



SMC POWER GENERATION LIMITED

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SMC PGL/JSG/WO/06-07/

Date : 08.07.2006

To

Indus Technical and Financial Consultant Limited
205, Samta Colony
Raipur - 492 001 (C.G.)
Ph. : 0771-4060781, 4036211 / Fax : 2254188
E-mail : indusryp@satyam.net.in

Kind Attn. : Mr. R.M. Alegavi, Vice President

Sub: Order for advisory services by Indus Technical and Financial Consultant Limited (ITFCL) to help SMC realize benefits available under Clean Development Mechanism (CDM) of UNFCCC.

The services would cover

1. Project Development and Registration with UNFCCC.
2. Carbon Asset Management (Trade of Carbon Credits)

Background

SMC is operating an integrated steel plant at Hirma in the district of Jharsuguda. A WHRB Plant of 8 MW capacity using DRI gases from 350 TPD sponge iron kiln and 2 nos. Induction Furnace each of 12T capacity is in operation since December, 2004 and SMC is expanding its capacity wherein an additional capacity of an integrated steel plant with a WHRB Project of 8 MW capacity using DRI gases from 350 TPD sponge iron kiln, 80 Ton capacity FBC Boiler, 2 nos. Induction Furnace each of 12 T capacity and 2 nos. Rolling Mills each of 300 TPD capacity is currently under implementation stage. Power generation using Waste Heat from DRI kiln is a GHF neutral project. Therefore, these projects have potential for being registered as "Clean Development Mechanism" (CDM) projects as per guidelines under Kyoto Protocol. Carbon credits earned these projects can be traded in international market.

- CERs Potential** : 80000 CERs per annum, -4 Crores / annum (@ 8 Euros) for
8 + 8 = 16 MW WHRB.
- Methodology** : Approved methodology ACM 0004

Service Offering

Developing Project Design Document (PDDs) and following through the UNFCCC registration process.

Approval by EB (Executive Board of UNFCCC)	ITFCL responds to queries, follows up and expedites	Present the case if required	18-26 weeks
Post Registration verification	Support if needed	Participate in verification	Normally Yearly verification

Progress Reviews :

1. ITFCL will hold a planning meeting at the start of each phase where the coordinator from SMC side will be present at a minimum. The objective of the phase would be to help SMC understand in more details, what action steps are involved and what help is needed from the client.
2. ITFCL will present a review of what has been achieved in the last step and what is expected in the next.
3. Apart from this ITFCL will circulate a brief progress report every month to SMC.
4. ITFCL will submit clear deliverables at the end of each phase.

Sale of CERs and optimizing financial returns

ITFCL will facilitate CERs sale during the entire Credit Period of the Project and Manage Carbon Assets for SMC. Our role would include the following activities.

1. Tracking the overall market dynamics for carbon credits (drivers such as demand supply balance across the globe, regulatory issues, country specific trading guidelines etc.) to understand **right timing of sale**, as well as most beneficial **deal structure**.
2. Identification of high quality buyers and markets for price optimization and getting offers from them.
3. Analyzing the offers received by SMC or ITFCL on behalf of SMC and helping SMC arrive at
 - i. Appropriate deal structure, acceptable pricing etc.
 - ii. Appropriate terms of sale including assurances / guarantees given assurances received, contingent risks, etc. to get appropriate risk-reward equation.
4. Facilitation in development of Emission Reduction Purchase Agreements (ERPA).
5. Developing structured transactions for carbon credit derivatives, etc. which are in nascent stage, but are evolving.

ITFCL will be the exclusive advisor for the project, for the entire credit period and will be entitled to fee relating to advisory services for CER, on all CER sale transactions whether brought in by SMC, other intermediaries or ITFCL.

Professional Fee :

The payment schedule would be as follows :

- 15% in advance.
- 15% on submission of PDDs to SMC.
- 25% on receiving Host country approval from MoEF.
- 25% on validation by OEs.
- 20% on UNFCCC Registration.

Success Fee for Registration :

ITFCL shall facilitate CERs sale during the entire Credit Period of the Project and Manage Carbon Assets for SMC. SMC will support this participation through appropriate communication and agreements to be presented to UNFCCC. ITFCL will be a participant in the CDM Project and will be entitled to a success fee on Registration of 6.5% % of all CERs issued by UNFCCC to SMC, during the credit period. SMC will provide all necessary documentation for transfer of CERs to ITFCL account with CDM registry.

These items are valid for the entire credit period of the Project, without any change by either party unless agreed by both party in writing.

Note : The fixed fee will be adjusted in two equal installments in the first and the second year from the success fee of 6.5%

Other Fees :

Validation : At actuals payable to UNFCCC, which is current estimated at Rs.4 to Rs.4.5 lacs.

Registration : About US \$ 15000, payable to UNFCCC (Executive Board)

Verification : This is an annual process. The costs will be in the range of Rs.2 to Rs.3 lacs payable to UNFCCC.

Support to be provided by SMC

SMC would appoint a representative to help in the following areas :

- Providing information relating to Project.
- Meeting with statutory authorities and project related experts with whom the client is already in touch with, to refine the PDD information and additional logic.
- Timely review of documents (such as PINs and PDDs etc.) so that they can be taken to the next stage quickly.
- Stakeholder assessment (nearby communities and regulatory bodies)

Confidential Information :

The treatment of confidential information would be governed by a separate agreement between ITFCL and SMC.

Non-Circumvention :

This clause specifically applies to investors and risk insurers that ITFCL is developing to monetize CERs as a way of equity finance. ITFCL is putting in lot of effort into developing such structures and relationships and needs to protect its interests for long term business.

SMC agrees not to engage or approach any such parties introduced by ITFCL while arranging project finance through monetization, directly, without reference to ITFCL.

SMC does engage in a commercial transaction with such a party that was introduced by ITFCL or if SMC wishes to approach the same without following the suggested approach of ITFCL, SMC will do so only after taking permission from ITFCL and compensate ITFCL in accordance with the already established terms or using a mutually acceptable formula.

Governing Law and Jurisdiction :

The terms of this assignment shall be governed by and construed in accordance with the laws of India, without regards to its conflict of laws, principles or rules. The Court of Law will be the Court at Jharsuguda, Orissa.

Glossary

UNFCCC	=	United Nation's Framework Convention for Climate Change
EB	=	Executive Board of UNFCCC
CDM	=	Clean Development Mechanism
PIN	=	Project Idea Note
PDD	=	Project Design Document
OE	=	Operating Entity, bodies accredited by UNFCCC to validate Project Design Documents (PDDs)
CER	=	Certified Emission Reductions (tradable certificates issued by UNFCCC Executive Board)

General Terms & Conditions :**1. Scope of Work :**

The scope of work of Consultants will be as specified in the proposal to which these general terms and conditions are attached.

The Consultant works with many well known technology companies and advisors and may subcontract work to them, as it deems appropriate and in the best interest of SMC.

2. Deliverables and Project Schedule :

2.1 SMC will notify Consultants, in writing within ten (10) working days of its receipt of any deliverable, if any changes / modification are required as per the terms of reference and giving reasons for the same. Otherwise, it would be assumed that the terms have been met.

2.2 The schedule contained in the proposal represents an estimate and can be revised during the course of carrying out the services. Consultants will however use all reasonably practical and diligent efforts to achieve the date or schedule.

3. Billing & Payment :

3.1 **Price :** Fees will be charged as set out in the proposal to which these general terms and conditions are attached.

3.2 **Terms of Payment :** The terms of payment are set out in the proposal.

3.3 **Mode of Payment :** Project fee payment and reimbursements are to be paid through Demand Draft Cheque payable at Raipur in favour of Indus Technical & Financial Consultant Limited or parties notified by it. Payments will be made within 15 days of presentation of the invoice.

4. **Taxes & Duties :** All taxes and duties will be reimbursable extra at actual.

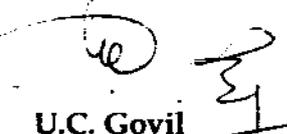
- 4.1 The present rate of Service Tax @ 12.24 % or as applicable at the time of billing will be payable to the Consultants on value of each invoice.
- 4.2 TDS Certificates in respect of Income Tax deducted at source as per the prevailing rates will be issued yearly.

Arbitration :

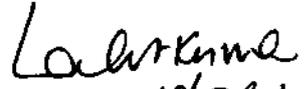
You are requested to kindly sign the duplicate copy of this order as acceptance of all the terms and conditions and commence work immediately, to enable us to release advance.

Thanking you.

Yours faithfully,
For : SMC Power Generation Ltd.


U.C. Govil
Vice President

Accepted


10/July/2006