



Australian Government

**Australian Customs and
Border Protection Service**

**INVESTIGATION INTO THE ALLEGED DUMPING OF
HOT ROLLED COIL STEEL**

EXPORTED FROM

**JAPAN, MALAYSIA, THE REPUBLIC OF KOREA AND
TAIWAN**

EXPORTER VISIT REPORT

POSCO

**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**

September 2012

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2 BACKGROUND**2.1 Background to the current investigation**

On 10 May 2012, BlueScope Steel Limited and BlueScope Steel (AIS) Pty. Ltd (jointly referred to as BlueScope in this report) lodged an application requesting that the Minister for Home Affairs (the Minister) publish a dumping duty notice in respect of hot rolled coil steel (HRC) exported to Australia from Japan, the Republic of Korea (Korea), Malaysia and Taiwan.

On 28 May 2012, BlueScope provided additional information and as a result, the maximum period of 20 days allowed to examine the application was recommenced.

After examining the application, the Chief Executive Officer (CEO) of the Australian Customs and Border Protection Service (Customs and Border Protection) was satisfied that there was, or was likely to be established, an Australian industry in respect of like goods and that there appeared to be reasonable grounds for the publication of a dumping duty notice in respect of goods the subject of the application. The CEO decided not to reject the application and notice of the initiation of this investigation was published in the Australian newspaper on 15 June 2012. Australian Customs Dumping Notice No. 2012/30 provides further details of this investigation and is available on Customs and Border Protection's website at www.customs.gov.au.

The application identified POSCO as an exporter of HRC from Korea. A search of Customs and Border Protection's import database also indicated that POSCO exported HRC from Korea to Australia during the investigation period (April 2011 to March 2012). Customs and Border Protection wrote to POSCO advising it of the initiation of the investigation, requesting co-operation with the investigation and providing copies of the exporter questionnaire for it to complete.

POSCO completed the exporter questionnaire, providing details regarding the company, exports, domestic sales and cost to make and sell (CTMS) expenses for HRC.

2.2 Purpose of visit

The purpose of the visit was to verify information submitted by POSCO in its exporter questionnaire response. The exporter questionnaire response was supported by confidential appendices and attachments, including confidential spreadsheets containing sales and costs data requested in the exporter questionnaire. A non-confidential version of the exporter questionnaire response was placed on the public record.

Customs and Border Protection will use the verified information to make preliminary assessments of:

- like goods;
- who is the exporter and who is the importer;
- export prices;

- normal values; and
- dumping margins.

2.3 Meeting dates and attendees

Verification meetings were held at POSCO's Seoul head office from Tuesday 4 September 2012 to Thursday 6 September 2012. A follow up meeting occurred on Monday 10 September 2012. The following representatives were present at various stages of the verification meetings:

COMPANY:	POSCO
ADDRESS:	POSCO Center 892 Daechi4-dong Gangam-gu, Seoul 135-777, Korea
DATES:	4, 5, 6 and 10 September 2012
ATTENDEES: POSCO	
██████████ ██████████ ██████████ ██████████ ██████████	Manager, ██████████ [division] Manager, ██████████ [division] Team Leader, ██████████ [division] Senior Manager, ██████████ [division] Manager, ██████████ [division]
ATTENDEES: Consultants	
██████████ ██████████ ██████████ ██████████ ██████████	President, CPA, ██████████ [accounting firm name] Director, CPA, ██████████ [accounting firm name] Director, CPA, ██████████ [accounting firm name] KICPA, Green Consultant, ██████████ [accounting firm name] CPA, ██████████ [accounting firm name] Partner, ██████████ [law firm name]
ATTENDEES: Customs and Border Protection	
Ms. Christie Sawczuk Mr. Chris Vincent	Manager, Operations 2 Manager, Operations 1

2.4 Preliminary issues

Prior to the meeting, we forwarded POSCO an exporter visit agenda that included sales transactions and costs selected for detailed verification. POSCO cooperated with the verification of the exporter questionnaire response and provided further information when requested.

At the commencement of the visit POSCO advised that it had identified three minor discrepancies in relation to inland freight and handling and loading expenses for export sales to Australia recorded in its exporter questionnaire response. POSCO

provided a corrections package which included supporting source documentation (confidential attachment GEN 1 refers).

2.4.1 Investigation timeframes

At the commencement of the meeting, we outlined the following key investigation timeframes, as detailed below:

- On 15 June 2012, the investigation into the alleged dumping of HRC exported to Australia from Japan, Korea, Malaysia and Taiwan was initiated.
- A preliminary affirmative determination can be made at any time. Provisional measures may be imposed at the time of the preliminary affirmative determination or at any time after the preliminary affirmative determination has been made. Customs and Border Protection would not make such a determination until it was satisfied that there appears to be, or that it appears there will be, sufficient grounds for the publication of a dumping duty notice.
- A statement of essential facts (SEF) is due to be placed on the public record by 3 October 2012 or such later date as the Minister allows. The SEF will set out the material findings of fact on which Customs and Border Protection intends to base its recommendations to the Minister.
- Interested parties will be provided with an opportunity to make submissions within 20 days in response to the preliminary findings and issues contained in the SEF.
- Submissions received in response to the SEF will be considered when compiling the report and recommendations to the Minister.
- Customs and Border Protection's final report to the Minister is due no later than 17 November 2012.
 - POSCO sought an update regarding the possibility that an extension to the SEF publication date would be requested by Customs and Border Protection. We advised that at this stage the SEF due date had not been extended.
- The Minister's decision is due within 30 days from the date of receipt of the final report.

We informed POSCO that anti-dumping measures may only be imposed where the Minister is satisfied that the goods were dumped and the dumped goods had caused or were threatening to cause material injury to the Australian industry.

2.4.2 Visit report

We explained to POSCO that following our visit we would prepare "*For Official Use Only*" and "*Public Record*" versions of our visit report. We advised that the classification of "*For Official Use Only*" replaces the classification of "*Confidential*".

We advised that following our visit and that we would provide the company with a draft of our report to review its factual accuracy and to identify those parts of the report it considered confidential. We further advised that, following consultation about confidentiality, we would prepare a non-confidential version of the report for the public record.

3 COMPANY INFORMATION**3.1 Company information**

POSCO is a publicly listed company, limited by shares, incorporated on 1 April 1968 under the Commercial Code of Korea. POSCO has been listed on the Korean stock exchange since 1988.

POSCO manufactures and supplies rolled steel and steel plate products in the domestic market in Korea and to foreign export markets. As at 31 December 2011, POSCO had ■ domestic subsidiaries, ■ foreign subsidiaries and ■ affiliate companies. POSCO also maintains international offices and production and sales offices in Asia, Europe, Africa and America. POSCO advised that several of its domestic and foreign subsidiaries are directly involved in the manufacture and sale of HRC; this is discussed further at Sections 3.2.1 to 3.2.3 of this report.

In its exporter questionnaire response, POSCO provided a detailed shareholding structure for the POSCO group of companies and affiliates. POSCO has two principal shareholders with respective shareholding percentages above ■%, including the ■ [company name] and ■ [company name] (**confidential attachment COM 1** refers). POSCO provided a full list of its domestic and foreign subsidiaries and affiliate companies and ownership / shareholding percentages. To support these percentages POSCO provided its 2011 Business Report which reconciled to POSCO's exporter questionnaire response (**confidential attachment COM 2** refers).

POSCO provided a diagram representing their internal organisational structure in its exporter questionnaire response. At the visit POSCO also provided an organisational structure package (**confidential attachment COM 3** refers). POSCO explained that the company maintains six key divisions, including the Carbon Steel Division which relates to the manufacture and supply of carbon steel products, including HRC. POSCO's organisation package included an organisational chart for the Carbon Steel Division, which includes sub-divisions for relevant production facilities, marketing functions and hot rolled, cold rolled and plate steel products.

3.2 Commercial functions

At the commencement of the visit POSCO presented an introductory video which provided an overview of POSCO's corporate background, key commercial functions and future direction.

POSCO is one of the top three global integrated steel manufacturers, and it produces and supplies a wide range of steel products to the domestic market in Korea and to international export markets. These steel products include HRC, cold rolled coil, electrical coil, galvanised coil, hot rolled plate, wire rod and stainless steel coil. POSCO advised that it has also expanded its commercial functions to include business areas in respect of new materials, engineering and construction, energy, and trade.

POSCO supplies products (including HRC) to numerous global export markets (including Asia, Australia, Europe, the Middle East, North and South America).

POSCO's global corporate headquarters (including administrative offices) are located in Pohang, Korea. POSCO also maintains marketing, sales, finance, raw material purchasing, strategic planning and administrative offices in Seoul. POSCO advised that sales and marketing teams are assigned to each major product group.

In the investigation period POSCO's total sales revenue was approximately [REDACTED] Korean Won, of which approximately [REDACTED]% was attributable to the goods the subject of the investigation, of which [REDACTED]% were domestic sales and [REDACTED]% were export sales. Exports to Australia accounted for less than [REDACTED]% of POSCO's exports of HRC.

3.2.1 Relationship with suppliers of raw materials¹

POSCO advised that during the investigation period it purchased minor volumes of major raw materials, including coal and iron ore from related companies. As a proportion of total purchases of coal, POSCO imported [REDACTED]% from [REDACTED] [company name] and [REDACTED] [company name] (a [REDACTED] [country] based company). POSCO advised that both of these companies are trading companies. As a proportion of total purchases of iron ore, POSCO imported [REDACTED]% from [REDACTED] [company name].

POSCO claimed that it has normal commercial relationships (of buyer and seller) with these trading companies and all sales transactions are arm's length. POSCO noted the very small volume of raw materials sourced from the affiliated companies. POSCO's relationship with affiliated suppliers of raw materials is discussed further at Section 7.4.2.

3.2.2 Relationship with export customers

During the investigation period POSCO exported HRC to [REDACTED] [company name], [REDACTED] [company name], [REDACTED] [company name] [confidential information regarding POSCO's relationship with an export customer]. POSCO advised that all sales transactions to [REDACTED] [company name] were arm's length. POSCO's relationship with [REDACTED] [company name] is discussed further at Section 6.1.1.

3.2.3 Relationship with domestic customers

POSCO advised that during the investigation period it supplied HRC to a related customer, [REDACTED] [company name]. During the investigation period, as a proportion of total domestic sales of HRC, sales to [REDACTED] [company name] represented approximately [REDACTED]% of total domestic sales of like goods. POSCO claims

¹ POSCO also engage a related company, [REDACTED] [company name] to provide packing services and materials.

that it has a normal commercial relationship (of buyer and seller) with this customer and that all sales transactions were arm's length.

3.3 Accounting

3.3.1 General

POSCO advised that its accounting practices are in accordance to the generally accepted accounting principles in Korea. For accounting purposes POSCO utilise Korean Won (won) as its currency.

POSCO's financial year is January to December. POSCO's financial statements are prepared separately and consolidated into annual statements and financial reports which include results for its subsidiaries and affiliate companies.

As part of its exporter questionnaire response and at the visit POSCO provided its:

- chart of accounts (relevant package provided at visit);
- translated audited consolidated and unconsolidated financial report for 2011 and 2010; and
- un-audited financial reports (including trial / general ledger balances) for March quarter 2012 (relevant package provided at visit).

This general accounting documentation forms **confidential attachment COM 4**.

POSCO advised that its financial statements are audited annually by an independent auditor (██████ [company name]). POSCO provided an English translation of the auditor's report (prepared in Korean) in relation to its consolidated and unconsolidated financial statements for 2011 and 2010. The auditor expressed identical opinions in respect of POSCO's financial statements. The translated 2011 audit report for POSCO and its subsidiaries stated:

"In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2011, 2010 and January 1, 2010 and its financial performance and its cash flows for the years ended December 31, 2011 and 2010, in accordance with Korean International Financial Reporting Standards".

3.3.2 Accounting treatments

POSCO advised that its inventories are measured at the lower of cost and net realisable value. Costs are determined according to the moving weighted average method.

POSCO advised that scrap and by-products are generated during the production process. It advised that its accounting system distinguishes between scrap and by-products.

POSCO advised that scrap is reintroduced into the production process and by-products may be sold to external parties. Its accounting system accounts for scrap and by-products in the production process by reduced costs of manufacture at the

stage in which they are generated. Reused or recycled scrap is recorded as an input at market value.

Part A of POSCO's exporter questionnaire response provides further details regarding POSCO's treatment of inventory, assets and other accounting practices.

3.3.3 POSCO's accounting system

POSCO utilises a fully integrated Enterprise Resource Planning (ERP) system, including [REDACTED] [accounting system name] applications, for financial and cost accounting functions. It advised that the ERP system utilises [REDACTED]

[REDACTED] [confidential information regarding POSCO's costs system. POSCO provided flowcharts of the financial records maintained in ERP and for its cost accounting system (**confidential attachment COM 5** refers). During the verification process we sighted numerous accounting records and reports extracted from ERP. POSCO's accounting system and methodology are discussed in further detail at section 7.2.

3.4 Production facilities and process

3.4.1 Production facilities

POSCO has two Korean integrated steel production facilities in Pohang and Kwangyang, which both manufacture HRC.

Pohang

The mill at Pohang currently operates carbon steel and stainless steel processes. The major products produced at the Pohang plant include HRC, cold-rolled steel, plates, wire rods, electrical steel, stainless steel and API steel. The manufacturing focus of this plant is flexible short run production. In respect of HRC, POSCO advised that pickled and oiled (PO) coil (a type of HRC) is not manufactured at this production mill.

Kwangyang

The mill at Kwangyang currently operates carbon steel and high mill processes for strategic, high value-added products. The major products produced at the Kwangyang plant include HRC, cold-rolled steel, automotive steel and API steel. The manufacturing focus of this plant is dedicated long run production. POSCO advised that PO coil is manufactured at this production mill.

3.4.2 Production process

At the visit POSCO provided a production process package (**confidential attachment COM 6** refers) and an overview of the HRC production process. POSCO advised that it manufactures HRC through a blast furnace and a mini mill production process. POSCO also advised that HRC is manufactured from steel produced in electric arc furnaces.

In respect of the blast furnace and mini mill production processes, POSCO advised that the key difference between the processes relates to the iron making process. As described below, in the blast furnace production process, iron ore and coal are converted to iron through a blast furnace. However, for mini mill HRC, iron ore undergoes a pro-reducer process and is combined with coal in a melter / gasfier (POSCO advised that scrap metal may also be used for this process). POSCO advised the majority of HRC is produced using a blast furnace and that no mini mill HRC was exported to Australia.

POSCO maintains four and five blast furnaces at Pohang and Kwangyang respectively. The following production process description was provided in POSCO's exporter questionnaire response in respect of the blast furnace production process.

1. Iron making. *Iron ore and coke are first fed into a blast furnace. Inside the furnace, a steady blast of superheated air at temperatures up to 1,200 Celsius is blown up through the raw materials creating a reaction in which the burning coke pushes the furnace temperature to the melting point for iron (1,535 Celsius). During this reaction, the carbon monoxide released from the burning coke reacts with the iron ore to remove the oxygen while the heat melts the remaining iron. This process lasts between five and six hours as the temperature gradually climbs to the melting point at which time the furnace is "tapped" to remove the molten iron.*

2. Steel making. *The molten iron tapped from the blast furnace has a carbon content of between 4% and 5% as well as impurities such as phosphorous and sulphur that negatively impacts the strength and durability of the metal. The hot metal is charged into a basic oxygen furnace or "converter" along with scrap. A high pressure stream of pure oxygen is then injected into the hot metal transforming impurities into gases and slag. The result of this relatively brief process is crude steel which is used to produce semi-finished products.*

3. Continuous casting. *This process involves transforming liquid steel into solid steel. The molten steel is poured into moulds and passed through a casting machine where it solidifies and becomes slabs, brooms or billets.*

4. Hot rolling. *The rolling process involves taking semi-finished steel products and passing them through a series of rolling stands to improve strength or to reduce thickness".*

3.5 Production capacity

POSCO's maximum and operating production capacity in respect of HRC for the investigation period was [REDACTED] metric tonnes. To derive the maximum production capacity volume for HRC, POSCO calculated the hot rolled daily production capacity (measured in tonnes) of the Pohang and Kwangyang plants operating at between [REDACTED] to [REDACTED] days per annum. POSCO then applied an average constituent ratio of goods under investigation (representing [REDACTED]%) to the estimated total hot rolled production capacity. During the investigation period POSCO's production capacity utilisation for HRC was [REDACTED]%.

3.6 On-site verification

During the verification visit an on-site inspection of POSCO's HRC production facilities was not considered necessary, as supported by the investigation case management team, reflecting the:

- logistics involved in undertaking a plant tour;
- limited timeframe to conduct the verification visit and need to allocate sufficient time to ensure adequate verification of substantial complex accounting system and records;
- minimal risk associated with not undertaking a plant tour as the verification team had undertaken tours of BlueScope's HRC production facilities; and
- POSCO's detailed explanation (including video presentation) and supporting evidence provided to illustrate and verify production processes.

4	GOODS UNDER CONSIDERATION AND LIKE GOODS
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4.1 The goods under consideration

4.1.1 General description

The imported goods the subject of this application are:

HRC (including in sheet form), a flat rolled product of iron or non-alloy steel, not clad, plated or coated (other than oil coated).

Goods excluded from this application are hot rolled products that have patterns in relief (known as checker plate) and hot rolled plate.

In its application, BlueScope noted that HRC is supplied in a range of thickness, all of which are claimed to be covered by the application. This is the case for HRC that is still in coil form. However, Customs and Border Protection identified that the thickness of the coil when cut, will determine whether the product is classified as hot rolled sheet (which falls within the description of the goods covered by the application) or hot rolled plate² (which is clearly excluded from the goods description).

4.1.2 Tariff classification

The tariff classifications and statistical class codes in Schedule 3 to the *Customs Tariff Act 1995* and relevant rates of duty for HRC are shown below.

Tariff Classification	Statistical class code	Rate of duty – Korea
7208.25.00	32	0%
7208.26.00	33	0%
7208.27.00	34	0%
7208.36.00	35	0%
7208.37.00	36	0%
7208.38.00	37	0%
7208.39.00	38	0%
7208.53.00	42	0%
7208.54.00	43	0%
7208.90.00	30	5%
7211.14.00	40	0%
7211.19.00	41	0%

² Most hot rolled plate is produced directly from steel slabs, however, some is cut from HRC. All hot rolled plate is excluded from the goods description.

4.2 Like goods

POSCO sells like goods on the domestic market in Korea. POSCO identified sales of like goods as PO coil, HRC, sheet sheared from HRC and HRC manufactured from steel produced in electric arc furnaces. POSCO identifies products using a 20 digit actual item code. These codes are used in POSCO’s financial and cost accounting system and are recorded in the order management system, sales ledger and inventory ledger.

A summary of the structure of the actual item code is at **confidential attachment GOODS 1**. It includes the following details:

- item type (for example, finished goods, semi-finished products);
- product group;
- product name;
- grade;
- planning quality code;
- quality code;
- thickness code;
- width code; and
- product particulars.

A list of product group codes is at **confidential attachment GOODS 2**. Like goods fall within groups PO (code [redacted]) and HR (codes [redacted] and [redacted]). PO identifies PO and includes coil (code [redacted]) and sheet (code [redacted]). [redacted] [code] identifies hot rolled product and includes coil sheet and skelp. Code [redacted] identifies plate sheared from HRC and codes [redacted] and [redacted] identify HRC manufactured from steel produced in electric arc furnaces. POSCO did not export goods to Australia falling within these codes during the investigation period. POSCO also clarified that HRC plate with a width greater than 6mm was considered a good subject to the investigation, which is distinct from HR plate products which are not covered by the investigation.

The actual item code does not identify unique product characteristics so POSCO developed model codes to identify each unique product. [redacted]

[redacted] [confidential information regarding POSCO's product code model] The model code identifies:

- [redacted]
- [redacted]
- [redacted]
- [redacted]
- [redacted]
- [redacted]
- [redacted]
- [redacted] [confidential information regarding POSCO's product code model]

An example of model codes for an actual item code produced at Kwangyang during the December quarter 2011 is at **confidential attachment GOODS 3**. [REDACTED]

[REDACTED] [confidential information regarding POSCO's product model codes] We consider that it is appropriate to use the unique model codes provided by POSCO. This example is discussed further at Section 7.2.2.

POSCO exported [REDACTED] models to Australia during the investigation period and sold almost [REDACTED] models of like goods on the domestic market. As part of POSCO's exporter questionnaire response they provided a table comparison of the exported HRC models and the identical or most comparable HRC models sold domestically in Korea (**confidential attachment GOODS 4** refers).

We consider that HRC sold domestically by POSCO during the investigation period has characteristics closely resembling those of the goods exported to Australia.

5 RECONCILIATION OF SALES TO FINANCIAL STATEMENTS

POSCO provided reconciliations of the quantity and value of sales from its audited financial statements to the domestic and export sales spreadsheets provided in the exporter questionnaire response. These are at **confidential attachments REC 1 & 2**. The domestic sales reconciliation identifies:

- total sales revenue for 2011 from POSCO's audited financial statements;
- the 2011 trial balance identifying sales by account code – the total reconciles to the audited financial statements;
- trial balances for the March quarters 2011 and 2012;
- a summary of sales by account code for the investigation period;
- a sales summary from POSCO's accounting system identifying the quantity and value of product sales and freight revenue (additional freight charges invoiced to the customer) for the investigation period (account codes [REDACTED] and [REDACTED]);
 - other account codes include numerous other types of revenue such as by-product sales, semi-finished product sales, non-steel sales and rental income - product sales and freight revenue account for [REDACTED]% of revenue;
 - this summary identifies domestic sales local (code [REDACTED]), domestic export sales (code [REDACTED]) and export sales – POSCO stated that domestic export sales are sales to companies that make goods that are exported – these sales and export sales need to be separately identified as no value added tax (VAT) is payable – these sales are identified by the code entered on the order sheet and captured in POSCO's order management system; and
 - export sales are also identified as export direct sales (code [REDACTED]) and export local sales (code [REDACTED]) – export local sales identify goods sold to Korean trading companies that are exported.
- separate sales summaries for domestic local and domestic export sales identifying the quantity and value of sales by product type;
- POSCO identified sales of like goods as pickled and oiled coil, HRC, sheet sheared from HRC and HRC manufactured from steel produced in electric arc furnaces;
- POSCO made minor adjustments for credits in respect of sales made in January 2011 – supporting documentation provided – the quantity and value of these adjustments were not material.

The quantity and value of sales in the domestic sales spreadsheet reconciled to this domestic sales reconciliation.

The export sales reconciliation followed a similar process to the verification of the total quantity and value of domestic sales. POSCO then provided details of export sales by country code. [REDACTED]

[REDACTED] [confidential information regarding POSCO's export sales] POSCO stated that it asked [REDACTED] [export customers] to confirm that the sales destined for Australia were actually shipped to Australia. One of the companies stated that a number of

shipments were diverted to Japan and one to Malaysia during the investigation period because of the weak Australian market for steel. POSCO provided a list of all diverted sales during the investigation period and for diversions in August 2011 provided export permits identifying that the goods had been exported to Japan.

After accounting for these diverted sales, the quantity and value of sales in the export sales spreadsheet reconciled to this export sales reconciliation.

We consider the domestic and export sales information provided by POSCO is complete.

[redacted]
[confidential information regarding the export sales process for POSCO's second channel of distribution]

[redacted]
[redacted]
[redacted] [confidential information regarding price negotiation and payment terms for POSCO's second channel of distribution for export sales]

As noted above, POSCO stated that some sales to Australia were diverted to other countries. We reconciled POSCO's sales to [redacted] [second channel of distribution], after accounting for these diverted sales, with Customs and Border Protection's import data base.

We calculated quarterly export prices for each model exported to Australia.

6.1.2 Discounts, rebates and allowances

POSCO stated that it does not offer any discounts or pay any rebates to its customers. We did not find any evidence that POSCO offers discounts or rebates.

6.1.3 Date of sale

POSCO reported the date of sales as the date the goods were shipped.

6.2 Export sales - reconciliation to financial statements

Refer to Section 5 of this report for the upwards reconciliation of POSCO's Australian export sales of HRC to audited financial statements.

6.3 Export sales – verification to source documents

POSCO provided a list of all its export sales to Australia during the investigation period in its exporter questionnaire response. To facilitate downwards verification of POSCO's export sales to source documentation, prior to the visit, we requested that POSCO provide supporting documents for twelve selected invoice numbers. POSCO provided the following documents for each of these selected shipments to [redacted] [confidential information regarding the first distribution channel for POSCO's export sales]:

- order sheet;
- daily shipping list identifying the US dollar invoice value and the exchange rate;
- commercial invoice;
- packing list;
- bill of lading;
- model specification;

- packing cost (the packing type is identified on the order sheet);
- inland freight details and tax invoice;
- details of handling, loading & ancillary expenses and tax invoice;
- details of calculation of credit expenses cost (payment terms are identified on the order sheet); and
- payment record.

POSCO provided the following documents for each of these selected shipments to [REDACTED] [confidential information regarding the second channel of distribution for POSCO's export sales]:

- order sheet;
- daily shipping list identifying the US dollar invoice value and the exchange rate;
- tax invoice details;
- tax invoice for freight revenue (if applicable);
- model specification;
- packing cost (the packing type is identified on the order sheet);
- inland freight details and tax invoice;
- details of handling, loading & ancillary expenses and tax invoice;
- details of calculation of credit expenses cost (payment terms are identified on the order sheet); and
- payment record.

POSCO provided a translation of each field in the order sheet, daily shipping list and tax invoice details. These documents are at **confidential attachments EXP 1**. Supporting documentation for the selected shipments are at **confidential attachments EXP 2 to 13**.

We verified details for the selected shipments to the export sales spreadsheet. We noted that for some invoice numbers with multiple lines there was more than one date. The invoice number is the order number from the order sheet and some involved multiple shipments. The date recorded is from the daily shipment list. We also verified that for the selected shipments the appropriate export code was identified on the order sheet.

We noted that the order sheet identified the base price and extra prices. The extra prices are for differences such as usage code, specification, thickness, width, coating, edge and packing type. This is discussed in more detail in the domestic sales section. For the selected shipments we verified that the extra prices were similar to those applied to domestic sales.

We noted that the order quantity did not match the invoiced quantity for a selected sale to a Korean trading company. The balance was a shipment diverted to Japan. We verified the order number and invoice quantity to the list of diverted shipments.

We verified a selected exchange rate to the website for the Korean Trading Bank. We also verified that exchange rates used were similar to rates available to Customs and Border Protection.

We verified that the packing type in the export sales spreadsheet matched the information in the order sheet.

We noted that some shipments did not include inland freight or loading charges. POSCO reviewed the information provided and submitted revised loading fees. These documents are at **confidential attachments EXP 14**. However, POSCO stated that there were a few occasions when [redacted] [second distribution channel] changed to port of shipment and were responsible for inland freight and loading charges.

We verified that the credit cost was calculated using the difference between the shipment date and the payment date.

We consider that the export sales data provided by POSCO is accurate.

6.4 The exporter

For sales from POSCO [redacted] [first channel of distribution], we consider POSCO was the exporter. POSCO:

- manufactured the goods to the specific order of the Australian customer;
- was listed as the supplier on the bill of lading;
- invoiced the Australian customer for the goods;
- arranged and paid the inland freight;
- was the principal in the transaction located in the country of export from where the goods were shipped that gave up responsibility by knowingly placing the goods in the hands of a freight forwarder for delivery to Australia; and
- sent the goods for export to Australia and was aware of the identity of the purchaser of the goods.

For sales from POSCO [redacted] [second channel of distribution], we consider POSCO was the exporter. POSCO:

- manufactured the goods to the specific order of the Australian customer;
- unless there was a change in shipping instructions, arranged and paid the inland freight;
- was the principal in the transaction located in the country of export from where the goods were shipped that gave up responsibility by knowingly placing the goods in the hands of a freight forwarder for delivery to Australia; and
- sent the goods for export to Australia and was aware of the identity of the purchaser of the goods.

6.5 The importer

We noted that [redacted] [first distribution channel]:

- was named as the customer on supplier invoices;
- was named as the consignee on the bills of lading; and

- arranged customs clearance, logistics, and delivery of the goods after they were delivered to the Australian port.

We consider that the [REDACTED] [first distribution channel] was the beneficial owner of the goods at the time of importation and was therefore the importer.

For exports through [REDACTED] [second distribution channel] we have relied on information provided by their Australian customers. We noted that these customers:

- were named as the customer on supplier invoices;
- were named as the consignee on the bill of lading; and
- arranged delivery of the goods to its customers.

We consider these customers were the beneficial owner of the goods at the time of importation and are therefore the importers.

6.6 Arm's length

In respect POSCO's sales of HRC to [REDACTED] [first distribution channel] during the investigation period, we found no evidence that:

- there was any consideration payable for or in respect of the goods other than their price;
- the price was influenced by a commercial or other relationship between the buyer, or an associate of the buyer, and the seller, or an associate of the seller; or
- the buyer, or an associate of the buyer, was directly or indirectly, reimbursed, compensated or otherwise received a benefit for, or in respect of, whole or any part of the price.

[REDACTED]
[REDACTED] [confidential information regarding the first distribution channel for POSCO's exports sales] We therefore consider all of POSCO's export sales to Australia during the investigation period were arm's length transactions.

6.7 Export price – preliminary assessment

In respect of sales to [REDACTED] [first distribution channel], we consider:

- that the goods were exported to Australia otherwise than by the importer;
- that the goods were purchased by the importer from the exporter; and
- the purchases of the goods were arm's length transactions.

Therefore, we are satisfied that export prices can be established under s. 269TAB(1)(a) of the *Customs Act 1901*³, being the price paid or payable by the

³ A reference to a section or subsection in this report is a reference to a provision of the Act, unless otherwise specified.

importer less any part of the price that represents a charge in respect of transport of the goods or in respect of any other matter arising after exportation.

In respect of sales to [REDACTED] [second distribution channel], we consider:

- that the goods were exported to Australia otherwise than by the importer;
- that the goods were not purchased by the importer from the exporter; and
- the purchases of the goods were arm's length transactions.

Therefore, we are satisfied that export prices can be established under s. 269TAB(1)(c), having regard to all the circumstances of the exportation.

A summary of export prices is at **confidential appendix 1**.

7 COST TO MAKE & SELL

7.1 Introduction

POSCO's exporter questionnaire response contained CTMS spreadsheets for HRC produced and sold domestically in Korea and exported to Australia during the investigation period. The CTMS spreadsheets contained quarterly standard cost data and allocated variances attributed to each model (as tabulated below).

Variable standard costs	Fixed standard costs	Variances and others
Iron ore	Depreciation	Variance
Coal	Labour	Selling and general administrative expenses
Metal	Sub material	Financial income
Ferro and non ferro alloy	Overheads	Non-operating income
Other minerals	Packing	Total financial expense
Raw materials and other raw materials		Non-operating expense
Scrap		
Freight (related to raw materials)		
Insurance		
Duty		
Unloading		
Miscellaneous		
Power		
Packing		
Secondary utilities		
Sub materials		
Overheads		

POSCO calculated the total CTMS (reflecting the costs and variances tabulated above) for each model for each quarter in the investigation period. The unit CTMS for each model was calculated by dividing the total quarterly costs by quarterly production. We noted that if a model was not produced in a quarter POSCO used surrogate costs, which was either the unit cost for that model produced in previous quarter, the weighted average unit cost for that model during the investigation period or the unit cost of a similar model. We considered that POSCO's approach was reasonable.

7.1.1 Verification of costs

At the visit we emphasised that we wanted to reconcile the cost data upwards to audited financial statements and management reports to ensure completeness of the data and also downwards to supporting source documentation to ensure accuracy and reliability of the data.

Variances

POSCO's product specific manufacturing costs recorded in relevant inventory ledgers reflect standard costs. Cost variances (in total) are transferred to general ledgers. For financial reporting purposes, the total cost variances are allocated to cost of sales and ending inventory balances on a monthly basis in order to reflect the actual cost of sales.

7.2.2 POSCO's cost methodology for exporter questionnaire response

POSCO advised that the cost of manufacture provided in the CTMS spreadsheets for domestic sales and Australian export sales were extracted from the product specific standard costs recorded in ERP. POSCO explained that these values were adjusted to reflect variances using POSCO's method for financial reporting (which reflect actual results). POSCO used a four step process for its costing methodology in the domestic and exported CTMS, as detailed below.

Step 1 – POSCO identified the standard manufacturing costs for each actual item based on POSCO's financial statements and inventory ledgers. POSCO's ERP system records standard costs of sales on a global basis by mill. On a monthly basis, POSCO allocated the total cost variances to the standard cost of sales and inventory balances using variances and allocation indices. POSCO's standard cost of sales reconciles to POSCO's inventory ledger.

Step 2 – POSCO's standard cost for each actual item code consists of four key elements; (1) material, (2) material overhead, (3) resource and (4) resource overhead. Within each element specific production and other activities are defined (i.e. packing material is a type of resource activity). POSCO also further distinguishes certain cost elements for specific activities. POSCO's item specific codes as shown in its finished goods inventory ledger as a single costs value. In order to report cost components separately POSCO used detailed standard cost calculations for each actual item code to derive constituent cost ratios for each cost element. POSCO applied these cost ratios to the standard costs shown in the finished goods inventory ledger in order to derive detailed standard costs.

Step 3 – In order to calculate product specific actual manufacturing costs POSCO allocated cost variances to standard costs through the following methodology:

- summarising variance by mill;
- identifying cost variances for Pohang and Kwangyang mills and summarised these by cost centres to identify processing variances at each major production process attributed to the production of hot rolled steel products;
- selected cost variances generated at common cost centres and summarised these to identify total raw material variances;
- processing variances were allocated to HRC based on production volume; and
- cost variances for HRC were aggregated and divided by the total standard cost of production. The resulting ratio was applied to the standard cost of manufacture for HRC to derive the actual cost of manufacture.

Step 4 – POSCO analysed production data by actual item codes of goods transferred from final production into inventory to identify HRC model specific production quantities (as a number of product models as defined in POSCO's exporter questionnaire response related to specific actual item codes). POSCO reconciled this product data to the data contained in POSCO's order database, which formed the basis for POSCO's sales database. Using the order database POSCO identified the relevant product model for each HRC product transferred from final production to the finished goods inventory. Once POSCO identified product codes to be attributed to actual item codes, POSCO used the actual manufacturing cost derived for each item code for each product model and calculated weighted average manufacturing costs.

POSCO's approach to assigning product models

POSCO's ERP system defines semi-finished and finished products by a ■ digit actual item code. As mentioned previously POSCO advised that these codes are used in POSCO's cost accounting system, inventory ledgers and sales documentation (including orders and invoices). As this ■ digit code contains detailed product information, including planning information, for the purposes of the exporter questionnaire response POSCO further refined the actual item code to establish a model code identifying eight product characteristics in respect of HRC sold domestically and exported to Australia.

POSCO provided an assignment of product characteristics package (**confidential attachment COST 2** refers) containing a database to demonstrate the list of product models attributed to actual item product code ■■■■■ for the December quarter 2011. This database identified the key product characteristic, including ■■■■■ [confidential information regarding the product characteristics for the model code]. We are satisfied that based on this sample, the product models established for the exporter questionnaire response relate to specific actual item codes and that costs data for this actual item code is sufficient for further verification.

Preparation package

In preparation for costs verification POSCO provided a cost accounting system package (**confidential attachment COSTS 3** refers) and provided an overview of the system. This package related to production in the December quarter 2011 for the actual item product code ■■■■■ and included:

- ERP cost summary sheet (showing cost elements and primary standard unit cost);
- ERP cost details sheet showing cost element and activity;
- cost structure summary for element, sub element, activity, basis type and unit costs;
- inventory ledgers for Kwangyong mill to link to cost accounting system;
- cost roll up (cost build up) showing BOM routing and standard costs; and
- the relevant trial balances.

7.3 Production volumes

POSCO produces HRC at its Pohang and Kwangyong mills (although as discussed at section 3.4.1, PO HRC is produced exclusively at Kwangyong).

7.3.1 Total production volumes

As part of the verification of cost of sales and variances to audited financial statement (section 7.4.1 refers), POSCO provided inventory ledgers for each plant for each quarter during the investigation period. The inventory ledgers showed the quantity produced for all product groups, including HR and PO. From the inventory ledgers POSCO identified the relevant codes and product names for the goods the subject of the investigation, which formed the basis for production quantities in the CTMS spreadsheet.

We were able to verify total quantity produced of products in these ledgers by actual item codes. However as the production volumes in the inventory ledgers relate to products sold domestically and exported to third countries (including Australia), POSCO provided a reconciliation spreadsheet. This reconciliation spreadsheet highlighted the total production volume of the goods the subject of the investigation (as shown in the inventory ledgers) and production volumes of the goods sold domestically.

We were able to use the ledgers and reconciliation spreadsheet to verify total production quantities recorded in CTMS spreadsheets.

7.3.2 Selected product production volumes

In addition to the verification of total production volumes, the following three models (of goods exported to Australian and sold domestically in Korea) were selected in order to verify specific production volumes:

- [REDACTED]
- [REDACTED]
- [REDACTED]

POSCO provided a product volume reconciliation package showing the product codes and actual items codes (for two of the selected models⁴), production volume and total cost of manufacture (**confidential attachment COSTS 4** refers). This highlighted that the actual item codes relevant to the selected models exported to Australia. The volume reconciliation package also included inventory ledgers showing total production and total standard costs of manufacture by respective production mills (**confidential attachment COSTS 5**).

We are satisfied that the production volumes recorded in the CTMS spreadsheet are complete and accurate.

⁴ As sufficient documentation had been provided to support total production volumes and for two of the selected model, we considered this was sufficient and no further documentation relating to another selected product model was requested.

7.4 Cost to make

7.4.1 Verification upwards to financial statements - completeness

Cost of sales

As discussed at section 3.1 and 3.3.1, POSCO's exporter questionnaire response included the POSCO group of companies and POSCO's separate audited 2011 income statements (confidential attachment COM 4 refers). In order to facilitate upward verification of the total CTMS shown in POSCO's CTMS spreadsheet to audited financial statements, POSCO provided a cost reconciliation package (confidential attachment COSTS 6), which included:

- summary diagram showing five steps in verifying cost of goods sold in POSCO's income statement to reported costs in CTMS spreadsheets;
- POSCO's comprehensive audited income statement for 2011;
- summary spreadsheet showing calculations for cost of goods by plant and product classification (i.e. finished products, by products, semi-finished product, duty drawback and variances) sold during the investigation period (showing the March quarter 2011, fiscal year (FY) 2011 and the March quarter 2012);
- trial balances for relevant accounts relating to costs of goods sold for the March quarter 2011, FY 2011 and the March quarter 2012;
- reconciliation summary for costs of goods sold in trial balance to inventory ledgers (for the investigation period);
- reconciliation summary for inventory ledger costs for finished products during the investigation period;
- inventory ledgers for the March quarter 2011, FY 2011 (by quarter) and the March quarter 2012 for all products;
- summary breakdown of manufacturing costs by product group for each quarter in the investigation period; and
- reconciliation table.

Reconciliation process

Using the documentation listed above we sought to verify the completeness of POSCO's cost data by reconciling the data provided in the CTMS spreadsheets upwards to audited financial accounts as described below.

Step 1 – we reconciled the cost of goods sold to POSCO's audited income statement.

Step 2 – we reconciled the cost of goods sold in POSCO's audited income statement and inventory ledgers (including adjustments through accounting reclassifications).

Step 3 – we verified the breakdown of inventory ledgers of finished goods to identify inventory increase (production) for the investigation period.

Manufacturing cost

Step 4 – we verified breakdown of the manufacturing cost by product group and sub categories to identify and eliminate any HR products which are not the subject of the investigation (i.e. steel plate).

Step 5 – we verified substandard and abnormal costs from the total report costs of manufacturing which were eliminated.

Step 6 – we reconciled the reported costs of manufacture and production volumes to CTMS spreadsheets for domestic and export HRC sales.

Following the six step process we verified POSCO's total cost of sales for 2011 to its audited accounts and from this we verified manufacturing costs through POSCO's management reports and inventory ledgers to the CTMS spreadsheets.

We also verified the total manufacturing costs for the investigation period in the income statement at Appendix A-5 to POSCO's financial accounts. During the downwards verification, we verified these manufacturing costs to the CTMS spreadsheets. We are therefore satisfied that POSCO's CTMS data is complete.

Variations

As discussed previously POSCO allocate variations on a global level for all products on a quarterly basis. POSCO provided a document describing the different variations attributed to costs (**confidential attachment COST 7 refers**), including:

- purchase price variations (PPV);
- invoice price variations;
- exchange rate variations; and
- material overhead variations.

At the visit POSCO provided a variance reconciliation package for the purpose of reconciling variations allocated on as global basis and linking this to allocated the variations for product models in the CTMS spreadsheets (**confidential attachment COSTS 8 refers**). This package included:

- summary of total variations by production facilities / works for the investigation period;
- the Pohang and Kwangyang mill variance summary by cost centre;
- summary of total common cost centre variance by variance type;
- trial balance summary by mill for the March quarter 2012, showing accounts related to cost variations (the amounts in this matched the summary of total variations for all production facilities);
- a detailed accounting information report for the variance account for energy for the March quarter 2012 for the Kwangyang mill (showing variations by cost centre, including for hot rolling);
- trial balance for energy account showing cost variations for energy for hot rolling (as identified by cost centre) for the March quarter 2012, which matched the detailed account information;

- a summary of common variance summary by mill for the December quarter 2011;
- detailed accounting summary of PPVs for Pohang and Kwangyang to support this summary;
- a calculation of variances and allocations for each mill during the investigation period and supporting inventory ledgers; and
- a reconciliation summary of variation allocation ratio to the goods for each quarter during the investigation period.

Using POSCO's reconciliation package we were able to verify total variances for Pohang and Kwangyang in their summaries for HR to trial balances and detailed accounting information.

[Link to CTMS](#)

For the CTMS spreadsheets, in order to attribute variances to the reported standard costs, POSCO calculated a variance allocation ratio for each quarter during the investigation period. POSCO applied this ratio to total standard cost to make to calculate for each product model total variances.

In calculating this ratio POSCO identified the total allocated processing and raw material variances for each quarter for the Pohang and Kwangyang mills.

To calculate raw material variances, POSCO identified the total raw material variances relevant to carbon steel. POSCO then allocated raw material variances based on production volumes of the product groups for carbon steel and then specifically for the goods under investigation.

To calculate processing variances, POSCO identified the total processing variances by cost centre as relevant to carbon steel. POSCO then allocated processing variances for each cost centre based on production volumes of the product groups for carbon steel and then specifically for the goods under investigation.

To calculate the total variance ratio POSCO divided the total allocated variances derived for the goods under consideration by total production value of the goods. We consider that as POSCO's variance calculation methodology specifically relates to variance for the goods under consideration and that no other variances have been attributed to HRC that POSCO's approach is reasonable.

7.4.2 Verification of cost components

POSCO advised that the costs to manufacture the HRC sold in Korea and exported to Australia are identical. The packing, selling and distribution costs vary for the products sold in each market. For the purpose of verification of cost components, excluding selling expenses, we are satisfied that the data and source documentation provided reflects costs of manufacture for both the domestic and exported HRC.

Raw materials - coal and iron ore

Coal and iron ore are the largest components of the CTMS HRC.

For raw material expenses incurred in producing HRC (sold domestically and exported to Australia) POSCO provided an explanatory diagram showing calculation of standard costs and actual costs for coal and iron ore including; budget and planning information, planning conversion costs, standard cost calculations, standard costs in the cost build up, standard conversion costs, actual conversion costs and cost centre variances. Coal and iron ore are identified as material expenses (with designated cost centres) in POSCO's ERP system. POSCO imports coal and iron ore from unaffiliated and related supplier in other countries (this issue is discussed below).

We sought to verify standard costs recorded in the December quarter 2011 for actual item code [REDACTED] (related to specific product models) produced at Kwanyang. To facilitate verification POSCO provided a coal and iron ore expenses reconciliation package which included:

- summary resource element cost analysis for the December quarter 2011 for actual item code [REDACTED] (showing coal and iron ore expenses were selected for detailed verification);
- summary for investigation period of standard unit and standard material volume for coal and iron ore (showing a standard total cost (with materials and associated conversion overheads) for the December quarter 2011 for the relevant product code);
- cost build up report in the December quarter 2011 for actual item code [REDACTED] (reflecting standard cost shown in cost summary), this also showed standard costs and amount consumed for coal and iron ore for each relevant stage of production (as shown by "Level");
- ERP accounting record showing standard cost history including unit cost and associated conversion costs for October 2011 (which can be linked via a code to the cost build up report);
- inventory ledgers for raw materials for the December quarter 2011 for the Kwanyang plant showing transfers into this ledger (purchases of coal and iron ore) and transfer out (through production and standard cost transferred out), these matched the cost build up report and accounting reports;
- spreadsheet summary of raw material purchases of coal [REDACTED] [REDACTED] [confidential information regarding the payment terms] sourced from a [REDACTED] [country] supplier ([REDACTED] [company name]), these reflected reported standard costs;
- spreadsheet summary of raw material purchases of iron ore [REDACTED] [REDACTED] [confidential information regarding the payment terms] sourced from a [REDACTED] [country] supplier ([REDACTED] [company name]) through a supplier ([REDACTED] [company name]) based in [REDACTED] [country], these reflected reported standard costs;
- commercial invoices from raw material suppliers (which matched the reported cost);
- ERP accounting records showing payment to the supplier (which matched the invoiced amount); and
- ERP records showing exchange rate variances and invoice price variances associated with the purchases of coal and iron ore.

Supporting documentation is at confidential attachment COSTS 9.

Using the coal and iron ore expense documentation for HRC we were able to trace standard costing through POSCO's planning process, estimated production, actual allocations and expenses upwards to trial balances, through inventory ledgers and downwards to commercial documentation.

We also confirmed that the standard costs for coal and iron ore recorded in the CTMS spreadsheets for product models reflect costs for the verified product code.

Related party transactions

As mentioned in section 3.2.1, during the investigation period POSCO purchased a small volume of coal and iron ore from related companies. POSCO provided a related party transaction package in respect of HRC purchases. POSCO claimed that the prices of these materials are not impacted by the nature of relationship between POSCO and the supplier. POSCO advised that these suppliers ([redacted] [company names]) are traders and are not manufacturers of the goods. POSCO provided a package at the visit to support its claims (confidential attachment COST 10 refers). This package included commercial documentation for coal and iron ore from the related traders and non related companies and evidence of payment. [redacted]

[redacted] [confidential information regarding the pricing for raw materials]

Given the relatively minor volume of these purchases and supporting documentation provided to substantiate POSCO's claims that these transactions reflected normal commercial market transactions, we consider that these transactions were arm's length.

7.4.3 Power

For power expenses incurred in producing HRC (sold domestically and exported to Australia) POSCO provided an explanatory diagram showing calculation of standard costs and actual costs for power including; budget and planning information, planning conversion costs, standard cost calculations, standard costs in the cost build up, standard conversion costs, actual conversion costs and cost centre variances. Power is identified as a resource expense in POSCO's ERP system.

We sought to verify standard costs recorded in the December quarter 2011 for actual item code [redacted] (related to specific product models) produced at Kwanyang. To facilitate verification POSCO provided a power expenses reconciliation package which included:

- summary resource element cost analysis for the December quarter 2011 for actual item code [redacted] (showing variable power expenses related to various sub elements, one element shown by "[redacted]" was selected for detailed verification);

- cost build up report in the December quarter 2011 for actual item code [REDACTED] (reflecting standard cost shown in cost summary);
- spreadsheet showing application of standard unit cost to planning item, which showed by HR planning cost centre and planning items the weighted average standard cost for power for three related direct cost centres (which was calculated based on expected production);
- spreadsheet showing calculations of standard unit cost for power and electricity based on cost centre budget and estimated production plan and standard cost amount at trial balance by cost centre (reflecting stand cost multiplied by actual processing time);
- budget allocations of standard costs (including oxygen nitrogen, water, low pressure steam and electricity) from relevant indirect power cost centres to HR cost centres;
- detailed and summary reports of electricity cost allocations to other cost centres (and production processes)
- trial balance for cost centre for HR at Kwangyang for the December quarter 2011 for relevant accounts for power, which showed total variances and total standard and actual costs;
- trial balance showing transfer of electricity costs from indirect to direct cost centres;
- commercial invoices for electricity from [REDACTED] [company name], a Korean electricity provider; and
- trial balance showing payment of electricity to provider (which matched the invoice total).

Supporting documentation is at **confidential attachment COSTS 11**.

Using the power and electricity expenses documentation for HRC we were able to trace standard costing through POSCO's planning process, estimated production, actual allocations and expenses upwards to trial balances, through inventory ledgers and downwards to commercial documentation.

We also confirmed that the standard costs for power recorded in the CTMS spreadsheets for product models reflect costs for the verified product code.

7.4.4 Fixed overheads

For fixed overhead expenses incurred in producing HRC (sold domestically and exported to Australia) POSCO provided an explanatory diagram showing calculation of standard costs and actual costs for fixed overheads including; budget and planning information, planning conversion costs, standard cost calculations, standard costs in the cost build up, standard conversion costs, actual conversion costs and cost centre variances. Fixed overheads are identified as a resource overhead expense in POSCO's ERP system.

We sought to verify standard costs recorded in the December quarter 2011 for actual item code [REDACTED] (related to specific product models) produced at Kwangyang. To facilitate verification POSCO provided a fixed overhead expense reconciliation package which included:

- summary resource element cost analysis for the December quarter 2011 for actual item code [REDACTED] (showing variable power expenses related to various sub elements, one element shown by "[REDACTED]" was selected for detailed verification);
- cost build up report in the December quarter 2011 for actual item code [REDACTED] (reflecting standard cost shown in cost summary);
- spreadsheet showing application of standard unit cost to planning item, which showed by HR planning cost centre and planning item the weighted average standard cost for power for three related direct cost centres (which was calculated based on expected production);
- spreadsheet showing calculations of standard unit cost for fixed overheads based on cost centre budget and estimated production plan and standard cost amount at trial balance by cost centre (reflecting standard cost multiplied by actual processing time);
- budget allocations of standard costs from relevant cost centres to HR cost centres;
- detailed and summary reports of fixed overhead cost allocations to other cost centres (and production processes); and
- trial balance for cost centre for HR at Kwangyang for the December quarter 2011 for relevant accounts for fixed overheads, which showed total variances and total standard and actual costs.

Supporting documentation is at **confidential attachment COSTS 12**.

Using the fixed overhead expenses documentation for HRC we were able to trace standard costing through POSCO's planning process, estimated production, actual allocations and expenses upwards to trial balances, through inventory ledgers and downwards to commercial documentation.

We also confirmed that the standard costs for fixed overheads recorded in the CTMS spreadsheets for product models reflect costs for the verified product code.

7.4.5 Secondary utilities

For secondary utility expenses incurred in producing HRC (sold domestically and exported to Australia) POSCO provided an explanatory diagram showing calculation of standard costs and actual costs for these expenses including; budget and planning information, planning conversion costs, standard cost calculations, standard costs in the cost build up, standard conversion costs, actual conversion costs and cost centre variances. Secondary utilities are identified as a resource overhead expense in POSCO's ERP system. POSCO stated that energy (as generated by blast furnaces in the production process) is an example of a secondary utility, where standard costs would be maintained by energy maintenance team.

We sought to verify standard costs recorded in the December quarter 2011 for actual item code [REDACTED] (related to specific product models) produced at Kwangyang. To facilitate verification POSCO provided a secondary utilities overhead expense reconciliation package which included:

- summary resource element cost analysis for the December quarter 2011 for actual item code [REDACTED] (showing secondary utility expenses related to various sub elements, one element shown by "[REDACTED]" for iron making was selected for detailed verification);
- cost build up report in the December quarter 2011 for actual item code [REDACTED] (reflecting standard cost shown in cost summary);
- spreadsheet showing application of standard unit cost to planning item, which showed by HR planning cost centre and planning item the weighted average standard cost for secondary utilities related direct cost centres (which was calculated based on expected production);
- spreadsheet showing calculations of standard unit cost for secondary utilities based on cost centre budget and estimated production plan and standard cost amount at trial balance by cost centre (reflecting stand cost multiplied by actual processing time);
- budget allocations of standard costs from relevant cost centres to HR cost centres;
- trial balance for cost centre for HR at Kwangyang for the December quarter 2011 for relevant accounts for secondary utilities, which showed total variances and total standard and actual costs.

Supporting documentation is at **confidential attachment COSTS 13**.

Using the secondary utility expense documentation for HRC we were able to trace standard costing through POSCO's planning process, estimated production, actual allocations and expenses upwards to trial balances, through inventory ledgers downwards to commercial documentation.

We also confirmed that the standard costs for secondary utilities recorded in the CTMS spreadsheets for product models reflect costs for the verified product code.

7.5 Selling, general and administration and expenses

POSCO provided a selling, general and administration (SG&A) expenses package (**confidential attachment COSTS 14** refers), which included:

- a summary worksheet showing calculations for an SG&A and finance expense ratio (as applied to HRC for the investigation period);
- SG&A expenses, non-operating income, non-operating expenses, financial income and non-financial income from POSCO's 2011 audited comprehensive income statement; and
- trial balances showing accounts (identified by account codes) related to each expense and income item listed above for the investigation period (including the March quarter 2011, FY 2011 and the March quarter 2012).

7.5.1 SG&A expenses

POSCO calculated SG&A costs for all products for the investigation period (as shown in the audited financial report and trial balances). SG&A expenses included direct

and indirect selling costs, administrative and general costs, R&D costs, training costs and financial costs.

These costs were then allocated to the HRC product group for domestic and exported goods on the basis of sales revenue, with the exception of direct selling expenses which were allocated on the basis of actual costs incurred (to reflect the differing selling expenses for both markets). We sought confirmation that all SG&A costs relevant to HRC sales were included in POSCO's calculation.

POSCO then derived a SG&A ratio for HRC sold domestically in Korea and exported to Australia by dividing the total SG&A expenses by domestic and export sales revenue.

POSCO applied this SG&A ratio to the unit sales value to calculate a unit SG&A amount. POSCO multiplied this SG&A unit amount by production volume to derive an SG&A expense for each model by quarter in the investigation period.

We verified POSCO's calculations and accepted SG&A expenses as claimed.

7.5.2 Finance and non – operating income expenses and income

POSCO also utilised the calculation methodology in respect of SG&A expenses to derive finance expense and financial income ratios. In calculating total finance expenses and income and non-operating expenses and income POSCO identified certain costs and income which were not directly relevant to HRC and omitted these from their calculations (for example, dividends not related to the production and sale of like goods).

7.6 Cost to make and sell – summary

We are satisfied that sufficient information was available and verified to substantiate the CTMS for HRC provided by POSCO. We consider the CTMS are suitable for:

- determining a constructed normal value; and
- assessing whether domestic sales were sold in the ordinary course of trade.

The CTMS the various models is summarised at **confidential appendix 2**.

8 DOMESTIC SALES

8.1 Domestic sales process

POSCO sells to [REDACTED]

[REDACTED] [confidential information regarding POSCO's domestic customers]

[REDACTED] [confidential information regarding POSCO's domestic sales process]

[REDACTED] [confidential information regarding POSCO's domestic credit terms] A summary of domestic credit terms is at **confidential attachment DOM 1**.

[REDACTED] [confidential information regarding POSCO's discount scheme]

[REDACTED] [confidential information regarding interest revenue]

POSCO stated that base prices are negotiated [REDACTED] [confidential information regarding pricing negotiations]. However, extra charges are applied for [REDACTED] [confidential information regarding extra charges]. Details of these extra charges are at **confidential attachment DOM 2**.

8.1.1 Discounts, rebates and allowances

POSCO stated that it did not provide discounts or rebates to its customers except a discount for [REDACTED] [confidential information regarding POSCO's discount scheme] (discussed above). It did not provide any financial assistance to its customers.

8.2 Domestic sales - reconciliation to financial statements

Refer to Section 5 of this report for the upwards reconciliation of POSCO's Australian domestic sales of HRC to audited financial statements.

8.3 Domestic sales – verification to source documents

POSCO provided a list of all its domestic sales to like goods during the investigation period in its exporter questionnaire response. To facilitate downwards verification of POSCO's domestic sales to source documentation, prior to the visit, we requested that POSCO provide supporting documents for twelve selected invoice numbers. POSCO provided the following documents for each of these selected transactions:

- order sheet;
- daily shipping list identifying the US dollar invoice value and the exchange rate;
- tax invoice details (including freight revenue, if applicable);
- model specification;
- packing cost (the packing type is identified on the order sheet);
- inland freight details and tax invoice (this may include freight from the factory to the warehouse, warehousing costs and freight from the warehouse to the customer);
- details of handling, loading & ancillary expenses and tax invoice (in some cases the goods were shipped from the factory to the warehouse by ship);
- details of calculation of credit expenses cost (payment terms are identified on the order sheet); and
- payment record.

POSCO provided a translation of each field in the order sheet, daily shipping list and tax invoice details. These documents are at **confidential attachments DOM 3**. Supporting documentation for the selected transactions are at **confidential attachments DOM 4 to 15**.

We verified details for the selected transactions to the domestic sales spreadsheet.

We consider that the domestic sales data provided by POSCO is accurate.

8.4 Arm's length transactions

In respect of POSCO's domestic sales of HRC, we found no evidence that:

- there was any consideration payable for or in respect of the goods other than their price; or
- the price was influenced by a commercial or other relationship between the buyer, or an associate of the buyer, and the seller, or an associate of the seller.

We therefore consider POSCO's domestic sales during the investigation period were arm's length transactions.

8.5 Ordinary course of trade

We compared the unit invoice price paid for each domestic sale with the fully absorbed CTMS for those models for the corresponding quarter. We then compared the selling prices of the loss making sales with the weighted average CTMS for the

investigation period to test whether some of those sales may be taken to be recoverable within a reasonable period of time.

There were ■ models exported to Australia during the investigation period, of which ■ were sold on the domestic market. ■ of these had no profitable domestic sales, ■ had more than ■% of domestic sales that were not profitable or recoverable and ■ had less than ■% of domestic sales that were not profitable or recoverable. These ■ models where there were domestic sales accounted for about ■% of exports to Australia.

8.6 Volume and suitability of sales

Domestic sales cannot be used to establish normal values if the volume of domestic sales is less than 5% of the volume of comparable goods exported to Australia. We compared the volume of POSCO's export sales of the ■ models identified above with identical models sold on the domestic market. We found that for these models there was a sufficient volume of domestic sales.

8.7 Sales by other sellers

There are other sellers of HRC in Korea. Customs and Border Protection is visiting one other Korean producer of HRC.

8.8 Domestic sales – summary

For ■ exported models we found a sufficient volume of sales in the domestic market for HRC that were arm's length and sold at prices that were in the ordinary course of trade. The price paid for the goods in those domestic sales was established satisfactorily.

Based on the information provided by POSCO, and the verification processes conducted on site, we consider that prices paid in respect of domestic sales are suitable for assessing normal value under s. 269TAC(1).

A summary of domestic sales suitable for establishing normal values is at **confidential appendix 3**.

9 THIRD COUNTRY SALES**9.1 Introduction**

As part of their exporter questionnaire response POSCO provided a spreadsheet summary of HRC it exported to countries other than Australia during the investigation period (**confidential attachment THIRD 1** refers). This summary contained aggregate export sales data for [REDACTED] export markets (including [REDACTED] [country names]) which represented the highest volume of POSCO's total export sales to third countries.

During the investigation period POSCO's export sales to third countries (other than Australia) accounted for approximately [REDACTED]% and [REDACTED]% of total sales turnover and total volume of the goods under investigation respectively.

9.2 Approach

We are satisfied that there is sufficient verified domestic sales and CTMS information for the purposes of calculating normal values, therefore third country sales do not need to be considered (and while we verified the total volume and sales value of HRC exported to Australia as part of export sales reconciliation process, further detailed verification was not required).

[redacted] [confidential information regarding POSCO's interest revenue]

[redacted] [confidential information regarding POSCO's calculation of interest revenue] We confirmed that in POSCO's domestic sales spreadsheet [redacted] [confidential information regarding POSCO's interest revenue] the correct interest revenue ratio was applied.

To support the interest revenue ratios POSCO provided [redacted] [redacted] [confidential information regarding the form of evidence provided by POSCO to verify interest revenue ratios]. POSCO provided supporting ERP accounting records and sales ledgers for December 2011 which confirmed the amounts recorded in [redacted] [the evidence provided by POSCO to verify interest revenue ratios]. We also confirmed that the correct ratio had been applied for [redacted] [confidential information regarding the calculation of interest revenue] in the domestic sales spreadsheet. Supporting documentation in respect of interest revenue is at **confidential attachment ADJ 2**.

We have made negative adjustments to normal values for interest revenue.

10.2.3 Domestic selling expenses

POSCO calculated SG&A and financial expenses as [redacted]% of domestic sales value. This included direct selling expenses in respect of domestic sales. We considered that as the selling expenses for HRC for goods sold on the domestic market in Korea and exported to Australia are different, that an adjustment should be applied to the SG&A ratio to account for the difference. If domestic direct selling expenses are excluded and export direct selling expenses are included, this ratio is [redacted]%. We have made negative adjustments to normal values for domestic selling expenses of [redacted]%.

10.2.4 Domestic inland freight and handling, loading and ancillary expenses

General

POSCO advised that for domestic sales of HRC, the goods were either delivered directly from the factory to the customer or indirectly through a warehouse and subsequently to the customer. It advised that it maintains three warehouses (at Masan, Pyongtaek and Uiwang).

POSCO stated that the following delivery expenses were incurred.

Method A – delivery through a warehouse

- inland freight from the mill to distribution warehouse, predominantly by shipping but also by truck delivery;
- warehouse expenses;

- handling, loading and ancillary expenses; and
- inland freight from warehouse to customer.

Method B - Delivery direct to customer

- inland freight from mill to customer.

In its domestic sales spreadsheet POSCO separately recorded inland freight (including warehousing expenses) and handling, loading and ancillary expenses. POSCO provided supporting documentation and calculations for the relevant domestic delivery expenses incurred in respect of the selected domestic sales.

For each of the selected domestic sales of HRC POSCO provided source documentation in relation to domestic inland freight and handling, loading and ancillary expenses (confidential attachments DOM 4 to 15 refer).

Domestic delivery - freight

POSCO advised that it utilises unrelated local freight providers to deliver the goods from the factory to the warehouse or the domestic customer. For domestic sales where inland transportation is required POSCO charge the domestic customer “freight revenue”. This amount is specified on POSCO’s daily shipment lists and commercial invoices. POSCO advised that payment for these freight services is usually due on a [REDACTED] basis ([REDACTED] [confidential information regarding payment of freight services]).

For the selected domestic sales POSCO provided commercial invoices for the goods (which showed freight revenue), tax invoices from the transportation company, corresponding ERP accounting records and supporting calculations (showing freight incurred by order). We also selected for evidence of payment by POSCO to a freight provider ([REDACTED] [company name]) for two domestic sales transactions. POSCO provided relevant commercial invoices and bank statements in respect of the selected expenses (confidential attachment ADJ 3 refers). As the total amount paid to the freight provider included several invoices, POSCO provided the other invoices and a summary showing payment methods ([REDACTED] [confidential information regarding payment methods]). We verified that POSCO paid the invoiced amount to the freight provider.

We verified that the inland freight had been accurately recorded in the domestic sales spreadsheet.

We made a negative adjustment for inland domestic freight. We calculated the quarterly freight cost for the domestic sales used to establish normal values, separately identifying bare HRC and PO coil.

Domestic delivery (warehousing)

For certain domestic sales warehousing expenses are incurred. To support POSCO’s claim for a warehousing expense adjustment POSCO provided a

warehousing expenses package (confidential attachment ADJ 4 refers) which contained:

- a monthly summary by each warehouse of total warehouse expenses and quantities of products stored in respective warehouses for the investigation period;
- for November 2011 detailed warehouse expenses breakdown (including operating expenses, maintenance and electricity); and
- ERP accounts payable records for each warehouse expenses.

POSCO used the monthly warehousing expenses summary to calculate a weighted average unit cost for the investigation period. Using the warehousing expenses package we were able to verify the total cost incurred for each warehouse in November 2011 to POSCO's ERP accounting records.

We also sought to verify that the warehousing expenses were accurately recorded in POSCO's domestic sales spreadsheet. For the domestic sales selected for verification POSCO provided the monthly warehousing expenses and supporting calculations (confidential attachments DOM 4 to 15 refer). For each domestic sales of HRC the warehouse location was identifiable on the domestic freight invoices. We were then able to verify that the weighted average unit warehousing cost for the specific warehouse multiplied by domestic sales quantity were accurately recorded in the spreadsheet. POSCO advised that warehouses are only used for domestic sales.

We made a negative adjustment for warehousing. We calculated the quarterly warehousing cost for the domestic sales used to establish normal values, separately identifying bare HRC and PO coil.

Handling, loading and ancillary expenses

POSCO also advised that for goods transported by ship handling, loading and ancillary expenses were incurred. These charges were for loading and unloading the goods. For the selected domestic sales POSCO provided commercial invoices for the goods (which showed unloading and loading fees), tax invoices from the service provider, corresponding ERP accounting records and system calculations (showing fees incurred by order) (confidential attachments DOM 4 to 15 refer).

We verified that the handling, loading expenses had been accurately recorded in the domestic sales spreadsheet. We made a negative adjustment for inland domestic freight. We calculated the quarterly freight cost for the domestic sales used to establish normal values, separately identifying bare HRC and PO coil.

10.2.5 Packing

POSCO's cost accounting system maintains a five digit packing code which identifies the market destination (local or export) for the goods, product code, packaging type and other control numbers. It advised that bare HRC does not incur packing expenses and that packing expenses only applies to PO coil. POSCO explained that packaging for PO coil includes metal packaging and a metal wooden skid. It noted that while a band or nude paper may be used for bare HRC, these costs are

insignificant and are not recorded. POSCO advised that all packing is provided by a related company, [REDACTED] [company name], although noted that the proportion of the CTMS for packing is very minor (and only related to certain products).

POSCO advised that packing costs were incorporated into costs to make the goods sold domestically or exported to Australia (if applicable). It advised that these packing costs reflect standard costs for packing material, labour and overheads. POSCO also included packing costs in its domestic sales spreadsheet, if applicable.

To support these packing costs POSCO provided a packing expense package (**confidential attachment ADJ 5** refers) that included:

- a description of packing codes;
- a table showing unit packing costs for each packaging types;
- monthly breakdown of packing costs for the investigation period for all packing types;
- for July 2011, supporting ERP accounting records for material and overhead packing costs;
- monthly breakdown of packing material costs for each packaging type;
- for the packaging type DCB2A all material costs and quantities for the investigation period;
- for July 2011 a table showing usage of packing materials for all packing types;
- ERP accounting record for July 2011 showing quantity ordered for one packing item (adhesive tape (20mm));
- for July 2011 a commercial and tax invoice from packing service provider, [REDACTED] [company name];
- ERP accounting record showing account payable to [REDACTED] [company name]; and
- a table showing allocation ratios for packing overhead costs by packing type (based on the proportion of total cost represented by material cost for each packing type) for the investigation period.

In the domestic sales spreadsheet POSCO calculated packaging costs by multiplying the product total weight by the relevant unit packing cost.

We were able to verify the weighted average packing costs by packing type through POSCO's ERP accounting records and to source documentation.

We made a negative adjustment for packing expenses. We calculated the quarterly packing costs for the domestic sales used to establish normal values, separately identifying bare HRC and PO coil.

10.2.6 Warranty

POSCO advised that during the investigation period it incurred warranty expenses for compensation claims made for defective HRC products by domestic customers. It advised that no warranty expenses were incurred in respect of HRC export sales to Australia. POSCO claimed that an adjustment should be made to normal values to

account for warranty expenses for domestic sales. It included warranty expenses in the domestic sales spreadsheet, which represented approximately [REDACTED] % of total net invoice value for all domestic HRC sales.

To support the warranty expense claim POSCO provided a summary of monthly warranty expenses incurred during the investigation period. POSCO also provided for August 2011 a list of all warranty claims made in respect of HRC sold on the domestic market. For this month POSCO provided screen prints of the warranty claim form and relevant accounting record. These records identified the order number, customer, compensation claim and amount of cash compensation paid to the customer. We were able to reconcile the amount of warranty claim to the domestic sales spreadsheet. Supporting documentation in respect of warranty expenses is at **confidential attachment ADJ 6**.

We made a negative adjustment for warranty expenses. We calculated the quarterly warranty expenses for the domestic sales used to establish normal values, separately identifying bare HRC and PO coil.

10.2.7 Duty drawback

POSCO advised that it receives duty drawback refunds in respect of HRC exported to Australia. POSCO advised that it predominantly imports raw materials (including iron and coal) from foreign suppliers which are used in manufacturing HRC which is sold domestically and exported to other markets. The imported raw materials are subject to Customs duty (which is recorded on importation permits). POSCO advised that the Korean Government under the "*Act on Special Cases Concerning the Refundment of Customs Duties etc Levied On Raw Material For Export*" (**confidential attachment ADJ 7** refers) provides for a full refund of Customs duties applicable to imported raw materials which are used to manufacture products which are subsequently exported.

POSCO provided a list of all relevant export permits and duty drawback claims made in respect of the exported HRC to Australia. Given the significant volume of exports to other countries, POSCO advised that duty drawback applications are lodged on a [REDACTED] basis. POSCO calculated a unit duty drawback refund amount per tonne for the investigation period. We verified that POSCO used this amount in its domestic sales spreadsheet.

As POSCO uses imported raw materials to manufacture HRC which is supplied both to the domestic market in Korea and to the Australian export market, and as duty drawback refunds were applicable to the HRC exported to Australia, we have made a negative adjustment for duty drawback. The adjustment was less than [REDACTED] Australian dollar per metric tonne.

10.3 Adjustments in respect of export sales

10.3.1 Packing

POSCO also included packing costs in its Australian export sales spreadsheet. As POSCO predominately exported PO coil, packing expenses were incurred in respect of the majority of the exports to Australia. Similar to domestic sales, POSCO

calculated packaging costs by multiplying product weight by the relevant unit packing cost. As discussed at Section 10.2.5, POSCO provided a packing expenses package to support the packing costs in respect of HRC sales (confidential attachment ADJ 5 refers).

For each of the selected export sales of HRC POSCO provided source documentation / calculations in relation to packing (confidential attachments EXP 2 to 13 refer).

We verified the weighted average packing costs by packing type through POSCO's accounting records and to source documentation in respect of HRC exported to Australia. We made a positive adjustment for export packing for each export transaction.

10.3.2 Export inland freight

POSCO advised that as its production facilities (at Pohang and Kwamgyang) are at major ports that it only incurred export inland freight from the plant to the port. If the customer requests the destination of the goods changes (the goods are transferred to another port), the customer is charged for the additional freight. These services were provided by unaffiliated trucking companies. POSCO also advised that in respect of HRC export sales through [REDACTED] [confidential information regarding the second distribution channel for POSCO's export sales] that these traders may also organise inland freight. POSCO advised that if export inland freight expenses were incurred they were recorded in the export sales spreadsheet. For the selected export sales transactions (if applicable) supporting source documentation was provided in relation to inland freight expenses (confidential attachments EXP 2 to 13 refer).

We were able to verify the amounts recorded in the spreadsheet. We made a positive adjustment for export inland freight for each export transaction.

10.3.3 Handling, loading and ancillary expenses

Handling, loading and ancillary expenses include items such as terminal handling charges, wharfage and movement of the goods onto the ship. Loading fees are included as these expenses are charged by the trucking companies. POSCO advised that for some export sales which are made through [REDACTED] [confidential information regarding the second distribution channel for POSCO's export sales] that it does not incur any handling, loading and ancillary expenses in respect of these goods. We identified that handling, loading and ancillary expenses in respect of a small volume of export sales had been omitted from the export sales spreadsheet. POSCO provided updated expenses for these goods (confidential attachment ADJ 8 refers). For the selected export sales transactions (if applicable) supporting source documentation was provided in relation to handling, loading and ancillary expenses (confidential attachments EXP 2 to 13 refer).

We made a positive adjustment for handling, loading and ancillary expenses for each export transaction.

10.3.4 Credit

POSCO provided credit terms in respect of export sales of HRC during the investigation period. Similar to domestic sales, for the purposes of the exporter questionnaire response POSCO calculated export credit terms based on actual credit terms expressed as the difference between the invoice date and actual date of payment. POSCO utilised the same credit terms calculation methodology for domestic and export HRC sales (see section 10.2.1). As previously discussed a credit expense adjustment package was provided (confidential attachment ADJ 1 refers).

We sought to verify that actual credit expenses had been accurately recorded in POSCO's export sales spreadsheet. For the export sales selected for verification POSCO provided actual credit expense calculations and documentation, which included commercial invoice showing customer, product, sales value and payment due date and the corresponding POSCO's ERP account payment records (including payment date) (confidential attachment EXP 2 to 13 refer). If payments for the goods covered multiple invoices POSCO calculated a weighted average actual credit period. We were able to reconcile source documents for the export sales to the export sales spreadsheet. We made a positive adjustment for export credit terms for each export transaction.

10.4 Other adjustments

POSCO did not claim and we did not identify any other adjustments.

11 NORMAL VALUE

We consider that information gathered from all sources and detailed in this report and its attachments, can be relied upon to establish normal values.

Where there were domestic sales of the exported model in the quarter of export we established normal values under s. 269TAC(1) using sales in the domestic market that were arm's length transactions and sold at prices that were in the ordinary course of trade. Normal values were based on domestic selling prices for about ■% of export sales.

If there were no export sales of the exported model or no domestic sales in the quarter of export we constructed normal values. We added a profit to the constructed normal values, being the profit achieved on domestic sales used to establish normal values.

We made adjustments to the normal value under s. 269TAC(8) for:

- domestic credit terms;
- domestic interest revenue;
- domestic selling expenses;
- domestic inland freight and warehousing;
- domestic handling, loading and ancillary costs;
- domestic packing;
- domestic warranty costs;
- duty drawback;
- export packing;
- export inland freight;
- export handling, loading and ancillary costs; and
- export credit terms.

A summary of normal value calculations is at **confidential appendix 4**.

12 DUMPING MARGIN – PRELIMINARY ASSESSMENT

In calculating the dumping margin we compared each export transaction with the corresponding quarterly normal value for the corresponding model of HRC. The weighted average product dumping margin is 6.0%. A summary of dumping margin calculations is at **confidential appendix 4**.

13 OTHER SUBMISSIONS

At the verification visit POSCO made several claims in respect of material injury experienced by BlueScope and whether this was caused by dumped HRC. POSCO strongly disputed the claim that its exports of HRC from Korea have caused material injury to the Australian industry. Subsequent to the visit, on 17 September 2012, Hunt and Hunt lodged POSCO's second submission to the investigation to formally address POSCO's concerns. A copy of this submission is available on the public record for the investigation (and is at **non confidential attachment SUB 1**).

As detailed in POSCO's submission and discussed at the visit POSCO raised the following key concerns:

- that insufficient evidence has been provided by BlueScope to support its price suppression claims;
 - POSCO claims that any assessment of price suppression experienced by BlueScope should be considered in conjunction with the impacts of the global economic downturn; and
 - POSCO emphasised that there were numerous diversions of shipments from Australia to other countries during the investigation period due to the weak market for steel in Australia.
- that appropriate methods for undertaking injury assessments, including separate injury assessments for each market segment should be considered;
 - POSCO considers that Customs and Border Protection should undertake separate injury assessments of the three key HRC Australian market segments (pipe and tube, manufacturing and automotive segments);
 - POSCO claims that a separate injury assessment for each market segment will show that there is no injury sustained in the automotive segment;
 - POSCO stated that it only supplied to the [REDACTED] and [REDACTED] sectors and that BlueScope cannot supply the required quality to these segments; and
 - POSCO stated that BlueScope's production of PO coil is inefficient in that the HRC produced at Port Kembla must be transported to the Western Port facility for pickling and oiling. This results in additional transportation expenses being incurred, which affects the competitiveness of BlueScope's prices.
- regarding the impact of other injury factors on BlueScope's performance, including;
 - the appreciation of the Australian dollar and increased competitiveness of imports;
 - the restructure of BlueScope and divesting of its export business;
 - global and domestic economic factors (including the global financial crisis and contracting market demand in the Australian steel industry);
 - other drivers of price (POSCO claimed that its HRC prices are set by global factors and are independent of the Australian market);
 - increased costs of production (including raw materials, labour and electricity); and

- increased imports of HRC from [redacted] [country] (and in particular why this country was not nominated in the application).
- regarding the monitoring of importers and exporters across different market segments in the event anti-dumping measures were imposed.

POSCO also highlighted that during the investigation period imports from Korea had not increased, unlike exports from Taiwan.

To support its claims that BlueScope cannot supply certain PO coil to Australian customers, POSCO provided a letter (non confidential attachment SUB 2 refers) from [redacted] [confidential information regarding how POSCO obtained the letter], Harrington Industries. This letter stated that Harrington Industries uses POSCO's PO coil for the manufacture of many automotive deep drawing stamped components. Harrington claimed that these products are either not available from BlueScope or are inferior in elongation (which means it is less formable resulting in many split or faulty components). Harrington stated that if dumping duty was imposed it would lose contracts to international competitors and pressings would need to be outsourced to its plant in Thailand.

POSCO's submission dated 17 September 2012 should be read in conjunction with this section of the report for further detail.

14 LIST OF APPENDICES AND ATTACHMENTS

Confidential appendix 1	Export price summary
Confidential appendix 2	CTMS summary
Confidential appendix 3	Domestic sales summary
Confidential appendix 4	Normal values and dumping margin summary
Confidential attachment GEN 1	Exporter questionnaire corrections package
Confidential attachment COM 1	POSCO's shareholder package
Confidential attachment COM 2	Business report for 2011 which lists POSCO's shareholders and percentage shareholdings
Confidential attachment COM 3	POSCO's corporate organisational structure
Confidential attachment COM 4	POSCO's chart of accounts, 2011 audited consolidated and unconsolidated report and general ledger / trial balances for quarter 1 2012
Confidential attachment COM 5	Flowcharts of ERP financial records and POSCO's cost accounting system
Confidential attachment COM 6	POSCO's production process package
Confidential attachment GOODS 1	Summary of structure of POSCO's actual item codes
Confidential attachment GOODS 2	List of product group codes
Confidential attachment GOODS 3	Example of product models related to actual item codes for goods produced at Kwangyang in the December quarter 2011
Confidential attachment GOODS 4	Table comparison of the goods and like goods
Confidential attachment REC 1	Domestic sales reconciliation package (for upwards verification)
Confidential attachment REC 2	Export sales reconciliation package (for upwards verification)
Confidential attachment EXP 1	Translation document for export sales (for order sheet, daily shipping list and tax invoice)
Confidential attachment EXP 2 to EXP 13	Source documentation for selected export sales of HRC
Confidential attachment EXP 14	Revised handling, loading and ancillary expenses in respect of certain export sales
Confidential attachment COSTS 1	Description of standard costs
Confidential attachment COSTS 2	Assignment of product characteristics to product models
Confidential attachment COSTS 3	Cost accounting system package
Confidential attachment COSTS 4	Production volume reconciliation package (for selected models)
Confidential attachment COSTS 5	Inventory ledgers showing total production and total standard costs of manufacture by respective production mills
Confidential attachment COSTS 6	Cost reconciliation package (for upwards verification)

Confidential attachment COSTS 7	Explanation of different cost variances used by POSCO for accounting purposes
Confidential attachment COSTS 8	Variance reconciliation package (for upwards verification)
Confidential attachment COSTS 9	Raw materials (coal and iron ore) verification package
Confidential attachment COSTS 10	Related party transactions package
Confidential attachment COSTS 11	Power expenses verification package
Confidential attachment COSTS 12	Fixed overheads verification package
Confidential attachment COSTS 13	Secondary utilities verification package
Confidential attachment COSTS 14	SG&A verification package
Confidential attachment DOM 1	Summary of domestic credit terms
Confidential attachment DOM 2	Extra price charges in respect of domestic HRC sales
Confidential attachment DOM 3	Translation document for domestic sales (for order sheet, daily shipping list and tax invoice)
Confidential attachment DOM 4 to 15	Source documentation for selected domestic sales of HRC
Confidential attachment THIRD 1	Summary of POSCO's third country sales of HRC
Confidential attachment ADJ 1	Credit expense adjustment package
Confidential attachment ADJ 2	Interest revenue adjustment package
Confidential attachment ADJ 3	Evidence of payment to freight providers
Confidential attachment ADJ 4	Warehousing expense adjustment package
Confidential attachment ADJ 5	Packing expense adjustment package
Confidential attachment ADJ 6	Warranty expense adjustment package
Confidential attachment ADJ 7	Duty drawback adjustment package
Non confidential attachment SUB 1	POSCO's submission to the investigation dated 17 September 2012
Non confidential attachment SUB 2	Letter from Harrington Industries