ESSAR
OIL & GAS

11 April 2011

ESSAR OIL LIMITED: RESULTS FOR THE FULL YEAR ENDED 31 MARCH 2011 (UNAUDITED)

Key Highlights

Overall

- Essar Oil Limited (EOL) reports strong financial performance, with annual gross revenues increasing by 25% to Rs 53,119 crore in FY 2010-11 from Rs 42,402 crore in FY 2009-10. Quarterly gross revenues stand at Rs 14,846 crore, a growth of 24% from Rs 11,942 crore in the corresponding quarter last fiscal year
- Current Price GRM registered an 87% growth to $6.91/bbl in FY 2010-11 from $3.70/bbl in FY 2009-10. Quarterly current price GRM was at US$ 8.15/barrel, up from US$ 5.37/barrel in the corresponding quarter of last fiscal year
- Annual EBITDA increase by 43% to Rs 2,780 crore in FY 2010-11 from Rs 1,938 crore in FY 2009-10. Quarterly EBITDA was at Rs 912 crore, a growth of 34% from Rs 683 crore in the corresponding quarter of last fiscal year
- Annual PAT registers a 23-fold increase, at Rs 654 crore in FY 2010-11 from Rs 29 crore in FY 2009-10. Quarterly PAT grows 78 percent, up to Rs 321 crore from Rs 180 crore.
- Infused US$ 528 million through Equity/FCCBs

Refining

- Vadinar Refinery achieves highest annual throughput at 14.76 MMT
- Refinery Phase 1 expansion to 18 MMTPA on track– mechanical completion in a phased manner in Q2 & Q3 of CY2011
- Optimisation project to enhance refinery capacity to 20 MMTPA on track; completion by September 2012
- Refinery continues to maintain excellent safety track record, with almost 1,100 Lost Time Incident (LTI) free days as on 31 March 2011

Marketing

- Essar Oil has 1,635 retail outlets,1,381 operational and 254 in various stages of construction
- Company increasing focus on non-fuel retailing at its outlets

Exploration & Production

- Signed contracts for 4 Indian Coal Bed Methane (CBM) blocks with estimated resources of over 7.6 tcf
- Raniganj producing about 35,000 scmd from 33 production wells
- Raniganj to start commercial production in the next few months; construction of 48-km gas evacuation pipeline from Raniganj to Durgapur completed
- Gas sale price approval received from MoPNG; Field Development Plan approved for drilling 500 production wells in Raniganj

ESSAR Oil Ltd (EOL) today reported strong revenue growth of 25% in FY 2010-11, at Rs 53,119 crore, up from Rs 42,402 crore in the previous fiscal. Quarterly figures show a similar increase, up to Rs 14,846 crore in Q4 of 2010-11 from Rs 11,942 crore in the corresponding quarter last fiscal. This growth can be attributed to increase in throughput and higher oil prices.

The Current Price Gross Refinery Margin (CP GRM) for the Refinery business increased to US$6.91 per barrel in FY2010-11 from US$3.7 per barrel in FY2009-10. Quarterly CP GRM increased to $8.15/bbl from $5.37/bbl in the corresponding quarter in the previous financial year (see Appendix for understanding CP GRM).

EOL's EBITDA grew by more than 43% to Rs 2,780 crore from Rs. 1,938 crore last fiscal. Quarterly EBITDA registered a 34% increase—at Rs 912 crore from Rs 683 crore.

Annual Profit After Tax (PAT) jumped to Rs 654 crore in FY 2010-11 from Rs 29 crore in FY 2009-10, a 23-fold increase. Quarterly PAT grew 78%, at Rs 321 crore from Rs 180 crore.

Key Performance Indicators (Unaudited)

(In Rs crore)

Full Year ended 31 March 2011	FY 2010	FY 2011	% change
Revenue (Gross)	42,402	53,119	25%
EBITDA	1,938	2,780	43%
Profit Before Tax	29	835	2817%
Profit After Tax	29	654	2117%
Cash Profit	757	1,566	107%
Property, Plant and Equipment	16,628	20,197	21%
Debt	10,089	13,472	34%
Net Worth	4,674	6,538	40%

Quarter ended 31 March 2011	Q4 FY 2010	Q4 FY 2011	% change
Revenue (Gross)	11,942	14,846	24%
EBITDA	683	912	34%
Profit Before Tax	180	422	134%
Profit After Tax	180	321	78%
Cash Profit	362	603	67%

Commentary on Company Results

Naresh Nayyar, EOL's CEO & Managing Director, said: "This is a strong financial result driven by record refinery throughput of 14.76 MMTPA and a healthy uplift of over 80% in GRMs. Demand for petroleum products in India is expected to continue to grow sharply and we remain focused on delivering our key projects, which in 2011 includes the first phase of our Vadinar refinery expansion. With the successful completion of the IPO of our parent company last year and the subsequent strong financial performance, we also have a robust financial position to fund our expansion programme."

Note: *2010 saw the creation of Essar Energy plc as the holding Company for the Essar Group's power and oil & gas interests. Essar Energy plc was listed on the main market of the London Stock Exchange through an initial public offering, which raised US$1.9 billion gross proceeds (US$1.8 billion net proceeds) and at that time was the largest primary offering in the London market since 2007.*

The company has three business segments: Refining, Marketing, and Exploration & Production.

Refining

Operationally, the Vadinar refinery in Gujarat continues to operate well above its nameplate capacity of 10.5 MMTPA (million metric tonnes per annum), processing a record 14.76 million tonnes of crude oil (107.3 million barrels) during FY 2010-11, 9% higher than the 13.50 million tonnes of crude oil (98.4 million barrels) processed during 2009-10. This produced a GRM, inclusive of sales tax benefit, of US$6.91 per barrel for FY 2010-11, which was an 86.75% improvement when compared with a GRM of US$3.70 per barrel in FY 2009-10.

In June 2010, the refinery received its first supply of Mangala crude through a dedicated heated and insulated pipeline from the oil fields in Rajasthan. This low sulphur, heavy and high pour crude is an important new source of crude for Essar Oil Limited as it improves crude oil supply security and benefits from lower logistics costs and taxes. The refinery processed about 1.33 million tonnes of Mangala crude between June 2010 and March 2011.

Exports from the Vadinar refinery increased to 32% in 2010-11 compared to 25% in 2009-10. This export growth was primarily because of an increase in export sales of fuel oil, which is being increasingly displaced by natural gas in the domestic industry.

Refinery expansion project: The Phase 1 expansion of the Vadinar refinery is scheduled to reach mechanical completion in phases in the second and third quarters of CY 2011. Majority of increased production from the new units will commence in Q4 of CY 2011. The overall completion of the project now stands at 86%.

The refinery will take a 35-day shut down in September-October 2011 to allow for the tie-in of new units and routine maintenance.

Boost in GRM after expansion: Completion of Phase 1 refinery expansion will increase production to 375,000 barrels per stream day (bpsd) from 300,000 bpsd and, more importantly, increase complexity from 6.1 to 11.8. The increased complexity means that the refinery can increase the proportion of heavy and ultra-heavy crude that it processes, and produce a higher proportion of middle and light distillates. We expect this to result in a positive improvement in GRMs.

While the construction costs of the Phase I refinery Project are within the overall budget, including the contingency utilisation relating to change of scope, costs are estimated to increase by approximately Rs 500 crore(US$ 111.6 million), or 6.4% of the original project cost. This increase is mainly due to expected delay in commissioning and related interest costs and pre-operative expenditure.

Refinery optimisation project: In November 2010, the Company announced plans to further increase the capacity of the refinery to 20 MMTPA, or 405,000 bpsd. This will be achieved through optimisation of some of the refinery units at an estimated cost of Rs 1,700 crore (c. US$ 380 million); the project will be completed by September 2012. The move follows a detailed project review that identified several opportunities to de-bottleneck the refinery and revamp some of the units at an extremely competitive capital cost.

Excellent safety track record: As of today (11 April 2011), the Vadinar refinery has recorded over 1,100 days of operations without a Lost Time Injury. This goes to show that the refinery personnel have consistently delivered a high production rate without making compromises on safety standards.

This fiscal, Vadinar has been awarded many prestigious awards for safety, by OISD; Indian Chemical Council; Gujarat Safety Council; CII-WR; National Safety Council, USA; British Safety Council; Golden Peacock, etc..

Marketing

Essar Oil Limited operates, through a franchise model, 1,381 retail fuel outlets across India selling petrol and diesel under the Essar brand; a further 254 outlets are under construction. In June 2010, the Government of India announced plans to fully deregulate petrol prices and to gradually deregulate diesel prices over time. This decision supported our plans to increase our retail fuel outlets to 1,700 by April 2011, which remains on track. However, an increasing oil price has put pressure on the market price of diesel, which in turn has caused the uncertainty regarding Government of India's plans to deregulate retail prices of diesel. As a result, Essar Oil intends to slow down its plans to increase retail outlets beyond 1,700 until there is further clarity on diesel deregulation.

The Company is increasing non-fuel retailing activities in its current portfolio of retail outlets to provide an additional source of revenue for its franchisees. The company has forged alliances with alternative fuel and non-fuel retailers in segments like autogas, auto components, lubricants and services. EOL is also in talks with retailers in the food & beverages, agro products, telecom and banking/finance segments to set up points of sale at its outlets.

EOL is now focusing on introducing Auto LPG & CNG pumps in its outlets through tie-ups with Aegis Gas and GAIL Gas, respectively. Two CNG stations have been commissioned in Surat and Ahmedabad, in association with Sabarmati Gas & Gujarat State Petroleum Corporation.

Exploration and Production

New CBM fields: During 2010, the Company was awarded four exploration blocks under the Government of India's CBM-IV bid round. The four blocks comprise 2,233 sq.km of exploration acreage with in-place prospective resources of over 7.6 tcf of Coal Bed Methane (CBM) gas, according to documents issued by the Directorate General of Hydrocarbons at the time of bidding. These blocks, together with existing CBM block at Raniganj, West Bengal, make Essar Oil the company with the largest CBM acreage in India and over 10 tcf of reserves and resources. The Company has signed the CBM contracts for these blocks and is in the process of obtaining appropriate licences, including the Petroleum Exploration Licences. The Company is also planning the initial work programme for these blocks.

Raniganj: At Raniganj in West Bengal, our first CBM block under development, we have made significant progress during the year. Currently 33 wells are producing about 35,000 scmd of gas; an additional 30 production wells have been drilled. To accelerate our work programme we have 10 drilling rigs of various capacities and one hydrofracturing unit operating at site. To date, 201 bcf of gas has been classified in the 2C, contingent resource category with another 792 bcf classified as a best estimate prospective resource. With a view to migrate more resources to the 2C, contingent resource category during the second half of 2011, 14 wells have been drilled. Financial closure of the first phase has been achieved and EOL is fast-tracking the drilling of new wells.

The Company has completed the 48-km Raniganj-Durgapur pipeline, which will help bring gas from the field to the industrial customers in Durgapur. EOL has also received Gas Sale Price approval from the Ministry of Petroleum & Natural Gas. The Field Development Plan for the Raniganj block that will allow EOL to drill a total of 500 wells has also been approved. Commercial sales from the block are scheduled to begin in a few months post some statutory approvals.

Provisional winner of one block under NELP IX: EOL has been declared provisional winner of one on-land oil & gas block in Gujarat's Cambay Basin, the only block it had bid for in the ninth round of the NELP (New Exploration Licensing Policy).

Nigeria block: In December 2010, the Company signed an agreement to farm out 37% participating interest in the OPL-226 oil & gas offshore block in Nigeria to Agamore Energy Limited, a local Nigerian Company. This block was awarded to Essar in the 2007 Nigerian bid round, and a Production Sharing Contract was subsequently signed in March 2010.

Industry and Global Outlook

Global Oil Demand: After the economic slowdown in 2009, global oil demand has increased significantly. In 2010 alone, the growth in demand was 2.84 million barrels per day, one of the highest ever. In 2011, the expected growth in demand is 1.54 million barrels per day. Most of this growth is expected to come from developing nations.

Crack Margins: After the lows of 2009, margins on cracks have gone up again, though they haven't reached the historical highs of 2008. Diesel crack is at a premium of $22/bbl while Petrol crack is at $11.5/bbl now. In future, cracking margins are expected to remain high, thus benefitting refiners. Forward cracking margins for FY12 are nearly 60% higher than those of FY11.

Economic and Geopolitical Outlook: Both economic and geopolitical outlook present a good picture for the oil & gas industry. Oil demand is expected to increase, leading to increased oil prices and refining margins. Major developed nations are coming out of recession, and their economies are stabilising and recovering, with reduced unemployment; China continues to grow, while various developing nations continue to develop, thus leading to increased demand for crude.

The earthquake in Japan has resulted in increased demand for various oil products, due to requirement for power generation and reconstruction. The ongoing crisis in various nations in Middle East and North Africa has resulted in substantial increase in crude prices. Refinery spare capacity has also gone down in recent times, due to increased demand and relatively less capacity coming online. All these factors imply that refining margins are likely to increase in the near future, thus benefitting refineries

Economic Outlook: India has seen a swift and solid economic recovery over the last year, contrasting positively with many developed economies. GDP growth is expected to be 8.8% for the fiscal year 2010-11, one of the highest rates among the world's major economies. With nominal GDP forecast at US$1.73 trillion, India will make the transition from a low income country to a middle income country as per capita income crosses US$1,200. High inflation, double-digit for food, remains a concern as it erodes real income. This risk to growth remains a priority for the government as can be seen from the RBI's continued monetary tightening through increases in interest rates.

High rates of growth however, are improving the fiscal position of the economy and it is anticipated that the fiscal deficit target of 5.5% for this financial year will be exceeded. This will give the government more scope to spend, with focus expected on welfare and infrastructure. In the most recent budget, infrastructure spending was increased by 23% in 2011-12 to US$48 billion. This should offset any dampening of investment from higher interest rates.

Increasing economic growth is positively impacting India's energy demand growth. Energy usage is both broadening in the economy and deepening as income levels rise. This will result in increased levels of energy intensity.

It is estimated that India's total primary energy consumption will grow by 39% in the 10-year period from 1995 to 2015 and increase a further 55% by 2035[1]. This increasing trend of energy consumption supports our strategy to focus on the energy demand growth in India.

Business Outlook: Petroleum product demand in India continues to demonstrate strong growth, supported by growth in the Indian economy, increase in per capita income, growth in vehicle ownership and the focus on infrastructure spending. India will remain the anchor market for Essar Oil's expanded refinery capacity, albeit export sales in the medium term are likely to increase to around 40% of sales due to new capacity additions by the public sector refiners. The planned acquisition of Stanlow refinery in the UK by Essar Energy plc will increase the sales options available for the export of high value products produced in Vadinar.

Deregulation of petrol prices in India in June 2010 increased the competiveness of our retail fuel outlets. However, increasing oil prices with a resultant impact on diesel prices has adversely impacted the Government of India's roadmap toward diesel deregulation.

A rebound in global demand in 2010 had a clear impact on oil prices. Current events in the Middle East and North Africa have the potential to impact oil supplies putting further pressure on prices. This is of particular concern for India which imports around 80 - 85% of its crude oil demand. This situation is expected to continue despite significant discoveries of both oil and gas in India in recent years. The company's exploration & production business has 11 of its 17 oil & gas and CBM blocks located in India and given the domestic demand scenario, commercialisation of these assets represents a significant opportunity for Essar Oil.

Growth Projects

Projects under construction:

Business Segment	Project	Location	Capacity	Target date for completion
Exploration and Production	Raniganj	West Bengal	3.5 mmscmd* CBM	Commercial sales In the next few months
Refining and Marketing	Vadinar Refinery Phase	Gujarat	14 MMTPA at a complexity of 6.1; to reach a capacity of 18 MMTPA at a complexity of 11.8	Mechanical completion by Q2 & Q3 of CY 2011

** Peak production based on 2C and best estimate prospective resources which will be realised in stages over the next 2-3 years*

Projects moved to construction during the year:

[1] International Energy Outlook, 2010 – US Energy Information Authority

Business Segment	Project	Location	Capacity	Target date for completion
Refining and Marketing	Vadinar Refinery optimisation	Gujarat	Augmenting capacity to 20 MMTPA at a complexity of 11.8	Sept 2012

Financial Review

The following section provides an overview of our financial performance in the year, highlighting the key financial drivers and performance indicators for Essar Oil Limited.

The Income Statement

Year ended 31 March	2010-11	2009-10	Change
	Rs. Crore	Rs. Crore	%
Revenue	53,119	42,402	25%
EBITDA	2,780	1,938	43%
Net finance costs	1,073	1,095	-1%
Profit before tax	835	29	28.5x
Taxation	181	(1)	-
Profit after tax	654	29	22.5x
CP[1] GRM (including sales tax benefit) (US$/bbl)	6.91	3.7	87%

1 *See appendix for definition.*

Gross Revenues – Refining and Marketing

Refining and Marketing revenues increased by Rs.10,717 crore representing a 25% growth year on year, from Rs.42,402 crore in FY 2009-10 to Rs.53,119 crore in FY 2010-11, primarily driven by record refinery throughput and increased product prices.

During 2010-11, the Vadinar refinery processed 14.76 MMT of crude oil against 13.50 MMT in FY 2009-10. FY 2010-11 recorded the highest yearly throughput ever, with the crude distillation unit operating at more than 140% of its nameplate capacity. All other refinery units operated well beyond their nameplate capacity. Furthermore, fuel and loss, which is a measure of effectiveness of energy utilization and loss control by refineries worldwide, improved in 2010-11 at 5.78% against 6.05% in 2009-10. In general, fuel and loss indicates how much fuel we have used for each ton of crude processed. It is measured as a percentage of crude processed and natural gas consumed. Lower fuel and loss indicates higher energy efficiency and better control of losses which in turn positively impacts refinery margins. The Company believes its fuel and loss is one of the lowest amongst Indian refineries.

Asset	Throughput (MMT)		Production (MMT)	
	2010-11	2009-10	2010-11	2009-10
Vadinar	14.76	13.50	13.90	12.68

In 2010-11, production of BS-III and BS IV grades of diesel helped sustain a high margin. In Marketing, we have 1,381 operational retail fuel outlets and 254 under construction. In FY 2010-11 we commissioned our first auto-LPG outlet. Agreements have been signed with Gujarat State Petroleum Corporation Limited, Gas Authority of India Limited and Sabarmati Gas Limited for setting up compressed natural gas facilities in Essar Oil retail fuel outlets on a pan-India basis. Together with higher production, we had sales of 14.06 MMT in FY2010-11 against 13.17 MMT in FY 2009-10.

Net Finance Costs **(In Rs crore)**

Financial Year ended 31 March (Rs. Crore)	2010-11	2009-10
Total finance costs	1214	1181
Finance income	141	86
Net finance costs	1073	1095

Finance costs comprise Rs 1,214 crore (2009-10: Rs 1,181 crore) of finance costs charged to the income statement and finance income of Rs.141 crore (2009-10: Rs.86 crore). Net finance costs have remained relatively flat year on year with a decrease of Rs 22 crore.

Taxation

The tax charge of Rs 181 crore in FY 2010-11 comprises income tax of Rs.169 crore (2009-10: credit of Rs1 crore) and deferred tax of Rs 12 crore (2009-10: Rs Nil). The income tax charge has increased primarily due to an increase in profits which are subject to Minimum Alternative Tax ('MAT'). MAT is charged on book profits at a rate of 19.93%, but is available for set off against corporate income tax in the following 10 years, subject to certain conditions.

Profit after Tax

Profit after tax has increased by Rs.625 crore representing a 23 times growth, from Rs.29 crore in FY 2009-10 to Rs 654 crore in FY 2010-11 as a result of improvements in the operations as discussed above. Earnings per share for FY 2010-11 has improved to Rs.4.85 per share as a result of increased profits against Rs.0.25 per share for FY 2009-10.

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About Essar Oil

Essar Oil is a fully integrated oil & gas company of international scale with strong presence across the hydrocarbon value chain from exploration & production to oil retail. It has a global portfolio of onshore and offshore oil & gas blocks, with about 45,000 sq km available for exploration. Essar Oil has over 300,000 bpsd (barrels per stream-day) of crude refining capacity that is being expanded to 405,000 bpsd. There are over 1,300 Essar-branded oil retail outlets in various parts of India.

About Essar Group

The Essar Group is a multinational conglomerate and a leading player in the sectors of Steel, Oil & Gas, Power, Communications, Shipping Ports & Logistics, Construction and Minerals. With operations in more than 20 countries across five continents, the Group employs 70,000 people, with revenues of USD 15 billion.

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APPENDIX: DEFINITION AND COMPARABILITY OF CP GRM

GRM is calculated as actual sales net of crude costs derived from the accounts. Inventory gains and losses, hedging gains and losses and sales tax benefit for the period also form part of the GRM. Based on this method of calculation, Essar Energy's reported GRMs are not directly comparable to the performance of other refiners, other refining benchmarks and industry reports due to following reasons:

- The Vadinar oil refinery operates in the state of Gujarat and benefits from a government sales tax incentive, although the validity of this benefit is being contested by the state of Gujarat in Supreme Court of India.
- In India, domestic products are sold based on Government decided formulae known as Refinery Transfer Price, RTP. RTP of LPG and Kerosene are based on the average market price of the previous month, while for other products including Gasoil and Gasoline it is based on the average price of the previous fortnight. As a result the revenues may not match the prevailing product prices for the period.
- The Company adopts the first in, first out FIFO methodology for crude inventory valuation. As a consequence the cost of crude consumed can be crude purchased in earlier periods which may not reflect current prevailing crude prices. For crudes with a long voyage time these differences can be more significant.
- Sales quantity does not directly match actual production during the period as there may be inventory movement compared to a previous period.
- Commodity derivative instruments are used to act as an economic hedge against the price risk of forecast crude oil purchases, future refined product sales and future product crack margins. These derivative instruments are required to be recorded at fair value with gains and losses recognized in income because hedge accounting is not applied.

The following adjustments are made to the GRM to provide a CP GRM that reflects underlying operational performance and better communicates industry comparable performance of the refinery. These adjustments are as follows:

- The sales quantity is taken as actual production during the period. This eliminates the effect of inventory gains and losses in the GRM. This sales quantity is allocated into export and domestic sales based on the actual ratio of export and domestic sales for the period.
- The cost of crude is taken at the current prices of crude grades actually consumed, net of premium or discounts as applicable. Prevailing custom duty is applied on the cost of crude.
- To calculate the revenue from the sales quantity the domestic sales price is valued based on the RTP of the same period rather than any other period. Export prices are based on actual realised export prices, as they do not have timing differences. Revenue is adjusted for premiums or discounts achieved by the Company. For domestic sales custom duty recovery is built up in RTP itself whilst Duty Benefit for exports is added separately.
- The impact of economic hedging gains or losses is excluded.
- The impact of the Gujarat government sales tax benefit is separately identified.