



Australian Government
Anti-Dumping Commission

INVESTIGATION 254

ALLEGED DUMPING OF CERTAIN HOLLOW STRUCTURAL SECTIONS EXPORTED FROM THE KINGDOM OF THAILAND

VISIT REPORT - AUSTRALIAN INDUSTRY

AUSTUBE MILLS PTY LTD

THIS REPORT AND THE VIEWS OR RECOMMENDATIONS CONTAINED THEREIN
WILL BE REVIEWED BY THE CASE MANAGEMENT TEAM AND MAY NOT REFLECT
THE FINAL POSITION OF CUSTOMS AND BORDER PROTECTION

February 2015

CONTENTS

| | |
|---|-----------|
| CONTENTS | 2 |
| ABBREVIATIONS | 5 |
| 1 BACKGROUND | 7 |
| 1.1 Background..... | 7 |
| 1.2 Purpose of visit | 9 |
| 1.3 Meeting details..... | 9 |
| 1.4 Investigation process and timeframes | 10 |
| 1.5 Visit report..... | 10 |
| 1.6 Introductory presentation | 11 |
| 2 THE GOODS | 12 |
| 2.1 Description..... | 12 |
| 2.2 Tariff classification | 12 |
| 3 BACKGROUND - ATM AND THE AUSTRALIAN INDUSTRY | 14 |
| 3.1 Corporate, organisational and ownership structure | 14 |
| 3.2 Accounting structure and details of accounting systems..... | 14 |
| 3.2.1 Accounting structure..... | 14 |
| 3.3 Relationship with suppliers and customers | 16 |
| 3.4 ATM's facilities and product range..... | 17 |
| 3.4.1 Manufacturing facilities..... | 17 |
| 3.4.2 Range..... | 18 |
| 3.5 Other industry members' facilities and range..... | 20 |
| 3.6 ATM's HSS production process | 21 |
| 3.7 Like goods | 22 |
| 3.8 Employment numbers | 23 |
| 3.9 Annual turnover | 23 |
| 3.10 Capacity..... | 23 |
| 4 AUSTRALIAN MARKET | 25 |
| 4.1 Background..... | 25 |
| 4.2 Market segmentation | 26 |
| 4.3 Marketing and distribution..... | 26 |
| 4.3.1 General | 26 |
| 4.3.2 ATM distributorships..... | 28 |
| 4.4 Imports by ATM | 29 |
| 4.5 Demand variability in the HSS market | 30 |
| 4.6 Market size | 30 |
| 5 SALES..... | 32 |
| 5.1 General..... | 32 |
| 5.2 Ordering, invoicing and delivery arrangements..... | 32 |
| 5.3 Pricing..... | 33 |
| 5.3.1 Deferred Delivery Range (DDR)..... | 34 |
| 5.3.2 Express offers | 34 |
| 5.3.3 Determining import parity pricing..... | 35 |
| 5.3.4 Determining the local premium..... | 37 |

| | | |
|----------|---|-----------|
| 5.3.5 | Details on pricing structure | 38 |
| 5.4 | Isolating relevant sales | 39 |
| 5.4.1 | By origin (ATM, Kembla Grange production or imported)..... | 40 |
| 5.4.2 | By product type (HSS within the goods description)..... | 40 |
| 5.5 | Level of trade and related vs. unrelated customers | 41 |
| 5.6 | Verification of sales data – completeness and relevance | 42 |
| 5.6.1 | Profiles | 42 |
| 5.6.2 | Exports | 43 |
| 5.6.3 | Discount | 43 |
| 5.6.4 | Conclusion | 44 |
| 5.7 | Verification of sales data - accuracy | 44 |
| 5.7.1 | Invoice details and proof of payment of invoiced amount..... | 45 |
| 5.7.2 | Rebates, discounts and net transaction value | 46 |
| 5.7.3 | Volume | 46 |
| 5.7.4 | Freight | 47 |
| 5.7.5 | Conclusion | 47 |
| 5.8 | Export sales | 48 |
| 6 | COST TO MAKE AND SELL | 49 |
| 6.1 | General | 49 |
| 6.1.1 | Categorisation of data | 49 |
| 6.2 | Verification of costs to audited financial statements | 50 |
| 6.2.1 | Completeness and relevance of costs - conclusion..... | 51 |
| 6.3 | Verification of production costs to source documents | 51 |
| 6.3.1 | Production volumes..... | 52 |
| 6.3.2 | Raw Materials Verification | 52 |
| 6.3.2.1 | Raw materials – hot rolled coil | 53 |
| 6.3.2.2 | Raw materials – Paint for finished products | 56 |
| 6.3.2.3 | Raw materials – Zinc Bath | 58 |
| 6.3.2.4 | Raw materials – Scrap Credits..... | 60 |
| 6.3.3 | Direct Labour..... | 62 |
| 6.3.4 | Other Variable Manufacturing Costs | 63 |
| 6.3.4.1 | Packaging | 64 |
| 6.3.4.2 | Oils and Greases | 64 |
| 6.3.4.3 | Equipment Leasing | 64 |
| 6.3.4.4 | Contracted Services..... | 64 |
| 6.3.5 | Fixed Manufacturing Costs..... | 65 |
| 6.3.5.1 | Depreciation..... | 65 |
| 6.3.5.2 | Electricity..... | 65 |
| 6.3.6 | Accuracy of production costs - conclusion | 66 |
| 6.4 | Verification of selling, general and administration expenses..... | 66 |
| 6.5 | Costs to make and sell – conclusion..... | 67 |
| 7 | ECONOMIC CONDITION OF ATM | 68 |
| 7.1 | ATM's injury claims | 68 |
| 7.2 | Commencement of injury, and analysis period | 68 |
| 7.3 | Volume trends..... | 69 |
| 7.4 | Price suppression and depression..... | 70 |
| 7.5 | Price undercutting..... | 74 |
| 7.6 | Revenue | 74 |

Public Record

| | | |
|-----------|---|-----------|
| 7.7 | Profits and profitability..... | 76 |
| 7.8 | Other economic factors..... | 77 |
| 7.8.1 | Employment numbers | 77 |
| 7.8.2 | Capacity Utilisation..... | 77 |
| 7.8.3 | Conclusion | 79 |
| 7.9 | Factors other than dumping..... | 79 |
| 7.10 | Conclusion..... | 81 |
| 8 | CAUSAL LINK | 83 |
| 8.1 | Price effects | 83 |
| 8.2 | Volume effects | 85 |
| 9 | UNSUPPRESSED SELLING PRICE..... | 87 |
| 10 | GENERAL COMMENTS AND OTHER MATTERS | 88 |
| 10.1 | Cost advantages of Thailand..... | 88 |
| 10.2 | Efficiency of ATM..... | 88 |
| 10.3 | Market perception of Thai imports | 89 |
| 10.4 | Discussions on exemption inquiry for HDG | 89 |
| 11 | ATTACHMENTS AND APPENDICES..... | 91 |
| 11.1 | Attachments..... | 91 |
| 11.2 | Appendices..... | 95 |

| | |
|----------------|---|
| \$ | Australian dollars |
| ACBPS | Australian Customs and Border Protection Service |
| ADN | Anti-Dumping Notice |
| The Act | <i>Customs Act 1901</i> |
| The applicant | Austube Mills Pty Ltd |
| APT | Australian Pipe and Tube Pty Ltd |
| ATM | Austube Mills Pty Ltd |
| The Commission | The Anti-Dumping Commission |
| BPCS | The Business Planning and Control System |
| ████ | ████████████████████ |
| CCPT | Conversion cost per tonne |
| CFR | Cost and freight |
| CHS | Circular hollow sections |
| COGS | Cost of goods sold |
| CON254 | Anti-Dumping Commission's consideration report for the investigation |
| CTM | Cost to make |
| CTMS | Cost to make & sell |
| CTS | Cost to sell |
| EBIT | Earnings before interest and tax |
| FOB | Free On Board |
| HDG | hot-dipped galvanised |
| HRC | Hot-rolled coil |
| HSS | Certain hollow structural sections (as defined in Section 2.1 of this report) |
| Hyperion | Hyperion Financial Management System |
| ITM | Independent Tube Mills Pty Ltd |
| ILG | In-line galvanised |
| NIP | Non-injurious Price |
| OSMC | OneSteel Metalcentre |
| OSMM | OneSteel Market Mills |
| OS Trading | OneSteel Trading Pty Ltd |
| Orrcon | Orrcon Operations Pty Ltd |
| OS Oil & Gas | OneSteel Oil & Gas Pipe |
| PAD | Preliminary Affirmative Determination |
| RHS | Rectangular hollow sections |
| SAP | SAP accounting software |

Public Record

| | |
|--------------|---|
| SCS | Stock Control System |
| SEF | Statement of Essential Facts |
| SHS | Square hollow sections |
| the goods | the goods the subject of the application (also referred to as the goods under consideration or GUC) |
| the Minister | the Minister for Industry |
| USP | Unsuppressed Selling Price |

1 BACKGROUND

1.1 Background

On 10 June 2014, Austube Mills Pty. Ltd. (ATM) lodged an application requesting that the Minister for Industry (the Minister) publish a dumping duty notice in respect to hollow structural sections (HSS) exported to Australia from the Kingdom of Thailand (Thailand).

ATM alleges that the Australian industry has suffered material injury caused by HSS exported to Australia from Thailand at dumped prices. ATM claims that material injury in respect of HSS commenced in June 2012 following the imposition of anti-dumping measures on exports from the People's Republic of China (China), the Republic of Korea (Korea), Malaysia and Taiwan. ATM identified the injurious effects as:

- lost sales volumes;
- lost market share;
- price depression;
- price suppression;
- reduced profit;
- reduced profitability;
- reduced capital investment;
- reduced research and development expenditure;
- reduced return on investment;
- reduction in capacity utilisation for like goods;
- write-down of goodwill associated with the HSS business;
- reduction in employment levels; and
- reduced attractiveness to re-invest.

On 24 June 2014, ATM provided additional information to support its application. As a result, the application consideration period recommenced and the final decision date was extended to 14 July 2014.

After consideration of the application, an investigation was initiated on 21 July 2014, and public notification of the initiation of the investigation was published in *The Australian* on that day.

Anti-Dumping Notice (ADN) No. 2014/49 refers to the initiation of the investigation, and is available at http://www.adcommission.gov.au/notices-reports/acdn/acdn_2014.asp

Public Record

Several investigations, (including reinvestigations, reviews and continuation inquiries) have been conducted into HSS and specific sub-categories of the goods exported from various countries over a number of years.¹ These include:

- Report No. 116 (investigation);
- Report No. 143 (review);
- Report No. 144 (investigation);
- Report No. 147 (continuation inquiry);
- Report No. 153 (review); and

Detailed information on the history of previous cases is available in **Attachment HIS 1**. More recently, on 19 September 2011, ACBPS initiated an investigation into the alleged dumping of HSS exported to Australia from China, Korea, Malaysia, Taiwan and Thailand and the alleged subsidisation of HSS exported from China.

On 6 June 2012, ACBPS terminated the countervailing investigation in so far as it related to the Chinese exporters Huludao City Steel Pipe Co., Ltd and Qingdao Xiangxing Steel Pipe Co., Ltd, and terminated the dumping investigation into Thailand.²

As a result of its investigation, ACBPS recommended to the then Minister for Home Affairs that:

- HSS exported from China, Korea, Malaysia and Taiwan had been dumped;
- HSS exported from China incurred a benefit from the receipt of countervailable subsidisation; and
- the Australian industry manufacturing like goods had suffered material injury as a result.

These recommendations were contained in International Trade Remedies Branch (ITRB) Report No.177 – certain hollow structural sections from the People's Republic of China, the Republic of Korea, Malaysia, Taiwan and Thailand (REP177).

A dumping duty notice in respect of goods exported from China, Korea, Malaysia and Taiwan and a countervailing duty notice in respect of goods exported from China was published on 3 July 2012.

¹ These investigations have involved various allegations of dumping involving multiple countries, as well as allegations of subsidisation and the existence of a particular market situation in the Chinese HSS market.

² ITRB's TER177 recommended that the investigation in relation to Huludao City Steel Pipe Co., Ltd and Qingdao Xiangxing Steel Pipe Co., Ltd be terminated as ITRB was satisfied that no countervailable subsidy was received by these two exporters. TER177 also recommended termination of the investigation in relation to Thailand as Saha Thai Steel Pipe Public Co., Ltd and Pacific Pipe Public Co. Ltd were found not to be dumping and the remaining cumulative dumped volumes of HSS from Thailand was negligible.

1.2 Purpose of visit

The purpose of the visit to ATM was to:

- obtain general information about the Australian market for HSS;
- gain a greater understanding of the company's manufacturing, marketing and distribution processes;
- verify information provided in the application;
- obtain additional financial data about claimed injury to the Australian industry; and
- gather information relevant to assessing whether the allegedly dumped imports had caused material injury to ATM.

During its previous involvement in investigations into HSS, ATM has been visited and undergone verification of data submitted to ACBPS (most recently in October 2011).

1.3 Meeting details

| | |
|----------------|---|
| Company | Austube Mills Pty Ltd Industrial Drive Mayfield NSW 2304 |
| Dates of visit | 09 – 12 September 2014 |

The following were present at various stages of the meetings.

| | |
|-------------------------------|--|
| ATM | Mr Richard Clement, General Manager Mr Matt Condon, Trade Development Manager [REDACTED], Sales and Service Manager Mr Brett Willcox, Supply Chain Manager Mr Arun Syam, Tubular Development Manager [REDACTED] Commercial Manager [REDACTED], Senior Management Accountant [REDACTED], Reporting and Analysis Manager [REDACTED] Applications Development Manager |
| John O'Connor and Associates | Mr John O'Connor, Consultant |
| Customs and Border Protection | Ms Kerry Taylor, Director - Operations 4 Mr Bora Akdeniz, a/g Assistant Director - Operations 4 Ms Rebecca Oliver, , a/g Assistant Director - Operations 4 Mr Carl Halpin, Supervisor – Operations 4 |

1.4 Investigation process and timeframes

The visit team advised the company of the investigation process and timeframes as follows.

- The investigation period is 1 July 2013 to 30 June 2014.
- The injury analysis period is from 1 July 2011 for the purpose of analysing the condition of the Australian industry.
- A preliminary affirmative determination (PAD) may be made no earlier than day 60 of the investigation (19 September 2014) and provisional measures may be imposed at the time of the PAD or at any time after the PAD has been made.

Anti-Dumping Commission will not make a PAD until (and if) it becomes satisfied that there appears to be, or that it appears there will be, sufficient grounds for the publication of a dumping duty notice and/or a countervailing duty notice.

This threshold is distinguished from the 'reasonable grounds' threshold for initiation of the investigation.

- The Statement of Essential Facts (SEF) for the investigation is due to be placed on the public record by 8 November 2014 or such later date as the Minister allows under s.269ZH of the Customs Act 1901 (the Act). Subsequent to the visit, SEF date has been extended to 6 February 2015 by the Parliamentary Secretary to the Minister.³

The SEF will set out the material findings of fact on which Anti-Dumping Commission intends to base its recommendations to the Minister, and will invite interested parties to respond, within 20 days, to the issues raised therein.

- Following receipt and consideration of submissions made in response to the SEF, Anti-Dumping Commission will provide its final report and recommendations to the Minister.

This final report is due no later than 23 December 2014⁴, unless an extension to the SEF is approved by the Minister.

1.5 Visit report

The visit team explained to ATM that the team would prepare a report of the verification visit and provide it to the company to review for factual accuracy, and to identify those parts of the report it considers to be confidential.

The visit team noted that, in consultation with ATM, a non-confidential version of the report would be prepared, and placed on the investigation's Public Record.

³ The then delegate of the Minister for Industry responsible for anti-dumping matters.

⁴ After the extension of time, new final report due date is 23 March 2015

1.6 Introductory presentation

At the commencement of the verification meeting, ATM summarised its company history, corporate structure, affiliated companies, manufacturing facilities, market information, and the significance of HSS to ATM through a presentation.

A copy of this presentation forms **Confidential Attachment GEN 1**.

ATM delivered another presentation to the visit team covering the goods, like goods, ATM's manufacturing capabilities. This presentation is at **Confidential Attachment GEN 2**.

2 THE GOODS

2.1 Description

The goods the subject of this application (the goods), are:

Certain electric resistance welded pipe and tube made of steel, comprising circular and non-circular hollow sections in galvanised and non-galvanised finishes, whether or not including alloys. The goods are normally referred to as either CHS (circular hollow sections) or RHS (rectangular or square hollow sections). The goods are collectively referred to as HSS (hollow structural sections). Finish types for the goods include pre-galvanised, hot-dipped galvanised (HDG), and non-galvanised HSS.

Sizes of the goods are, for circular products, those exceeding 21 mm up to and including 165.1 mm in outside diameter and, for oval, square and rectangular products those with a perimeter up to and including 950.0 mm. CHS with other than plain ends (such as threaded, swaged and shouldered) are also included within the goods coverage.

Excluded goods

The following categories of HSS are excluded from the application:

- *conveyor tube made for high speed idler rolls on conveyor systems, with inner and outer fin protrusions removed by scarfing (not exceeding 0.1mm on outer surface and 0.25mm on inner surface), and out of round standards (i.e. ovality) which do not exceed 0.6mm in order to maintain vibration free rotation and minimum wind noise during operation);*
- *precision RHS with a nominal thickness of less than 1.6 mm (i.e. not used in structural applications); and*
- *stainless steel CHS and RHS sections.*

2.2 Tariff classification

The application stated that the goods are classified under the following tariff classifications and statistical codes:

- *7306.30.00 (statistical codes 31, 32, 33, 34, 35, 36 and 37);*
- *7306.50.00 (statistical code 45);*
- *7306.61.00 (statistical codes 21, 22, 25 and 90); and*
- *7306.69.00 (statistical code 10).*

Based on information provided in the application, Australian Customs and Border Protection Service (ACBPS) Tariff Policy and Implementation Branch confirmed that the goods are correctly classified to tariff subheadings:

Public Record

- *7306.30.00: circular hollow sections;*
- *7306.61.00: rectangular or square hollow sections;*
- *7306.69.00: other non-circular cross-sections; and*
- *7306.50.00: other circular cross-sections of other alloys of steel,*

in Schedule 3 to the Customs Tariff Act 1995.

The goods exported to Australia from Thailand under the Thailand Free Trade Agreement are free from duty as of 1 January 2010.

The Commission notes that there are numerous Tariff Concession Orders applicable to the relevant tariff subheadings.

3 BACKGROUND - ATM AND THE AUSTRALIAN INDUSTRY

3.1 Corporate, organisational and ownership structure

ATM is a wholly-owned subsidiary of Arrium Limited (formerly known as OneSteel Limited – a holding company listed on the Australian Stock Exchange).

ATM was formed in December 2006 when the two separate pipe and tube businesses operated by OneSteel Trading Pty Ltd (OS Trading) and Smorgon Steel Group (Smorgon) formed a joint venture company. From 20 August 2007, this company became a wholly owned subsidiary of then OneSteel Limited and was renamed Austube Mills Pty Ltd (ATM).

Within its application, ATM provided a chart displaying its organisational structure, and leadership team (attached to this report as **Confidential Attachment GEN 2**).

During the verification visit, ATM provided charts showing its parent company Arrium Limited's corporate structure, a schema of ATM's affiliated companies within Arrium including the identities of Arrium's all wholly owned and operated companies overseas. These charts form **Confidential Attachment GEN 4**.

ATM advised that rebranding of OneSteel Limited to Arrium Limited in 2012 did not affect ATM and its organisational chart. ATM commented that the most significant change for ATM was the change of its location within Arrium's business structure. ATM currently falls under Arrium's steel division. Previously, ATM was located under OneSteel's corporate services branch's market mills division. ATM stated that there were changes in corporate reporting structure but nothing else to affect its business model.

3.2 Accounting structure and details of accounting systems

3.2.1 Accounting structure

The accounting period of ATM is financial year 1 July to 30 June.

ATM's financial statements are consolidated into the annual statements of Arrium Limited, which are audited annually.

During the verification visit ATM advised it uses four accounting systems:

1. the Business Planning and Control System, (BPCS) for production and stock recording, despatching, hot-rolled coil (HRC) purchasing, and invoicing and debtor management;
2. the Coil Tracking System (a sub-set of BPCS) – for recording individual HRC coils consumed;
3. SAP - for purchasing, maintenance, accounts payable, the fixed assets register, and inventory valuation - (this is interfaced with BPCS on a monthly basis); and
4. Hyperion (the financial reporting and consolidation system). The Hyperion system was replaced with the BPC system in May 2014.

During the verification, ATM provided a presentation outlining the business' accounting systems and structure. (**Confidential Attachment GEN 5**).

3.2.2 Profit and cost centres

Within this presentation, ATM noted that it is separated into three manufacturing divisions:

- 'Structurals' (HSS, other non-HSS pipe and tube, and 'Profiles'⁵);
- 'Precision'; and
- LST (Lite Steel Technologies manufacturer of Lite Steel Beam[®]) Australia.

ATM explained that each of these divisions were individual profit centres, however ATM ceased manufacturing of Lite Steel Beam[®] and precision tubes. ATM further advised that Structurals is the only ongoing business which forms the base of their dumping investigation claim.

The upwards verification of sales and costs data was undertaken to the 'Structurals' profit centre (see Chapters 5 and 6).

ATM advised that it maintains the following cost centres amongst its manufacturing facilities:

- Structurals – Acacia Ridge;
- Structurals – Newcastle; and
- Structurals – Somerton.

3.2.3 Inventory valuation

ATM explained its method of inventory valuation as:

- production and stock details are collected from BPCS each month and compiled into predefined inventory valuation groups i.e. profiles, Duragal, black and painted etc.;
- weighted average actual costing methodology is used and has been signed off by auditors;
- costs are allocated in a number of steps:
 1. maintenance costs are allocated to production cost centres based upon maintenance labour hours consumed;
 2. site overheads are allocated to production cost centres based upon a fixed allocation methodology defined as part of budget process;

⁵ 'Long' products made by forming and hot dip galvanising steel coil to 'open' shapes such as angles, channels, flats, etc.

3. production cost centres are allocated to products based upon tonnes produced.

ATM advised that it has used the same methodology since 2005. The verification team considers ATM's allocation of costs reasonable and consistent with Australian and international accounting standards.

3.2.4. Overheads

ATM provided the following information for its treatment of overheads.

Corporate overheads are:

1. based on consumption of service provided;
2. estimated based on where time is spent; and
3. based upon headcount.

Overheads allocated to products based upon [REDACTED] tonnes. [allocation base]

The verification team finds ATM's treatment of overheads reasonable and consistent with Australian and international accounting standards.

3.2.5 Data in the application

ATM further explained that all data, submissions and assertions in the application are:

- constructed based upon selling price data drawn directly from its BPCS system;
- product groups in the application aligns to SAP inventory valuation groups;
- period costs are drawn from the ledger on a quarterly basis;
- hot rolled coil (HRC) costs [REDACTED]; and [cost base]
- overheads are allocated to products based on tonnes [REDACTED].

3.3 Relationship with suppliers and customers

Suppliers

ATM advised that its HRC (the main raw material for HSS) is purchased from:

- 1) BlueScope Steel Limited (domestic) – which supplies approximately [REDACTED] per cent of ATM's HRC;
- 2) [REDACTED] (imported from [REDACTED]);
- 3) [REDACTED] (imported from [REDACTED]);
- 4) [REDACTED] (imported from [REDACTED]); and

- 5) [REDACTED] (imported from [REDACTED]). [exporter companies and countries]

ATM explained that it is not legally related to any of these entities.

Customers

ATM is legally related to various distribution businesses that it supplies HSS to.

These are:

- OneSteel Steel Metal Centre (OSMC);
- Midalia Steel; and
- ARC.

Arrium Limited organisation's chart (Confidential Attachment GEN 4) displays that these entities all fall under the 'OneSteel Distribution' arm of Arrium Limited (under the legal entity of OneSteel Trading).

ATM also provided the verification team a list of its non-related distributors.

The nature of this relationship and sales between these parties are discussed further in Chapter 5 of this report.

3.4 ATM's facilities and product range

3.4.1 Manufacturing facilities

ATM operates pipe and tube manufacturing facilities at three locations in Australia:

- Mayfield (Newcastle, NSW);
- Acacia Ridge (Brisbane, Qld); and
- Somerton (Melbourne, Vic).

There are [REDACTED] mills operating at these locations manufacturing the goods under consideration.

ATM advised that the following facilities were closed and ceased production during the last five years:

- Sunshine (VIC) – closed early 2013;
- Kwinana (WA) – closed end 2012;
- Kembla Grange (NSW) structural – closed mid 2012; and
- Kembla Grange (NSW) precision – closed end 2010.

In addition to its own HSS manufactured at the above plants, ATM also purchases and on-sells HSS that it has imported mainly from [REDACTED]. The visit team questioned whether ATM imported shapes and sizes of HSS which it is capable of manufacturing. ATM explained that it only imported [REDACTED] of HSS that it was able to manufacture, which is only [REDACTED] per cent of its total sales during the investigation period.

3.4.2 Range

At non-confidential attachment A-3.3.1 of its application, ATM provided its Product Availability Guide and Pipe & Tube + Duragal Profiles Guide which displays the range of structural pipe and tube products offered by ATM.

These guides are attached as **Attachment GEN 6**.

ATM's product availability guide indicates that ATM is capable of supplying HSS described as CHS, square hollow sections (SHS)⁶ and RHS⁷ in various:

- sizes - outside diameters/perimeters
- finishes;
- end types (e.g. plain ends, screwed one end);
- grades (e.g. C250L0, C350L0, C450L0)
- lengths (standard and non-standard); and
- wall thicknesses.⁸

The verification team observed that the Pipe & Tube - Duragal Profiles Guide, indicates that ATM is able to supply HSS in the below finishes:⁹

- clear - unfinished/'black' HSS coated with a clear protective varnish;
- LiteOil – unfinished/'black' HSS covered with a protective oil coating;
- red painted (fire system pipe);
- painted (generally blue);
- HDG – where unfinished HSS is passed through a molten galvanising bath;
- Duragal® - made from black (uncoated) HRC and is inline galvanised;
- Duragal Plus® - made from pre-galvanised (zinc coated) HRC.

ATM also advised that it can supply black (unfinished) HSS without a protective coating.

⁶ Often referred to collectively with RHS.

⁷ Which collectively refers to rectangular, square, oval and other non-circular HSS

⁸ ATM's updated Product Availability Guide indicates ATM still has the ability to supply such various HSS.

⁹ ATM's updated Product Availability Guide indicates ATM still has the ability to supply these finishes.

Public Record

The verification team then questioned ATM's capability to manufacture all the sizes of HSS products that are covered in the application. ATM stated that it manufactures RHS up to and including 800mm perimeter. ATM further explained that the next standard size for RHS was 1000mm. ATM explained that 950mm was chosen in the application to ensure that RHS having perimeters slightly larger than 800mm would not be imported in an attempt to circumvent any measures that may result from this investigation. ATM also stated that it was capable of manufacturing CHS up to and including 165mm outer diameter which is the size limit sought for CHS in its application. To support its claim, ATM provided the verification team with an operational capabilities table showing all mills, slitters and their manufacturing capabilities and capacities in all ATM facilities. This table is available at **Confidential Attachment GEN 7**.

The verification team reviewed ATM's operational capabilities table and observed that ATM had the capacity to manufacture all the products covered in its application with the exception of HDG HSS and RHS between 800mm and 950mm.

The verification team queried about ATM's HDG production. ATM confirmed that in August 2011, it mothballed its Acacia Ridge zinc galvanising bath, and has subsequently sub-contracted the zinc coating of the black/bare HSS it manufactures at its Acacia Ridge plant.

ATM advised that the key drivers for this decision included:

- ongoing lost sales to imports at dumped prices resulting in significantly underutilised galvanising facilities at Acacia Ridge; and
- OneSteel Distribution needing to purchase imported galvanised CHS in order to compete in the market.

ATM advised that ATM's Duragal® and Duragal Plus® products can be and has been used as a substitute for HDG CHS. To support this claim, ATM provided a number of examples where ATM's Duragal® and Duragal Plus® products were used as a substitute for HDG products.

ATM provided a copy of an email chain with one of its distributors regarding a customer of the distributor enquiring for HDG products. After receiving confirmation for stock availability, ATM's distributor offered the customer Supagal® (a former ATM pre galvanised product, discontinued and Duragal Plus® took its place) instead. This email chain is at **Confidential Attachment GEN 8**.

ATM also showed a number of photos of fencing applications where pre-galvanised SHS was used for a fence and HDG CHS was used for another fence only a couple of metres apart. ATM argued that these photos prove that pre-galvanised products are used in substitution for HDG products. These photos are at **Attachment GEN 9**.

The verification team enquired about substitutability of Duragal® and Duragal Plus® for HDG in different environments. To further support its substitutability claims, ATM provided a document called Duragal Painting and Corrosion Protection Guide. ATM showed the visit team a table called Corrosion Life of Unpainted Duragal in AS/NZS 2312:1994 Atmospheric Environments on page 7 of this document, reproduced below:

Public Record

Corrosion life of Unpainted DuraGal® in AS/NZS 2312 Atmospheric Environments

| Atmospheric Classification | Recommended Corrosion Protection System Options | | |
|-------------------------------|---|---------------------------|--------------------------|
| | Short Term 2-5 Years | Medium Term 5-10 years | Long Term 10 - 20 yrs |
| Mild | Suitable | Suitable | Suitable |
| Moderate | Suitable | Suitable | Suitable |
| Tropical* | Suitable | Suitable | Suitable |
| Industrial | Unsuitable | Unsuitable | Unsuitable |
| Marine | Suitable | Unsuitable | Unsuitable |
| Severe Marine | Unsuitable | Unsuitable | Unsuitable |

* Not suitable when affected by salt spray

Table 1: Corrosion Life of Unpainted Duragal in AS/NZS 2312 Atmospheric Environments.

ATM explained that Duragal® / DuraGal Plus® and HDG both provide sufficient corrosion protection for many applications with only a small proportion of applications (as an example medium term applications in marine environment in the above table), its Duragal® and Duragal Plus® cannot be used a substitute for HDG products to meet an adequate corrosion protection term / period. ATM further explained that it is of the view that such applications (for example medium term marine environment applications) cannot exceed a couple per cent of the market for HSS products and that HDG products galvanised by external process are available for such applications.

The Duragal Painting and Corrosion Protection Guide is attached to this report as **Attachment GEN 10**.

ATM also provided the verification team with an internal document showing results of a market survey conducted by ATM in 2005. ATM highlighted a number of occasions where its customers reported that they used ATM's Supagal® and Duragal® products¹⁰ interchangeably with HDG products. This market survey report is attached as **Confidential Attachment GEN 11**.

In the light of the evidence provided by ATM, the verification team considers that ATM representing Australian Industry manufacturing HSS is capable of manufacturing like goods to the goods that are covered with the application.

3.5 Other industry members' facilities and range

Within its application, ATM advised that Orrcon Steel Pty Ltd (Orrcon) and Australian Pipe and Tube Pty Ltd (APT), which was formerly Independent Tube Mills Pty Ltd (ITM), are the only other known members of the Australian industry.

¹⁰ Duragal Plus® series HSS was not yet introduced to market in 2005

ATM has advised that:

- Orrcon manufactures HSS in painted, black, pre-galvanised and electro-galvanised finishes but does not manufacture HSS in HDG finish; and
- APT manufactures HSS in black, painted and pre-gal finishes.

3.6 ATM's HSS production process

During the verification meeting, the verification team conducted an inspection of ATM's production facilities at its Newcastle plant. The team observed the production process as follows.

- Raw material feed of HRC (generally black/uncoated or pre-galvanised) is delivered to ATM by its suppliers.
- The HRC is loaded into a slitter and uncoiled then slit to various widths, edges trimmed, then re-rolled into smaller slit coils ready for use in the pipe and tube mills.
- The slit coil is then loaded into an accumulator where it is unrolled and fed into a mill for formation into pipe and tube. As the loaded coil ends, the following coil is butt welded to the preceding coil, and the accumulator allows a continuous flow of coil into the production process.
- If the end product will be coated internally, the internal coating is applied at this stage before the forming process. The slit coil is then cold formed through a series of rolls into a circular pipe. The pipe is welded along the seam, using an electric resistance welding process, into a continuous hollow round tubular shape.
- The round tubular pipe is then further formed through rollers into square, rectangular and other shapes/cross sections as required (or left circular).¹¹
- The product is surface-finished by applying various protective coatings such as paint, varnish or oil. Galvanised HSS, made from pre-galvanised HRC is repair-galvanised along the weld line.
- Each length of HSS is given a unique identifier number¹² and date and time stamped, cut to length, bundled and placed in racks ready for storage or despatch to customers.
- The ends of the bundled HSS are painted with a coded colour to identify its gauge (wall thickness).¹³

The verification team viewed ATM's Newcastle manufacturing facilities and observed the mills in operation. The team also observed ATM's raw materials and finished product warehouses as well as the operation of dispatch facilities.

¹¹ [REDACTED] is not manufactured at the [REDACTED] plant.

¹² To satisfy traceability requirements of AS/NZ 1163 standard.

¹³ Except N.O.P. (no oil or paint) products.

A diagrammatic summary of ATM's Newcastle production process was provided as Confidential Attachment A-3.6 of the application – this is attached to this report as **Confidential Attachment GEN 12**.

ATM advised that downgrade product is also an output of the production process, which is essentially less-than-perfect HSS. ATM advised that downgrades are distinguished from 'prime' or perfect HSS (which is the aim of the production process) and are sold separately at much lower prices than prime HSS.

ATM explained that downgrade can be of multiple kinds and created at different stages of the production process, but most commonly product is regarded as downgrade if the length contains a cross weld (as a result of the butt welding process), the longitudinal weld has failed or there are other visual signs of imperfections (e.g. issues with the finish).

The verification team noted that ATM identified downgrade product as a separate grouping of HSS within its cost to make and sell (CTMS) data submitted in its application (see Section 6.1).

As a result of the information provided by ATM and the verification team's inspection of the production facilities, the team is satisfied that ATM undertakes at least one substantial process of manufacture in producing HSS in Australia.

3.7 Like goods

Within its application, ATM submitted that the Australian industry manufactures goods that are 'equivalent' to, and possess essential characteristics similar to imported HSS.

ATM referred to the previous decisions of ACBPS in relation to whether the Australian industry produces goods that are like to imported HSS.

In particular, ATM highlighted:

In Trade Measures Report No. 177 Customs and Border Protection considered whether the imported goods possessed the essential characteristics of goods manufactured by the Australian industry.

Customs and Border Protection determined that the Australian industry produces like goods to the imported HSS on the following grounds:

- i. Physical likeness: Australian industry manufactures a wide variety of HSS, available in multiple shapes or profiles and in various finishes.*
- ii. Commercial likeness: Australian industry HSS competes directly with imported goods in the Australian market*
- iii. Functional likeness: Both imported and Australian produced HSS have comparable or identical end-uses.*
- iv. Production likeness: The Australian industry HSS is manufactured in a similar manner to the imported goods.*

In its application, ATM reiterated its agreement with these previous findings, and further stated:

As at the date of this application, ATM considers that locally produced HSS continues to have characteristics that closely resemble the imported goods.

The verification team has again considered this matter, and based on the information contained within the application, information gathered and assessed during previous investigations, and information collected during this visit and considers that the goods produced by the Australian industry are like goods to imported HSS.

3.8 Employment numbers

In Confidential Appendix A7 of its application, ATM provided details of its employment numbers, total wages and average wages for all 3 HSS production facilities (Newcastle, Somerton and Acacia Ridge) for the period 1 July 2010 to 31 December 2013. Later on during the investigation, ATM provided updated numbers to cover all FY2014. A total of ■■■ staff were employed by ATM at the end of the investigation period.

Further analysis and verification of employment numbers is contained within Section 7.8.1 of this report.

3.9 Annual turnover

ATM's annual net turnover in FY2014 was approximately ■■■ million dollars of which ■■■ million dollars was the turnover from exported products. This account for approximately ■■■ per cent of the total turnover, and the domestic revenues makes up the remaining ■■■ per cent.

Of this total revenue, products (including goods that are not subject of this investigation) manufactured by ATM (i.e. not imported) accounted for approximately ■■■ million dollars during the investigation period (■■■ per cent), with sales of imported products accounting for ■■■ per cent.

Before the verification visit, ATM was requested to update its financial figures in its application to cover the full 2014 financial year. In its revised financials, ATM submitted that ■■■ million dollars' worth of turnover was generated by the like goods of the application.

3.10 Capacity

In Confidential Appendix A7 of the application, ATM provided combined capacity figures from FY2010 to FY2014.

This indicates that the combined capacity of ATM for FY2011 was ■■■ tonnes per annum.

Within the Appendix A7 spreadsheet submitted as part of its application, ATM also included data of its combined production volumes, which indicated its capacity utilisation to be as follows:

Public Record

| | FY2012 | FY2013 | FY2014 |
|--------------------------|--------|--------|--------|
| ATM Capacity Utilisation | ■% | ■% | ■% |

Table 2: ATM's capacity utilisation rates from revised Appendix A7

ATM's capacity utilisation is further discussed at Section 7.8.2 of this report.

4 AUSTRALIAN MARKET

4.1 Background

From ATM's application and previous investigations the verification team understands that the Australian HSS market is supplied by three Australian industry members and imports from a number of countries.

In its application, ATM identified Thailand, China, Korea, Malaysia and Taiwan as sources of import supply. Anti-dumping measures currently apply to the goods exported from China, Korea, Malaysia and Taiwan. An analysis of the ACBPS import database indicates that other sources of import supply include Japan, Vietnam, United Arab Emirates, India, [REDACTED] and [REDACTED].

ATM in its application estimated that exports of HSS from Thailand accounted for approximately 15 per cent of the total exports of HSS to Australia during the period 1 July 2013 to 30 June 2014.

ATM advised that the two other Australian industry producers of HSS have recently undergone ownership and rebranding changes. It is ATM's understanding that Orrcon has recently been purchased by BlueScope Limited and Independent Tube Mills (ITM) has changed its name to Australian Pipe and Tube Pty Ltd (APT).

In Confidential Appendix A2 to the application, ATM estimated the total Australian market in FY2014 to be [REDACTED] tonnes. The ACBPS previously estimated (as outlined in International Trade Remedies Report No. 177) the size of the Australian market for HSS at approximately 500,000 tonnes in FY2011.

We note that ATM's capacity calculations (see Section 6.3.1) show that ATM considers that its capacity alone is large enough to supply the entire Australian HSS market.

During the verification visit ATM provided an 'Australian Market Update' presentation providing an overview of the HSS market and its current trading conditions. This presentation forms **Confidential Attachment MAR 1**.

In its revised financial data, ATM contended that for the 2013/14 financial year, it had a [REDACTED] per cent share in Australian HSS market of which [REDACTED] per cent of this is generated from the products manufactured by ATM while the remaining is generated by ATM's imported HSS.

ATM explained that it understands the total Australian market to be roughly:

- [REDACTED] per cent RHS (including square, rectangular and other no-circular shapes); and
- [REDACTED] per cent CHS [REDACTED]. [percentages of CHS and RHS]

ATM estimated that, within the RHS market, approximately [REDACTED] per cent is painted or black RHS, the remaining [REDACTED] per cent of RHS volume is galvanised HSS.

ATM advised that it had recently standardised its galvanised HSS range to one product - Duragal® Plus which is a HSS product that is galvanised inside and out. ATM asserted that Duragal® is comparable to pre-galvanised (made from already galvanised steel feedstock and then the weld is repair-galvanised after welding) or HDG (galvanised by passing through a molten galvanising bath) products.

ATM commented that imports of HSS from Thailand were produced to the Australian standard and with a comparable product range to Australian produced HSS. The verification team observed that Thai import offers (discussed in detail in Section 5.3.1) included painted, black and galvanised finishes.

4.2 Market segmentation

ATM's Australian Market presentation (Confidential Attachment GEN 1) describes its understanding that the Australian HSS market is divided into the following end use market segments, and approximated their size during 2013:

- manufacturing – [REDACTED] per cent;
- non-residential – [REDACTED] per cent;
- engineering construction – [REDACTED] per cent;
- residential construction – [REDACTED] per cent;
- mining – [REDACTED] per cent;
- transport – [REDACTED] per cent; and
- rural applications – [REDACTED] per cent.

ATM advised that [REDACTED] per cent of HSS used in the Australian market is specified to the AS1163 structural standard, the remaining HSS is sold in compliance with the AS1074 non-structural applications standard.

ATM's application noted that there is no geographic segmentation in the HSS market. ATM sells and distributes across Australia, as does imported HSS. ATM provided a listing of its distributors, which the verification team observed covers all states and most regions (**Confidential Attachment MAR 2**).

4.3 Marketing and distribution

4.3.1 General

ATM submitted that the Australian HSS market is predominantly supplied by large distributors (such as OneSteel Distribution, [REDACTED], [REDACTED] and the [REDACTED]), who then on-sell HSS to resellers or directly to end users. [commercially sensitive market information]

ATM identified that distributors are themselves supplied by the Australian industry, or through large steel trading houses (such as Stemcor, CMC, GP Marketing, Croft Steel and ThyssenKrupp Mannex) who import HSS.

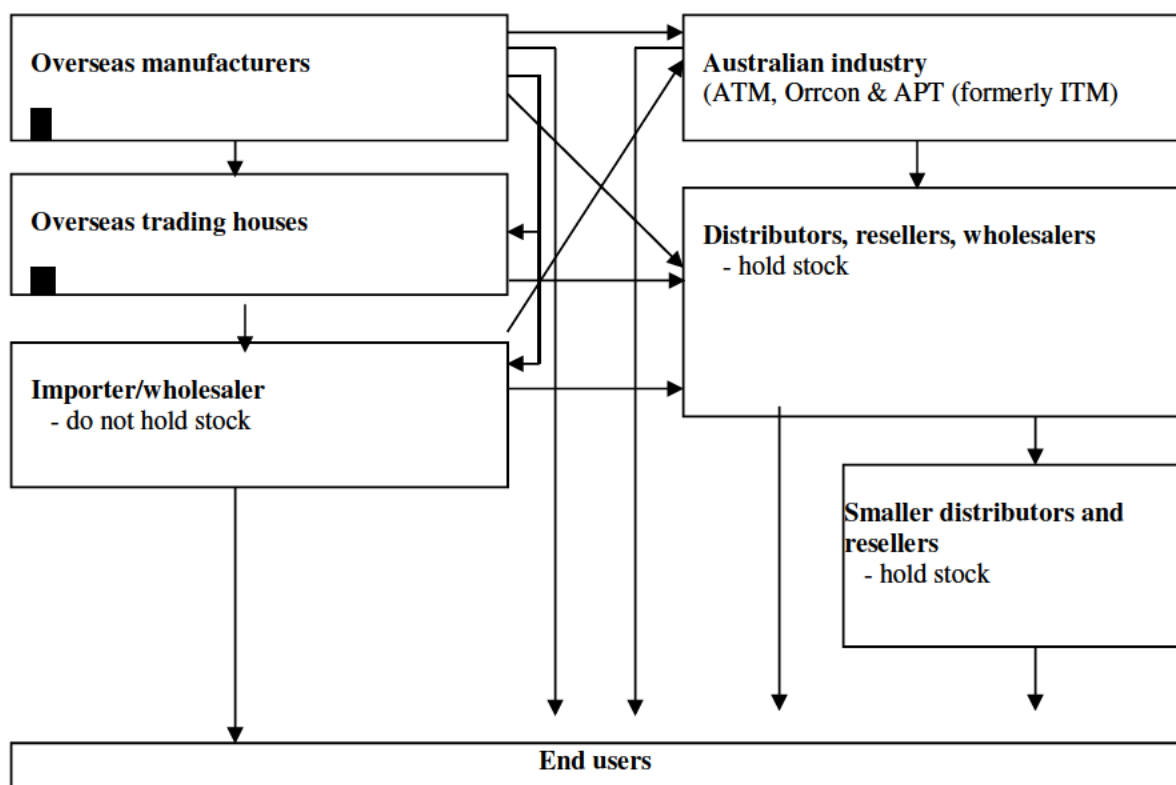
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ATM explained that its customers are considered to be large/medium-sized distributors.

ATM explained that distributors generally purchase a combination of imported and locally-produced HSS. [REDACTED]

[commercially sensitive distribution arrangements]

In the application, ATM included the following chart to demonstrate the supply arrangements in the Australian market. This chart has been adopted (with some minor differences) from in previous HSS cases to demonstrate the Australian market (including within Report No. 116 & 177).



This chart displays that some larger resellers and wholesalers are able to purchase directly from the Australian manufacturers or trading houses sourcing imported material.

ATM has previously advised that it competes mainly with overseas trading houses (i.e. [REDACTED] etc.) for sales to distributors who supply imported HSS to end users.

ATM advised its key customers are:

- OneSteel Distribution (incorporating OneSteel Metaland and Midalia Steel);
- [REDACTED];

Public Record

- [REDACTED];
- [REDACTED];
- [REDACTED];
- [REDACTED];
- [REDACTED]; and
- [REDACTED] [ATM's key customers]

4.3.2 ATM distributorships

As discussed above, ATM stated that it exclusively sells to large and medium-sized steel distributors. In its application ATM, indicated that it has distributor agreements with some of its customers including with [REDACTED].

In its application ATM provided an example of a formal contract-based distributorship agreement with [REDACTED]. This agreement forms **Confidential Attachment MAR 3**.

The verification team observed within this agreement (dated 2011) that the distributor is required to:

[REDACTED]. [Commercially sensitive details about distribution arrangements] .

At the verification visit, ATM advised that all customers, whether or not there were formal distribution agreements were in place, all distributorships were treated equally in terms of being able to have negotiations. [REDACTED]

[REDACTED] [Commercially sensitive details about distribution arrangement]

ATM provided a summary of its trading arrangements with each of its customers (**Confidential Attachment MAR 4**). [REDACTED]

[Commercially sensitive details about distribution arrangement]

ATM provided a letter of appointment to [redacted] [a steel distribution company] which sets out the factors ATM takes into account in deciding whether to grant a distributorship. (**Confidential Attachment MAR 5**) These include:

[redacted]
[Commercially sensitive details about how distributors are appointed]

ATM provided an example of a request for supply which it accepted from [redacted] [distributor] in September 2013 (see **Confidential Attachment MAR 6**).

4.4 Imports by ATM

In addition to its own production of HSS, ATM supplies imported HSS. At the verification visit ATM advised that during FY2014 it sold approximately [redacted] tonnes of imported finished like goods. This volume accounts for less than [redacted] per cent of its total sales volume of the goods under consideration.

ATM advised that its imports of HSS are supplied by [redacted]. ATM indicated that there is overlap in the range of HSS supplied by imports and its own production. ATM explained that this reflects product mix decisions and the volumes required to make an efficient full run of a particular product type on the mill. ATM also stated that its [redacted]
[commercially sensitive data on ATM's current production details]

ATM's detailed sales listing (Confidential Appendix A4) identified goods not produced by ATM as 'ATM buy-in'. Based on the information contained within ATM's detailed sales listing during FY2014,¹⁴ ATM's sales of imported products accounted for [redacted] per cent of total sales revenue of HSS products. The verification team noted that some of these HSS sales are not the goods under consideration.

¹⁴ Verification of this data is discussed in section 5.6 of this report

4.5 Demand variability in the HSS market

In its application, ATM outlined the following 'seasonal' factors that influence the HSS market.

- The construction cycle – the applicant claimed that there is widespread opinion in the industry that the months of December and January each year effectively aggregate to one normal month of sales given that the traditional construction industry holiday period falls at this time; and
- A take up of sales to the rural sector in May and June each year. This is believed to be driven by the desire of the farming community to resolve any outstanding "repairs and maintenance" issues prior to the end of the financial year.

Within the application, ATM commented on the current state of the market:

Recent growth in the mining industry has been a catalyst for increased demand of HSS in Australia in recent years. Similarly, growth in the pool and temporary fencing market were also identified as reasons for an increase in the overall size of the Australian market.

At the verification visit ATM corrected the above statement, noting that this statement was based on forecasted growth for the HSS industry which had not been realised.

ATM asserted that instead of the predicated growth for the industry described above, it had observed in the last 12 months a contraction of the market. ATM attributed this contraction to a decline in activity in the engineering and construction sectors, which as noted in section 4.2 of this report accounts for approximately [REDACTED] per cent of HSS end use applications.

4.6 Market size

ATM provided Australian HSS market size estimates from FY2011 to FY2014 within its Confidential Appendix A2.

In Consideration Report (CON 254), the Commission assessed the reasonableness of the Australian industry's estimate of the size of the Australian market by combining sales data provided by the industry with import data obtained from ACBPS's import database.

In undertaking this analysis, the Commission was aware that the relevant tariff classifications included a number of categories of goods that do not fall within the description of HSS subject to this investigation and, to the extent possible, the Commission removed data that appeared to not be relevant.

The Australian market size based on ATM's estimates in the application is charted in the below graph.

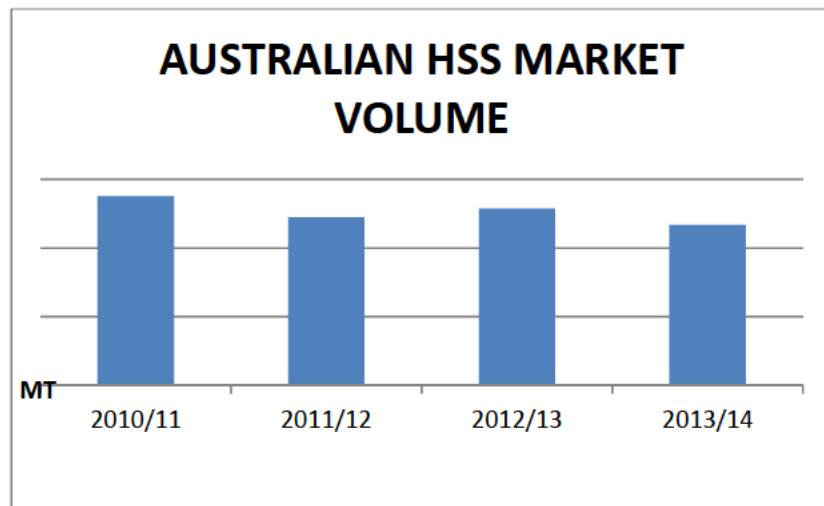


Figure 1: Australian HSS market volume

The Commission will review its estimates of the Australian market size after collecting further information throughout the investigation.

5 SALES

5.1 General

ATM provided a detailed, line-by-line sales listing for the investigation period in its Confidential Appendix A4 sales listing. Following the verification visit, ATM provided a revised A4 sales listing, including additional information and amending errors identified during the verification process (**Confidential Appendix SALES 1 – Revised Sales Listing**). References in this report to the A4 sales listing are references to this revised A4 sales listing.

The provided data identified for each line (among other information):

- whether the sale was of 'buy-in' or 'manufactured' product (i.e. whether the product was manufactured by ATM or imported);
- the product description (including; shape, dimensions, grade, standard, finish and coating);
- the 'level of trade' (related or un-related customers);
- theoretical mass (in tonnes) as well as actual mass for some transactions;
- nominal thickness as well as actual thickness;
- delivery and credit terms;
- gross invoice value;
- [REDACTED] [Commercially sensitive price adjustments];and
- net invoice value.

The verification team was able to verify the data within these listings, as is discussed in Section 5.6 and 5.7.

5.2 Ordering, invoicing and delivery arrangements

ATM's 'Australian Market Update' presentation (Confidential Attachment MAR 1) described its sales process generally as follows;

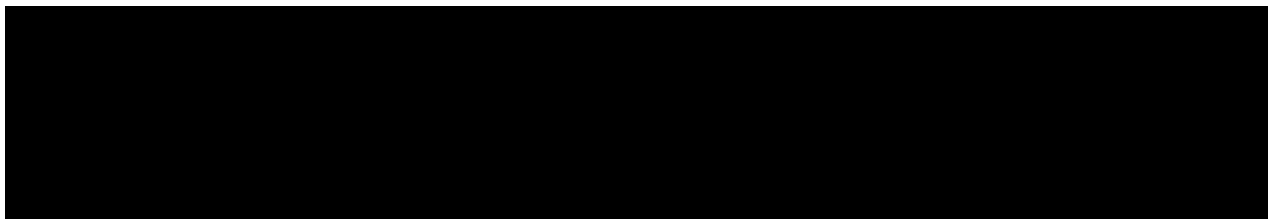
- Monthly price lists are sent to distributors.

- [REDACTED]
[REDACTED] [Price negotiation process]

Public Record

- An order can be placed either:
 - electronically through an 'EDI' system for customers who have access to the EDI facility (this automatically enters the order into the BPCS system); or
 - through fax, email or telephone (after which the order is manually entered into BPCS).
- Once an order is placed, ATM advised it is checked by BPCS and an order confirmation is sent to the customer. If an error is found (for example inconsistencies between products and prices) with the order, this is flagged by BPCS for resolution by ATM's staff manually.
- Once checked, ATM will assess whether the order can be filled from stock, or requires production (in which case the production is flagged, undertaken and the goods are then sent for dispatch).
- At the dispatch facility, orders are filled and sent for delivery to customers.
- ATM arranges delivery to its customers on contracted trucks (not ATM-owned).
- Orders are invoiced on the same day as dispatch/delivery.
- Monthly statements are generated for customer payments.

5.3 Pricing



[Commercially sensitive price adjustments]

During the verification visit, ATM advised that its pricing structure is comprised of two parts:

1. Deferred delivery range ((DDR) – for delivery with a lead time of approximately 3 month); and
2. Express offers (for held stock with shorter delivery times).



[ATM price list proportion of sales]

5.3.1 Deferred Delivery Range (DDR)

[price adjustments]

(see Section 5.3.5) [pricing structure details].

ATM explained that, for a selected range of HSS, it releases a monthly market offer to each of its customers that is available for one week only.

[commercially sensitive pricing strategies]

ATM advised that from January 2014, it implemented a new pricing strategy whereby the order window for DDR offers was deferred to the following month, essentially creating a shorter lead time to delivery. For example, a customer could place a DDR order for goods to arrive in March in January based on the DDR price offer for December. This benefits customers as they have a reduced window in which they need to forecast their product mix requirements.

The offer is based on a delivered (free-into store or FIS) price to East Coast Metropolitan customers. Customers from outside this region attract extra freight charges.

The offer is made under [redacted] terms, including:

- [redacted];
- [redacted]; and
- [redacted] [confidential sales terms].

ATM provided copies of its DDR offers for July 2013, October 2013 and March 2014 these are discussed in more detail in section 5.3.3 of this report (**Confidential Attachment SALES 1**).

5.3.2 Express offers

In addition to the DDR offers, ATM advised that it also disseminates monthly 'express offers', as simplified one-page price lists for its entire range of HSS (and non-HSS 'profile' products), which includes the DDR product range.

ATM's customers are able to purchase HSS based on these express price lists at any stage, and hence if the DDR offers have lapsed, these products can still be purchased based on the standard price lists.

ATM provides these price lists [redacted] to all customers.

Public Record

ATM explained that several categories of HSS on these express price lists follow the DDR pricing approach (which in turn is informed by the import parity price) plus a local 'premium' of around [REDACTED] per cent. [REDACTED]
[REDACTED] [basis for calculating local premium].

ATM advised that not all product categories in these lists are based on import parity pricing. Specifically, ATM explained the following categories of HSS were not subject to import parity pricing:

- HDG CHS – as ATM [REDACTED]
[REDACTED] on this category as import competition is too extensive and the pricing too low [REDACTED] [confidential pricing details]; and
- ILG CHS, Piping for Fire Systems and Silo Tube– [REDACTED]
[REDACTED] [supply details]

However, the majority of ATM's HSS range within these express price lists is based on import parity pricing.

ATM explained that these price lists operate whereby the customer is charged the Invoice Price (in \$ per tonne) from the price list, on FIS terms to east coast metropolitan areas, and then extra freight charges (in \$ per tonne) are charged for delivery to other regions.

ATM explained these express price lists are to be read alongside its 'Product Availability Guide' (Attachment GEN 6), which outlines the product range and specifications.

ATM provided copies of these express price lists for July 2013, October 2013 and March 2014 for the following:

- [REDACTED];

[REDACTED]
[REDACTED] [names of ATM's distributors]. These express price lists form part of **Confidential Attachment SALES 2**.

The verification team observed within these price lists that:

- an extra charge applies to orders of HSS of non-standard lengths;
- an extra charge applies to low volume sections; and
- the listed price does not represent speciality or non-standard gauges, grades and sizes (which incur additional charges).

5.3.3 Determining import parity pricing

The verification team asked ATM how it determines what the import parity pricing is in order to base its price lists on these import prices. The verification team selected the months July 2013, October 2013 and March 2014, and asked ATM to demonstrate how it

Public Record

determined its import parity price for these months, starting from of the monthly offers published by HSS importers for these months through to its DDR price lists. The verification team then sought to verify that the prices paid by customers as detailed in the A4 sales listing for DDR transactions reflected the import parity pricing.

Import offers to establish the ATM's import parity position

ATM advised that it determines the import parity prices based on [REDACTED]
[REDACTED]
[REDACTED] [ATM method for
determination of import parity price]. ATM provided a spreadsheet that tracked [REDACTED]
[REDACTED] DDR prices for each month of the investigation
period. This [REDACTED] forms **Confidential**
Attachment SALES 3.

[Supporting information for determination of import parity price]. ATM submitted that Thai HSS offers were the price leaders in the market and that the Thai HSS price is often cited as the price used to leverage pricing negotiations. ATM stated that Thai HSS represented a significant portion of the market (approximately 10 per cent) and was considered a price leader because of the range of products offered and its perception in the market as a quality product. On this basis ATM considers Thai HSS offers to be price leaders in the market and benchmarks its import parity price to this Thai price.

ATM provided an overview of its ‘price list mechanics’ which summarised the import offers from Thailand for each of the selected months, ATM’s import parity position and ATM’s local premium to get to the DDR published monthly price offer (**Confidential Attachment SALES 4**).

For each of the months selected ATM provided evidence [REDACTED] to demonstrate its market intelligence that determined its import parity position. These price offers form part of Confidential Attachment SALES 1. The verification team noted that ATM's market intelligence consisted of at least two Thai import offers for each month. ATM advised that its import parity position reflected either an import offer or an average of offers. [REDACTED]

ATM explained that its import parity price is based [REDACTED]

[REDACTED] [ATM method for determination of import parity price]

The verification team was able to match these import offers [REDACTED] to ATM's import parity position for each of the selected months ([REDACTED]), as detailed ATM's import price offer database (Confidential Attachment SALES 2).

Published price lists and customer purchase prices

For each of the selected months ATM provided a copy of its DDR published price list, plus express price lists for each of its major customers, these price lists form part of Confidential Attachment SALES 1. The verification team observed that the DDR published price lists reflect ATM's import price parity position for each of the selected months plus its local premium of approximately [REDACTED] per cent.

The verification team then undertook an analysis of ATM's A4 sales listing, to determine if customers in fact paid prices in line with the DDR price list (which in turn reflects the import prices with the addition of the local premium). Isolating DDR sales in the A4 sales listing and filtering by order date, thickness categories and shape as set out in the DDR price offer, the verification observed that the net invoice prices paid by customers reasonably reflected the DDR price lists for each respective month (with only small variations of less than two per cent between the DDR price list and the prices paid by customers). This analysis forms **Confidential Appendix SALES 2**.

ATM also provided then provided two example sales demonstrating how the DDR price was applied to the customers purchase minus any applicable discounts and rebates (**Confidential Attachment SALES 5**).

The verification team is satisfied that ATM's import parity pricing is reflective of actual import offers that is has gained through market intelligence, and that the import parity pricing used to formulate aspects of ATM's pricing (i.e. its DDR price list) is based upon this information. The verification team further considers that ATM's DDR price list is reflective of its customers net purchase price for DDR sales.

5.3.4 Determining the local premium

ATM advised that a number of factors are included in its calculation of its applicable local premium ([REDACTED]). These include:

- the shorter lead time that ATM is able to offer compared to imported HSS;

Public Record

- product quality (including ability to resolve quality issues in a timely manner and its compliance with the Australian standard);
- its engagement in the market (including its role in developing technology and infield support);
- the research and development put into its HSS.

5.3.5 Details on pricing structure

[ATM pricing structure]

During the verification of ATM's A4 sales data it became apparent that [redacted] is not captured by BPCS and was not included in the original A4 sales listing. As discussed in section 5.6.3 of this report, ATM was able to demonstrate the total [redacted] applicable to the investigation period. ATM then revised the A4 sales data to include this [redacted] [confidential ATM pricing structure details]

The verification team considers this to be a reasonable approach to incorporating this discount in the A4 sales listing. Further examination of the reasonableness of this approach is detailed in section 5.6.3 of this report.

[redacted] ATM advised that, in addition to its [redacted] ATM explained that these [redacted] are generally applied to [redacted] ATM explained that in many cases, [redacted] with other suppliers of HSS. [redacted] As noted above, ATM provided a summary of the [redacted] applicable to [redacted] (Confidential Attachment SALES 6). The verification team observed that the [redacted]

[REDACTED]

[details on ATM's pricing structure]

As noted in section 5.3.1 of this report, ATM DDR monthly offer is applicable to all customers,

[REDACTED]

[details on ATM's pricing structure]

The verification of [REDACTED] on selected sales is discussed further at Section 5.7.2.

5.4 Isolating relevant sales

During the verification, it was ascertained that the detailed Appendix A4 sales listings as provided by ATM within its application was in fact for all sales with the exception of profiles and export sales.

This included:

- sales of HSS pipe and tube that is not the goods under consideration (i.e. too large to be covered by the investigation);

- sales of product manufactured by OS Oil & Gas at its Kembla Grange facility¹⁵; and
- sales of imported products (sourced directly by ATM).

The verification team asked ATM to isolate only those sales of HSS manufactured by ATM (i.e. not imported or manufactured at the Kembla Grange¹⁶ facility), and which fell within the goods description for the investigation.

5.4.1 By origin (ATM, Kembla Grange production or imported)

In its revised Appendix A4 sales listing, ATM provided an additional column which identified the goods under consideration (GUC). ATM explained that it identified the GUC by first filtering for 'ATM buy-in' product. The Appendix A4 sales listing included a column titled 'plannertext' which identified the mill that produced each product, including whether the product was a 'buy-in'. Buy-ins included products manufactured by OS Oil & Gas at Kembla Grange and imported product.

The verification team observed that the revised Appendix A4 sales listing column 'GUC' did not correctly filter out all of ATM's buy-in products. The verification team amended the Appendix A4 sales listing to filter out all ATM buy-in products from its analysis.

5.4.2 By product type (HSS within the goods description)

Once ATM-manufactured product was isolated, ATM then filtered its A4 sales listing for sales of HSS that were within the description of the goods under investigation.

This was achieved by firstly selecting shape and then determining whether the diameter or perimeter was within the dimensions of the goods description for that shape. For CHS HSS there were no sales of the goods with a diameter below 21mm or above 165.1mm. For RHS, Rail and Silo HSS shapes, those sales with a perimeter greater than 950mm were excluded.

ATM's Appendix A4 sales listing included a number of downgrade sales, these sales did not have recorded dimensions. ATM advised that these sales were within the goods description. To verify this, the verification team selected a downgrade sales and from the invoices supplied observed that the dimensions of these goods fell within the description of the goods under consideration. The invoices supplied for the selected sales for verification are in **Confidential Attachment SALES 7**. The invoices of the downgrade material sales form part of Confidential Attachment SALES 7.

The verification team noted a number of apparent errors in ATM's identification of goods under consideration, in addition to including some sales that were 'ATM buy-in' as noted above. ATM excluded HDG CHS produced by the Newcastle Mill No 4, and some RHS that appears to be within the dimensions of the GUC. The verification team applied its own filtering to correct these errors.

¹⁵ OneSteel's oil and gas pipe manufacturing plant in Kembla Grange was shut down in mid- 2012.

¹⁶ OneSteel's oil and gas pipe manufacturing plant in Kembla Grange was a separate legal entity to ATM

Verification of ATM's sales data for completeness and relevance is further discussed in Section 5.6 of this report.

5.5 Level of trade and related vs. unrelated customers

ATM advised that the vast majority of its customers are large HSS distributors, and that all sales are essentially at the same level of trade. ATM stated that it does not differentiate [REDACTED] based on level of trade. [pricing details]

Within ATM's sales listings, ATM identified sales as being either to:

- internal - a related customer; or
- external - a third party customer.

ATM identified 3 customers as internal (related) customers; ARC, Midalia and OneSteel Distribution (various branches). Together these related customers represent [REDACTED] per cent of ATM sales volume of the goods under consideration in the investigation period.

ATM explained that, [REDACTED]

[REDACTED] The verification team tested this assertion, using ATM's Appendix A4 sales listing, examining all sales of HSS within the goods description. [REDACTED]

[REDACTED] The verification team further examined these sales and noted that for most popular HSS product types sold, [REDACTED]

[REDACTED] The verification team also undertook an analysis of prices by finish and observed that [REDACTED]

[REDACTED] This analysis forms Confidential Appendix SALES 3, and is shown in the chart below. [confidential pricing details]

[Confidential Figure 2]

Confidential Figure 2: Comparison of unit prices paid by related and unrelated customers.

The verification team considers that this chart displays that selling prices of HSS manufactured by ATM is not affected by the legal relationship between ATM and its customers.

The verification team therefore considers that all sales of ATM-manufactured HSS (to related or unrelated parties) can be relied upon in the assessment of the economic condition of the Australian industry.

5.6 Verification of sales data – completeness and relevance

Once all relevant sales of ATM-manufactured HSS were isolated within ATM's revised Appendix A4 detailed sales listing (see Section 5.4), the verification team sought to assess ATM's A4 sales listing completeness and relevance by verifying this sales data through to its audited financial statements.

ATM provided an extract from the Arrium Audited Financial Report for FY2014 (**Confidential Attachment SALES 8**). This annual report is for the Arrium group; within this report ATM identified its business operations in the discontinued operations line of the report. The discontinued operations within the Arrium group reported an EBIT loss of [REDACTED]. ATM provided a summary showing each of the business operations that are included in the discontinued operations line of the annual report (**Confidential Attachment SALES 9**). This summary showed that ATM accounted for [REDACTED] of the EBIT loss of [REDACTED]. [confidential financial information]

ATM provided a profit and loss statement for the ATM business for FY2014 (**Confidential Attachment SALES 10**). This profit and loss statement was tied to Arrium's audited financial report by the EBIT loss of \$[REDACTED]. The profit and loss statement reported ATM's total net sales value for the investigation period at \$[REDACTED].

ATM advised that the A6 CTMS Appendix included sales of all ATM's products, and hence could be reconciled to the total reported net sales value reported in the profit and loss statement. To get from the A6 CTMS sales data to the A4 detailed sales listing, export sales and sales of the profile product group had to be excluded from this total net sales value. Furthermore, ATM explained that, the BCPS data used to populate the A4 sales listing did not include [REDACTED] which also need to be excluded from the A6 CTMS sales data to get to the A4 sales listing. The A4 sales listing has been revised [REDACTED] as discussed below. [confidential pricing details]

In summary, ATM's total net sales value for FY2014 of \$[REDACTED] reconciled to the net sales value as shown in the A4 sales listing by excluding the sales of HSS exports ([REDACTED]) and the profile product group (\$[REDACTED]). This equates to a value of \$[REDACTED] a minor variance of 0.22 per cent to the net sales value reported in the A4 sales listing. ATM provided a summary of this reconciliation at **Confidential Attachment SALES 11**.

The verification of the sales value of the profiles product group, exports [REDACTED] are discussed in detail below.

5.6.1 Profiles

ATM provided a BPCS summary showing for the investigation period its sales revenue by product segment, as RHS, HDG pipe, profiles etc. The total sales revenue for all product segments for the investigation period shown in this summary reconciled to ATM's profit and loss statement net sales value of \$[REDACTED]. This BCPS product segment summary is at **Confidential Attachment SALES 12**.

Public Record

This product segment summary showed the total sales value for the profile product group for the investigation period was \$ [REDACTED] (this figure includes export and domestic sales). This sales value for profiles ties to ATM's reconciliation summary (Confidential Attachment SALES 11).

ATM also provided monthly management reports for each month of the investigation period (**Confidential Attachment SALES 13**). These monthly management reports spilt out export and domestic sales, as well the volume and unit price achieved for each product segment within this spilt.

Using the volume and unit prices shown in the monthly management reports the verification team calculated that the sales value for profiles for the investigation period (for both export and domestic sales) equalled the total sales value for profiles reported by BPCS of \$ [REDACTED].

5.6.2 Exports

ATM's profit and loss statement (Confidential Attachment SALES 10) reported the total sales value of exports and identified export rebates given in FY2014. The net sale value of exports reported in the profit and loss statement is \$ [REDACTED]. This net export sales value is for all exports including the profile product group, which has already been accounted for as discussed above.

To exclude exported profiles from the net export sales value, ATM used the monthly management reports (Confidential Attachment SALES 13), which as discussed above, reported on domestic and export sales as well as the product segments within this spilt. Using the management reports, ATM calculated the value of exported profiles in the investigation period to be \$ [REDACTED].

When the value of the exported profiles is taken from the net export sales value reported by the profit and loss statement this results in an export net sales value of \$ [REDACTED]. This is a variance of 1.4 per cent when compared to the value of exports reported in ATM's summary reconciliation (Confidential Attachment SALES 11). The verification team used this export value in re-calculating the variance between the total net sales value in the profit and loss statement and the total net sales value in the A4 sales listing and still came up with a minor variance of only 0.37 per cent.

5.6.3 [REDACTED] Discount

ATM explained that in reconciling the A6 CTMS Appendix and A4 sales data, the BPCS sales data (used to populate the A4 sales listing) [REDACTED]

[REDACTED] (Confidential Attachment SALES 10). ATM revised the A4 detailed sales listing to include [REDACTED]

[REDACTED] This resulted in the A4 detailed

sales listing calculating a total [REDACTED] for the investigation period of [REDACTED]. The verification team compared this to the total [REDACTED] reported in the profit and loss statement of [REDACTED] and found a variance of 6.4 per cent. ATM stated that timing differences in the [REDACTED] was the reason of this variance. The verification team found a similar variance of 6 per cent when comparing the total [REDACTED] reported in the profit and loss statement (Confidential Attachment SALES 10) [REDACTED] shown in the detailed A4 sales listing. The verification team therefore considers that this variance is likely to be due to timing difference in [REDACTED] and considers that it is reasonable to attribute a [REDACTED] [ATM pricing arrangement with distributors]

5.6.4 Conclusion

Having regard to the above, the verification team considers that the revised Appendix A4 detailed sales listing submitted by ATM represents reasonably complete and relevant accounts of its sales of HSS during the period from 1 July 2013 to 30 June 2014.

5.7 Verification of sales data - accuracy

Prior to the visit, ATM was provided with a list of 14 selected sales transactions chosen from its submitted Appendix A4 sales listing, for verification to source documents. The selected transactions covered various quarters, products and customers within the investigation period. We advised ATM that we required supporting documentation for each selected sale.

For each selected sale, ATM provided the applicable:

- commercial invoice (and/or adjustment note/credit note as applicable);
- BPCS system screen dump for the order (Line Pricing Detail Enquiry);
- purchase order (for orders not lodged electronically);
- delivery docket;
- for transactions with applicable rebates a BPCS invoice report and a monthly credit adjustment note for the rebate; and
- proof of payment documents (including bank statements and remittance advice where appropriate, or for intercompany transfers, a ledger showing the transfer of funds).

Copies of the documentation supporting selected sales are at Confidential Attachment SALES 7.

5.7.1 Invoice details and proof of payment of invoiced amount

The verification team observed that ATM's detailed A4 sales listing accurately reflected the invoice details recorded on the 14 selected sales invoices. This included the customer details, the description of the goods (including dimensions, shape, grade, finish and standard) and the invoice price.

The invoice recorded quantity in packs which matched the quantity line in the A4 sales listing. To reconcile the quantity in tonnes as recorded in the A4 sales listing, the verification team matched the theoretical tonnes listed on the delivery docket for each of the 14 selected sales.

Credit Adjustment Notes

The verification team noted that four of the selected sales included a credit adjustment note for incorrect pricing or for damaged products. These credit adjustments are not accurately reflected in the A4 sales listing. ATM explained that BPCS does not record these adjustments if only the price is adjusted not the quantity.

The verification team observes that the credit adjustments are noted in A4 sales listing as separate lines however the invoice price and quantity column records a zero price and quantity for these lines. The verification team notes that where rebates are applicable to these transactions they have been adjusted in line with the revised pricing in the A4 sales listing.

For one the transactions that included a credit adjustment note, the verification team observed that in addition to recording the original invoice amount, the adjusted price and quantity for the damaged products was also recorded (the original invoices amounts were not reversed), in effect recording additional lines in the A4 sales listing for this transaction. The adjusted amount for this transaction was identified as downgrade product. In any subsequent weighted average price analysis undertaken in respect of these sales, this product will have a lower unit price reflecting its downgrade status.

The verification team notes that [REDACTED] lines in the A4 sales listing are recorded as having a zero invoice value indicating that the transaction may be affected by a credit adjustment. As this equates to only 1 per cent of sales being affected by the credit adjustment issue, the verification team did not pursue a more accurate allocation of these credit adjustments.

Proof of Payment

For each of the 14 selected sales, ATM provided a remittance advice and an extract of its bank statement demonstrating that the customer paid the invoice amount (minus any applicable early settlement discount). The verification team was able to trace through the proof of payment for each of these unrelated sales.

For sales to related customers, ATM provided a report listing its transactions to each customer (which identified the invoice number and invoice amount) by month. The sum of this listing reconciled to a 'SAP payment and reconciliation' statement from the related customer. This statement was then traced to a general ledger extract showing the total from the SAP payment and reconciliation statement being transferred to ATM.

Public Record

In regards to the four selected sales that included a credit adjustment note, the verification team observed that either the corrected invoice amount was paid by the customer, or where the customer paid the full unadjusted invoice amount, ATM provide evidence that the adjusted amount was credited to the customer as shown on remittance advices in the following billing period.

5.7.2 Rebates, discounts and net transaction value

The verification team observed that, where rebates were available, these were recorded separately within the A4 sales listing and the final net transaction amount was reduced by this rebate.

Of 14 transactions, the verification team selected seven that attracted a rebate and requested evidence to display that these rebates were in fact returned to each customer. ATM provided:

- A BPCS screenshot of an 'Invoice Detail Enquiry' for each displaying the invoiced amount;
- the monthly rebate report for each customer showing total line by line rebates, highlighting the applicable transaction (identified by invoice number) for the selected invoice; and
- a credit adjustment note for the customers showing the total monthly amount rebated.

The verification team observed that for one of the selected sales identified in the A4 sales listing as having an applicable rebate there was no rebate reconciliation documents provided (invoice number 805313). In regards to another selected invoice it appears that the rebate amount identified in the A4 sales listing is incorrect (invoice number 788739).

For the remaining 5 selected sales that attracted a rebate, the verification team observed that the rebate amount recorded in the A4 correctly matched the rebate applicable in the BPCS system, the amount listed in the monthly rebates listings and in turn the total of the monthly rebate amount as recorded on the customer credit adjustment note.

5.7.3 Volume

As noted above, the A4 sales listing recorded sales volume in theoretical weight (in tonnes) and in 'packs' (i.e. packaged bindles of lengths of HSS).

The verification team was able to reconcile the number of packs sold to the customer invoice and the theoretical weight to the delivery docket provided (these documents form part of Confidential Attachment SALES 7).

ATM also provided in the A4 sales listing actual weights and thickness for some transactions. ATM explained that as part of its quality assurance process and in compliance with the Australian standard, it tests HSS samples at various intervals in the production process. This quality assurance testing includes among other tests weighing the sample and this information is recorded. ATM provided a spreadsheet containing

these quality assurance test records for the investigation period (**Confidential Attachment SALES 14**).

The quality assurance test spreadsheet recorded the actual mass per meter of the sample, the nominal (theoretical) mass per meter and the variance between these amounts. It also identified the 'shop order' number for the lot tested. Using the 'shop order' number ATM was able to link the test data to the A4 sales listing. This provided the actual test weights for 28,956 lines of the A4 sales spreadsheet (accounting for 55 per cent of the transaction lines in the A4 sales spreadsheet). The A4 sales spreadsheet calculated the variance between the actual mass per meter of the tested samples and the nominal mass per meter for the product as recorded in the A4 sales spreadsheet. The variances calculated ranged between 96 per cent to 104 per cent per cent of the nominal weight per meter. This is within the plus or minus 4 per cent variance range allowed by the Australian standards for HSS. It was observed that the curve of distribution of variances had peaked at 98 per cent. The verification team considers that the data from quality assurance test spreadsheet supported ATM's claims that it targeted a minus 2 per cent weight tolerance on average. This is consistent with ATM's claims that manufacturers in the HSS industry manufacture within the range of tolerances allowable in standards by rolling products lighter than their corresponding theoretical weights.

5.7.4 Freight

The A4 sales listing includes 'freight', which ATM explained reflects its freight recovery surcharge which applies to deliveries outside of metropolitan areas. The verification team analysed the unit freight charges and concludes that these charges are applied reasonably consistently against common locations.

5.7.5 Conclusion

The verification team is satisfied that:

- the invoiced amounts and details in the A4 are reasonably accurate;
- the invoiced amounts were paid by ATM's customers;
- the net transaction amounts within the A4 are reasonably accurate;
- the rebate amounts were refunded accurately to ATM's customers and hence the net transaction value was the final amount paid by ATM's customers for each sale; and
- the theoretical weight is accurately recorded in the A4 sales listing.

On this basis, the verification team considered the A4 sales listing as revised is reasonably accurate.

5.8 Export sales

ATM's Appendix A3 data shows that, during FY2014, export sales of HSS account for approximately [REDACTED] per cent of ATM's total sales volume, and [REDACTED] per cent of total revenue.

As noted above, ATM did not include any export sales within the A4 sales listing.

6 COST TO MAKE AND SELL

6.1 General

In its application, ATM provided cost to make and sell (CTMS) data for the period July 2009 to March 2014. Subsequently, the Commission requested an updated version of ATM's CTMS data to include all of the investigation period. An updated version of the CTMS spreadsheet presented the data in the form of quarterly aggregate amounts, and amounts per tonne, for the period July 2009 to June 2014. Yearly totals for this period were also provided.

Data for the period of 1 July 2013 to 30 June 2014 was verified.

The verification team sought to trace the CTMS data that was submitted up through management reports to audited financial statements in order to establish confidence in the completeness and relevance of the data. The verification team also sought to trace the cost data to source documents to establish confidence in the accuracy of the data.

The verification team noted that ATM's approach to calculating the unit cost to make (CTM) was to use total actual costs of goods manufactured, and divide this by the total production volume for the period. ATM explained that during the production of the larger and heavier products, mills run slower but as the products are heavier the actual throughput rates per hour are comparable with lighter products that flow faster on the mills. ATM has highlighted that this is consistent with ATM's approach in previous investigations.

In terms of calculating unit cost to sell (CTS), its approach was to use the aggregate selling, distribution, finance and other costs and divide by the sales volume.

Verification of the total sales volume is discussed in the domestic sales section (section 5.7.3) of this report where domestic sales, when considered in aggregate with all other sales, were reconciled to the Hyperion system's audited data.

6.1.1 Categorisation of data

ATM submitted its detailed CTMS data at Appendix A6 of its application. The ATM CTMS data was broadly categorised and presented as:

- raw materials (including hot rolled coil, zinc and paint);
- direct labour;
- variable manufacturing overheads;
- fixed manufacturing overheads;
- depreciation; and
- selling, administration, finance and other (including freight) expenses.

ATM presented A6 appendices separately for the following product groups of HSS:

- black;
- painted;
- ILG (which includes Supagal® and Duragal®);
- HDG; and
- downgrade.

6.2 Verification of costs to audited financial statements

ATM showed how the CTMS spreadsheets were linked to a 'master' spreadsheet that ATM compiled for the purpose of aligning its cost reporting system to the Appendix A6 reporting format. This spreadsheet was sighted only as it included extensive details of all sales of all goods, including those outside of the investigation period. This included the cost details associated with each line of product.

ATM then demonstrated how the cost data in the 'master' spreadsheet for all three manufacturing sites reconciled to the cost of sales for the Structurals profit centre (excluding depreciation, amortisation and interest).

The link between the Appendix A6 cost data and the Structurals cost of sales was demonstrated within the general presentation delivered by ATM on its accounting structure and systems (Confidential Attachment GEN 5).

ATM then demonstrated how the Structurals profit centre results were combined into a Hyperion (ATM's consolidation accounting system – see Section 3.2) profit and loss report at the ATM level. ATM recounted that the other profit centres on its Hyperion system (Precision and LST) are obsolete as ATM ceased manufacturing of LST and precision tubes. ATM further advised that Structurals is the only ongoing business which forms the base of their dumping investigation claim.

The verification team queried with ATM whether this profit and loss could then be shown to reconcile within Arrium Limited's audited financial statements for FY2014. ATM advised that it would not be able to provide the reconciliation evidence as it did not have a complete documentation of the financials of all Arrium Limited companies, however stated that ATM has been audited by Arrium Limited's auditors, KPMG, to support its claim that provided data was complete and accurate.

The verification team observed that KPMG declared that it had conducted an audit in respect of the Arrium group's financial statements for years ended 30 June 2013 and 2014, and expressed unmodified opinions on these statements within its reports in Arrium Limited's annual reports.

The verification team noted the KPMG's opinion within its reports that the audited financial reports of Arrium Limited for 2014 financial year:

- gives a true and fair view of the group's financial position at 30 June 2014 and its performance for the year ended on that date; and
- complies with the Australian Accounting Standards and Corporations Regulations 2001.

Therefore, the verification team considers the declarations from KPMG to be sufficient evidence that the ATM Structural's profit and loss statement, which the team was able to reconcile the 'master' spreadsheet (and A6 appendices) to, has been audited and the data therein has not been amended since the audit process.

6.2.1 Completeness and relevance of costs - conclusion

Having regard to the above, we consider that the ATM CTMS data represents reasonably complete and relevant accounts of the fully absorbed costs to manufacture and sell HSS during the injury assessment and investigation periods.

6.3 Verification of production costs to source documents

The verification team verified the production costs of ATM in order to demonstrate a correlation between the CTMS data contained in the application and source documents. In order to develop satisfaction in the data presented, verification team selected the following cost components for verification:

- raw materials:
 1. hot rolled coil;
 2. zinc bath;
 3. paint; and
 4. scrap offsets.
- direct labour;
- variable manufacturing overheads:
 1. packaging;
 2. oils and greases;
 3. equipment leasing; and
 4. contracted services.
- fixed manufacturing overheads:
 1. electricity; and
 2. depreciation.

As the denominator for unit value calculations, production volumes were also verified for reasonableness and accuracy.

6.3.1 Production volumes

ATM provided a copy of a site manager's monthly reports for each site for the investigation period. These reports contained information regarding production volumes within Excel spreadsheets that reconciled these site totals to a total production volume for all ATM sites.

The verification team selected Newcastle plant's monthly report for verification and noted that the first grade production tonnes in this report for year-to-date matched the figure reported for Newcastle in the 'master' spreadsheet.

Copies of monthly manager's reports to the General Manager which compared the budgeted production to actual production, which includes the production volumes for each plant, were also provided which reconciled to the amounts shown on the master spreadsheet.

Within the CTMS data provided in Appendix A6, ATM uses the production tonnes to calculate unit costs of production (by drawing from the 'master' spreadsheet), and then multiplies those by the sales volume for that product/site to calculate an aggregate production cost for the volume of goods sold. The master spreadsheet was reconciled with the data provided in the CTMS data and to Hyperion. The reconciliation to Hyperion resulted in a 0.5% variance which ATM attributed to minor timing variations at the end of the month. The verification team considered this variance and explanation to be reasonable.

Documents supporting this reconciliation are located in **Confidential Attachments PROD 1**.

6.3.2 Raw Materials Verification

ATM provided a reconciliation spreadsheet that demonstrated the contribution each of the raw material input into the total raw materials cost shown in the overall reconciliation spreadsheet, which in turn feeds into the CTMS data provided in the application. ATM listed the following items as the main raw material inputs into HSS production:

- slit coil input costs;
- paint;
- zinc Bath;
- scrap Credits; and
- coating.

The verification team elected to verify each of these items to source documents with the exception of coating costs as the coating costs represented less than 0.03% of raw material costs. This verification process accounted for approximately 97 per cent of all

raw material costs. The verification team was also able to reconcile the total costs for each of these items to the trial balance, which was used for upwards verification. On the basis of the verification processes outlined below, the verification team is satisfied that the raw material input costs shown in the CTMS are reasonably accurate.

6.3.2.1 Raw materials – hot rolled coil

The verification team found that ATM uses the BPCS system to track the consumption of HRC in tonnes at Somerton and Newcastle, and the Stock Control System (SCS) at Acacia Ridge, and that reports from these systems were manually fed into the SAP accounting system at month end.

The process of recording HRC across the BPCS and SAP systems was described by ATM during the previous visit to the verification team as follows:

- Purchase orders for HRC are raised within the BPCS system.
- When the HRC is received, they are receipted in BPCS (against a 'transaction type 3 for purchase receipts). This generates a tonnes entry in BPCS.
- Payment is made out of the BPCS system.
- The details of these purchases are entered by ATM into a summary Excel spreadsheet, which is then fed into SAP in the end of month accounting processes.
- The receipted purchase price information is also manually entered into SAP in the end of month process.
- SAP performs inventory valuation of HRC stocks using an actual costing approach, using the weighted average of recorded HRC.
- SAP maintains a stock book recording material issued into the production process.

ATM advised that this process is essentially the same at the Acacia Ridge plant using SCS in place of BPCS for recording HRC. ATM further advised that since the last visit by the Commission the process had not changed.

The verification team requested that ATM demonstrate the allocation of HRC costs in the CTMS spreadsheet (Appendix A6) to source documents. ATM advised that a weighted average stock valuation method was used to track the value of both HRC mother coil inputs and slit inventory, noting a conversion cost is also applied and added to the value of HRC mother coil¹⁷ when converted to slit coil.

During the visit, the verification team was able to trace the costs associated with the purchase of mother coil, conversion to slit and valuation of slit coil. A series of documents extracted from SAP and BPCS were provided that the verification team were able to verify to source invoices as demonstrated in Figure 3.

¹⁷ Mother coil is an industry term used to define the roll of HRC coil before it is slit for consumption in the production process.

Public Record

The verification team traced the values shown in the raw materials allocation spreadsheet to the quarterly stock movements report for plant 3120 (refer H1) which demonstrated the total slit coil usage and slit coil production from that plant. These values flowed to the stock movement report for October (refer H2) which showed a unit price of slit coil issued to production.

The verification team then compared the purchase price of HRC purchased from external suppliers (refer H6 – H10) to the stock movement reports for mother coil for October to determine a unit cost of HRC mother coil issued to slitting. Conversion costs were verified from slitter cost reports for each plant and added to the HRC mother coil input cost (refer H3) to arrive at an input cost of mother coil plus all relevant conversion costs. The verification team compared this mother coil plus conversion cost to the issue to production cost identified earlier which reconciled within 0.12%. The slight variance was attributed to minor timing variations that between mother coil stock usage and entering into BCPS, which the verification team considers to be reasonable.

As a result of this verification process, the verification team is satisfied that the HRC raw material inputs are reasonably reflected in the CTMS data (Appendix A6) submitted by ATM in their application.

Documents supporting this reconciliation are located in **Confidential Attachments CTMS H1 to CTMS H11**.

Public Record



6.3.2.2 Raw materials – Paint for finished products

ATM provided a series of extracts from SAP and BCPS that demonstrated the flow of costs from the invoiced price of paint to the CTMS spreadsheets (Appendix A6).

As shown in Figure 4, the verification team selected a paint transaction issued to production and traced the most recent purchase of paint to that transaction to source documents. The verification team traced the total sum of paint costs shown on the raw materials allocation spreadsheet to the general ledger account balance for paint used in finished goods for the quarter (refer P1). The team then selected the month of October and reconciled the total of all transactions in that month to the general ledger balance (refer P2). A transaction was selected (refer P3) which reconciled to the goods issue documentation from BCPS (P4).

The verification team observed where that transaction was issued from store and identified the nearest input transaction to that transaction for verification to paint purchase documents. Supplier invoices were provided for the selected purchase transaction (refer P7). The purchase unit price was compared to the issue to production cost which reconciled with a variance of less than 1 per cent which the verification team considers to be reasonably reflective of the input cost.

Documents supporting this reconciliation are located in **Confidential Attachments CTMS P1 to CTMS P7**.

Public Record

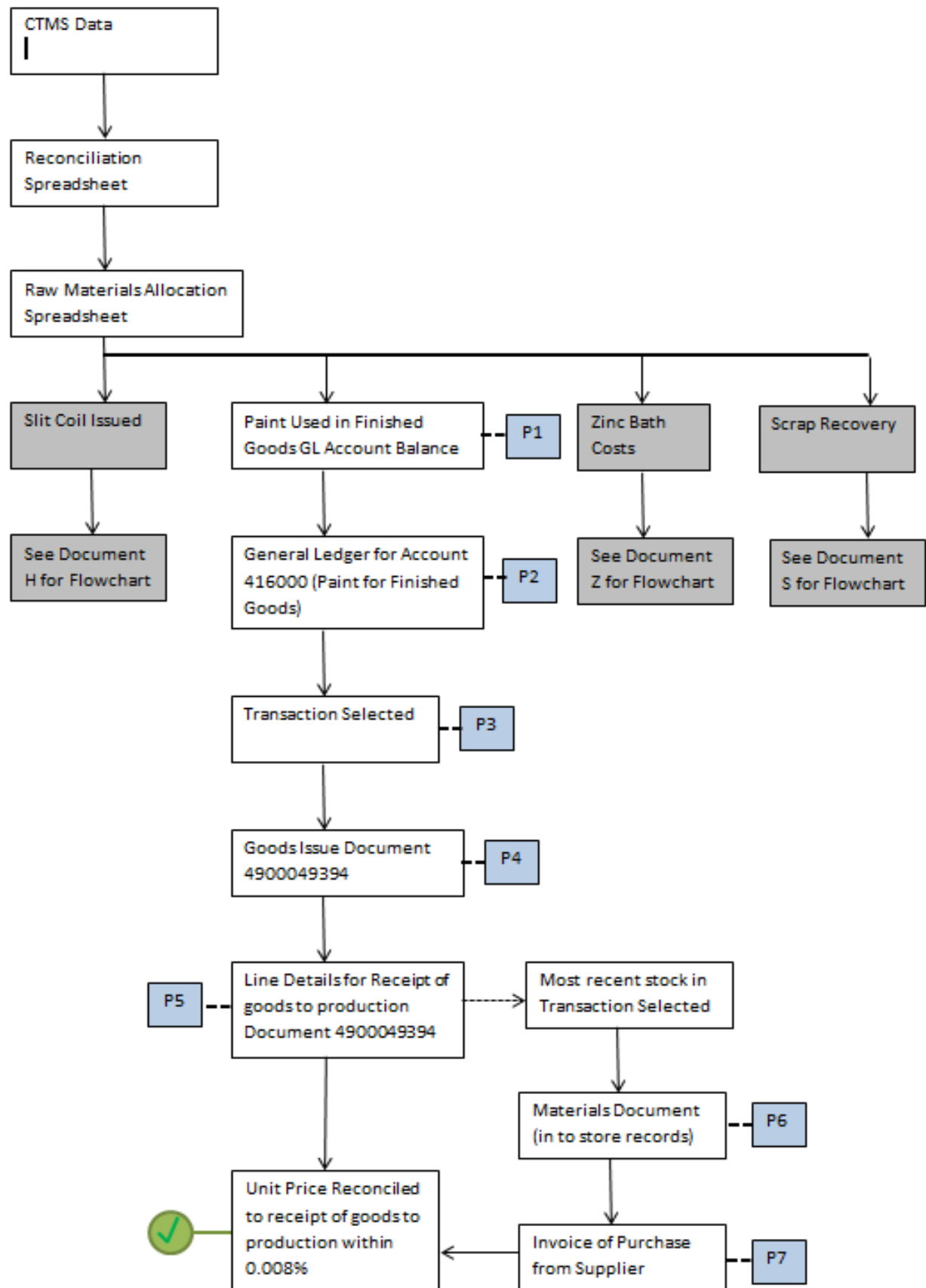


Figure 4: Paint Cost Verification Process

Public Record

6.3.2.3 Raw materials – Zinc Bath

The verification team followed a similar approach for the verification of the zinc bath raw material costs to the CTMS data. ATM provided a series of extracts from SAP and BCPS that demonstrated the flow of costs from the invoiced price of zinc to the CTMS spreadsheets.

As shown in Figure 5, the verification team selected a transaction issued to production and traced the most recent purchase of zinc to that transaction to source documents. The verification team traced the total sum of zinc costs shown on the raw materials allocation spreadsheet to the general ledger account balance for zinc bath used in finished goods for the quarter (refer Z1). The team then selected the month of October and reconciled the total of all transactions in that month to the general ledger balance (refer Z2). A transaction was selected (refer Z3) which reconciled to the goods issue documentation from BCPS (Z4).

The verification team observed where that transaction was issued from store and identified the nearest input transaction to that transaction for verification to zinc purchase documents. Supplier invoices were provided for the selected purchase transaction (refer P7).

The purchase unit price was compared to the issue to production cost which reconciled with a 6.2 per cent variance, which the verification team considers to be reasonably reflective of the input cost. The verification team noted that the exchange rate input into SAP varied by 0.54 per cent from that shown on the invoice which would have contributed to this variance, however considers that this exchange rate movement is reasonably reflective of currency fluctuations. Additionally the selected transaction occurred in the month prior to the use of goods in production which may have also contributed to the variance. As the contribution of zinc bath to the total raw materials was less than 1%, the verification team considered the materiality of a 6.2% variance in this cost element and determined that this variance would not make a material effect on the CTMS data.

Documents supporting this reconciliation are located in **Confidential Attachments CTMS Z1 to CTMS Z9**.

Public Record

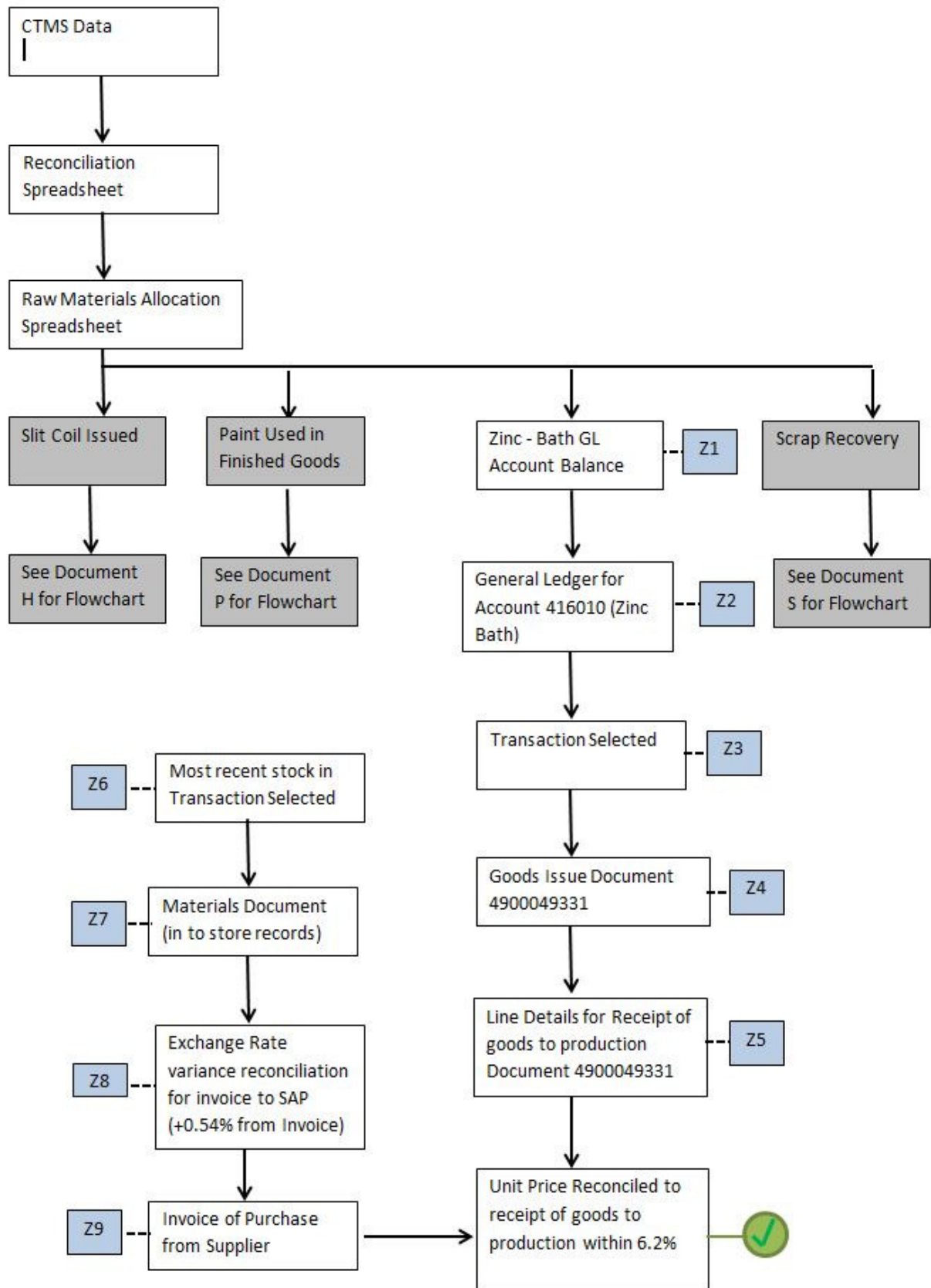


Figure 5: Zinc Bath Cost Verification Process

Public Record

6.3.2.4 Raw materials – Scrap Credits

The verification team noted that ATM sold scrap to a related party. Revenue realised from the sale of scrap was used to offset the raw materials cost. The verification team considered that offsetting of the raw material costs by the value of the scrap sales was reasonable and reflective of general industry standard practices. ATM provided a series of extracts from SAP and BCPS that demonstrated the flow of revenue from the sale price of scrap to the CTMS spreadsheets.

ATM advised that a monthly accrual was used to reconcile all scrap sales into the general ledger. As shown in Figure 6, the verification team selected a transaction of scrap sold and traced that transaction to the accrual and to source documents. The verification team reconciled the total amount shown on the raw materials allocation spreadsheet to the scrap recovery general ledger for the quarter (refer S1) and then to the monthly transaction listing (refer S2). A transaction was selected from this listing (refer S2) which reconciled to accrual and the sundry receivables journal ledger. A payment was selected and remittance advices and invoices reconciled to the amounts shown in the sundry receivables journal.

As this transaction was made to a related party the verification team compared the unit price paid to the related party to the current market value for the same grade of scrap. The verification team found that the related party sale was on par with the market value, which the verification team considers to be reasonable. The verification team considers that the input credits for sales of scrap are reasonably accurate and their allocation to the raw material costs reflects a reasonably actual cost of production.

Documents supporting this reconciliation are located in **Confidential Attachments CTMS S1 to CTMS S10**.

Public Record

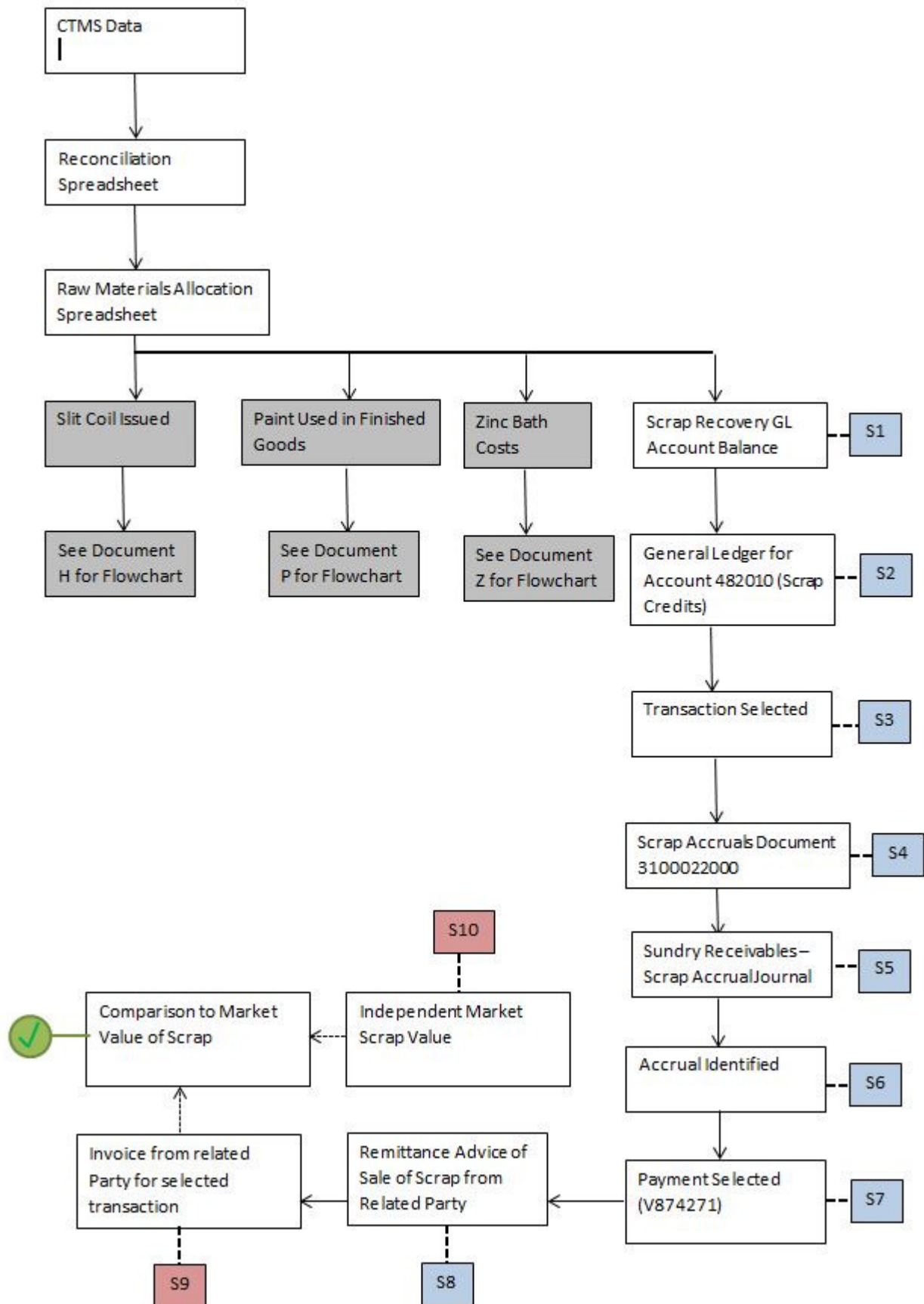


Figure 6: Scrap Credit Verification Process

Public Record

6.3.3 Direct Labour

The verification team found that direct labour costs were apportioned to the goods on the basis of production volume for each mill, which were then accumulated and applied to each finish on the basis of sales quantity. The verification team considered this to be a reasonable allocation basis. ATM provided a series of extracts from SAP, BCPS and their payroll records that demonstrated the flow of costs from the wages paid to staff to the CTMS spreadsheets.

As shown in Figure 7, the verification team selected the Newcastle mill # 2 for verification of labour costs to payroll records and was able to trace the payments made to employees back to the general ledger and then to the CTMS and trial balances.

The verification team reconciled the total amount shown on the raw materials allocation spreadsheet to the direct labour general ledger extracts for each plant for the quarter (refer L1) and then to the monthly general ledger for Newcastle (refer L2). Normal wages were selected as the largest component of director labour (refer L3) and cost centre reports demonstrating the allocation of wages to each cost centre were reconciled to the total shown in the Newcastle ledger. The cost centre reports for mill #2 (refer L6) were selected and payroll transactions by employee ID were produced (refer L7), the total of which reconciled to the mill #2 report.

The verification team then compared the general ledger and trial balances for labour and noted that wages were inflated by approximately 2.7 per cent between the general ledger and trial balances. The variance included some overtime wages incurred in this month for a special project not associated with the goods. The verification team considered ATM's explanation of the variance and concluded that this level of variance is reasonable despite the marginal overestimation of the direct labour cost. The approximate effect of this overestimation of direct labour on the total CTMS was calculated at 0.1% which the verification team did not consider would materially affect the CTMS data.

Documents supporting this reconciliation are located in **Confidential Attachments CTMS L1 to CTMS L9**.

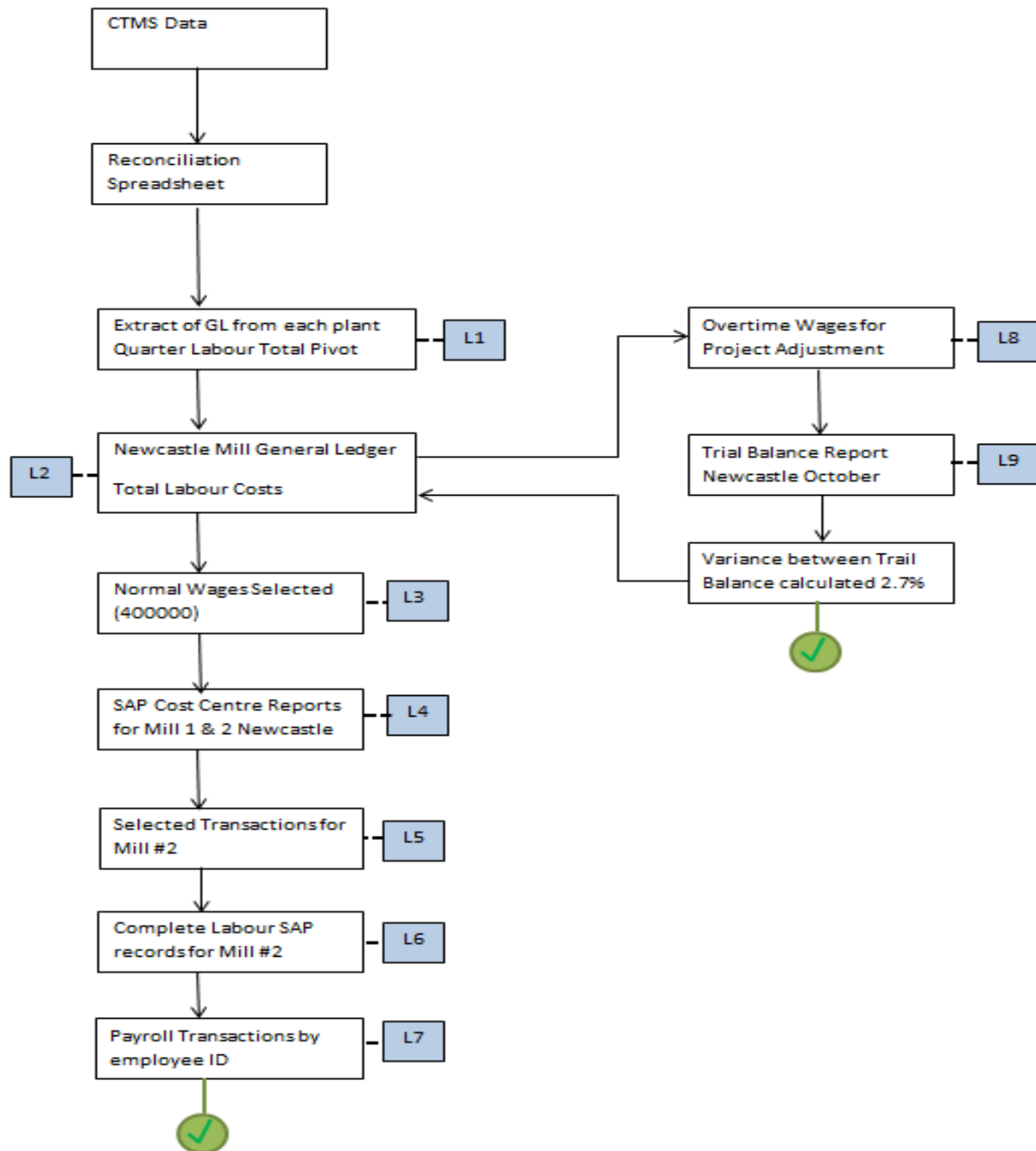


Figure 7: Direct Labour Verification Process

6.3.4 Other Variable Manufacturing Costs

The verification team found that other variable manufacturing costs included ancillary materials and equipment such as tools, oils and greases, packaging, chemicals and other indirect materials as well as contracted services such as forklift and equipment lease. The verification team selected four items within variable manufacturing costs for detailed verification, representing approximately 63 per cent of all variable overheads. The ledger of all variable manufacturing costs forms **Confidential Attachment CTMS V1**.

6.3.4.1 Packaging

Packaging costs were distributed between strapping and tie wire expenses. As strapping was the larger expense the verification team examined the costs allocated to this expense account. The verification team was able to trace the actual packaging cost data from the invoices issued by the packaging supplier for each site to the CTMS data in Appendix A6 using a similar methodology as was conducted for raw material inputs, tracing the costs via the appropriate general ledger, goods issue documentation, materials ledger and finally commercial invoices.

The verification team selected the Newcastle plant for verification of packaging costs and was able to trace the payments made to [REDACTED] [packaging supplier] back to the general ledger and then to the CTMS and trial balances. The verification team was satisfied that all packaging costs incurred in Newcastle plant were allocated appropriately within the CTMS data provided.

Documents supporting this reconciliation are located in **Confidential Attachment CTMS K1**.

6.3.4.2 Oils and Greases

Oils and grease costs allocated to Newcastle in the investigation period were selected for verification. ATM provided the journal entry for a selected purchase of cutting fluids within the Newcastle mill which the verification team was able to reconcile back to the variable costs ledger and then to the CTMS data. The process for allocating costs to this cost centre was consistent with all other verified line items. The verification team traced a selected transaction from the journal entry to the inventory ledger, which reconciled to invoices produced by ATM. The verification team was satisfied that the oil and grease expense was appropriately captured in the CTMS.

Documents supporting this reconciliation are located in **Confidential Attachment CTMS O1**.

6.3.4.3 Equipment Leasing

ATM advised that some equipment such as forklifts were leased from an external provider. The cost of these leases was captured in the variable plant costs which were selected for verification. We selected a transaction from the general ledger for leasing costs and traced this to the relevant invoice from the supplier, [REDACTED] [equipment supplier]. The verification team was satisfied that all leasing costs incurred in the plant were allocated appropriately within the CTMS data provided.

Documents supporting this reconciliation are located in **Confidential Attachment CTMS F1**.

6.3.4.4 Contracted Services

ATM advised that some technical services related to the manufacture of the goods were provided by third party contracted providers. This included the supply of certain magnetic analysis equipment. ATM advised that some legal expenses had been incorrectly

allocated to this cost centre; however these had been successfully journaled to the appropriate SG&A cost centre and thus not captured as manufacturing costs and thus did not appear in the CTMS data provided by ATM. The verification team traced the magnetic analysis equipment contract cost back to the supply document and invoices supplied by the provider, [REDACTED] [supplier name].

The verification team was satisfied that the contracted services costs were appropriately captured in the CTMS. Documents supporting this reconciliation are located in **Confidential Attachment CTMS M1**.

6.3.5 Fixed Manufacturing Costs

The verification team sought to verify selected fixed manufacturing costs between source documentation and the CTMS data provided in ATM's application. The verification team noted that electricity and depreciation were included in ATM's fixed costs. The verification team choose to verify depreciation and electricity expenses as these represented significant costs items within the fixed manufacturing costs.

Despite electricity generally being a variable cost, ATM included it as a fixed cost. The verification team considered it made no difference to the total CTMS by being classified as fixed costs and thus verified the electricity data as part of the fixed cost verification.

6.3.5.1 Depreciation

ATM advised that [REDACTED] [confidential business initiative], depreciation charges were not allocated during the investigation period. However, ATM stated that in order to represent the true cost of production they had included depreciation charges, calculated using the most recent period in which depreciation had been charged.

The verification team sought evidence to support its depreciation expenses. ATM provided a series of extracts from SAP and BCPS including detailed electronic versions of its asset registers that demonstrated the flow of depreciation from the asset registers to the CTMS spreadsheets. The verification team was satisfied that the depreciation amounts calculated were representative of what depreciation costs would be incurred under normal trading conditions. The verification team considered that the inclusion of these costs was reasonable.

Documents supporting this reconciliation are located in **Confidential Attachment CTMS D1**.

6.3.5.2 Electricity

The verification team sought to verify the electricity cost for Newcastle as part of the fixed manufacturing costs allocation. As discussed earlier, the verification team noted that this cost is generally considered a variable cost however as its placement in fixed costs had no impact on the final CTMS, the verification team did not request ATM amend the data. Although allocated under fixed costs, the verification team was able to trace the actual electricity costs for the site to the full electricity usage charges for the site from the CTMS

data to the invoices issued by the energy supplier, [REDACTED] [supplier name].

The verification team selected the Newcastle plant for verification of electricity costs and was able to trace the payments made to [REDACTED] [supplier name] back to the general ledger and then to the CTMS and trial balances using a similar methodology as was conducted for raw material inputs, tracing the costs via the appropriate general ledger, goods issue documentation, materials ledger and finally commercial invoices. The verification team was satisfied that all electricity costs incurred in the plant were allocated appropriately within the CTMS data provided.

6.3.6 Accuracy of production costs - conclusion

Having regard to all of the above, the verification team considers the cost to make figures provided by ATM are reasonably accurate accounts of the actual costs to make HSS during the injury and investigation periods.

6.4 Verification of selling, general and administration expenses

The verification team chose to focus its verification on the administration expenses, freight and distribution charges as these were the most significant elements of the SG&A expenses.

ATM identified the amount in the cost allocation spreadsheet that was the basis of the administration charges allocated to Appendix A6. These expenses were traced between the general ledgers, CTMS spreadsheet and profit and loss statements for the periods. ATM demonstrated how these items rolled up into the EBITDA result. These expenses were allocated to the goods on the basis of sales volume.

Copies of the documents linking itemised administration expenses to the 'spreadsheet are at **Confidential Attachment SGA1**.

In terms of freight charges, ATM provided a copy of an SAP ledger that showed the freight charges for Newcastle which reconciled with the relevant cell in the Input spreadsheet. The verification team traced these freight charges from the CTMS data through to invoices paid to the third party freight supplier. The verification team was satisfied that the freight charges shown in the SG&A allocation were reflective of the actual freight expenses incurred by ATM.

A copy of the SAP ledger for freight expenses and supporting invoices is at **Confidential Attachment SGA2**.

Distribution expenses were also allocated under SG&A. The verification team selected rental property and miscellaneous freight charges for further reconciliation between the CTMS data and supplier invoices paid by ATM. ATM provided copies of invoices from the miscellaneous freight provider and rental agreements showing the annual and monthly rental rates which reconciled using a similar methodology to the freight reconciliation to the CTMS data. The verification team was satisfied that these expenses were incurred and should be included in the SG&A expenses.

Copies of these document packs are located at **Confidential Attachment SGA3**.

6.5 Costs to make and sell – conclusion

The verification team considers that ATM's costs to make and sell data, is a reasonably complete, relevant and accurate reflection of the actual ATM costs to make and sell HSS over the injury and investigation periods.

Accordingly, the verification team considers the ATM costs to make and sell data are suitable for analysing the economic performance of its HSS operations for the injury and investigation periods.

7 ECONOMIC CONDITION OF ATM

7.1 ATM's injury claims

In its application, ATM claimed that the allegedly dumped and subsidised imports of HSS have caused it material injury in the form of:

- loss of sales volume;
- reduced market share;
- price depression;
- price suppression;
- reduced profits;
- reduced profitability;
- reduced capital investment;
- reduced return on investment;
- write-down of goodwill associated with the HSS business;
- reduced research and development expenditure;
- reduced production and capacity utilisation; and
- reduced employment.

7.2 Commencement of injury, and analysis period

In the consideration report CON254 relevant to the acceptance of ATM's application, it was noted that:

ATM claims that HSS exported to Australia from Thailand has caused injury to the Australian industry since June 2012 after the imposition of measures in respect of certain other countries following REP17.7¹⁸

As noted in Section 1.4, the verification team has set the period for assessing the condition of the Australian industry from July 2011.

This Chapter charts and examines ATM's performance from this date, using data verified with ATM during the verification visit. In doing so, the verification visit team used combined data for all three plants.

¹⁸ Outcomes of REP177 were discussed in Section 1.1 of this report.

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The data used for the below analysis, sourced from the verified revised financial spreadsheets, only reflects ATM's domestic sales of HSS that was manufactured by ATM (i.e. not imported).

7.3 Volume trends

ATM's quarterly and annual sales volumes of its own production are illustrated in the following charts.

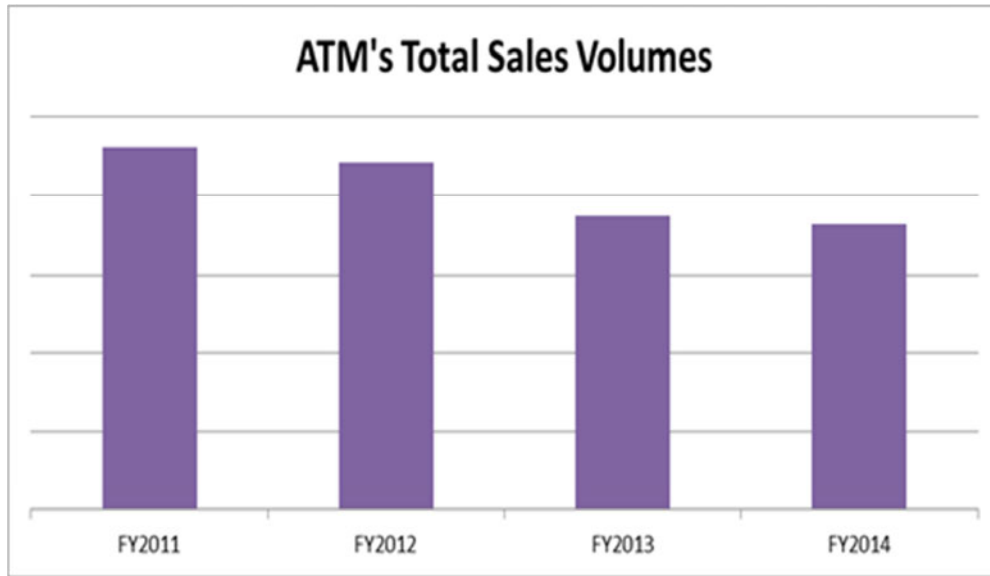


Figure 8: ATM's total sales volumes between 2011 and 2014 financial years

[Confidential Figure 9]

Confidential Figure 9: ATM's total sales volumes by quarter between 2011 and 2014 financial years

The verification team notes that the above analysis of the data shows there was a continuous decline in ATM's sales volumes from FY2011.

The following graph illustrates quarterly sale volumes of black, galvanised (pre-galvanised and inline galvanised), painted, HDG and downgrade HSS.

[Confidential Figure 10]

Confidential Figure 10: ATM's quarterly sales volumes by finish type

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The verification team notes the above chart displays:

- there has been an overall fall in ATM's sales volume of HDG HSS from FY2010 to FY2014 (with some fluctuations between);
- sales volumes of black HSS remained somewhat steady throughout the period;
- there have been fluctuations in sales volume of galvanised HSS from FY2010 to FY2014, and levels at the end of FY2014 are lower than those of FY2010;
- there have been fluctuations in the sales volume of painted HSS from FY2010 to FY2014, with levels of FY2014 being considerably below those of FY2010; and
- the sales volume of downgrade HSS from FY2010 to FY2014 has been relatively steady, with some fluctuations.

From this analysis, the verification team concludes that the overall ATM's total sales volumes of its own HSS have continuously decreased from FY2010 to FY2014 with some fluctuations within the quarters.

7.4 Price suppression and depression

Price depression occurs when a company, for some reason, lowers its prices.

Price suppression occurs when price increases, which otherwise would have occurred, have been prevented. An indicator of price suppression may be the margin between revenues and costs.

Movements in ATM's weighted average annual unit sales revenues and CTMS are illustrated in the following charts.

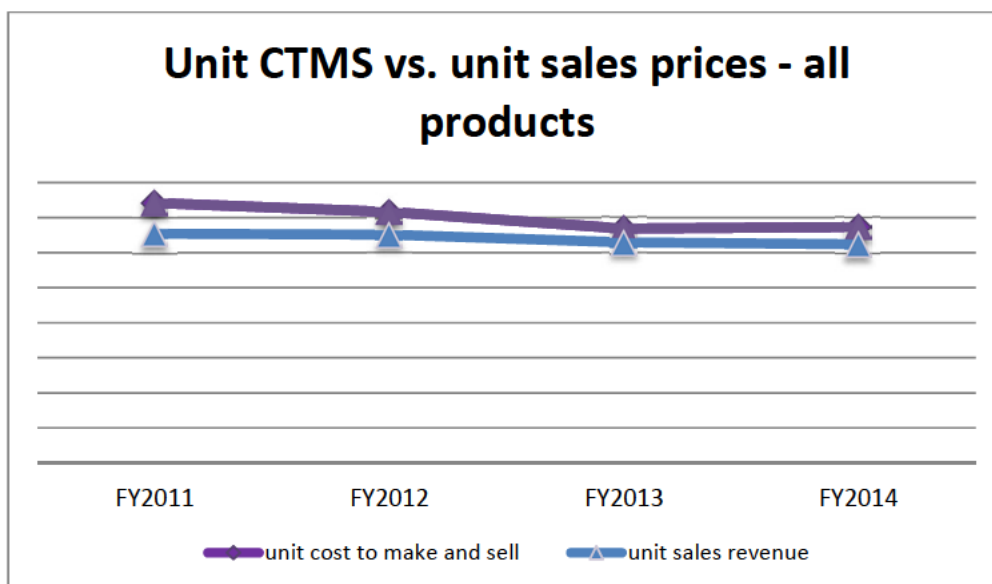


Figure 11: ATM's average unit CTMS vs. average unit sales revenues for all own products

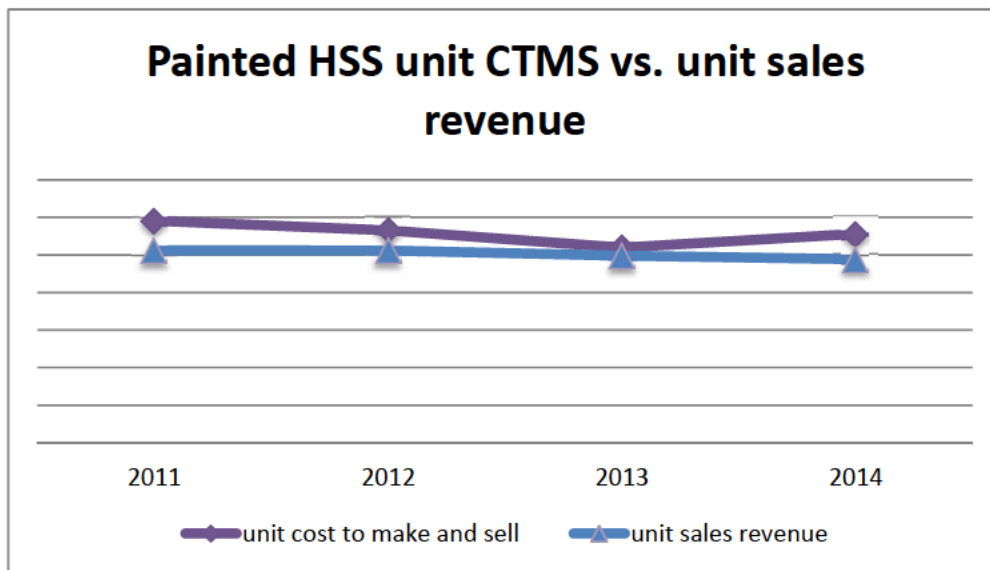


Figure 12: Painted HSS unit CTMS vs. unit sales revenues

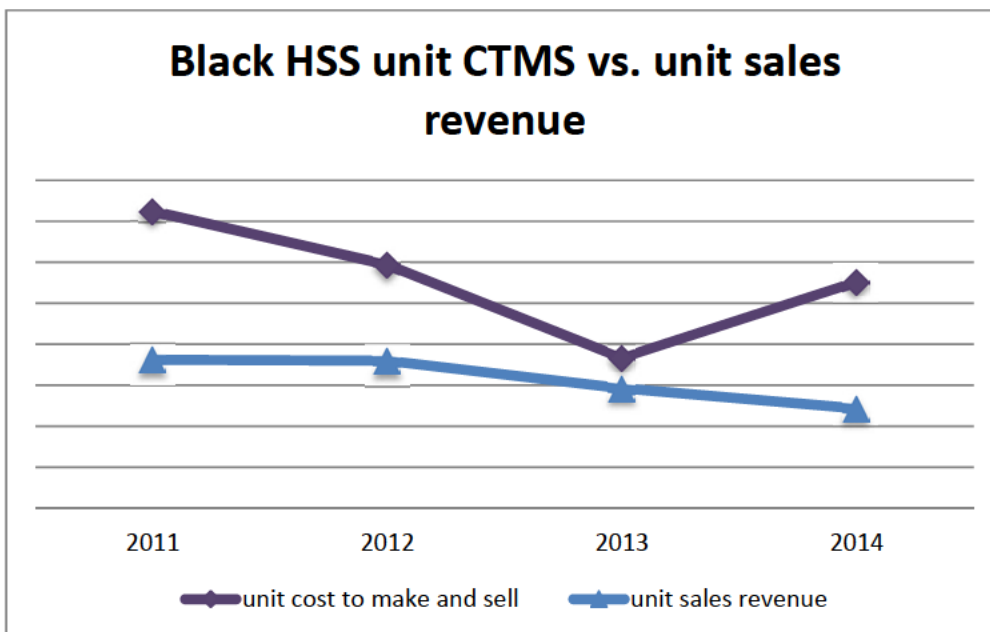


Figure 13: Black HSS unit CTMS vs. unit sales revenues

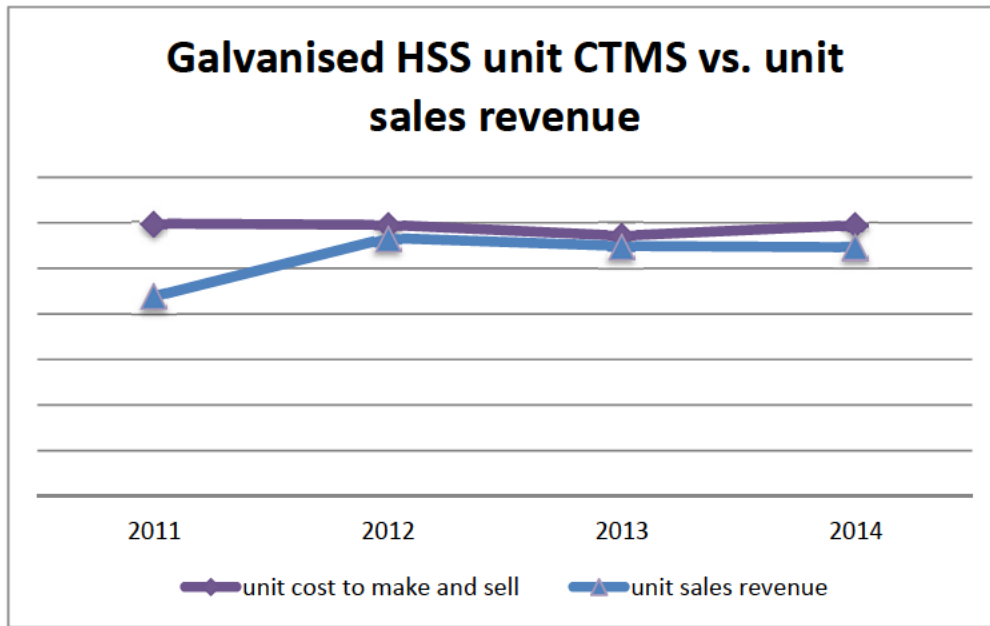


Figure 14: Galvanised (pre-galvanised and inline galvanised) HSS unit CTMS vs. unit sales revenues

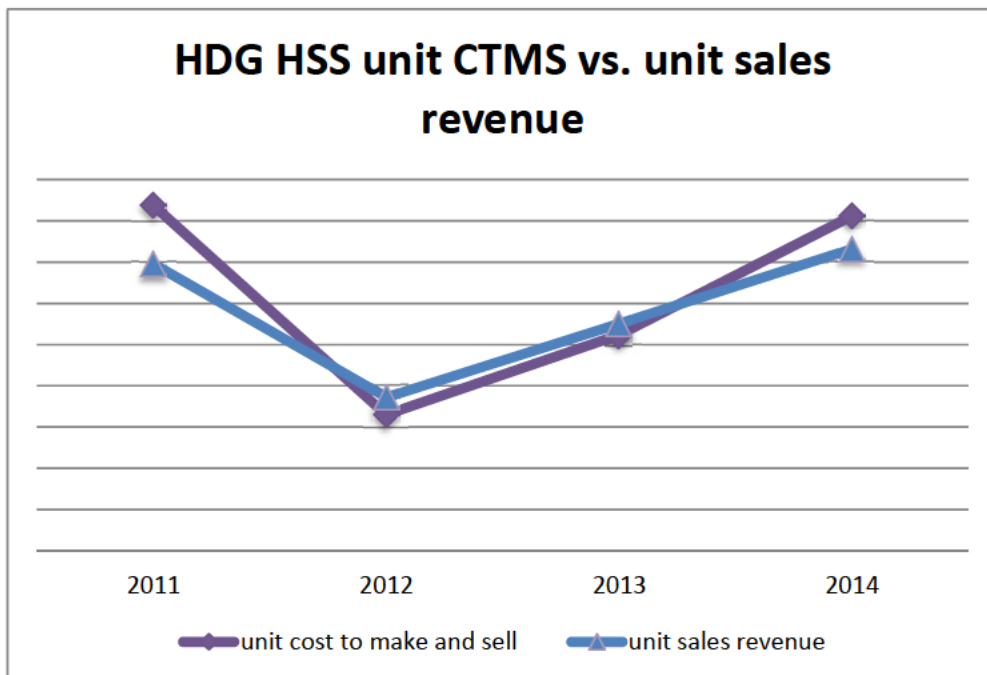


Figure 15: HDG HSS unit CTMS vs. unit sales revenues

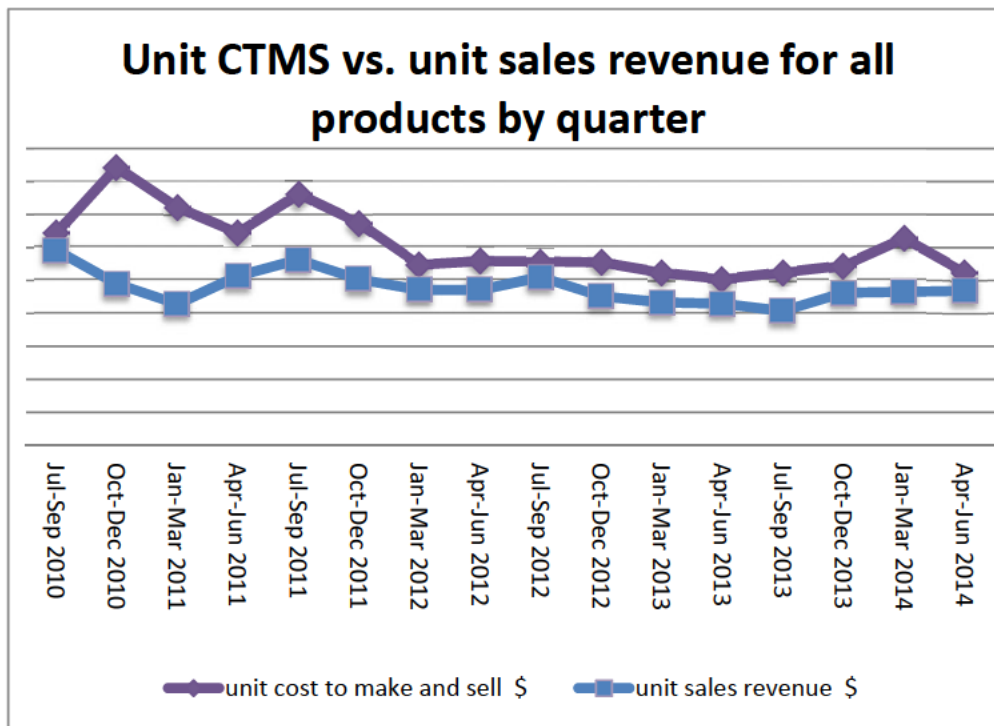


Figure 16: ATM's average unit CTMS vs. average unit sales revenues for all own products by quarters

The above graphs illustrate ATM's weighted average unit selling price and unit cost to make and sell.

From the above, the verification team notes that ATM's overall (combined finish) unit CTMS decreased from FY 2010 to FY2012. From July 2012 to June 2013, the verification team continued to observe a moderate reduction in ATM's unit CTMS. This is consistent with ATM's claims about its continuous cost improvement exercises in its application. However, ATM's overall CTMS is observed to have increased from June 2013 to March 2014 and declined again in April-June 2014 quarter.

The verification team observed that the sales revenues, decreased sharply from July 2010 to March 2011. There was a recovery on the unit sales revenues between March 2011 and September 2011. It is observed that the unit sales revenues continuously declined from September 2011 to September 2013 with the exception of a small spike in July-September 2012 quarter. ATM argued that this spike should have been caused by the imposition of dumping duties to HSS imported from China, Malaysia, Korea and Taiwan. However, the recovery on the unit sales revenues do not appear to be long lasting as a steady decline is observed until October 2013. Unit sales revenues appear to have raised slightly from October-December 2013 quarter, however the recovery has not been sufficient enough to allow ATM to recuperate its losses.

The verification team notes that the trends are reflected across all finish types, except for HDG HSS, where the CTMS from reduced significantly in 2012.



[Commercially sensitive profitability details]

The verification team notes the above graphs suggest that the ATM's prices:

- were suppressed between June 2013 to June 2014 as it was not able to increase its selling prices to recover increases in costs (though price increase did occur in FY2014, it did not occur to the point where the full CTMS was recovered); and
- were depressed between September 2011 to June 2012 and September 2012 to June 2013, being lowered from the previous periods.

The verification team concludes that it appears ATM has suffered price depression within FY2011 and FY2012, and price suppression in FY2013 and FY2014.

7.5 Price undercutting

Price undercutting occurs when an imported product is sold at a price below that of the Australian manufactured product.

In its application, ATM submitted that price depression and suppression (discussed above) was due to price undercutting by imported HSS. It supported this claim by reference to its import price offers database (see Section 5.3.3). As discussed earlier in this report, the contents of this database were verified during the meetings with ATM.

ATM provided further evidence of price undercutting during the verification meeting.

The issue of price undercutting is discussed further in Chapter 8 of this report.

7.6 Revenue

The total revenue versus total CTMS graph below shows a similar pattern to the unit CTMS versus unit sales prices graph in Figure 11 but incorporates sales volumes as well.

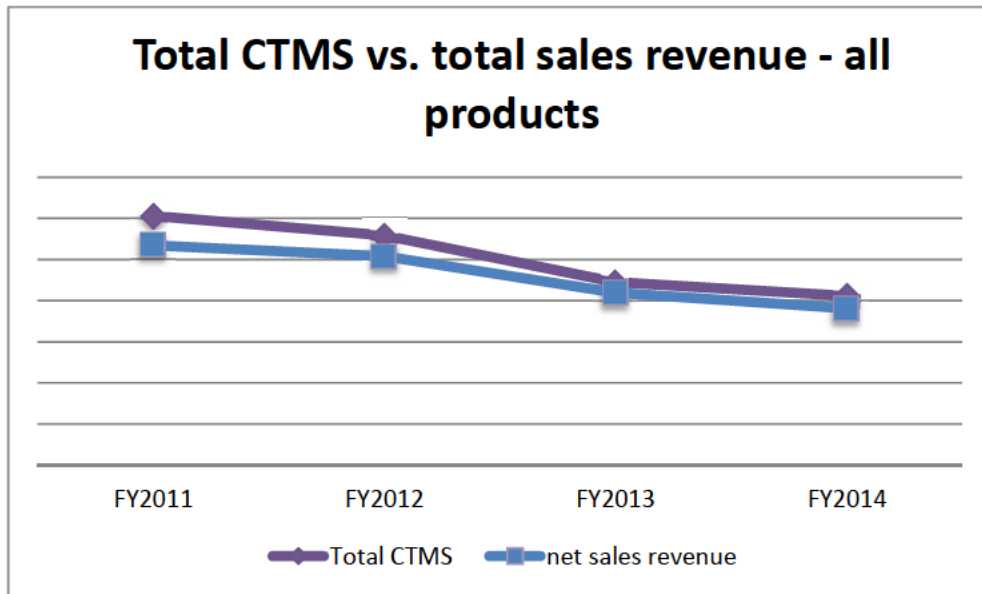


Figure 17: ATM's total CTMS vs. total sales revenues from all products manufactured by ATM

Movements in quarterly and annual total revenue and costs are illustrated in the following graphs.

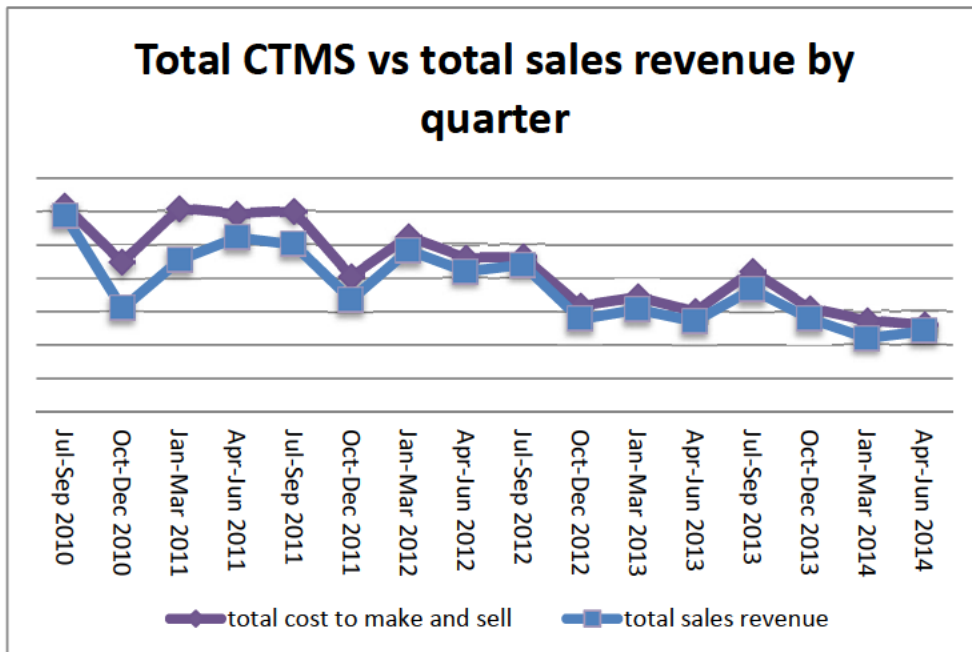


Figure 18: ATM's total CTMS vs. total sales revenues from all products manufactured by ATM by quarters

From the above graphs, the verification team notes that net revenue and total CTMS fell from FY2011 to FY2014, with revenue consistently being below total CTMS within the injury assessment period.

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Both total sales revenue and total costs increased fluctuated in FY2011 ending the 2011 financial year on levels close to where they have started. From FY2012 onwards, both total CTMS and total sales revenues displayed downwards trends with correlated fluctuations from quarter to quarter.

The verification team observed that, despite reducing its overall CTMS throughout the injury assessment period, ATM's total sales revenues consistently remained short of its total CTMS.

7.7 Profits and profitability

Movements in ATM's quarterly and annual profits and profitability are illustrated in the following charts.

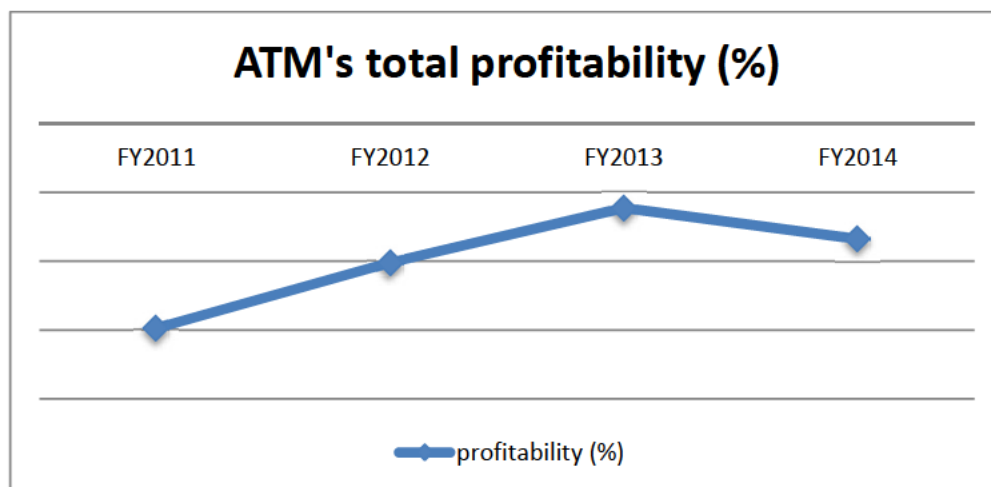


Figure 19: ATM's total profitability (total gain or loss / total sales revenue)

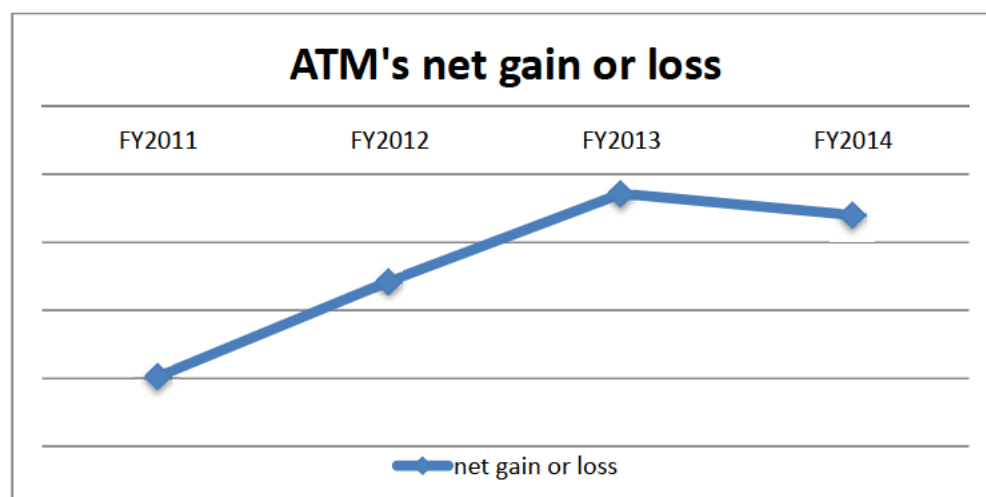


Figure 20: ATM's total net annual loss

[Confidential Figure 21]

Confidential Figure 21: ATM's total net quarterly loss

The verification team notes that ATM's profits and profitability were consistently negative during the injury assessment period. ATM's loss decreased between FY2011 and FY2013 before increasing in FY2014.

7.8 Other economic factors

In its application, ATM completed the Appendix A7 (other injury factors) spreadsheet.

The verification team sought to test the accuracy of ATM's recorded employment numbers and capacity utilisation figures.

7.8.1 Employment numbers

The verification team requested that ATM provide evidence to support its calculation of employee numbers within its revised Appendix A7.

ATM showed the verification team a report for total employee numbers in its Hyperion accounting systems and provided copies of spreadsheets showing full time equivalent employee numbers from FY2011 to FY2014 for ATM. The team observed that the figures recorded for:

- ATM Acacia Ridge;
- ATM Newcastle;
- ATM Somerton; and
- ATM Support Services

collectively reconciled to the figures reported within the Appendix A7. ATM's employment numbers spreadsheet is attached as **Confidential Appendix ECON 1**.

The verification team considers the data suitable for assessing trends in ATM's employment numbers over time.

Having noted this, the team observed that ATM's Appendix A7 data displays that over the period of FY2011 to FY2014, ATM's employee numbers decreased by 32 per cent (from a total of [REDACTED] to [REDACTED]).

7.8.2 Capacity Utilisation

The verification team also enquired about ATM's capacity utilisation figures in Appendix A7 of its application and asked ATM to provide evidence to support its calculation of capacity utilisations throughout injury assessment period. The graph below shows ATM's capacity utilisation rates for production of like goods.

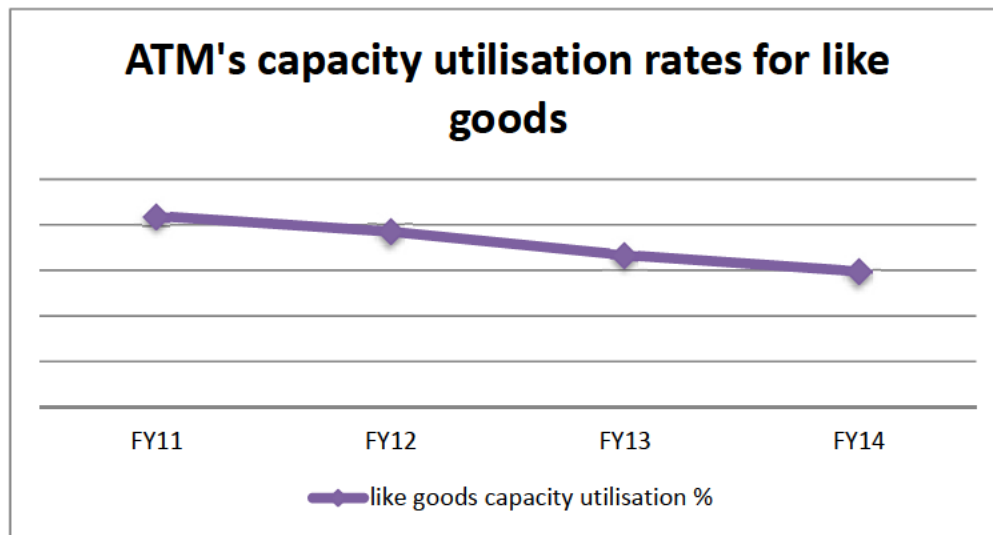


Figure 22: ATM's capacity utilisation rates for like goods

ATM provided the verification team with a spreadsheet it used to calculate total manufacturing capacities of all mills in its three manufacturing facilities and their capacity utilisation figures with respect to the calculated total capacity figure in Appendix A7. This capacity utilisation calculation spreadsheet is attached as **Confidential Appendix ECON 2**. ATM explained that it calculated total manufacturing capacities of its mills based on the throughput rates¹⁹ of the types of products manufactured in those mills. ATM further explained that the calculated capacity took into account productivity losses due to second grade products and scrap rates.

The verification team chose Newcastle Mill 1 and Mill 2 capacity calculations for FY2014 to verify and asked ATM to provide its detailed capacity and capacity utilisation calculations for these mills. ATM provided the verification team with its supply plans for M1 and M2 of Newcastle plant. These supply plans are attached as **Confidential Appendix ECON 3**. The team observed that the supply plan spreadsheets tabulate monthly 1st grade, 2nd grade and scrap production rates as well as details about the number of actual 8 hour shifts, overtime shifts and shift adjustments. The 1st grade average throughput rates per standard shifts were noted for each month. The verification team noted that ATM has calculated an average of the total yearly actual production rates of 1st grade products to come up with an average actual capacity for each mill in a financial year. The team verified that these actual calculated average throughput rates were then fed into the capacity utilisation spreadsheets in Confidential Appendix ECON 2. To come up with achievable production capacity, ATM multiplied the calculated yearly actual 1st grade product throughput rates per mill with the total achievable shifts per year per mill. The verification team observed that ATM's Newcastle facilities achievable shift per year rates were higher than that of Acacia Ridge's and Somerton's rates. ATM explained that Newcastle has been working more shifts per years than other facilities at the moment and ATM calculated the shifts per years based on its current production schedules. Total achievable yearly capacities were calculated by adding all total achievable capacities of all functioning mills taking manufacturing downtimes (like shutdowns), setup times, repair times etc. into account.

¹⁹ ATM measures its mills' throughput rate as total kilograms of products manufactured per hour

The verification team observed that, the capacity utilisation figures are calculated by dividing the total actual production volumes by total calculated achievable capacity. Verification of production volumes were covered in section 6.3.1 of this report.

The team therefore verified that ATM's capacity utilisation figures reconcile to the figures within ATM's Appendix A7.

7.8.3 Conclusion

The team selected and successfully verified employment numbers and capacity utilisation figures out of all the "other injury factors" ATM claimed in Appendix A7 of its application. Therefore, the verification team considers that the Appendix A7 data in ATM's application presented a true view of the actual state of other injury factors.

The verification team observed the following trends in the Appendix A7 data provided by ATM:

- the total value of assets used in the production of HSS followed a declining trend from FY2011 to FY2014;
- capital investment for the production of HSS has decreased significantly from FY2011 to FY2012 and recovered slightly in FY2013. Capital investment has slightly declined from FY2013 to 2014;
- R&D expenditure of HSS has increased between FY2011 and FY2012 but reduced significantly ever since FY2012 to a \$ [REDACTED] value investment in FY2014;
- return on capital employed²⁰ (ROCE) increased between FY2011 and FY2012 but declined sharply in FY2013. While ROCE improved in FY2014 it failed to yield positive returns;
- capacity utilisation of HSS shows a declining trend throughout the injury assessment period;
- the number of workers associated with the production of HSS employed has been declining consistently; and
- productivity²¹ increased from FY2011 to FY2013 and reduced slightly in FY2014.

7.9 Factors other than dumping

The verification team also discussed factors other than dumping that might be injuring Australian Industry in general.

The team enquired about the possible effects changes in of Australian dollar (AUD) parity against US dollar (USD) within the investigation period. ATM argued that AUD/USD

²⁰ ATM states that return on capital (funds) employed is the standard measure for return on investment for Arrium Ltd. companies and reported its return on capital employed instead of return of investment.

²¹ Productivity is defined as annualised tonnes produced per person.

Public Record

conversion rates did not fluctuate too much within the investigation period and provided the verification team with a table showing a number of import offers from Thailand for each month during the investigation period and the average AUD/USD conversion rate for each of these months. The summary table of import offers versus exchange rates are attached as **Confidential Appendix ECON 4**. ATM explained that although import offers somewhat show sensitivity to AUD/USD exchange rates, it is not possible to observe a direct correlation. The verification team verified the offer documents and observed that all import offers are only valid for a given AUD/USD exchange rate range and if AUD falls below a certain figure, the buyer is held responsible for the difference. The graph below shows average monthly import prices in AUD and USD versus average monthly AUD/USD exchange rates.

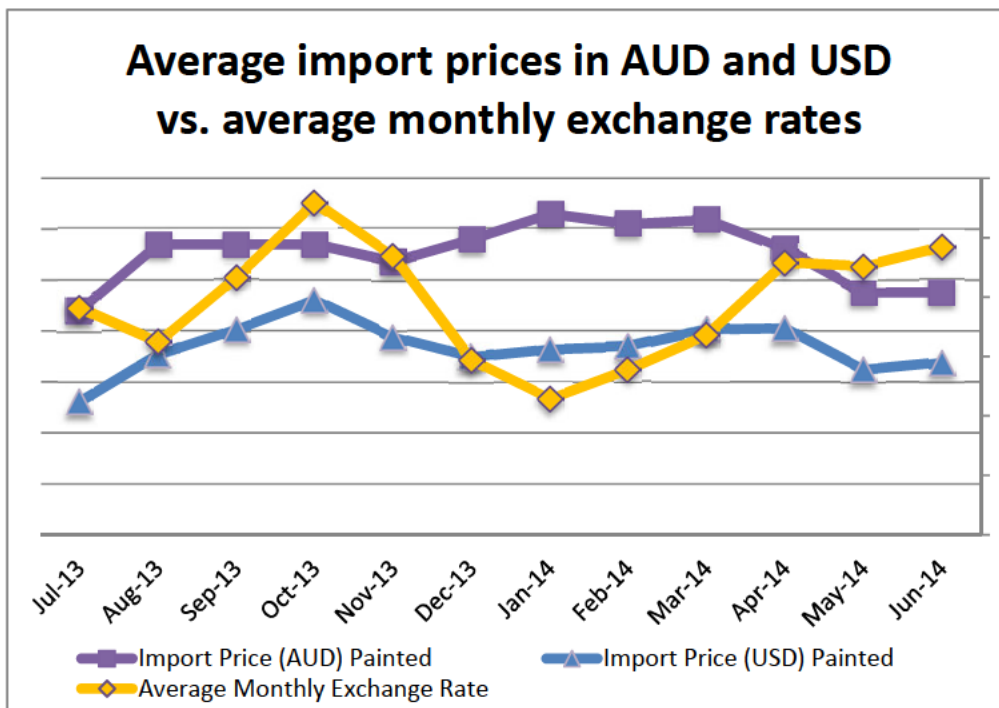


Figure 23: Average monthly import offers in AUD and USD versus average monthly AUD/USD exchange rates

ATM further supported its argument by providing its average sales prices of painted HSS for financial years 2011 to 2014 together with these years' average exchange rates. This is attached as **Confidential Appendix ECON 5**. The verification team observed that, despite the decline in AUD exchange rate in FY2014, ATM's average selling prices did not increase to adjust for the decline in Australian dollar. The graph below shows the relationship between ATM's avg. selling prices of painted HSS in AUD and USD versus AUD/USD exchange rates.

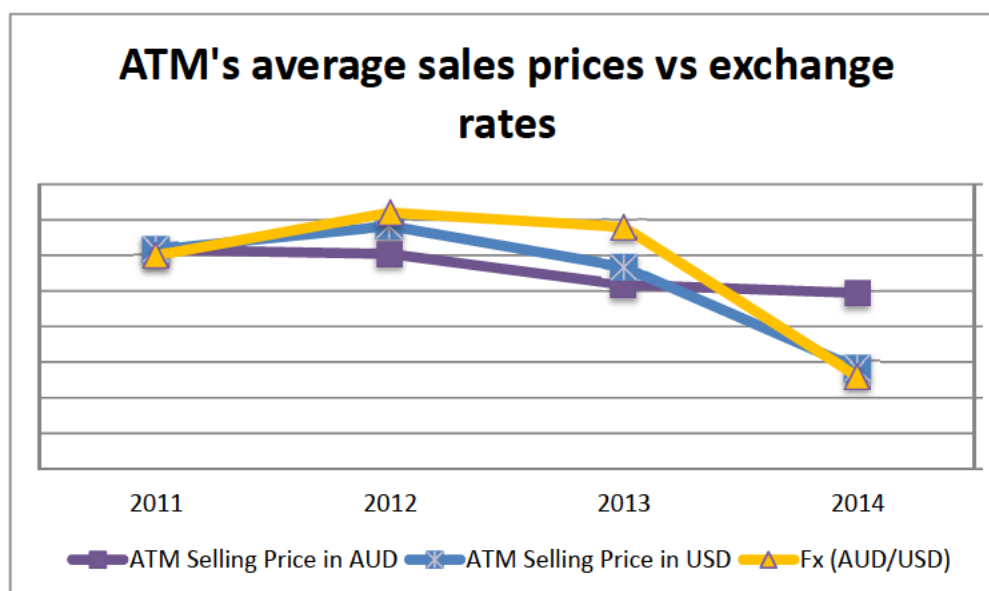


Figure 24: ATM's average selling prices of painted HSS in AUD and USD versus average yearly AUD/USD exchange rates

The graph above shows that ATM's average selling prices in AUD of painted HSS continuously declined despite the fluctuations of the AUD/USD exchange rates during the course of injury assessment period. The verification team considers that the data ATM provided supports ATM's claims that its selling prices have been under constant pressure independent of the currency exchange rates.

7.10 Conclusion

Based on an analysis of the information contained in the application and obtained and verified during our visit, the verification team consider that the company has experienced injury in the form of:

- price depression;
- price suppression;
- reduced profits;
- reduced profitability;
- reduced revenue;
- reduced return on capital employed and thus reduced attractiveness to reinvest;
- reduced employment numbers; and
- reduced capacity utilisation rates.

Price undercutting is discussed further in the following section of this report.

Public Record

A conclusion on market share will be made following analysis of data gathered at visits to the other Australian industry applicants and the importers of the goods.

8 CAUSAL LINK

The verification team discussed with ATM whether the alleged dumping and subsidisation of imported HSS can be demonstrated to be causing material injury to the Australian industry (and ATM).

8.1 Price effects

In these discussions, ATM placed significant emphasis on the evidence contained and submitted in its import price offers database as evidence that its prices have been undercut by imported HSS (or undercut by offers for imported Thai HSS). ATM submits that price depression and suppression has resulted from this undercutting, particularly as ATM sets its prices with reference to import parity pricing. For the detailed explanation of ATM's pricing policy and verification of import price data, please see Section 5.3 of this report.

ATM emphasised its understanding that, when purchasers of HSS chose between imported and Australian-made HSS, a very important factor in their decision is the price of those goods. ATM explained that, consequently, failure to be close to parity with imported HSS price therefore results in lost sales volume, and leads to the overall injury it has experienced (including reduced profits and profitability).

As discussed in Chapter 5 of this report, ATM provided the verification team a copy of its import price offers database together with its price and premium calculation spreadsheets. By using verified import price offers data and the sales data verified within ATM's Appendix A4, the verification team has undertaken its own comparisons between the import price offers database and ATM's sales prices.

The verification team noted that the import price offers database figures are predominantly at FIS Sydney, Brisbane or Melbourne level. It was previously established that ATM price offers are FIS throughout Australia which includes freight surcharges (or different regional discount rebates) for delivery outside the major Eastern metropolitan centres. Therefore, the team considers that import parity price (IPP) figures and ATM's price offers are comparable in terms of delivery arrangements.

Below are the graphs showing the relationship between painted HSS IPP²² and ATM's price offers for the same periods.

²² The verification team previously verified in Section 5.3.3 of this report that the IPP tracked Thai import price offers

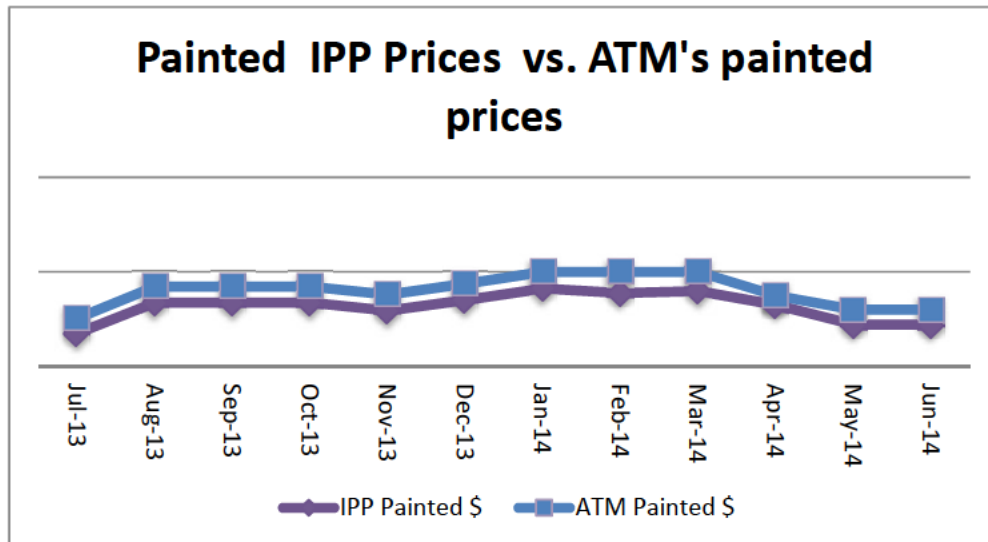


Figure 25: Import parity prices for painted HSS vs. ATM's painted HSS price offers

ATM explained that, it calculated its galvanised products prices based on Thai HSS IPP prices plus a premium. ATM explained that, it kept track of imported HDG products prices

[REDACTED]

To support its practice of basing its galvanised products prices on import offers, ATM provided the visit team with a spreadsheet showing [REDACTED]

[REDACTED]

The verification team observed that pre-galvanised HRC prices were calculated based on base HRC prices plus a premium. The spreadsheet and supporting documents attached as **Confidential Attachment CL 1**.

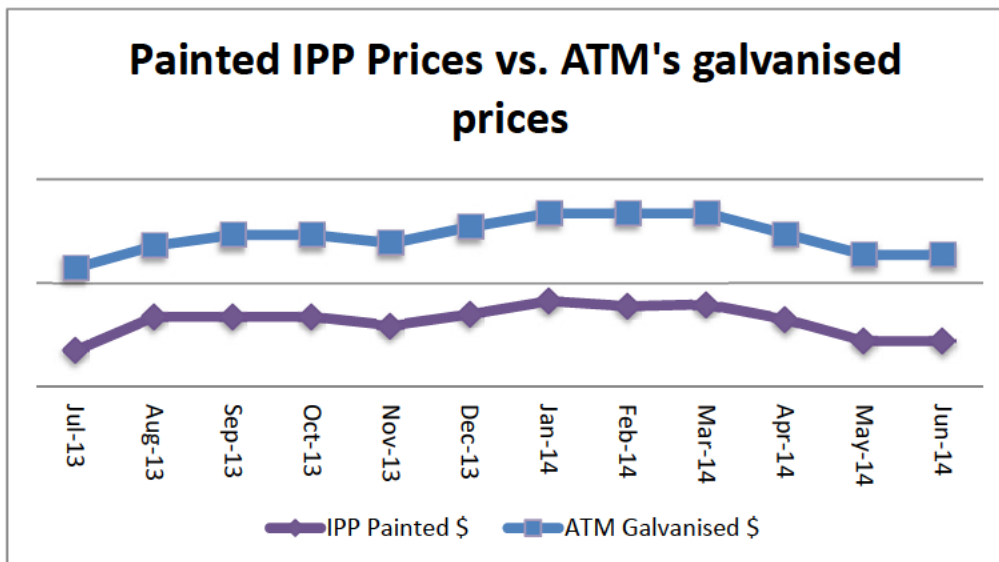


Figure 26: Import parity prices for painted HSS vs. ATM's galvanised HSS price offers

From the above analysis; it appears as ATM's prices have been consistently undercut by import offers across the examined finishes.²³

During the course of this investigation, the verification team will verify actual selling prices in Australia on a broader level, and compare these to Australian industry selling prices in order to conclude on price undercutting.

8.2 Volume effects

As explained in Section 7.3 of this report, the team undertook a verification of the applicant's production and sales volumes. Figure 8 and Figure 9 show the applicant's yearly and quarterly sales are declining throughout the injury assessment period. It is observed that the rate of fall in the applicant's sales volumes eased from FY13 to FY14. When queried about the reasons for the slowdown in the downwards trend in its sales, ATM explained what it believed were the reasons for it. ATM contends that one of the factors is the imposition of dumping duties to China, Malaysia, Korea and Taiwan and imposition of countervailing duties to China in July 2012.²⁴ Another factor ATM raised was that undertaking of major cost reduction practices and keeping its prices in competitive levels despite losing money.

In its application, ATM stated that:

"ATM anticipated that the imposition of anti-dumping measures in June 2012 would result in the removal of dumped (and subsidised) prices from the Australian market. As evidenced by the profit and profitability indices at..., there has been a

²³ Noting that the prices in Thai import price offers are for painted HSS but have price extras for other finishes.

²⁴ Imposition of dumping duties to these countries were contained in International Trade Remedies Branch Report No.177 – certain hollow structural sections from the People's Republic of China, the Republic of Korea, Malaysia, Taiwan and Thailand (REP177).

Public Record

partial recovery in profit and profitability, albeit a majority of the recovery can be attributed to ATM's own initiatives to reduce fixed costs..."

As explained in Sections 7.6 and 7.7 of this report, when the reduction in sales volumes are considered together with the fact that during these periods, sales prices continued to decline even though the applicant's sales prices were short of covering its fully absorbed CTMS during the investigation period; the verification team considers that the lost sales volumes appear to have injured the Australian Industry during the injury assessment period.

The verification team considers that further investigation into the loss of sales by the Australian industry to imported HSS should be undertaken throughout the investigation.

9 UNSUPPRESSED SELLING PRICE

The verification team explained the concepts of an unsuppressed selling price (USP) and non-injurious price (NIP) to ATM. ATM was asked to give consideration to the most appropriate method to calculate a USP. The team explained that the Commission observes a three-point hierarchy in its approach to establishing a USP:

1. market approach using Australian industry's selling prices at a time unaffected by dumping;
2. construction approach using Australian industry's recent CTMS data plus a reasonable amount for profit;
3. market approach using selling prices in Australia of goods imported from undumped sources.

The verification team also explained that a NIP is calculated by deducting all post exportation charges and, where appropriate, the importer's profit from the USP.

ATM advised that it believed that the construction approach would be a more appropriate way of calculating USP and would make a separate submission on the issue of the most appropriate profit rate that should be used in USP calculations at a later date.

10 GENERAL COMMENTS AND OTHER MATTERS

Other matters of note discussed during the verification are outlined below.

10.1 Cost advantages of Thailand

We asked ATM whether Thai HSS manufacturers would have any cost advantages over the Australian industry.

ATM advised that it did not believe that Thai HSS manufacturers would have a significant cost advantage over ATM. ATM explained that:

- HRC is a globally-traded product that should be roughly the same cost in all countries. Thailand has significant anti-dumping measures on HRC imported from a number of countries including Republic of Korea, Japan, Indonesia and Taiwan. ATM contended that Thai HSS manufacturers do not have any cost advantage in buying HRC; and
- HRC forms the vast majority of the cost of HSS and any advantages in labour, etc. would only be minimal in terms of total costs.

ATM advised the manufacturing process is essentially the same regardless of origin and it is not possible to make the process radically more efficient by using the currently available technology.

10.2 Efficiency of ATM

In relation to the discussion about Thai HSS manufacturers' cost advantages, the verification team queried ATM's manufacturing processes' efficiency.

ATM explained its current rate of efficiency and improvements in efficiency it has made over the past several years.

Notably, ATM observed that its current conversion cost per tonne (CCPT) is less than ██████/T, contrasted to \$ ██████/T in FY2007.

ATM advised that the 'world class' standard for CCPT is \$ ██████/T.

Further, ATM emphasised its current rate of annualised production per person figures (over ██████). The verification team observed an improvement in ATM's annualised production per person figures between FY2011 and FY2013 and a small decline in FY2014 as shown in the graph below.

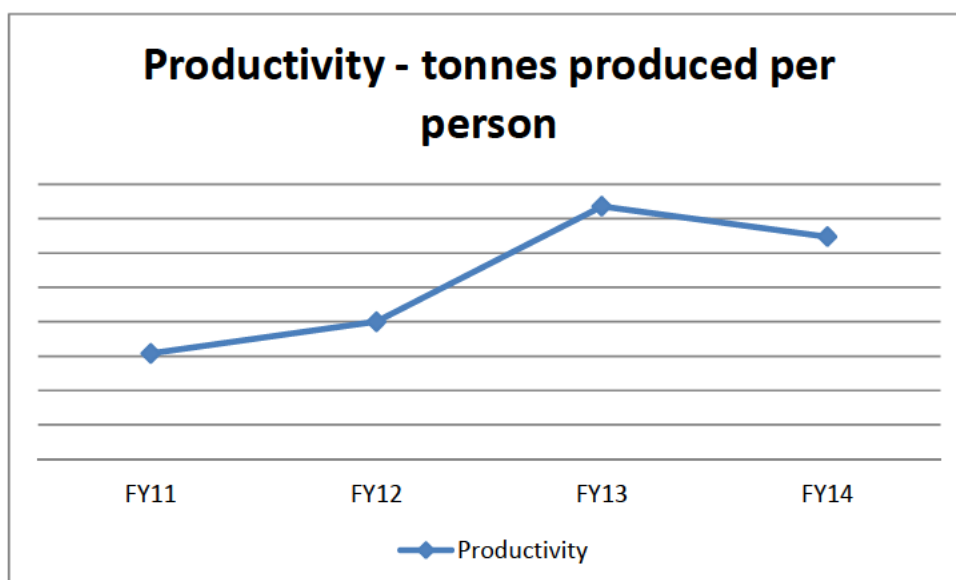


Figure 27: ATM's annualised production tonnes per person employed

Through this, ATM wished to demonstrate that it has made significant improvements in efficiency over the last years, but that it hadn't seen the benefits of this in its overall performance.

10.3 Market perception of Thai imports

ATM advised that the perception of Thai imports in the Australian HSS market has been improving, and currently most Thai imports are seen as reasonable quality products and considered equal to Australian-produced HSS.

10.4 Discussions on exemption inquiry for HDG

The visit team queried about ATM's views on an application for exemption inquiry in relation to certain hollow structural sections (HSS) exported to Australia from the People's Republic of China, the Republic of Korea, Malaysia and Taiwan²⁵. The visit team explained ATM that the applicant of the exemption inquiry was planning to narrow down the goods description to include only "air blown" galvanised HSS and leave other HDG products that are not manufactured using this technique out of the goods description. ATM advised that it would still object to the application and highlighted the following reasons behind its opposition:

- ATM considers that "air blown" galvanised HSS is still a direct substitute for the Duragal[®] and Duragal Plus[®] that it manufactures domestically.
- ATM is of the view that "air blowing" is merely an additional process to control the thickness of the amount (thickness) of zinc on the surface.

²⁵ Details of the goods subject to the inquiry, as well as procedural matters can be found in the Anti-Dumping Notice No. 2014/14

Public Record

- The “air blown” galvanised HSS would still compete in the same market and the only additional attribute of “air blown” galvanised HSS over “batch galvanised” HSS is smoother surface finish.
- ATM also mentioned that granting an exemption to “air blown” galvanised HSS would result in possible complex compliance issues and circumvention activities in the future.

As a result, ATM stated that it would not change its decision to oppose the exemption inquiry application regardless of whether or not the goods description in the application was narrowed down to only include “air blown” galvanised HSS.

11 ATTACHMENTS AND APPENDICES

11.1 Attachments

| | |
|---------------------------------------|--|
| Attachment HIS 1 | Previous HSS cases |
| Confidential Attachment GEN 1 | ATM's company history and structure presentation |
| Confidential Attachment GEN 2 | Presentation on like goods and ATM's production capabilities |
| Confidential Attachment GEN 2 | ATM's organisational structure |
| Confidential Attachment GEN 4 | Arrium Limited's corporate structure |
| Confidential Attachment GEN 5 | ATM's accounting systems and structure |
| Attachment GEN 6 | ATM's product Availability Guide |
| Confidential Attachment GEN 7 | ATM's operational capabilities table |
| Confidential Attachment GEN 8 | Email chain regarding ATM's products substitutability to HDG |
| Attachment GEN 9 | Photos showing pre-galvanised and HDG products used in fencing side by side. |
| Attachment GEN 10 | Duragal® Painting and Corrosion Protection Guide |
| Confidential Attachment GEN 11 | ATM's market survey report (2005) |
| Confidential Attachment GEN 12 | A diagrammatic summary of ATM's Newcastle plant's production process |
| Confidential Attachment MAR 1 | 'Australian Market Update' presentation |
| Confidential Attachment MAR 2 | List of ATM's distributors |
| Confidential Attachment MAR 3 | Distributorship agreement with [REDACTED] [REDACTED] [ATM's distributor] |
| Confidential Attachment MAR 4 | Summary of ATM's trading arrangements |
| Confidential Attachment MAR 5 | Letter of appointment to a steel distribution company |
| Confidential Attachment MAR 6 | A request for supply letter from an end user |

Public Record

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| Confidential Attachment SALES 1 | ATM's DDR offers for July 2013, October 2013 and March 2014 |
| Confidential Attachment SALES 2 | Express price lists for July 2013, October 2013 and March 2014 |
| Confidential Attachment SALES 3 | ATM's 'import price offer database' |
| Confidential Attachment SALES 4 | 'Price list mechanics' spreadsheet |
| Confidential Attachment SALES 5 | Two sample sales documents demonstrating application of DDR price |
| Confidential Attachment SALES 6 | Summary of discount and rebate types |
| Confidential Attachment SALES 7 | Source documents for the selected sales |
| Confidential Attachment SALES 8 | An extract from the Arrium Ltd.'s audited Financial Report for FY2014 |
| Confidential Attachment SALES 9 | A summary of Arrium Ltd.'s discontinued operations. |
| Confidential Attachment SALES 10 | ATM's profit and loss statement for FY2014 |
| Confidential Attachment SALES 11 | Reconciliation of sales and profit to BPCS |
| Confidential Attachment SALES 12 | BCPS product segment summary |
| Confidential Attachment SALES 13 | Monthly management reports for each month of the investigation period |
| Confidential Attachment SALES 14 | Quality assurance test records |
| Confidential Attachment CTMS H1 | Quarterly Stock Movement Report – Slit |
| Confidential Attachment CTMS H2 | Stock Movement Report October – Slit |
| Confidential Attachment CTMS H3 | Stock Movement Report October – Mother Coil |
| Confidential Attachment CTMS H4 | Conversion Costs Calculations |
| Confidential Attachment CTMS H5 | Slitter Cost Reports October |
| Confidential Attachment CTMS H6 | Black Coil Transactions Summary October |
| Confidential Attachment CTMS H7 | Steel Receipt Clearing Account Report October |
| Confidential Attachment CTMS H8 | Excel Pivot Table of all HRC receipts |

Public Record

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| Confidential Attachment CTMS H9 | SAP Purchase orders report for HRC |
| Confidential Attachment CTMS H10 | Supplier Invoices and Payment advices HRC |
| Confidential Attachment CTMS H11 | Conversion yield loss monthly results |
| Confidential Attachment CTMS P1 | Paint used in Finished Goods GL Account Balance sheet |
| Confidential Attachment CTMS P2 | General Ledger for Paint Used in Finished Goods Account |
| Confidential Attachment CTMS P3 | Selected Transaction for Paint |
| Confidential Attachment CTMS P4 | Goods issue documents for Paint |
| Confidential Attachment CTMS P5 | SAP line details for selected Paint transaction |
| Confidential Attachment CTMS P6 | Materials Store transfer document |
| Confidential Attachment CTMS P7 | Supplier Invoice for Paint purchase. |
| Confidential Attachment CTMS Z1 | Zinc Bath GL Account Balance Sheet |
| Confidential Attachment CTMS Z2 | General Ledger for Zinc Bath Account |
| Confidential Attachment CTMS Z3 | Selected issue to production transaction for Zinc Bath |
| Confidential Attachment CTMS Z4 | Goods issue documents for Zinc Bath |
| Confidential Attachment CTMS Z5 | SAP line details for selected zinc bath transaction |
| Confidential Attachment CTMS Z6 | Selected purchase transaction for zinc bath |
| Confidential Attachment CTMS Z7 | Material Store transfer document |
| Confidential Attachment CTMS Z8 | Exchange rate variance reconciliation for zinc purchase |
| Confidential Attachment CTMS Z9 | Supplier invoice for zinc purchase |
| Confidential Attachment CTMS S1 | Scrap Credits GL Account Balance |
| Confidential Attachment CTMS S2 | General Ledger for Scrap Credit Account |
| Confidential Attachment CTMS S3 | Selected transaction for Scrap Credit |
| Confidential Attachment CTMS S4 | Scrap Accruals Document |

Public Record

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| Confidential Attachment CTMS S5 | Sundry Receivables – Scrap Accrual Journal |
| Confidential Attachment CTMS S6 | Identified Accrual |
| Confidential Attachment CTMS S7 | Selected Payment Ref V874271 |
| Confidential Attachment CTMS S8 | Remittance advice from sale of Scrap |
| Confidential Attachment CTMS S9 | Invoice for selected transaction on remittance advice |
| Confidential Attachment CTMS S10 | Independent market value of scrap |
| Confidential Attachment CTMS L1 | Extract of Labour Costs from General Ledgers of each plant |
| Confidential Attachment CTMS L2 | Newcastle Mill General Ledger |
| Confidential Attachment CTMS L3 | Selected Direct Labour Cost |
| Confidential Attachment CTMS L4 | SAP Cost Centre Reports for Mill 1 & Mill 2 Newcastle |
| Confidential Attachment CTMS L5 | Selected Transactions for Mill 2 |
| Confidential Attachment CTMS L6 | SAP download of labour records for Mill 2 |
| Confidential Attachment CTMS L7 | Payroll transactions by employee for Mill 2 |
| Confidential Attachment CTMS L8 | Overtime Wages Project Adjustment Reconciliation |
| Confidential Attachment CTMS L9 | October Trial Balance |
| Confidential Attachment CTMS K1 | Packing Cost reconciliation package |
| Confidential Attachment CTMS O1 | Oil and Grease reconciliation package |
| Confidential Attachment CTMS F1 | Leasing expenses reconciliation package |
| Confidential Attachment CTMS M1 | Contracted services reconciliation package |
| Confidential Attachment CTMS V1 | Variable Costs Ledger |
| Confidential Attachment CTMS D1 | Depreciation reconciliation package |
| Confidential Attachment SGA1 | Administration SGA reconciliation |
| Confidential Attachment SGA2 | Freight SGA reconciliation package |

Public Record

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| Confidential Attachment SGA3 | Distribution SGA reconciliation package |
| Confidential Attachment CL 1 | Monthly base HRC costs in comparison to monthly base pre-galvanised HRC costs |

11.2 Appendices

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| Confidential Appendix SALES 1 | ATM's Revised Sales Listing |
| Confidential Appendix SALES 2 | Analysis of ATM's A4 sales listing |
| Confidential Appendix SALES 3 | Analysis of prices to related and unrelated customers |
| Confidential Appendix ECON 1 | ATM's employment numbers |
| Confidential Appendix ECON 2 | Capacity utilisation calculation |
| Confidential Appendix ECON 3 | Supply plans for M1 and M2 mills of ATM's Newcastle plant |
| Confidential Appendix ECON 4 | Table of import offers vs. exchange rates |
| Confidential Appendix ECON 5 | ATM's sales prices vs. exchange rates |