



## **INVESTIGATION 234**

# **ALLEGED DUMPING OF QUENCHED AND TEMPERED STEEL PLATE EXPORTED FROM FINLAND, JAPAN AND SWEDEN**

## **VISIT REPORT - AUSTRALIAN INDUSTRY**

### **Bisalloy Steels 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 THE ANTI-DUMPING COMMISSION**

**May 2014**

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## ABBREVIATIONS

The Act	<i>Customs Act 1901</i>
ABS	Australian Bureau of Statistics
ADN	Anti-Dumping Notice
ASX	Australian Stock Exchange
AUD	Australian Dollar
The applicant	Bisalloy Steels Pty Ltd (also referred to in this report as Bisalloy)
COGS	Cost of goods sold
Bisalloy Jigang	Bisalloy Jigang (Shandong) Steel Plate Co., Ltd: Joint venture based in China between Shandong Iron and Steel and Bisalloy Steel Group Limited
Bisalloy Steel Group Limited	Bisalloy Steel Group
the Commission	Anti-Dumping Commission
BHN	Brinell Hardness Number
CTM	Cost to make
CTMS	Cost to make & sell
CTS	Cost to sell
EBIT	Earnings before interest and tax
EBITDA	Earnings before interest, tax, depreciation and amortisation
FOB	Free on board
FTE	Full time equivalent employees
FY	Financial Year
GAAP	Generally accepted accounting principles
GFC	Global financial crisis
NIP	Non-injurious Price
OEM	Original Equipment Manufacturers
PAD	Preliminary Affirmative Determination
China	Peoples' Republic of China
Q&T steel plate	Quenched and Tempered steel plate
Q&T greenfeed	Quenched and Tempered greenfeed
Parliamentary Secretary	Parliamentary Secretary to the Minister for Industry
RBA	Reserve Bank of Australia
SEF	Statement of Essential Facts
the goods	the goods the subject of the application (also referred to as the goods under consideration or GUC)
TMCP	Thermo Mechanical Controlled Process
the Minister	the Minister for Industry
USP	Unsuppressed Selling Price

## 1 BACKGROUND AND PURPOSE

### 1.1 Background

On 20 November 2013, Bisalloy Steels Pty Ltd (Bisalloy) lodged an application requesting that the relevant Minister publish a dumping duty notice in respect of Quenched and Tempered steel plate (Q&T steel plate) exported to Australia from Finland, Japan and Sweden.

On 10 December 2013, Bisalloy provided further information and data in support of its application. As a result, the Anti-Dumping Commission (the Commission) restarted the 20 day period for considering the application.

After consideration of the application, an investigation into the alleged dumping of Q&T steel plate was initiated on 8 January 2014, and public notification was published in *The Australian* on that day.

Anti-Dumping Notice (ADN) No. 2014/01 refers to the initiation of the investigation, and is available at [www.adcommission.gov.au](http://www.adcommission.gov.au).

There have been no previous dumping investigations for Q&T steel plate in Australia.

### 1.2 Purpose of visit

The purpose of the visit was to:

- obtain general information about the Australian market for Q&T steel plate;
- gain a greater understanding of Bisalloy's manufacturing, marketing and distribution processes;
- verify information provided in the application;
- obtain additional financial data about the claimed injury to the Australian industry; and
- gather information relevant to assessing whether the allegedly dumped imports had caused material injury to the Australian industry.

### 1.3 Meeting details

Company	Bisalloy Steels Pty Ltd 18 Resolution Drive, Unanderra NSW 2526
ABN	27 001 641 292
Dates of visit	Tuesday 4 February 2014 to Thursday 6 February 2014

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The following were present at various stages of the meeting:

Bisalloy Steels Pty Ltd	Robert Terpening, Managing Director/CEO David MacLaughlin, Chief Financial Officer Tom Matinca, Business Development and Strategy Manager Michael Bradmore, Operations Manager Michael Sampson, Sales and Marketing Manager
Consultant	John O'Connor, John O'Connor & Associates Pty Ltd
The Commission	Kerry Taylor – Director, Operations 4 Matthew Williams – Manager, Operations 4 An Chew – A/g Manager Rebecca Oliver – Supervisor, Operations 4

### 1.4 Investigation process and timeframes

Bisalloy was advised of the investigation process and the following timeframes:

- The Minister for Industry has delegated responsibility with respect to anti-dumping matters to the Parliamentary Secretary to the Minister of Industry (Parliamentary Secretary), and accordingly, the Parliamentary Secretary is the relevant decision maker for this investigation.
- The investigation period is 1 January 2013 to 31 December 2013.
- The injury analysis period is from 1 January 2010 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 (10 March 2014) and provisional measures may be imposed at the time of the PAD or at any time after the PAD has been made.

The 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.

This was 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 28 April 2014, or such later date as the Parliamentary Secretary allows under s.269ZHI of the *Customs Act 1901* (the Act).
- The SEF will set out the material findings of fact on which the Commission intends to base its recommendations to the Parliamentary Secretary, 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, the Commission will provide its final report and recommendations to the

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Parliamentary Secretary. This final report is due no later than 12 June 2014 unless an extension to the SEF is approved by the Parliamentary Secretary.

### **1.5 Visit report**

It was explained to Bisalloy that the Commission would prepare a report of the visit (this report) and provide it to Bisalloy to review its factual accuracy, and to identify those parts of the report it considers to be confidential.

The Commission explained that, in consultation with Bisalloy, a non-confidential version of the report would be prepared, and placed on the Public Record.

## 2 THE GOODS

### 2.1 Description

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

*“Flat rolled products of alloyed steel plate commonly referred to as Quenched and Tempered (“Q&T”) steel plate (although some Q&T grades may not be tempered), not in coils, not further worked than hot rolled, of widths from 600mm up to and including 3,200mm, thickness between 4.5-110mm (inclusive), and length up to and including 14 metres, presented in any surface condition including but not limited to mill finished, shot blasted, primed (painted) or un-primed (unpainted), lacquered, also presented in any edge condition including but not limited to mill edge, sheared or profiled cut (i.e. by Oxy, Plasma, Laser, etc.), with or without any other minor processing (e.g. drilling).*

*Goods of stainless steel, silicon-electrical steel and high-speed steel, are excluded from the goods covered”.*

In support of the goods description, Bisalloy stated that Q&T steel plate comprises grades with typical mechanical properties as follows:

- *High Hardness/Abrasion resistant Q&T steel plate (more commonly referred to as ‘Wear’ Grade Q&T steel plate) of Brinell hardness (HBW – 10/3000) range 320-640 or equivalent Rockwell C hardness range 34 – 59 or equivalent Vickers hardness range 230-670;*
- *High Strength Q&T steel plate (commonly referred to as ‘Structural/High Tensile’ Grade Q&T steel plate) of 0.2% Proof Stress of 475-890 MPa (min); and*
- *High Hardness/Impact resistant Armour Grades (more commonly referred to as ‘Armour’ Grade Q&T steel plate) of hardness up to 640 Brinell (HBW – 10/3000)”.*

For further details regarding the goods, refer to ADN 2014/1, available on the public record.

### 2.2 Tariff classification

Goods identified as Q&T steel plate are classified to tariff subheading 7225.40.00 in Schedule 3 to the *Customs Tariff Act 1995*.

Tariff subheading 7225.40.00 refers to flat-rolled products of other alloy steel, of a width of 600mm or more – other, not further worked than hot-rolled, not in coils. The relevant statistical codes are:

- statistical code 21 - high alloy: quenched and tempered; and
- statistical code 23 - other: quenched and tempered.

Bisalloy also claimed in its application that some imported Q&T steel plate has been incorrectly classified to tariff subheading 7225.40.00, statistical codes 22 and 24. The



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Commission will seek further clarification on this matter during the course of the investigation.

For tariff subheading 7225.40.00, the general rate of duty is 5 per cent for goods imported from Finland, Japan and Sweden.

### 3 THE AUSTRALIAN INDUSTRY

#### 3.1 Corporate, organisational and ownership structure

Bisalloy is 100 per cent owned by Bisalloy Steel Group Limited (Bisalloy Steel Group), a publicly listed company on the Australian Stock Exchange (ASX).

Bisalloy provided the Commission with an overview of its history at **Confidential Attachment GEN 1**.

Bisalloy Steel Group began operations in 1980 as Bunge Industrial Steels at the current plant site at Unanderra, New South Wales (NSW). Bunge Industrial Steels was acquired by Email Limited in 1989 and renamed Bisalloy Steels. Bisalloy Steels was again acquired in 2001 by the Atlas Group. It was subsequently listed on the ASX in 2003, as Atlas Group Holdings Limited. In 2008, Atlas Group divested its distribution business and it was renamed Bisalloy Steel Group.

Bisalloy Steel Group has distribution operations in Thailand and Indonesia and also has a 33 per cent equity stake in a Bisalloy Jigang (Shandong) Steel Plate Co., Ltd (Bisalloy Jigang), a joint venture that manufactures Q&T steel plate in the Peoples' Republic of China (China).

Bisalloy stated that only it and Bisalloy Jigang manufactures Q&T steel plate within the Bisalloy Steel Group.

Bisalloy provided a chart detailing Bisalloy Steel Group's corporate structure at **Confidential Attachment GEN 2**.

#### 3.2 Accounting structure and details of accounting systems

Bisalloy's accounting period is 1 July to 30 June. Its financial statements are prepared half yearly and annually in accordance with Australian Accounting Standards and International Financial Reporting Standards and consolidated into the Bisalloy Steel Group's annual report.

During the visit, Bisalloy provided the Commission with Bisalloy Steel Group's most recent audited annual report (**Attachment GEN 3**) and current organisational structure (**Confidential Attachment GEN 4**). Bisalloy advised that its costs centres align with its organisational structure.

Bisalloy explained that its accounts are reported and managed through SAP accounting software. Its sales and inventory management are captured by the AS/400 Platform, which is an off the shelf accounting software program developed by IBM. Bisalloy adapted this program to interface with SAP.

Bisalloy also advised that no management fees are paid between any of the Bisalloy Steel Group entities.

Bisalloy currently has ■ staff and reported annual turnover of approximately \$80m in revenues in FY2013

### 3.3 Relationship with suppliers and customers

#### 3.3.1 Suppliers

Bisalloy advised that the main raw material for its Q&T steel plate is Q&T steel plate greenfeed (Q&T greenfeed). Bisalloy purchases Q&T greenfeed from domestic and overseas suppliers.

The Q&T greenfeed purchased domestically is manufactured by BlueScope Steel Limited (BlueScope).

Bisalloy explained that up until 2006, it sourced its Q&T greenfeed exclusively from BlueScope. However, between 2004 and 2009, BlueScope was unable to meet Bisalloy's Q&T greenfeed demand. As a result, Bisalloy sought alternative sources of supply.

Bisalloy indicated that BlueScope currently supplies approximately [REDACTED] per cent of Bisalloy's Q&T greenfeed requirements. Bisalloy states that it has no relationship with BlueScope other than a commercial buyer/seller relationship.

Bisalloy advised that it imports Q&T greenfeed from Shandong Iron and Steel in China through traders, [REDACTED]. Bisalloy advised that Shandong Iron and Steel is Bisalloy's joint venture partner in Bisalloy Jigang. Bisalloy stated that it is not directly related to Shandong Iron and Steel.

Bisalloy stated that it also purchases Q&T greenfeed from other unrelated suppliers in Asia, such as POSCO in South Korea. Bisalloy explained that it is necessary to divide its Q&T greenfeed requirements between domestic and overseas suppliers to ensure supply chain security.

Bisalloy advised that it uses [REDACTED] types of Q&T greenfeed (**Confidential Attachment GEN 5**). Bisalloy has intellectual property rights in the alloy composition of the Q&T greenfeed, which Bisalloy submitted is a production advantage as certain types of its Q&T greenfeed can be used to make both structural and wear grades of Q&T steel plate.

#### 3.3.2 Customers

Bisalloy sells Q&T steel plate on both the domestic and export markets.

Bisalloy advised that its domestic customers can be divided into national/state based distributors and fabricators/original equipment manufacturers (OEMs).

The national distributors include [REDACTED]. The national distributors sell Bisalloy's Q&T steel plate in addition to a wide range of other steel products. The state based distributors are smaller regional based distributors of steel products, for example, [REDACTED]. Bisalloy advised that sales to national and state based distributors account for approximately 80 per cent of its domestic sales.

The remaining 20 per cent of sales are to larger fabricators/OEMs who, for technical or commercial reasons, purchase directly from Bisalloy. Examples include [REDACTED].

Bisalloy stated that it is not related to any of its domestic customers.

Bisalloy stated that approximately ■ per cent of its sales on the export market are to its related distribution businesses – Bisalloy (Thailand) Co. Ltd in Thailand and PT Bima Bisalloy in Indonesia. It advised that its Thailand and Indonesian distribution businesses also sell other steel products such as stainless steel.

### **3.4 Bisalloy's manufacturing facilities and product range**

#### **3.4.1 Manufacturing facilities**

Bisalloy's sole business is the manufacture and sale of 3 grades of Q&T steel plate: structural, wear and armour. Bisalloy operates a Q&T steel plate processing plant at Unanderra, NSW.

In addition to its processing plant, Bisalloy's facilities at Unanderra include warehousing, administration and sales offices.

Bisalloy advised that its production line was first installed in 1984 and has since undergone significant upgrades. Bisalloy's products are sold under the registered brand name "Bisplate".

#### **3.4.2 Range of Q&T steel plate**

Bisalloy provided in its application, product specification sheets for its structural, wear and armour products (**Attachment GEN 6**).

During the visit Bisalloy provided a detailed overview of its Q&T steel plate manufacturing capabilities as follows:

- Thickness – Bisalloy stated that it is capable of producing Q&T steel plate to thickness ranges between 4.5mm to 110mm. Bisalloy explained that its standard offering to the market is between 6mm to 100mm thick. Bisalloy stated that an immaterial amount of Q&T steel plate below 4.5mm and above 110mm is imported to the Australian market.
- Width – Bisalloy advised that it is able to produce Q&T steel plate as narrow as 450mm, but it sells most of its Q&T steel plate in widths between 1,525mm and 3,100mm. The maximum width is largely dictated by the width of a standard truck for inland transportation. Bisalloy advised that the goods description in its application refers to Q&T steel plate with a width greater than 600mm in order to align with tariff subheading 7225.40.00.
- Length – Bisalloy stated that it is capable of producing Q&T steel plate to a maximum length of 9.5m, but the standard market offer is 8m.
- Finishes – Bisalloy stated that finishes of its Q&T steel plate are determined by customer requirements. Most of its Q&T steel plate is shot blasted.
- Edge conditions – Bisalloy explained that Q&T steel plate can be sold in various edge conditions, including mill edge (as per the mill finish with a slightly curved

edge) and edge cut (the plate is cut and squared off). Bisalloy stated that the Australian market generally requires edge cut Q&T steel plate which comes at an extra cost and results in a small amount of wastage. Other than edge cutting, Bisalloy doesn't generally cut the plate to size, but will provide a quote if cutting is required.

- Flatness – Bisalloy advised that the Australian standard for flatness and edge camber are as per AS1365 (table 3.4) which are higher than international standards. Bisalloy advised that its Q&T steel plate is produced to a higher standard than the permitted tolerances for flatness. Bisalloy provided a copy of their Bisplate Technical Guide (**Attachment GEN 7**).

### **3.4.3 Standards and grades**

Bisalloy provided during the verification visit, an overview of the standards and grades of its Q&T steel plate as follows:

- Structural grades – Bisalloy stated that for structural grades of Q&T steel plate, the relevant Australian Standard is AS3597 (Structural and pressure vessel steel – Quenched and Tempered Plate). Bisalloy explained that there are international equivalents of this AS3597.

Bisalloy stated that it also produces Bisplate 80PV, which is a structural grade of Q&T steel plate that has undergone additional testing to certify that it is suitable for use in unfired pressure vessels (e.g. Liquid Petroleum Gas trucks).

- Wear grade – Bisalloy advised that there are no domestic or international standards applicable to wear grades of Q&T steel plate. There are, however, recognised industry standards which reference Brinell Hardness Number (BHN) or elongation requirements. An additional test for 'through hardness' can be performed to ensure hardness is consistent throughout the plate.
- Armour grade – Bisalloy explained that armour grade Q&T steel plate is similar to wear grade, however it requires additional ballistics testing as per the customer's requirements.

As part of its application, Bisalloy provided two tables comparing the properties of Bisplate wear, structural and armour grades to imported brands/grades of Q&T steel plate. These tables are replicated in tables 1 & 2 below.

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Bisalloy Steels' Bisplate Q&T Steel Plate import comparisons - Wear and Armour grades							
		Q&T Brandname(s)	High Hardness/Abrasion resistant- Wear & Armour Grades (HBW-10/3000)				
Country	Company	Wear (Brinell HBW-10/3000)	320-380	400	450	500	600
Australia	Bisalloy Steels Pty. Ltd.	Bisplate - BISXXX (Wear) Bisplate- HHA, UHTA, UHH & HIA (Armour)	BIS320	BIS400 HIA	BIS450 UHTA	BIS500 HHA	BIS600 UHH
Sweden	SSAB (Swedish Steel)	Hardox XXX(wear) Armox XXX(Armour)	Hardox Hi-Tuff Armox 370T	Hardox 400 Armox 400T	Hardox 450 Armox 440T	Hardox 500 Armox 500T	Hardox600 Armox 600T
Japan	NSSMC (Nippon Steel & Sumitomo Metal Corp.)	Wel-Ten AR XXXX (wear) SUMIHARD K XXX (wear) ABREX XXX(Wear )	AR360E K340	AR400E K400 ABREX400 ABREX400LT	K450 ABREX 450 ABREX400LT	AR500E K500 ABREX 500 ABREX 500LT	ABREX 600
Japan	JFE (Total Steel)	Everhard EHXXX (Wear)	EH360E EH360A EH360LE	EH400 EHSP	EH450	EH500 EH500LE EHS500	EHS600
Finland	RUUKKI	RAEX XXX (Wear)	Raex 300	Raex 400	Raex 450	Raex 500	

**Table 1: Bisplate Q&T steel plate import comparison for wear and armour grades**

Bisalloy Steels' Bisplate Q&T Steel Plate import comparisons -High Strength (High Tensile) Structural grades							
		Q&T Brandname(s)	High Strength (High Tensile) - Structural Grades				
Country	Company	0.2% Proof Stress (Min.) Tensile Strength (Range)	400MPa 450-580MPa	500 MPa 590-730MPa	600 MPa 690-830MPa	690 MPa 790-930MPa	890 Mpa 940-1100MPa
Australia	Bisalloy Steels Pty. Ltd.	Bisplate -BISXX	BIS60	BIS60	BIS70	BIS80 BIS80PV	BIS100
Sweden	SSAB (Swedish Steel)	Weldox XXX				Weldox 700	Weldox 900 Weldox 960 Weldox1100
Japan	NSSM (Nippon Steel & Sumitomo Metal Corp)	Wel-Ten XXX (Nippon) SUMITEN XXX (Sumitomo) SBHSXXX (NSSMC)	WEL-TEN 590 SUMITEN590	WEL-TEN 600 SUMITEN 610	WEL-TEN 690 SUMITEN 690 SBHS500	Wel-TEN 780 SUMITEN 780S SBHS700	WEL-TEN 950 SUMITEN950
Japan	JFE (Total Steel)	HITEN XXX (Structural)	HITEN590	HITEN 610	HITEN710	HITEN 780	HITEN980
Finland	RUUKKI	OPTIM XXXQL				OPTIM 700 QL	

**Table 2: Bisplate Q&T steel plate import comparison for structural/high tensile grades**

### 3.5 Production process

Subsections 269T(2) and 269T(3) of the Act specify that, for goods to be regarded as being produced in Australia, they must be wholly or partly manufactured in Australia. In order for the goods to be considered partly manufactured in Australia, at least one substantial process in the manufacture of the goods must be carried out in Australia.

During the verification visit, the Commission conducted an inspection of Bisalloy's production facilities at Unanderra, NSW. The following production process was observed:

- The Q&T greenfeed is shot blasted, whereby steel shots are air blasted at the steel plate to remove rust and other surface defects.
- The Q&T greenfeed passes through an Austenitising heat blast furnace to uniformly heat the plate to temperatures of around 900 degrees Celsius. Bisalloy explained that the heating of the Q&T greenfeed changes the grain microstructure of the steel to be become more uniform. The plate is then rapidly cooled using water jets in a roller quench unit to lock in this uniform grain microstructure. The furnace temperatures and quenching rates are controlled using programmable

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logic controllers (PLCs) to obtain the optimum mechanical properties for each specific grade of Q&T steel plate.

- For structural grades of Q&T steel plate, an additional tempering process is undertaken. The plate is reheated in a tempering furnace (located next in the production line to the Austenitising heat blast furnace) and cooled. For structural grades of Q&T steel plate, this tempering process increases the hardness and removes stress from the plate. Bisalloy explained that it is able to simply switch the tempering furnace on and off as the product mix requires.
- The plate is again shot blasted to remove any scale created by the water treatment. Bisalloy has an additional shot blaster for this process which is located at the end of the production line.
- The Q&T steel plate is then tested for hardness and other mechanical properties before passing through a leveller (for plate up to 32mm in thickness) to ensure the desired flatness is achieved. Bisalloy performs its own testing in its National Association of Testing Authorities (NATA) approved testing facility, with the exception of ballistics testing which is performed by [company name]. The Q&T steel plate is finally stencilled and bar coded ready for delivery.

As part of its application, Bisalloy provided the following diagram (Figure 1) to illustrate its production process:

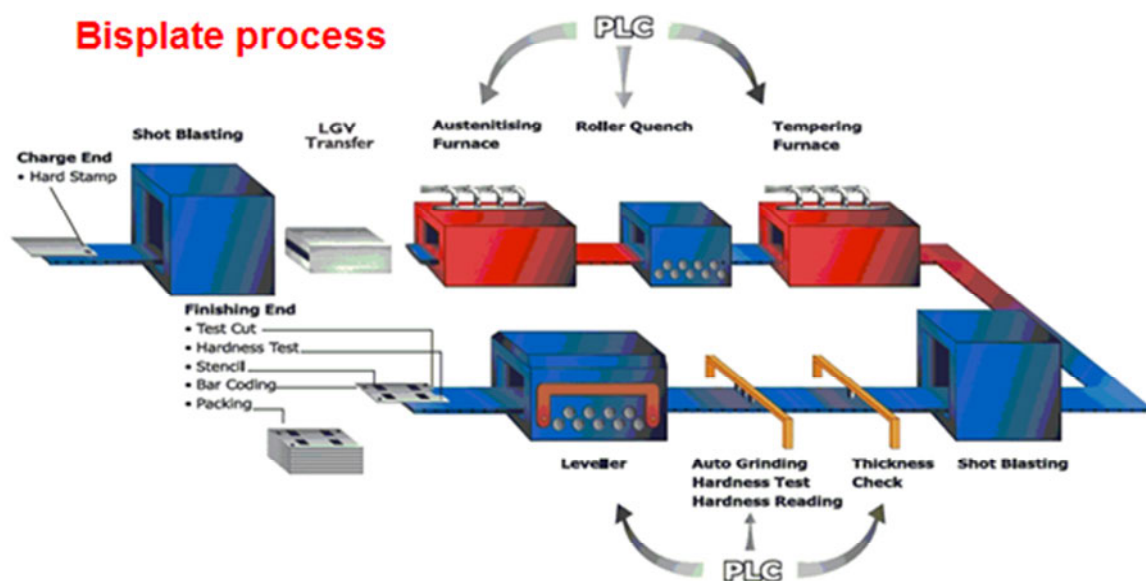


Figure 1: Bisplate Production Process

Bisalloy outlined that its production process results in minimal wastage. It explained that most rejected product can be re-processed, resulting in small amounts of scrap which is also on-sold.



### 3.6 Like goods

Subsection 269T(1) of the Act defines like goods as:

*goods that are identical in all respects to the goods under consideration or that, although not alike in all respects to the goods under consideration, have characteristics closely resembling those of the goods under consideration.*

Bisalloy considers that its locally produced Q&T steel plate is 'alike' to the imported goods and possesses the same essential characteristics as the imported goods, because both goods:

- are alike in physical appearance;
- compete directly in the same market;
- are directly substitutable; and
- have the same end-uses.

Based on discussions and verification with Bisalloy, at this stage, the Commission considers that:

- the primary physical characteristics of the goods and locally produced goods are similar;
- the goods and locally produced goods are commercially alike as they are sold to common users, and directly compete in the same market;
- the goods and locally produced goods are functionally alike as they have a similar range of end-uses; and
- the goods and locally produced goods are manufactured in a similar manner.

Accordingly, the Commission is satisfied that the Australian industry produces like goods to the goods the subject of the application, as defined in section 269(T) of the Act. However, the issue of like goods will continue to be assessed throughout the investigation.

### 3.7 Conclusion

We are satisfied that:

- the Q&T steel plate produced by Bisalloy are like to the imported goods<sup>1</sup>;
- the like goods were wholly or partly manufactured in Australia by Bisalloy<sup>2</sup>;
- at least one substantial process of manufacture of Q&T steel plate is carried out in Australia<sup>3</sup>; and
- there is an Australian industry consisting of persons who produce like goods in Australia in the form of Bisalloy<sup>4</sup>.

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<sup>1</sup> Section 269T(1)

<sup>2</sup> Section 269T(2)

<sup>3</sup> Section 269T(3)

<sup>4</sup> Section 269T(4)



## 4 AUSTRALIAN MARKET

### 4.1 Background

Bisalloy is the only Australian manufacturer of Q&T steel plate.

In its application, Bisalloy submitted that the Australian Q&T steel plate market is supplied through its domestic production and imports from a number of countries. Bisalloy identified Finland, Japan and Sweden (the nominated countries) as major sources of supply.

At the verification visit, Bisalloy submitted that all exporters of Q&T steel plate to Australia from Finland, Japan and Sweden have a comparable range of Q&T steel plate to Bisalloy's product range.

Bisalloy stated that the main source of competition and pricing pressure is for wear and structural grades of Q&T steel plate of 400 - 450 (Brinell Hardness) for wear grades and 790-930Mpa (Tensile Strength) for Structural grade equivalents,<sup>5</sup> in the thickness range of 10-50mm.

### 4.2 Market segmentation

Bisalloy submitted that the Q&T steel plate market in Australia is driven by the resources and mining sector and, to a lesser degree, the general construction, infrastructure and transport sectors.

As part of its application, Bisalloy described its understanding of the Q&T steel plate market in Australia. Table 3 below summarises Bisalloy's understanding of the Q&T steel plate market sectors and corresponding end use applications.

Primary end use market	Applications
Mining Equipment Technology and Services Sector	<p>Heavy Mobile Equipment used in extracting (above and below ground) and processing of bulk commodities such as Iron Ore &amp; Coal as well as other valuable minerals resources such as Gold, Silver, Copper, Zinc, Manganese, Tin, Lead and rare earths, in components such as:</p> <ul style="list-style-type: none"> <li>• Excavator/Dragline Buckets;</li> <li>• Off Highway Dump Truck Bodies;</li> <li>• On Highway Truck Bodies;</li> <li>• Longwall Mining Equipment – Roof Shields, Pan-lines etc.</li> <li>• Front-end loader arms and buckets;</li> <li>• Primary and Secondary Ore Processing fixed plant equipment such as apron feeders, chute liners, ROM hoppers, Train Load-out Hoppers, Screens, Surge Bins, Rail Bins, Stackers &amp; Reclaimers;</li> <li>• Crushers, Conveyors;</li> <li>• Ship loaders;</li> <li>• Ore Rail cars;</li> </ul>

<sup>5</sup> Refer to Tables A-3-3.1 and A-3-3.2 Application of Dumping Duty Notice

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	<ul style="list-style-type: none"><li>• Sub-sea Oil and Gas valve actuator cylinders; and</li><li>• Jack up rigs.</li></ul>
General Construction, Infra-structure, Ports & Rail Structural applications	<ul style="list-style-type: none"><li>• Bridges (including rail) and Gantries;</li><li>• High Strength Structural beams;</li><li>• Crane booms and lifting equipment ;</li><li>• Building Construction – High Strength Beams and columns; and</li><li>• General steel fabrication and heavy transport.</li></ul>
Defence Applications	<ul style="list-style-type: none"><li>• Australian Defence Force Bushmaster Infantry Mobility Vehicle;</li><li>• Civil armoured vehicles; and</li><li>• Submarine plate.</li></ul>

Table 3: Primary end-use applications of Q&T steel plate

### 4.3 Marketing and distribution

#### 4.3.1 General

As noted in section 3.3.2 above, approximately 80 per cent of Bisalloy's domestic Q&T steel plate sales are made to distributors and the remaining 20 per cent to larger fabricators/OEM's.

Bisalloy stated that in the past, the Australian market was willing to pay a premium on Bisalloy products of somewhere between xx-xx per cent. This premium was in recognition of the advantages of purchasing from a local producer including, shorter lead times, flexibility in purchasing volumes, tailored plate sizes and after purchase technical assistance/support.

Over the past 12 months, Bisalloy has observed a change in Q&T steel plate market behaviour, whereby the market is now more willing to negotiate on price, in its opinion, deteriorating Bisalloy's brand and premium in the market place.

#### 4.3.2 Distribution

Bisalloy explained that the Australian Q&T steel plate market is predominantly supplied by large distributors (such as *company name* and *company name*), who then on-sell to resellers or directly to end-users.

Bisalloy explained that distributors generally purchase a combination of imported and locally produced Q&T steel plate.

Bisalloy submits that it competes with importers of Q&T steel plate in all states and territories in Australia and across each market segment.

### 4.4 Bisalloy's imports of Q&T steel plate

Bisalloy advised that it made a one-off purchase of approximately xx tonnes of Q&T steel plate from its Chinese joint venture, Bisalloy Jigang, during the investigation period. This purchase was due to an inability to source Q&T greenfeed from BlueScope at a required width in the required timeframe. Bisalloy advised that BlueScope is now able to produce the Q&T greenfeed in this width.

## **4.5 Demand**

In its application, Bisalloy outlined that fluctuations, such as the demand for bulk commodities (iron ore and coal), mining project expansions and repairs & maintenance affects the demand for Q&T steel plate.

Other factors contributing to the overall market growth or decline were identified by Bisalloy as:

- availability of capital for project expansion activity – largely based around whether or not the longer term demand will deliver the required return on investment;
- global and domestic business and consumer confidence;
- trend to 'off-shore' fabrication for large fixed plant and mobile equipment; and
- resource production volumes driving repairs and maintenance requirements.

Bisalloy also observed reduced demand in December and January each year, which are shorter trading months. During this period, Bisalloy perform shutdowns and maintenance activities. The Commission observed movements in Bisalloy's sales volumes consistent with this claim.

At the verification visit, Bisalloy made the following observations regarding demand in the Australian Q&T steel plate market:

- at the beginning of the injury analysis period, the market was recovering from the effects of the global financial crisis (GFC);
- the market improved in 2011/12 when capital expenditure for the mining industry was at a peak and armour plate projects (which it described as cyclical depending on military projects) were highly profitable. At this time Bisalloy increased its sales staff and through targeted marketing campaigns, improved its performance. Bisalloy commented that pricing of imports in the market at that stage was within a competitive range;
- the market has since contracted in the past 12 months, largely due to a decline in capital expenditure in the mining industry; and
- the mining industry is now focused on refurbishment and repair of mining equipment and infrastructure.

Bisalloy also stated that Q&T steel plate has applications in the general construction industry and the peaks and troughs in this sector flow through to the Q&T steel plate market.

## **4.6 Market size**

Prior to the verification visit, Bisalloy used import data sourced from the Australian Bureau of Statistics (ABS) and its own sales data to estimate the size of the Australian market for Q&T steel plate between 1 July 2010 and 31 December 2013.

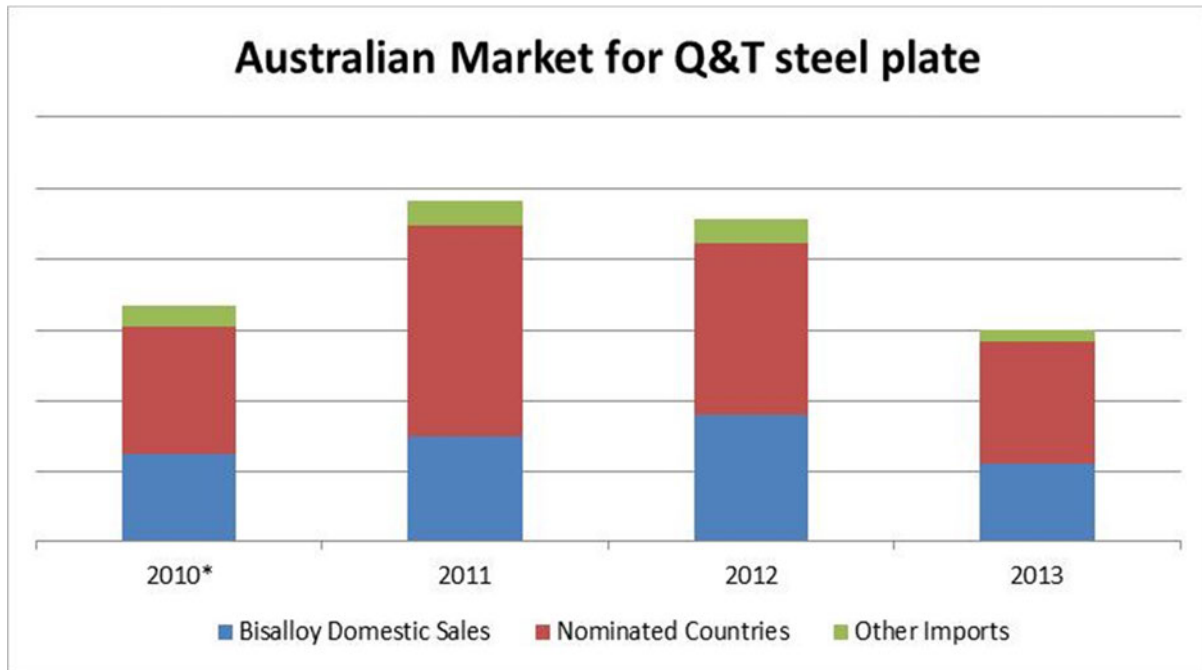
As part of its estimation, Bisalloy included what it believed were Q&T steel plate imports misclassified under statistical codes 22 and 24 of tariff subheading 7225.40.00. Bisalloy clarified at the verification visit that its estimation of imports misclassified to statistical

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codes 22 and 24 were based on a unit price per tonne, which it believed reflected Q&T steel plate import prices.

The Commission has examined the Australian Customs and Border Protections Service's import database in relation to imports declared under tariff subheading 7225.40.00 and note that the Commission's estimates of import volumes (including statistical codes 22 and 24) are generally similar or marginally higher than those estimated by Bisalloy.

The Australian market size based on Bisalloy's estimates is charted in the **Figure 2** below:



**Figure 2: Australian market for Q&T steel plate for calendar years 2010 (pro-rated)<sup>6</sup> to 2013**

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<sup>6</sup> The Commission notes that the estimate for imports from the nominated countries and other imports for 2010 are pro-rated because data was not provided for the first six months of 2010

## 5 SALES

### 5.1 General

#### 5.1.1 Sales Listing

Prior to the verification visit, Bisalloy provided a detailed, line-by-line-sales listing (sales listing) of its Australian sales of Q&T steel plate for the investigation period (**Confidential Attachment SALES 1**).

The data provided identified, for each line, the:

- customer name;
- product code;
- thickness;
- invoice details – date, number, payment terms etc.;
- mass in tonnes;
- gross invoice value;
- rebates;
- discounts; and
- net invoice value

During the verification visit, Bisalloy explained that the sales listing included an immaterial amount of Q&T greenfeed sales, which are outside the goods description.

After excluding sales of Q&T greenfeed from the sales listing, the Commission was able to verify the data, as discussed in Sections 5.4 and 5.5.

From the sales listing, it was determined that, for the investigation period, Bisalloy sold xxxxx tonnes of Q&T steel plate subject to the investigation in the Australian market at a total value of \$xxxxxxxx.

Analysis of Bisalloy's domestic sales for the investigation period showed that Bisplate 400 (wear grade), Bisplate 80 (structural grade), Bisplate 450 (wear grade) and Bisplate 500 (wear grade) accounted for the largest sales volume of like goods, representing xxxx of its Australian sales volume.

#### 5.1.2 Sales Team

Bisalloy has a domestic sales team of around xxx full time equivalent employees (FTE) and an export sales team of xxx FTE. In addition, its Sales and Business development team sometimes perform upstream sales functions.

### 5.2 Ordering, invoicing and delivery arrangements

Bisalloy advised that there are 3 different ways customers can order its Q&T steel plate:

- direct mill orders - where stock is manufactured to customer order from a general production schedule;



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- central stock orders - where the customer orders stock to be stored on Bisalloy's premises in Unanderra until required (i.e. Bisalloy acts as a warehousing facility for certain customers). The customer has access to Bisalloy's inventory listing and can request goods to be delivered as required. Bisalloy provided a copy of an example Bisplate Central Stock Agreement (**Confidential Attachment SALES 2**); and
- BisExpress stock - Bisalloy maintains a range of stock in QLD, WA and Unanderra. Bisalloy explained that it stocks a mixture of the most popular grades and sizes, which it has a high degree of confidence will be sold on a short lead time, which can be next day. Deliveries out of BisExpress currently [*comment re charge*].

Bisalloy explained that depending on customer requirements, orders can be filled by a mixture of direct mill orders, central stock and BisExpress stock.

Bisalloy stated that customers submit their orders via fax or email and once Bisalloy receives an order, it is loaded into the sales system, AS/400. The customer is then sent an order acknowledgement. The information collected in AS/400 is uploaded daily into SAP and based on the information provided Bisalloy creates its production schedules.

Bisalloy advised that customers are invoiced on the day of dispatch. For central stock orders, invoices are generated when the goods are produced and placed into central stock.

Bisalloy stated that products are delivered on a free-into-store (FIS) basis to major cities (Sydney, Wollongong, Newcastle, Melbourne, Adelaide and Brisbane) and it can deliver to other centres on request. [*Commercially sensitive information concerning customer invoicing and delivery freight costs*]. A copy of Bisalloy's freight rate schedule was provided at the verification visit (**Confidential Attachment SALES 3**). Bisalloy advised that occasionally a customer may pick up stock from Unanderra.

Bisalloy uses a number of different freight providers. Its freight provider in [*state*] also manages its warehousing requirements, whilst other state warehouse distribution centres are managed by third parties.

Bisalloy advised that it's Q&T steel plate requires no packing and is generally covered with a tarp.

### 5.3 Pricing

#### 5.3.1 Previous pricing system

Bisalloy advised that, previously, the starting point of its pricing of Q&T steel plate was [*basis for pricing – commercially sensitive*].

A version of the previous Distribution Price List, dated 22 October 2012, was provided at the verification visit (**Confidential Attachment SALES 4**).

#### 5.3.2 Current pricing system

Bisalloy advised at the verification visit that for orders commencing December 2013, it changed to a [*basis for pricing – commercially sensitive*] for all customers. A copy of the

new Distribution Price List dated 22 October 2013 (**Confidential Attachment SALES 5**) was provided at the visit.

*[Basis for pricing to capital cities – commercially sensitive]*.

From the pricing system, it is apparent that *[variable]* impacts on the price of Q&T steel plate. *[Basis for price variances – commercially sensitive pricing details]*.

The Current Distribution Price List includes details of the commercial terms that Bisalloy may offer to an approved customer. These terms of supply refer to the ordering process, specifications and standards, freight and standard lead times. The Price List also lists pricing extras for non-standard grades and sizes. It states that other testing, specification, edge condition, surface condition, tolerance, inspection and certification are available.

Bisalloy stated that payment terms are generally xx days, *[commercially sensitive comment re customer payment term]*.

Bisalloy advised that there is a minimum order quantity (MOQ) of xx plate per grade per thickness, except *[grade]* xx-xx mm where the MOQ is xx plates.

Bisalloy advised that delivery lead time varies between different geographic regions within Australia.

Bisalloy stated that it sends the Current Distribution Price list to its customers via email on a monthly basis outlining:

- the timeframe for orders to be accepted;
- delivery weeks;
- summary of price changes; and
- *[item]* from BisExpress.

Bisalloy provided samples of its monthly offers to customers for 2013 (**Confidential Attachment SALES 6**).

*[Commercially sensitive basis for pricing discounts]*.

### **5.3.3 Discounts and rebates**

As mentioned *above*, prior to December 2013, Bisalloy provided discounts of *[basis]* based on tiers of customers.

Bisalloy also provided *[price structure – commercially sensitive information]*, but due to purchase agreements, the end-user purchased Bisplate through a distributor. *[Description of pricing arrangement to address change in basis for pricing and imports]*.

## **5.4 Verification of sales data to audited financial statements**

To assess sales data for completeness and relevance, verification to audited financial statements was undertaken.

Bisalloy were asked to demonstrate how it arrived at the figures for sales volume and revenue for Q&T steel plate.

Bisalloy provided the Commission with an electronic copy of monthly management report spreadsheets (**Confidential Attachment SALES 7**). It contained sales volume and revenue data for Q&T steel plate on a monthly basis for the period July 2012 to December 2013.

The Commission was able to reconcile the sales volume and value submitted in Bisalloy's application for the financial year (FY) 2012/2013 to the management reports for the FY 2012/2013 with a variance of 0.27 per cent.

From there, the Commission was able to reconcile the sales volumes and data submitted in the management reports to Bisalloy's 2013 audited financial statements, with a variance of 0.6 per cent. Calculations relating the verification of sales data to audited financial statements are at **Confidential Attachment SALES 8**.

### **5.4.1 Completeness and relevance of sales data - conclusion**

Having regard to the above, the Commission considers that the sales data provided by Bisalloy represents a complete and relevant account of its sales of Q&T steel plate during investigation.

## **5.5 Verification of sales data to source documents**

To assess sales data for accuracy, verification to source documents was undertaken. The Commission selected 12 sales from the sales listing for verification to source documents. The selected transactions covered various quarters, products, grades, rebates and customers within the investigation period.

In respect of each of the selected sales, Bisalloy provided:

- purchase order from the customer;
- commercial invoice;
- order acknowledgement report from AS/400;
- order confirmation from Bisalloy to the customer;
- customer dispatch advice;
- remittance advice; and
- evidence of payment (bank statements and accounts payable).

These documents form **Confidential Attachment SALES 9**.

The Commission was able to reconcile invoices with transaction details reported in the sales listing, including dates, volumes and values, with the exception of one sale where an invoiced amount of \$xxxxxx was incorrectly recorded as \$xxxxxx in the sales listing. This particular transaction had initially been selected by the Commission for verification



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on the basis that it was an outlier with an abnormally low unit price per tonne compared to other sales. As there are no other such outliers identified, we are reasonably satisfied that this was one-off error which was rectified by updating the sales listing at the verification visit.

Having regard to the above, the Commission is satisfied that:

- the invoiced amounts and details in the sales listing are accurate;
- the invoiced amounts were paid by Bisalloy's customers; and
- the net transaction amounts within the sales listing are accurate.

On this basis, the Commission considers the sales listing provided by Bisalloy is accurate.

### **5.6 Sales – conclusion**

Based on the outcome of the verification visit, the Commission considers that Bisalloy's sales data in its sales listing are a complete, relevant and accurate reflection of its sales of Q&T steel plate during the investigation period.

Accordingly, Bisalloy's sales listing is suitable for analysing the economic performance of its Q&T steel plate operations from 1 January 2010 to 31 December 2013.

## 6 COST TO MAKE AND SELL

### 6.1 General

In its application, Bisalloy provided spreadsheets containing cost to make and sell (CTMS) data in relation to Australian sales and export sales of Q&T steel plate in appendices A6.1 and A6.2. Quarterly data was provided for the period September 2010 to September 2013. Upon initiation of the investigation, Bisalloy updated its CTMS data to cover the period from the March 2010 to the December 2013 quarters (**Confidential Attachment GEN 8**).

Bisalloy advised that it relied on its management reports (**Confidential Attachment Sales 7**) in filling out the cost spreadsheets for the application. It explained that these management reports are updated on a monthly basis and feed directly into its financial statements.

Bisalloy explained that its accounting system records 'cost of goods sold' (COGS) for the raw materials and actual costs for processing expenses. To obtain a total COGS, it adjusted the actual processing costs to account for work in progress.

The Commission noted that the unit cost to make (CTM) amounts were calculated based on production volumes in the denominator. Following discussion between the Commission and Bisalloy it was determined that in calculating unit CTM, it would be more appropriate for Bisalloy to use sales volume as the denominator as the numerator was COGS.

Bisalloy provided CTM for all products in accordance with Appendices A6.1 and A6.2 of the application. In addition Bisalloy advised that it produces a report that calculates the gross margin for each grade sold (**Confidential Attachment CTMS 1**), namely:

- BIS 80;
- BIS 400;
- BIS 450;
- BIS 500;
- BIS 600;
- *Grade*
- *Grade*
- *Grade*

This allowed the Commission to analyse the CTMS for each grade individually. However based on information available, costs were unable to be further broken down into individual dimensions, such as thickness.

During the verification, an inconsistency was noted in the cost spreadsheet in particular, the way the quarterly imported raw material costs were calculated for FY 2012/2013 was different to the calculation method of the other financial years. For FY 2012/2013, an average cost of imported raw materials over the financial year was applied, resulting in the quarterly weighted average costs of imported raw materials being the same. This also resulted in variances between the quarterly COGS in the cost spreadsheets and the management reports.

For the other FYs, the raw material costs were based on actual quarterly COGS, which the Commission considers to be more appropriate than applying an average. Bisalloy subsequently updated the FY 2012/2013 costs to reflect actual quarterly raw material costs (**Confidential Attachment CTMS 2**).

## **6.2 Verification of cost to make and sell data to audited financial statements**

To verify the cost data for completeness and relevance, the Commission sought to reconcile the total COGS to audited financial statements.

An attempt was made to reconcile Bisalloy's total CTM in the updated cost spreadsheet to the COGS as reported in its management reports for the investigation period (2013 calendar year). Bisalloy advised that its management report shows costs of raw materials (labelled "cost of sales") and processing expenses separately. In order to reconcile the costs; the sum of those two cost items in the management report was matched to the CTM in the cost spreadsheet. Negligible variances of less than 0.01 per cent were found.

The same reconciliation was performed for the 2012/2013 FY and also found negligible variances of less than 0.01 per cent.

Bisalloy stated that it [*commercially sensitive purchasing information between buyer/seller*]. Bisalloy explained that in preparing the [*data*] spreadsheet, it applied the [*item*] against the cost of [*expense*], therefore in order to reconcile the cost spreadsheet to the management report, it was necessary to deduct this [*item*] from the COGS. However, the Commission noted that for the September 2013 and December 2013 quarters, Bisalloy did not apply the [*item*] to the [*expense*]. The cost spreadsheet was amended to include the [*item*] for those two quarters in order to verify the COGS.

The Commission was satisfied that the cost spreadsheet reconciled to the management reports.

In order to complete the verification of costs, management reports were then reconciled to the audited financial statements. Again, to calculate the full COGS, the cost of raw materials and processing expenses were summed. Bisalloy also advised that in its audited financial statements, it is required to report "occupancy expenses" separately. Occupancy expenses are included as part of the processing expenses in the management reports. To verify the information, the sum of the cost of raw materials and processing expenses in the management reports were matched to the sum of the COGS and occupancy expenses in Bisalloy's audited financial statement for FY 2012/2013. An immaterial variance of less than 1 per cent was found.

### **6.2.1 Completeness and relevance of cost to make and sell data - conclusion**

Having regard to the above, the Commission considers that the cost to make and sell data provided in Appendix A6, as amended, represents a complete and relevant account of Bisalloy's fully absorbed costs to manufacture and sell Q&T steel plate.

### 6.3 Verification of production costs to source documents

Selected items in the cost spreadsheet were reconciled to source documents in order to verify the accuracy of the cost data.

#### 6.3.1 Production volumes

Bisalloy advised that it allocated the CTM associated with its domestic and export sales on a pro-rata basis according to production volumes. It also advised that it made the assumption that export sales occurring in a particular quarter are produced in the same quarter. Therefore, in each quarter, the difference between the total production volumes and export sales is assumed to be the domestic production volume. This approach was considered reasonable.

Total production volumes for the December 2013 quarter were then verified. Bisalloy was able to demonstrate that the figures were taken directly from the management reports, which shows monthly production volumes. The month of December 2013 was then selected for further verification. Bisalloy were asked to demonstrate the basis for the production figures that appeared in the management report. Bisalloy explained that it produces a monthly production report that collated the daily production information, including the total quantity of saleable tonnes of Q&T steel plate produced. Bisalloy provided the monthly production report for December 2013 (**Confidential Attachment CTMS 3**) which reconciled with the management reports but for a small variance of 15 tonnes (xx per cent of total production for December). Bisalloy explained that the 15 tonnes related to the volumes processed on the last workday prior to the Christmas shutdown and this volume was included in the management reports for January 2014. Production volumes for 19 December 2013 was selected for further verification and Bisalloy was able to provide the Commission with a production report for the nominated date. (**Confidential Attachment CTMS 4**) The daily production report reconciled with the volumes appearing in the monthly production report.

Bisalloy stated that while the December 2013 figures were affected by the Christmas shutdown, resulting in a small variance, the November 2013 figures should match. Bisalloy provided the Commission with the monthly production report for November 2013 (**Confidential Attachment CTMS 5**). It was determined that a minor variance of 2.4 tonnes exists between the November monthly production report and the management reports for the same period. Bisalloy explained that during November, there were 2.4 tonnes of Q&T steel plate that were rejected after failing its tests (none were rejected in December 2013) and provided a daily production sheet that supported that figure.

The Commission then sought to verify Bisalloy's export sales for the December 2013 quarter. Bisalloy was able demonstrate that the figures provided in the export sales spreadsheet were taken directly from the management reports, which shows monthly sales volumes. December 2013 was then selected for further verification and Bisalloy was able to provide the relevant export sales invoices (**Confidential Attachment CTMS 6**), which evidence the total export sales volume for December 2013.

Having reconciled the production volumes down to source documents, the Commission is satisfied that the production volumes reported in the cost spreadsheet is an accurate reflection of Bisalloy's actual production volumes of Q&T steel plate.

### **6.3.2 Raw materials**

According to the cost spreadsheet, Q&T greenfeed, the only raw material used in the manufacture of Bisalloy's Q&T steel plate, represents a significant proportion of the cost of manufacturing Q&T steel plate, making up approximately xx-xx per cent of the CTM.

As outlined in section 6.1 above, Bisalloy reports the cost of the raw materials on a COGS basis. Bisalloy advised that for reporting purposes, it made the assumption that imported Q&T greenfeed purchased in a particular quarter is consumed in the same quarter. The difference between the total cost of raw material and the imported Q&T greenfeed is assumed to be Q&T greenfeed purchased domestically.

The total raw material greenfeed plate steel COGS for the December 2013 quarter was selected for verification. The Commission was able to link the quarterly raw material COGS from the cost spreadsheet to Bisalloy's management reports, which show monthly COGS. December 2013 was selected for further verification. Bisalloy provided its profit and loss statement for December 2013 (**Confidential Attachment CTMS 7**) which shows the break-down of the raw material COGS into COGS for domestic sales, export sales and intercompany transfers (also export sales). The data provided for domestic COGS was then selected for further verification and Bisalloy provided the relevant accounts ledger listing the COGS for all domestic sales in the selected month (**Confidential Attachment CTMS 8**).

In order to verify COGS further, the Commission sought to trace a transaction for Q&T steel plate sold down to an invoice for the purchase of Q&T greenfeed. Bisalloy was able to provide a sales invoice that occurred in December 2013. Bisalloy was also able to link it to a purchase of Q&T greenfeed (**Confidential Attachment CTMS 9**).

The cost of the imported Q&T greenfeed for the December 2013 quarter was then verified. Bisalloy showed us in the management reports where the cost of imported Q&T greenfeed was recorded, which was matched to the December 2013 quarter figures. An importation in December 2013 of Q&T greenfeed was selected for further verification and Bisalloy was able to provide us with the relevant invoice showing the purchase (**Confidential Attachment CTMS 10**). An additional importation of Q&T greenfeed that occurred in July 2013 was also selected for further verification. Bisalloy provided the relevant invoices showing verifying the purchase (**Confidential Attachment CTMS 11**).

Having reconciled the raw material COGS down to source documents, the Commission is satisfied that the raw material COGS reported in the cost spreadsheet is an accurate reflection of Bisalloy's actual raw material COGS of Q&T steel plate.

### **6.3.3 Direct Labour**

Direct labour costs for the December 2013 quarter were verified. As Bisalloy only manufactures Q&T steel plate, all labour costs were allocated to the production of Q&T steel plate. Quarterly labour costs provided in the cost spreadsheet was checked against Bisalloy's monthly management reports. The data provided as part of the application correlated with source documents.

The monthly allocation of labour costs was then examined [*commercially sensitive details concerning specific non-recurring costs*].

#### **6.3.4 Overheads**

Bisalloy advised that its fixed and variable overheads include gas, electricity, consumables and repairs and maintenance activities. The cost spreadsheet was able to be reconciled to the management reports with respect to the fixed and variable overheads. The costs of electricity and gas were selected for further verification. Bisalloy provided electricity and gas invoices (**Confidential Attachment CTMS 14** and **Confidential Attachment CTMS 15**) for the month of December 2013 which were reconciled to the management reports.

#### **6.3.5 Depreciation**

Depreciation as specified in the cost spreadsheet was reconciled to Bisalloy's management reports. Bisalloy were asked to demonstrate that the depreciation amount for December 2013 reflected the depreciation booked into its financial accounts. Bisalloy provided us with a copy of its manufacturing profit and loss statement generated from SAP (**Confidential Attachment CTMS 16**) which showed that the depreciation amount matches the management reports.

#### **6.3.6 Work in progress**

Bisalloy advised that, for financial reporting purposes, it makes the assumption that all work-in-progress relates to its domestic sales of Q&T steel plate. This is consistent with its assumption in section 6.3.1 above that export sales are produced in the same quarter.

The Commission sought to verify the work-in-progress data provided in the cost spreadsheet. Bisalloy was asked to substantiate the December 2013 quarter work-in-progress figures and in response provided its work-in-process account ledger from SAP (**Confidential Attachment CTMS 17**) for the relevant period. The opening and closing values for work-in-progress for the December 13 quarter was able to be reconciled to the cost spreadsheet.

#### **6.3.7 Accuracy of production costs – conclusion**

Having regard to all of the above, the Commission considers the production cost data provided is an accurate account of the actual costs to manufacture Q&T steel plate.

### **6.4 Verification of selling, general and administrative expenses**

The accuracy of the selling, general and administrative expenses provided in the cost spreadsheet was verified by reconciling the following expenses to source documents:

#### **6.4.1 Sales & administration**

Bisalloy advised that it allocated its sales and administration expenses to domestic and export sales based on sales volume. This approach is considered reasonable. The December 2013 quarter was selected for further verification. Using Bisalloy's management reports the Commission was able to reconcile the selling and administration expenses from the cost spreadsheet with a minor variance of less than 1 per cent (**Confidential Attachment CTMS 18**).



#### 6.4.2 Distribution

Bisalloy stated that it has separate cost centres for distribution expenses relating to domestic and export sales. Distribution expenses for the December 2013 quarter were selected for verification. Bisalloy provided a trial balance for the December quarter from SAP (**Confidential Attachment CTMS 19**) which shows the distribution or cartage expenses for export and domestic sales separately. [*Basis for freight expenses – commercially sensitive*] the domestic distribution expenses were reconciled to the cost spreadsheet.

A transaction from the freight recovery accounts ledger for further verification and Bisalloy was able to provide the relevant invoice (**Confidential Attachment CTMS 21**).

#### 6.4.3 Finance

Bisalloy advised that it allocated all of its finance costs to domestic sales of Q&T steel plate as finance expenses are related to its inventory levels. Bisalloy explained that as exports are made to order and therefore is not held in inventory, it considers it appropriate to allocate finance expenses to the cost of domestic sales only. The Commission considers this approach as reasonable.

The December 2013 quarter was selected for further verification. The finance expenses in the cost spreadsheet for this quarter were matched to Bisalloy's management reports.

#### 6.4.1 Accuracy of selling, distribution and administration costs - conclusion

Having regard to all of the above, the Commission considers the selling, general and administrative expenses data provided is an accurate account of the actual costs to sell Q&T steel plate.

### 6.5 Costs to make and sell – conclusion

The Commission has concluded that Bisalloy's cost to make and sell data contained in **Confidential Appendix GEN 8**, is a complete, relevant and accurate reflection of the actual costs to manufacture and sell Q&T steel plate.

Accordingly, the Commission considers the Bisalloy cost to make and sell data in **Confidential Appendix GEN 8** are suitable for analysing the economic performance of its Q&T steel plate operations.

## **7 ECONOMIC CONDITION OF THE INDUSTRY**

### **7.1 Applicant's injury claims**

In its application, Bisalloy claimed that the alleged dumping of imported Q&T steel plate had caused material injury through:

- lost sales volumes;
- price depression;
- price suppression;
- reduced profits and profitability;
- reduced return on investment;
- reduced attractiveness for re-investment;
- reduced revenues;
- reduced capacity utilization;
- increased stock levels of like goods; and
- reduced wages for Bisalloy employees.

Bisalloy also submitted in its application that the injurious effects of dumping have had a more substantive impact in a contracting market, as experienced by Bisalloy during the 12 month period ending 30 September 2013.

The following analysis in the context of the alleged injury has been completed using data provided by Bisalloy which was subject to verification testing.

### **7.2 Commencement of injury, and analysis period**

Bisalloy submitted in its application that material injury caused by the importation of dumped Q&T steel plate has been occurring for a number of years, with an increased impact on its profit and profitability for the 12 months ending September 2013.

As specified in *Consideration Report no. 234*, the Commission has set the period for assessing the condition of the Australian industry from 1 January 2010 and the investigation period as 1 January 2013 to 31 December 2013. Charting and analysis in this section has been completed both on a quarterly and calendar year basis from 1 January 2010 to 31 December 2013.

### **7.3 Major Injury Factors**

#### **7.3.1 Volume Trends**

**Figures 3 and 4** below illustrate Bisalloy's domestic sales volumes (in tonnes) on an annual and quarterly basis from 1 January 2010 to 31 December 2013. During this period, Bisalloy's domestic sales volumes fluctuated, peaking in 2012. Overall, volumes dropped marginally, with a significant decline from 1 October 2012 to 31 December 2013 (covering the period of investigation). Volumes at December 2013 are similar levels to March 2010, a period which Bisalloy stated were impacted by the GFC.



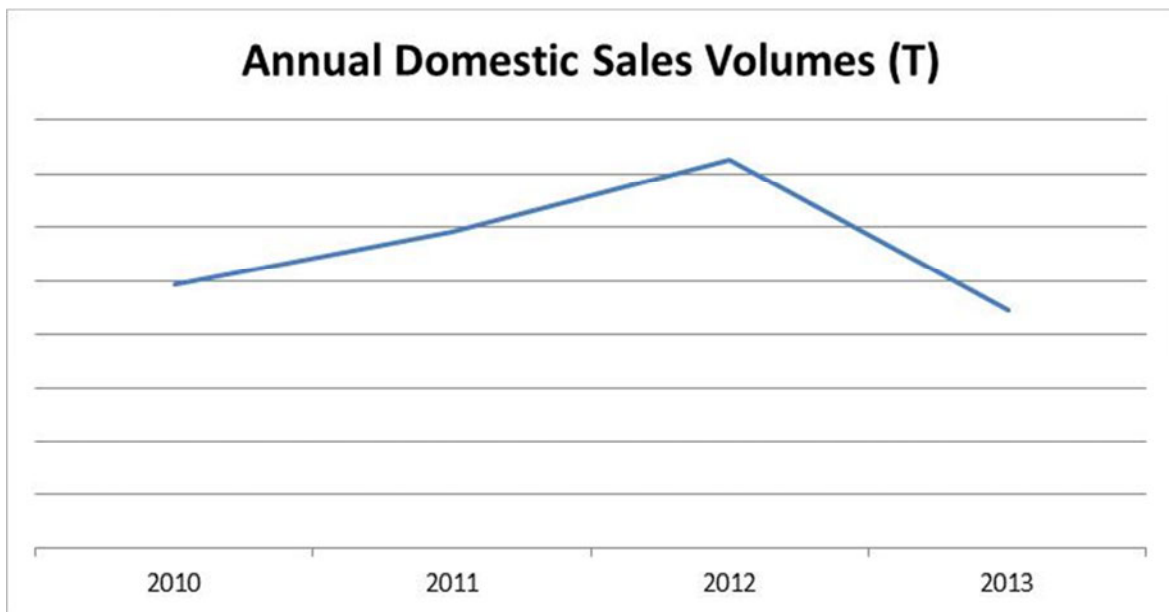


Figure 3: Bisalloy Annual Domestic Sales Volumes (Calendar Years 2010-2013)

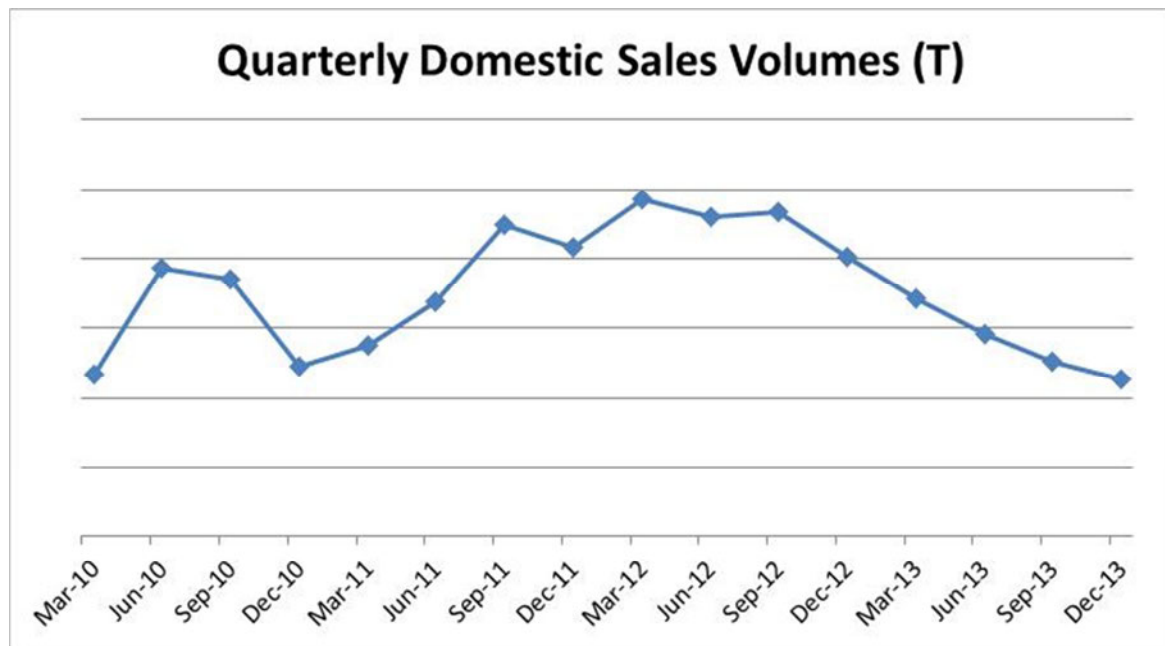


Figure 4: Bisalloy quarterly domestic sales volumes for Q&T steel plate

### 7.3.2 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.

**Figures 5 and 6** below illustrate the movements and relationship between Bisalloy's total domestic Q&T steel plate CTMS and revenue, on a quarterly and annualised basis.

Figures 5 and 6 shows that from 1 January 2010 to 31 December 2013:

- unit revenue has overall trended downwards and was lower at 31 December 2013 compared to unit revenue at 1 January 2010;
- unit CTMS was lower than unit revenue in 2010 however unit CTMS finished higher than unit revenue in 2013;
- between 2012 and 2013 unit revenue decreased, while CTMS increased; and
- for the June 2013 to December 2013 quarters, unit CTMS exceeded unit revenue.

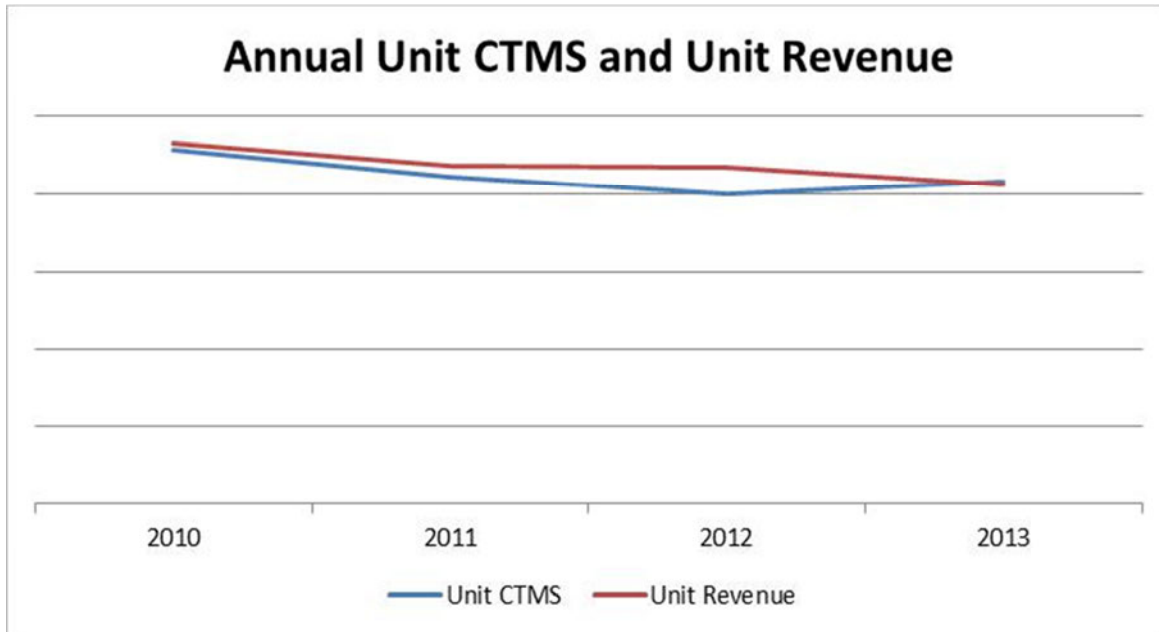


Figure 5: Annual Unit revenue and CTMS for Bisalloy's domestic sales of Q&T steel plate

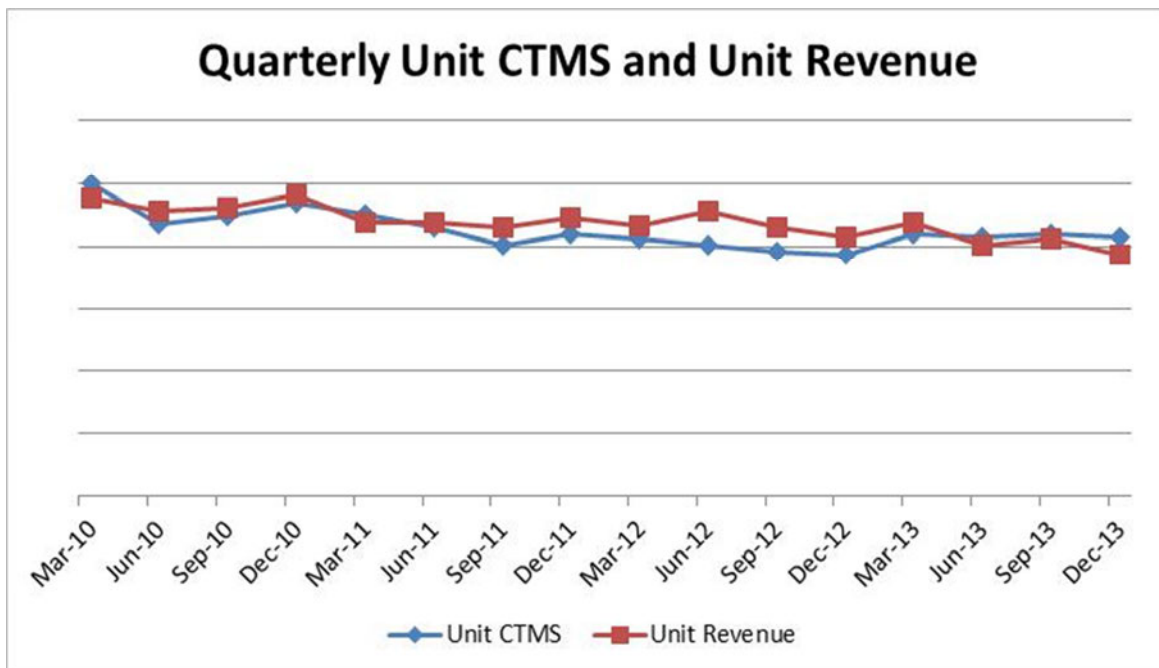


Figure 6: Quarterly unit revenue and CTMS for Bisalloy's domestic sales of Q&T steel plate

### 7.3.3 Profits and profitability

**Figures 7 and 8** below demonstrate movements in Bisalloy's quarterly and annualised profits and profitability. The graphs show that Bisalloy's total domestic profit and profitability (unit profit measured as a percentage of unit revenue) in respect of Q&T steel plate has fluctuated from 1 January 2010 to 31 December 2013.

However, total domestic profit and unit profitability has declined since the quarter ending 30 June 2012. Bisalloy's total domestic profit and profitability in the December 2013 quarter is lower compared to the March 2010 quarter.

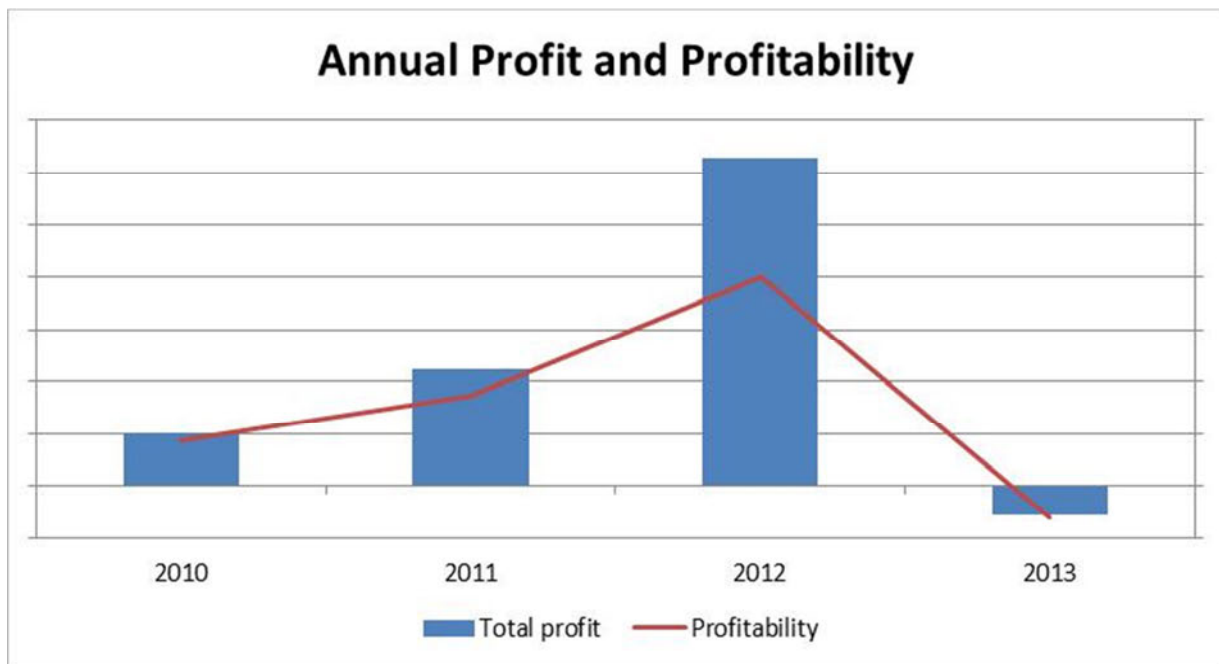


Figure 7: Bisalloy Q&T steel plate unit profitability on an annual CY basis



Figure 8: Bisalloy Q&T steel plate unit profitability on a quarterly basis

The Commission's assessment of the economic condition of the Australian Q&T steel plate industry is at **Confidential Attachment GEN 10**.

## 7.4 Summary of major injury indicators

Based on the preliminary analysis detailed above, Bisalloy appears to have suffered injury in the form of:

- lost sales volumes;
- price depression;
- price suppression; and
- reduced profits and profitability.

## 7.5 Other injury factors

In support of its claim of injury, Bisalloy provided updated information in **Confidential Attachment GEN 8** showing movements in assets, capital investment, revenue, return on investment, capacity, capacity utilisation, employment, productivity, closing stocks, cash flow measures and wages for the period 1 January 2010 to 31 December 2013.

### 7.5.1 Reduced return on investment

Bisalloy stated that return on investment was measured based on return on sales. For the calendar years ending 31 December 2010 through to 2013, Bisalloy's return on investment declined by approximately 8 per cent.

### 7.5.2 Reduced attractiveness for re-investment

Bisalloy stated that attractiveness for re-investment was measured by investor's willingness to re-invest. It claimed that one measure of this is evidenced by Bisalloy Steel Group's share price. **Figure 9** shows Bisalloy Steel Group's share price for the injury analysis period. **Figure 9** shows an overall decline since 2010.



**Figure 9: Bisalloy Group Limited Share Price for from 2010 – Source ASX**

Bisalloy also outlined that due to injury experienced, it has reduced its research and development spending in areas including chemical composition of Q&T greenfeed, process improvements, testing, and entry into potential new markets. Bisalloy stated that it spent approximately:

- \$xxM FY 2009/10
- \$xxM FY 2010/11
- \$xxM FY 2011/12
- \$xxM in FY 2012/13

### **7.5.3 Reduced revenues**

Bisalloy's revenues decreased by approximately 26 per cent for the calendar years ending 31 December 2010 through to 2013.

### **7.5.4 Reduced capacity utilisation**

Bisalloy's capacity utilisation has decreased by approximately 23 per cent for the calendar years 2010 through to 2013.

### **7.5.5 Increased stock levels of like goods**

For the calendar years 2010 through to 2013, closing stock levels increased by 114 per cent

### **7.5.6 Reduced wages for Bisalloy employees**

For the calendar years 2010 through to 2013, average wages for Bisalloy employees decreased by approximately 8. per cent. Bisalloy explained that due to recent market contractions, it has reduced its production shifts, resulting in less overtime and shift allowance for its employees. Bisalloy confirmed that injury in this respect was measured by reference to a lowering of overall wage expenses, rather than a reduction of staff or decrease in base wages.

## **7.6 Summary of other injury indicators**

Based on the preliminary analysis detailed above, Bisalloy appears to have suffered injury in the form of:

- reduced return on investment
- reduced capacity utilisation;
- reduced revenues; and
- increased stock levels of like goods.

## **7.7 Conclusion**

Based on analysis of the information provided in **Attachment GEN 8** and verified during our visit, the Commission considers that Bisalloy has experienced injury in the form of:

- lost sales volumes;

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- price depression;
- price suppression;
- reduced profits and profitability;
- reduced return on investment;
- reduced capacity utilisation;
- reduced revenues; and
- increased stock levels of like goods.

Bisalloy's claims in relation to other injury factors will be examined further during the investigation.

## 8 CAUSAL LINK

Bisalloy were asked to demonstrate a causal link between the alleged dumping of imported Q&T steel plate and the material injury to the Australian industry.

### 8.1 Price effects

Bisalloy stated that it routinely monitors and compares its selling prices against import prices, both through ABS import statistics and its own market intelligence.

Bisalloy does not consider that free-on-board (FOB) prices for Q&T steel plate reported by the ABS are consistent with Bisalloy's knowledge of actual selling prices for the goods in the Australian market. Bisalloy claims that, based on its estimates of importation costs and importer profits, the quoted selling prices it has observed in the Australia market for Q&T steel plate imported from Finland, Japan and Sweden are reflective of considerably lower FOB prices than those appearing in ABS import statistics.

Bisalloy claim that, in the case of Sweden, the relationship between the Australian importer and the Swedish manufacturer may be influencing declared prices of imports. Bisalloy also claim that the declared prices of exports of Q&T steel plate to Australia from Finland and Sweden did not reflect selling prices in Australia that have been reduced to compete with the Japanese imports. Bisalloy also highlighted that SSAB recently announced losses in its Australian December 2012 calendar year financial statements.

As part of its application, Bisalloy provided information on its understanding of offer prices in the Australian market from 1 January 2013 to 30 September 2013 for each of the nominated countries. Bisalloy provided copies of its monthly internal management reporting and several examples of written and verbal quotations to support its claims regarding the price offers.

At the verification visit, Bisalloy provided copies of its monthly internal management reporting and examples of written and verbal quotations to support its claims regarding the price offers for the period 1 October 2013 to 31 December 2013 (**Confidential Attachment GEN 9**). Bisalloy undertook to make a submission regarding the price undercutting analysis for this period. **Table 4** below summarises Bisalloy's estimates of price undercutting.

	Japan	Sweden	Finland
Jan-Mar 2013	2.4 - 18.6 per cent	7.5 - 13.3 per cent	8.7 - 13.4 per cent
Apr-Jun 2013	2.3 - 16.5 per cent	3.9 - 9.5 per cent	2.8 - 12 per cent
Jul-Sep 2013	10.5 - 16.5 per cent	8.0 - 13.8 per cent	12.0 - 18.0 per cent
Oct-Dec 2013	14.5 - 19.4 per cent	2.6 - 8 per cent	10 - 15.8 per cent

**Table 4: Bisalloy's estimate of price undercutting as a percentage of its sales price**

The Commission notes that Bisalloy's estimates of price undercutting in the above table are based on Q&T steel plate products within standard product ranges and thickness ranges of 10-50mm. The Commission will further evaluate price undercutting claims during the course of the investigation process, through verification of actual selling prices in Australia by importers compared and contrasted with sales by Bisalloy made under the same conditions.

## **8.2 Volume effects**

Bisalloy claimed that, during the injury analysis period, imports from the nominated countries have held the dominant share of the Australian market.

Bisalloy claimed that, in the last 12 months, the Australian market for Q&T steel plate declined substantially due to a downturn in mining activity. The market contraction has, according to Bisalloy, increased competition in the market as importers and Bisalloy strive to retain sales volumes.

Bisalloy claimed that in this competitive market, it employed a strategy designed to retain sales volumes and market share. It claims that a reduction in selling prices was necessary in order to compete with import price offers for goods from the nominated countries, which it claims undercut its selling prices. Bisalloy claims that this price reduction (and price depression), and the impact of lower sales volumes on unit fixed and overhead costs, resulted in price suppression and a significant fall in Bisalloy's profitability performance for the period of the investigation.

## **8.3 Injury caused by factors other than dumping**

### **8.3.1 Downturn in mining industry**

Bisalloy stated that the Australian Q&T steel plate market contracted substantially in 2012/13 due to a downturn in the mining industry. Bisalloy maintains, however, that without the impact of dumping, it would have retained sufficient sales volume in the smaller market and would not have experienced such a significant deterioration in its performance.

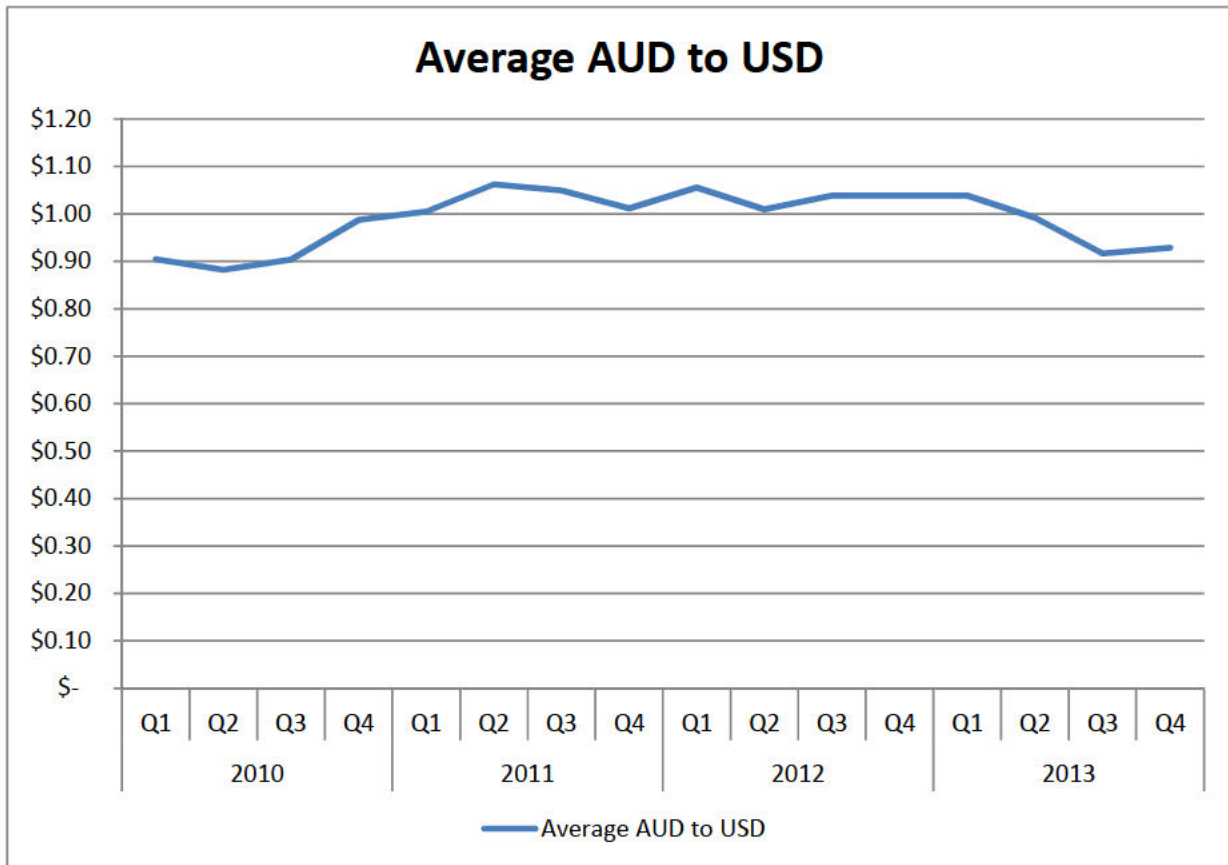
### **8.3.2 Australian Dollar**

Bisalloy noted that a strong Australian Dollar (AUD) during the injury analysis period made it more attractive for importers of Q&T steel plate to seek supply from exporters. As a consequence, Bisalloy submits that it is more difficult to compete for sales. Bisalloy also noted that this is partly offset by the effect the AUD has on sourcing its imported supply of Q&T greenfeed.

Nonetheless, Bisalloy stated that the recent depreciation of the Australian dollar from April 2013 has not resulted in any relief from price undercutting. It is Bisalloy's assessment that the export prices for the dumped goods have been further reduced during the final quarter of 2013 and into 2014, exacerbating the injury it has sustained.

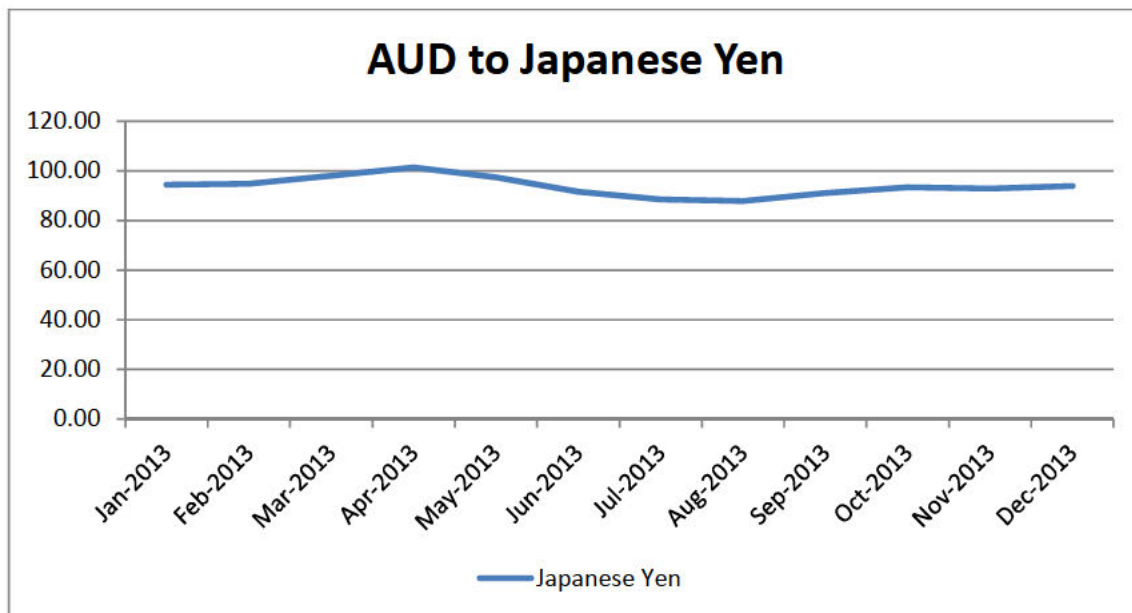
Outlined below in **Figure 10** are the movements in the Australia dollar (AUD) and US dollar (USD) exchange rate from the beginning of the injury analysis period on a quarterly basis.





**Figure 10: Average AUD/USD for Injury Analysis period by quarter**

**Figures 11, 12 and 13** below show the respective movements in the value of the AUD against the Japanese Yen, Euro and Swedish Krona during the investigation period. All three graphs show a general decline in the value of the AUD against these currencies. The Commission's charting of the AUD is at **Attachment GEN 11**.



**Figure 10: Average AUD/Japanese Yen for investigation period**

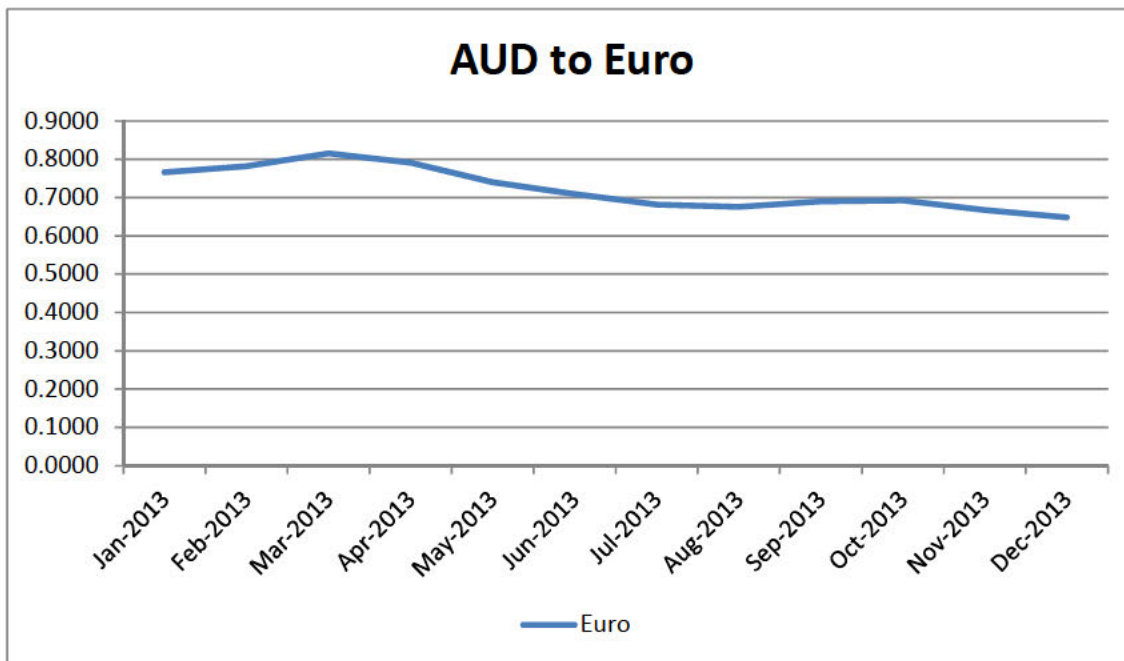


Figure 12: Average AUD/Euro for investigation period

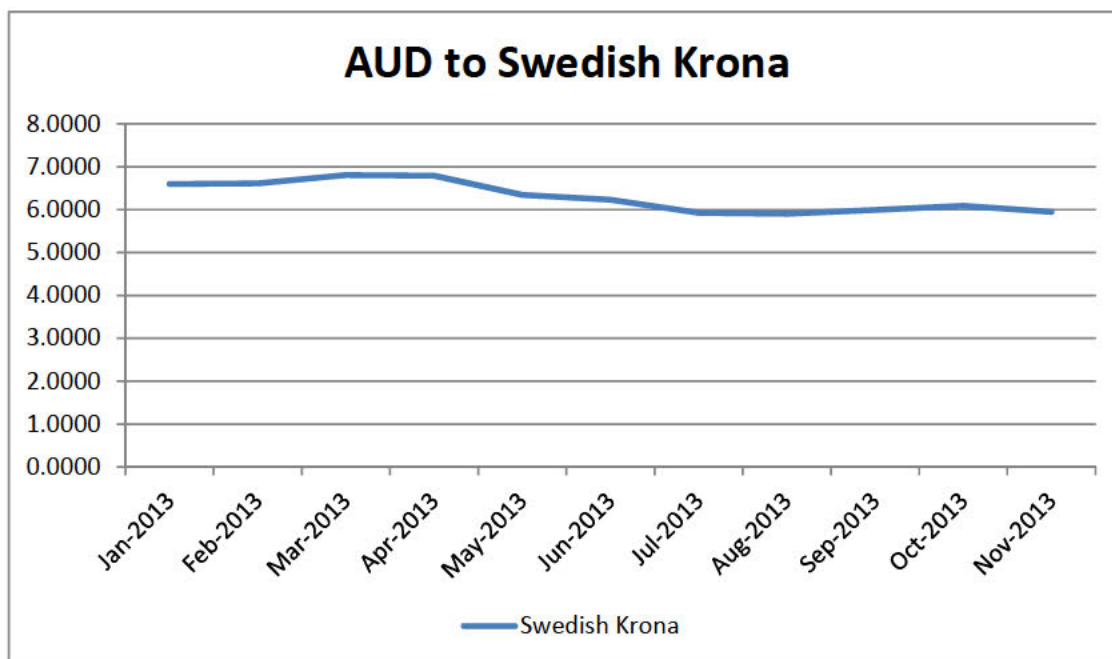


Figure 13: Average AUD/Swedish Krona for first 11 months of investigation period<sup>7</sup>

### 8.3.3 Substitutable goods

Bisalloy provided an overview of substitutes for Q&T steel plate, as part of its application. Bisalloy submitted that although there are some substitutable products for Q&T steel plate, the bulk of the market relies on Q&T steel plate.

<sup>7</sup> Note: December was not available from ASX website as at 1 May 2014

At the verification visit, Bisalloy made the following observations regarding the following substitutes:

- Weld overlay or clad plate - is standard plate overlaid with Chromium Carbide to provide a stronger surface. Bisalloy submitted that although weld overlay can be used as a substitute for Q&T steel plate, it can be more than twice the price and therefore is only used in specific applications. Bisalloy outlined that [*company name*] and others in Australia produce this plate and generally it is manufactured to a level of hardness of BHN above 600, which is not a large component of the Australian market.
- Thermo Mechanical Controlled Process (TMCP) - which Bisalloy described as Q&T steel plate which is cooled as it is coming through the mill, requiring no reheating. Bisalloy stated that this process results in inferior through hardness of the plate and is generally only available as a structural grade substitute. Bisalloy stated that it is also limited to plate of thicknesses up to around 13mm. Bisalloy stated that during the GFC, this type of plate was used because it was adequate and cheap. Bisalloy asserted that TMCP has been available in Australia since around 2006 and it has not observed a significant market shift to this product.

#### **8.3.4 Manufacturing Processes and Cost Structures**

Bisalloy stated that there are some differences between its operations and Q&T steel plate manufacturers that operate integrated steel mills. For example, integrated steel mills have a more direct channel of supply for their Q&T greenfeed.

Bisalloy outlined that despite some of the advantages, there are also disadvantages for integrated steel manufacturers in that they must maintain a high capacity utilisation to avoid having to de-commission their blast furnaces. Bisalloy believes that in 2013 in particular, this has resulted in excess supply of Q&T steel plate in the nominated countries.

Bisalloy stated that this has forced several integrated steel makers to seek alternative markets such as Australia in order to sell excess production. Further, integrated steel manufacturers have sought to merge or acquire other steel makers in order to reduce costs and return businesses to profitability and sustainable competitiveness.

Bisalloy highlighted the recent announcement of SSAB in Sweden making a public offer to acquire shares in Ruukki Finland as one example. Bisalloy stated that both Ruukki and SSAB have reported recent losses as a result of their integrated steel operations.

Bisalloy also highlighted a recent merger between Nippon Steel with Sumitomo Metals in Japan. Bisalloy stated that the merged entity of Nippon Steels and Sumitomo Metals Corporation also reported a loss for the financial year ending March 2013.

## **9 UNSUPPRESSED SELLING PRICE**

During the verification visit, the Commission's approach to establishing an Unsuppressed Selling Price (USP) was discussed. The USP is established by using the following hierarchy:

- Market approach: industry selling price at a time when the Australian market was unaffected by dumping;
- Construction approach: the Australian industry's cost to make and sell, plus a reasonable rate of profit; or
- Selling prices of un-dumped imports in the Australian market.

Having calculated the USP, the Commission then calculates the Non-Injurious Price (NIP) by deducting costs incurred in getting the goods to the FOB point at export (or another point if appropriate). The deductions normally include overseas freight, duty, insurance, into store costs and amounts for other importer expenses and profit.

Bisalloy advised the Commission that it would lodge a submission at a later date outlining its view on the most appropriate method to calculate the USP.

## 10 APPENDICES AND ATTACHMENTS

<b>Confidential Attachment GEN 1</b>	Bisalloy Steels' History
<b>Confidential Attachment GEN 2</b>	Bisalloy Corporate Structure
<b>Attachment GEN 3</b>	Bisalloy Steel Group's 2013 Annual Report
<b>Confidential Attachment GEN 4</b>	Bisalloy Organisational Chart
<b>Confidential Attachment GEN 5</b>	Bisalloy Q&T Greenfeed Supply Chart
<b>Attachment GEN 6</b>	Bisplate Product Specification Sheets
<b>Attachment GEN 7</b>	Bisplate Technical Guide
<b>Confidential Attachment GEN 8</b>	Bisalloy Updated Application Appendices
<b>Confidential Attachment GEN 9</b>	Regional Sales Manager Reports Oct to Dec 2013
<b>Confidential Attachment GEN 10</b>	The Commission's Assessment of the Economic Condition of the Australian Q&T steel plate Industry
<b>Attachment GEN 11</b>	AUD Data
<b>Confidential Attachment SALES 1</b>	Sales Listing
<b>Confidential Attachment SALES 2</b>	Bisplate Central Stock Agreement
<b>Confidential Attachment SALES 3</b>	Bisalloy Freight Rate Schedule
<b>Confidential Attachment SALES 4</b>	Previous Distribution Price List
<b>Confidential Attachment SALES 5</b>	Current Distribution Price List
<b>Confidential Attachment SALES 6</b>	Monthly Offers
<b>Confidential Attachment SALES 7</b>	Bisalloy Monthly Management Reports
<b>Confidential Attachment SALES 8</b>	Sales Reconciliation
<b>Confidential Attachment SALES 9</b>	Selected Sales Source Documents
<b>Confidential Attachment CTMS 1</b>	Sales By Category
<b>Confidential Attachment CTMS 2</b>	Appendix Calculations 2013
<b>Confidential Attachment CTMS 3</b>	December 2013 Production Report

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<b>Confidential Attachment CTMS 4</b>	December 19 2013 Production Report
<b>Confidential Attachment CTMS 5</b>	November 2013 Production Report
<b>Confidential Attachment CTMS 6</b>	December 2013 Export Sales
<b>Confidential Attachment CTMS 7</b>	December 2013 Profit and Loss
<b>Confidential Attachment CTMS 8</b>	Ledger for COGS for December 2013
<b>Confidential Attachment CTMS 9</b>	COGS Example
<b>Confidential Attachment CTMS 10</b>	Invoice for Q&T Greenfeed Imports December 2013
<b>Confidential Attachment CTMS 11</b>	Invoice for Q&T Greenfeed Imports July 2013
<b>Confidential Attachment CTMS 12</b>	Letter from Insurer
<b>Confidential Attachment CTMS 13</b>	Journal Entries for Insurance
<b>Confidential Attachment CTMS 14</b>	Electricity Invoice
<b>Confidential Attachment CTMS 15</b>	Gas Invoice
<b>Confidential Attachment CTMS 16</b>	SAP Report for Depreciation
<b>Confidential Attachment CTMS 17</b>	Work-in-progress Account Ledger from SAP
<b>Confidential Attachment CTMS 18</b>	SG&A Reconciliation
<b>Confidential Attachment CTMS 19</b>	Trial Balance for Export Freight December 2013
<b>Confidential Attachment CTMS 20</b>	General Ledger Accounts for Domestic Freight Recovery
<b>Confidential Attachment CTMS 21</b>	Freight Invoice for Recovery