

SETTLEMENT AGREEMENT

This SETTLEMENT AGREEMENT (this “Agreement”) is made as of August 30, 2012 between the Appropriate Pool Committee of the Chino Basin Watermaster (the “AP Committee”), California Steel Industries, Inc. (“CSI”), which is a member of the Overlying (Non-Agricultural) Pool Committee of the Chino Basin Watermaster and the Board of Directors of the Chino Basin Watermaster (the “Watermaster Board”). The AP Committee, CSI and the Watermaster Board are collectively referred to herein as the “Parties”.

RECITALS

A. The Overlying (Non-Agricultural) Pool Committee of the Chino Basin Watermaster, also known as the Non-Agricultural Pool Committee (the “NAP Committee”) which includes CSI, and the AP Committee are committees created by and existing pursuant to that certain Judgment entered on or about January 27, 1978 (as amended through the date hereof, the “Judgment”) in the Superior Court of the State of California for the County of San Bernardino, Case No. 164327, subsequently renumbered as RCVRS 51010 (the “Action”). Without limiting the generality of the definition of the term “Judgment” in the foregoing sentence, all references in this Agreement to Exhibit G to the Judgment shall mean and refer to Exhibit G to the Judgment, as amended.

B. The Watermaster Board is a nine-member board created by and existing pursuant to a Ruling dated February 19, 1998 entered in the Action, as amended by orders entered on or about September 28, 2000, September 22, 2005 and January 26, 2011. Pursuant to such rulings and orders, the Watermaster Board currently serves as Watermaster under the Judgment.

C. On March 16, 2010, the NAP Committee filed a motion (the “Motion”) in the Action pursuant to Paragraph 31 of the Judgment. CSI, one of the constituent members of the NAP Committee, joined in the Motion. On June 18, 2010, the trial court in the Action entered an order denying the Motion. On August 11, 2010, the NAP Committee and CSI each filed notices of appeal of the trial court’s order (collectively, the “Appeal”) in the Court of Appeal of the State of California, Fourth District, Division Two (the “Appellate Court”).

D. On or about January 18, 2012, the Appellate Court served a Tentative Opinion on the parties, reversing the trial court, and on April 10, 2012, the Appellate Court issued its final Opinion. Jurisdiction over the matter was remanded to the Superior Court, which on June 29, 2012 issued an Order Post Appeal that Watermaster did not give timely or effective notice of intent to purchase water that was the subject of the Motion.

E. On or about April 18, 2012, the AP Committee, the Watermaster Board and the members of the NAP Committee, other than CSI, entered into that Settlement Agreement completely resolving among themselves the issues raised by the Motion and the Appeal (the “NAP Settlement Agreement”).

F. The Parties desire to resolve any remaining issues raised by the Motion and the Appeal, on the terms and conditions set forth in this Agreement.

G. To the extent the provisions of this Agreement are consistent with the provisions of the Settlement Agreement made as of April 18, 2012 between the AP Committee and Transferor members of the NAP Committee, the Parties intend that the provisions shall have the same meaning and effect.

AGREEMENT

1. Waiver of Certain Rights. Upon execution of this Agreement by all Parties, CSI waives any right it has to file a cost bill or a motion for attorneys' fees in the Action.

2. Pre-2007 Storage Water.

2.1. 6/30/2007 Storage Water. The Parties agree that the quantity of Pre-2007 Storage Water held by CSI as of June 30, 2007, immediately prior to the dedication pursuant to Section 2.2 hereof, is 3,161.774 acre feet. In each instance that this Agreement provides that the Parties "agree" that quantities are "accurately stated", CSI is not making any representation or warranty in respect thereof, it being the understanding of the Parties that CSI is relying solely on Watermaster's records in respect thereof, which shall be deemed conclusive in respect thereof solely for the purposes of this Agreement.

2.2. Desalter Dedication. Pursuant to this Agreement, ten percent (10%) of the Pre-2007 Storage Water held by CSI shall be deemed to have been dedicated by CSI to desalter replenishment as of June 30, 2007. The Parties agree that the quantity of Pre-2007 Storage Water dedicated by CSI to desalter replenishment pursuant to this Agreement is 316.177 acre feet. The quantity of water so dedicated shall be used exclusively for desalter replenishment. The Parties shall hereafter cause Watermaster staff to accurately and separately account in its reports for the water so dedicated until the water is actually used for desalter replenishment.

2.3. Effect of NAP Committee Settlement. Pursuant to Section 2 of the NAP Settlement Agreement (attached hereto as Exhibit A), those members of the NAP Committee who are party thereto have agreed to transfer to Watermaster, for the benefit of the members of the AP Committee, all of the local storage water held by those parties as of June 30, 2007, subject to the desalter dedication and storage loss agreements in Sections 2.2. and 2.3. of the NAP Settlement Agreement. Pursuant to the NAP Settlement Agreement, those members of the NAP Committee who are party to the NAP Settlement will be fully compensated for such transfers, and accordingly have relinquished any right to such water.

2.4. Storage Losses. Pursuant to Section 5.2(b)(xii) of the so-called Peace Agreement dated June 29, 2000 (the "Peace Agreement") and Section 7.4 of the so-called Peace II Agreement dated October 25, 2007 (the "Peace II Agreement"), the Watermaster Board has imposed a 2% annual storage loss on water held in local storage by members of the NAP Committee and the AP Committee at all times during the five-year period from July 1, 2007 through June 30, 2012. The Parties agree that the total annual storage losses for such five-year period is 273.403 acre feet. Pursuant to this Agreement, CSI, on the one hand, and the members of the AP Committee, on the other hand, shall share equally the storage losses, with CSI being debited 136.7015 acre feet of the storage losses, and the AP Committee being debited 136.7015 acre feet of the storage losses. The Parties acknowledge that Watermaster staff has, in its assessment packages and annual reports published prior to the date hereof for such five-year period,

debited the entirety of the 2% annual storage loss against CSI's storage accounts and that, in order to effectuate the foregoing allocation of the storage losses between CSI and the AP Committee for such five-year period, the Parties agree that the credit to its local storage account that CSI shall be entitled to receive, as of June 30, 2012, is 136.7015 acre feet. Watermaster's Fiscal Year 2012-2013 Assessment Package will show 136.7015 acre feet shall be debited against the quantity of Pre-2007 Storage Water sold and transferred to Watermaster by other NAP Committee members pursuant to a separate Settlement Agreement dated April 18, 2012, to effectuate the loss sharing by the AP Committee pursuant to this paragraph..

3. Desalter Dedications. The Parties hereby acknowledge that the dedication by CSI of ten percent (10%) of its Pre-2007 Storage Water to desalter replenishment pursuant to Section 2.2 hereof, together with the continuing dedication by CSI of ten percent (10%) of its annual share of Operating Safe Yield to desalter replenishment pursuant to Section 5(c) of Exhibit G to the Judgment, calculated in the manner shown in Watermaster's annual reports prior to the date hereof, are and shall hereafter be the sole and exclusive methods by which CSI shall be required to contribute at any time to desalter production or desalter replenishment, and such dedications shall, solely for the purposes of Section 7.4 of the Peace II Agreement, constitute contributions by CSI to the OBMP Implementation Plan and compliance by CSI with its continuing covenants under the Peace Agreement. Without limiting the generality of the foregoing, dedications pursuant to Section 5(c) of Exhibit G to the Judgment shall be the sole and exclusive method by which CSI shall be required to contribute pursuant to Section 6.2(a) and 6.2(b) of the Peace II Agreement. This Section 3 shall not affect any CSI obligations relating to assessments, except to the extent relating to desalter production or desalter replenishment.

4. MWD Rate. If, at any time and for any period after the date hereof, the rate known as the "MWD Replenishment Water Rate: Untreated" is not included in water rates published by the Metropolitan Water District of Southern California, then the Parties shall in good faith promptly commence and thereafter diligently pursue to completion negotiation and agreement upon a new rate for physical solution transfers pursuant to Section 9(d) of Exhibit G to the Judgment and/or another efficient market mechanism for transfers of Non-Agricultural Pool water at reasonable prices from those members of the NAP Committee who are willing to transfer it to those members of the AP Committee who are willing to acquire it. If the Parties do not agree upon such a new rate and/or such a market mechanism within three months after the period for commencement of such negotiations, then the AP Committee, the NAP Committee or any member of either may thereafter file a motion or other petition relating thereto.

5. Intentionally Omitted.

6. Dispute Resolution. The Parties shall promptly commence and thereafter diligently pursue good faith negotiations to address cost-effective alternatives to the court process for future dispute resolution. Nothing contained in this Section shall limit or affect the ability of the Watermaster Board, the AP Committee, the NAP Committee or any member of either to take any action, or to do or omit to do anything, which any of them might otherwise take or do under the Judgment or under their respective Rules and Regulations, including without limitation filing a motion or other petition relating thereto.

7. Further CSI Compensation. In addition to the provisions of Section 2 of this Agreement, CSI shall receive compensation with a value of \$76,155.94, which compensation shall be in the form of 172.2985 acre feet of water ("Compensation Water"). The 172.2985 acre feet amount is calculated by dividing \$76,155.94 by \$442 per acre feet, which is the current MWD Replenishment Water Rate. To

effectuate such compensation, the AP Committee agrees to forebear from its right to receive from Watermaster a volume of water equal to the Compensation Water, as part of that volume of water transferred to the AP pursuant to that separate Settlement Agreement dated April 18, 2012, and directs Watermaster staff, pursuant to section 9 of Exhibit G of the Judgment, to credit an equal volume to CSI's stored water account as if it were never made available by the NAP Committee members in the first instance. On that basis, in addition to the storage loss sharing described in Section 2.4, above, and apart from any other transfers pursuant to instruments other than this Agreement, Watermaster's Fiscal Year 2012-2013 Assessment Package will show that 172.2985 acre feet less than the quantity of Pre-2007 Storage Water sold and transferred to Watermaster by other NAP Committee members pursuant to that separate Settlement Agreement dated April 18, 2012, are transferred to the AP and 172.2985 acre feet are credited to CSI's stored water account. If CSI has not produced or otherwise transferred any of its local storage water in production year 2011-2012, then the balance of CSI's local storage account as of June 30, 2012 shall be 2,881.194 acre feet, which includes the desalter dedication provided for in Section 2.2, above, storage losses debit/credit provided for in Section 2.4, above, and credit for the Compensation Water provided for in this Section 7.

The Parties hereby expressly agree that they do not intend to create, nor do there otherwise exist, any third party beneficiaries as a result of the storage losses credit provided for in Section 2.4, above, and the credit for the Compensation Water provided for in this Section 7, as such credits are to occur exclusively for the benefit of CSI and the water credited to CSI through the same is not subject to claim by any other member of the NAP Committee. Consistent with this agreement, if the credits to CSI's local storage account pursuant to either Section 2.4 or Section 7 are challenged by any Party to the Judgment, in lieu of such transfer to CSI's local storage account, Watermaster shall pay to CSI, from a Watermaster account, a total sum of \$442 for each acre-foot for which the credit is challenged. By way of example, if the 172.2985 acre feet of water credit of Compensation Water is challenged, in lieu of such credit, CSI shall be paid \$76,155.94. Such payment shall be made on or before January 15, 2014, pursuant to that Payment Mechanism described in Section 7 of the NAP Settlement Agreement..

8. Authority.

(a) CSI. As a material inducement to the other Parties to execute, deliver and perform this Agreement, CSI hereby represents and warrants to the other Parties that: (1) the execution, delivery and performance of this Agreement has been duly authorized by all necessary corporate, partnership or municipal action (as the case may be) of CSI, as determined by CSI; (2) this Agreement has been duly executed and delivered by CSI and constitutes a valid and binding obligation of CSI, enforceable against CSI in accordance with its terms; and (3) the execution, delivery and performance by CSI of this Agreement does not (i) require any approval of its shareholders, partners or legislative board (as the case may be) which has not been obtained; (ii) violate the articles, bylaws, partnership agreement, charter or ordinances (as the case may be) of CSI; or (iii) breach or constitute a default under any contract to which CSI is a party or by which it is bound.

(b) AP Committee. As a material inducement to the other Parties to execute, deliver and perform this Agreement, the AP Committee hereby represents and warrants to the other Parties that: (1) the execution, delivery and performance of this Agreement has been duly authorized by all necessary committee action of the AP Committee and by all necessary municipal or corporate action (as the case may be) by each member, as determined by such member; (2) this Agreement has been duly executed and delivered by the AP Committee and constitutes a valid and binding obligation of the AP Committee and

its members, enforceable against the AP Committee and its members in accordance with its terms; and (3) the execution, delivery and performance by the Chair of the AP Committee of this Agreement does not (i) require any approval of its members or by the shareholders or legislative board of its members (as the case may be) which has not been obtained; (ii) violate the rules and regulations of the AP Committee or the articles, bylaws, charter or ordinances (as the case may be) of its members; or (iii) breach or constitute a default under any contract to which the AP Committee or its members is a party or by which it is bound.

(c) Watermaster Board. As a material inducement to the other Parties to execute, deliver and perform this Agreement, the Watermaster Board hereby represents and warrants to the other Parties that: (1) the execution, delivery and performance of this Agreement has been duly authorized by all necessary action of Watermaster; (2) this Agreement has been duly executed and delivered by Watermaster and constitutes a valid and binding obligation of the Watermaster, enforceable against Watermaster in accordance with its terms; and (3) the execution, delivery and performance by the Chair of the Watermaster Board of this Agreement does not (i) require any approval which has not been obtained; (ii) violate the rules and regulations of Watermaster; or (iii) breach or constitute a default under any contract to which Watermaster is a party or by which it is bound.

9. Court Approval. The Parties hereby stipulate and agree that the execution, delivery and performance of the terms of this Agreement, and each of them, are consistent with Paragraph 8 of and Exhibit G to the Judgment, and do not conflict with, violate or constitute a breach or default under the Judgment, or any order entered in the Action or any instrument or agreement whose terms were previously approved in the Action, including without limitation the Peace Agreement and the Peace II Agreement. If any Party or person hereafter contends that the execution, delivery or performance of the terms of this Agreement, or any of them, does or might conflict with, violate or constitute a breach under the Judgment, or any Order entered in the Action or any instrument or agreement whose terms were previously approved in the Action, then the Parties shall take such action as may be necessary to cause this Agreement to be approved in the Action, and for each of its provisions to be enforced in accordance of its terms.

10. Notices. Any notice required or permitted to be given to a Party under this Agreement shall be given in writing and by (a) nationally recognized overnight courier service to such Party, next day delivery, prepaid or (b) electronic mail to such Party (specifically excluding text messages or other means of electronic communication), in each case to the service and e-mail addresses set forth below the respective Parties' signatures on the signature pages hereof. Each of the Parties shall be entitled to specify a single different address by giving written notice to the other Parties in the manner aforesaid, which shall be effective five business days after delivery thereof. For each notice required to be given to the AP Committee, a copy thereof shall be concurrently given to counsel of record for the AP Committee, at its most recent mailing or e-mail addresses of record in the Action. For each notice required or permitted to be given to CSI, , a copy thereof shall be concurrently given to counsel of record for CSI, , at its most recent mailing and e-mail addresses of record in the Action. For each notice required or permitted to be given to the Watermaster Board, a copy thereof shall be concurrently given to counsel of record for the Watermaster Board, at its most recent mailing and e-mail addresses of record in the Action. This Section shall be the sole and exclusive method for giving notices required or permitted to be given to a Party under this Agreement. This Section shall not govern or control or establish a custom or practice with respect to any other notices required or permitted to be given under the Judgment or in connection with the Action.

11. Attorneys' Fees and Costs. No Party hereto shall seek to recover against any other Party hereto any attorneys' fees or costs incurred in connection with the Motion, the Appeal or the negotiation and execution of this Agreement..

12. Binding Effect. The provisions of this Agreement shall inure to the benefit of and be binding upon the Parties (and in the case of the AP Committee, its members) and their respective successors and assigns. The person signing this Agreement on behalf of the AP Committee represents and warrants to the other Parties that each member of the AP Committee has authorized him to sign this agreement on its behalf, with the intent that each such member will be bound and benefitted by the terms of this Agreement. This signature shall not govern or control or establish a custom or practice with respect to any other instrument or agreement. Other than the members of the AP Committee, who are intended to be bound and benefitted by the terms of this Agreement, none of the provisions of this Agreement shall bind or benefit any person whose has not signed this Agreement. It is the intention of the Parties that no term or provision of this Agreement shall be interpreted for or against any person on the basis that such person or its counsel was the drafter or primary drafter of this Agreement, or of such term or provision.

13. Invalidity. If any portion of this Agreement is found to be invalid or unenforceable by a court of competent jurisdiction against any one or more of the Parties for any reason, then it is the desire and intention of the Parties that the court construe and reform such invalid or unenforceable provision, and any other provisions of this Agreement, so as to match and satisfy the intentions and reasonable expectations of the Parties, as manifested by the express provisions hereof, as closely as possible. If and to the extent that such intentions and expectations cannot be matched and satisfied entirely, it is the desire and intention of the Parties that the Court order such other and further relief to compensate each of the Parties adversely affected by such invalidity or unenforceability, by any person benefitted by such invalidity or unenforceability. Without limiting the generality of the foregoing, if Section 2.4 and/or Section 7 of this Agreement is found to be invalid or unenforceable by a court of competent jurisdiction against the Watermaster Board for any reason, then it is the desire and intention of the Parties that the court construe and reform this Agreement so that the AP Committee and its members be directly, primarily, jointly and severally liable to CSI for the amounts payable to CSI hereunder.

14. Time of Essence. Time is of the essence with respect to all matters contained in this Agreement.

15. No Waiver. No waiver of any of the provisions of this Agreement shall be deemed or shall constitute a waiver of any other provision, whether or not similar, nor shall any waiver constitute a continuing waiver. No waiver shall be binding unless manually signed by the Party asserted to be bound thereby.

16. Entire Agreement. This Agreement and the instruments and agreements referenced herein constitute the entire understanding and agreement of the parties with respect to the subject matter hereof and supersede any and all prior or contemporaneous understandings and agreements, whether oral or written.

17. Amendments. This Agreement may not be changed or modified except by an instrument in writing manually signed by the Party asserted to be bound thereby.

18. Headings. Any headings in this Agreement are solely for the convenience of reference and are not part of this Agreement.

19. Governing Law. This Agreement shall be governed by and be construed in accordance with the laws of the State of California.

20. Counterparts. This Agreement may be executed by manual signature in counterparts, each of which shall be deemed an original, and all of which when taken together shall constitute a single instrument. A counterpart agreement or signature page containing a manual signature but delivered by e-mail or by facsimile transmission shall be enforceable as if it contained an original manual signature. This Agreement shall not be effective, and shall not be binding upon any Party, unless and until counterparts thereof have been manually signed and delivered by (A) CSI, (B) the Chair of the AP Committee and (C) the Chair of the Watermaster Board. This Agreement shall be effective as of the date that the last of such counterparts is delivered to the other Parties hereto.

[Signature Page follows]

SIGNATURE PAGE

CALIFORNIA STEEL INDUSTRIES, INC.

By: TBJuge
Name: BRETT GUGE
Its: EXECUTIVE VP
Address: PO BOX 5080
1 CALIFORNIA STEEL WAY
FONTANA, CA 92335
E-mail: BGUGE@CALIFORNIASTEEL.COM

AP COMMITTEE

APPROPRIATIVE POOL COMMITTEE

By: _____
Name: _____
Its Chair
Address: _____

E-mail: _____

WATERMASTER BOARD

BOARD OF DIRECTORS OF THE CHINO BASIN
WATERMASTER

By: _____
Name: _____
Its Chair
Address: _____

E-mail: _____

SIGNATURE PAGE


CALIFORNIA STEEL INDUSTRIES, INC.

By: _____
Name: _____
Its: _____
Address: _____

E-mail: _____

AP COMMITTEE

APPROPRIATIVE POOL COMMITTEE

By: 
Name: MARTIN E. ZVIRBULIS
Its Chair
Address: 10440 ASHFORD ST.
RANCHO CUCAMONGA, CA
91730
E-mail: MARTINZ@CUCWDWATER.COM

WATERMASTER BOARD

**BOARD OF DIRECTORS OF THE CHINO BASIN
WATERMASTER**

By: _____
Name: _____
Its Chair
Address: _____

E-mail: _____

SIGNATURE PAGE

CALIFORNIA STEEL INDUSTRIES, INC.

By: _____
Name: _____
Its: _____
Address: _____

E-mail: _____

AP COMMITTEE

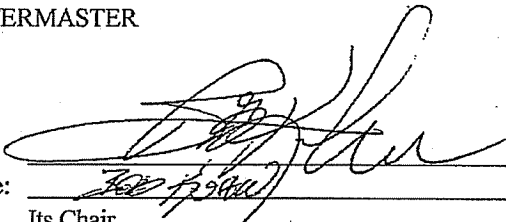
APPROPRIATIVE POOL COMMITTEE

By: _____
Name: _____
Its Chair _____
Address: _____

E-mail: _____

WATERMASTER BOARD

BOARD OF DIRECTORS OF THE CHINO BASIN
WATERMASTER

By: 
Name: BE Kuhn
Its Chair _____
Address: 9641 San Bernardino Road
Rancho Cucamonga, CA 91730
E-mail: BEKuhn@aol.com