

MEMORANDUM OF UNDERSTANDING BETWEEN THE GOVERNMENT OF ORISSA AND ORISSA SPONGE IRON LTD. (OSIL) FOR ESTABLISHMENT OF STEEL PLANTS AT PALASPANGA IN THE DISTRICT OF KEONJHAR AND AT BAMRA IN THE DISTRICT OF SAMBALPUR IN ORISSA.

This Memorandum of Understanding is made this 26th of August, 2004 between the Government of Orissa on one part and Orissa Sponge Iron Ltd. on the other part.

1. Orissa Sponge Iron Ltd having its registered office at Block III, 2nd Floor, OCHC Complex, Unit III, Bhubaneswar-751001 (here in after referred to as OSIL, which expression shall, unless repugnant to the context or meaning there of, include its successors, executors, administrators, representatives, and permitted assignees) proposes to develop its Iron and Steel making capacity to 1.27MTPA and 1.0MTPA respectively and a captive power plant of 144MW in the State of Orissa in the districts of Keonjhar and Sambalpur with an investment of approximately Rs.1137 crore.
2. The Government of Orissa, desirous of utilising its natural resources and rapidly industrialising the State so as to bring prosperity and well being to its people have been making determined efforts to set up new industries as well as expand industrial capacities at different locations in the State. In this context, the Govt of Orissa have been seeking to identify suitable promoters and enterprises to establish and expand integrated steel plants in view of the rich iron ore and coal deposits in the State.
3. OSIL is desirous of developing the following additional manufacturing facilities in the State of Orissa with total investment of approximately Rs.1137 crore (including the existing investment of Rs.100 crore).

Sl.No.	Project	Capacity in MTPA	Project cost (Rs. in Crore)	Time schedule for commissioning facility from date of MOU
Existing	Coal based DRI Captive Power Steel	0.1 8MW 0.05	100	
Phase I	Coal based DRI Steel Captive Power Plant using waste heat and waste coal fines and char	0.45 0.35 52MW	395	3 years
Phase II	Coal based DRI , Hot Metal Steel making Captive Power Plant using waste heat recovery & coal fines and coal char	0.30 0.42 0.60 84MW	642	6 years
Total	Coal based DRI Hot Metal Steel making Power Coke making & iron ore pelletisation /Sinter Plant will be added as required	0.85 0.42 1.0 144 M.W	1137	6 years

1. This Memorandum of Understanding (MOU) reaffirms the commitment of OSIL to develop integrated steel plant facilities and assistance of the Government of Orissa for providing land, iron ore mines, recommending for coal blocks and other facilities.

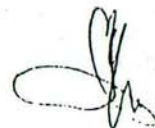
2. The major areas of co-operation between the Government of Orissa and OSIL are listed below:

(A) **Land:**

- a. OSIL will require approximately 513 acres of land in the Gurla and Govindpur area of Sambalpur district for the purpose of setting up the steel plant and associated facilities.
- b. For rehabilitation of displaced families, Rehabilitation and Resettlement package would be implemented as per prevailing guidelines and practices.
- c. The Government of Orissa agrees to assist OSIL in setting the land free from all encumbrances to OSIL through Orissa Industrial Infrastructure Development Corporation (IDCO) for construction of the plant and allied facilities.
- d. OSIL agrees to pay IDCO/Revenue authorities the cost of the land etc.

(B) **Raw Materials:**

- (a) **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 OSIL 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.
- (b) **Iron Ore:** The State Govt. have already recommended and the Central Govt have already approved the proposal for grant of specific mining lease in favour of OSIL. The grant of Mining lease will be subject to the following conditions:



- (i) The company shall undertake the expansion of existing Sponge Iron Unit (Palaspanga) and proposed Bamra Projects within the time schedule as indicated below:

	Units	Existi ng	2004- 05	2005- 06	2006- 07	2007-08	2008- 09	2009- 10	TOTAL
AT PALASPANGA IN THE DISTRICT OF KEONJHAR	Sponge Iron (TPA)	100000	150000	-	-	-	150000	-	400000
	Hot Metal (TPA)	-	-	-	-	-	210,000	-	210,000
	Power (MW)	8	4	-	-	-	42	-	54
	Steel Billet (TPA)	50,000	50,000	-	-	-	300000	-	400000
AT BAMRA IN THE DISTRICT OF SAMBAI PUR	Sponge Iron (TPA)	-	-	-	150,000	150,000	-	150000	450000
	Hot Metal (TPA)	-	-	-	-	-	-	210000	210000
	Power (MW)	-	-	-	24	24	-	42	90
	Steel Billet (TPA)	-	-	-	150000	150000	-	300000	600000

- (ii) Within the first three months of each phase the company shall in consultation with the State Government representatives, prepare milestones in terms of yearly physical and financial targets in implementation of each of the Projects for the respective period and furnish the same to the State Government for annual review and monitoring.
- (iii) In case, for unavoidable reasons, there is delay in the progress, and it is difficult on the part of the lessee to adhere to any of the milestones/deadline(s) in the stipulated time frame, the company can apply to the State Govt. prior to the expiry of the deadline(s) for extension/modification of the same and the State Government may, for justifiable reasons, allow extension/modification under such terms and conditions as deemed fit.

- (iv) The assignment is subject to close monitoring by the State Government through yearly reviews. During any of the reviews if it is seen that, a portion of the stipulated capacity of the project is not likely to materialise within the time frame, it will be lawful for the State Government after giving the company an opportunity of being heard, to make an order indicating a portion of the deposit expected to contain proportionate quantity of the reserve that shall be deemed to have been surrendered to the State Government w.c.f. the date of order and shall be available for regrant following the procedure laid down in rule 59 of the Mineral Concession Rules, 1960.
- (v) The assignment is subject to further condition that the mineral exploited from the granted area shall be exclusively utilised for captive requirement of their existing Plant at Palaspanga of Keonjhar district and proposed Steel plant at Bamra in the District of Sambalpur
- (vi) 50% of the project cost for the Phase-I including existing investments i.e. (Rs. 395 Cr. + 100 Cr.) shall be invested by the company before issue of grant order of Mining Lease.

(C) Water:

The State Government will permit withdrawal of water from suitable source for construction/operation of the aforesaid projects and housing colony as per the prevailing rates under appropriate terms and approval of the Water Allocation Committee. The approximate requirement of water is as follows:

Phase I & II 37000 cum/day


The State Government will also permit implementation of the water supply scheme to be prepared by OSIL and Water Resources Department.

(D) Power:

OSIL plans to set up Captive Power Plant (s) to meet the requirement of energy intensive steel making process and to utilize the residual heat of waste gases and coal rejects. Capacity of captive power plant would be as follows:

Phase I 60MW
Phase II 84MW(Additional)

OSIL will approach GRIDCO for suitable PPA for sale or purchase of power, if required for wheeling of power/sale to any new or existing establishment in Orissa.



(E) Environment:

- i. The Government of Orissa agrees to assist OSIL in obtaining NOC through the State Pollution Control Board for the construction of the plant, the housing colony, mines, pipeline, power project etc.
- ii. Government of Orissa agrees to assist OSIL in obtaining all clearances from the Central Government.
- iii. OSIL will arrange to conduct rapid environment impact assessment (EIA) and detailed EIA study and prepare environment management plan (EMP) for the Project. The Government of Orissa agrees to assist OSIL in this regard during the time when EIA is being conducted and EMP is being prepared.

(F) Incentives and concessions:

OSIL understands that the State Government would consider such incentives and concessions as are provided in the relevant Industrial Policy Resolution (IPR) of the State Government.

(G) General Clauses:

- (a) The Government of Orissa appreciates that OSIL is a responsible corporate house with a high involvement in employees welfare and social development. The Government of Orissa, therefore, anticipate that OSIL will bring this philosophy to the steel plant project being set up in the district of Sambalpur to ensure the well being of this district in particular and the people of Orissa in general. In terms of employment, preference will be given to the local persons subject to need and their possessing the necessary qualifications. OSIL will make every effort to improve their skill levels, if necessary, through specialized training.
- (b) The Government of Orissa appreciates that OSIL 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 interest of the Project.
- (c) OSIL shall effect sale of all its products (including inter-State sales) in the State of Orissa and shall not effect any branch transfer of its products to out side the State.
- (d) The MOU shall remain valid for a period of two 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 OSIL 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 two years in implementing the first phase as envisaged in the MOU.

- (e) OSIL understands that the offer and special considerations of the State Government indicated in this MOU are for the Steel Project envisaged in para-3 where the final product is steel/steel products and not for an intermediary product unless the same is for captive use in the steel product or for export.

Provided that in the initial years when the Steel making facility is yet to be installed according to the time schedule given in para 5B (b)(i), production and disposal of such intermediary product may be allowed by the State Government.

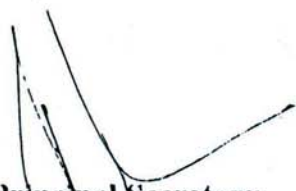
- (f) OSIL shall be required to produce document towards financial closure for Phase-I within one year of signing of MOU. Such financial closure for the second phase should be produced at least three years before the stipulated date of commissioning of the second phase of the Project.
- (g) In the event 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.
- (h) It shall be obligatory on the promoter to furnish all informations required by the State Government relevant to planning, formulation, layout, financing and implementation of the Project as well as the financial and management status and performance of the promoter as and when so required by the State Government as expeditiously as possible.

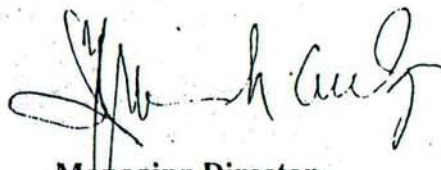
For witness whereof the parties hereto have set their hands to this MOU on this 26th day of August, 2004.

SIGNED AND DECLARED BY

For Government of Orissa

For Orissa Sponge Iron Ltd.


Principal Secretary,
Department of Steel & Mines
(P. N. Bhowmik)


Managing Director
(P. K. Mohanty)