

# 'Red flags' Owner of UK oil refinery faces questions over Russian loans

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**D**ays after the first wave of Russian tanks surged over the border into Ukraine in March 2022, dockers at a port in northern England took a stand. Appalled by Vladimir Putin's brutality, workers at Ellesmere Port in Cheshire vowed never to unload any Russian oil destined for the nearby Stanlow refinery, a hub for UK fuel supplies.

As the spotlight fell on Essar, the Indian-owned conglomerate that is Stanlow's parent company, it acted quickly, ceasing all imports of Russian fuel. But analysis of Essar's accounts by the Guardian and SourceMaterial, an investigative journalism organisation, raises questions about whether the flow of money was staunchly as swiftly as the oil was.

In the months after the invasion, Essar entered into complex offshore arrangements that appear to have enabled it to keep dealing with a Russian bank under sanctions from the west. Essar shifted billions of dollars in loans, provided by the Kremlin-controlled lender VTB, from Cyprus to a subsidiary in the tax haven of Mauritius, where sanctions did not apply. The Cyprus and Mauritius entities that took part in the transfer included subsidiaries of Essar's UK arm, Essar Energy.

Essar said UK sanctions did not apply to the transaction and that it complied with all applicable sanction laws after taking advice from a leading law firm. But the restructuring "raises red flags", according to one expert.

Authorities in Cyprus, whose government approved the transfer, are examining whether Essar has done anything that would "constitute a violation of EU sanctions regulations". Now experts and MPs say Britain should consider following suit.

When much of the world turned its back on Russia in 2022, India maintained cordial ties. In July 2024, Putin presented India's prime minister, Narendra Modi, with Russia's highest honour, the Order of St Andrew the Apostle.

The friendship between the two countries had been forged in part by big energy deals, including with Essar, owned by the billionaire Ruia brothers. In 2014, the year Putin's forces seized Crimea from Ukraine, the Essar group borrowed \$1bn (£740m) from VTB. Then, in 2017, the Russian state oil company Rosneft invested \$13bn in the group's refinery business, Essar Oil.

Essar's financial relationships extended westwards, too. In 2010,



▲ The Stanlow oil refinery in Cheshire is owned by Essar and fuels one in six British vehicles. Workers there took a stand against Putin's full-scale invasion of Ukraine by refusing to unload any Russian oil PHOTOGRAPH: PAUL ELLIS/AP/GETTY

the group listed Essar Energy on the London Stock Exchange. A year later, it bought Stanlow, the Cheshire refinery that fuels one in six British vehicles, for \$1.3bn.

Essar Energy began posting heavy losses. Seeking stability, Essar tapped Russian credit lines again. By 2020, its debt to VTB had risen to €2.35bn (£2bn). The loans were housed in two Cypriot companies, with UK-based Essar Energy as guarantor, according to Companies House filings. But before long the loans transformed from a lifeline to a logistical and reputational headache.

Putin's February 2022 attack on Ukraine changed everything. Russia became a pariah state, and VTB and its chief, Andrey Kostin, were targeted by international sanctions. Essar's UK arm was one of many British companies with Russian business interests to be ensnared by the conflict.

Typically, UK businesses with financial obligations to companies under sanctions seek a permit from the Office of Financial Sanctions Implementation (Ofsi) to honour

**'Essar's accounts as filed don't make sense unless there was new borrowing from Russia'**

Rachel Sexton  
Forensic accountant



▲ India's prime minister, Narendra Modi, has kept close ties with Vladimir Putin. Essar is owned by Indian billionaires PHOTOGRAPH: SERGEI BOBYLYOV/EPA

their debts while the relationship is unwound. Shortly after sanctions came into force, Essar reported in its accounts in April 2022 that "payments to VTB loans can only be made after having obtained a special licence from the UK government". Essar said the note reflected broader sanctions advice, not any expectation that it would require Ofsi's approval. It added that UK sanctions law did not apply to the relevant transaction.

In the end, Essar did not seek the office's blessing. Instead, it sought and received approval from Cyprus to move the loans to Mauritius, where Russian sanctions did not apply. The resulting loan termination agreement was signed by two subsidiaries of Essar Energy, authorised as "obligors' agents" to act on its behalf. Leading sanctions

experts said the transfer should be investigated by the UK authorities.

The arrangement was "unusual", said Michael Ruck, a sanctions expert at the law firm K&L Gates. He said the restructuring "raises red flags in relation to potential sanctions circumvention". Another sanctions lawyer, who asked not to be named, said the fact that Essar Energy's subsidiaries signed the agreement on its behalf could expose it to liability.

Liam Byrne, the business and trade select committee chair, called on the UK authorities to review the transaction. He said: "VTB is not just another bank. It is an arm of the Russian state helping finance a war of aggression against Ukraine. That is why it is sanctioned ... So the next steps for government are very simple: investigate now."

Essar's lawyers said the company had taken "responsible and proactive steps ... to ensure full compliance with the UK, EU and any other applicable sanctions". Arrangements for the loan transfers had been "expressly approved by the Cypriot authorities" following advice from a leading law firm, and any suggestions of "red flags" or circumvention were "without foundation", the lawyers said.

The island-hop to Mauritius appears to have done little to distance Essar from VTB, nicknamed "Putin's piggy bank". Essar may even have deepened its dependency on Russian loans after the Mauritius move, corporate filings suggest. It appears to have "enhanced" its VTB borrowing by \$1.2bn, according to accounts for its main UK subsidiary. The group's lawyers said the "enhancement" reflected accrued interest rather than new borrowing. They said any suggestion Essar deepened its ties with VTB was false and that the company was repaying the loans in a "sanctions-compliant manner".

But two forensic accountants from leading UK firms who reviewed Essar's latest accounts identified new rouble exposure equivalent to at least \$1bn that they believed could not be explained by accrued interest. "Essar's accounts as filed don't make sense unless there was new borrowing from Russia," said Rachel Sexton, an independent forensic accountant.

In the year after the move, Essar's Cyprus subsidiary paid \$39m to the Mauritius company.

Lawyers for Essar said a \$39m payment was made in accordance with an "intercompany liability" and that none of the funds were used by the Mauritius subsidiary for payments to VTB, directly or indirectly. There was "no breach of the permission granted by the Cypriot authorities", they said.

The Cypriot government said: "The approval did not authorise any loan repayments to VTB, whether directly or indirectly, including via third-country jurisdictions such as Mauritius. On the contrary, the approval was conditional upon no funds being made available, directly or indirectly, to VTB."

Meanwhile, Essar has built a physical presence in Russia. In 2023 it set up a company with offices in the Moscow Federation Tower. Essar's lawyers said the only purpose of the subsidiary was to manage the VTB loan as the group wound it down.

Essar's continuing relationship with VTB is now a worry for Cyprus, which has long been a haven for Russian money but joined the EU in imposing sanctions on the Kremlin. Authorities in Cyprus, whose government approved the transfer of \$3bn in loans to Mauritius, are examining whether Essar's subsequent transactions "constitute a violation of EU sanctions regulations", said a finance ministry spokesperson.

Essar said it was unaware of any inquiry and that the group's Cypriot lawyers had confirmed that there had been no breach of Cypriot or EU sanction regulations.

Additional reporting **Marcus Leroux**