MEMORANDUM OF UNDERSTANDING BETWEEN THE GOVERNMENT OF ORISSA AND M/s POSCO FOR ESTABLISHMENT OF AN INTEGRATED STEEL PLANT AT PARADEEP.

This Memorandum of Understanding is made on the Wednesday day of June 22, 2005, between the Governor of Orissa on the one part and M/s POSCO on the other part.

1. M/s POSCO having its registered office at 1 Koidong-Dong, Nam-Ku, Pohang-City, Kyungsanbuk Province, Republic of Korea, (hereinafter referred to as POSCO, which expression shall, unless repugnant to the context or meaning thereof, include its successors, executors, administrators, representatives and permitted assignees), is proposing to set up an Integrated Steel Plant of a total capacity of 12 million tonnes per annum in the State of Orissa at Paradeep, in Jagatsinghpur district.

2. The Government of Orissa, desirous of utilizing its natural resources and rapidly industrializing the State, so as to bring prosperity and wellbeing to its people, has been making determined efforts to establish new industries in different locations. In this context, the Government of Orissa have been seeking to identify suitable promoters to establish new Integrated Steel Plants in view of the rich iron ore and coal deposits in the State.

3. POSCO will establish an Indian company (hereinafter referred to as the "Company") through their relevant subsidiaries, related companies or third parties nominated by POSCO to invest in the State of Orissa in **:**
   (A) steel manufacturing;
   (B) infrastructure necessary for the Integrated Steel Plant and related Projects; and
   (C) related mining of iron ore and other ores.

4. (1)The Company is desirous of developing and operating the following facilities on the basis described in this MoU in the State of Orissa with proposed investment of around US$ 12 billion or Rs.51,000 crores (approximately). The details of the facilities are given in the table below :

Project	Phase No.	Capacity in MTPA	Project Details	Project cost in Rs. Crore (Approx.)	Time Schedule	Finished products
Steel Plant with FINEX / BF, along with other facilities like Lime Calcining Plant, Oxygen Plant, Captive Power Plant, Steel Melt Shop with Converters,	Phase-1	**6** (in two modules of 3 MT each)	***1st Module*** Crude Steel - 3 MTPA Finished Steel -2.82MTPA	10,100	To be commissioned by July 2010 or 36 months from the date of (i) taking title to and possession of land. (ii) registration of the executed prospecting licence, whichever is later	Slabs (3MT)
			2nd Module Crude steel –	11,800	To be commissioned by July 2012 or 24 months from	Hot rolled Coil (4.5MT), Plate

Casters, Rolling Mills etc. (collectively, the "Steel Project") & Minor Port			3MTPA Finished Steel -2.82MTPA		Commissioning of Phase - I, Module – I, whichever is later	(1.5MT) etc.*
	Phase-2	**6** (in two modules of 3 MT each)	***1st Module*** Crude Steel -3MTPA Finished Steel -2.82MTPA	9,500	To be commissioned by July 2014 or 24 months from commissioning of Phase - I, Module – 2, whichever is later	Slabs (3MT)
			2nd Module Crude steel – 3MTPA Finished Steel -2.82MTPA	12,000	To be commissioned by July 2016 or 24 months from commissioning of Phase - 2, Module - 1.	Hot Rolled Coil (4.5MT), Plate, Cold rolled coil (1.5MT) etc.**

Note: **Detailed time schedule for the commissioning of each phase will be determined pursuant to Clause 18.**

* **Cumulative of Phase-1;**

** **Cumulative of Phase-2.**

(2) The Company is also desirous of developing and operating the following related infrastructure based on the needs of the "Steel Project", on the basis described in this MoU :

i. mining facilities in the areas allocated by Government of Orissa/Government of India (the "Mining Project");

ii. road, rail and port infrastructure (the "Transportation Project"), including the dedicated railway line from the mine-belt to Paradeep;

iii. integrated township; and

iv. water supply infrastructure (the "Water Project").

(3) The Steel Project will be located at Paradeep. The Mining Project will be established at the mining site(s) that are identified as the mineral resources for the Company.

(4) To achieve the foregoing purposes, the Government of Orissa and the Company agree to be "Partners in Development" and have, therefore, come together to record their intentions through this MoU.

5. LAND :

(i) The Company will establish their registered office and national headquarters in the State of Orissa, in the city of Bhubaneswar. The Government of Orissa will identify, acquire and transfer a suitable tract of land between 20 and 25 acres for this purpose, in accordance with the specifications provided by the Company.

(ii) The Company will require approximately 4,000 acres of land (hereinafter referred to as the "Land") for the purpose of setting up the Steel Project and associated facilities, including the port facilities and a storage yard for coking coal.

(iii) In addition, the Company will require approximately 2,000 acres of land for township development, recreational activities and all related social infrastructure development (collectively, the "Integrated Township Development"). Out of this, approximately 1,500

acres would be identified adjacent/near to the Steel project and another 500 acres (approx.) near the Mining Project.

State Government will facilitate all clearances and approvals of the Central Government, if required.

(iv) In addition to the land required for the core activities of the Overall Project, the Company may require additional land pockets for development of the "transportation project", the "water project" and any other project-related infrastructure facilities.

(v) The Government of Orissa agrees to acquire and transfer all the above-mentioned land required for the Overall Project, free from all encumbrances through Orissa Industrial Infrastructure Development Corporation (IDCO) on payment of the cost of land.

(vi) The Company shall pay to the relevant authority (ies) the cost of such land. For private land, the Company shall pay the cost as determined under the provisions of the Land Acquisition Act and incidental charges as mutually agreed upon. For Government land, the Company shall pay as per the rates determined by the prevailing Industrial Policy Resolution on this date. For forest land, the Company shall pay the rates determined under the applicable Rules.

(vii) On its part, the Government of Orissa will expeditiously and within a reasonable time frame, hand over to the Company non-forest Government land for which the Company has completed all formalities. Acquisition of private land will be taken up on priority.

(viii) For rehabilitation of displaced families, Rehabilitation and Resettlement Package would be implemented as per prevailing guidelines and practices.

6. RAW MATERIALS :

(i) **Coal :** The State Government agrees to recommend to the Government of India for allotment of suitable coal blocks for captive coal mining for the project either directly or through a PSU. Further, the State Government will assist the Company to get the allocation of coal linkage of suitable grade in the desired quantity to meet its requirement until it is ready for mining of its coal block.

(ii) **Iron Ore :** The Company will need the equivalent of 600 million tonnes of iron ore of an average Fe content of 62%, to meet the requirements of the proposed Steel Project of 12 million tonnes per annum. The Company may swap certain quantities (not exceeding 30% of the total requirement for the Paradeep Plant annually) of such iron ore which have high alumina content with equal quantity of low alumina content iron ore of equivalent or better Fe content imported for blending, in order to produce better quality steel in the Paradeep Project and conserve energy . Any export of iron ore by way of swap will be allowed only after an equivalent quantity of ore has been imported for the plant. The extent of the above quantity of iron ore by way of replacement for equal quantity of import of higher grade iron ore, will be within the framework of the Export-Import Policy of the Government of India applicable from time to time. It is clarified that no export of iron ore will be allowed from the captive mine except by way of full replacement through import of equal quantity of high grade ore and within the limits mentioned above.

(iii) The Government of Orissa agrees to grant prospecting licenses and captive mining leases for 600 million tonnes of iron ore to the Company after following prescribed procedures and completion of required milestones including approvals of Government of India. For this purpose, the Government of Orissa shall recommend to the Central Government and use its best efforts to obtain the Central Government's approval within the minimum possible time for the grant of prospecting licenses and the captive mining leases for the iron ore mines.

(iv) The Government of Orissa will recommend grant of the Prospecting Licences only after the following milestones have been achieved :

a) Formation of the Indian Company referred to in Clause - 3 has been done;
b) Feasibility study has been started and a Detailed Project Report has been commissioned (- November, 05);
c) Additional Soil test and site survey has been started ;
d) Preparation of Port Development Plan has been commissioned (July,05 – January,06);
e) Preparation of Industrial Water Development Plan has been commissioned (July, (January,06);
f) Preparation of Township Master Plan has been commissioned (August,05 – March 06);
g) Preparation of Environment Impact Assessment Study has been commissioned (July,05 – January,06);
h) Requisition has been submitted to the Orissa Industrial Infrastructure Development Corporation (IDCO) for acquisition of land for the steel plant as well as the port;
i) The Indian Company is provided with paid up equity to the tune of at least US$ 50 million to enable it to undertake all the preparatory work required for setting up the plant.

(v) The Government of Orissa will recommend such areas as are free from litigation as well as encumbrances. In the event of litigation at any stage, Government of Orissa will diligently defend their recommendations made in favour of the Company in the appropriate judicial, quasi judicial fora.

(vi) Prior to recommending the case of the Company for Mining Lease, the State Government will ensure that the following milestones have been achieved **:**

a) The Company has submitted the Detailed Project Report;
b) The Company has submitted the Port Development Plan ;
c) The Company has submitted the Industrial Water Development Plan ;
d) The Company has submitted the Township Master Plan ;
e) The Company has ensured that application for Environment Impact Assessment Study has been submitted to the Government of India ;
f) The Company has filed necessary requisition for land for different components of the project with IDCO and has deposited necessary funds;
g) The Company has submitted the rehabilitation and re-settlement package for the oustees to the competent authority and received the approval of Government of Orissa;
h) The Company has submitted the proposal with requisite details for diversion of forest land which the Government of Orissa will recommend to the Government of India;
i) The Company has applied for Coastal Regulation Zone (CRZ) clearance.

(vi) The Indian Company is provided with paid up equity to the tune of at least US$ 200 million to enable it to undertake adequate investment connected with the setting up of the plant.

(vii) Recommendation for the mining lease will be made in two phases, commensurate with the first two modules and the last two modules of 3 million tonnes each. The recommendation will, however, be subject to suitable adjustment of mining blocks**.** State Government will take a decision pertaining to the first phase after the following milestones have been achieved for the first phase of 6 million tonnes :

a) Award of 50% of orders for civil and structural contracts in terms of value.
b) Placement of 20% of firm orders for machinery in terms of value.

(viii) State Government will make recommendation pertaining to the second phase after **:**

a) Commissioning of the first module of 3 million tonnes of the first phase has been achieved ;
b) Award of 50% of orders for civil and structural contracts in terms of value for the second phase of 6 million tonnes ;
c) Placement of 20% of firm orders for machinery in terms of value for the second phase of 6 million tonnes.

(ix) The State Government agrees to assist the Company in making a firm arrangement with the Orissa Mining Corporation (OMC) along with other private iron ore lessees in the State, to

meet a substantial portion of the requirement of iron ore of suitable grade for initial period of steel making under mutually agreeable terms and conditions, if required by the Company.

(x) All iron ore Mining Leases and Prospecting Licenses shall be clean and free of any encumbrances.

(xi) Before the grant of mining lease, the Company would submit a detailed progress report of all components of the project with reference to the agreed implementation schedule (referred to Clause 18 (ii) hereinafter). The mining lease would be granted subject to the satisfaction of the Government of Orissa that adequate progress has been achieved in all critical parameters.

(xii) The iron ore mining leases shall be granted to the Company initially for a period of 30 years and will be considered for renewal on an application by the Company before expiry, for another 20 years.

(xiii) The Government of Orissa will assist the Company in obtaining all clearances, including forest and environment clearance and approval of the State Pollution Control Board, and the Ministry of Environment and Forest, Government of India under Forest (Conservation) Act, 1980 and Environmental (Protection) Act, 1986 for opening up the iron ore mines, laying roads, constructing township etc.

(xiv) The Government of Orissa agrees to provide all possible assistance to the Company for acquiring mineral concession for limestone and dolomite within the ambit of the MMDR Act and MC Rules.

(xv) Govt. of Orissa will make best efforts and provide all possible assistance to POSCO for expeditious clearance of applications relating to mining lease and related matters such as forest, environment etc. so as to enable POSCO to start its mining operations in time to synchronize with the commissioning of its steel plant.

POSCO have requested to source an additional 400 MT of Iron ore from India for their existing steel plants in South Korea. This can be done through a long–term commercial supply arrangement from the open market. Any such trading arrangement shall fall entirely within the domain of the Government of India and will be regulated by the prevailing Export – Import Policy of the Country. No mine-able reserves can be provided by Government of Orissa purely for the purpose of direct exports beyond what has been indicated for value addition in the steel plant of the Company in Orissa in the preceding paragraphs. However, Government of Orissa will assist POSCO in establishing suitable contacts and interfaces with Government of India for this purpose.

(xvi) **Chrome Ore :** State Government will facilitate suitable long term arrangement with OMC and other lessees for supply of chrome ore to meet the requirement of the plant.

(xvii) **Manganese Ore :** The State Government would consider assigning appropriate priority to an application of the Company for mineral concession for manganese ore in the State as and when available within the ambit of MMDR Act and MC Rules.

7. WATER :

(i) The Government of Orissa will permit drawal and use of water from the Mahanadi barrage at Jobra in Cuttack or any other suitable source for construction and operation of the Overall Project as per the prevailing rates and appropriate terms and approval of the Water Allocation Committee, subject to availability.

(ii) The Company shall prepare and inform the Government of Orissa within a short period of time, the water requirement for each phase and the total water requirement for each component. The Government of Orissa will facilitate meeting these water requirements.

(iii) The Government of Orissa will permit implementation of a suitable water supply scheme prepared jointly by the Company and the Department of Water Resources, Government of Orissa. The Government of Orissa will allow the Company to operate and maintain necessary infrastructure including creation of water bodies, laying of pipelines etc. to pump required quantity of water for the development and operation of the Project.

(iv) The Government of Orissa will facilitate the process of obtaining various approvals expeditiously for the Company.

8. DRAINAGE AND SEWERAGE :

(i) The Government of Orissa shall assist the Company to provide adequate drainage and sewerage off-take facilities for each component project during both the construction and operation stages prior to commencement of construction after following all prescribed procedures and obtaining required approvals.

(ii) The Government of Orissa shall facilitate grant of all necessary approvals for provision of such facilities and the discharge of drainage and sewerage into such facilities.

9. POWER :

(i) The Government of Orissa have agreed to ensure that about 25 MW of power is made available to the Company to meet the construction power requirements of the steel plant, port, township and also the mining project. During the operation phase, the Government of Orissa will make best efforts to meet the power requirement of all components of the project including each of its components.

The details of the requirement of power during the construction phase of the Overall Project including each of its components and year-wise requirement thereafter for the operation of the project, will be prepared by the Company and the Government of Orissa or agency designated by it and will be duly informed in good time.

(ii) The Government of Orissa will facilitate the execution of an agreement for the Transmission line from the sub-stations to their project sites, under the supervision of GRIDCO.

10. CAPTIVE POWER PLANT :

(i) The Company will establish a Captive Power Plant (CPP) to meet the power requirement in full or part of the overall project including its components.

(ii) The Government of Orissa will facilitate grant of approvals, if any, required for setting up of this CPP and also execution of necessary Power Purchase Agreement or Agreement for wheeling of electricity or both, with GRID Corporation of Orissa or any other agency designated by the Government of Orissa.

(iii) The Government of Orissa will facilitate the establishment of fuel linkages, if any, for the CPP.

(iv) The Company will offer to sell any surplus power to GRIDCO or to any other corporation so designated by the Government at a tariff to be mutually agreed between the Company and GRIDCO/ any other corporation so designated by the Government and approved by OERC.

11. ENVIRONMENT:

(i) The Government of Orissa agrees to facilitate and use its best efforts to enable the Company to obtain a "No Objection Certificate" (NOC) through the State Pollution Control Board in the minimum possible time for the development and operation of the Project.

(ii) The Company will conduct a rapid Environment Impact Assessment ("EIA") and prepare a detailed EIA Report and an Environment Management Plan ("EMP") for the Project. The Government of Orissa agrees to provide any assistance requested by the Company during the time the EIA is conducted and the EMP is prepared.

(iii) The Government of Orissa agrees to use its best efforts to procure the grant of all environmental approvals and forest clearances from the Central Government within the minimum possible time for the Project.

12. INCENTIVES AND CONCESSIONS :

(i) The State Government would consider granting to the Company such incentives and concessions as are provided in the relevant Industrial Policy Resolution (IPR) in force on this date.

(ii) The Government of Orissa shall recommend to the Central Govt. and facilitate granting of "Special Economic Zone" (SEZ) status as required by the Company. This would include granting to the various aspects of the Project, the status of "SEZ Developer" or "SEZ Unit", as the case may be, so as to receive the same incentives and benefits as an SEZ (as permissible under the policy of Central Government).

(iii) If the Company makes an application for setting up its different facilities under the SEZ scheme

of the Government of India, the Government of Orissa would recommend their case to the Government of India and accord necessary facilitation with regard to the approved scheme of the Government of India as modified from time to time.

13. RAILWAYS, ROADWAYS & PORT:

(1) Railways :

(i) The Government of Orissa shall coordinate with the Ministry of Railways to ensure expeditious completion of Daitari – Banspani broad gauge rail link.

(ii) Haridaspur – Paradeep broad gauge rail link is proposed to be developed through public private partnership by the Rail Vikas Nigam Ltd., an instrumentality of the Ministry of Railways. The Government of Orissa will actively pursue with the Ministry of Railways and Rail Vikas Nigam Ltd. for expeditious completion of this project. The Company shall explore the possibility of participating in the SPV for this project. The Government of Orissa shall facilitate all assistance in this connection.

(iii) Banspani – Paradeep broad gauge rail link based on the transportation capacities available and project economics, the Company may develop a dedicated railway line from the site of the Mining Project to the Steel Project. This development may be undertaken by the Company or jointly with RVNL or third parties in consultation with the Ministry of Railways. All assistance in this regard will be provided by the Government of Orissa.

(iv) In this connection, the Government of Orissa shall extend all possible support for securing the cooperation of the Ministry of Railways, East Coast Railways & Rail Vikas Nigam Ltd. etc. to facilitate necessary clearance from the Ministry of Railways.

(v) The Government of Orissa shall facilitate the Steel Project and Mining Project to make appropriate commercial arrangements for use of the railroads mentioned above as per existing laws and procedures.

(2) Roads :

(i) The Government of Orissa shall provide all support to facilitate the early completion of the National Highway between Haridaspur (Chandikhol) and Paradeep and for upgradation of the State Highway from Cuttack to Paradeep to a two lane road.

(ii) The Government of Orissa shall actively consider construction of two lane, free access, public roads connecting the Steel Project, the Mine Project and the Integrated Township Development to the nearest National Highway or State Highway.

(3) Port :

(i) The Company may :

a) develop a new minor port adjacent to the existing Major Port of Paradeep and/or,

b) develop a dedicated berth at the Major Port of Paradeep and/or

c) make use of the existing port facilities at the Major Port of Paradeep.

(ii) In connection with subparagraphs (b) & (c) of (i) above, Government of Orissa shall facilitate cooperation between the Paradeep Port Trust and the Company.

(iii) In case the Company decides to develop a new minor port, the Government of Orissa will consider granting the Company necessary permission under its existing policy for development and operation of such a port as per standard concessions prescribed.

(iv) The Government of Orissa agrees to provide all necessary infrastructure and logistic support required for setting up of the minor port by the Company.

(v) Such minor port or berth will be constructed and operated on the basis of BOO/BOOT/BOOST.

(vi) The Government of Orissa shall facilitate drawal of power and water for the port project.

(vii) For this purpose, the Government of Orissa subject to fulfillment of prescribed procedures and requirements shall grant necessary approvals within its power and facilitate grant of all approvals from the Central Government and other relevant agencies including clearance by the Central Government, the Ministry of Environment and Forest under the Coastal Regulation Zone Notification [S.O.114(E)] of 1991 pursuant to the Environment (Protection) Act, 1986.

14. PROJECT FACILITATION :

(i) A dedicated High Powered Committee shall be constituted jointly by the Government of Orissa and the Company to ensure that the Project proceeds as per the planned schedule. The High Powered Committee shall include as permanent members, senior officers of the departments of Steel & Mines, Industries, Energy, Water Resources, Works, Commerce and Transport, Forest and Environment and representatives from the Company. The Government of Orissa shall arrange for representatives of other departments to be present for each meeting as required.

(ii) The High Powered Committee shall meet from time to time to review the progress of the Project.

(iii) The High Powered Committee will also have regular interactions with the Chief Minister and the Chief Secretary of the Government of Orissa to apprise them of the progress made on the Overall Project and each component project.

15. SINGLE WINDOW :

The Government of Orissa shall establish a special "Single Window Clearance Committee" to ensure clearances under State laws from agencies / departments within specified time limits.

16. NODAL OFFICER :

(1) The Government of Orissa shall appoint a senior officer to be the Nodal Officer for the Project.
(2) All applications made by the Company for all relevant clearances, permits, approvals, licenses, consents and the like or facilitation for the Project shall be routed through the Nodal Officer. The Nodal Officer shall diligently pursue the granting of all such approvals/clearances within the minimum possible time and update the Company at regular intervals on the status of these applications.
(3) An Officer reporting to the Nodal Officer would be designated by the Government of Orissa to assist in obtaining necessary approvals from the Central Government as well as its agencies as quickly as possible.

17. SECURITY :

The Government of Orissa will take action to provide overall security as per applicable law, as may be required to all parts of the Project during the operation phase. All necessary steps in this regard including setting up of police stations, if required, would be taken by Government of Orissa.

18. NEXT STEPS

(i) Immediately following the execution of this MoU, the Government of Orissa shall second (at its own cost) to the Company's Project office in Bhubaneswar, an Officer of the appropriate level to be dedicated to the facilitation of the Project.
(ii) Within 6 months from the formulation of the Company, (i) a detailed project schedule will be prepared by the Company and submitted to the Government of Orissa, (ii) a detailed implementation plan will be prepared by the Company and submitted to the Government of Orissa and (iii) Agreement will be signed between the Government of Orissa and the Company along the lines of this MoU.

19. GENERAL CLAUSES

(i) The Government of Orissa appreciates that the Company will be a responsible corporate house with a high involvement in employees' welfare and social development. The Government of Orissa, therefore, anticipates that the Company will bring this philosophy to the steel plant project being set up in the district of Jagatsingpur and other district(s) where

captive mines linked to the project are located to ensure the well being of these districts in particular and the people of Orissa in general. In terms of employment, preference will be given to the people of Orissa subject to need and their possessing the necessary qualifications. The Company will make every effort to improve their skill levels, if necessary, through specialized training. For this purpose State Government will nominate a nodal Agency/Officer to coordinate with the Company.

(ii) The Government of Orissa appreciates that the Company will be entitled to induct suitable foreign and/or Indian Joint Venture partners, choose appropriate financial options, suppliers, credit options and technologies in the best interests of the project.

(iii) The Company shall effect sale of all its products in the domestic tariff area (including inter-state sales) in the State of Orissa and shall not effect any branch transfer of its products to out side the State. These stipulations are not, however, applicable to export of finished products outside the country.

(iv) The Company shall comply with all applicable laws and policies of the Republic of India and the State of Orissa including more specifically those relating to environment, mining, rehabilitation and socio-economic development in the periphery of the project and also including the Orissa Government Notification No.375 dated 15th January, 2004.

(v) The MoU shall remain valid for a period of five years from the date of signing. Further extension, if necessary, shall be made as per mutual agreement. However, no such extension shall be considered unless the Company has made substantial progress on implementation of the project in terms of construction, erection of plant and machinery and investment at site to the satisfaction of the State Government in these five years in implementing the first phase as envisaged in this MoU.

(vi) The Company understands that the offers and special considerations of the State Government indicated in this MoU are for the overall Steel project

(vii) The Company while implementing the project undertakes to comply with all statutory requirements/clearances in respect of laws, regulations and procedures governing establishment and operation of Industries.

(viii) In the event of non-implementation of the project or part thereof, the corresponding support/commitment of the State Government indicated in the MoU with regard to Iron ore Mines/Coal Block, incentives and concessions of the State Government in particular shall be deemed to be withdrawn.

Signed on the date mentioned herein above at Orissa Secretariat, Bhubaneswar by the authorized representatives of the parties to this Memorandum of Understanding.

For and on behalf of the Government of Orissa

For and on behalf of POSCO

(Mr. Bhaskar Chatterjee)
Principal Secretary to Government
Department of Steel & Mines

(Mr. Soung Sik Cho)
Senior Executive Vice President