ESSAR
OIL & GAS

POSITIVITY

PASSION

PERFORMANCE

Essar Oil Limited | Annual Report 2014-15

Corporate Information

BOARD OF DIRECTORS
(As on August 24, 2015)

Prashant Ruia, Chairman
Naresh K. Nayyar, Deputy Chairman
Lalit Kumar Gupta, Managing Director & CEO
Chakrapany Manoharan, Director (Refinery)
Dilip J. Thakkar, Independent Director
K. N. Venkatasubramanian, Independent Director
Virendra Singh Jain, Independent Director
Deepak Kumar Varma, Independent Director
Dr. Sabyasachi Sen, Independent Director
Rugmani Shankar, Independent Director
R. Sudarsan, Nominee of LIC of India
Sudhir Garg, Nominee of IFCI Ltd.

CHIEF FINANCIAL OFFICER

Suresh Jain

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

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

REGISTERED OFFICE

Khambhalia Post, Post Box No. 24
Dist. Devbhumi Dwarka – 361305 Gujarat.
Tel: +91-2833-661444
Fax: +91-2833-662929
Email: eolinvestors@essar.com

CORPORATE OFFICE

Equinox Business Park, 4th Floor,
Tower-2, Off Bandra Kurla Complex
L.B.S. Marg, Kurla (W)
Mumbai – 400070.
Tel: +91-22-67335000
Fax: +91-22-67082183
Website: www.essaroil.co.in

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Positivity. Passion. Performance.

At Essar Oil, we are infused with positivity. Improving economic fundamentals, rising consumer aspirations and progressive government initiatives have created an environment conducive to business performance. Despite the unprecedented fall in crude prices, we are driven by optimism. We are moving forward, purposefully. Our passion to perform is underscored by our commitment to our people. Our employees, who are key to our success as an organisation, remain skilled, engaged and motivated.

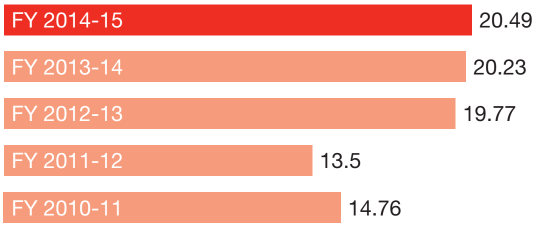
In many ways, the year under review, was one of several firsts. The Vadinar refinery set new benchmarks by delivering a record throughput of 20.49 mmt, representing a 103% capacity utilisation. We significantly grew sales from our retail operations and intend to expand our network further to gain from the potential of the domestic retail market. On the exploration and production front, we established our position as the single largest producer of CBM gas in the country. In spite of our gross revenues declining due to a fall in crude prices, we improved our refining margins and profitability significantly, registering a 12 times increase in profit after tax.

We have initiated measures to further enhance refinery operations and are taking steps to refinance our rupee debt by completing our dollarisation programme. We are also ensuring workplace safety remains a priority, minimising our environmental impact and giving back to communities in proximity to our facilities.

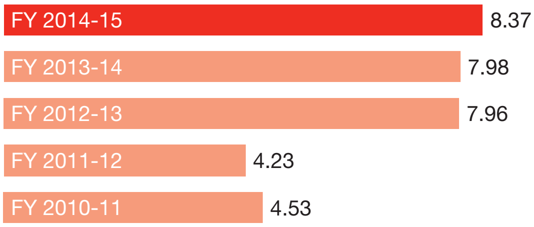
Our positivity, passion and performance will enable us to create and deliver sustainable value to our stakeholders.

Key Performance Indicators

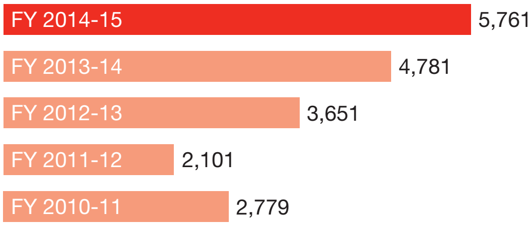
Throughput (MMT)



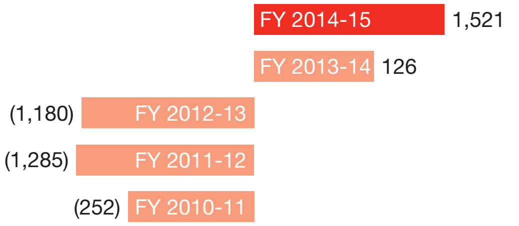
CP GRM (USD/bbl)



EBITDA (₹ Crore)



PAT (₹ Crore)



Panoramic view of CDU/VDU and FCCU

Chairman's Message

Diesel deregulation has opened up a great marketing opportunity for your Company, which has over 1,550 operational outlets and another 1,600 in various stages of implementation. Going forward, our expanding retail network will be a great value creator as we position ourselves to meet heightened customer expectations.

DEAR SHAREHOLDERS,

I am very happy to present to you the Annual Report for FY 2014-15. This was the best performance your Company has delivered on all the operational and financial parameters.

Industry Overview

In FY 2014-15, global economy grew by a modest 3.4% with a pickup in growth in advanced economies and a slowdown in emerging market and developing economies. Lower oil prices contributed to improved demand, boosting economic growth. Going forward, it is expected that global growth will gradually increase during 2015 and is expected to reach 3.8% in 2016.

After three continuous years of triple digit prices, oil prices began a sharp decline starting from USD 110/bbl in June 2014, reaching USD 52/bbl by December 2014 before closing the year at USD 53/bbl in March 2015. Global oil supply growth outpaced consumption growth and currently the world is awash with supplies.

While several large refineries in the Middle East and India began supplying in the market during the fiscal, it is expected that the refinery capacity rationalisation/closures in Far East Asia and Australia coupled with increase in demand may help absorb excess production. The domestic market has shown recovery in demand of key petroleum products. While gasoline grew by more than 11.4%, Gas oil, after two years of negative to zero growth,registered a growth of 1.5%, and LPG by 10.3% during the FY 2014-15. We expect 5-6% per annum sustained growth in India's petro product demand in the medium to long term. This would imply India requiring one new refinery of ~400k barrels per day (bpd) capacity every two years. India's current excess capacity will get absorbed in the next 3 to 4 years. Future expansion, unless they are brownfield, are going to be extremely challenging given the issues relating to land acquisition.

Your Company is well-poised to meet this incremental demand.

FY 2014-15 performance

This was a landmark year for us, with your Company outperforming itself on several operational and financial parameters. The Vadinar Refinery processed 20.49 MMT of crude during the year, which was highest ever. Smooth synchronisation of our superior hardware, integrated supporting infrastructure, and astute crude sourcing strategy, resulted in Essar Oil reporting a USD 8.12/bbl GRM premium over benchmark IEA (old), which during the year stood at USD 0.25/bbl. In FY 2014-15, Essar Oil reported highest ever CP GRM at USD 8.37 per barrel, against USD 7.98/bbl in FY 2013-14.

In FY 2014-15, Essar Oil reported highest ever EBITDA at ₹ 5,761 crore, up 20% compared to FY 2013-14. Profit after Tax (PAT) was also highest ever at ₹ 1,521 crore for FY 2014-15, up 12 times compared to FY 2013-14.

Gas production at our Raniganj asset reached 0.67 mscmd, making us the largest CBM gas producer in the country.

The gradual increase of ₹ 0.50 per litre per month in diesel prices initiated by the Government in January 2013 and reduction in crude oil prices during the year led to full de-regulation of diesel prices. These factors enabled your Company to enter the market, hitherto unavailable to private players due to the subsidy regime. Essar Oil's marketing team has acted quickly and operationalised over 1,550 outlets, with another 1,600 in various stages of implementation. Our network is expected to reach 5,000 operational outlets by the end of next year. Essar Oil's retail business has begun to contribute to the bottom line and promises to be a major value creator in the future. We are approaching this business with a new customer-oriented mindset and have lined up exciting offerings for consumers and dealer-partners, both of whom are sure to find value in associating with us.

I take this opportunity to once again thank all our stakeholders—shareholders, employees, vendors,government, regulators and communities—for their continued support and encouragement.

Best Wishes,

Prashant Ruia
Chairman

MD & CEO's Message

This was a landmark year for us. Vadinar Refinery's throughput of 20.49 MMT during the year, was highest ever. So was our CP GRM of USD 8.37/bbl, which was at a premium of USD 8.12/bbl over the benchmark IEA margins.

DEAR SHAREHOLDERS,

It is my pleasure to present the performance of Essar Oil Ltd. for the fiscal year 2014-15, which saw your Company report record operational and financial performance.

The year saw several landmark events and developments, both global and domestic, which has the potential to shape the oil and gas sector for years to come. Due to various factors, crude prices fell to their lowest levels in about a decade in 2014. From 2010 until mid-2014, world oil prices had been fairly stable, at around USD 110 a barrel. But from about the middle of 2014 till December of the same year, they fell by half to sub-USD 50 levels, bringing optimism to energy-importing countries like India. On the back of low crude oil prices, the Government of India fully deregulated diesel prices in October 2014,allowing private sector companies like us to revive our operations in the diesel retail market, which was hitherto not possible for many years. In 2014, the Government implemented the revised gas pricing formula, forging a more direct link between domestic and international gas prices.

Financial Performance

On the back of a record throughput of 20.49 MMT during the year, your Company reported a gross revenue from operation of ₹ 93,206 crore in FY 2014-15, compared to ₹ 1,07,439 crore in FY 2013-14, due to lower crude oil prices.

The Vadinar Refinery continued to deliver a superior performance, enabling the highest ever Current Price Gross Refinery Margins (CP GRM) of USD 8.37 per barrel during the period, against USD 7.98/bbl in FY 2013-14. Essar Oil's GRM premium over IEA margins for FY 2014-15 was USD 8.12/bbl.

The year also saw Essar Oil deliver the highest ever EBITDA or operating profit, of ₹ 5,761 crore, a fifth up against ₹ 4,781 crore in FY 2013-14. Profit after Tax (PAT) was also the highest ever at ₹ 1,521 crore for FY 2014-15 compared to ₹ 126 crore in FY 2013-14, a 12-fold increase.

Operational Excellence

The Vadinar Refinery continues to operate beyond its rated capacity of 20 MMTPA in a highly optimised, reliable, and safe manner. With all primary and secondary units performing at very high degree of availability, the throughput for the year was the highest ever at 20.49 MMT, against 20.23 MMT in FY 2013-14.

The refinery processed 94% of Heavy and Ultra Heavy Crude in its crude diet and yet produced 85% of products in Middle and Light distillates. During the year, we tested and successfully processed several new varieties of crude, widening our crude basket further. Till date, as many as 80 varieties of crude have been processed at Vadinar.

Exploration & Production

During the year, your Company emerged to become India's largest Coal Bed Methane (CBM) gas producer. At our flagship Raniganj CBM Asset, we achieved a production capacity of 0.67 million standard cubic metres per day (scmd).This is being sold to industrial consumers in the catchment area.

While 120 wells have been already placed on gas production, an additional 142 wells have been drilled and are presently at various stages of the hydro-fracking-completion-dewatering cycle. These will enable us to achieve a ramp up to 1.2 million scmd over the next few months and, ultimately, 2.5-3 million scmd. We have built high quality infrastructure, including gas conditioning and compression stations, in-field pipelines of 120 km and a last mile pipeline connectivity network of 60 km for our end users. We anticipate completing our programme for development ahead of the May 2016 deadline.

In October 2014, the Government implemented the new domestic gas price formula, under which gas prices will be revised every six months except in cases where there is a contractual provision in PSCs or where the gas price is under arbitration. This initiative has linked domestic gas prices with benchmark international gas and crude oil prices. The price currently applicable is USD 4.66/mmbtu on gross calorific value (GCV) basis. Our CBM gas is also eligible for this price.

Marketing

The year 2014 is a landmark year for private sector oil marketing companies like ours. On October 19, 2014, after about one and half years of raising diesel prices in small monthly increments, the Government finally deregulated diesel retail prices. This resulted in the re-opening of the market for private players like us.

In line with our domestic refining market share of 10%, we aim to gain a similar retail market share over the medium to long term. Essar Oil has a large nationwide retail network of over 1,550 operational outlets with another 1,600 in various stages of implementation. This is going to be a significant value creator for the Company in the future. We aim to have a nationwide network of 5,000 operational outlets in the span of the next 18 months. During the year, retail sales contributed 4% to Essar Oil's revenues, against 2% in the previous year and continues to show a growing trend. We are now looking at opening retail network in formats like Company

MD & CEO's Message

Our diesel maximisation project, to be completed post our refinery turnaround scheduled for mid-September 2015, will provide a GRM boost of USD 0.60-0.70/bbl.

Owned Company Operated (COCO), Company Owned Dealer Operated (CODO), in addition to the existing Dealer Owned Dealer Operated (DODO). If you too are interested in partnering with us in this exciting growth opportunity, do connect with us by logging onto: www.essaroil.co.in.

During the year, the domestic market contributed 55% to Essar Oil's revenues, against 58%, the year before. This was mainly due to stagnant demand growth for diesel and the stabilisation of throughput at the Bina and Bhatinda refineries.

Strategic Initiatives

Rosneft Deal

Your Company signed a Long Term Crude Oil Supply Agreement with OJSC Rosneft Oil Company of Russia for the import of 10 MTPA of crude oil for a period of 10 years. This will help your Company diversify its supply sources, expand geographical market coverage and enhance supply security. Adequate operational flexibility has been provided for the refinery to benefit from international oil market opportunities.

Value Addition Projects

Under the ongoing Optima Plus Scheme, which is a series of low capex and short gestation projects, your Company is aiming to maximise its production of diesel. During the year, a key part of the project, which was setting up of a second Hydrogen Manufacturing Unit (HMU), was completed, enabling higher utilisation of several secondary units. Another component, which comprises the conversion of the existing Vacuum Gas Oil Hydrotreater to Mild Hydrocracker, is currently under implementation. Once this is completed, we will be able to convert lower margin Vacuum Gas Oil to high value distillates like diesel and kerosene. This project will be completed during our forthcoming refinery turnaround scheduled for mid-September, 2015 and provide a GRM boost of USD 0.60 - USD 0.70/bbl.

Debt Dollarisation Programme

We are continuing on our mission to dollarise debt to de-risk our balance sheet. Till date, your Company has dollarised about USD 1.8 billion of rupee-debt through ECBs, currency swaps, EPBG, and POS, which besides lowering our interest cost, also extends our debt tenure. This has already begun yielding results. Our interest and finance charges for the year has fallen to ₹ 2,565 crore from ₹ 3,296 crore in FY 2013-14.