



Speech for the Chairman  
at the  
21st Annual General Meeting of  
**Essar Oil Limited**  
August 12, 2011  
Jamnagar



**Good afternoon, ladies and gentlemen,**

I am delighted to welcome you all on behalf of the Essar Oil Board of Directors to the 21st Annual General Meeting of your company.

It has been a transformational year for your Company. In fiscal 2010-11, for the first time in the history of your company, we grossed an annual turnover of over Rs 50,000 crore. This makes Essar Oil among the top companies in the world by way of revenues. With your company's Vadinar refinery very close to completing its Phase I expansion, we will be consolidating this position further.

Our financial performance in FY 2010-11, the last financial year, was strong. Going forward, in the quarter ended June 30, 2011 of the current fiscal, we demonstrated that we were well on the path of profitability. Clocking quarterly revenues of Rs 16,478 crore, we recorded quarter-on-quarter growth of 37%. Our quarterly EBITDA grew by more than 124% to Rs 913 crore. Our Profit After Tax in the quarter jumped to Rs 469 crore against a loss of Rs 70 crore in the corresponding quarter of the last fiscal.

Operationally, our performance has been equally impressive.

**Refining business**

Your company's Vadinar refinery continues to operate well above its nameplate capacity of 10.5 MMT per annum. The refinery achieved a throughput of 14.76 MMT in FY 2010-11—a capacity utilization of over 140 per cent. This is the highest volume we have ever achieved and makes us one of India's largest single-location refineries.

In the quarter ending June 30, 2011, the refinery achieved a throughput of 3.62 MMT and produced a Current Price Gross Refining Margin, inclusive of sales tax benefit, of US\$ 7.38 per barrel.

We commissioned the natural gas pipeline to our refinery and have partly replaced fuel oil with gas, resulting in cleaner emissions. The refinery has also started

processing Mangala crude from Cairn India's Barmer oilfield in Rajasthan. Mangala crude improves our crude supply security and allows us to benefit from lower logistics costs and taxes.

The refinery personnel have consistently delivered a high production rate without making compromises on safety standards. As on 30 June 2011, the Vadinar refinery had recorded 1,185 days of operations without a Lost Time Injury. Your company recently received the Golden Peacock Award for excellence in Environment Management.

Your company's strong financial performance has therefore been a result of these commendable achievements on the operational front. I thank the refinery and the strategic planning teams for their stellar contributions.

### **Refinery expansion (Phase I) and optimisation projects**

The Phase I expansion project, which will take the refining capacity of the Vadinar Refinery to 18 MMTPA, has made significant progress. As on June 30, 2011, the overall completion stood at 92%. Among the main units of the expanded refinery, the Isomerisation Unit has achieved mechanical completion. All the other units will be mechanically completed by September-end except for the Delayed Coker Unit. Several supporting units and dedicated infrastructure facilities, including a gas-based captive power plant and a new berth at the Vadinar jetty, have also been completed.

Completion of Phase 1 refinery expansion will not only increase production but also enhance the complexity of your refinery 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. With the widening difference between prices of ultra heavy or heavy and light crudes, refineries with high complexity, like your company's Vadinar Refinery, are expected to see a significant uplift in GRM.

Considerable progress has also been made in the optimisation project, which will further enhance the capacity of the Vadinar Refinery to 20 MMTPA. As on June 30, 2011, this project was about 56% complete. We are confident that the project will be completed fully by September 2012.

### **Marketing and retail sales business**

Your company continues to focus on the domestic market for the sale of its products because of the superior price realisation.

Exports from the Vadinar refinery in the first quarter of the current fiscal increased to 32% compared to 27% in the corresponding quarter last fiscal. This is primarily because of the drop in the domestic sales of fuel oil that is being displaced by natural gas in the Indian market. Post your refinery's Phase I expansion, it will be able to reduce fuel oil production and manufacture an increased proportion of higher value products.

For our retail sales business, it has been a time of mixed fortunes. While petrol pricing was deregulated in June 2010, high crude oil and product prices in the latter part of the financial year made it difficult for retailers to match international petrol prices. However, taking advantage of a level playing field in petrol retailing earlier in FY 2010-11, our retail team notched up 155 KT of petrol sales. This is the highest petrol retail sales volume we have ever achieved and we could have improved on this figure had market conditions not slowed us down in the latter part of the year.

The recent duty cuts and revised prices of petrol and diesel announced by the Government of India have had a positive impact on your company's retail sales business. Post these cuts and revision, Essar Oil has been able to maintain on-par pricing for petrol in comparison with public sector retailers.

We continue to expand our retail network, though now at a slower pace, pending a decision on the deregulation of diesel. As on 30 June 2011, your company had 1,639

retail outlets, including operational and under construction outlets, selling petrol and diesel under the Essar brand.

**Non-fuel retail**

Along with enhancing the non-fuel retailing activities at the retail outlets, the company has forged alliance with alternative fuel and non-fuel retailers in segments like auto gas, auto components, lubricants and services.

Your company is also introducing Auto LPG & CNG pumps in its outlets through tie-ups with local gas marketers, like Aegis Logistics, Sabarmati Gas, Gail India, Adani Gas & Gujarat State Petroleum Corporation. CNG stations have been commissioned at four outlets in Baroda, Gandhinagar and Mehsana districts in Gujarat, while an Auto LPG pump has been commissioned at an outlet in Thane district in Maharashtra.

**Exploration & Production business**

We have taken significant steps in our exploration & production (E&P) business.

As on 30 June 2011, the test production at our Raniganj Coal Bed Methane (CBM) block was 33,000 standard cubic metres per day, which is being sold through truck mounted cascades. The production has been deliberately controlled since the block is awaiting some approvals before beginning commercial sales.

In the meanwhile, all supporting infrastructure to enable delivery of gas to customers has been completed. Your company has also tied up with local customers from the Durgapur Industrial Estate.

We have signed contracts for the four CBM blocks awarded in the CBM-IV round of bidding. We have applied for a Petroleum Exploration License for these blocks. We have continued production of crude in small quantities in the Mehsana block and are now looking to augment the production by developing some of the proven wells in this block.

**Key developments**

I am happy to share with you two major decisions that your Company's Board has taken during its meeting on July 11, 2011. It has deliberated the status of Essar Oil's exit from Corporate Debt Restructuring and has decided to expedite the process to enable the exit before March 31, 2012.

Additionally, to further optimise the finance cost of your Company, the Board has also given 'in-principle' approval to explore possibilities of raising foreign currency loans to the extent of US\$ 1.5 billion, instead of rupee loans, for its ongoing projects.

**The road ahead**

The current fiscal year will be crucial for your Company. We are on the threshold of significantly increasing our refining capacity, revenues and profitability with the completion of the refinery expansion project just round the corner. Timely execution of this project and the development of our CBM block in Raniganj are key to our future profitability.

I am grateful to our employees for their contribution in taking Essar Oil to the heights that it has reached today. I thank our project management consultants, business associates, suppliers and franchisees for their support through the year. I am grateful to our bankers and financial institutions, as well as the Central Government and Gujarat Government, for their support and guidance. Finally, I sincerely acknowledge the support we have received from you, our shareholders, and from my colleagues on the Board. I am confident that we will be able to surpass our achievements and take your company to greater heights.

Thank you,  
Chairman

*Note: This does not purport to be the proceedings of the 21st Annual General Meeting held on August 12, 2011.*