

Introduction

The request is made for the Committee to determine whether a Restructuring Credit Event occurred with respect to the Reference Entity on or about 11 June 2012 upon the extension of the maturity date for the Reference Entity's US\$300,000,000 Zero Coupon Convertible Bonds due June 2012 issued on 11 June 2007 (the "**Zero Coupon Bonds**") and the Reference Entity's US\$35,592,000 7.50 per cent. Convertible Bonds due 2012 issued on 8 May 2009 (the "**Interest-bearing Bonds**" and, together with the Zero Coupon Bonds, the "**Bonds**").

Relevant provisions of the Definitions

The Committee's attention is drawn to Section 4.7 of the 2003 ISDA Credit Derivatives Definitions.

A Restructuring Credit Event would be triggered if (i) the chain of events in respect of one or more Obligations of a Reference Entity meets the criteria set out in Section 4.7(a) and (ii) such chain of events does not fall within one or more of the exceptions in Section 4.7(b).

Section 4.7(a)(iii) specifies that, with respect to one or more Obligations of not less than the Default Requirement, a postponement or other deferral of a date or dates for either (a) the payment or accrual of interest or (b) the payment of principal or premium, as agreed between the Reference Entity and a sufficient number of holders of such Obligation to bind all holders of such Obligation (in a form that binds all holders of such Obligation), would fall within the meaning of "Restructuring"; provided that such postponement or other deferral is not expressly provided for under the terms of such Obligation in effect as of (i) the Credit Event Backstop Date and (ii) the date as of which such Obligation is issued or incurred.

Pursuant to Section 4.7(b)(iii), an event which falls within the definition of "Restructuring" pursuant to Section 4.7(a) would not constitute a Restructuring if the occurrence of, agreement to or the announcement of such an event "does not directly or indirectly result from a deterioration in the creditworthiness or financial condition of the Reference Entity".

In determining whether a Restructuring Credit Event has occurred with respect to the Reference Entity, the Committee will need to determine whether:

- (i) a deterioration in the creditworthiness or financial condition has occurred in relation to the Reference Entity; and
- (ii) if so, if the extension of the maturity of the Bonds resulted, either directly or indirectly, from such deterioration.

The factual background and the publicly available information referenced below is submitted to the Committee to assist in its analysis.

Factual background

The Committee's attention is drawn to the following facts:

Postponement of the date for the payment of principal

1. Pursuant to notices dated 18 May 2011, the Reference Entity convened meetings of the holders of the Zero Coupon Bonds and the holders of the Interest-bearing Bonds, each to be held on 18 June 2012.
1. At the meeting of the holders of the Zero Coupon Bonds, the Reference Entity sought the consent, by means of an Extraordinary Resolution, of the holders of such Bonds to amend

certain terms and conditions of such Bonds, and the related Trust Deed, to change the date on which such Bonds are due to be redeemed from 12 June 2012 to 27 July 2012 (or such earlier date that the Reference Entity may determine).

2. At the meeting of the holders of the Interest-bearing Bonds, the Reference Entity sought the consent, by means of an Extraordinary Resolution, of the holders of such Bonds to amend certain terms and conditions of such Bonds, and the related Trust Deed, to change the date on which such Bonds are due to be redeemed from 12 June 2012 to 27 July 2012 (or such earlier date that the Reference Entity may determine).
3. At these meetings, the holders of each series of Bonds approved the Extraordinary Resolutions put to them.
4. Pursuant to Schedule 3 to the Trust Deed relating to each series of Bonds, any Extraordinary Resolution of the holders of that series of Bonds that is passed is binding on all holders of such Bonds, whether or not they were present at the relevant meeting and whether or not they voted.
5. On or before 11 June 2012, the Reference Entity received approval from the Reserve Bank of India of the extension of the maturity date of each series of Bonds.
6. The Reference Entity gave effect to the Extraordinary Resolutions by entering into Supplemental Trust Deeds, in respect of each series of Bonds, with the Trustee for that Series, whereupon the maturity date of each series of Bonds was changed to 27 July 2012.
7. The aggregate principal amount of the Zero Coupon Bonds and the aggregate principal amount of the Interest-bearing Bonds that were affected by the amendment each exceeded the Default Requirement of US\$10,000,000.

Deterioration in creditworthiness

8. On 25 May 2012, the Reference Entity reported a fourth-quarter loss of 3 billion rupees (US\$54 million), due to declining sales and increased financing costs.
9. The Chairman of the Suzlon Group, Mr Tulsi Tanti, made the following remarks after the announcement of the Group's most recent financial results:

“Our order backlog is now an impressive Rs 41,500 cr, giving us strong visibility through FY13 and beyond. In addition, we are now realizing significant revenues from operations and service offerings for our global fleet approaching 20,000 MW, giving us secured annuity income over a 15 year horizon. With this strong performance, robust orderbook, strategic positioning in high growth/high margin markets, and the global market independently projected to grow at over 20 per cent in 2012, we have a secure foundation to maintain our growth trajectory. Our guidance for FY13 is a revenue target of Rs 27,000 cr to Rs 28,000 cr – growth of approximately 30 per cent and an EBIT margin of six per cent”.
10. These comments are supported by a number of positive developments in relation to the Group's activities, in particular:
 - (a) REpower Systems SE, the Reference Entity's German subsidiary, has secured a €750 million credit line, with a term of 2.5 years, thereby increasing its credit lines by 25 per cent;
 - (b) an increase of approximately US\$350 million in working capital facilities was made available to Suzlon Wind in the quarter ended 31 March 2012;

- (c) the Suzlon Group's order book stood at 5.7 GW (approximately US\$7.4 billion) on 25 May 2012; and
- (d) the Suzlon Group has built up its global fleet's long-term service agreements by almost 20,000 MW, providing an income of approximately US\$2 billion over the next 15 years.

11. The Auditors' Report dated 25 May 2012, contained in the Reference Entity's Annual Report 2011-12 (page 46), states:

"Without qualifying our opinion we draw attention to Note 4 of the accompanying financial statements regarding the existence of certain liabilities on account of foreign currency convertible bonds ('FCCB') which are due for redemption during June 2012 and October 2012 having an aggregate redemption value of USD 568.96 Million (Rs. 2,894.58 Crore). The Company is in the process of tying up funds for redemption of these FCCB Liabilities and consequently, there exists a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern, which is dependent on generating the required funds before the redemption date. Management's plans for raising funds for such redemption have been more fully discussed in Note 4 to the accompanying financial statements, in view of which the accompanying financial statements have been prepared under the going concern assumption, and consequently, no adjustments have been made to the carrying values or classification of balance sheet accounts".

12. In May 2012, ICRA Limited downgraded the Reference Entity's long-term credit rating from BBB- to BB, and its short-term credit rating from A3 to A4 (looking at the Reference Entity on a consolidated basis), stating that "the outlook on long term rating is negative. The announcement of the ratings downgrades stated:

"The rating revision takes into account the increasing liquidity pressures on the company because of the high working capital intensity in the business and continuing delays in recovery of some large debtors; higher debt level amidst challenging operating environment and significant refinancing risks associated with the funding arrangements for FCCB redemption liabilities of 360 Million USD due in June 2012. While the company is in advanced stages of negotiations for raising foreign currency facility to the tune of 300 Million USD from the banks, its ability to conclude the same in a timely manner remains key rating sensitivity [sic], given the procedures involved for execution of loan documents as well as approvals from lenders. Meanwhile, the company has also asked for short term deferment with the bond-holders for making the payment which is due in June 2012. ICRA will continue to monitor the developments and take further rating action after the funding plans are finalised.

The ratings favourably factor the company's established market position in global Wind Turbine Generator (WTG) market, its strong order book position and favourable long term demand outlook in domestic WTG market driven by improved fiscal and regulatory measures. The ratings are however constrained by its stretched capital structure (net gearing at 2.1x times as on December 31, 2012, on consolidated basis), significantly high working capital intensity as reflected in high debtors, and uncertainty associated w.r.t. timeliness of recovery of the sticky debtors which are due for more than one year. ICRA notes that notwithstanding strong order-book position, ability to step-up the volumes and execute the orders in a timely manner so as to record sustained improvement in cash accruals and capital structure along with a prudent working capital management remains extremely crucial from credit perspective."

13. On 7 July 2012, Citigroup Global Markets downgraded the Reference Entity from “neutral” to “sell”. This was reported to be on the basis that:

“there were too many impediments on Suzlon’s road to recovery... Even though there has been a rebound in the inflow of 3.8 gigawatts for the FY 12, the poor execution of the business of wind turbine generator [sic] has prevented any meaningful reduction in Suzlon’s losses. The decent performance of Suzlon’s subsidiary, Repower was overshadowed by the performances of Suzlon WTG and SE Forge...

In the recent developments, what has come to light is that the first tranche of FCCBs will be refinanced. This will definitely provide a breather to Suzlon ... but is not capable of solving the excessive leverage issue that it faces presently. The performance of Suzlon will be weighed down by the slowdown in the Wind Turbine industry globally, the overcapacity and the unfavourable environment as far as the Indian regulatory markets are concerned.”

14. The market price of the Reference Entity’s shares has fallen approximately 66 per cent. over the last year, compared to a decline of 9 per cent. in respect of the benchmark index server.
15. On 11 June 2012, the price of the Zero Coupon Bonds was trading at a price of 132 per cent of their outstanding principal amount, compared their redemption value of 145.3 per cent of that amount.

Publicly Available Information

The following Publicly Available Information is provided to assist the Committee:

- (a) a transcript of a conference call relating to the Reference Entity’s third quarter financial results for the 2011-12 financial year held on 13 February 2012;
- (b) the notice of the meeting of the holders of the Zero Coupon Bonds dated 18 May 2012;
- (c) the notice of the meeting of the holders of the Interest-bearing Bonds dated 18 May 2012;
- (d) a copy of a report dated 19 May 2012 relating to the convening of such meetings;
- (e) a copy of the Annual Report of the Suzlon Group for the 2011-12 financial year;
- (f) a notice from ICRA Limited of its downgrading of the Reference Entity’s credit ratings;
- (g) a copy of an article published by the India Economic Times on 28 May 2012;
- (h) a transcript of a conference call relating to the Reference Entity’s fourth quarter financial results for the 2011-12 financial year held on 29 May 2012
- (i) a letter to the National Stock Exchange of India Limited and BSE Limited dated 11 June 2012 confirming the approval by the holders of each series of Bonds of the Extraordinary Resolutions referred to above and the execution of the Supplemental Trust Deeds implementing them;
- (j) an announcement by the Reference Entity to SGX-ST dated 11 June 2012 of the approval of such Extraordinary Resolutions and the execution of such Supplemental Trust Deeds;
- (k) a copy of a press release issued by the Reference Entity on 11 June 2012 confirming the extension of the maturity date of each series of Bonds;
- (l) a copy of an article published by Bloomberg on 11 June 2012;
- (m) a copy of an article published by Reuters on 11 June 2012;

- (n) a copy of an article published by the Times of India on 11 June 2012;
- (o) a copy of an article published by Business Week on 11 June 2012; and
- (p) a copy of an article published by the India Economic Times on 12 June 2012.