Australian Government
Australian Customs and Border Protection Service

INVESTIGATIONS INTO THE ALLEGED DUMPING AND SUBSIDIASTION OF

HOT ROLLED PLATE STEEL

EXPORTED FROM

THE PEOPLE'S REPUBLIC OF CHINA, REPUBLIC OF INDONESIA, JAPAN, THE REPUBLIC OF KOREA AND TAIWAN

RECORD OF MEETING

AUSTRALIAN CUSTOMS AND BORDER PROTECTION SERVICE AND POSCO

TABLE OF CONTENTS

1. MEETING

A verification meeting was held at POSCO's Seoul head office on Tuesday, 28 May 2013. The following representatives were present at various stages of the day:

COMPANY:	POSCO
ADDRESS:	POSCO Center 892 Daechi4-Dong Gangam-Gu, Seoul 135-777, Korea
DATE:	28 May 2013
ATTENDEES: POSCO	
Mr Sisub Kim	Senior Manager, Carbon Steel Marketing Division
Mr Mi-Seon Kim	Manager, Carbon Steel Marketing Division
Ms. Esther Kim	Manager, Overseas Marketing Department
Mr Jin-Han Kim	Team Leader, Carbon Steel Marketing Division
Mr Mo-Chang Kang	Manager, Carbon Steel Marketing Division
Mr Kangil Sohn	Associate, Carbon Steel Marketing Division
ATTENDEES: Consultants	
Mr. Jong Tak (Jeff) Kim	Director, CPA, The International Trade Consulting
Mr. Hyungwoo (Harry) Shin	Director, CPA, The International Trade Consulting
Mr. Chaeho Lee	CPA, The International Trade Consulting
Mr. Daniel Moulis	Principal, Moulis Legal
ATTENDEES: Customs and Border Protection	
Mr. Tom O'Connor	Manager, Operations 1
Ms. Cathy Cole	Supervisor, Operations 1

2. BACKGROUND AND PURPOSE

Following the initiation of the above investigations, a search of Customs and Border Protection's import database identified that POSCO exported plate steel from The Republic of Korea (Korea) to Australia during the period 1 January 2012 to 31 December 2012 (the investigation period).

Customs and Border Protection notified POSCO of the initiation of the investigations and sought its cooperation with the investigation, providing the company with an exporter questionnaire to complete.

POSCO completed the exporter questionnaire, and provided the non-confidential version of this questionnaire response. This is available on the Public Record.

Prior to the meeting Customs and Border Protection forwarded POSCO an agenda. See **Confidential Attachment 1.** This agenda listed details of the selected export and domestic sales for further examination.

The purpose of this meeting was to:

- discuss the investigation into hot rolled plate steel generally;
- consider like goods;
- undertake a cost verification ; and
- collect relevant documents to assist in remote assessment of POSCO's response to the exporter questionnaire.

2.1 Introduction

2.1.1 Truncated verification

The verification team indicated that following the receipt of POSCO's questionnaire response, Customs and Border Protection conducted an assessment of the response and determined the response was substantially complete.

Customs and Border Protection considered, given that

- POSCO had been subject to successful verification (September 2012) of its response to the exporter questionnaire in the hot rolled coil (HRC) investigation (REP 188); and
- In January 2013 Customs and Border Protection met with POSCO at its office in Seoul, as part of the investigation into dumping of zinc coated (galvanised) steel; and aluminium zinc coated steel exported from China, Korea and Taiwan (REP 190),

and determined that a full verification visit to POSCO was not required for this investigation. The verification visit was essentially a focus on the cost to make and sell, like goods and collection of other documents.

Customs and Border Protection scheduled a one day visit at the POSCO's office in Seoul, to discuss certain aspects of the questionnaire response.

2.1.2 Statement of essential facts (SEF)

At the commencement of the meeting POSCO asked about the timing of the SEF. The verification team noted that the SEF was due on 3 June 2013 and given the

timing of the visit an extension to the SEF due date was likely however no formal decision was to hand.

2.1.3 Case administration

The verification team did not provide a background to the case, administrative issues, key dates or a confirmation of Customs and Border Protections confidentially requirements. An offer was made to POSCO which indicated it was not necessary given their recent previous experiences and presentations from their legal representative.

2.1.4 Introduction video

POSCO commenced the meeting with a short video presentation, which included company history, products and the POSCO network as a global company with integrated steel works in Korea, Indonesia and India.

2.1.5 Minor corrections

At the commencement of the meeting POSCO provided us with a package to support corrections to the inland freight and loading fee amount for export sales to Australia, the credit expense for a domestic sale and an error in the CTMS ratio, refer **Confidential Attachment 16.**

3. LIKE GOODS

3.1 The goods

Following the initiation of the investigation a number of interested parties sought clarification regarding goods that are subject to the investigation. Following consultation with BlueScope, Customs and Border Protection issued ACDN No. 2013/20 to provide clarification regarding the goods that are covered by the investigation. This ACDN did not alter the description of the goods as described in the application. Section 6.1.1 regarding the description of the goods reflects information provided in the application and clarified by ACDN 2013/20.

3.1.1 Description

The imported goods the subject of the application are:

Flat rolled products of:

- iron;
- non-alloy steel; or
- non-heat treated alloy steel of a kind commonly referred to as Quench and Tempered (Q&T) Green Feed;

of a width greater than 600 millimetres (mm), with a thickness equal to or greater than 4.75mm, not further worked than hot rolled, not in coils, with or without patterns in relief.

Goods excluded from this application are:

- 250 megapascal (MPa) yield strength grades of plate steel with a thickness greater than 150mm;
- 350 megapascal (MPa) yield strength grades of plate steel with a thickness greater than 100mm;
- Q & T Green Feed grades of plate steel with a thickness greater than 105mm;
- heat treated Q & T grades of plate steel.

3.1.2 Additional product information

The goods under consideration (GUC) are generically called hot rolled plate steel, plate steel, coil plate steel or Q&T green feed (used interchangeably with GUC in this application).

Trade or further generic names often used to describe these goods include:

- “XLERPLATE” steel;
- “XLERPLATE LITE” steel;
- Plate;
- Pattern Plate;
- Coil Plate;
- Checker Plate;
- Floor Plate;
- Q&T Green Feed.

3.1.3 Quench and Tempered (Q&T) green feed

Imported alloy steel plate product grades that are made by BlueScope and also imported into Australia are generically called Q & T Green Feed. Q & T Green Feed is supplied only in non heat-treated condition. Q & T Green Feed steel grades possess a higher hardenability, which (on heat treating) results in higher strength and hardness properties over 250 MPa and 350 MPa non-alloy steel grades. To achieve this higher hardenability, additional specific alloys are added during the steelmaking process (i.e. thereby incurring a higher cost of production).

Q & T Green Feed grades of steel have chemical compositions that typically fall within the following range:

- Carbon Max – 0.40%
- Manganese Max – 1.6%
- Silicon Max – 0.65%
- Sulphur Max – 0.035%
- Phosphorous Max – 0.035%
- Nickel Max – 2.5%
- Chrome Max – 2.0%
- Molybdenum Max – 1.0%
- Vanadium Max – 0.15%
- Boron Max – 0.006%.

The percentage of individual alloying elements will vary in accordance with each manufacturer's grade specifications and not all elements may be utilised in all Q & T Green Feed steel grades.

Q&T Green Feed products are normally "negotiated mill to customer" chemistry grades of plate steel.

Q & T Green Feed is only supplied in the non heat-treated condition (ie the heat treatment process to achieve the higher hardenability is undertaken by BlueScope's customer(s)).

3.1.4 Tariff classifications

The application states that plate steel is classified to the following tariff subheadings:

- 7208.40.00 statistical code 39;
- 7208.51.00 statistical code 40;
- 7208.52.00 statistical code 41;
- 7225.40.00 statistical codes 22 and 24.

For tariff subheadings:

- 7208.40.00 statistical code 39;
- 7208.51.00 statistical code 40; and
- 7208.52.00 statistical code 41

the general rate of duty is currently 5 per cent for goods imported from Japan and free for imports from China, Indonesia, Korea and Taiwan.

For goods imported under the tariff subheading 7225.40.00 statistical codes 22 and 24, the general rate of duty for goods imported from Japan, Korea and Taiwan is 5 per cent and 4 per cent for imports from China and Indonesia.

3.2 Like Goods

Subsection 269T(1) defines like goods to mean:

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

In its EQR POSCO provided a list of all models exported to Australia and a list of domestic models that were considered like goods. POSCO advised that it specifies each model with a code based on the characteristics of product type, specification, thickness, width, length and surface.

In its EQR, POSCO provided domestic sales of all like goods, and indicated that **[CONFIDENTIAL TEXT DELETED - number]** models were identical to the models exported to Australia, namely **[CONFIDENTIAL TEXT DELETED – product grades]**.

The verification team was informed that the goods sold to **[CONFIDENTIAL TEXT DELETED – customer]** being **[CONFIDENTIAL TEXT DELETED – product grades]** were not like to anything that POSCO manufactured and sold on the domestic market.

POSCO prepared a like goods package that summarised the product characteristics of the **[CONFIDENTIAL TEXT DELETED – product grades]** and **[CONFIDENTIAL TEXT DELETED – product grade]** in terms of:

1. Flatness
2. Controlled rolling
3. Rolling typeT5 temperature
4. Accelerated cooling

Manufacturing production sheets were included to support the summaries. These documents are at **Confidential Attachment 2.**

POSCO explained the following in terms of the grades exported to Australia:

3.2.1 [CONFIDENTIAL TEXT DELETED – product grade]

- there are two grades:
  - **[CONFIDENTIAL TEXT DELETED – product grade]** (PJ) plate grade; and
  - **[CONFIDENTIAL TEXT DELETED – product grade]** (HE) HR plate grade (not supplied to the Australian market)
- POSCO indicated this was almost identical to **[CONFIDENTIAL TEXT DELETED – product grade]**

3.2.2 [CONFIDENTIAL TEXT DELETED – product grade]

- is a POSCO specification
- normally supplied to a distributor or a fabricator
- competes with the Q275 (from China)
- almost identical to the **[CONFIDENTIAL TEXT DELETED – product grade]**

3.2.3 [CONFIDENTIAL TEXT DELETED – product grade]

- developed a few years ago for the Australian market
- supplied to distributors
- almost identical to the **[CONFIDENTIAL TEXT DELETED – product grade]**

3.2.4 [CONFIDENTIAL TEXT DELETED – product grade]

- stronger than the **[CONFIDENTIAL TEXT DELETED – product grade]**
- developed a few years ago for the Australian market
- supplied to distributors
- almost identical to the **[CONFIDENTIAL TEXT DELETED – product grade]**

3.2.5 [CONFIDENTIAL TEXT DELETED – product grade]

- same grade as Korean standard **[CONFIDENTIAL TEXT DELETED – product grade]**
- normally an end user order
- specified for use in government contracts
- tighter specifications than the **[CONFIDENTIAL TEXT DELETED – product grades]** and with regard to flatness and surface scale
- customised use for example heavy machinery such as an excavator that requires the steel plate to be “flatter”
- global purchasers for example are **[CONFIDENTIAL TEXT DELETED – customers]**
- domestic purchasers are **[CONFIDENTIAL TEXT DELETED – customers]**
- “rolled” to have a smaller micro-structure than the **[CONFIDENTIAL TEXT DELETED – product grade]**
- manufactured using a cooling process (without water) which has the effect of reducing the thickness of scale when compared to the **[CONFIDENTIAL TEXT DELETED – product grade]**

Specifically, POSCO indicated that the almost identical goods sold on the domestic market are sold to distributors where the end use of the goods is unknown. This is in contrast to the **[CONFIDENTIAL TEXT DELETED – product grade]** which is specifically sold to end users where its application is known. Although advised to the contrary, the verification team found that approximately **[CONFIDENTIAL TEXT DELETED]**% of its **[CONFIDENTIAL TEXT DELETED – product grade]** volume was sold to domestic distributors and **[CONFIDENTIAL TEXT DELETED – related entity]** (a domestic Trader) also sold **[CONFIDENTIAL TEXT DELETED – product grade]**.

POSCO considers that the goods sold to Australia are sold to distributors where the end use is not specifically known.

The verification team requested to see specification sheets however POSCO was not able to provide any these with regard to **[CONFIDENTIAL TEXT DELETED – product grade]** and **[CONFIDENTIAL TEXT DELETED – product grade]** nor were they identified in the product brochure provided with the EQR. POSCO pointed out, however, **[CONFIDENTIAL TEXT DELETED – product grade]** goods were also not represented in the product brochure.

POSCO Indicated that the identical goods sold on the domestic market held the same mechanical properties, were manufactured the same way (or slightly different

way with regard to **[CONFIDENTIAL TEXT DELETED – product grade]**) and were used and distributed in the same manner as the goods sold to Australia. From these characteristics POSCO considered **[CONFIDENTIAL TEXT DELETED – product grade]** was identical to **[CONFIDENTIAL TEXT DELETED – product grade]** and **[CONFIDENTIAL TEXT DELETED – product grade]** was identical to **[CONFIDENTIAL TEXT DELETED – product grade]**.

3.2.6 [CONFIDENTIAL TEXT DELETED – Q&T greenfeed]

- **[CONFIDENTIAL TEXT DELETED – Q&T greenfeed grades]**
- chemical composition is very specific **[CONFIDENTIAL TEXT DELETED – details of chemical composition]**
- is green feed
- POSCO product is not Q&T but assumes the final product goes on to be Q+T
- POSCO indicated it was not sure what the product was used for but speculated it was for excavator buckets and the like where hardened steel is required, or where the products came into contact with chemicals.

POSCO stated that the **[CONFIDENTIAL TEXT DELETED – Q&T greenfeed]** grades do not match to any other grade of steel plate sold on the domestic market hence no comparable like goods.

4. COST TO MAKE & SELL

4.1 POSCO's accounting system

POSCO utilises a **[CONFIDENTIAL TEXT DELETED - accounting system]**, based on **[CONFIDENTIAL TEXT DELETED – proprietary software]** applications for financial and cost accounting functions. It advised that the **[CONFIDENTIAL TEXT DELETED - accounting system]** utilises a standard cost system. POSCO provided flowcharts of the financial records maintained in **[CONFIDENTIAL TEXT DELETED - accounting system]** and for its cost accounting system (**Confidential Attachment 4** refers). During the verification process we sighted numerous accounting records and reports extracted from **[CONFIDENTIAL TEXT DELETED - accounting system]**.

4.1.1 Cost accounting overview and link to financial reporting function

POSCO advised that from the planning stage relevant for each process and product, standards costs are developed and recorded as the item moves through the production process. The standard costs in respect of finished products are recorded in inventory ledgers and become part of the financial accounting system.

The standard cost only records the cost of manufacture with all variances being recorded in the general ledger.

The cost accounting component of the **[CONFIDENTIAL TEXT DELETED - accounting system]** system contains the following modules:

- bill of materials (BOM) / routing module;
- cost management (CST) module (standard costs);
- work in progress (WIP) module; and
- inventory module.

POSCO provided an overview of the following key stages and elements which link the cost accounting functions to financial reporting functions:

- standard cost;
- raw material purchases;
- inventory ledgers;
- activity based cost allocation sheet;
- allocation of cost variances for financial reporting;
- general ledgers and trial balance; and
- financial statements.

POSCO advised that these modules capture and record the required information relating to resource usage, historical and forecast costs to derive standard costs on a quarterly basis.

4.1.1 Standard costs

POSCO advised each product has its separate standard cost and that there are three standards costs maintained in its cost accounting system including; primary standard costs; frozen standard costs and weighted average standard costs. A

description of each of these standard cost types is at Confidential Attachment 4 (page 10). POSCO explained that the three key elements relevant to standard costing are mill, actual item code and quarter.

POSCO reviews the standard cost regularly and may change it as needed. The verification team was informed the standard cost has a typical life of three months. During this time however, a small change may be made to a single input through to a complete recasting of the entire cost base. The primary explanation for the differences in standard cost terminology is to reflect how POSCO identify changes to the standard cost.

POSCO advised that it converts each primary standard cost into weighted average standard costs in inventory ledgers using ratios. POSCO advised that while standard costs are adjusted on a quarterly basis, they can be varied at any stage.

4.1.1 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.

4.2 Production facilities

POSCO has two Korean integrated steel production facilities, in Pohang and Kwangyang; both manufacturing HR plate.

4.2.1 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.

4.2.2 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.

4.3 Verification of costs

Prior to the visit the verification team advised POSCO 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.

POSCO prepared a number of packages for us to explain POSCO's accounting system.

POSCO advised that its accounting systems and methodology for calculating unit costs had not changed from Customs and Border Protection's visit of 2012. POSCO provided the verification team with the POSCO visit report for the Hot Rolled Coil (HRC) investigation (REP 188) pages 24 to 26 that described POSCO's cost accounting system, **Confidential Attachment 3.**

The verification team reviewed this report in the context of the current verification and considered the remaining section of this report is a similar format to the previous POSCO visit report (REP 188).

4.3.1 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 **[CONFIDENTIAL TEXT DELETED - accounting system]**. 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 **[CONFIDENTIAL TEXT DELETED - accounting 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 based on production volume; and
- cost variances were aggregated and divided by the total standard cost of production. The resulting ratio was applied to the standard cost of manufacture for HR plate 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 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 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.

A summary of the response methodology is at Confidential Attachment 4 (page 16).

4.3.2 POSCO's approach to assigning product models

POSCO explained that its **[CONFIDENTIAL TEXT DELETED - accounting system]** defines semi-finished and finished products by a **[CONFIDENTIAL TEXT DELETED - number]** digit actual item code (refer Confidential Attachment 4 (page 48). These codes are used in POSCO's cost accounting system, inventory ledgers and sales documentation (including orders and invoices).

This **[CONFIDENTIAL TEXT DELETED - number]** 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 **[CONFIDENTIAL TEXT DELETED - number]** product characteristics in respect of HR plate sold domestically and exported to Australia. These characteristics include type, product name, grade, planning quality, quality, thickness, width and product particularity (refer Confidential Attachment 4 (pages 49-78).

4.4 Cost to make Verification upwards to financial statements - completeness

4.4.1 Cost of sales

POSCO's EQR included the POSCO group of companies and POSCO's separate audited 2012 income statements (EQR, Appendix A-7). 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 5**), that included:

- reconciliation summary for costs of goods sold in trial balance to inventory ledgers (for the investigation period);
- POSCO's comprehensive audited income statement for 2012;
- reconciliation summary for inventory ledger costs for finished products during the investigation period;
- summary breakdown of manufacturing costs by product group for each quarter in the investigation period;
- summary of production quantity and cost of manufacturing by product name and quarter; and
- Reconciliation table.

Using the documentation listed above POSCO was able to show us how the data provided in the CTMS spreadsheets reconciled upwards to audited financial accounts. POSCO guided us through the following steps:

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.

4.4.2 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 2012 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.

4.4.3 Variances

In its EQR POSCO reported that at the end of each month it allocates total cost variances to the standard cost of sales and inventory balances.

At the visit POSCO provided a variance reconciliation package for the purpose of reconciling variances allocated on a global basis and linking these variances to product models in the CTMS spreadsheets (**Confidential Attachment 6** refers). This package included:

- A summary of total variances by production facilities / works for the investigation period;
- the Pohang and Kwangyang mill variance summary by cost center;
- a summary of total common cost center variance by variance type;
- the trial balance summary by mill for 2012, showing accounts related to cost variances (the amounts in this matched the summary of total variances for all production facilities);
- a detailed accounting information report for the variance account for energy for 2012 for the Kwangyang mill (showing variances by cost center, including plate);
- the trial balance for energy account showing cost variances for energy for hot rolling (as identified by cost center) for 2012, which matched the detailed account information;
- a summary of common variance summary by mill for 2012;
- the raw material purchase details for Pohang and Kwangyang for 2012; and
- a calculation of variances and allocations for each mill during for the period July to September 2012, and supporting inventory ledgers.

Using POSCO's reconciliation package we were able to match total variances for Pohang and Kwangyang in the variance summaries for plate to the trial balances and the detailed accounting information.

In the accounting information for account code **[CONFIDENTIAL TEXT DELETED - number]**, referred to above, we noted the abbreviation HFL in one of the cost center names. POSCO advised that HFL stood for hot final line for HR coil. A printout from the data dictionary is at **non-Confidential Attachment 7.**

4.5 Verification of cost components

Prior to the visit the following two models (of goods exported to Australian and sold domestically in Korea) were selected in order to verify the cost to make and sell:

- PJ **[CONFIDENTIAL TEXT DELETED – product grade]** C5 B B S N (sold to Australia); see **Confidential Attachment 8** and
- PJ **[CONFIDENTIAL TEXT DELETED – product grade]** C5 B B S N (sold domestically). See **Confidential Attachment 8**

POSCO prepared packages for each model following a similar format.

4.5.1 PJ [CONFIDENTIAL TEXT DELETED – product grade] C5 B B S N (sold to Australia)

POSCO provided a 3-part package that contained the following:

- Extract of selected sample from CTMS - Australia sales spreadsheet;
- Structure of sample product model type showing the actual item code (**[CONFIDENTIAL TEXT DELETED – product code]**) that equates to the model selected (PJ **[CONFIDENTIAL TEXT DELETED – product grade]** C5 B B S N) and supporting inventory ledger;
- Summary of cost of manufacture for Q3 2012 and supporting screen shots from cost accounting system;
- Bill of materials (81 pages); and
- Detailed breakdown of the following cost items for Q3 2012:
    - Raw materials
    - Power
    - Depreciation
    - Variable scrap

Documents are at **Confidential Attachment 8**.

4.5.2 PJ [CONFIDENTIAL TEXT DELETED – product grade] C5 B B S N (sold domestically)

POSCO provided a 2-part package that contained the following:

- Extract of selected sample from CTMS – domestic sales spreadsheet;
- Structure of sample product model type showing the actual item code (**[CONFIDENTIAL TEXT DELETED – product code]**) that equates to the model selected (PJ **[CONFIDENTIAL TEXT DELETED – product grade]** C5 B B S N) and supporting inventory ledger;
- Summary of cost of manufacture for Q3 2012 and supporting screen shots from cost accounting system

- Standard unit cost details
- Bill of materials cost report (81 pages)

Documents are at Confidential Attachment 9.

We sought to verify standard costs recorded in 2012 September quarter (Q3) for actual item code **[CONFIDENTIAL TEXT DELETED – product code]** (related to specific product models) produced at Pohang. At the visit POSCO explained the following, with reference to the documents at confidential attachment 8:

- actual item code FPJ1TTW4109BBC5B02 equates to PJ **[CONFIDENTIAL TEXT DELETED – product grade]** C5 B B S N, the model selected;
- the total production quantity and standard cost for PJ **[CONFIDENTIAL TEXT DELETED – product grade]** C5 B B S N in the CTMS Australia spreadsheet 2012 Q3 can be traced to the total of the production quantity and cost of manufacture figures in a summary for the Kwangyang and Pohang Mills;
- The total production and cost of manufacture (COM) amount for Pohang Mill can be traced to the inventory ledger and to the totals in the **[CONFIDENTIAL TEXT DELETED – product code]** Pohang Mill 2012 Q3 cost build up report (listing cost components (activities), COM amount and COM unit);
- the COM unit amounts in the **[CONFIDENTIAL TEXT DELETED - accounting system]** accounting record correspond to the sum of figures in the standard unit cost detail report for the **[CONFIDENTIAL TEXT DELETED – product code]** Pohang Mill 2012 Q3, listing element, sub-element, activity and item cost;

4.5.3 Raw materials - coal and iron ore

To verify the actual purchase costs were traceable to the cost to make POSCO provided;

- A summary of the iron ore and coal standard units and amounts consumed by the Pohang Mill 2012 Q3 in the production of **[CONFIDENTIAL TEXT DELETED – product code]** correspond to the standard unit and amount figures in the bill of materials cost report for **[CONFIDENTIAL TEXT DELETED – product code]**;
- the 2012 Q3 standard unit cost and amount for AAF04 iron ore in the summary can be traced to the bill of materials, **[CONFIDENTIAL TEXT DELETED - accounting system]** accounting record of the standard cost history (which can be linked via a code to the cost build up report) and inventory ledger;
- inventory ledgers for raw materials for the Pohang Mill 2012 Q3 showed transfers into this ledger (purchases of coal and iron ore) and transfer out (through production and standard cost transferred out), and these matched the cost build up report and accounting reports;
- spreadsheet summary of raw material purchases of coking coal (in United States (US) dollars) with **[CONFIDENTIAL TEXT DELETED – sales term]** delivery terms and payment terms of **[CONFIDENTIAL TEXT DELETED - number]** days) sourced from an Australian supplier (**[CONFIDENTIAL TEXT DELETED – coking coal supplier]**), reflected reported standard costs;

- spreadsheet summary of raw material purchases of iron ore (in US dollars with **[CONFIDENTIAL TEXT DELETED – sales term]** delivery terms and **[CONFIDENTIAL TEXT DELETED – payment terms]**) sourced from an Australian supplier (**[CONFIDENTIAL TEXT DELETED – iron ore supplier]**), reflected reported standard costs;
- commercial invoices from raw material suppliers matched the reported cost;
- **[CONFIDENTIAL TEXT DELETED - accounting system]** accounting records showed payment to the supplier and matched the invoiced amount;
- **[CONFIDENTIAL TEXT DELETED - accounting system]** records showed exchange rate variances and invoice price variances associated with the purchases of coal and iron ore;

4.5.4 Power

Power is identified as a resource expense in POSCO's **[CONFIDENTIAL TEXT DELETED - accounting system]** system with a **[CONFIDENTIAL TEXT DELETED – number]** digit sub-element code (**[CONFIDENTIAL TEXT DELETED – product code]**); and POSCO calculates standard costs and actual costs for power including To verify POSCO provided;

- the Pohang 2012 Q3 item cost total for power can be traced to the bill of materials, in particular POSCO traced the amount for sub-element **[CONFIDENTIAL TEXT DELETED – product code]**;
- the cost of power in the cost build up report 2012 Q3 matches the bill of materials;
- The power standard cost calculation spreadsheet shows the application of standard unit cost to planning item items for each of the power cost centres based on expected production;
- The calculation of the standard unit cost is 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;
- The total allocated amount in the summary of the budget allocation (from the power cost centre to the direct cost centre) report matches the total of the power standard cost calculation;
- the trial balance shows the transfer of electricity costs from indirect to direct cost centres;
- commercial invoices for electricity are from ICEPCO, a Korean electricity provider; and
- **[CONFIDENTIAL TEXT DELETED - accounting system]** records showing payment of electricity to ICEPCO which matches the invoice total;

4.5.5 Depreciation

The verification team was able to trace the depreciation charge from the Pohang 2012 Q3 item cost total for depreciation (unit cost item PB61N2001G) to the bill of materials and the planning items summary; and the actual and standard depreciation figures for account item **[CONFIDENTIAL TEXT DELETED]** (2012 Q3). The planning items summary can be traced to the direct cost centre reports and trial balance for item number **[CONFIDENTIAL TEXT DELETED – product code]**.

4.5.6 Variable scrap

To verify the variable scrap usage, POSCO provided;

- A summary of the scrap standard units and amounts consumed by the Pohang Mill 2012 Q3 in the production of **[CONFIDENTIAL TEXT DELETED – product code]** which corresponds to the standard unit and amount figures in the bill of materials cost report for **[CONFIDENTIAL TEXT DELETED – product code]**; and
- the 2012 Q3 standard unit cost and amount for **[CONFIDENTIAL TEXT DELETED – product code]** scrap can be traced to the valuation units cost for scrap listing.

4.5.7 Verification of cost components summary

Using the documents provided at Confidential Attachments 8 & 9 the verification team was able to trace and verify the coal and iron ore raw materials, power usage, depreciation and variable scrap usage to source documents and through to the audited financial statements.

The verification team is satisfied that cost elements in the cost to make as presented in the domestic and export cost to make and sell worksheets is accurate and suitable for use in the ordinary course of trade tests.

4.6 Selling, general and administration expenses

POSCO provided a selling, general and administration (SG&A) expenses package (**Confidential Attachment 10** 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).

POSCO advised that the calculation of SG&A and Financial Expense ratio at Appendix G-8 of the EQR had been revised to amend a calculation error. Prior to the visit Customs and Border Protection identified this same calculation error and is satisfied that it has been rectified.

POSCO explained the revised calculated SG&A costs for all products for the investigation period was based on 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).

4.6.1 SG&A and Financial Expense ratio

POSCO derived a SG&A and financial expense ratio for GUC 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 and finance expense amount. POSCO multiplied this SG&A and finance expense

unit amount by production volume to derive an SG&A and finance expense for each model.

4.6.2 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 financial income and non-operating expenses POSCO identified certain investment activity that were not directly relevant to plate steel and omitted these from the calculations.

4.7 Cost to make and sell – summary

We are satisfied that sufficient information was available and verified to substantiate the CTMS for plate steel 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.

5. EXPORT SALES

5.1 Background

Although not specifically identified as a topic on the agenda, POSCO briefly described its export sales functions.

In its EQR POSCO indicated it had two export sale distribution channels. Channel one comprises of sales made via **[CONFIDENTIAL TEXT DELETED – related Australian entity]** All sales via **[CONFIDENTIAL TEXT DELETED – related Australian entity]** are sold on **[CONFIDENTIAL TEXT DELETED]** terms however **[CONFIDENTIAL TEXT DELETED – related Australian entity]** never takes delivery of the goods, rather it sells the goods prior to their entry into Australia.

Channel two consists of sales via Korean domiciled trading companies that sell the goods to Australia.

POSCO advised the verification team that is fully aware of the final destination of the goods with the goods being shipped directly to Australia

5.2 Export sales source documents

POSCO provided packages of source documents for the following selected export sales of plate steel, as outlined in the meeting agenda.

POSCO

Serial Number	Customer name	Model	Invoice number
[CONFIDENTIAL TEXT DELETED – customer names and product grades]			

[CONFIDENTIAL TEXT DELETED – related Australian entity]

Serial Number	Customer name	Model	Invoice number
[CONFIDENTIAL TEXT DELETED- customer names and product grades]			

[CONFIDENTIAL TEXT DELETED – trading entity]

Serial Number	Customer name	Model	Invoice number
[CONFIDENTIAL TEXT DELETED - customer names and product grades]			

The document packages contained the following:

- order sheet;
- daily shipment list;
- commercial invoice;
- packing list;
- proof of payment.

Bills of lading were provided with the **[CONFIDENTIAL TEXT DELETED – related Australian entity]** and [**CONFIDENTIAL TEXT DELETED – trading entity]** document packages.

The verification team identified three invoices and POSCO stepped the verification team through the document packets to confirm the details in their export sales spreadsheets.

The details in the documents agreed with the export sales spreadsheets provided with the EQR.

These documents form **Confidential Attachment 12**.

6. DOMESTIC SALES

6.1 Domestic sales source documents

POSCO provided packages of source documents for the following selected domestic sales of plate steel, as outlined in the meeting agenda.

Serial Number	Customer name	Model
[CONFIDENTIAL TEXT DELETED – customer names and product grades]		

These document packages contained the following:

- order sheet;
- daily shipment list;
- tax invoice; and
- POSCO's accounting journal entry showing payment.

POSCO stepped the verification team through one of the domestic sales document packets to confirm the details in their domestic sales spreadsheets. The details in the commercial documents agreed with the domestic sales spreadsheets provided with the EQR.

These documents form **Confidential Attachment 13**.

6.2 [CONFIDENTIAL TEXT DELETED – related trading entity]

POSCO explained that **[CONFIDENTIAL TEXT DELETED – related trading entity]** is a trading company being **[CONFIDENTIAL TEXT DELETED – related trading entity]**% owned by POSCO and **[CONFIDENTIAL TEXT DELETED - number]**% owned by POSTECH (Pohang University of Science and Technology) and operates from separate facilities. **[CONFIDENTIAL TEXT DELETED – related trading entity]** sells on the domestic market and sales represent about **[CONFIDENTIAL TEXT DELETED - number]**% of POSCO's domestic sales. POSCO indicated that **[CONFIDENTIAL TEXT DELETED – related trading entity]** has its own premises, business structure and financial targets.

For these sales the customer contacts **[CONFIDENTIAL TEXT DELETED – related trading entity]**, **[CONFIDENTIAL TEXT DELETED – related trading entity]** places the order with POSCO, POSCO ships the goods to **[CONFIDENTIAL TEXT DELETED – related trading entity]**' customer and **[CONFIDENTIAL TEXT DELETED – related trading entity]** invoices and collects payment from the customer. POSCO invoices **[CONFIDENTIAL TEXT DELETED – related trading entity]** and **[CONFIDENTIAL TEXT DELETED – related trading entity]** pays POSCO.

POSCO informed the verification team that a proposed buying price being sought by **[CONFIDENTIAL TEXT DELETED – related trading entity]** that is below cost will be rejected.

In its EQR and later at the verification meeting, POSCO informed the verification team that **[CONFIDENTIAL TEXT DELETED – related trading entity]** does not take possession of the goods in the sales transaction.

7. ADJUSTMENTS

7.1.1 Short term interest rate

At Appendix E-2 to the EQR POSCO provided a worksheet showing the calculation of the short term interest rate. At the visit POSCO provided us with a package to support the figures in the worksheet (**Confidential Attachment 14).**

The document package included the following:

- calculation worksheet
- chart of accounts showing short term borrowings and interest expenses for foreign currency
- trial balance
- **[CONFIDENTIAL TEXT DELETED – accounting system]** accounting records
- Reconciliation with trial balance worksheet

At the visit POSCO traced the short term balance and interest expense used in the short term interest rate calculation worksheet to the trial balance and **[CONFIDENTIAL TEXT DELETED – accounting system]** accounting records.

7.1.2 Duty draw back

In the EQR POSCO stated that it received duty drawback refunds associated with the exports of goods under investigation during the investigation period.

At appendix E-3 to the EQR POSCO provided a worksheet showing duty drawback for exports to Australia, by export permit.

At the visit POSCO provided the verification team with a package showing the calculation of duty drawback for plate steel relating to export permit No. 122-10-12-00126073-2. The package included the export permit, the duty drawback application, a linkage table between export and import information and a journal entry showing receipt of the duty drawback. The documents form **Confidential Attachment 15**.

At the visit POSCO was able to match the duty drawback amount in the worksheet (EQR – Appendix E-3) to the journal entry as well as match data in the export permit and duty drawback application.

8. LIST OF ATTACHMENTS

Confidential attachment 1	Agenda
Confidential Attachment 2	Like Goods
Confidential Attachment 3	POSCO visit report Extract (REP 188)
Confidential Attachment 4	Cost accounting system
Confidential Attachment 5	Cost reconciliation
Confidential Attachment 6	Variance allocation
Confidential Attachment 7	Printout – data dictionary Like Goods
Confidential Attachment 8	PJ **[CONFIDENTIAL TEXT DELETED - product grade]** C5 B B S N (sold to Australia)
Confidential Attachment 9	PJ **[CONFIDENTIAL TEXT DELETED - product grade]** C5 B B S N (sold domestically)
Confidential Attachment 10	SG&A ratio calculation
Confidential Attachment 11	Agenda – CTMS – Questions N & O
Confidential Attachment 12	Export sales documents
Confidential Attachment 13	Domestic sales documents
Confidential Attachment 14	Short term interest rate
Confidential Attachment 15	Duty drawback
Confidential Attachment 16	Minor corrections