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22nd Annual Report

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2005-2006

SpiceJet Limited

Board of Directors

Mr. Ajay Singh
 Mr. Atul Sharma
 Mr. B. S. Kansagra
 Mr. Baljit Sobti
 (alternate to Mr. R. S. Kansagra)
 Mr. Hamed Ahmed Kazim (w.e.f. 14.10.2005)
 Mr. Kishore Gupta
 Mr. Mukkaram Jan
 Mr. Osman Qureshi (w.e.f. 14.10.2005)
 (alternate to Mr. Hamed Ahmed Kazim)
 Mr. R. S. Kansagra
 Mr. Siddhanta Sharma (Chairman)
 Mr. Vijay Kumar

Compliance Officer

Mr. A. K. Maheshwary
 (Associate Vice President-Legal & Company Affairs)

Bankers

CITI Bank N.A.
 HDFC Bank Ltd.
 HSBC
 ICICI Bank Ltd.
 J&K Bank Ltd.
 State Bank of Bikaner & Jaipur

Registered Office

Cargo Complex
 Indira Gandhi International Airport
 Terminal-I
 New Delhi-110037

Corporate Office

319, Udyog Vihar
 Phase-IV, Gurgaon, Haryana

Registrars & Share Transfer Agents

Karvy Computershare Pvt. Ltd.
 Karvy House, 46, Avenue 4,
 Street no. 1, Banjara Hills
 Hyderabad-500034

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SpiceJet Limited

Regd. Office: Cargo Complex, Terminal-1, Indira Gandhi International Airport, New Delhi-110037

NOTICE

NOTICE IS HEREBY GIVEN THAT THE TWENTY-SECOND ANNUAL GENERAL MEETING OF THE SHAREHOLDERS OF SPICEJET LIMITED WILL BE HELD ON THURSDAY, THE NOVEMBER 30, 2006 AT 3.30 P.M. AT THE AIR FORCE AUDITORIUM, SUBROTO PARK, NEW DELHI TO TRANSACT THE FOLLOWING BUSINESS :

Ordinary Business

1. To consider and adopt the Balance Sheet as at 31st May 2006, Profit and Loss Account for the year ended on that date and the Reports of the Board of Directors and Auditors thereon.
2. To appoint a Director in place of Mr. Siddhanta Sharma, who retires by rotation and, being eligible, offers himself for re-appointment.
3. To appoint a Director in place of Mr. Vijay Kumar, who retires by rotation and, being eligible, offers himself for re-appointment.
4. To appoint Auditors to hold office from the conclusion of this meeting until the conclusion of next Annual General Meeting and to fix their remuneration.

The Company has received a Special Notice in writing under Section 225 of the Companies Act, 1956 from a shareholder signifying its intention to move the following resolution:

“Resolved that M/s Walker, Chandio & Company, Chartered Accountants, New Delhi be and are hereby appointed as Auditors of the Company from the conclusion of this Annual General Meeting until the conclusion of next Annual General Meeting of the Company in place of M/s Khanna & Annadhanam, Chartered Accountants, New Delhi, on such remuneration as may be fixed by the Board.”

Special Business

5. To consider and if thought fit, to pass, with or without modification(s), the following resolution as a Special Resolution:

“Resolved that in complete supersedure of earlier resolution passed by shareholders at the general meeting held on July 31, 1997 and in terms of applicable provisions of the Foreign Exchange Management Act, 1999 and subject to all applicable provisions, if any, of the Companies Act, 1956 as amended and subject to such consents, approvals of all concerned authorities, if and to the extent necessary and such other approvals, permissions and sanctions, the subscription, redemption, conversion, sale, purchase or any other transaction of whatever nature be made in the securities of the Company by Foreign Institutional Investors, Non Residents, Non Resident Indians, Bodies Corporate or other eligible investors, within the permissible limits and in the manner as prescribed under the provisions of Foreign Exchange Management Act, 1999, the Companies Act, 1956 and/or under any other Act, Rules, Regulations or Schemes of Reserve Bank of India/Government of India or any other authority, as applicable from time to time.

6. To consider and if thought fit, to pass, with or without modification(s), the following resolution as an Ordinary Resolution:

Resolved that the consent of the Company be and is hereby accorded to the Board of Directors of the Company pursuant to the provisions of Section 293(1)(a) and other applicable provisions, if any, of the Companies Act, 1956 for mortgaging and/or charging all its movable and immovable properties, wherever situated, both present and future, and the whole of the undertaking of the Company in favour of any person, banks, financial institutions etc. for securing payment of any loans, borrowings, financial assistance and other facilities together with interest, costs, charges and expenses thereon.

Resolved further that for the purpose of giving effect to the above resolution, the Board of Directors of the Company be and is hereby authorised to do all such acts, deeds, matters and things as it may in its absolute discretion deem necessary, proper or desirable and to finalise and execute all documents and writings as may be necessary, proper, desirable or expedient as it may deem fit.

By Order of the Board of Directors

A K Maheshwary
Associate Vice President-
Legal & Company Affairs

Place: Gurgaon, Haryana

Dated: October 27, 2006

NOTES :

1. Explanatory Statement, pursuant to section 173(2) of the Companies Act, 1956, in respect of business under item no. 5 - 6 is annexed hereto.
2. **A member entitled to attend and vote is entitled to appoint a proxy to attend and vote instead of himself and the proxy need not be a member of the Company. However, the instrument appointing proxy should be deposited at the Registered Office of the Company not less than forty-eight (48) hours before the commencement of the Annual General Meeting.**
3. The Register of Shareholder and Transfer Books of the Company will remain closed from 29.11.2006 to 30.11.2006 (both days inclusive).
4. Shareholders who hold shares in dematerialised form are requested to bring their client ID and DP ID numbers for easy identification of attendance at the meeting.
5. All documents referred to in the accompanying Notice and Explanatory Statement are open for inspection at the Registered Office of the Company during office hours on all working days, except Saturday/ Sunday and other holidays, between 1:00 p.m. and 3:00 p.m. upto the date of Annual General Meeting.
6. Corporate shareholders/ Trusts/ Societies are requested to send a duly certified copy of the Board/ Managing Committee Resolution authorising their representative to attend and vote at the Meeting.
7. In case of joint holders attending the meeting, only such joint holder who is higher in the order of names will be entitled to vote.
8. Shareholders desiring any information as regards the Accounts are requested to write to the Company in advance so as to enable the Management to keep the information ready at the Annual General Meeting.

9. Shareholders are requested to carry their copy of Annual Report in the Meeting as the Annual Report will not be distributed at the venue of AGM.

10. Re-appointment of Directors :

At the ensuing Annual General Meeting, Mr. Siddhanta Sharma and Mr. Vijay Kumar retire by rotation and are eligible for re-appointment.

Information pertaining to these directors in terms of Clause 49 of the Listing Agreement with Bombay Stock Exchange Limited is as follows:

- a) **Mr. Siddhanta Sharma**, aged about 49 years is a science graduate, a Fellow of the Institute of Chartered Accountants of India and an Associate of the Institute of Company Secretaries of India. He has extensive experience in the field of accounts, finance and corporate affairs and has held senior key positions in various multi national companies. Mr. Sharma's experience covers a diverse array of assignments, including setting up of a number of green field projects for multi national companies in India. His last few assignments include CEO/Commercial Director Allied Domecq India and Resident Representative Westmill Foods (subsidiary of Associated British Foods Plc.). Mr. Sharma was appointed as director on the Board of the Company with effect from 31.03.2001. Mr. Sharma is also a director on the board of Focus Brands Trading Private Limited. He is the Chairman of the Board and a member of the Company's Share Transfer & Investors' Grievance Committee and Audit Committee. Mr. Sharma does not hold any equity shares of SpiceJet Limited.
- b) **Mr. Vijay Kumar**, aged about 59 years is an Electrical Engineer and presently runs his own business and has vast experience in general business management. Mr. Kumar was appointed as director on the Board of the Company with effect from 01.06.2001. Mr. Kumar is also the Managing Director of Sidh Master Batches Private Limited. Mr. Kumar does not hold any equity shares of SpiceJet Limited.

The Explanatory Statement for item nos. 5 - 6 to the accompanying Notice set out hereinabove is as under.

ITEM NO. 5

At the twelfth annual general meeting of the Company held on July 31, 1997, the shareholders of the Company had approved increase in the limits for investments by FIIs/ NRIs/ OCBs under the then Portfolio Investment Scheme (PIS) of Reserve Bank of India (RBI)/ Government of India.

In view of the subsequent changes in FDI policy of RBI/ Government of India pertaining to civil aviation sector, it is proposed to allow investments in the securities of the Company under Portfolio Investment or any other scheme of RBI/ Government of India under the applicable provisions of the Foreign Exchange Management Act, 1999 and/or other regulations as applicable from time to time.

As per the provisions of Schedule 2 and 3 of Foreign Exchange Management (Transfer or Issue of Security by a Person Resident Outside India) Regulations, 2000, a company, except with the consent of shareholders in general meeting, cannot increase/ modify such investment limits.

The Directors recommend the resolution for your approval.

None of the Directors of the Company are in any way concerned or interested in the resolution.

ITEM NO. 6

In order to meet the funding requirements, the Company may have to avail loans, borrowings, financial assistance and other facilities in future from banks, financial institutions etc. For securing the payment of loans, borrowings,

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etc together with interest, costs, charges and expenses thereon, the Company may be required to mortgage and/or charge all its movable and immovable properties, wherever situated, both present and future, and the whole or part of the undertaking of the Company in favour of lenders.

As per the provisions of Section 293(1)(a) of the Companies Act, 1956, the Board, except with the consent of shareholders in general meeting, cannot charge, mortgage, sell, lease, or otherwise dispose of the whole, or substantially the whole of the undertaking of the Company. This is an enabling resolution by the shareholders of the Company empowering the Board to create such charges on company's properties as may be required from time to time in future.

The Directors recommend the resolution for your approval.

None of the Directors of the Company are in any way concerned or interested in the resolution.

By Order of the Board of Directors

A K Maheshwary
Associate Vice President-
Legal & Company Affairs

Place: Gurgaon, Haryana
Dated: October 27, 2006

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DIRECTORS' REPORT

Dear Shareholders,

The Directors hereby present the Twenty Second Annual Report and the Audited Accounts for the financial year ended May 31, 2006.

1. Financial Results

(in Rs. Lacs)

Particulars	May 31, 2006	May 31, 2005
Gross Income	4,531.47	386.96
Operating Expenses	3,816.25	71.39
Employees Remuneration and Benefits	468.45	66.28
Administrative & Other Expenses	515.29	170.29
Finance Charges	109.71	11.13
Depreciation	81.58	5.20
Profit/ (Loss) before taxation	(459.81)	(285.60)
Prior Period Adjustments	58.68	—
Fringe Benefits Tax	(13.07)	(1.45)
Profit/ (Loss) after taxation	(414.20)	(287.05)

Explanations to various comments made by the Auditors in their Report to the shareholders are contained in the Notes to the Accounts, which form part of the Balance Sheet for the financial year ended on May 31, 2006.

2. Business

The Company positioned itself as a national low cost carrier with no frills and completed its first year of operations on May 23, 2006. During its first year of operations, the Company grew its fleet size to six aircraft covering 11 destinations and operating 49 daily flights. During the year, the airline carried over 1.6 million passengers and gained a market share of over 6%.

During the month of May 2006, among all the domestic airlines, the Company recorded the highest load factor of 92 percent passenger on board. The average load factor of 86% for the year was highest amongst all domestic carriers in the country.

In order to boost its sales via internet, the Company has also integrated with various travel related website like indiatis, makemytrip, travelguru and cleartrip for more penetration in the market and grow customer base making travel simple.

The Company launched its first co-branded credit card with State Bank of India in association with MasterCard. Targeted at value conscious SpiceJet customers, the SpiceJet SBI MasterCard offers a unique rewards program.

3. Foreign Currency Convertible Bonds

The Company issued 800 bonds of US\$ 100,000 each aggregating to US\$ 80 million through public offer of Foreign Currency Convertible Bonds during December 2005 to finance the pre-delivery payments for acquisition of first ten aircraft ordered by the Company.

The issue was fully subscribed by two investors, namely, Istithmar PJSC and Goldman Sachs Investments (Mauritius) I Ltd, who were allotted 375 and 425 bonds, respectively. The Bonds are listed at the Luxembourg Stock Exchange.

4. Fleet Expansion - Sale and Lease of Aircraft

During the year under review, the Company confirmed its order with the Boeing Company to purchase another ten new aircraft for further expansion program. With this, the total aircraft ordered by the Company now stands at twenty.

The Company entered into a sale and lease back agreement with Babcock & Brown Aircraft Management (BBAM) along with its long-term strategic partner Nomura Babcock & Brown Co. Ltd. (NBB) covering sixteen brand-new Boeing 737-800/-900ER aircraft valued at over US\$ 1.1 billion based on the manufacturer's list prices. These aircraft will be delivered over approximately 22 months beginning January 2007.

This completes the financing of SpiceJet's total Boeing order stream of twenty aircraft. Four aircraft were financed earlier through a similar sale and lease back arrangement with Babcock & Brown Aircraft Management LLC.

5. Increase in Share Capital

During October 2005, the Company made a private placement of 6,152,016 equity shares of Rs.10 each at a premium of Rs.79.30 per share to Istithmar PJSC, Dubai.

Further during the year under review following warrants/ debentures were converted into equity shares of the Company:

- 2 crore warrants into same number of equity shares
- 15.30 lacs 10% unsecured fully convertible debentures of Rs.100 each into 3,715,394 equity shares of Rs.10 each at a price of Rs.41.18 per equity share.

6. Dividend

In view of losses during the year under review, your Directors do not recommend any dividend.

7. Directors

Mr. Siddhanta Sharma and Mr. Vijay Kumar retire by rotation in the forthcoming Annual General Meeting and, being eligible, offer themselves for re-appointment.

8. Personnel

Information as required under the provisions of Section 217 (2A) of the Companies Act, 1956, read with Companies (Particulars of Employees) Rules, 1975 as amended, forms part of this report. However, as per provisions of Section 219 (1)(b)(iv) of the Companies Act, 1956, the Report and Accounts are being sent to all the shareholders excluding the statement of particulars under Section 217 (2A). The Statement is open for inspection at the registered office of the Company during working hours and a copy of the same may be obtained by writing to the Company at its registered office.

9. Directors' Responsibility Statement

Pursuant to Section 217(2AA) of the Companies Act, 1956, the Directors, based on the representations received from the operating management, confirm:

- i. that in the preparation of the accounts for the financial year ended May 31, 2006, except otherwise disclosed, the applicable accounting standards have been followed along with proper explanation relating to material departures;
- ii. that except otherwise disclosed in the Notes to the Accounts, they have selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the financial year and of the profit or loss of the Company for that period;

- iii. that, except otherwise disclosed in the Notes to the Accounts, they have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956 for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;
- iv. that they have prepared the annual accounts for the financial year ended May 31, 2006 on a going concern basis.

10. Conservation of Energy & Technology Absorption

Particulars as required under section 217(1) (e) of the Companies Act, 1956, relating to conservation of energy and technology absorption are not applicable for the year under review, and hence not furnished.

11. Foreign Exchange Earnings & Outgo

The Company had foreign exchange earnings of Rs.468.89 million while the outgoings were Rs.1,529.43 million during the year under review.

12. Deposits/ Borrowings

The Company has not accepted any deposit under provisions of Section 58A of the Companies Act, 1956 during the year under review.

13. Auditors

The Company has received a special notice under Section 225 of the Companies Act, 1956 from a shareholder proposing the name of M/s Walker, Chandiook & Company, Chartered Accountants, New Delhi for appointment as Statutory Auditors of the Company.

M/s Khanna & Annadhanam, retiring auditors have advised the Company that in view of special notice received under Section 225 of the Companies Act, 1956, they do not wish to offer themselves for re-appointment at the ensuing Annual General Meeting. The Directors place on record deep appreciation for the assistance and guidance extended by M/s Khanna & Annadhanam during their tenure as Auditors of the Company.

The Company has received a letter from M/s Walker, Chandiook & Company, Chartered Accountants, New Delhi to the effect that their appointment, if made, would be within the prescribed limits under section 224(1-B) of the Companies Act, 1956. On recommendation of the Audit Committee, the Board in its meeting held on September 25, 2006 proposed their appointment as the Statutory Auditors of the Company. You are requested to consider their appointment.

14. Corporate Governance

Pursuant to Clause 49 of the Listing Agreement with the Bombay Stock Exchange Ltd., Management Discussion and Analysis, Corporate Governance Report and Auditors' Certificate regarding Compliance with the Code of Corporate Governance are made part of the Annual Report.

15. Information as required under the listing agreement

Shares of the company are presently listed at Bombay Stock Exchange Limited, P. J. Towers, Dalal Street, Mumbai and the company has paid listing fee upto March 31, 2007 in respect of above stock exchange.

16. Acknowledgement

The Directors thank all government, regulatory bodies and shareholders for their consistent support in the process of successful launch and smooth airline operations of the Company.

The Directors also sincerely acknowledge the dedication and commitment of Company's staff at all levels, without whom the Company would not have attained such great heights within first year of its operations.

For and on behalf of the Board

Sd/-

Siddhanta Sharma

Chairman

Place : Gurgaon, Haryana
Date : September 29, 2006

MANAGEMENT DISCUSSION AND ANALYSIS

1. Business Review

The Company started its commercial operations on May 23, 2005 and reached a five aircraft operation by close of the fiscal year. The Company is presently operating with eight Boeing 737-800 aircraft and is inducting three additional aircraft in the current fiscal. The airline carried over 1.6 million passengers during its first year of operations itself and currently enjoys over 7.5% of market share. The Company offers very low penetration fares to stimulate demand and its lower costs are based on efficient use of assets, simplicity and standardization without sacrificing brand quality and service reliability. SpiceJet now operates over 60 daily flights covering 13 destinations. The Company's strategy is to interconnect all the cities it currently flies to through a safe, reliable and low cost service in India.

2. Opportunity

With a population of over 300 million middle income earners, India has huge potential for domestic air travel. Continued market growth of over 30% during last year is indicative of opportunities that exist in the country. Domestic market is expected to grow over 25% for next couple of years if the fares continue to be affordable. Indian consumers are price sensitive and are ideally suited to Low Cost Carriers (LCCs).

3. Strengths

The Company has successfully positioned itself as a typical world class LCCs with a high potential for scaling up operations. It has established as a reliable product offering consistently safety and reliability with high quality services. Its young and common fleet of Boeing 737-800 aircraft results not only in low maintenance costs and higher operational efficiencies but also gives advantage of having commonality in spares, maintenance contracts, trained technical manpower and other operational areas leading to sharp reduction in costs. To ensure highest standard of safety, the Company has relationships with leading global Maintenance and Repair Organizations. The Company uses leading cutting edge technology for electronic bookings and departure control systems. Its world proven yield management system provides timely information and better controls on yields.

During the year under review, the airline enjoyed the highest load factor month after month thus proving customers' acceptance to the product. The airline also maintained very high standards of dispatch reliability of its aircraft exceeding 99%.

4. Competition and Threats

With the launch of new airlines and existing airlines adding further capacities, there has been increased pressure on the yields and fares. The full service airlines have started reducing yield due to growing competition from LCCs.

During the year, there has been substantial increase in the fuel costs and, due to prevailing competition, the industry has not been able to fully pass on this cost increase to the customers.

The pace of improvement in the infrastructure has not been commensurate with the capacity addition by the industry. This has resulted into escalation of costs, specially fuel, due to delays in arrival and departures.

5. Outlook

Next couple of years will be critical for the aviation industry in India despite the record growth passenger numbers. Fierce competition, eagerness to fill the aircraft and tendency to capture market share has led to