For Immediate Release

ESSAR OIL LIMITED: RESULTS FOR THE HALF YEAR ENDED 30TH SEPTEMBER 2011 (UNAUDITED)

Key Highlights

Overall

- Essar Oil Limited (EOL) reports strong financial performance, with revenues for the half year ended 30th September 2011 increasing to Rs 30,283 crore, a growth of 24% from Rs 24,464 crore in H1 FY 2010-11. Quarterly revenues increased to Rs 13,805 crore, a growth of 11% from Rs 12,415 crore in Q2 FY 2010-11
- Half-yearly EBIDTA grew to Rs 1,172 crore from Rs 1,041 crore in H1 FY 2010-11, signifying a growth of 13%. Quarterly EBIDTA was at Rs 259 crore compared to Rs 634 crore in Q2 FY 2010-11
- Half-yearly PAT at Rs 303 crore, an increase of 405% as compared to Rs 60 crore in H1 FY 2010-11. In the quarter, the Company recorded a loss of Rs 166 crore, as against a profit of Rs 130 crore in Q2 FY 2010-11
- Half-yearly CP GRM increased by 19% to US$ 7.31/bbl, compared to US$ 6.14/bbl in H1 FY 2010-11. Quarterly CP GRM increased by 11% to US$ 7.22/bbl, compared to US$ 6.49/bbl in Q2 FY 2010-11

Refining

- Throughput of Vadinar Refinery at 6.65 MMT; signifying over 130% capacity utilisation despite planned 35-day shutdown (13 days in the half year ended 30th September 2011)
- Most units and facilities that are part of the Phase I expansion mechanically completed
- Mechanical completion of balance units is expected by end of CY 2011.
- Start-up activity of new units commenced; ramp-up of throughput to 18 MMTPA or 375,000 bpsd in Q1 CY 2012
- Optimisation project to enhance refinery capacity to 20 MMTPA on track; over 63% already completed and mechanical completion due by September 2012
- Successfully completed 35-day planned shutdown
  - Tie-in of all new expansion units achieved
  - Revamp of CDU (to 18 MMTPA), FCCU (to 3.9 MMTPA) and existing SRU (enhancing overall sulphur recovery capabilities) completed
  - Routine maintenance and inspection of existing refinery carried out
- Refinery's excellent safety track record remains unblemished, with 1,277 LTI free days as on 30th September 2011

Marketing

- Essar Oil has 1,640 retail outlets, including 1,388 operational and 252 under construction outlets

- Sale of petrol through retail outlets increased by over 125 percent aided by the Government's move to bring petrol price in line with prevailing international crude price

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- EOL commissioned one CNG and one Auto LPG station; total of 7 CNG & ALPG stations now operational

Exploration & Production

- Commenced supply of gas through pipeline to end customer from Raniganj CBM block

Mumbai, 1 November 2011: Essar Oil Ltd (EOL) today reported strong revenue growth of 24% in half year ended 30th September 2011, with revenues of Rs 30,283 crore, up from Rs 24,464 crore in H1 FY 2010-11. The quarterly revenues also increased to Rs 13,805 crore, a growth of 11% from Rs 12,415 crore in Q2 FY 2010-11.

EOL's half-yearly EBITDA grew by more than 13% to Rs 1,172 crore from Rs 1,041 crore in the corresponding period last fiscal. The quarterly EBIDTA was at Rs 259 crore compared to Rs 634 crore in Q2 FY 2010-11.

Half-yearly Profit After Tax (PAT) jumped to Rs 303 crore—an increase of 405% as compared to Rs 60 crore in H1 FY 2010-11. In the quarter, the Company recorded a loss of Rs 166 crore, as against a profit of Rs 130 crore in Q2 FY 2010-11.

The Current Price Gross Refinery Margin (CP GRM; see Appendix for explanation) for the Refinery business in H1 FY 2011-12 increased to US$ 7.31 per barrel from US$ 6.14 per barrel in H1 FY 2010-11. The CP GRM for the quarter also increased by 11% to US$ 7.22/bbl, compared to US$ 6.49/bbl in Q2 FY 2010-11.

Naresh Nayyar, EOL's CEO & Managing Director, said: "The refinery industry environment in Asia continues to remain healthy, reflecting good margins. The Company is at the threshold of achieving a quantum jump in its GRM (Gross Refining Margin), as our Vadinar refinery expansion project is now under start-up. The expanded refinery with much higher complexity will be fully operational in Q1 CY 2012. This will give a boost to our overall cash flow and bottom line, giving us strong operational and financial flexibility."

Half-Yearly & Quarterly Financial Performance: Key Indicators

Particulars	H1 FY 2011-12	H1 FY 2010-11	Q2 FY 2011-12	Q2 FY 2010-11
Revenue (gross)	30,283	24,464	13,805	12,415
EBITDA	1,172	1,041	259	634
Profit Before Tax	207	72	(241)	144
Profit After Tax	303	60	(166)	130
Operational Profit	571	437	(58)	328

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Property, Plant & Equipment (gross)	24,160	19,699	24,160	19,699
Debt (long-term)	14,758	12,102	14,758	12,102
Net Worth	6,840	5,943	6,840	5,943

Note: *All numbers in Rs crore.*

- *Net Worth excludes FCCBs of US$ 262 million (Rs 1,282 crore; US$ 262 Mn was equivalent to Rs.1,177 crore in the corresponding previous year period) issued to EOL's parent company*
- *Long-term debt Includes project debt and FCCBs of Rs 6,311 crore (Rs 3,902 crore in the corresponding previous year period)*

Operational Highlights

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

<u>Refining</u>

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 half year ended 30th September 2011, the refinery achieved a throughput of 6.65 MMT (million metric tonnes) compared to 7.37 MMT in the corresponding period last fiscal. The marginal reduction in throughput was on account of the 13 days of shutdown (which coincided with the 35-day planned shutdown that the refinery undertook 18 Sept 2011 onwards). The refinery recorded a CP GRM, inclusive of sales tax benefit, of US$ 7.31 per barrel, in H1 FY 2011-12. This was a 19% improvement when compared with a CP GRM of US$ 6.14 per barrel in H1 FY 2010-11.

In the six months ended 30th September 2011, the Vadinar refinery processed over 18 different varieties of crude, including ultra-heavy and tough crudes like Nowrooz and Ras Gharib. The crude mix comprised 70% heavy and ultra-heavy crudes, as opposed to 65% in the corresponding period last fiscal. In the quarter (Q2 FY 2011-12), the refinery processed an even higher proportion of heavy and ultra-heavy crudes when compared to the corresponding quarter last fiscal—at 75% versus 64% in Q2 FY 2010-11. Despite the increase in heavy and ultra-heavy crudes in its crude diet, the refinery continued to optimise production of higher margin middle and light distillates.

In terms of sales value, exports grew to 37% in H1 FY 2011-12 as compared to 29% in H1 FY 2010-11, while it grew to 42% in Q2 FY 2011-12 as compared to 31% in Q2 FY 2010-11. Though EOL continues to focus on the domestic market because of better price realisation, the percentage of domestic sales declined during the half year and the quarter because of lower throughput due to the refinery shutdown.

Refinery expansion project: The Phase I expansion project is now in its final leg.

Mechanical completion was achieved for 27 units and facilities that form part of the Phase I expansion, except DCU (Delayed Coker Unit), VGO-HT (Vacuum Gas Oil Hydrotreater) and a

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new SRU (Sulphur Recovery Unit). Mechanical completion of these units is expected in the next 6-8 weeks, by the end of CY 2011.

Start-up activity of the new expansion units has commenced. Ramp up of all new expansion units with increased refinery throughput of 18 MMTPA (million metric tonnes per annum) or 375,000 bpsd (barrels per stream day) will commence in Q1 CY 2012.

Refinery optimisation project: Considerable progress has been made in the optimisation project for the Vadinar Refinery, with over 63% of the project completed.

[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.]

Towards a favourable crude mix and higher margin product yield: The capacity expansion, complexity enhancement and subsequent optimisation will give the Vadinar refinery the capability to process nearly 87% ultra-heavy crudes, which are cheaper than light crudes. In terms of product yield, the Vadinar refinery will have higher flexibility between light and middle distillates. This will enable the conversion of the majority of fuel oil production into higher value products, including pet coke.

35-day planned shutdown: The Vadinar refinery took a 35-day planned shutdown, starting 18 September 2011, for tie-in of all the new expansion units with the base refinery. The company carried out the revamp of the CDU (Crude Distillation Unit, ramped up to 18 MMTPA), the FCCU (Fluidised Catalytic Cracking Unit, ramped up to 3.9 MMTPA) and the existing SRU (Sulphur Recovery Unit, ramped up to increase sulphur recovery capability).

During this shutdown, 2,424 maintenance and inspection jobs, and over 1,400 tie-in jobs for the revamped units were completed.

Excellent safety track record: As on 30th September 2011, the Vadinar refinery had recorded over 1,277 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.

For its impeccable safety standards, EOL won the first prize at the FICCI Safety Excellence Awards 2010-11. EOL was also recognised by the prestigious Royal Society for the Prevention of Accidents (RoSPA) and won the UK Silver Award for Occupational Health and Safety. The Company also received the Greentech Gold Award for Excellence in Environment Management Systems.

Marketing

As on 30th September 2011, EOL had 1,640 retail outlets, including 1,388 operational and 252 under construction outlets, selling petrol and diesel under the Essar brand.

The Marketing team achieved a 125% growth in petrol sales through Essar Oil's retail outlets in Q2 FY 2011-12 as compared to the corresponding period last fiscal. The growth was aided

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by the Government's move to bring the retail petrol price in line with the international crude price, thus offering a level playing field to private oil retailers in comparison with their PSU counterparts.

The Company is therefore focusing on Essar Oil outlets in city locations that have the potential to register high growth in petrol sales.

EOL is also focusing on increasing the number of Auto LPG & CNG pumps across its retail network through tie-ups with local gas marketers, like Aegis Logistics, Sabarmati Gas, Gail India, Adani Gas & Gujarat State Petroleum Corporation. The Company now has five CNG stations and two Auto LPG outlets, with one of each being added in this quarter. This has proven to be a substantial supplementary income for EOL franchisees, and the initiative is continuously gathering momentum. The number of such outlets is likely to double by the end of this financial year.

Exploration & Production

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

Raniganj—Sales commence through pipelines: In the quarter, EOL commenced supply through pipeline of CBM (Coal Bed Methane) gas from its Raniganj block to its end customer. The current sales are test sales and EOL has received a provisional price approval of US$ 6.25/mmbtu (inclusive of US$ 1/mmbtu in marketing & transportation charges) from the MoPNG (Ministry of Petroleum & Natural Gas). The Company has also received an approval from the DGH (Directorate General of Hydrocarbons) for the Raniganj block's Field Development Plan, which envisages the drilling of 500 wells.

The Company has received clearances for the Phase I development from the block, and drilling is in full swing in preparation for commercial sales that will commence shortly. The Company plans to ramp up production by deploying more resources in terms of manpower, equipment and drilling rigs.

Financial Review

Gross revenues – Increase of Rs 5,819 crore (24% growth) over H1 2010-11 & increase of Rs 1,390 Crore (11% growth) over Q2 2010-11: The Company's gross revenue increased by 24% to Rs 30,283 crore during H1 FY 2011-12 from Rs 24,464 crore in the corresponding half year of the previous financial year. In terms of the quarterly performance, it has grown by 11% to Rs 13,805 crore during Q2 FY 2011-12 from Rs 12,415 crore in the corresponding quarter of the previous financial year. The rise was primarily driven by increased product prices offset by marginal decrease in sales quantity on account of the planned refinery shutdown. With the use of Natural Gas in the refining process instead of internally generated Fuel Oil (FO), additional quantities of FO were exported leading to increased revenue.

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Excise duty: The reduction in the excise duty during the current half year and quarter can be attributed mainly to the reduction in excise duty on diesel and lower domestic sales during the period, compared to the half year and quarter ended 30th September 2010.

Foreign exchange: The sharp depreciation of the rupee against the US dollar has resulted in a provision of forex liabilities of Rs 469 crore and Rs 407 crore during the half year and quarter ended 30th September 2011, respectively, as against a gain of Rs 106 crore and Rs 115 crore in the corresponding periods of last fiscal year, respectively.

Interest and finance charges: During H1 FY 2011-12, interest and finance charges marginally declined to Rs 601 crore as against Rs 604 crore in the corresponding half year of last fiscal while during current quarter it has marginally increased to Rs 317 crore as against Rs 306 crore in the corresponding quarter of last fiscal.

Tax expenses: The tax expense includes current tax, deferred tax and MAT credit entitlement. Following a reassessment of its profit projections, the Company has recognized MAT credit of Rs 208 crore during the half year, 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. This includes Rs 41.4 crore in respect of the current half year and Rs 166.40 crore in respect of FY 2010-11.

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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 more than 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, BPO & Telecom Services, Shipping, Ports, and Projects. With operations in more than 25 countries across five continents, the Group employs 75,000 people, and has revenues of USD 17 billion.

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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 enjoys the benefit of 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
- To calculate the revenue from the sales quantity the domestic sales price is calculated based on the RTP of next fortnight, i.e. the actual product prices of the same fortnight 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

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