



Australian Government

**Australian Customs and
Border Protection Service**

**INVESTIGATION INTO THE ALLEGED DUMPING OF HOT
ROLLED PLATE STEEL EXPORTED FROM
THE PEOPLE'S REPUBLIC OF CHINA, THE REPUBLIC OF
INDONESIA, JAPAN, THE REPUBLIC OF KOREA AND
TAIWAN**

AND

**INVESTIGATION INTO THE ALLEGED SUBSIDISATION OF
HOT ROLLED PLATE STEEL EXPORTED FROM
THE PEOPLE'S REPUBLIC OF CHINA**

EXPORTER VISIT REPORT

PT KRAKATAU STEEL (PERSERO) TBK

<p>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</p>

May 2013

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2 BACKGROUND

2.1 Background to the current investigation

On 21 December 2012, an application was lodged on behalf of BlueScope Steel Limited (BlueScope) requesting that the Minister for Home Affairs (the Minister) publish:

- dumping duty notices in respect of hot rolled plate steel (plate steel) exported to Australia the People's Republic of China (China), the Republic of Indonesia (Indonesia), Japan, the Republic of Korea (Korea) and Taiwan; and
- a countervailing duty notice in respect of plate steel exported to Australia from China.

Refer to the full description of the goods in section 4 of this report.

BlueScope provided further information and data in support of its application, the last of which was received on 29 January 2013. As a result, the Australian Customs and Border Protection Service (ACBPS) restarted the 20 day period for considering the application. On 12 February 2013 the Chief Executive Officer (CEO) of ACBPS decided not to reject the applications and initiated investigations into the alleged dumping and subsidisation of plate steel from the nominated countries.

BlueScope alleges that the Australian industry has suffered material injury caused by plate steel exported to Australia from the nominated countries at dumped and, in the case of China, subsidised prices. It claimed that material injury in respect of plate steel commenced to impact profit and profitability in 2009-10.

The application identified PT Krakatau Steel (Persero) Tbk (Krakatau Steel) as an exporter of plate steel from Indonesia. A search of ACBPS's import database also indicated that Krakatau Steel exported plate steel from Indonesia to Australia during the investigation period (January to December 2012). ACBPS wrote to Krakatau Steel advising it of the initiation of the investigation, requesting co-operation with the investigation and providing copies of an exporter questionnaire for it to complete.

Krakatau Steel completed the exporter questionnaire, providing details regarding the company, exports, domestic sales and cost to make and sell (CTMS) expenses for plate steel.

2.2 Purpose of visit

The purpose of the visit was to verify information submitted by Krakatau Steel in its exporter questionnaire response. The exporter questionnaire response was supported by confidential appendices and attachments, including confidential spreadsheets containing sales and cost data requested in the exporter questionnaire. A non-confidential version of the exporter questionnaire response was placed on the public record. ACBPS will use the verified information to make preliminary assessments of:

- like goods;

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- 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 Krakatau Steel's Cilegon office on Thursday 23 May 2013, Friday 24 May 2013, Monday 27 May 2013 and Tuesday 28 May 2013. The following representatives were present at various stages of the verification meetings:

COMPANY:	Krakatau Steel
ADDRESS:	Jl. Industri No. 5 Cilegon, Banten
DATES:	23, 24 and 27 May 2013
ATTENDEES: Krakatau Steel	
Irvan K. Hakim	President Director / CEO
Marsidon Simanungkalit	General Manager, Sales – 1
Raden Hernanto	General Manager, Marketing
Amung Somantri	General Manager, Quality Assurance
Dazul Herman	Manager, Plant Accounting
Bambang Tri Basuki	Manager, Product and Profitability Analysis
Hari Subuh Sasongko	Manager, Strategic Account - 5 Project and Regional
Rosa Medina Rafaldini	Chief Specialist, Institutional Relations
ATTENDEES: Indonesian Government	
Muhammad Yani	Directorate of Trade Defence, Ministry of Trade
ATTENDEES: ACBPS	
Mr Rod Jones	Manager, Operations 1
Mr Chris Vincent	Manager, Operations 1

2.4 Preliminary issues

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

Krakatau Steel has not previously been involved in an Australian dumping investigation. We informed Krakatau Steel of the case details and public record available on the ACBPS website as well as reference material relating to how Australia's anti-dumping system operates.

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2.4.1 Investigation timeframes

At the commencement of the meeting, we outlined the following key investigation timeframes.

- The investigation period is January to December 2012.
- ACBPS will examine the Australian market from January 2008 for the purpose of analysing the condition of the Australian industry.
- A preliminary affirmative determination may be made from 15 April 2013 if the CEO is satisfied that there appears to be sufficient grounds for the publication of a dumping duty notice. 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.
- In May 2013 the Minister granted an extension to the publication date for the statement of essential facts (SEF). The revised due date for the SEF is 1 August 2013.
- The SEF will set out the material findings of fact on which ACBPS intends to base its recommendations to the Minister. The SEF will invite interested parties to respond, within 20 days, to the issues raised.
- Submissions received in response to the SEF will be considered when compiling the report and recommendations to the Minister.
- ACBPS's report to the Minister is now due no later than 16 September 2013.
- The Minister's decision is due within 30 days from the date of receipt of the final report.

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

2.4.2 Visit report

We explained to Krakatau Steel that following our visit we would prepare *For Official Use Only* and *Public Record* versions of our visit report. We advised that following our visit 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.

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3 COMPANY INFORMATION

3.1 Company information

Krakatau Steel is an integrated steel maker established on 31 August 1970. Its production facilities are located in Cilegon and head office in Jakarta. The Ministry of State Owned Enterprises is the principal shareholder with 80% of shares and the remaining 20% are held by the public following an Initial Public Offering in 2010.

Krakatau Steel produces billet and slab at its facilities. Slab is further processed to make hot rolled coil/plate (HRC/P) and cold rolled coil/sheet (CRC/S) whilst the billet is processed to make wire rod. Krakatau Steel has eleven subsidiary companies. Three of the companies produce downstream products such as bars, sections and pipes whilst the other subsidiary businesses include real estate and hotels, port and services, health care, energy solutions, information technology and engineering and construction.

Krakatau Steel also has joint venture interests in a number of companies including, PT Krakatau Posco (■%) and PT Pelat Timah Nusantara Tbk (■%) which aim to increase its iron and steel capacity.

Krakatau Steel provided a presentation at the commencement of the visit that included a summary of the company's history, its business profile and subsidiary companies and the steel industry in Indonesia. A copy of this presentation is **confidential attachment GENERAL 1.**

3.2 Accounting

Krakatau Steel uses a SAP R3 fully integrated accounting system, covering sales, purchasing, production, human resources and business processes that is used to prepare the company's financial statement data.

The accounting system uses standard costs based on a bill of materials and the activity rates for the specification of the products. Actual costs are calculated at the close of each month with variances allocated proportionally to inventory.

Krakatau Steel advised that its accounting practices are in accordance with the generally accepted accounting principles in Indonesia. Its financial year is January to December.

Krakatau Steel's consolidated financial statements are audited by ■.

As part of its exporter questionnaire response Krakatau Steel provided its:

- original and translated audited consolidated financial statements for 2011 and 2012; and
- chart of accounts.

The auditor's report notes that the two joint venture associates were audited by other independent auditors who expressed unqualified opinions on those accounts. The auditor's opinion in regards to the consolidated statements states:

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In our opinion, based on our audits and the reports of the other independent auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of PT Krakatau Steel (Persero) Tbk and subsidiaries as of December 31, 2012 and 2011 and January 1, 2011/December 31, 2010, and the results of their operations and their cash flows for the years ended December 31, 2012 and 2011 in conformity with Indonesian Financial Accounting Standards.

Krakatau Steel reports in [REDACTED].

3.3 Production facilities and process

Krakatau Steel provided a detailed explanation and diagram of its production process and facilities in its exporter questionnaire response (EQR). Krakatau Steel provided further details at the visit.

Krakatau Steel's integrated steel production facilities comprise:

[REDACTED] (*confidential production details*).

Details of Krakatau Steel's production facilities, capacities and production processes are at **confidential attachment GOODS 1**.

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4 GOODS UNDER CONSIDERATION AND LIKE GOODS

4.1 The goods

The imported goods the subject of this 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 600mm, 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 grades of plate steel with a thickness greater than 150mm*
- *350 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.*

Tariff classification

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.

The general rate of duty is currently 5% and the DCS duty rate is free. Imports from Indonesia are subject to the DCS duty rate.

4.2 Like goods

In its EQR Krakatau Steel provided details and tables on the goods it exported and what it considered were like goods sold on the domestic market.

Krakatau Steel exported ■ (details of export models).

Like models that Krakatau Steel submitted it sold on the domestic market were:

■ (details on domestic models)

Krakatau Steel's table comparing goods and like goods is shown below (*Table is confidential*). Krakatau Steel also provided details on the end uses of the different groups and chemical and tensile property requirements.

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Krakatau Steel advised that it has its own specifications in its production system modified for its products that exceed international requirements. Krakatau Steel explained it produces to ■■■ [sensitive product information]. The lowest group is for commercial quality steel.

Krakatau Steel showed us via overheads how the goods and like goods were classified into the ■■■ groups in its production system. Krakatau Steel also provided a table and graph linked to the table comparing the different goods and like goods.

After viewing the information presented and information on specifications that we independently sourced we were satisfied that the domestic models sold by Krakatau Steel are like to the exported goods.

Details of Krakatau Steel's information on the goods and like goods are at **confidential attachment GOODS 2.**

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5 SALES TO AUSTRALIA

5.1 Export sales process

5.1.1 Distribution channels

Krakatau Steel sells to [REDACTED] (*confidential customer details*).

Krakatau Steel said that its main focus was on its domestic market, which accounted for approximately [REDACTED]% of its sales of plate steel. It exported plate steel to only one country in the investigation period, Australia.

Krakatau Steel advised that it exported to Australia to maintain an on-going commercial relationship [REDACTED] and as benchmarking for prices in the region. Krakatau Steel said that it liaised with and advised BlueScope of its intentions to export plate to Australia.

Krakatau Steel also said that it [REDACTED].

Krakatau Steel provided a presentation of its export strategy to Australia, a copy of which is at **confidential attachment EXPORT 1**.

The selling process begins with [REDACTED] for the supply of plate steel to certain specifications and quantities over a set period of time. A price is negotiated between the parties and a sales contract drawn up.

Krakatau Steel advised that the export selling price is based solely on individual negotiations influenced by current market factors such as the raw material costs and currency exchange rates. Pricing is in USD per metric tonne (MT), delivery terms are FCA (delivered to buyers warehouse at Indonesian port) and payment is letter of credit L/C at sight.

The parties negotiate a base price, being the price of HRC grade [REDACTED], which is adjusted using a price extras table to establish the final selling price. The price extras shown in the contract are typically for [REDACTED], thickness [REDACTED], [REDACTED] specification [REDACTED], packing [REDACTED] and [REDACTED]. [*sensitive pricing information*]

No discounts are offered and the price is set for the scope of the contract.

Once negotiations are finalised Krakatau Steel raises a production order. A sales contract typically covers a period (of around [REDACTED]) of set delivery schedules and quantities. Production is to the delivery schedule set out in the contract and when the goods are produced they are shipped to the destination indicated by the customer.

A separate invoice is drawn up for each shipment and payment is made to that invoice.

We noted that in the provided copies of export transactions that [REDACTED] was listed as the customer on certain of the documents, such as the commercial invoice, whilst [REDACTED].

Krakatau Steel said that its contract and sales were with [REDACTED].

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We reconciled Krakatau Steel's sales to ■■■ with ACBPS's import data base with minor variances.

5.1.2 Discounts, rebates and allowances

Krakatau Steel stated that it does not offer any discounts or pay any rebates to ■■■. We did not find any evidence that Krakatau Steel offers discounts or rebates.

5.1.3 Date of sale

Krakatau Steel reported the date of sale as the date of agreement of the sales contract. We obtained copies of all ■■■ sales contracts relevant to the investigation period and for the selected invoices we did not observe any changes in prices, delivery and payment terms from that stated in the contracts.

We consider that the date of agreement of the individual contracts reflects, and should be used as, the date of sale for the individual shipments.

5.1.4 Forward orders

Krakatau Steel provided details of forward orders which are at **confidential attachment EXP 2.**

5.2 Export sales - reconciliation to financial statements

The audited accounts that Krakatau Steel provided in its EQR were expressed in USD. Krakatau Steel had provided its exporter spread sheet in Indonesian Rupiah (IDR). At the visit Krakatau Steel provided an updated exporter spread sheet showing the export amounts in USD and IDR, Statements of Comprehensive Income for Krakatau Steel in IDR and spread sheets detailing the accounts of Krakatau Steel and its ■■■ subsidiaries.

Krakatau Steel has seven profit centres. Plate sales are one group of four in the Hot Strip Mill (HSM) profit centre.

Krakatau Steel provided an extract from its accounting system detailing total sales by group, domestic and export for the HSM profit centre. As stated earlier Krakatau Steel exports the goods to Australia only.

We verified the amounts for plate sales for export in USD and IDR to the export spread sheet and found a minor difference of ■■■%.

Krakatau Steel displayed total revenues by the seven profit centres and total company revenue from its SAP system and the amount for the HSM centre matched to the extract from the accounts.

The total revenue for Krakatau Steel shown in SAP matched to the Statements of Comprehensive Income which reconciled to the detailed statements for Krakatau Steel and its eleven subsidiaries.

We are satisfied that the export sales data is complete and accurate.

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Documents reconciling export sales to the financial statements are at **confidential attachment EXP 3**.

5.3 Export sales – verification to source documents

Krakatau Steel provided a list of all its export sales to Australia during the investigation period and copies of export transactions for each quarter in its EQR. We noted from the provided documents that the sales listing showed only an invoice total for each shipment and not a line by line listing as was on the invoice. At the visit Krakatau Steel provided an export sales listing that provided greater detail listing each item line by line as per the invoice.

To facilitate downwards verification of Krakatau Steel's export sales to source documentation, prior to the visit we requested that Krakatau Steel provide supporting documents for seven selected invoice numbers. Krakatau Steel provided the following documents for each of these selected shipments:

- Sales contract and attachments;
- Acceptance of contract conditions;
- Sales invoice;
- Cash receipt;
- Commercial invoice;
- Packing list, summary and detailed;
- Weight list;
- Mill certificates; and
- Shipping ticket, inland delivery from factory to port;

Krakatau Steel explained that for the export sales the date of invoice was recognised as the date of sale for the conversion of USD to IDR in its accounts. Payment for the export sales was generally received into the bank within two weeks of the sales date. Any difference between the conversion from USD to IDR at receipt into the bank and the sales date was booked to foreign exchange (forex) gains and losses.

Krakatau Steel provided documents for selected invoices demonstrating the amounts to sales revenue and the amounts to forex gains and losses.

We verified details for the selected shipments to the export sales spread sheet and noted that there were items listed that were not the goods, being plate steel with a thickness less than 4.75 mm. We excluded those items from our export price calculations.

Supporting documentation for the selected shipments are at **confidential attachments EXP 4**.

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

5.4 The exporter

We consider Krakatau Steel was the exporter. Krakatau Steel:

- manufactured the goods to the specific order of the Australian customer;

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- 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; and
- sent the goods for export to Australia and was aware of the identity of the purchaser of the goods.

5.5 The importer

We note the [REDACTED] in the relation to the import and sales process:

- [REDACTED] is named on the sales contracts;
- [REDACTED] is named on the acceptance of sales conditions;
- [REDACTED] is named on the inland shipping ticket;
- [REDACTED] is named on the sales invoice;
- [REDACTED] is named on the commercial invoice; and
- [REDACTED] is named on the packing and weight lists;

On the evidence collected and verified at the visit with Krakatau Steel and other available information, including that [REDACTED] we consider that [REDACTED] the beneficial owner of the goods at the time of importation and is therefore the importer.

5.6 Arm's length

In respect of Krakatau Steel's sales of plate steel to its Australian customers 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.

We therefore consider all of Krakatau Steel's export sales to Australia during the investigation period were arm's length transactions.

5.7 Export price – preliminary assessment

For export sales to Australia by Krakatau Steel, we consider:

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

Therefore, we consider that export price can be established under section 269TAB(1)(a) using the invoiced price less any part of the price that represents a

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charge in respect of transport of the goods or in respect of any other matter arising after exportation.

Krakatau Steel's updated export sales listing and a summary of export prices is at **confidential appendix 1**.

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6	COST TO MAKE & SELL
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6.1 Introduction

Krakatau Steel's exporter questionnaire response contained cost to make and sell (CTMS) spread sheets for plate steel produced and sold domestically in Indonesia and exported to Australia for the calendar years 2011 and 2012. Krakatau Steel reported the quarterly and monthly cost of production for plate steel sold on the domestic and export market. The following costs were reported:

- material costs;
- direct labour;
- manufacturing overheads; and
- selling, general and administration (SG&A) expenses.

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.

6.2 Krakatau Steel's cost accounting system

Krakatau Steel uses a SAP R3 based process cost accounting system that is used to prepare the company's financial statement data. The accounting system uses standard costs, but Krakatau Steel calculates actual costs at the end of each month. Krakatau Steel provided a cost recording flowchart in its exporter questionnaire response.

Krakatau Steel advised at the meeting ■■■.

Krakatau Steel has six production cost centres:

- the direct reduction plant;
- the steel slab plant;
- the hot strip mill;
- the cold rolling mill;
- the billet steel plant; and
- the wire rod mill.

There are two supporting costs centres for production of central maintenance and production directorate.

Sales general and administration is separated into seven costs centres including sales, marketing, finance and corporate.

The accounting system records production costs in product groups for semi-finished and finished goods. Production costs are recorded to the level of finished goods only for plate and individual model costing was not available.

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Standard costs are used and actual costs are calculated at the end of each month with variances allocated proportionally based on quantities into CTMS and inventory. Each product has a standard cost using a Bill of Material and activity rate for the specification. SAP uses standard costs for raw materials. The production control system is linked to SAP for production quantities. Overheads and supporting costs are downloaded directly from SAP and are allocated based on variable cost, material requirement, production quantity and maintenance costs.

The cost of the raw material for plate is HRC. In its cost of production spread sheets Krakatau Steel used a transfer cost as the cost of the raw material (HRC) rather than the standard cost in SAP. The cost of the raw material is calculated as the average of the material in inventory and the work in progress. This method is used for calculating the transfer costs of the raw material between plants, for example sponge to slab, slab to coil and coil to plate.

6.3 Cost to make

6.3.1 Upwards to financial statements – completeness

Krakatau Steel provided an electronic copy of its worksheets used for calculating the CTMS for plate steel.

Plate steel is part of the HSM profit centre. The profit and loss for HSM was provided in the worksheets. Raw material costs in the HSM profit and loss comprise raw material production, raw material imported, external processes and scrap and scrap recovery. Krakatau Steel displayed the detailed profit and loss statements for all seven profit centres and the total profit and loss from SAP. We matched the amounts shown for raw material for HSM from the profit and loss worksheet to the SAP report. We then reconciled the total raw material costs from SAP to the amount in the detailed statements for Krakatau Steel and its ■ subsidiaries. The total cost of goods of steel products then reconciled to the cost of goods in the Statements of Comprehensive Income.

We also reconciled the amounts shown in SAP for conversion costs and labour costs to those shown in the profit and loss work sheets.

Supporting documents are at **confidential attachment COSTS 1**.

6.3.2 Verification of cost of production

We selected the CTMS for domestic plate for November 2012 to verify the costs of production. Costs for plate are part of the HSM profit centre and are captured in shearing Line I and Line II.

The raw material costs comprise the cost of HRC used to make the plate less scrap recovery credit. Raw material costs are allocated to domestic and export production based on the tonnes produced for each market over total tonnes produced. Krakatau Steel provided details from its production system for Material Balance Shearing Line for November 2012. The balance sheet shows input tonnes of HRC used, tonnes of plate produced and tonnes of scrap recovered. The production tonnes matched the tonnes on the worksheet. We also sighted the figures for December 2012 which

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matched those on the worksheet. A copy of the Material Balance Shearing Line document for November 2012 is at **confidential attachment COSTS 2.**

The cost of HRC is calculated by the tonnes of HRC used to make the plate multiplied by the unit cost of the HRC. The unit cost is calculated by the work in process inventory value for the HSM plus the finished goods inventory value for HRC divided by the tonnes of work in process, plus the tonnes of finished goods.

Krakatau Steel provided inventory files from its system for November 2012 that supported the figures. The work in process comprises tonnes and values for HSM less the amounts for sheet and plate, in effect tonnes and cost relating to HRC only. The finished goods inventory value relates to tonnes and values for HRC only. Krakatau Steel provided further inventory files to show total inventories for November and December 2012. Inventory figures from SAP were then shown for November and December 2012 that matched those provided in the inventory files. Copies of documents relating to the cost and calculation of raw material costs are at **confidential attachment COSTS 3.**

We requested and Krakatau Steel provided details of sales order costs for [REDACTED] products for selected sales orders for export for November 2011, February, June and September 2012 and for domestic sales for June 2012. The sales order costs identify the standard cost per kilogram of the plate, quantities of iron ore pellet required and the cost of the pellet as a percentage of the total cost. The sales order costs covered a range of thickness, widths and lengths within each grade. We noted that there was only a small variance, less than [REDACTED]%, in costs within [REDACTED].

Copies of documents relating to the sales order costs are at **confidential attachment COSTS 4.**

We asked for, and Krakatau Steel provided, a more detailed bill of materials for one of the items on the sales order listing from SAP. The bill of materials lists the products and costs that make up the cost to produce plate with the iron ore pellets comprising approximately [REDACTED]% of the total cost. The cost of the iron ore pellets consists of the average inventory cost plus purchases. Krakatau Steel provided general ledger details relating to the purchase of iron ore pellets. The cost of the iron ore pellets comprises the FOB purchase price plus import freight clearing and discharge costs. Krakatau Steel provided a copy of the invoice for the pellets and proof of payment. The invoice is in USD and Krakatau Steel uses the rate of exchange at invoice date for converting to IDR in its purchasing system. When payment is made, up to [REDACTED] days later, the rate of exchange used is that of date of payment and any differences are booked to forex gains and losses. There was a minor difference between the unit cost of purchased pellets and the cost in the sales order costing of [REDACTED]%. Krakatau Steel explained this difference as due to the cost in the sales order costing as being an average inventory cost compared to the actual unit cost of the purchased pellets. Copies of these documents are at **confidential attachment COSTS 5.**

6.3.3 SG&A expenses

Krakatau Steel identified domestic and export selling, administration, finance and delivery expenses during the investigation period. It calculated selling, administration

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and finance expenses for domestic and export sales based on an initial allocation of tonnes produced for the profit centres then allocated on sales revenue within the profit centre. Delivery expenses were based on actual costs and allocated based on tonnes sold. Krakatau Steel calculated SG&A expenses from the Statements of Comprehensive Income.

Krakatau Steel did not include forex gains and losses in its calculation of SG&A. We consider that these should be included as they relate to the sale of the exported goods and the production of the domestic and exported goods.

We recalculated SG&A including forex gains and losses, using the figures from the Statements of Comprehensive Income. We excluded delivery expenses as they are listed separately in the domestic sales spread sheet. We also excluded repairs and maintenance as they are included in the cost of production. We calculated a SG&A percentage based on sales revenue of ■■■%. SG&A calculations are at **confidential appendix 2.**

6.4 Cost to make and sell – summary

We are satisfied that sufficient information was available and verified to substantiate the CTMS for plated steel provided by Krakatau Steel. We consider the information provided by Krakatau Steel reasonably reflected the CTMS for plate steel and that the CTMS are suitable for:

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

We calculated a CTMS for ■■■ models: ■■■.

We calculated a cost of production for the ■■■ models by using the average cost of production and then applying differences between the average cost and the sales order cost.

The differences in the sales order cost reflects the differences in the costs of the raw material (HRC) for the ■■■ models; there was little discernable difference in the costs within the models for thickness and width differences.

We applied SG&A as a percentage of the sales price.

We consider that these costs are suitable to be used for the like and identical domestic models to the ■■■ export models.

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

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7 DOMESTIC SALES

7.1 Domestic sales process

Krakatau Steel provided detailed diagrams of its sales process, timeframes and price determination process in its EQR.

Krakatau Steel sells plated steel to end users, stockists and distributors on the domestic market. Domestic customers contact Krakatau Steel by email, facsimile or phone. Krakatau Steel's sales personnel then conduct price negotiation and sales terms with the customer. Once terms are agreed a sales contract is drawn up.

Sales prices do not vary depending on customer category. There is no set pricing or price lists used. Internal management meetings set a base price for the month based on market information that includes prices from competitors, assessment of international and domestic pricing, the landed price of imports and supply and demand. A price for extras such as cutting into sheets and grades is then set. The sale price is determined by individual negotiation for each sales order.

We asked Krakatau Steel whether there was any government influence in the market, given that it was effectively a state owned company with an 80% shareholding, it was the dominant domestic producer in the market for HRC and plate steel and some of its major customers were also state owned companies. Krakatau Steel said that there was no restriction on prices and supply in the market and that it had to compete with imports and other domestic producers in the market on pricing. This competition on pricing also applied to its sales to its customers that were state owned companies. Imports were required on the domestic market as the Indonesian steel industry did not have the capacity to meet market demand.

Krakatau Steel explained that growth in 2012 had been mainly affected by imports from China and prices in the East Asia Pacific region that were influenced by China, Japan and Korea. Krakatau Steel further explained that China and India had an excess steel capacity of around 40 million tonnes and exports from these countries were affecting local prices. The East Asia price of HRC was declining and local prices had also declined around █% from 2011 to 2012.

Krakatau Steel had provided a detailed presentation on supply and demand in the domestic market included in the presentation at **confidential attachment GENERAL 1**.

Key points from the presentation include:

- Demand in the steel industry has increased by an average █% yearly since 2001;
- domestic production capacity cannot meet this demand, providing around █% of the market requirements with imports essential to meet the gap;
- the three major domestic end use segments for HRC coil and plate steel are general structure (█%), rerolling (█%) and automotive (█%);
- the estimated landed price based on East Asia HRC import prices has declined from a high of around \$█ USD a tonne in September 2011 to a low

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of around \$■■■ USD a tonne in September 2012, this had had an effect on domestic prices for HRC and plate steel; and

- Krakatau Steel estimated its market share for HRC was around ■■■%, the three other domestic producers share was around ■■■% and the import share was around ■■■%.

The majority of sales are produced to order; approximately ■■■% of sales are stock sales. Stock sales are mainly sales of stock overruns or orders no longer required and are offered at a discounted price.

Different credit terms are provided to customers ranging from cash before delivery, to extended terms with interest charged and extended terms with no interest.

7.1.1 Discounts, rebates and allowances

Krakatau Steel stated that it does not provide any discounts, rebates or allowances. Credit notes may be issued where there is a quality claim from a customer.

7.2 Domestic sales - reconciliation to financial statements

Krakatau Steel provided a list of all its plate steel domestic sales from July 2011 to December 2012 and copies of two domestic transactions in its EQR. The extended listing had been provided as Krakatau Steel considered the date of sales order should be used as the date of sale rather than the date of invoice.

We noted from the provided documents that the sales listing showed only an invoice total for each sale and not a line by line listing as was on the invoice. At the visit Krakatau Steel provided a domestic sales listing that provided greater detail listing each item line by line as per the invoice. We noted in the listing items that we considered were not in the scope of like or identical goods, being plate steel with a thickness less than 4.75 mm. We excluded those items from our domestic price calculations.

Domestic sales were reconciled to audited accounts using the information provided for export sales. There was a minor variance between the data on the spread sheet and that in the audited accounts.

We are satisfied that the domestic sales data is complete and accurate.

7.3 Domestic sales – verification to source documents

Krakatau Steel provided a list of all its domestic sales of like goods from July 2011 to December 2012. To facilitate downwards verification of Krakatau Steel's domestic sales to source documentation, we requested that Krakatau Steel provide supporting documents for six selected invoice numbers. Krakatau Steel provided the following documents for each of these selected transactions:

- Sales contract;
- Order quantities and grades;
- Invoice;
- Tax invoices;

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- Shipping certificate;
- Cash receipt;
- Mill certificate;
- Details on transport charges; and
- Details on interest charged.

Krakatau Steel charges for delivery outside the Cilegon/Jakarta region, the transportation charge is included in the sales price in the listing as is the interest charged to customers for extended terms.

Terms of sale, including credit terms, are included in the sales contract.

Krakatau Steel listed transportation costs in its sales listing and provided a transportation contract and sample invoice to demonstrate the charges. The transportation charges vary depending on the customers location, the charges shown on the sales listing matched to the charges shown on the contract. Documents relating to the transportation costs are at **confidential attachment DOM 1**.

We also obtained copies of three sales orders which detailed charges such as transportation and interest charges, where applicable, charges for a different grade and cut to length.

Supporting documentation for the selected transactions is at **confidential attachment DOM 2**. We verified details for the selected transactions to the domestic sales spread sheet.

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

7.3.1 Date of sale

Krakatau Steel submitted that the date of sale for domestic sales should be the date of agreement of the sales contract. For the selected domestic sales we did not observe any changes in prices, delivery and payment terms from that stated in the contracts. In verifying the invoice to the listing we noted that other invoices relating to the same sales order matched the pricing stated on the sales order.

We consider that the date of agreement of the individual contracts reflects and should be used as the date of sale for the individual sales.

7.4 Arm's length transactions

In respect of Krakatau Steel's domestic sales of plated steel, 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 Krakatau Steel's domestic sales during the investigation period were arm's length transactions.

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7.5 Ordinary course of trade and volume of sales

We compared the unit invoice price paid for each domestic sale with the fully absorbed CTMS for those models for the corresponding month. 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.

Domestic sales cannot be used to establish normal values if the volume of domestic sales that are in the ordinary course of trade is less than 5% of the volume of comparable goods exported to Australia.

There were ■■■ models of plate steel exported to Australia during the investigation period, which we compared to the identified ■■■ identical and ■■■ like models sold on the domestic market. There was an insufficient volume of sales that were in the ordinary course of trade for like and identical goods to the ■■■ model.

For models where there was an insufficient volume of domestic sales in the ordinary course of trade, for the purpose of comparing export prices and normal values we used similar models where there was a sufficient volume of domestic sales that were in the ordinary course of trade and made an adjustment based on observed price differences. For models where there were no domestic sales to compare with export sales in the month we indexed the price based on price movements for that model.

7.6 Sales by other sellers

There are other sellers of plate steel in Indonesia. ACBPS has visited two other producers in Indonesia.

7.7 Domestic sales – summary

We found a sufficient volume of sales of comparable models for ■■■ of the ■■■ exported models in the domestic market for plate steel that were arm's length transactions 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 Krakatau Steel, 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).

Krakatau Steel's updated domestic sales listing and a summary of domestic sales suitable for establishing normal values is at **confidential appendix 3**.

PUBLIC RECORD**8 THIRD COUNTRY SALES**

Krakatau Steel advised that it had no third country sales for plate steel. Information verified during the visit showed that Krakatau had not exported plate steel to any other country than Australia during the investigation period.

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9 **ADJUSTMENTS**

Krakatau Steel claimed that adjustments should be made to domestic prices for plated steel to ensure normal values can be compared with export prices. We made negative adjustments to domestic selling prices under s. 269TAC(8) for:

- domestic packing;
- domestic inland freight; and
- credit terms.

We made positive adjustments to domestic selling prices under s. 269TAC(8) for:

- export packing; and
- export inland freight.

9.1 Adjustments in respect of domestic sales

9.1.1 Packing

Krakatau Steel reported packing costs including packing materials, labour and overhead costs for each domestic transaction. Krakatau Steel explained it had calculated packing costs for domestic and export based on the total packing costs for plate steel. Krakatau Steel had allocated the costs onto domestic and export sales on a ratio of ■■■ to export sales based on sales tonnes. Krakatau Steel explained the ratio was an estimate based on the higher costs for exported plate steel which used polypropylene pallets compared to wood pallets on the domestic market. We considered the allocation was reasonable.

9.1.2 Domestic inland freight

Krakatau Steel advised that for domestic sales of plated steel, the goods were delivered directly from the factory to the customer. Inland freight costs were verified for each selected domestic transaction.

9.1.3 Credit terms

Krakatau Steel provided credit terms in respect of domestic sales of plated steel during the investigation period.

Credit terms for those customers who were not charged interest were calculated using the Bank of Indonesia benchmark rate calculated daily multiplied by the days of credit granted.

9.2 Adjustments in respect of export sales

9.2.1 Packing

Krakatau Steel reported packing costs including packing materials, labour and overhead costs for each export transaction. Export packing costs were higher than domestic packing costs as noted previously.

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9.2.2 Export inland freight

Krakatau Steel reported transaction specific freight expenses incurred to transport the goods from the factory to the port of export for each export transaction. Inland freight costs were verified for each selected export transaction.

9.3 Other adjustments

Krakatau Steel did not claim and we did not identify any other adjustments.

Documents to support the packaging costs allocation and interest rates are at **confidential attachment ADJ 1**.

PUBLIC RECORD**10 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.

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.

We established normal values for the ■■■ models that were like or identical to the ■■■ exported models, ■■■. In reviewing and analysing the domestic sales data for the like and identical models the information did not show discernable differences in pricing within the models for variances based thickness, width or length.

If there were no domestic sales of the exported model we used domestic sales of a similar model and adjusted the price using observed differences in pricing. We established normal values under s. 269TAC(1).

If there were no domestic sales in the month of export we used a domestic price adjusted using movements in price over the period. We established normal values under s. 269TAC(1).

We made negative adjustments to domestic selling prices under s. 269TAC(8) for:

- domestic packing;
- domestic inland freight; and
- domestic credit terms.

We made positive adjustments to domestic selling prices under s. 269TAC(8) for:

- export packing; and
- export inland freight.

A summary of normal value calculations is at **confidential appendix 3**.

PUBLIC RECORD**11 DUMPING MARGIN – PRELIMINARY ASSESSMENT**

In calculating the dumping margin we compared each export transaction with the corresponding monthly normal value for the corresponding model of plated steel. We used the date of sales order as the date of sale for export and domestic sales in comparing transactions.

██████

The weighted average product dumping margin for plated steel was 11.3%.

A summary of dumping margin calculations is at **confidential appendix 4**.

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12 LIST OF APPENDICES AND ATTACHMENTS

Confidential appendix 1	Export price
Confidential appendix 2	CTMS
Confidential appendix 3	Domestic sales, OCOT, Normal Values
Confidential appendix 4	Dumping Margins
Confidential attachment GEN 1	Company profile and Indonesia Steel Industry
Confidential attachment GOODS 1	Krakatau Steel's production facilities, capacities and production processes
Confidential attachment GOODS 2	Goods and like goods comparison
Confidential attachment EXP 1	Export strategy
Confidential attachment EXP 2	Forward orders
Confidential attachment EXP 3	Export reconciliation to accounts
Confidential attachment EXP 4	Selected export transactions
Confidential attachment COSTS 1	Costs reconciliation to accounts
Confidential attachment COSTS 2	Material Balance – Shearing Line
Confidential attachment COSTS 3	Raw material costs
Confidential attachment COSTS 4	Sales order costs
Confidential attachment COSTS 5	Detailed BOM and iron ore cost
Confidential attachment DOM 1	Transport costs
Confidential attachment DOM 2	Source documentation for selected domestic sales
Confidential attachment ADJ 1	Packaging adjustment package