ESSAR
OIL & GAS

## ESSAR OIL LIMITED: RESULTS FOR THE QUARTER ENDED JUNE 30, 2011 (UNAUDITED)

### Key Highlights

**Overall**

- Essar Oil Limited (EOL) reports strong financial performance, with quarterly gross revenues increasing by 37% to Rs 16,478 crore from Rs 12,048 crore in Q1 FY 2010-11.
- Quarterly EBITDA was at Rs 913 crore, a growth of 124% from Rs 407 crore in the corresponding quarter of last fiscal year
- Quarterly PAT was at Rs 469 crore, compared to a loss of Rs 70 crore in Q1 FY 2010-11.
- Quarterly Current Price GRM (CP GRM) registered a 27% growth to US$ 7.38 /bbl compared to $ 5.79/bbl in Q1 FY 2010-11.

**Refining**

- Vadinar Refinery achieved quarterly throughput of 3.62 MMT (million metric tonnes), signifying over 135% capacity utilisation
- Phase I expansion project, which will increase the refining capacity from 14 MMTPA to 18 MMTPA and complexity from 6.1 to 11.8, is 92% completed:
    - Isomerisation Unit and many other units achieved mechanical completion in the quarter
    - Rest of the units, excluding DCU, to achieve mechanical completion in Q3 of CY 2011
    - Start-up activity of all expansion units to commence in phases during Q3 & Q4 of CY 2011
    - 35-day shutdown planned, starting 18 September 2011, for tie-in of new units
    - Revamp of CDU, FCCU & SRU to be completed during this shutdown
- Optimisation project to enhance refinery capacity to 20 MMTPA on track; 56% already completed and mechanical completion by September 2012
- Refinery continues to maintain excellent safety track record, with 1,185 Lost Time Incident (LTI) free days as on 30 June 2011

**Marketing**

- Essar Oil has 1,639 retail outlets, including operational and under construction outlets
- On the back of high crude prices, HSD & MS pricing at outlets maintained higher than PSUs
- Company increasing focus on non-fuel retailing at its outlets
    - Four CNG stations commissioned
    - Tapping the opportunity of retailing Auto LPG & CNG in Essar Oil outlets through tie-ups with Aegis Logistics, Sabarmati Gas, GAIL India and Adani Gas.
    - Formed new non-fuel retail alliances with Kerala Tourism, Rajasthan Tourism, Heritage Foods and United Phosphorus Group

**Exploration & Production**

- Raniganj CBM to start commercial sales shortly post statutory approval; block generating controlled production of about 33,000 scmd
- All supporting infrastructure for delivery of gas to customers completed
- Tie-ups with local customers at Durgapur Industrial Estate

**Mumbai, 11 July 2011: ESSAR** Oil Ltd (EOL) today reported strong revenue growth of 37% in the first quarter of FY 2011-12, with quarterly revenue of Rs 16,478 crore, up from Rs 12,048 crore in the in the corresponding quarter of the last fiscal year.

The Current Price Gross Refining Margin (CP GRM) for the Refinery business increased to US$ 7.38 per barrel from US$ 5.79 per barrel in Q1 FY 2010-11 (see Appendix for understanding CP GRM).

EOL's EBITDA grew by more than 124% to Rs 913 crore from Rs 407 crore in the corresponding quarter of the last fiscal year.

Profit After Tax (PAT) jumped to Rs 469 crore against a loss of Rs 70 crore in Q1 FY 2010-11.

Naresh Nayyar, EOL's CEO & Managing Director, said: "I am happy to report a very strong quarterly performance at Essar Oil. Since the last several quarters, we have been consistently reporting profits that have been driven by record refinery throughput and a healthy uplift in GRM. We are now very close to completing our refinery expansion project, which will enhance the refinery's complexity to 11.8. This would have a strong positive impact on our refining margins."

**Key Indicators of Financial Performance**

| Particulars | Q1 FY 2011-12 | Q1 FY 2010-11 | Percentage change |
|---|---|---|---|
| Revenue (Gross) | 16,478 | 12,048 | 37 |
| EBITDA | 913 | 407 | 124 |
| Profit Before Tax | 448 | (73) | - |
| Profit After Tax | 469 | (70) | - |
| Operational Profit | 629 | 108 | 482 |
| Property, Plant & Equipment | 23,244 | 19,081 | 22 |
| Debt | 14,010 | 10,936 | 28 |
| Net Worth | 7,007 | 5,814 | 21 |

*All numbers in Rs crore. Net Worth excludes FCCBs of US$ 262 million (Rs 1,172 crore) [US$ 115 million (Rs 534 crore) in the corresponding previous year quarter] issued to parent company.*
*Debt Includes Project Debt and FCCBs of Rs 5,874 crore (Rs 2,841 crore in the corresponding previous year quarter).*

**Operational Highlights**

Essar Oil has three business segments: Refining, Marketing, and Exploration & Production.

**Refining**

EOL's Vadinar refinery in Gujarat continues to operate well above its nameplate capacity of 10.5 MMTPA (million metric tonnes per annum). In the quarter, the refinery achieved a throughput of 3.62 MMT (million metric tonnes) compared to 3.68 MMT in the corresponding quarter last year. This produced a CP GRM, inclusive of sales tax benefit, of US$ 7.38 per barrel, which was a 27% improvement when compared with a CP GRM of US$ 5.79 per barrel in Q1 FY 2010-11.

In the quarter, the Vadinar refinery processed 15 varieties of crude, including ultra-heavy and tough crudes like Forozan Blend and Ras Gharib. Around 10.8% of the crude slate comprised the heavy Mangala crude from Cairn's Barmer oilfield in Rajasthan. A large part of the heavy distillates

production at the refinery included positive-margin products like Bitumen extracted after converting lower margin Fuel Oil.

EOL continues to focus on the domestic market for the sale of its products because of the superior price realisation. However, exports from the Vadinar refinery in the quarter increased to 32% compared to 27% in the corresponding quarter last fiscal.

**Refinery expansion project:**
The Phase I expansion project at the Vadinar Refinery made significant progress in the quarter, with all critical equipment erected at the site and an overall completion of 92%. The table below gives the completion status of the various units:

| Units / Facilities | Q2 CY2011 (Completed) | Q3 CY2011 | Q4 CY2011 |
|---|---|---|---|
| (A) New Units | Isomerization Unit | Hydrogen Unit | Delayed Coker Unit |
| | | ARU | |
| | | SWS | |
| | | DHDT | |
| | | VGO HT | |
| (B) Revamp of Units | | CDU & VDU Revamp | |
| | | SRU – Revamp | |
| | | Revamp of FCCU | |
| (C) OSBL | Air Generation System | Fire Water Facilities | |
| | Desalination System | Nitrogen System | |
| | Cooling Water System | Sulphur Pelletisation System | |
| | Natural Gas Station | Flare System | |
| | DM Plant | Petcoke Handling System | |
| | Narmada Water Facilites | | |
| | Plant / Non-Plant Buildings | | |
| (D) Supporting Infrastructure | Power Plant | 6 Additional Tankages | |
| | Jetty / Port | | |
| | 24 Additional Tankages | | |

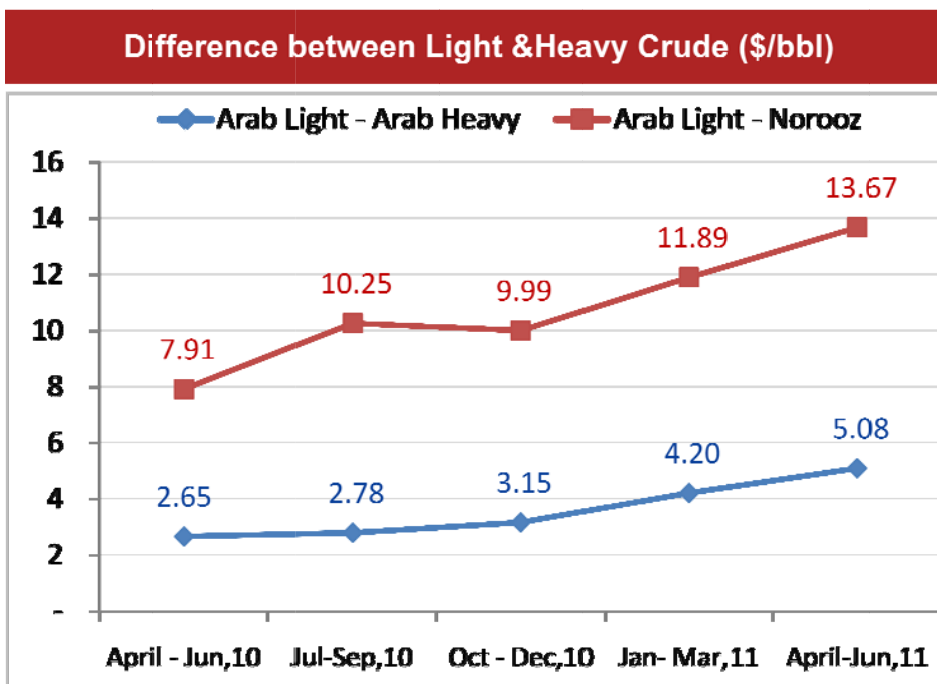
The Isomerisation Unit and a number of other units achieved mechanical completion in the quarter. The remaining units, except for the Delayed Coker Unit (DCU) that will be ready by Q4 of CY 2011, will be mechanically completed during Q3 of CY 2011. Start up activity of all new expansion units will commence in a phased manner during Q3 and Q4 of CY 2011. Additionally, all supporting infrastructure for the expanded refinery has been commissioned.

**35-day planned shutdown:** The Vadinar refinery will take a 35-day shutdown starting 18th September 2011 to allow for the revamp of the CDU (Crude Distillation Unit), the FCCU (Fluidised

Catalytic Cracking Unit) & the SRU (Sulphur Recovery Unit), the tie in of the Train 1 secondary 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.

With the widening difference (see image below) between prices of heavy and light crudes (increased from US$ 2.65/barrel to US$ 5.08/barrel over the last year), as well as that of ultra heavy and light crudes (increased from US$ 7.91/barrel to US$ 13.67/barrel over the last year), refineries with high complexity, like EOL's Vadinar Refinery, are expected to see a significant uplift in GRM, post expansion.




**Refinery optimisation project:** Considerable progress has been made in the optimisation project for the Vadinar Refinery, with about 56% completion status.

[**Note:** In November 2010, the Company announced plans to further increase the capacity of the refinery to 20 MMTPA, or 405,000 bpsd. 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 on 30 June 2011, the Vadinar refinery had recorded over 1,185 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.

In the quarter, the Vadinar Refinery received the Golden Peacock Award for excellence in Environment Management for 2011 from the Institute of Directors.

**Marketing**
As on 30 June 2011, EOL had 1,639 retail outlets, including operational and under construction outlets, selling petrol and diesel under the Essar brand.

On the back of high crude prices, pricing for HSD and MS at EOL outlets were maintained higher than PSUs across India throughout the quarter. This led to a substantial reduction in retail sales volumes.

**Non-fuel retail:** 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. The Company has tie-ups with over 20 brands, including Amul, Western Union Money Transfer, Bosch, JK Tyres, Exide and Pepsi.

EOL is now focusing on 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.

In the quarter, the Company forged alliances with Kerala Tourism Development Corporation, Rajasthan Tourism Development Corporation, Heritage Foods and the United Phosphorus Group for non-fuel retail initiatives at its outlets.

The recent duty cuts and revised prices of MS and HSD announced by the Government of India will have a positive impact on EOL's marketing business. Post these cuts and revision, EOL has been able to maintain on-par pricing for MS in comparison with public sector retailers.

**Exploration & Production**
Essar's exploration & production business has 2.1 billion barrels of oil equivalent of reserves and resources. Of this, approximately 150 million barrels are 2P & 2C resources, 1 billion barrels are prospective resources and 1 billion barrels are unrisked, in-place resources.

**Raniganj:** As on 30 June 2011, the production at our Raniganj Cola Bed Methane (CBM) block was 33,000 scmd (standard cubic metres per day). The production was deliberately controlled in the quarter 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. The Company has also tied up with local customers from the Durgapur Industrial Estate.

**Financial Review**
**Gross Revenue: Increase of Rs 4,430 Crore (37% growth):** The Company's quarterly gross revenue increased by 37% to Rs 16,478 crore from Rs 12,048 crore in the corresponding quarter of the previous financial year. The rise was primarily driven by higher product prices coupled with an increase in sales quantity. With the use of Natural Gas in the refining process instead of internally generated Furnace Oil (FO), the surplus quantity of FO was exported leading to increased revenues.

**Net interest and finance charges:** During the quarter, net Interest and finance charges have reduced by Rs 96 crore to Rs 188 crore compared to the corresponding quarter of the previous fiscal. The

cost savings was mainly driven by reduction in the working capital charges in the form of L/C charges, bill discounting charges, etc., on account of availability of larger open credit from crude suppliers.

**Tax expenses:** The tax expense includes current tax, deferred tax and MAT credit entitlement. The company has recognized MAT credit of Rs 256 crore during the quarter, as per provisions under Section 115JAA of the Income Tax Act, 1961, and Guidance note on MAT credit availment issued by the Institute of Chartered Accountants of India, after making a reassessment of its recoverability. This includes Rs 90 crore in respect of the current quarter and Rs 166 crore in respect of FY 2010-11.

**CDR Exit:** The Board of the Company has deliberated the status of CDR exit and decided to expedite the process to enable exit before March 31, 2012.

**Foreign Currency Loans (ECB):** In order to further optimise the finance cost of the Company, the Board also gave 'in principle' approval to explore possibilities of raising foreign currency loans to the extent of US$ 1.5 billion, instead of rupee loans, for the ongoing projects.

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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 refining and oil retail. It has a global portfolio of onshore and offshore oil & gas blocks, with about 2.1 billion barrels of oil equivalent in reserves & resources. 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 1,600 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 25 countries across five continents, the Group employs 70,000 people, with revenues of US$ 16 billion.

**Media contacts**
**Manish Kedia**, Sr. VP, Corporate Affairs, Essar Group
Tel: +91 98197 30092, Email: manish.kedia@essar.com

**Swastayan Roy**, Joint General Manager, Corporate Communications, Essar Group
Tel: +91 98197 31561, Email: swastayan.roy@essar.com

**Parikshit Kaul (Delhi),** Joint General Manager, Corporate Communications, Essar Group
Tel: +91 98735 70816; Email: parikshit.kaul@essar.com

**Investor Relations**
**Pramod Bhandari**, Head-Equity, Investor Relations
Tel: +91 98197 30915, Email: pramod.bhandari@essar.com

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## APPENDIX: DEFINITION AND COMPARABILITY OF CP GRM

Gross Refining Margin (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 Oil's reported GRM is 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 Current Price GRM (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 domestic 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.