

Delivering on Promises



Essar Oil Limited

ANNUAL REPORT 2011-12

CORPORATE INFORMATION

BOARD OF DIRECTORS

(As on November 9, 2012)

Shashi Ruia, Chairman
Prashant Ruia
Naresh K. Nayyar, Deputy Chairman
Lalit Kumar Gupta, Managing Director & CEO
Chakrapany Manoharan, Director (Refinery)
Philip S. Aiken
Dilip J. Thakkar
K. N. Venkatasubramanian
K. V. Krishnamurthy
Melwyn Rego, Nominee of IDBI Bank Ltd.
V. K. Sinha, Nominee of LIC of India
Suneet Shukla, Nominee of IFCI Ltd.

COMPANY SECRETARY

Sheikh S. Shaffi

TRANSFER AGENTS

M/s Datamatics Financial Services Ltd.
Unit: Essar Oil Limited
Plot No. B-5, Part B Cross Lane,
MIDC, Andheri (East), Mumbai – 400 093
Tel: +91-22-66712151 to 66712156
Fax: +91-22-66712209
Email: eolinvestors@dfssl.com
Website: www.dfssl.com

AUDITORS

M/s Deloitte Haskins & Sells, Ahmedabad

BANKERS

ICICI Bank Ltd.
State Bank of India
IDBI Bank Ltd.
Punjab National Bank
HDFC Bank Ltd.
Axis Bank Ltd.
Indian Overseas Bank
Oriental Bank of Commerce
Indian Bank
Central Bank of India
Bank of India
State Bank of Patiala
Allahabad Bank
Syndicate Bank
Bank of Baroda
State Bank of Mysore

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Dist. Jamnagar – 361 305, Gujarat
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CORPORATE OFFICE

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11, Keshavrao Khadye Marg
Mahalaxmi, Mumbai – 400034
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Fax: +91-22-23544281/ 23540450
Website: www.essar.com

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DELIVERING ON PROMISES – CREATING LONG-TERM SUSTAINABLE VALUE

The journey which started as a dream to build a world-class refinery at Vadinar has finally come true. The completion of the refinery expansion and optimisation project has been a huge turning point for Essar Oil Ltd. We are proud to have dedicated a world-class refinery to the nation – India's second-largest single location refinery – one of the world's most complex refineries. With the completion of our expansion projects, we have now moved out of the capex mode. Commercialisation of our assets represents

a significant opportunity for us, given the rising domestic and global oil demand.

As we move ahead, we're poised for consolidating our market position. We endeavour to participate in fulfilling India's energy requirement. We continually strive to deploy innovative practises to create benchmarks in the refining industry and focus on strengthening our balance sheet to create long-term sustainable value for our shareholders.

> WEST VIEW OF TRAIN 1 EXPANSION AT VADINAR



AN INSIGHT INTO ESSAR OIL

Essar Oil (part of the US\$ 27 billion by revenue Essar Group and majority owned by LSE-listed Essar Energy plc) is a fully-integrated oil and gas company of international scale with strong presence across the hydrocarbon value chain – from exploration and production to refining and oil retail. It has a portfolio of onshore oil and gas blocks, with about 1.7 billion barrels of oil equivalent in reserves and resources. It owns and operates a highly complex state of the art 20 MMTPA refinery at Vadinar and pan India retail presence through over 1,400 retail stations.

ESSAR OIL

EXPLORATION & PRODUCTION

5 CBM

(Coal Bed Methane) Gas blocks with 100% ownership in each

1.7 BBOE

(billion barrels of oil equivalent) of total oil reserves & resources

2,700 sq. km

of acreage in India

REFINING

20 MMTPA

refinery in Vadinar, Gujarat

2nd LARGEST

single location refinery in India

Among one of the most complex refineries in the world

~10%

of India's total refining capacity

MARKETING

1,400 +

retail outlets with pan-India presence

1st PVT. CO.

to open retail outlets for petroleum products

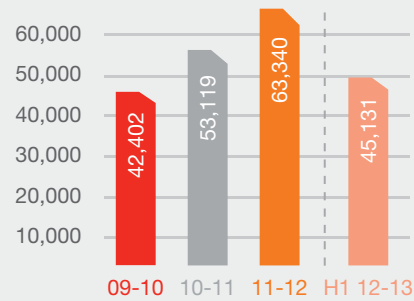
1st COMPANY

to execute Agreements with all the 3 PSU OMCs

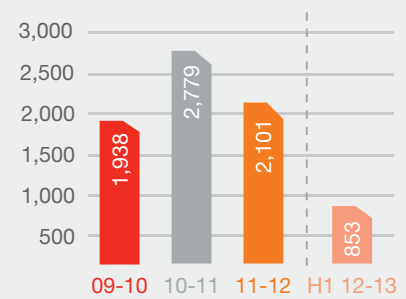
> MAIN ENTRANCE OF THE VADINAR REFINERY

HIGHLIGHTS

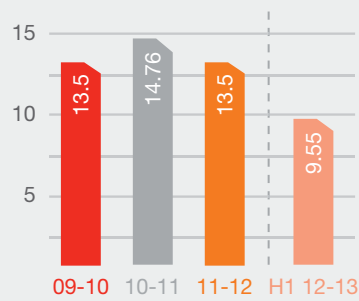
REVENUE* (₹ CRORE)



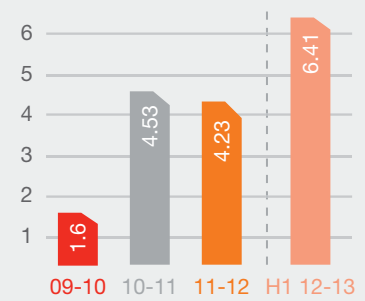
EBITDA* (₹ CRORE)



THROUGHPUT (MMT)



CP GRM (US\$/BBL)



* Based on reopened accounts and before exceptional items



CHAIRMAN'S MESSAGE



SHASHI RUIA

Dear Shareholders,

It gives me immense pleasure to present our annual report for the financial year ended March, 2012. The year gone by will be known as stepping stone in the history of Essar Oil, which transforms our dream to build a highly complex world-class refinery into reality. We did encounter several challenges in our journey, but, our resilience has paid off and we have emerged successful despite the odds and have delivered on promises made to our shareholders. I wish to reassure you that we are committed to delivering long-term sustainable value for our shareholders. I am deeply indebted to each one of you for your patience and faith in your Company.

Business Outlook

We are optimistic and look forward to a positive business scenario. One of the reasons for our optimism is the outlook for the

Indian economy. Notwithstanding the recent policy impasse and adverse macroeconomic factors, over the last five years, the Indian economy has grown around 35% pulling many people out of poverty and increasing the wealth of the middle-class. As more and more people in India see roads opening up to a better way of life, they want to improve their living conditions. Fundamental to these needs is the provision of energy; be that electricity or petroleum products for cars and other transportation. Demand for energy is rising rapidly and our world-class Vadinar refinery is fully-g geared to cater to the requirement of petroleum products to the Indian as well as international markets.

In the long-term, India is very well placed since it has a young population, not only in comparison to advanced economies, but also in relation to the larger developing

countries in Asia and Latin America. As a result, the working population is expected to increase by around 30% and the urban population is expected to increase from around 31% today to over 40%, over the next 20 years. If India is to meet its 12th Five Year Plan target of 9% GDP growth each year from 2012 to 2017, then according to India's Planning Commission, this will require energy supplies to grow at a rate of between 6.5% and 7% per year, which is above the rates of the last five years.

Strategy

Our strategy is to create a world-class, low-cost, integrated energy company focused on India and positioned to capitalise on India's growing energy demand. Our focus has now shifted from being a project-focused company to an operating company. As an operating company, we would like

WE HAVE OBSERVED A BIG PUSH FROM THE CENTRAL GOVERNMENT WHICH, WE BELIEVE, WILL BRING OUR **COUNTRY'S GDP BACK ON A 8%-9% GROWTH TRAJECTORY.**

to focus on operational excellence and implement innovative practices in our business to set new benchmarks for the industry. The completion of the Vadinar refinery expansion and optimisation projects brings the major capital expenditure cycle in our refining business to an end. The focus will now move to ensuring that all assets operate in line with the expectations, and we start to deliver the promised cash flows and profitability which will be utilised to de-leverage our balance sheet and maximise the shareholder's value.

People

An organisation breathes through the lungs of its people and flies on the strength of their dreams. No asset can be built, operated and managed without people. I am grateful to our employees and their family for their commitment to support the vision to convert

the Vadinar refinery into a leading refinery in the country today.

There are regulatory issues like approvals of pricing for CBM, complete deregulation of petroleum retail marketing etc. which are affecting the growth potential. During last few months, we have observed a big push from the Central Government on various reform agenda which we believe, will bring our country's GDP back on 8%-9% growth trajectory. These hurdles, however, will not deter us from our ambitions to become a world-class integrated energy player. We are committed and determined to create enduring and long-lasting value for all our stakeholders.

Best wishes,

Shashi Ruia
Chairman

WE ARE COMMITTED AND DETERMINED TO **CREATE ENDURING AND LONG-LASTING VALUE** FOR ALL OUR STAKEHOLDERS.

MD & CEO'S MESSAGE



LALIT KUMAR GUPTA

Dear Shareholders,

It gives me great satisfaction and happiness to share with you that your Company successfully completed its Train I expansion project in March 2012 by adding various new units such as ISOM, DHDT, VGO-HT & DCU etc., taking the Refinery nameplate capacity from 10.5 MMTPA to 18 MMTPA and Refinery Complexity from 6.1 to 11.8 making it a world-class refinery despite several challenges.

I am also very happy to share with you that the optimisation Project to increase the Refinery capacity from 18 MMTPA to 20 MMTPA has been completed on 5th June 2012 almost four months ahead of schedule. The Vadinar refinery at 20 MMTPA, is today a prominent feature on the global refining map and also enjoys the distinction of being the second largest refinery at a single location in India, and accounts for

almost 10% of India's total refining capacity.

It's a matter of great pride for all of us that we have delivered on our promise of creating long-term sustainable value. Today, your Company has a strong presence across the entire hydrocarbon value chain – from exploration and production to refining to oil retailing on a global scale and is well positioned to take advantage of the rising energy demands of our growing nation.

You will be happy to know that your refinery has been set up at about half the global cost and our operating costs are also among the lowest worldwide. With the completion of our expansion and optimisation projects, our capital expenditure cycle has come to an end and now our full focus is on delivering value on the investments made to all our stakeholders.

I would also like to share with you that lenders have approved our debt restructuring exit proposal. On the sales tax incentive front, as per the directions of the Hon'ble Supreme Court your Company has paid ₹ 1,000 crore to the Gujarat Government while the balance amount of ₹ 5,169 crore will be repaid in eight quarterly installments starting from January 2, 2013 together with a simple interest of 10% p.a. w.e.f. January 17, 2012. We have tied up a loan of ₹ 5,000 crore to take care of funds requirements if any, to pay the sales tax dues to the Gujarat state government.

Your Company reported gross sales revenue at ₹ 63,340 crore, which is an increase of 19% over the last fiscal, with an EBITDA of ₹ 2,101 crore. However, the net loss of ₹ 1,285 crore is mainly due to the reversal of ₹ 778 crore towards sales tax deferral income,