

Economic Effect of POSCO-India

(Gross Output, Value Addition, Employment, Tax)

Based on Study by NCAER

`06.11. 9

Economic Effects of POSCO-India's Investment

Total Investment of Rs 52,810 crore

To construct a 12 mtpa **steel plant** and
To develop **iron ore mines** and physical
infrastructure in both Domestic Tariff Area
and Special Economic Zone

Creation

Input-Output Model of Orissa

(By National Council of Applied Economic Research)

Linkage effects* across different sectors are
analyzed to **quantify the economic impact**
on the state of Orissa

Findings

| Annual Direct Effect | | |
|----------------------|----------|--------|
| Category | Unit | Amount |
| Gross Output | Rs.Crore | 12,610 |
| Value Addition | Rs.Crore | 3,530 |
| Employment | Man-year | 18,000 |



* At Factor Cost

Output and Employment Multiplier

| Total | Output | Employment |
|---------------------|--------|------------|
| Iron & Steel Sector | 2.36 | 0.692 |

* Iron Ore Mine Sector 1.40 0.354

- Rs 1 lakh of output in the **iron & steel sector** results in **Rs 2.36 lakh of output** in the Orissa economy
- For every **Rs 1 lakh output of steel**, **0.69 man-year of employment** is created



Cumulative Annual Economic Effect in the state of Orissa

| Gross Output (Rs. Crore) | Value Addition (Rs. Crore) | Employment (Man year) |
|--------------------------|----------------------------|-----------------------|
| 29,760 | 12,100 | 870,000 |

※ Gross Output : Sum of Production Cost and Interest Expense (POSCO-India F/S by KPMG)

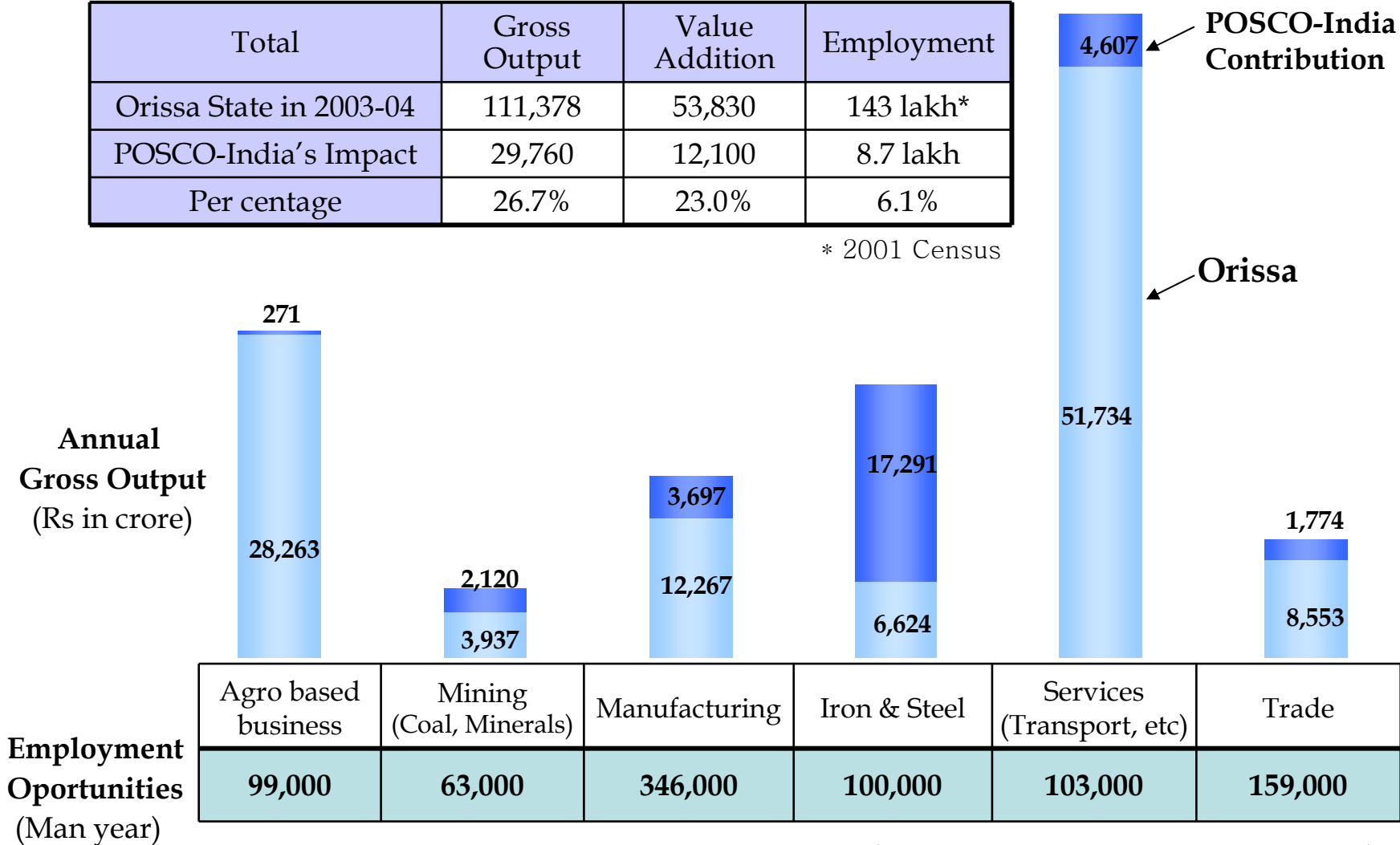
Value addition : Iron & Steel - 28% of gross out , The rest of the economy - 50% based Input-Output Model of Orissa

Sector-wise Annual Gross Output and Employment Generation

Orissa Economy and POSCO-India's Impact

| Total | Gross Output | Value Addition | Employment |
|-------------------------|--------------|----------------|------------|
| Orissa State in 2003-04 | 111,378 | 53,830 | 143 lakh* |
| POSCO-India's Impact | 29,760 | 12,100 | 8.7 lakh |
| Per centage | 26.7% | 23.0% | 6.1% |

* 2001 Census

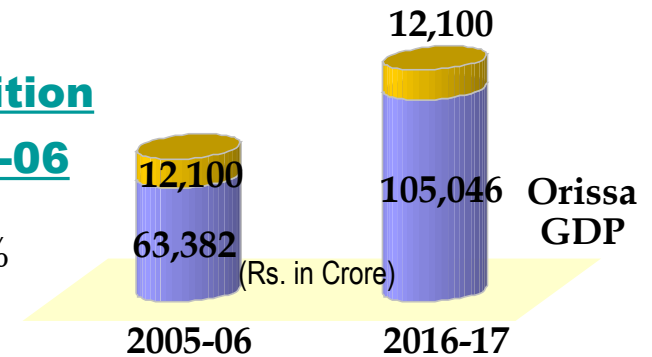


※ Iron & Steel : Including Captive Mines (employment generation 15,000 persons)

POSCO-India's Stature in the Orissa economy

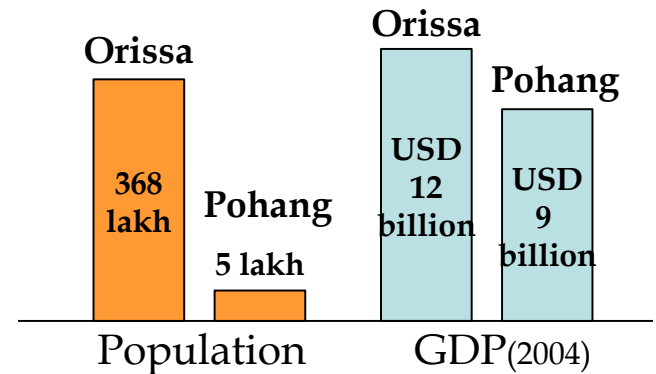
POSCO-India would create an annual value addition of Rs 12,100 crore, 19% of Orissa SGDP in 2005-06

POSCO-India would contribute additional growth of 11.5% in 2016-17 (Assumption: State GDP growth at CAGR of 4.6%)



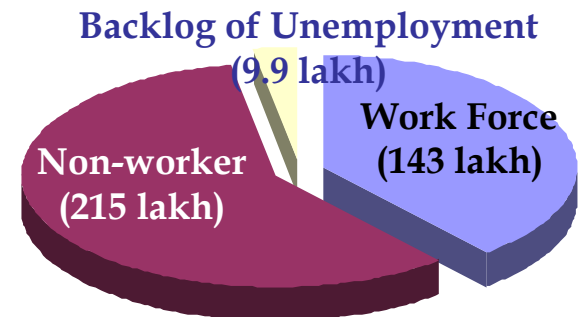
< Comparison between Orissa State and Pohang City >

Population in Pohang City holds about 1.4% of Orissa's, but Pohang's GDP reaches to 75% of Orissa GDP, of which POSCO contributes 45%.



Employment Opportunities generated by POSCO-India would consume almost all of the backlog of current unemployment

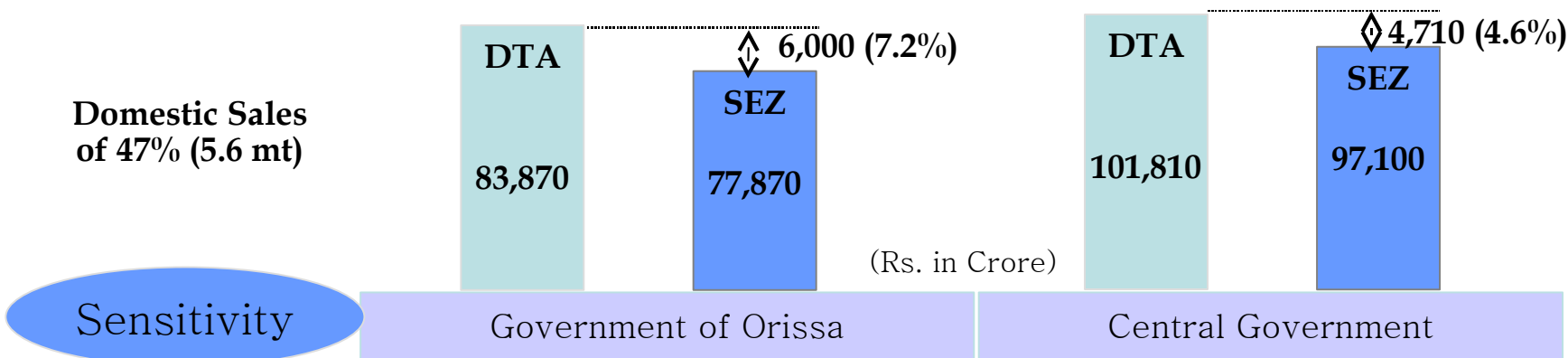
Decrease in backlog of employment : 9.9 lakh → 1.2 lakh



POSCO-India's Contribution to Tax Revenue of the Government

POSCO-India as SEZ status would contribute Rs 174,970 crore of Tax (Rs 77,870 crore to GoO and Rs Rs 97,100 crore to GoI) in next 35 years

The difference of tax between SEZ and DTA case is Rs 6,000 crore to GoO

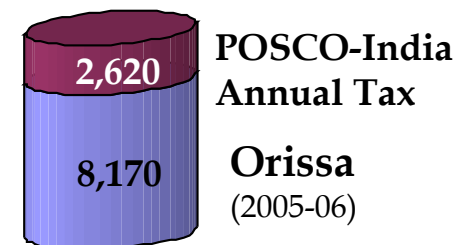


| % of Domestic Sales | DTA | SEZ | Difference | DTA | SEZ | Difference |
|---------------------|---------|---------|------------|---------|---------|------------|
| 33% (4.0 mt) | 68,670 | 61,180 | -7,490 | 92,580 | 83,810 | -8,770 |
| 70% (8.4 mt) | 111,530 | 108,280 | -3,250 | 118,650 | 121,340 | + 2,690 |
| 92% (11.0 mt) | 136,240 | 135,770 | -470 | 133,280 | 143,250 | + 9,970 |

* At the nominal Value

Annual tax payment in a typical year of full production Would be Rs 2,620 crore, 32% of total tax revenue (Rs 8,170 crore) of Orissa in 2005-06.

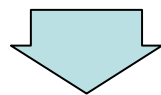
The difference from DTA case (Rs 2,760 crore) is Rs 140 crore



Detailed Break-up of Tax Revenue

(Unit: Rs. Crore)

| Category | Nominal Value | | | Discounted Value at 12 per cent | | |
|-------------------------------|----------------|----------------|-----------------|---------------------------------|---------------|----------------|
| | SEZ | DTA | Difference | SEZ | DTA | Difference |
| Tax on Sales | 98,735 | 83,380 | 15,355 | 11,573 | 9,773 | 1,800 |
| Tax on Inputs | - | 16,989 | - 16,989 | - | 2,093 | - 2,093 |
| Tax on Capital Goods | 756 | 5,926 | - 5,170 | 359 | 2,892 | - 2,533 |
| Corporate Tax | 69,647 | 68,418 | 1,229 | 5,742 | 6,073 | - 331 |
| Personal Income tax | 5,833 | 5,833 | - | 728 | 728 | - |
| Electricity duty | - | 4,512 | - 4,512 | - | 445 | - 445 |
| Municipality tax | - | 632 | - 632 | - | 88 | - 88 |
| Total Revenue to Govt. | 174,971 | 185,690 | - 10,719 | 18,403 | 22,092 | - 3,689 |
| Revenue to Orissa | 77,872 | 83,877 | - 6,005 | 8,591 | 10,052 | -1,461 |



< Revenue to Orissa >

| | |
|----------------------|--------|
| Tax on Sales | 38,480 |
| Tax on Capital Goods | 103 |
| Sharing of Union tax | 39,289 |

< Assumption of computation >

| Category | Tax rate |
|--|---|
| Corporate tax | 33.66% as a domestic corporation |
| Personal Income tax | As per Income Tax Act |
| Indirect tax [Customs duty, Counterveiling duty (Excise duty), VAT, Local taxes, Service tax, CENVET Credit, etc] | 38.9% on domestic sales (SEZ) 32.9% on domestic sales (DTA) 7.9% / 11.6% on capital goods 12.55% on services 5%~5.9% on input materials |

Backward Linkage of Iron & Steel Sector in the State of Orissa

EXAMPLE

An increase in output of Iron & Steel sector sets up a chain reaction in the Orissa economy. Cumulative output including riffle effects on the entire industries is estimated to be Rs 15,633 crore in 2003-04.

