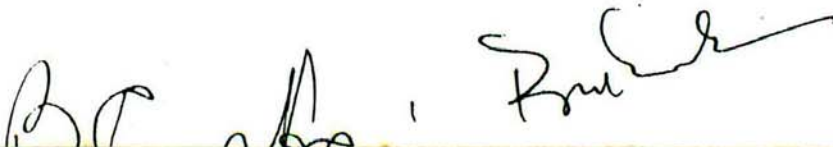


**MEMORANDUM OF UNDERSTANDING BETWEEN THE
GOVERNMENT OF ORISSA AND M/S HY-GRADE PELLETS
LIMITED FOR ESTABLISHMENT OF A STEEL PLANT AT
PARADEEP IN JAGATSINGHPUR DISTRICT OF ORISSA.**

This Memorandum of Understanding is made on this 21st day of April, 2005 between Government of Orissa on the one part and M/s. Hy-Grade Pellets Limited on the other part.

1. M/s. Hy-Grade Pellets Limited (HGPL) having its Registered Office near Flyover, Scindia Road, Visakhapatnam-530 004, A.P. (hereinafter referred to as HGPL 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 4.00MTPA Steel Complex at Paradeep in Jagatsingpur and 1000 MW Power Plant at Talcher in Angul district with a total investment of Rs.10,721 crores.
2. The Government of Orissa, desirous of utilizing its natural resources and rapidly industrializing the State, so as to bring prosperity and well being to its people, have been making determined efforts to establish new industries in different locations in the State. 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. (a) HGPL is desirous of setting up the following manufacturing facilities in the State of Orissa with proposed investment of Rs.10,721 crores.



Sl. No	Project	Capacity in (MTPA)	Project cost (Rs. in crores)	Time schedule for commissioning manufacturing facilities from date of MOU.
1	Pellets	8.0	800	Five years
2	DRI	4.8	1,040	
3	Steel Billets	2.0	1,636	
4	Wire rods & bars	2.0	855	
5	Power Plant	1000 MW	5,000	
6.	Others		1,390	
Total:-			10,721	

(b) Within three months of signing this MoU, shall prepare in consultation with representatives of IPICOL/IDCO detailed milestones in the form of annual break up of the physical and financial targets to be achieved and furnish the same to the State Government for monitoring.

4. This Memorandum of Understanding (MoU) reaffirms the commitment of HGPL to establish an integrated steel plant and assistance of the Government of Orissa for providing land, iron ore mines, recommending for coal blocks and other facilities.

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

(A) Land:

(a) HGPL will require approximately 2500 acres of land at Paradeep, Jagatsinghpur and Keonjhar for the purpose of setting up the steel plant and associated facilities including beneficiation plant.

(b) For rehabilitation of displaced families, Rehabilitation and Re-settlement Package would be implemented as per the prevailing guidelines and practices of Government of Orissa.

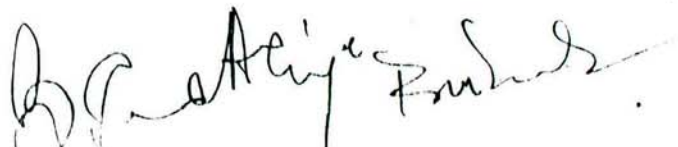
B. C. Singh *B. C. Singh*

- (c) The Government of Orissa agrees to hand over the requisite quantum of land in phases with reference to the detailed land use plan to be submitted by the client company and appraised by IPICOL, free from all encumbrances to HGPL through Orissa Industrial Infrastructure Development Corporation (IDCO) for construction of the plant and allied facilities on payment of cost as to be assessed by IDCO/ State Government.
- (d) HGPL agrees to pay IDCO/Revenue authorities the cost of the land and properties (if standing thereon), IDCO's administrative charges, annual ground and cess to be assessed by the competent authority at the admissible rates.
- (e) The company will also approach the State Government at the appropriate time for the 'right of way' for laying the gas and slurry pipelines.

(B) Raw Materials:

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 HGPL to get the allocation of coal linkage of suitable grade in the desired quantity to meet their requirement until they are ready for mining of their coal block.

Iron Ore: The State Government agrees to assist HGPL in making a firm arrangement with 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. Possibility shall also be explored to evolve long term arrangement with OMC under mutually acceptable terms and conditions for development of new iron ore areas. Keeping in view substantial value addition within the State, the State Government also agree to assign appropriate priority in the matter of recommending its application for iron ore mines under the MMDR Act and the MC Rules for mineral concession to meet its captive requirement subject to adequate progress in implementation of project as envisaged in Para-3 of this MoU and a portion of the requirement to be met through the OMC or any other existing lessees.

The State Government agrees to recommend to the Government of India for allotment of iron ore mines so as to meet the requirement for a period of 25 years related to the installed capacity as in para 3 of this MoU in accordance with the applicable law, rules and policy guidelines of the State Government in the matter, subject to HGPL achieving the following milestones:-

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

Any special consideration for assistance in the matter of sourcing raw material as above will be subject to the position that suitable iron ore areas are available for grant and that M/s HGPL do not have an existing mining area or controlling interest in any company /concern having mining area for the relevant mineral in the State. In case they do

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have such area/interest, their requirement shall be reassessed by the State Government after taking into consideration the quantity of mineral that can be met from these sources.

(C) Water:

The State Government will permit withdrawal of water from river Kajhari & Mahanadi/ other suitable sources for operation of the aforesaid project and the housing colony as per the prevailing rates under appropriate terms and approval of the Water Allocation Committee. The approx. requirement of water is 4350 Cum/Hr.

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

(D) Power :

During construction period, power requirement is estimated to be approximately 5 MW.

The estimated power requirement of the proposed steel complex would be 710 MW (approx). The capacity of the captive power plant would be 1000 MW.

HGPL will approach GRIDCO for sale of any surplus power to GRIDCO or any other corporation so designated by the State Government at a tariff determined by OERC.

(E) Environment:

- i. The Government of Orissa agrees to assist HGPL 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 HGPL in obtaining all clearances from the Central Government.
- iii. HGPL will arrange to conduct rapid Environment Impact Assessment (EIA) and detailed EIA study and prepare Environment Management Plan (EMP) for the project. The Govt. of Orissa agrees to assist HGPL in this regard during the time when EIA is being conducted and EMP is being prepared.

(F) Incentives and concessions :

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

(G) General Clauses:

- a) Government of Orissa appreciate that HGPL is fully committed to the proper resettlement and rehabilitation of the project affected households. Accordingly, HGPL will implement a model programme, in conformity with Government of Orissa's policy, for the resettlement and rehabilitation of the household affected by the project ensuring in particular, their livelihood security. HGPL will also take appropriate mitigation measures to ensure that

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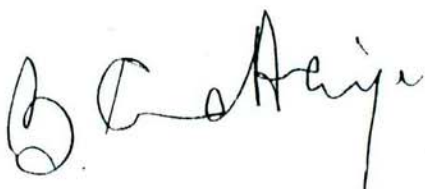
local environment in the project area is not adversely affected by the Industrial and mining activities.

- b) The Government of Orissa appreciates that HGPL is a responsible corporate house with a high involvement in employees' welfare and social development. The Government of Orissa therefore anticipates that HGPL will bring this philosophy to the steel plant project being set up in the district of Jagatsinghpur, Keonjhar & Angul 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 people of Orissa as well as the local persons subject to need and their possessing the necessary qualifications. HGPL 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.
- c) The Government of Orissa appreciate that HGPL 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.
- d) HGPL 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 outside the State. These stipulations are not however applicable to export of finished products outside the country.
- e) 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 HGPL 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 project as envisaged in this MoU.

- f) HGPL understand that the offers 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 any intermediary product unless the same is for captive use in the Steel plant.
- g) HGPL shall be required to produce document towards financial closure within one year of signing of MOU.
- h) The techno-economic viability of using gasification of coal in the manufacture of DRI is to be submitted to IPICOL/State Government within three months of signing of MOU.
- i) In the event of production of excess pellets and sponge iron, the Company undertakes to sale the same to sponge iron/steel manufacturers inside the State.
- j) 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.
- k) It shall be obligatory on the promoter to furnish all information required by the State Government relevant to planning, formulation, lay out, 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.




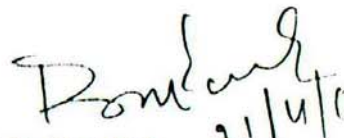
- l) The promoter agrees to facilitate participation of small and medium industries within the State for providing products and services required for the project during its construction and implementation phase as well as during operation and to promote the ancillary and downstream industries within the State. The State Government will nominate a nodal Agency/Officer to interact with the Company for this purpose.
- m) The promoter while implementing the project undertake to comply with all statutory requirements/clearances in respect of laws, regulations and procedures governing establishment and operation of Industries.
- n) 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.

For witness whereof the parties hereto have set their hands to this MoU on this 21st day of April, 2005.

For Government of Orissa

For Hy-Grade Pellets Limited


(Shri Bhaskar Chatterjee, IAS)
Principal Secretary to Govt.,
Department of Steel & Mines


(B.K. Panda)
Director (Projects)