryforwards can apply. According to the current status, tax loss carryforwards can be carried forward without restriction in subsequent years in all countries where tax loss carryforwards occur. Due to the expected taxable income situation, it is assumed that appropriate benefits can be realised from deferred tax assets.

In the fiscal year, tax loss carryforwards amounting to EUR 27 thousand were not recognised (previous year: EUR 190 thousand) as their realisation is unlikely.

### **4.3. Current Liabilities**

#### **4.3.1. Advance Payments Received**

Advance payments received relate to advance payments by customers which are not related to construction contracts.

#### **4.3.2. Provisions**

Provisions relate primarily to deferrals for warranty expenses. Assuming a level of EUR 19.2 million in the previous year, utilisation of EUR 1.7 million and additions of EUR 1.2 million, as at the balance sheet date, taking reversals of EUR 0.4 million into account, there are warranty provisions for of EUR 18.3 million.

Taking utilisation and additions of EUR 0.6 million into account, other provisions increased from EUR 1.5 million to EUR 2.1 million.

#### **4.3.3. Deferred Revenue**

Advance payments for revenue are reported as deferred revenue.

#### **4.3.4. Income Tax Liabilities**

Income tax liabilities primarily relate to current deferred taxes for the fiscal year.

#### 4.3.5. Other Current Liabilities

Other current liabilities comprise the following:

	31.03.2008 In TEUR	31.12.2007 In TEUR
<b>Other financial liabilities</b>		
Liabilities to employees . . . . .	4,977	6,199
Customers with credit balances . . . . .	63	1,685
Others . . . . .	157	177
	<u>5,197</u>	<u>8,061</u>
<b>Other miscellaneous liabilities</b>		
Sales tax. . . . .	2,941	1,454
Other liabilities to the tax office . . . . .	839	537
Social security liabilities. . . . .	358	340
Others . . . . .	915	30
	<u>5,053</u>	<u>2,361</u>
	<u>10,250</u>	<u>10,422</u>

#### 4.4. Non-Current Loans and Profit Participation Certificates

Of total of non-current loans and profit participation certificates of EUR 11,375 thousand (previous year: EUR 11,407 thousand), EUR 10,000 thousand relates to a profit participation right taken up in May 2004 with a term until 2011 and EUR 1,375 thousand relates to liabilities to banks. For profit participation certificates, a basic interest rate of 7.9% in addition to a variable interest rate dependent on net income is paid. In fiscal 2008, this amounted to EUR 0 thousand (previous year: EUR 200 thousand). The interest rate for bank loans was between 6.25% and 7.25% per year. Non-current bank liabilities amounting to EUR 1,375 thousand (previous year: EUR 1,407 thousand) are secured by liens and assignments of electricity proceeds and insurance claims for security.

#### 4.5. Equity

The change in equity components is shown in the statement of changes in equity.

##### 4.5.1. Issued Capital

The share capital of REpower Systems AG as at 31 March 2008 was EUR 8,993,576 (previous year: EUR 8,993,576) and is divided into 8,993,576 (previous year: 8,993,576) no-par value ordinary bearer shares, each with a notional share of capital of EUR 1.00.

##### Authorised Capital

By way of resolution of the Annual General Meeting on 30 May 2006, the Executive Board was authorised, with the approval of the Supervisory Board, to increase the share capital of REpower Systems AG on one or several occasions by issuing new shares against cash or non-cash contributions by up to EUR 4,050,898 until 29 May 2011. After partial utilisation of EUR 810,179 in fiscal 2007, EUR 3,240,719 is still available for future capital increases.

##### Contingent Capital

The share capital has been contingently increased by up to EUR 2,475,000.00. The contingent capital increase is only to be carried out in the event of the issue of an option or convertible bond.

Furthermore, the share capital has been contingently increased by up to EUR 438,900 (previous year: EUR 504,300). The contingent capital increase is implemented by issuing of up to 438,900 new, ordinary bearer shares to the extent that holders of subscription rights exercise their rights in the context of employee option programmes. In fiscal 2007, EUR 65,400 of contingent capital was utilised in the share option programme.

##### Issue of Profit Participation Certificates

The company was authorised by the Annual General Meeting on 9 June 2004 to issue further profit participation certificates amounting to up to EUR 20,000,000 until 8 June 2009. REpower Systems AG has not yet exercised this right.

#### 4.5.2. Capital Reserves

The EUR 1,546 thousand rise in capital reserves resulted from share-based payment recognised in the short fiscal year 2008.

The development of capital reserves is shown in the statement of changes in equity.

#### Share Option Programme

REpower Systems AG operates a share option programme which offers beneficiaries the right to acquire one share per option at an established basis price. Cash settlement is not possible. The options can be exercised within an agreed period of five years but not until two years after they are granted (blocking period). Options may only be exercised on the condition that the relevant employee is still employed at REpower Systems Group at the time of exercise and that the XETRA share price of REpower Systems AG has been at least 120% of the basis price at any given time (for options issued in 2007: at least 21 days).

As at 31 March 2008, share options had been issued to the Executive Board and key employees in the years 2005 to 2007 as part of the share option programme. As shown by the table below, there were no changes in the short fiscal year 2008 as no share options were issued or lapsed and no new share options were issued.

	<u>Number</u>	<u>Basis Price or Share Price Upon Exercise (Weighted Average) In EUR</u>
Options outstanding at the start of the fiscal year . . . . .	426,200	80.40
Granted . . . . .	0	0
Exercised . . . . .	0	0
Forfeited/lapsed . . . . .	0	0
<b>Options outstanding at the end of the fiscal year . . . . .</b>	<b><u>426,200</u></b>	<b><u>80.40</u></b>
<b>Of which exercisable . . . . .</b>	<b><u>1,750</u></b>	<b><u>9.34</u></b>

The exercise price ranges between EUR 9.34 and EUR 112.20, though only 1,750 option rights with an exercise price of EUR 9.34 are outstanding. The exercise price is EUR 42.54 for roughly 45% of the option rights and EUR 112.20 for the others. The fair values of share options granted on the grant date are determined by an external assessor on the basis of the following assumptions and factors:

<u>Granted in Fiscal Year</u>	<u>2007</u>	<u>2006</u>
Base price . . . . .	EUR 112.20	EUR 46.79
Share price of REpower Systems AG shares . . . . .	EUR 122.50	EUR 44.32
Risk-free interest rate . . . . .	4.47%	3.71%
Expected volatility . . . . .	43.37%	43.30%
Expected blocking period (in months) . . . . .	24	24
Remaining maturity . . . . .	60	48
Fair value per share option . . . . .	EUR 50.32	EUR 13.91

Expected volatility is based on historical volatility which is determined from daily closing prices for REpower Systems AG shares. The REpower Systems share performance in the first half of 2007 was influenced significantly by a takeover battle for REpower Systems AG carried out by two companies. Due to the one-off nature of this event and the extreme share price fluctuations involved, the historical data was adjusted for the period of the takeover battle.

The Monte Carlo simulation method used maps the performance target in the form of an increase in the share price of REpower Systems by at least 20% compared to the basis price and allows for the possibility of early exercise within the time period for exercising options and the beneficiaries' early exercise behaviour, i.e. the possibility that employees exercise their option before the end of the term.

At the Annual General Meeting of 21 June 2007, a resolution was made to adjust the option conditions for the 2006 share option plan in line with the conditions for the newly established 2007 share option plan. The fair value of amended share options as at 21 June 2007 is determined by an external assessor on the basis of the following assumptions and factors:

Granted in Fiscal Year	2006	
	20.03.2007	21.06.2007
Base price . . . . .	EUR 42.54	EUR 42.54
REpower Systems AG share price . . . . .	EUR 150.89	EUR 127.93
Risk-free interest rate . . . . .	3.88%	4.48%
Expected dividend — 2008 . . . . .	EUR 0.41	EUR 0.41
Expected dividend — 2009 . . . . .	EUR 0.73	EUR 0.73
Expected dividend — 2010 . . . . .	EUR 0.80	EUR 0.80
Expected volatility . . . . .	38.79%	41.30%
Remaining blocking period (in months) . . . . .	24	24
Remaining maturity (in months) . . . . .	48	60
Fair value per share option . . . . .	EUR 111.84	EUR 91.43

In the short fiscal year 2008, the company recognised staff costs from share-based payments totalling EUR 1,546 thousand (previous year: EUR 5,310 thousand).

#### 4.5.3. Minority Interests

Minority interests relate to the shares of third parties in German and international Group companies.

## 5. Notes to the Income Statement

### 5.1. Revenue

In 2008 and 2007, the operations of companies of the REpower Systems Group related almost exclusively to developing and manufacturing wind turbines and wind turbine projects. Of revenues in the turbine business, 11.7% (previous year: 34.9%) were generated on the German market and 88.3% (previous year: 65.1%) on international markets.

	2008	2007
	In TEUR	In TEUR
Revenue from the sale of wind turbines . . . . .	102,527	592,157
Contract revenue recognised in line with IAS 11 . . . . .	28,890	38,585
Service/maintenance and sales of materials . . . . .	6,427	30,288
Licence revenue . . . . .	2,091	8,614
Electricity revenue . . . . .	654	1,607
Others . . . . .	6,817	8,582
	<b>147,406</b>	<b>679,833</b>

### 5.2. Other Operating Income

Other operating income breaks down as follows:

	2008	2007
	In TEUR	In TEUR
Income from the deconsolidation of subsidiaries . . . . .	748	0
Income from the reversal of provisions . . . . .	424	0
Other reimbursement receivables . . . . .	411	0
Income from exchange rate differences . . . . .	278	450
Insurance payments/compensation . . . . .	29	5,212
Income from the disposal of fixed assets . . . . .	7	56
Land income . . . . .	3	12
Investment subsidies, research and development subsidies . . . . .	0	368
Others . . . . .	536	905
	<b>2,436</b>	<b>7,003</b>



### 5.3. Personnel Expenses

	2008	2007
	In TEUR	In TEUR
Wages and salaries . . . . .	11,921	42,316
Social security contributions . . . . .	2,353	7,239
	<u>14,274</u>	<u>49,555</u>

The average annual number of employees was:

	2008	2007
Salaried employees . . . . .	720	714
Waged employees . . . . .	366	372
	<u>1,086</u>	<u>1,086</u>

### 5.4. Other Operating Expenses

Other operating expenses are composed as follows:

	2008	2007
	In TEUR	In TEUR
Legal and consulting costs . . . . .	1,824	7,541
Travel expenses . . . . .	1,812	4,922
Purchased services . . . . .	1,394	4,667
Office and land costs . . . . .	1,317	4,023
Administrative expenses . . . . .	1,029	2,459
Costs of training and recruitment . . . . .	822	2,857
IT & telecommunication costs . . . . .	786	2,390
Guarantee expenses . . . . .	723	10,125
Vehicle costs . . . . .	687	2,195
Costs of payment transactions . . . . .	557	1,077
Advertising and trade fair expenses . . . . .	372	1,234
Repairs and maintenance . . . . .	290	979
Insurance costs . . . . .	163	402
Write-off/impairment of receivables . . . . .	28	1,530
Others . . . . .	1,019	2,298
	<u>12,823</u>	<u>48,699</u>

### 5.5. Net Finance expense

The net finance expense break down as follows:

	31.03.2008	31.12.2007
	In TEUR	In TEUR
<b>Interest and similar finance income</b>		
Other interest and similar income . . . . .	2,160	6,237
Income from other loans and securities . . . . .	15	0
	<u>2,175</u>	<u>6,237</u>
<b>Interest and similar finance expenses</b>		
Depreciation on financial assets . . . . .	(693)	(210)
Other interest and similar expenses . . . . .	(1,221)	(4,657)
	<u>(1,914)</u>	<u>(4,867)</u>
<b>Earnings from associates and joint ventures . . . . .</b>	<b>102</b>	<b>(114)</b>
<b>Net finance expense . . . . .</b>	<b><u>363</u></b>	<b><u>1,256</u></b>

The depreciation on financial assets and securities essentially relates to the deconsolidation of FEdeF S.A.S., Surennes, France and Windpark Großvargula Betriebs GmbH, Breydin. This depreciation is offset by proceeds from the deconsolidation of the above companies of EUR 748 thousand. In addition, the depreciation on financial assets includes depreciation on loans to investment companies.

Interest expenses essentially relate to guarantee commissions and interest on borrowed loans.

EUR 347 thousand of earnings from associated companies and joint ventures results from REpower Portugal — Sistemas Eólicos S.A. and –TEUR 245 thousand results from REpower (North) China Ltd.

## 5.6. Earnings Per Share

Basic earnings per share are calculated by dividing the REpower Systems AG shareholders' share of earnings and the weighted average number of shares in circulation during the fiscal year. Earnings per share are diluted by what are known as potential shares. This includes option rights which only dilute earnings if they result in shares being issued at a value below the average share price. Both tranches of the share option plan had a dilutive effect on earnings per share.

	<u>2008</u>	<u>2007</u>
	<u>In EUR</u>	<u>In EUR</u>
Consolidated net profit assigned to REpower Systems AG shareholders . . . . .	1,479,447	21,222,168
Plus: dilutive effects of share options . . . . .	—	—
Fully diluted consolidated net profit (loss) assigned to REpower Systems AG shareholders . . . . .	1,479,447	21,222,168
Weighted average number of shares outstanding (basic) . . . . .	8,993,576	8,731,325
Effect of share options . . . . .	619,549	588,938
Weighted average of shares outstanding (fully diluted) . . . . .	9,613,125	9,320,263
<b>Earnings per share (basic) . . . . .</b>	<b>0.16</b>	<b>2.43</b>
<b>Earnings per share (fully diluted) . . . . .</b>	<b>0.15</b>	<b>2.28</b>

## 6. Contingent Liabilities and Other Financial Obligations:

	<u>31.03.2008</u>	<u>31.12.2007</u>
	<u>In TEUR</u>	<u>In TEUR</u>
<b>Other financial obligations</b>		
Obligations from lease and rental contracts		
Due within one year . . . . .	4,173	3,720
Due between 1 and 5 years . . . . .	11,404	10,765
Due in more than 5 years . . . . .	3,563	334
	<b>19,140</b>	<b>14,819</b>
<b>Contingent liabilities</b>		
Land charges . . . . .	3,068	3,068
Letters of comfort . . . . .	12,240	12,412
	<b>15,308</b>	<b>15,480</b>

At REpower Systems AG and in the companies included in the scope of consolidation, all leases are operating leases. Lease payments are recognised on a straight-line basis directly in the P&L account over the contract period. Obligations from lease and rental contracts relate primarily to obligations from the rental of office and warehouse space. Expenses amounting to EUR 557 thousand (previous year: EUR 2,424 thousand) were recognised for lease and rental contracts in 2008.

As at the balance sheet date, letters of comfort for associated companies and joint ventures amounted to EUR 12.2 million (previous year: EUR 12.4 million). The figure of EUR 12.2 million includes Chinese renminbi yuan of CNY 56,890,857 measured at the reporting date rate.

As at the balance sheet date, there were purchase commitments of around EUR 640.7 million (previous year: EUR 551.6 million) to purchase inventories and approximately EUR 19.8 million (previous year: EUR 21.4 million) to purchase property, plant and equipment.

## 7. Financial Risks and Financial Instruments

### 7.1. Principles of Risk Management

With regard to its assets, financial liabilities and planned transactions, REpower Systems AG is subject to risks from changes in the price of raw material and purchasing prices, exchange rates, interest rates and share prices. The aim of financial risk management is to limit the market risks through ongoing operating and financially oriented activities. In order to do this, specific hedging instruments are used according to the assessment of risk. Risks are only hedged if they affect the Group's cash flow. Derivative financial instruments are only used in exceptional circumstances to hedge exchange rate risks in customer contracts and are not used for trading or speculative purposes.

The principles of financial policy are agreed on an annual basis by the Executive Board and monitored by the Supervisory Board. The implementation of financial policy as well as ongoing

risk management is the responsibility of Group Treasury, with the involvement of Group Controlling. Certain transactions require only the prior consent of the Executive Board, which is also regularly informed of the scope and amount of current risk exposure. Treasury regards effective management of financial instruments as one of its main functions. In order to assess the effects of different events on the market, simulation calculations using various worst-case and market scenarios are undertaken.

## **7.2. Information on the Nature and Extent of Risks Associated with Financial Instruments**

Primary financial instrument assets in line with IFRS 7 include receivables and other assets, provided that they are based on a contract, as well as cash and cash equivalents. Primary financial instrument liabilities in line with IFRS 7 include all sub-groups of liabilities with the exception of provisions, deferred sales and deferred taxes as well as liabilities from income taxes. Furthermore, those items which do not relate to a contract are also not included. Derivatives are only used to a limited extent.

The credit and default risk of financial assets is monitored on an ongoing basis. Before closing transactions, the Group checks the customer's rating and also has corresponding collateral provided. The credit and default risk of financial assets corresponds to the maximum amounts posted on the assets side. There is no material concentration of default risks in the Group.

Currency risks exist only insofar as deliveries are made outside the euro zone countries. Risks as per IFRS 7 arise through financial instruments which are denominated in a currency other than the functional currency and are of a monetary nature. Differences due to exchange rates arising from the translation of financial statements in the Group currency are not taken into account. No hedging transactions were used in the short fiscal year 2008. Gains and losses from hedging transactions are reported in the income statement. The company does not use hedges.

The liquidity risk is monitored as part of ongoing liquidity planning.

Interest rate risks are not generally hedged. As at 29 November 2006, REpower Systems AG had utilised individual loans with a total value of EUR 2,368 thousand. In an effort to streamline interest payments, these individual loans were converted into a variable-rate euro loan of the same amount, the interest on which was optimised by entering into a swap. The term of the interest rate swap covers the period from 1 December 2006 to 2 December 2013.

The interest derivatives concluded have the following fair values as at 31 March 2008 including accrued interest which was calculated according to a mark-to-market valuation:

<b>Product</b>	<b>Nominal in Million In Mio. EUR</b>	<b>Final Maturity</b>	<b>Fixed Interest Rate/Strike</b>	<b>Measurement at Reporting Date In EUR</b>
Cap . . . . .	0.66	28.06.13	5	855
Swap . . . . .	1.59	02.12.13	3.5	32,155

Within the Group, interest rate changes result in an increase or decrease of the interest for loans and overdrafts. Other than the interests rate derivatives shown below, currently no interest risks are hedged.

As part of the disclosure of market risks, IFRS 7 requires information on how hypothetical changes to risk variables affect the price of financial instruments. The purchase price for components as well as the share or index prices are particularly significant risk variables. The material market risk from component price development is offset by contracts with suppliers related to time or quantity, or by direct participation of suppliers in joint ventures.

### 7.3. Information on the Significance of Financial Instruments for the Consolidated Financial Statements

Based on the relevant balance sheet items, the relationships of the categorisation of financial instruments as per IFRS 7 and the financial instrument carrying amounts are listed in the following tables. Cash and cash equivalents that are not allocated to any IAS 39 category are also shown. For comparison, the figures from the previous year as at 31 December 2007 are shown separately in the following table.

2008	Category*	Category Amount	Amortised Cost	Fair Value Directly in Equity	Fair Value in Income
		In TEUR	In TEUR	In TEUR	In TEUR
Cash and cash equivalents . . . . .		177,578	177,578	0	0
Gross amount due from customers from contract work . . . . .	L+R	118,946	118,946	0	0
Trade receivables . . . . .	L+R	51,193	51,193	0	0
Receivables from associates and joint ventures . . . . .	L+R	21,278	21,278	0	0
Loans granted . . . . .	L+R	6,729	6,729	0	0
Other financial assets — other . . . . .	L+R	2,675	2,675	0	0
Other financial assets — loans . . . . .	L+R	1,758	1,758	0	0
Other financial assets . . . . .	AFS	626	626	0	0
Receivables from investment companies . . . . .	L+R	527	527	0	0
Investments in project companies . . . . .	AFS	26	26	0	0

\* AFS: available-for-sale

L+R: loans and receivables

2007	Category	Carrying Amount	Amortised Cost	Fair Value Directly in Equity	Fair Value in Income
		In TEUR	In TEUR	In TEUR	In TEUR
Cash and cash equivalents . . . . .		144,909	144,909	0	0
Gross amount due from customers from contract work . . . . .	L+R	144,147	144,147	0	0
Trade receivables . . . . .	L+R	117,425	117,425	0	0
Receivables from associates and joint ventures . . . . .	L+R	10,536	10,536	0	0
Loans granted . . . . .	L+R	7,003	7,003	0	0
Other financial assets — other . . . . .	L+R	4,745	4,745	0	0
Other financial assets — loans . . . . .	L+R	1,743	1,743	0	0
Other financial assets . . . . .	AFS	626	626	0	0
Receivables from investment companies . . . . .	L+R	534	534	0	0
Investments in project companies . . . . .	AFS	15	15	0	0

The carrying amounts of the financial assets measured at fair value correspond to the market values. Financial instruments measured at amortised cost are listed with their fair value and carrying amount in the following table and the figures for the previous year are listed for comparison:

Category	31.03.2008		31.12.2007	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	In TEUR	In TEUR	In TEUR	In TEUR
Cash and cash equivalents . . . . .	177,578	177,578	144,909	144,909
Gross amount due from customers from contract work . . . . .	L+R 118,946	118,946	144,147	144,147
Trade receivables . . . . .	L+R 51,193	51,193	117,425	117,425
Receivables from associates and joint ventures . . . . .	L+R 21,278	21,278	10,536	10,536
Loans granted . . . . .	L+R 6,729	6,729	7,003	7,003
Other financial assets — other . . . . .	L+R 2,675	2,675	4,745	4,745
Other financial assets — loans . . . . .	L+R 1,758	1,758	1,743	1,743
Other financial assets . . . . .	AFS 626	626	626	626
Receivables from investment companies . . . . .	L+R 527	527	534	534
Investments in project companies . . . . .	AFS 26	26	15	15

Cash and cash equivalents, construction contracts carried as assets, intragroup receivables, receivables from associated companies and joint ventures, trade accounts receivable and other financial assets generally have a duration period of not more than twelve months. Therefore, the

carrying amounts on the reporting date correspond closely to the fair values. This also applies to liabilities.

The fair values of non-current receivables and financial investments classified as available for sale with a duration period of more than one year correspond to the present value of the payments related to these assets, taking into account the current parameters which reflect the conditions and expectations related to the market and partners.

The fair values of liabilities due to banks and other financial liabilities are determined on the basis of the present value of payments relating to the liabilities applying the current rate of interest.

The following table shows financial liabilities:

<b>2008</b>	<b>Category*</b>	<b>Carrying Amount</b>	<b>Amortised Cost</b>	<b>Fair Value Directly in Equity</b>	<b>Fair Value in Income</b>
		<b>In TEUR</b>	<b>In TEUR</b>	<b>In TEUR</b>	<b>In TEUR</b>
Trade payables . . . . .	OL	92,369	92,369	0	0
Liabilities from associates and joint ventures . . .	OL	11,473	11,473	0	0
Profit participation certificates . . . . .	OL	10,000	10,000	0	0
Other current financial liabilities . . . . .	OL	5,197	5,197	0	0
Non-current loans . . . . .	OL	1,849	1,849	0	0
Current loans . . . . .	OL	195	195	0	0

\* OL Other liabilities

<b>2007</b>	<b>Category</b>	<b>Carrying Amount</b>	<b>Amortised Cost</b>	<b>Fair Value Directly in Equity</b>	<b>Fair Value in Income</b>
		<b>In TEUR</b>	<b>In TEUR</b>	<b>In TEUR</b>	<b>In TEUR</b>
Trade payables . . . . .	OL	108,117	108,117	0	0
Profit participation certificates . . . . .	OL	10,000	10,000	0	0
Other current financial liabilities . . . . .	OL	8,061	8,061	0	0
Non-current loans . . . . .	OL	1,407	1,407	0	0
Liabilities from associates and joint ventures . . . .	OL	494	494	0	0
Current loans . . . . .	OL	474	474	0	0

		<b>31.03.2008</b>		<b>31.12.2007</b>	
	<b>Category</b>	<b>Carrying Amount</b>	<b>Fair Value</b>	<b>Carrying Amount</b>	<b>Fair Value</b>
		<b>In TEUR</b>	<b>In TEUR</b>	<b>In TEUR</b>	<b>In TEUR</b>
Trade payables . . . . .	OL	92,396	92,396	108,117	108,117
Liabilities from associates and joint ventures . . . . .	OL	11,473	11,473	494	494
Profit participation certificates . . . . .	OL	10,000	10,000	10,000	10,000
Other financial liabilities . . . . .	OL	5,197	5,197	8,061	8,061
Non-current loans . . . . .	OL	1,849	1,849	1,407	1,407
Current loans . . . . .	OL	195	195	474	474

Loans are calculated as the present value of cash flow expected in the future. The normal market interest rate is used for discounting based on maturities. For loans it is assumed that the carrying amount corresponds closely to the fair value.

Due to the short term of trade payables and other financial liabilities, it is assumed that carrying amounts correspond to fair value.

Net gains or losses for loans and liabilities consist primarily of results from impairment losses and reversals thereof. With regard to impairment, please see the notes on trade receivables (4.1.3) and other current assets (4.1.7). Specific allowance for bad debts amounting to EUR 108 thousand were written off under receivables from associated companies beside the write offs described in article 4.1.3. The net results of impairment losses and reversals thereof are primarily reported as other operating expenses.

Net gains or losses of available for sale financial assets consist primarily of net income from investments.

For information on the collateral provided, please see note 4.4.

The Group holds collateral from customers amounting to EUR 614,981 thousand (previous year: EUR 426,244 thousand), which corresponds to the fair value of the security. These are

standard industry guarantees which are provided by our customers and suppliers in order to secure the fulfilment of contractual obligations.

## 8. Capital Management

The aim of the Group's capital management is to ensure that it maintains a good equity ratio and high credit rating in order to support its business activities and maximise shareholder value. This is especially significant in the context of growth targets.

REpower Systems AG has a balanced capital structure. Equity capital covers non-current assets by more than 100% .

The Group monitors its capital with regards to the equity ratio as the ratio of equity reported in the IFRS consolidated financial statements to total assets.

The company is not subject to any statutory capital requirements.

## 9. Notes to Segment Reporting

The activities of the REpower Group consist of the development, production and marketing of wind turbines. In addition to development and production, preliminary work for project development is done to support sales, appropriate rights are acquired and the infrastructure is created to erect turbines at appropriate locations.

The primary segment reporting format at the REpower Group is geographic segments as it is essentially a single-purpose enterprise in terms of business activities. REpower distinguishes between the two reporting segments „Germany“ and „Rest of world“. The „Rest of world“ reporting segment includes the segments of Asia, Europe (not including Germany) and Australia.

The notes on segment reporting includes data on segment income, assets, liabilities, investments, depreciation and amortisation for each reporting geographic segment.

## 10. Notes to the Cash Flow Statement

In compliance with IAS 7, the consolidated cash flow statement is divided into the areas of operating activities, investing activities and financing activities. The funds reported in the cash flow statement include cash and cash equivalents. Current bank liabilities were deducted.

Cash and cash equivalents are composed as follows:

	<u>2008</u>	<u>2007</u>
	<u>In TEUR</u>	<u>In TEUR</u>
<b>Cash and cash equivalents at the start of the period</b>		
Cash, bank balances. . . . .	144,909	120,067
Less current bank liabilities. . . . .	(474)	0
<b>Total . . . . .</b>	<b><u>144,435</u></b>	<b><u>120,067</u></b>
<b>Cash and cash equivalents at the end of the period</b>		
Cash, bank balances. . . . .	177,578	144,909
Less current bank liabilities. . . . .	(669)	(474)
<b>Total . . . . .</b>	<b><u>176,909</u></b>	<b><u>144,435</u></b>

The indirect method was used to determine the cash flow from operating activities. The cash flow statement begins with the income for the period before taxes. The outflow of funds from interest and taxes was allocated to operating activities and reported separately in that item.

Cash flow from investing activities includes payments for investments in intangible assets, property, plant and equipment and financial assets and proceeds from disposals of fixed assets.

## 11. Related Party Disclosures

In line with IAS 24, related parties of the REpower Systems AG Group are those that control the Group or exercise a significant influence on it or those that are controlled by the Group or over which it can exercise a significant influence.



In addition to the business relationships with the subsidiaries included in the consolidated financial statements by way of full consolidation, the following relationships existed with related parties.

To a minor extent, REpower Systems AG purchased components from AREVA Group companies, which were settled at market prices. In addition, turbines were sold to the associated company REpower Portugal S. A. for a total amount of EUR 19.3 million (previous year: EUR 6.5 million). These turbines were then resold to third-party customers.

The following legal transactions were entered into with the shareholder Suzlon:

Company	Content	Volume
Suzlon Energy Ltd. . . . .	Delivery agreement dated 1 November 2007 for delivery of RE40 blades to REpower Systems AG in the period from 2008 — 2010 with a volume of around EUR 62 million	No transactions arose from this agreement in the short fiscal year 2008
Suzlon Energy Ltd. . . . .	Delivery agreement dated 18/31 January 2008 for delivery of RE45 blades to REpower Systems AG in the period from 2008 — 2011 with a volume of around EUR 77 million	No transactions arose from this agreement in the short fiscal year 2008
SE Drive Technik GmbH . . . . .	Disposal of shares agreement dated 6 February 2008 on the disposal of 50% of shares in RETC Renewable Energy Technology Centre GmbH (formerly Verwaltungsgesellschaft einhundertvierundvierzigste Alster mbH) to SE Drive Technik GmbH	Sale price: EUR 12,500
Suzlon Energy Ltd./ SE Drive Technik GmbH . . . . .	Joint venture agreement dated 6 February 2008 on the cooperation for joint fundamental wind energy research and training	No transactions arose from this agreement in the short fiscal year 2008

REpower Systems AG signed a memorandum of understanding providing for the negotiation of master agreements with a volume of up to 1,900 MW with the subsidiary of the RWE Group specialising in renewable energies, RWE Innogy — the managing director of which is Prof. Fritz Vahrenholt, former CEO and now Deputy Chairman of the Supervisory Board of REpower Systems AG. This will break down as roughly 250 offshore 5M/6M type series turbines and around 200 more onshore 2 MW class turbines.

The remuneration of the Executive Board and the Supervisory Board is stated in detail under note 14.

## 12. Disclosures on the Executive Bodies of REpower Systems AG, Hamburg

The following are/were appointed as members of the Supervisory Board:

- Mr. Tulsi R. Tanti, Pune, India (Chairman)
- Mr. Bertrand Durrande, Paris, France (Deputy Chairman until 7 February 2008)
- Prof. Fritz Vahrenholt, Hamburg (member since 10 January 2008, Deputy Chairman since 7 February 2008)
- Mr. Andre Horbach, Amsterdam, Netherlands, operations technician (member since 10 March 2008)
- Mr. Oliver Heinecke, Hamburg
- Mr. Alf Trede, Schwesing

The following persons are/were appointed as members of the REpower Systems AG Executive Board in fiscal 2006:

- Prof. Fritz Vahrenholt, Hamburg (Chairman until 31 December 2007)

- Mr. Per Hornung Pedersen, Hamburg, (Chairman from 1 January 2008)
- Mr. Matthias Schubert, Rendsburg
- Mr. Pieter Wasmuth, Hamburg
- Mr. Lars Rytter Kristensen, Hamburg (from 1 April 2008)

### 13. Declaration of Conformity with the German Corporate Governance Code

The declaration of conformity with the German Corporate Governance Code was submitted by the Executive Board and Supervisory Board and published promptly on the company's Web site. This declaration is permanently accessible.

### 14. Remuneration of the Supervisory Board and the Executive Board of REpower Systems AG

In line with the Articles of Association of REpower Systems AG, the remuneration paid to the members of the Supervisory Board for the short fiscal year 2008 is as follows:

Name	Attendance Fees for 2008	Fixed Remuneration for 2008	Total 2008	Total 2007
	EUR	EUR	EUR	EUR
Tulsi R. Tanti . . . . .	2,000	5,000	7,000	15,000
Prof. Dr. Fritz Vahrenholt . . . . .	1,500	3,333	4,833	0
Bertrand Durrande . . . . .	1,250	2,917	4,167	28,500
Oliver Heinecke . . . . .	1,000	2,500	3,500	16,000
Alf Trede . . . . .	1,000	2,500	3,500	16,000
Andre Horbach . . . . .	0	833	833	0
			<b>23,833</b>	<b>119,750</b>

Please see the next page for information on the share option rights of Prof. Fritz Vahrenholt.

The members of the Executive Board of REpower Systems AG are paid fixed remuneration, the amount of which can be derived from the following table. In addition to a fixed annual salary, each member also receives a performance-based bonus of 30% of the fixed annual salary if REpower Systems AG's EBIT amounts to at least 75% of the figure planned in the budget each year. This bonus rises to 40% of the fixed annual salary if EBIT reaches the amount planned in the budget. It rises further to 50% of the fixed annual salary if EBIT reaches 125% of the amount planned in the budget (maximum bonus). The Supervisory Board granted the Executive Board flat-rate, variable remuneration for the short fiscal year 2008.

As part of the existing share option programme (see note 4.5.2), share option rights were also granted to members of the Executive Board in the 2006 and 2007 fiscal years. The options can only be exercised if the share price of REpower Systems shares rises to at least 120% of the base price on at least 21 days before exercise. At the time of the granting in 2006, the fair value per option was EUR 13.91, for 2007 the fair value per option was EUR 50.32. Due to changes of the stock option plan conditions in 2007 the fair value of the stock options granted in 2006 has increased to EUR 91.43.

Name	Option Rights 2006	Option Rights 2007	Total
	Quantity	Quantity	Quantity
Prof. Dr. Fritz Vahrenholt . . . . .	20,000	24,000	44,000
Matthias Schubert . . . . .	15,000	14,000	29,000
Pieter Wasmuth . . . . .	15,000	19,000	34,000
	<b>50,000</b>	<b>57,000</b>	<b>107,000</b>

The total remuneration of the members of the Executive Board for the short fiscal year 2008 was as follows:

<u>Name</u>	<u>Fixed Remuneration</u>	<u>Variable Remuneration</u>	<u>Pension</u>	<u>Non-Recurring Payments*</u>	<u>Total Remuneration</u>	<u>Share Options Quantity</u>
	<u>EUR</u>	<u>EUR</u>	<u>EUR</u>	<u>EUR</u>	<u>EUR</u>	
Per Hornung Pedersen . . . . .	100,000	18,500	0	15,000	133,500	0
Matthias Schubert . . . . .	45,000	12,000	15,000	0	72,000	0
Pieter Wasmuth . . . . .	45,000	12,000	15,000	0	72,000	0
	<u>190,000</u>	<u>42,500</u>	<u>30,000</u>	<u>15,000</u>	<u>277,500</u>	<u>0</u>

\* The non-recurring payment was the reimbursement of moving costs.

The payment of residual claims of EUR 1,631,500 as at the 2007 balance sheet date were agreed for Prof. Fritz Vahrenholt, who left his position as Chairman of the Executive Board. EUR 1,072,500 of this was paid in 2007, the remaining amount of EUR 559,000 was transferred to provisions.

As at 31 March 2008, the shares held by the Executive Board are as follows:

<u>Name</u>	<u>As at 1 January Quantity</u>	<u>Additions and Disposals in SYF 2008 Quantity</u>	<u>As at 31 March Quantity</u>
Per Hornung Pedersen . . . . .	0	0	0
Matthias Schubert . . . . .	10,000	0	10,000
Pieter Wasmuth . . . . .	0	0	0
	<u>10,000</u>	<u>0</u>	<u>10,000</u>

#### 15. Information on Fees Paid to Auditors

A fee of EUR 197,500 (previous year: EUR 210,000) was recognised for the audit of the financial statements in the fiscal year. EUR 0 was paid for other assurance or advisory services in the fiscal year (previous year: EUR 3,144).

#### 16. Proposal for the Appropriation of the Unappropriated Surplus of REpower Systems AG

The Executive Board of REpower Systems AG, Hamburg, proposes that the unappropriated surplus reported in the annual financial statements as at 31 March 2008, prepared in accordance with the provisions of the German Commercial Code and the German Stock Corporation Act, be carried forward to new account.

The single-entity financial statements and consolidated financial statements of REpower Systems AG, Hamburg, will be published in the electronic Federal Gazette (elektronischer Bundesanzeiger).

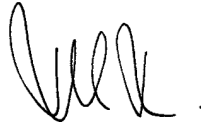
## 17. Material Events After the Reporting Date

Please see note 12 for information on the changes in the composition of the Executive Board and the Supervisory Board.

The consolidated financial statements were prepared by the Executive Board on 4 June 2008 and thus submitted to the Supervisory Board for approval. The consolidated financial statements will be presented to the Supervisory Board at the Supervisory Board meeting on 25 June 2008 for approval.

Hamburg,  
4 June 2008

The Executive Board



Per Hornung Pedersen



Pieter Wasmuth



Matthias Schubert



Lars Rytter Kristensen

## **Auditor's Report**

We have audited the consolidated financial statements prepared by REpower Systems AG, Hamburg, comprising the balance sheet, the income statement, statement of changes in equity, cash flow statement and the notes to the consolidated financial statements, together with the report on the position of the company and the group for the business year from 1 January to 31 March 2008. The preparation of the consolidated financial statements and the group management report in accordance with IFRSs, as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB are the responsibility of the parent company's management. Our responsibility is to express an opinion on the consolidated financial statements and on the group management report based on our audit.

We conducted our audit of the consolidated financial statements in accordance with § 317 HGB and German generally accepted standards for the audit of financial statements promulgated by the Institut der Wirtschaftsprüfer (IDW). Those standards require that we plan and perform the audit such that misstatements materially affecting the presentation of the net assets, financial position and results of operations in the consolidated financial statements in accordance with the applicable financial reporting framework and in the group management report are detected with reasonable assurance. Knowledge of the business activities and the economic and legal environment of the Group and expectations as to possible misstatements are taken into account in the determination of audit procedures. The effectiveness of the accounting-related internal control system and the evidence supporting the disclosures in the consolidated financial statements and the group management report are examined primarily on a test basis within the framework of the audit. The audit includes assessing the annual financial statements of those entities included in consolidation, the determination of entities to be included in consolidation, the accounting and consolidation principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements and group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not led to any reservations.

In our opinion, based on the findings of our audit, the consolidated financial statements comply with IFRSs, as adopted by the EU, the additional requirements of German commercial law pursuant to § 315a Abs. 1 HGB and give a true and fair view of the net assets, financial position and results of operations of the Group in accordance with these requirements. The group management report is consistent with the consolidated financial statements and as a whole provides a suitable view of the Group's position and suitably presents the opportunities and risks of future development.

Hamburg  
June 4, 2008

KPMG Deutsche Treuhand-Gesellschaft  
Aktiengesellschaft  
Wirtschaftsprüfungsgesellschaft

Papenberg  
Wirtschaftsprüfer

Frahm  
Wirtschaftsprüferin

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