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Suzlon Group FY13: Performance impacted by exceptional conditions; India market turbulence

- Liability management-focus impacts volumes, execution, adds non-routine costs
- Revenues of Rs 18,743 cr / ~US$ 3.33 bn
  - REpower FY13 revenues of EUR 2.22 bn; 35% CAGR FY11 – FY13
- Consolidated EBIT of Rs (2,037) cr/ US$ (362) mn
- Project Transformation: Suzlon Wind operating fixed costs down by 20%, headcount down by over 2,000; working capital reduced to 20% at Group-level; further optimization underway

Pune: Suzlon Group, the world's fifth largest* wind turbine maker, on Thursday 30th May 2013, announced its results for financial year 2012-13 (FY13).

Mr Tulsi Tanti, Chairman – Suzlon Group, said: "This has been an extremely difficult year for the Suzlon Group. We faced both significant internal challenges on the liability management front, and externally with a highly competitive global wind sector, and turbulent India market which shrank by almost 50 per cent.

"Breaking out of this cycle required a strategic shift on our part in order to preserve value and ensure the sustainability of our business in the long-term. This meant that, over the fiscal, the business was under-resourced which contributed to what is a very poor result. However, we consider this to have been a necessary sacrifice and have made substantial and real progress in addressing our liabilities, as well as in improving our business efficiency. Despite these challenges, we secured new orders of nearly US$ 4.3 bn over the year, REpower continued to outperform the sector, and we enter the new fiscal focusing 100 per cent on execution."

Mr Kirti Vagadia, Group Head of Finance, said: "As we have stated in the past, FY13 presented us with a textbook conflict in allocation of resources, between our business needs and those of our liabilities. While we made significant progress, under Project Transformation, in streamlining the organization over the year – reducing headcount at Suzlon Wind by nearly 2,000 positions, improving business efficiency, and in liability management – the impact of this has been a very low volume of execution, along with the resultant non-routine costs. Delays in execution have also led to the cancellation of a small number of orders, totaling 195 MW; however with a steady intake of new orders, our order book position remains net positive, giving us solid order coverage over the mid-term.

"While our FY13 numbers are extremely disappointing, the business is starting to stabilize. We embark into FY14 with additional working capital support, a leaner workforce, lower fixed costs, and a more efficient cash cycle. While the market environment continues to remain extremely challenging, we are positioning the business to take advantage of the market recovery, which is independently projected for CY2014."

Key updates:

Business performance:

- Performance at the **Suzlon Wind** level was significantly impacted by the internal focus on liability management; as well as by our home market, India, shrinking by nearly 50 per cent due to removal of key policies – Accelerated Depreciation (AD) and Generation Based Incentives (GBI) – limited Suzlon Wind volumes to 251 MW, and added non-routine costs. The GBI policy has been reinstated in FY2013-14 Union budget.
- **REpower** continued to outperform the industry achieving 35 per cent CAGR FY11 – FY13, and posting revenues of EUR 2.22 bn for FY13 against EUR 1.67 bn for FY12. The Company crossed 1 GW in installations in both the US and UK, and maintained the Group's position as the second leading offshore supplier in 2012.
- The Group's **Service (OMS) vertical** continued its growth with total installed capacity under contract approaching 20,000 MW, translating to a service order backlog of US$ 3.4 bn over a five-year horizon. With best-in-class availability, the OMS vertical contributed 9.6 per cent of Group revenues in FY13, projected to increase by over 38 per cent year-on-year, with EBIDTA margins of over ~25 per cent.

Exceptional items: The FY13 financial result was impacted by non-routine costs, including foreign exchange losses, asset impairments, tax credit reversal et al, totaling approximately Rs 1,100 cr.

Board meeting update: The Board of Directors approved an omnibus resolution for issuance of equity or other equity linked instruments to an extent of Rs 5,000 cr, subject to the approval of shareholders. This is an enabling resolution to facilitate the Company to raise funds at an appropriate time, if required.

Liability management: The Company's Corporate Debt Restructuring (CDR) package was approved and implemented, extending the maturity profile of its domestic debt with a two year moratorium on principal and interest on term debt, conversion of interest costs into equity, lower interest rates, and a significantly back-ended maturity profile. Additional working capital support also became available under the CDR package, helping restart the business execution cycle.

Suzlon also successfully refinanced near-term foreign currency dues out of a US$ 647 mn bond, backed by an SBI Standby Letter of Credit (SBLC), and a five-year maturity.

FCCB: The Company continues to be in active solution-oriented dialogue with FCCB-holders, their advisors, and senior secured lenders.

Business efficiency: The company, under 'Project Transformation', successfully reduced working capital to the targeted 20 per cent at the Group level; as well as reducing net headcount by over 2,000 and fixed operating expenditure by 20 per cent (on a quarterly run-rate basis) at the Suzlon Wind-level. In addition, REpower announced targeted savings of EUR 100 mn over FY14, through opex, employees, purchasing and production reductions, including up to 750 job losses, as well as by reducing material costs.

Orderbook: The consolidated Group orderbook stood at 5.9 GW, approximately INR 42,094 cr / US$ 7.5 bn in value, with an intake of 836 MW in Q4 FY13, and ~3.5 GW over the full fiscal year.

Execution delays led cancellations of orders in Q4 of approximately 195 MW, including an order by Coromandel Wind Energy for 75.6 MW and Servtec (Brazil) for 24 MW.

FY14 priorities: The Group's priorities for FY14 will continue to remain focused around four key pillars – transitioning to a more **asset-light / debt-light** model by optimizing our asset base; monetizing non-critical assets with a target of raising up to US$ 400 mn over FY14; maintaining our working capital at 20 per cent; and, further optimizing our cash cycle. A key focus for us remains continuously improving **business efficiency** at every level. We continue to work towards **lowering break even** by improving the contribution margin, further right-sizing and reducing fixed opex, and optimizing manufacturing through 'make vs. buy' analysis.

The right products for the right markets remains a key competitive differentiator in the wind energy space, and we continue to invest in R&D to reduce the cost-of-energy; focusing tightly on core, high-growth and profitable markets; investing in our project pipeline; and sustaining a quality, profitable order book.

Notes to the Editor:

- **BTM Consult ApS – A part of Navigant Consulting – World Market Update*
- US$ 1 = INR 56.29
- ^ Coromandel Wind Energy order (75.6 MW) announced 21st November, 2011; Servtec (Brazil) order (24 MW) announced 11th January, 2012.
- Suzlon Group guidance remains suspended.

About Suzlon Group:
The Suzlon Group is ranked as the world's fifth largest* wind turbine supplier, in terms of cumulative installed capacity and marketshare, at the end of 2012. The company's global spread extends across Asia, Australia, Europe, Africa and North and South America with approximately 22,000 MW of wind energy capacity installed and operations across 32 countries. Suzlon Group has an installed base of approximately 8,000 MW in India, with best-in-class service offerings built on 18 years of market experience. The Group offers one of the most comprehensive product portfolios – ranging from sub-megawatt onshore turbines at 600 Kilowatts (KW), to the world's largest commercially-available offshore turbine at 6.15 MW – with a vertically integrated, low-cost, manufacturing base. The Group – headquartered at Suzlon One Earth in Pune, India – comprises Suzlon Energy Limited and its subsidiaries, including REpower Systems SE. Visit us at www.suzlon.com

Press Contact Suzlon Group:
Abhay Bhow, Edelman PR
Mobile: +91 98927 51311
E-mail: abhay.bhow@edelman.com

Investor Relations Contact:
Dhaval Vakil, Suzlon Energy Limited
Tel.: +91 (22) 6639 3252
E-mail: dhaval.vakil@suzlon.com