

## **Spice Communications Limited**

### **Notes to unaudited financial results for the quarter and twelve month ended 31 December 2008**

1. The above results were reviewed by the Audit Committee and adopted by the Board of Directors under Clause 41 of the Listing Agreement at their meeting held on 21 January 2009.
2. Pursuant to the purchase of 281,489,350 equity shares representing 40.8% of the total paid up equity capital of the Company at a price of Rs. 77.30 per share by Idea Cellular Limited (Idea) in June 2008 and pursuant to the successful completion of the Open Offer made by Idea along with certain Persons Acting in Concert to the other public equity shareholders of the Company to further acquire upto 20 % equity shares of Rs. 10 each at a price of Rs. 77.30 per share in accordance to the applicable provisions of SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 1997 in October 2008, the stake of Idea in the Company stands at 41.09% effective 16 October 2008.
3. The Company is currently providing cellular services in the licensed service areas of Punjab and Karnataka and also has a NLD/ILD License. During the year, the Company had signed license agreements effective 25 January 2008 with Department of Telecommunications (DoT) for commencing GSM operations in four additional service areas viz Delhi, Haryana, Maharashtra and Andhra Pradesh for which license/entry fee amounting to Rs.48,446 lakhs was paid.

The Company has not rolled its services in these service areas as of date. Following acquisition of the stake in the Company by Idea as mentioned above, since these licenses overlap with the mobility service areas provided by Idea, the Company now intends to de-merge and transfer these licenses pursuant to a proposed scheme of de-merger under sections 391 to 394 of the Companies Act, 1956.

As per the prior commercial agreement between Idea and the Persons Acting in Concert with Idea, and as indicated in the Open offer document, the consideration received from the de-merger and transfer of the overlapping licenses will be paid to the existing shareholders of the Company (other than to Idea and its affiliates) on record as on the specified date to be announced. Due to the forgoing of the realisable value, an impairment provision amounting to Rs.48,446 lakhs has been made in the quarter ended 31 December 2008 and disclosed under exceptional items.

4. During the current quarter, the Company has aligned its accounting policies with the policies of the new promoter i.e Idea and accordingly, the effects on the results for the quarter and the year to date are as follows :
  - a) Upfront recognition of activation fee and recharge fees on pre-paid products with validity, not exceeding the directly attributable related cost. Had the Company followed the earlier accounting policy, the revenue for the quarter ended 31 December 2008 and for twelve months ended 31 December 2008 would have been lower by Rs. 798.68 Lakhs.
  - b) Handsets below Rs.5,000 per item depreciated in the month of purchase rather over the period of one year. Had the Company followed the earlier estimated useful lives, the depreciation charge for the quarter and year to date would have been lower by Rs.1,179.26 lakhs.
  - c) The policy of capitalising glow sign boards followed by the Company at the time of purchase has been changed to treating such glow sign boards as revenue expenditure. Consequently, glow sign boards capitalised upto 30 September 2008 have been fully depreciated resulting in higher depreciation for the quarter and the year to date by Rs. 95.99 lakhs.

Had the company followed the earlier policies, the loss for the quarter and twelve month ended 31 December 2008 would have been lower by Rs. 476.57 Lakhs

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5. The Company has retired from active use existing Mobile Switching Centre (MSC), IN Software (IN) and certain other VAS softwares with effect from 15 October 2008. The net book value of these assets retired from active use as at 15 October 2008 is Rs 9,499.61 Lacs. The management does not foresee any realisable value for these assets and has therefore depreciated the assets fully during the current quarter.
6. In the opinion of the management, the dominant source and nature of risks and returns for the Company is from operations of cellular telephony business and the NLD/ILD operations mentioned above. However in terms of Accounting Standard 17-‘Segment Reporting’, the Company has only one reportable segment, being the cellular telephony business. The Company has not disclosed segment information in this statement; since per the clause 41 of listing agreement, the said disclosure is only mandatory if the Company has more than one reportable segment.
7. The Board of Directors of the Company in its meeting held on 22 December 2008 has approved the change of accounting year end of the Company from 31 December 2008 to 31 March 2009. Accordingly, the accounting period for current year will be for 15 months ending March 31, 2009.
8. a) Exceptional items include the following:

<b>Particulars</b>	(in Lakhs)	
	Quarter ended 31 December 2008	Twelve months ended 31 December 2008
Profit on sale of passive infrastructure to SREI Infrastructure Limited	-	6,296.06
Repairs and maintenance and incremental cost incurred on passive infrastructure sold earlier.	-	(3,629.80)
Due diligence expenditure related to sale of passive infrastructure	-	(486.15)
Expenditure incurred in relation to new licenses for 20 circles *	-	( 583.95)
Ex-gratia payment to certain employees/ consultants (refer to note (b) below) *	-	(2,160.00)
Call centre and other support services (refer to note (c)below)-exclusive of service tax *	-	(2,391.58)
Unamortised loan origination cost on prepayment of DBS INR loan (refer note (d) below)	-	(1,348.38)
Unamortised loan origination cost on DBS USD loan (refer note (e) below)	(298.70)	(298.70)
Share Issue Expenses (refer note (f ) below)	(3,306.50)	(3,306.50)
Impairment of License fess (refer note no (3) above)	(48,446.00)	(48,446.00)
<b>Total Exceptional items</b>	<b>(52,051.20)</b>	<b>(56,355.00)</b>

\* Transactions pursuant to restructuring mentioned in note 2 above.

- (b) Ex-gratia payment of Rs. 2,160 lakhs to certain employees/ consultants is approved by the board in the meeting held on 25 June 2008 and the same has been provided in the previous quarter.
- (c) During the previous financial year, the Company had entered into the contract with a related party (or ‘the party’) whereby the party would provide call centre and other support services for prepaid and post-paid subscribers to the Company. Per the agreement and subsequent amendments/ waivers, the party did not charge any service fee for a period from 1 March 2007 to 31 March 2008. During the quarter ended 30 June 2008, on account of restructuring of the Company, and at the party’s request the Company had accrued liability to pay Rs. 2,391.58 lakhs (exclusive of service tax) for the period 1 July 2007 to 31 March 2008. The same has been approved by the board of the Company.

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- (d) The Company has charged off unamortised loan origination cost amounting to Rs. 1,348.38 lakhs pursuant to the prepayment of INR loan amounting to Rs. 59,243.20 lakhs.
- (e) The Company has charged off unamortised Loan origination cost on DBS USD Loan amounting to Rs 298.70 lakhs during the quarter ended December 2008.
- (f) The Company has charged off unamortised Share issue expenses for Rs 3,306.50 lakhs during the quarter ended December 2008.
9. During the current quarter, the Company has agreed to acquire the equipment trading business of a vendor including networking equipment which were earlier taken on trial basis. Pursuant to the aforesaid agreement the Company has accrued for insurance liability amounting to Rs 1,464.92 lakhs, interest liability amounting to Rs. 945.08 lakhs and other network operating cost amounting to Rs 1,384.17 lakhs. Further, the adjustments made to the carrying value of fixed assets have resulted in a higher depreciation cost amounting to Rs 581.08 lakhs.
10. The Company was computing the license fee and spectrum charges on Adjusted Gross Revenue ('AGR') based on the Telecom Dispute Settlement Appellate Tribunal ('TDSAT') order dated 30 August 2007 and the Company's understanding of the definition of AGR prior to this TDSAT order. However, DoT had vide its appeal dated 08 January 2008 filed a petition before Supreme Court against the tribunal order dated 30 August 2007. The Honourable Supreme Court had ordered service providers to file a counter affidavit and has also ordered the operators not to make any adjustments from the date of the order. No developments have taken place in the current quarter.
11. During the current period, Company had received 22 investor complaints and all the complaints were resolved. There were no unresolved complaints, both at the beginning and at the end of the period.
12. The details of funds received from initial public offer ('IPO') of Rs. 63,224.40 lakhs (including share premium) and utilisation of such funds are given below:

(Rs. In lakhs)

	<b>Particulars</b>	<b>To be financed through IPO proceeds as per Prospectus</b>	<b>Actual utilisation till 31 December 2008</b>
	Funds received		63,224.40
	Utilization		
(i)	Part payment of long term debt	31,612.20	31,612.20
(ii)	Payment of license fee for NLD and ILD and related capital expenditure	6,360.00	6,360.00
(iii)	Payment to vendor(s) for network equipment and other capital expenditure	17,763.30	14,657.56
(iv)	General corporate expenses and issue expense	7,488.90	6,019.54
	<b>Total utilisation</b>	<b>63,224.40</b>	<b>58,649.30</b>
	<b>Balance of unutilised funds out of IPO funds, details of which are given below:</b>		<b>4,575.10</b>
	Investments in fixed deposits (including margin money)		<b>4,575.10</b>

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13. Previous period figures have been regrouped / re-arranged wherever necessary conform to the current period's grouping.

**For and on behalf of the Board of**  
Spice Communications Limited

*Director*

Place:

Date: