



switch

Switch forward to the next generation technology

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S Mobility Limited

Our Brand Vision

To stay one step ahead of
the needs of the Mobile
Internet Society.

Our Brand Promise

We deliver outstanding
value by combining deep
market knowledge with
unconventional thinking.
Knowledge guides us but
imagination drives us.

Our Brand Attributes

A vision can only be
pursued when backed
by a set of strong values.
We shall aim to instill
in ourselves some key
attributes.

Today, a Spicean
can be identified as:

FEARLESS

IMAGINATIVE

VIBRANT

OPEN

Chairman's Statement



Dear Shareholders,

On behalf of the Board of Directors of S Mobility, I am pleased to present to you our financial performance and significant milestones for the financial year ended June 30, 2012 which covers a period of 15 months from April 1, 2011 to June 30, 2012.

Indian Telecom Industry

Indian telecommunication industry is one of the fastest growing industry in the world. It is estimated that India will have more than 1.2 billion mobile subscribers by 2013 exceeding even the total subscriber count in China.

Telecommunication in India is synonymous to Mobility and the Mobile Industry in India is growing with a CAGR of over 10%. Your company has created good presence in the

Mobility Sector – namely within the spaces of Mobile Devices, Mobility Retail and Mobile Value Added Services.

Within the space of Mobile Devices domestic brands have played a significant role to bring the power of communication within the hands of the consumers by focusing on Product and Cost Innovation - bringing rightly priced and correctly engineered devices to the Indian Consumer. Domestic brands have been successful in capturing over 15 % of the market share.

At the same time, the mobility industry has become very competitive in the last few years. Due to the absence of entry barrier in the mobile handset industry, most players coming into this industry are using price as their USP for gaining market share. On the other hand international giants like Nokia, Blackberry etc. have seen rapid erosion in their market share. The combination of all the above has led to significant reduction in profits for the mobile device players.

At another level, the Indian consumer's needs and expectations have graduated beyond acquiring hardware. It has become the lifeline of every consumer. Hence, there is an increasing demand for the device to enable an empowered lifestyle through data services and applications. It also includes a comfortable retail experience along with a qualitative and responsive after sales care. And this trend is dominant in both rural and urban markets alike. The majority of data consumption comprise of services in utility, education, information and entertainment.

However, without enablement of data services through Wi-fi, this potential cannot be fully realized. In the US, digital empowerment is not only spearheading growth but also

improving the quality of life. Likewise, in order to accelerate the pace of growth through the digital highways, government should seriously consider providing free Wi-Fi for youth, especially in schools, colleges and youth hotspots.

Amidst such a dynamic scenario, your company with its unique integrated business model is well poised to counter challenges and create a leading space for itself.

SPICE is one of the top 3 players amongst the domestic Mobile devices space in India and is focused on Product Innovation in line with the changing requirements and has been very successful in bringing state of the art devices to the market which has been well received by the Indian Consumers.

SPICE Retail has now the distinction of being the largest player in the organized mobile retail sector. At SPICE Retail we have continuously focused on providing the best retail experience to the mobility consumer providing him with greater choice and more informed purchase experience.

SPICE Digital is one of the top 3 mobile VAS companies in India and has led through Services Innovation. Its focus is to provide a greater choice of content and services to the underserved and has expanded to multiple

geographies and multiple operators in the last year emerging as one of the most tightly run VAS operations in the country. SPICE Digital is amongst the few players in the country focused on enabling new and innovative services on Voice.

The Year in Review: Navigating rapid technology shifts

The mobile communication technology scene continues to change at an unprecedented speed to meet the demands of the increasingly sophisticated consumer. Innovative companies such as Apple and Samsung have captured the hearts and minds of mobile consumers with leading-edge smart phones and a range of applications that are based on proprietary technology and well-designed platforms. Open source platforms like Android, backed by Google have also redefined the mobility space, enabling unlimited innovation. In contrast, the erstwhile leaders like Nokia, Motorola and Blackberry and other major technology companies have been impacted by the rapid changes in the product market and retail trends. These ongoing developments have reaffirmed our belief that innovation, scale, technology and product leadership are key to our future success.

Your company over the years has developed



highly cost effective feature phones for the value driven cost conscious market segment to capture the tremendous growth opportunity in that space. Moving forward, to capture the huge demand projected in the 2G wi-fi & wi-fi/ 3G Android phones which have all localized Apps and smart features, your company has acquired the requisite skills, talent and technical expertise. The company has planned a product portfolio to capture this space and create value for money smart phones.

Performance of the last financial year

The year gone by was one fraught with challenges. The economic slowdown and the Rupee depreciation of over 20% in the last financial year was a major factor for the erosion of margins. This impacted not only the device segment but also the high revenue VAS segment which predominantly operates on revenue share basis.

Your company has always been quick to respond to the economic challenges with effective management measures. These included an overall management reshuffle along with a revamped salary structure, with a higher percentage of variable incomes linked to performance for the top management, which was instrumental in arresting a continual downward trend in revenues.

The company has put in place a concrete roadmap for putting the company on a fast trajectory of growth.

Future Roadmap: A Return to Profitability

The company has taken stringent measures to control costs and increase revenues. We have taken several decisions to focus on rationalizing manpower, reducing infrastructure and selling expenses, introducing new products at competitive prices, improving our channel coverage, rolling out new stores with better customer experience etc.

Over the coming quarters, we expect our strategies to pay rich dividends and help

return the company to profitability.

We believe that moving forward, the growth in mobility is now being led through the growth of Mobile Internet. In September the Internet Measurement Firm Stat Counter reported that mobile now accounted for 51.63% of web usage with desktop devices making up the remaining 48.37%. That's a first for India and it follows a steady uptick of Internet usage from Mobile and Tablet devices. Mobile Internet is being focused on by all key stakeholders of telecommunications. As such,

- Operators are focusing in bringing greater 3G Connectivity and are supplementing it with WiFi connectivity in areas of greater usage.
- Device players are focused on bringing Smart Phones and other Next generation connected devices to the market.
- VAS Players are increasingly focusing on service innovation across voice, data and video platforms.
- The Government is investing heavily in creating a backbone internet infrastructure that can be used by all stakeholders to reach the remotest part of the country.

Given the emergence of a new Internet Economy, Spice is very well positioned to bring the power of Information to the consumer by providing the latest internet connected devices to the Indian Consumer at great value and by educating the Consumer by introducing him to the power of the new age devices and related services when the consumer comes to our stores to buy devices. SPICE will continue to delight customers with new age products and services through its integrated business model and all possible channels namely – the Device Channel, the Retail Channel and the Online Channel.

SPICE intends to work closely with Carriers. Just as the first phase of Mobile Growth happened with the availability of infrastructure provisioned by operators we believe that Carriers will continue to play an



important role in the introduction of Mobile Internet and will be the key partners for Mobile Internet Players.

Our brand vision at Spice is to be “*One Step Ahead of the Needs of the Mobile Internet Society*” and with this view SPICE has plans to renew the organization to become better capable at providing Mobile Internet focused devices, primarily Android, 3G and Wi-fi enabled and enhanced retail experiences and new innovative Value Added Services.

We have taken several steps to invest in the various elements of our organization.

- Focus on new products in all our businesses.
 - o More capable Smartphone's and Tablets with superior hardware, software and applications for the benefit of our consumers
 - o New Formats Retail Stores with better infrastructure and with focus on trained staff in all aspects of Mobile internet to create a better experience for consumers
 - o Better Leadership, Developers and Engineers with experience in developing new content services across Voice, Data and Video Platforms

- Create office Infrastructure across the country to support the new needs of the organization. This will be designed to encourage open and innovative culture
- Hiring of highly motivated talent across the country which is better suited to fulfill emerging consumer requirements

We strongly believe that SPICE needs to play a pivotal role in creating in the new Mobile Internet Economy. We believe that the empowered life style that Mobile Internet promises through new devices and application in both rural and urban markets cannot be ushered in without availability of affordable internet infrastructure across the length and breadth of our country.

In order to usher in the new age of Mobile internet and move from RingTone to Information Tone I look forward to working closely with Carriers, Government Agencies, Device Players, Software Platform Providers and other agencies to work closely with us to build highly affordable infrastructure to enable the Youth of this country. SPICE commits itself to this cause.

A Word of Appreciation

We could not have weathered the challenging economic environment and survived the competitive business environment to move forward with renewed vigour without the contribution, commitment and support of our management team and staff, business associates and shareholders and Government organizations.

We appreciate your continued support, and steadfast belief in our mission and vision.

Thank You.

Dr. B K Modi
Chairman

From the CEO's DESK



Dear Shareholders,

After a challenging previous year, we have taken this year as a fresh departure.

I and my team have identified key focus areas and have implemented an exhaustive execution plan at all levels to turnaround the situation and get the company back to profitability.

After a detailed analysis of the last year, we have identified 4 areas that need constant improvement.

1. Focus on Technology/ Products

The market for mobile phones has been traditionally divided into Feature Phones and Smart Phones. Smartphones operates on multiple operating systems like Android of Google, iOS by Apple, Symbian by Nokia, Windows by Microsoft etc. In the midst of this technology war, another element appeared as Smart Feature phones trying to combine both, spearheaded by some chip manufacturers. We entered this space along with our ODM vendors in China. But the technology was not successful and the products had to be discounted resulting in severe margin erosion, especially in the later part of the year.

2. Personnel Alignment

In line with the change in technology as enumerated above, the organizational and

cost structure that we had built to support the new initiatives was recognized. The same has been realigned in the current year to reflect the changes. But this was a critical factor in a depressed performance last year.

3. Foreign Exchange fluctuations

In the previous financial year rupee depreciated by more than 20% eroding the gross margins of our products significantly. Due to competitive market situation it was not possible to pass on the rupee depreciation to the end consumers resulting in lower margins. We have taken effective steps to manage the dollar rupee fluctuation in the short to medium term.

4. Margin Control

Last year, the focus was primarily on enhancing the revenue in a difficult market situation due to competition and new products/technology. With the streamlining of product selection and testing processes, the focus has now shifted to revenue and margin rather than just revenue.

Under the directions of the Board, I and my team members have been focusing on corporate governance in addition to operational efficiencies & value systems. We follow the 4 pillars – FIVO – “Fearless”, “Imaginative”, “Vibrant” & “Open”, in all spheres. The entire office environment has been restructured to reflect an open office atmosphere with no “Cabin Culture”. We encourage young team members to take part in sensitive business decisions to unleash their vibrant & imaginative powers.

The improvements arising out of above actions will be visible to you as we go along during the current year.

Many of the Board members with their respective expertise have helped in this transformational exercise during a critical year. On behalf of all team members, I would like to thank the Chairman and other Board members for their support and valuable directions.

With warm regards,

R S DESIKAN
Chief Executive Officer

THE VISION TO SWITCH FROM MOBILE TO MOBILE INTERNET

Smarter phones,
greater value.

We continue to lead the
consumer revolution and
switch to Mobile Internet



HUAWEI **Ascend** Y100



Stellar



Stellar Horizon