Australian Government
Department of Industry and Science

Anti-Dumping Commission

INVESTIGATION 284

ALLEGED DUMPING OF HOT ROLLED PLATE STEEL

EXPORTED FROM

THE REPUBLIC OF KOREA (BY HYUNDAI STEEL COMPANY AND POSCO STEEL) AND TAIWAN

VISIT REPORT - EXPORTER

POSCO STEEL

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 ANTI-DUMPING COMMISSION

AUGUST 2015

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ABBREVIATIONS

$	Australian dollars
The Act	*Customs Act 1901*
ADN	Anti-Dumping Notice
The applicant	BlueScope Steel Limited (BlueScope)
CFR	Cost and freight
COGS	Cost of goods sold
Commission	Anti-Dumping Commission
the Commissioner	the Commissioner of the Anti-Dumping Commission
CTM	Cost to make
CTMS	Cost to make & sell
CTS	Cost to sell
POSCO	POSCO Steel
EAF	Electric arc furnace
EBIT	Earnings before interest and tax
EDITA	Earnings before interest, tax, depreciation and amortisation
FOB	Free On Board
GAAP	Generally accepted accounting principles
Hyundai Steel	Hyundai Steel
Korea	Republic of Korea
L/C	Letter of Credit
MPa	mega Pascal
MT	tonnes
NIP	Non-injurious Price
OCOT	Ordinary course of trade
PAD	Preliminary Affirmative Determination
SEF	Statement of Essential Facts
SG&A	Selling, general and administrative
the goods	the goods the subject of the application (also referred to as the goods under consideration or GUC)
the Parliamentary Secretary	the Parliamentary Secretary to the Minister for Industry and Science
USP	Unsuppressed Selling Price
VAT	Value-added tax
WIP	Work-in-progress
KRW / Won	Korean won

1 BACKGROUND AND PURPOSE

On 26 February 2015, BlueScope Steel Limited (BlueScope) lodged an application requesting that the Parliamentary Secretary to the Minister for Industry and Science (the Parliamentary Secretary) publish a dumping duty notice in respect of hot rolled plate steel exported to Australia from the Republic of Korea (Korea) by Hyundai Steel Company (Hyundai Steel) and POSCO Steel (POSCO), and by all exporters from Taiwan.

On 31 March 2015, the Commissioner of the Anti-Dumping Commission (the Commissioner) decided not to reject the application and initiated an investigation into the alleged dumping of hot rolled plate steel exported to Australia from Korea (by Hyundai and POSCO), and Taiwan. Public notification of the initiation of the investigation was made in *The Australian* newspaper and was also published on the Anti-Dumping Commission's (Commission's) website on that date.

Anti-Dumping Notice (ADN) No. 2015/40 provides further details of the investigation and is available on the Commission's website at www.adcommission.gov.au.

In respect of the investigation:

- the investigation period for the purpose of assessing dumping is 1 January to 31 December 2014; and
- the injury analysis period for the purpose of determining whether material injury has been caused to the Australian industry is from 1 January 2010.

1.1 Background to visit

Prior to initiation of the investigation, a search of the then Australian Customs and Border Protection Service's import database indicated that POSCO had exported hot rolled plate steel to Australia from Korea during the investigation period.

Following initiation, the Commission wrote to POSCO advising it of the investigation and requesting its co-operation by completing an Exporter Questionnaire. POSCO completed the Exporter Questionnaire and provided relevant attachments. A non-confidential version of the response to the Exporter Questionnaire is available on the public record.

Following initial assessment of POSCO's Exporter Questionnaire response, the Commission determined that a verification visit should be conducted to POSCO's premises.

1.2 Purpose of visit

The purpose of the verification visit to POSCO was to verify information submitted in the Exporter Questionnaire response. Information verified during the visit has been used to make preliminary assessments regarding:

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

- export prices;
- normal values; and
- dumping margins.

1.3 Meeting details

Company	POSCO POSCO Center, 892 Daechi4-dong, Gangnam-gu, Seoul, 135-777 Korea
Dates of visit	29 July to 31 July 2015 and 3 August 2015

The following were present at various stages of the meetings.

POSCO	Henry Do – Group Leader - Steel Business Division Business Strategy Department (Steel Bus. Strategy Div) Joon-Young Hong – Leader – Steel Bus. Strategy Div – International Trade Affairs Group Kyle Sohn – Junior Manager – Steel Bus. Strategy Div – International Trade Affairs Group Sohn Bomi – Junior Manager – Steel Bus. Strategy Div – International Trade Affairs Group Ju Seung Mi – Manager – Steel Business Division Hot Rolled and Construction Steel Materials Marketing Dept. Plate Sales Group Jiyoon Kim – Assistant Manager – Steel Business Division Steel Solution Marketing Dept. – Global Technical Center Jang Woong Kang – Senior Manager – Steel Business Division Energy and Shipbuilding Materials Marketing Dept – Shipbuilding and Offshore Plant Materials Sales Group. Eun ju Ryu – Manager – Carbon Steel Marketing Division – Marketing Strategy Dept. – Trade and Commerce Group
The International Trade Consulting	Hyungwoo (Harry) Shin – CPA / Director Jong Tak (Jeff) Kim – CPA / Director Jaewoo Kim – KICPA / Consultant Chaeho Lee – CPA / Consultant
Moulis Legal	Daniel Moulis – Principal – Commercial and International Alistair Bridges – Senior Lawyer – Commercial and International
Anti-Dumping Commission	Andrea Stone – Assistant Director – Operations 2 Angela Kidson – Senior Investigator – Operations 4 Ben Merlin – Senior Investigator – Operations 1

1.4 Investigation process and timeframes

We advised the company of the investigation process and timeframes as follows.

- The investigation period is 1 January 2014 to 31 December 2014.
- The injury analysis period is from 1 January 2010 for the purpose of analysing the condition of the Australian industry.
- A preliminary affirmative determination (PAD) may be made no earlier than day 60 of the investigation (30 May 2015) and provisional measures may be imposed at the time of the PAD or at any time after the PAD has been made.

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

  No such PAD has been made in the case of hot rolled plate steel, but it is under consideration.
- The Statement of Essential Facts (SEF) for the investigation is due to be placed on the public record by 12 October 2015, or such later date as the Parliamentary Secretary allows under Section 269ZHI of the *Customs Act 1901* (the Act).[1]

  The SEF will set out the material findings of fact on which the Commissioner intends to base his recommendations to the Parliamentary Secretary, and will invite interested parties to respond, within 20 days, to the issues raised therein.
- Following receipt and consideration of submissions made in response to the SEF, the Commissioner will provide his final report and recommendations to the Parliamentary Secretary.

  This final report is due no later than 26 November 2015.

1.5 Visit report

We explained to the company that we would prepare a report of our visit (this report) and provide it to the company to review its factual accuracy, and to identify those parts of the report it considers to be confidential.

We explained that, in consultation with the company, we would prepare a non-confidential version of this report, and place it on the investigation's Public Record.

[1] References to any legislative provisions in this report relate to provisions of the Act, unless specifically stated otherwise.

2 COMPANY INFORMATION

2.1 General

POSCO is an integrated manufacturer of steel and steel products founded in 1968, supplying products to the domestic market of Korea and to foreign export markets. The company has been listed on the Korean Stock Exchange since 1988.

POSCO maintains production and international offices in Asia, Europe, Africa and America, as well as a sales office in Brisbane, Australia. POSCO maintains its marketing, sales, finance, raw materials purchasing and strategic planning in Seoul. Administrative offices are also held in Seoul and Pohang.

As at 31 December 2014, POSCO's main shareholders were:

- the National Pension Fund; and
- Nippon Steel & Sumitomo Metal Corporation.

The company provided an extract from its 2014 financial statements demonstrating this shareholding, as well as the shareholding of other major entities. This forms **Confidential Attachment GEN 1**.

POSCO has a number of subsidiaries and affiliates, both domestically and internationally. These subsidiaries also have a number of further subsidiaries. The company provided a diagram showing all subsidiaries of POSCO in an 'affiliation chart'. This included the percentage shareholding in each subsidiary. This forms **Confidential Attachment GEN 2**.

POSCO discussed its internal organisational structure, outlining that it operates [redacted] divisions and numerous departments. The company provided a copy of its internal organisational structure chart, attached at **Confidential Attachment GEN 3**.

POSCO explained that the [redacted] ***[division]*** of the company is responsible for the manufacture of steel products, including hot rolled plate steel, while the [redacted] ***[division]*** is responsible for the sale of those goods. Within the [redacted] ***[division]***, the following [redacted] departments have a role in the sale of hot rolled plate steel:

- [redacted]. ***[departments]***

2.2 Accounting structure and details of accounting system

POSCO advised that its accounting practices are in accordance to the generally accepted accounting principles (GAAP) in Korea. For accounting purposes POSCO utilise [redacted] as its currency.

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

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

- chart of accounts (relevant package provided at visit); and
- translated audited consolidated and unconsolidated financial report for 2013 and 2014.

These form **Confidential Attachment GEN 4**.

POSCO provided an overview of their accounting system, including a financial accounting flowchart and a flowchart of the company's cost accounting system. These form **Confidential Attachment GEN 5**.

POSCO explained that it uses [redacted] ***[system]*** for its financial accounting purposes, as well as several accounting modules that feed into [redacted] ***[system]*** including an order management system, purchase order system, standard cost information module and BOM/Routing module.

2.3 Product range and manufacturing facilities

2.3.1 Product range

POSCO advised that the company produces a full range of steel products, including:

- hot-rolled coil and sheet;
- hot rolled plate steel;
- wire rod;
- cold-rolled coil;
- galvanised steel;
- electro galvanised steel;
- electrical steel; and
- stainless steel (coil, sheet and wire rod)

The company provided a copy of its *Steel Products* brochure (**Non-Confidential Attachment GEN 6**). This brochure included details regarding the company's manufacturing facilities and production processes (see section 2.3.2 below), as well as details of the company's range of steel products, including dimensions, specifications and mechanical properties.

2.3.2 Manufacturing facilities

POSCO has two manufacturing facilities:

- Pohang Works; and
- Gwangyang Works.

Both manufacture steel itself using the fully-integrated steel making process (blast furnace process), while the Pohang works also uses the electric arc furnace (EAF) steelmaking process.

POSCO explained that the Gwangyang works has five blast furnaces while Pohang operates four blast furnaces and two EAFs.

The fully integrated steel making process is used to produce steel for use in manufacturing the majority of the company's products (identified as 'carbon steel'), while the EAF process produces stainless steel exclusively (for manufacture into steel products as outlined above).

The company's *Steel Products* brochure identified the following production at each site:

- Pohang
    - Hot-rolled coil
    - Cold-rolled coil
    - Steel plate
    - Wire rods
    - Electrical steel
    - Stainless steel
- Gwangyang
    - Hot-rolled coil
    - Cold-rolled coil
    - Steel plate

2.3.3 Plate facilities

POSCO explained that hot rolled plate steel is manufactured at both production plants.

The company explained the following:

- Hot rolled plate steel that is [redacted] in thickness is manufactured on specific plate mills. [redacted] ***[details of production facilities]***.
- Hot rolled plate steel that is [redacted] in thickness is manufactured on the company's hot-rolling mills [redacted] ***[production detail]***.

The production process for hot rolled plate steel is discussed further at Section 3.2.2.

2.4 Related parties

2.4.1 Customers

Australian sales

In its response to the exporter questionnaire, POSCO identified that it is related to [redacted] export customers of hot rolled plate steel:

- [redacted]. ***[customers]***

These sales represent the following percentage of export sales to Australia during the investigation period.

CUSTOMER	% OF AUSTRALIAN SALES OF PLATE
[redacted]	[redacted]
[redacted]	[redacted]

Table 1 – percentage of Australian sales to related customers

In addition, POSCO identified in its response to the exporter questionnaire that it made sales of hot rolled plate steel to [redacted] ***[customer]*** on the domestic market. Sales to [redacted] ***[customer]*** represented approximately 10% of domestic sales volume of hot rolled plate steel during the investigation period.

POSCO also made small volumes of sales of hot rolled plate steel to numerous other related companies during the investigation period, including:

[redacted] ***[customers]***

We examined the related party transactions listed in the company's 2014 audited financial statements, and the company's affiliates structure charts (**Confidential Attachment GEN 2**) and are confident we were able to identify all related domestic customers for hot rolled plate steel during the investigation period.

We have undertaken analysis of the arm's length nature of related party transactions, discussed further at Sections 4.6 and 6.4.

2.4.2 Suppliers

In its response to the exporter questionnaire, POSCO identified that it had made purchases of iron ore and coal (raw materials for blast furnace steel making) from related parties, purchasing coal from [redacted] ***[entity]*** and iron ore from [redacted] ***[entities]***.

POSCO explained that these related companies did not produce these materials, [redacted] ***[business practices of enities]***.

POSCO provided details of the volume of these inputs sourced from each of these related companies in response to the exporter questionnaire. The company submitted that [redacted]% of coal, and [redacted]% of iron ore was purchased from POSCO affiliated companies.

These purchases are discussed further in Chapter 5 of this report.

To identify if any other suppliers of POSCO were related to the company, we went through the details of related party transactions for 2014 identified in the company's 2014 audited financial statements. We sought explanation and evidence from the company for each listed purchase from related parties in this report. In performing this assessment, we found that POSCO also makes small purchases [redacted]***[inputs]*** from [redacted] ***[entity]***.

The verification team is satisfied that no other inputs into the manufacture or sale of hot rolled plate steel are sourced from related parties of POSCO.

3 THE GOODS UNDER CONSIDERATION AND LIKE GOODS

The goods subject to the investigation (the goods) are flat rolled products of:

- iron;
- non-alloy steel; or
- other alloy steel;

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 the investigation are:

- 250 mega Pascal (MPa) grades of hot rolled plate steel with a thickness greater than 150mm;
- 350 MPa grades of hot rolled plate steel with a thickness greater than 100mm;
- Q&T greenfeed grades of hot rolled plate steel (Q&T Greenfeed is supplied only in the "non heat-treated" condition); and
- heat-treated Q&T grades of hot rolled plate steel.

3.1.1 Additional product information

The goods are generically called hot rolled plate steel, plate steel or coil plate steel. Trade or further generic names often used to describe these goods include:

- XLERPLATE steel;
- XLERPLATE LITE steel ;
- TRU-SPEC steel;
- Plate;
- Pattern Plate;
- Coil Plate;
- Checker Plate; and
- Floor Plate.

BlueScope indicated in its application that it understands that the standard dimensions of imported plate product ranges within 1500mm – 3200mm in width, 5mm – 150mm in thickness and 6 – 12 metres in length.

Imported non-alloy and 'other alloy' hot rolled plate steel product is most commonly offered in nominal yield strengths of 250 MPa and 350 Mpa, depending on application and end use.

3.1.2 Tariff classification

The goods are typically classified to the following subheadings in Schedule 3 of the *Customs Tariff Act 1995*:

- 7208.40.00 statistical code 39;
- 7208.51.00 statistical code 40; Act 1995:
- 7208.52.00 statistical code 41; and

- 7225.40.00 statistical codes 22 and 24.

The goods imported from Korea and Taiwan classified to 7208.40.00, 7208.51.00 and 7208.52.00 are free of duty.

The goods classified under 7225.40.00 attract a five per cent rate of duty for Taiwan. Under the Korea-Australia Free Trade Agreement, the duty rate applicable to imports from Korea reduced to zero on 13 December 2014.

3.2 POSCO's Production

3.2.1 POSCO's range of hot rolled plate steel

POSCO produces a wide range of hot rolled plate steel of different specifications (international standards), tensile strengths/grades, thicknesses, edges, surfaces (patterns in relief or not) and applications.

3.2.2 Production process

During the verification meetings, POSCO outlined its production process for hot rolled plate steel. The manufacturing process is the same for both Pohang and Gwangyang Works and is as follows:

- Raw material delivery: POSCO has its own ports for the unloading of iron ore and coal raw materials directly from importation vessels. These raw materials are unloaded using POSCO's port facilities and delivered to the company's onsite storage facilities. Raw materials are transferred from the port to onsite storage by enclosed conveyor belt.
- Iron making:
    - Coking and sintering: coal is converted to coke in coking ovens (to create a more pure and efficient fuel in the blast furnaces) while iron ore fines are converted to sinter in a sintering plant.
    - Blast furnace: iron ore, sinter and coke are conveyed to the blast furnace to make molten iron. Gas produced from this process is captured and transferred to the on-site power plant by above ground pipes (where it is converted to electricity). [redacted] ***[treatment of by-product]***.
    - Transfer to steelmaking: molten iron is transferred into large 'torpedoes' which are transferred on rail tracks via a locomotive to the steel making process.
- Steelmaking: molten iron is transferred to a steelmaking vessel where scrap metal and alloy is added to the molten iron and oxygen is introduced and the materials are blended into liquid steel. Impurities such as sulphur, phosphorus and excess carbon are removed. Each vessel mixture is referred to as a 'heat' and is assigned its own heat number that is also later attributed to the cast steel.
- Casting: the liquid steel is cast into slabs through a continuous casting machine. The slab is then cooled and transferred for storage for later use.

- Plate rolling (on plate mill): to make hot rolled plate steel 6mm or thicker, slab is heated in a reheating oven. It is then reduced in thickness to that required of the finished plate by passing through a series of rollers, and then passing through a hot leveller to achieve the required flatness. The plate is then cut to its required size.
- Plate rolling (on hot strip mill): to make hot rolled plate steel thinner than 6mm, the company explained that, in the same way as is necessary to manufacture plate on the plate mill, slab is re-heated and then rolled through a series of rollers to achieve a desired thickness, which is thinner than can be achieved on the plate mill (below 6mm in thickness). The steel is then slit into the required sizes.

As described at 3.2.1, POSCO's hot rolled plate steel meets various international standards (specifications) all of which have varying requirements for the plate (e.g. alloy content, yield strength, certain mechanical properties, etc.). The hot rolled plate steel is also supplied in a variety of tensile strengths/grades (e.g. 250, 300, 350, 400).

POSCO explained that these characteristics are determined at the steelmaking stage through the inclusion of alloys and treatment of the liquid steel. That is, the slabs produced from the steelmaking process have the alloy content, mechanical properties, etc. already determined.

At the rolling stage, the characteristics of the product's dimensions, surface and edge are established.

3.2.3 Plate types

As outlined above, POSCO produces hot rolled plate steel either on its plate mills or hot strip mills, with hot rolled plate steel less than 6mm in thickness produced on the strip mills and thicker plate on the plate mills.

POSCO explained that, internally, it refers to these product types as follows:

[redacted]
[internal codes]

POSCO explained that the distinction between [redacted] ***[code]*** and [redacted] ***[code]*** product is [redacted] ***[product characteristic]***.

3.2.4 Goods exported to Australia

The below table summarises the hot rolled plate steel sold by POSCO to Australia during the investigation period:

Characteristic	Details
Product type	[redacted]
Specification and grade	[redacted]

Thickness range	[redacted]
Width range	[redacted]
Length range	[redacted]
Edge	[redacted]

Table 2 – summary of the goods exported to Australia

3.2.5 Hot rolled plate steel sold domestically

The below table summarises the hot rolled plate steel sold by POSCO on the domestic market during the investigation period:

Characteristic	Details
Product type	[redacted]
Specification and grade	[redacted]
Thickness range	[redacted]
Width range	[redacted]
Length range	[redacted]
Edge	[redacted]

Table 3 – summary of hot rolled plate steel sold domestically

3.2.6 Product codes

In its response to the Exporter Questionnaire, POSCO explained that it maintains [redacted] ***[product codes]*** in normal business that are recorded on order sheets, in the sales register and in the inventory ledger. The same coding system is used for both Korean and export markets including Australia. These codes are referred to as 'internal product codes' in this report, and were observed throughout the verification of sales and costs data.

However, for the purpose of this investigation, POSCO created an individual product model code for each unique type and possible combination of product characteristics of hot rolled plate steel sold to Australia or sold domestically. This allowed the characteristics of each product sold to be more readily identified (as the internal product codes are effectively sequence numbers and do not identify the physical characteristics of the product they relate to).

These product model codes encompass seven characteristics, namely:

1) Product type [redacted];
2) Specification and grade [redacted].);
3) Thickness range;

4) Width range;
5) Length Range;
6) Edge (mill or slit);
7) Plate surface.

As indicated above, this coding system generated 'ranges' for the dimensions of the hot rolled plate steel instead of recording their exact dimensions [redacted] ***[example of coding system]***.

These codes will be referred to as 'model codes' throughout this report.

3.2.7 Like goods and model matching

In its response to the Exporter Questionnaire, POSCO provided a 'like goods' appendix, identifying that, of the 113 model codes sold to Australia during the investigation period:

- [redacted] models codes were sold on the domestic market that were exact model matches to the exported model codes;
- [redacted] model codes that differed from exported model codes only by [redacted] were sold on the domestic market; and
- [redacted] were considered by the company to not have sales of a similar model code on the domestic market.

This appendix forms **Confidential Attachment GEN 7**.

The verification team considered that the company thereby submitted that, in matching domestic model codes with export model codes when determining normal values for exports, the exact matches or similar matches that could be used (potentially with some consideration for physical differences).

However, during the verification visit with the company, the company submitted a further 'like goods' package (**Confidential Attachment GEN 8**). This submitted that, where the verification team was not able to find exact model matches to exported model codes, the team could also consider certain other specifications and grades of goods sold domestically to be sufficiently similar for model matching purposes. In this package, POSCO highlighted that:

> [redacted] ***[suggested like goods to Australian goods]***

To support this assertion, the like goods package provided copies of the Australian/New Zealand standard and Japanese/Korean specification. We were able to ascertain with these specifications that the mechanical and chemical properties of these specifications were significantly similar and were thus satisfied that these could be used for model matching purposes.

In addition, with reference to Table A-3.1(a) of BlueScope's application (examining relevant international standards), we sought the specifications of [redacted] and [redacted] and determined that these too could be used for model matching with [redacted] and [redacted] goods respectively.

Further discussion of model matching can be found in Chapter 8 of this report.

3.3 Like goods – preliminary assessment

In light of the above, we consider that the hot rolled plate steel sold by POSCO on the domestic market during the investigation period are like goods to the goods sold to Australia, having characteristics closely resembling those of the goods under consideration in terms of Section 269T(1).

4 SALES TO AUSTRALIA

4.1 General

4.1.1 Export sales data provided

In its response to the Exporter Questionnaire, POSCO provided a detailed *Australian Sales* listing, including line-by-line detail on all hot rolled plate steel sales to Australian customers during the investigation period.

The sales listings included various details including:

- customer name;
- model code;
- invoice number and date;
- order number;
- delivery terms;
- payment terms;
- product dimensions;
- invoice price in [redacted] ***[currency]*** and [redacted] ***[currency]*** (and exchange rate)
- quantity (in tonnes);
- handling and other charges;
- inland transport costs; and
- credit expenses.

The *Australian Sales* listing forms **Confidential Attachment EXP 1.**

4.1.2 Customer details and distribution channels

During the investigation period POSCO sold [redacted] metric tonnes (MT) of hot rolled plate steel to [redacted] ***[number]*** Australian customers. [redacted] **[discussion of distribution channel]**.

POSCO advised that it sells to Australia through [redacted] ***[number]*** distribution channels:

[redacted] In relation to sales via [redacted] ***[customer type]*** and via [redacted] [customer], POSCO explained that the [redacted] then [redacted] ***[commercial activities of traders]***.

In relation to sales via [redacted] [customer], POSCO explained that [redacted] ***[commercial activities of customers]***.

The team analysed export sales and found no pattern discernible in the pricing of goods to related parties as compared to unrelated parties. **Confidential Attachment EXP 2** contains this analysis.

4.1.3 Export sales process

POSCO stated that the price between POSCO and its Australian customers is negotiated on an individual basis [redacted] ***[in each of the distribution channels]*.** Further, as stated in the response to the exporter questionnaire, [redacted] ***[customers]*** contact POSCO to negotiate sales terms such as price, quantity, specification, delivery terms and payment schedule. Once the terms for the export sales are agreed to by both parties, an order sheet is generated to initiate the production of the goods. All sales to related and unrelated companies are made on an [redacted] ***[shipping terms]*** basis. In the *Australian sales* listing (**confidential attachment EXP-1**) the selling terms for all these customers is also [redacted] ***[shipping terms]***. There are no contracts in place with [redacted] ***[customers]*** hence each order is negotiated.

POSCO further explained that an invoice is issued to the [redacted] ***[customer]*** when the goods are shipped. The response to the exporter questionnaire stated that [redacted] ***[commercial activity of customers]*** for exportation of the goods to Australia. POSCO informed the verification team that production from the placement of order until the shipping of goods takes approximately [redacted] ***[period of time]***. POSCO also confirmed that all goods are made to order and that no inventory is kept.

4.1.4 Price setting

POSCO claimed during the visit that it [redacted] ***[price setting practices]***. [redacted] ***[price information]*** was provided to the verification team and is listed at **Confidential Attachment EXP 3**. POSCO stated that these prices are [redacted] ***[price setting practices]***. When negotiating price, POSCO [redacted] ***[price setting practices]*** to adjust prices accordingly.

When questioned, POSCO stated that there was no difference between the pricing offered to related companies and non-related companies.

4.1.5 Currency

Invoices for export sales are issued in [redacted] ***[currency]***. POSCO stated that the exchange rate is taken from Korean Bank for the date of Invoice (Tax Invoice). We requested evidence of this for the selected sales and this was provided on the bank statement for each selected sale (included in **Confidential Attachment EXP 4**).

4.1.6 Terms of trade

The *Australian Sales* listing shows all sales made by POSCO at [redacted] ***[terms of trade]***.

In their response to the exporter questionnaire POSCO had provided [redacted] ***[confidential sales listing***

information]. These included some sales [redacted], however, we decided that these were not required for the calculation of the export price.

4.1.7 Payment terms

POSCO confirmed in their response to the exporter questionnaire that there were [redacted] ***[number]*** different forms of payment, [redacted] ***[payment terms]***. It was explained that [redacted] ***[payment terms explanation]***.

4.1.8 Inland transport

POSCO explained that inland transport will be incurred depending on where goods are produced and shipped from.

As mentioned in section 2.3.2, POSCO produces the goods at its Pohang and Gwangyang facilities. Depending on [redacted] ***[inland transport details]***. It was explained therefore, that [redacted] ***[inland transport details]***. However, if [redacted] ***[inland transport details]***.

4.1.9 Handling and other charges

POSCO stated that [redacted] ***[details handling and other charges]***.

4.1.10 Discounts and rebates

The response to the Exporter Questionnaire stated that there were no commissions, rebates or discounts provided to Australian customers. POSCO confirmed this to the verification team at the visit.

4.1.11 Date of sale

This was taken as the date of shipment. The documents we sighted in the selected sales showed the date of sale on the Daily Shipment Lists, and we were able to reconcile these documents with the invoice and export sales listing provided with the response to the Exporter Questionnaire.

4.2 Verification of sales to audited financial statements

For the purposes of this report, the verification of export, domestic and third country sales data for hot rolled plate steel to audited accounts are discussed collectively in this section.

Separate discussion of POSCO's domestic sales generally and the verification of those sales to source documents is found in Chapter 6 of this report. Discussion of third country sales can be found in Chapter 7 of this report.

4.2.1 Audited income statement to sales summary

Beginning with the company's 2014 audited income statement we matched the value for sales to the total revenue shown in a *Trial Balance Summary – sales accounts* generated by the company from the primary ledger.

The summary showed total value in [redacted] ***[currency]*** for all sales during the investigation period (calendar year 2014), broken into numerous categories including steel sales, non-steel sales and revenue from other operations. POSCO explained that its sales of hot rolled plate steel were recorded under the Steel sales – product category. We queried the composition of other accounts within the list, to determine that sales of the goods were not included elsewhere. We then requested a monthly breakdown of one of the accounts (*Steel sales – gas from manufacturing*) as a further test of this. POSCO provided the documentation for the selected account, including a table of sales by customer for a selected month, April. POSCO supplied the tax invoice and journal entry for a selected company, evidencing the service provided and revenue received. We were satisfied that all plate sales had been included under *Steel sales – product*.

In order to link this figure to the sales system, POSCO took the sum of *Steel sales – product* and *Steel sales – product (freight)* (the associated freight revenue for steel sales, charged separately to the customer). We were able to identify and match these figures to an excerpt from the sales system, which showed product sales by sales type in terms of value [redacted] ***[currency]*** and quantity (kg) for the investigation period.

There were four sales types as follows:

- export direct;
- export local;
- domestic local; and
- domestic.

POSCO explained that sales were divided in this way due to the treatment of VAT in Korea, which varied depending on the channel. See Table 2 below:

Transaction type	POSCO sale classification	Explanation	Applicable VAT rate
E	Export direct	Sales to foreign customers	0%
K	Export local	Sales to local traders who export the goods	0%
L	Domestic local	Purchased by a domestic customer, goods are used in Korea (further manufactured) then exported	0%
S	Domestic	Purchased by a domestic customer and goods are consumed in Korea	10%

Table 2 – Sales type for VAT purposes

From this point we were able to trace downwards into domestic sales and export sales.

4.2.2 Export sales

As shown in Table 2, export sales include export direct (E) and export local (K) sales. POSCO provided a summary table breaking each of these groups into:

- [redacted] ***[product groups]***

The table showed plate sales of these categories by value and quantity. We were able to reconcile these values by code to those shown in excerpts from the sales system. Once again, we queried a number of other product codes, to establish that all sales of the goods had been included. We were satisfied that no sales of the goods had been omitted.

POSCO also provided a breakdown of plate sales (export direct and export local sales) by country – titled *Export Hot Rolled Plate by Country*. This showed country code, shipped net weight, product value, freight value and sales value. We were able to reconcile the values for Australia directly to the export sales listing.

To test sales listed as being to other countries in the *Export Hot Rolled Plate by Country* table, we requested to see a complete listing of sales to one other country, Japan. We were able to query to sales system to identify this information by quarter and we were satisfied that all amounts reconciled.

4.2.3 Domestic sales

Again, as shown in Table 2, domestic sales include domestic local (L) and domestic (S) sales. As explained for export sales, domestic sales were also broken out by product code and we were able to reconcile them using the same methodology. Summing the value of sales for these products, we arrived at total domestic sales of hot rolled plate steel products for the investigation period.

The next step was to remove sales of plate products which did not fall within the goods description. POSCO identified domestic sales of HR plate with a thickness of less than 4.75mm and deducted them from the total. POSCO provided a listing of sales of these goods, showing shipped weight and sales value by month, for the investigation period. The company also supplied a full listing of these goods for the month of January which we examined. We also requested to see the same documentation for August, as a further verification step. Receiving this, we were satisfied that the GUC had been accurately isolated.

We observed that the total domestic sales of hot rolled (HR) plate steel did not directly reconcile to the total volume and value of the *Domestic sales* listing (**Confidential Attachment DOM 1**). The discrepancy between the two was extremely minor (less than 0.001%).

POSCO explained that this was due to a number of returns and amendments to sales. POSCO identified the adjustments by month, quantity and value and further provided an example transaction where a credit had been applied. POSCO supplied the original invoice and revised entry identifying the customer, goods, quantity, price and sales value details. We were satisfied with this evidence.

With the application of these adjustments, we were able to reconcile sales of plate and HR plate to the totals in the *Domestic sales* listing (**Confidential Attachment DOM 1**).

4.2.4 Conclusion

Having performed the above reconciliation, we are satisfied that the *Australia Sales* and *Domestic Sales* listings (**Confidential Attachment EXP 1 & Confidential Attachment DOM 1**). are a complete and relevant listing of all of POSCO's sales of hot rolled plate steel in each market during the investigation period.

Documents supporting the reconciliation of the sales listings to the company's audited income statement form **Confidential Attachment EXP 5**.

4.3 Verification of export sales to source documents

Prior to the visit, we selected 12 sales from the *Australian Sales* listing (covering multiple products over different quarters during the investigation period). We asked the company to provide source documents in relation to each transaction. POSCO provided copies of the following documents (which form **Confidential Attachment EXP 6**):

- purchase order;
- order confirmation;
- commercial invoices;
- proof of payment of invoice;
- packing list;
- bill of lading;
- inland transport costs;
- handling and other charges;
- proof of credit expense;
- cartage and customs evidence; and
- exchange rate.

When verifying these documents we identified seven line items from the export sales listing which had an incorrect product name listed. While the product code was accurate, we amended the product name at the visit.

One slight error for handling, loading & ancillary expenses was also identified for invoice number [redacted] (serial number [redacted]). This was a calculation error and also corrected during the visit.

4.3.1 Invoice details and proof of payment

Using the source documents, the visit team were able to match the invoice number, model listing, product code, standard, quantity, dimensions (thickness, width, and length), edge, payment terms, gross invoice value and exchange to the export sales spreadsheet.

We did not find any evidence of discounts or rebates and are satisfied that the invoiced price was the price paid.

4.3.2 Other costs

<u>Inland Transport</u>

As well as matching each of the inland freight charges from the sales documentation provided for each sale, we requested further shipping documents for one order ([redacted], serial number [redacted]) in order to further verify the inland transport costs. The verification team were satisfied with the documents presented and POSCO's explanation. We also identified a couple of transactions where we suspected data was missing and queried this with the company. POSCO supplied the transport cost for these lines together with documentation.

Handling, loading & ancillary

As mentioned in section 4.3, during the verification we found an error in the handling, loading & ancillary charges where the wrong unit value was applied. This was corrected during the visit.

The visit team noted that [redacted] ***[incurrence of charges]***. POSCO explained to the verification team that the following arrangements are in place for each of the ports of [redacted] ***[ports]***:

> No handling or ocean shipping charge is incurred by POSCO for goods shipped [redacted] A loading charge is incurred by POSCO for goods shipped from [redacted] ***[arrangement with ports]***

We selected order [redacted] (serial Number [redacted]) for further analysis as two of the transactions on the order had [redacted] ***[loading fee details]***, while the other two had [redacted] ***[loading fee details]***.The documentation provided showed that two of the transactions were loaded at [redacted] and so therefore, there was [redacted] ***[loading fee details].*** The other two transactions on the order were loaded at [redacted] and therefore [redacted] ***[loading fee details]***.

The verification team was satisfied with the documentation provided and that the handling, loading and ancillary charges are accurate.

Credit expense

POSCO explained that it calculated credit expenses based on actual days between the date of invoice and the date of payment, and not with regard to the credit terms given in the exporter questionnaire response [redacted] ***[credit terms]***. The company applied a short term borrowings rate to calculate credit expense line by line. POSCO provided a package showing the calculation of this rate (**Confidential Attachment EXP 7** which we considered was reasonable.

For each of the selected sales, this credit expense was tested and verified based on the invoice date and the payment date. The team checked each invoice from the selected sales against proof of payment documents shown in the form of a bank statement and ledger print-out from POSCO's [redacted] system. We were satisfied that this expense was accurately calculated and applied.

4.3.3 Conclusion

Following verification to source documents, we consider that POSCO's *Australian Sales* listing is an accurate record of the sales of hot rolled plate steel to Australia during the investigation period and has accurately recorded costs associated with the sale of those goods.

4.4 The exporter

The Commission will generally identify the exporter as:

- a principal in the transaction, located in the country of export from where the goods were shipped, who gave up responsibility by knowingly placing the goods in the hands of a carrier, courier, forwarding company, or their own vehicle for delivery to Australia; or
- a principal in the transaction, located in the country of export, who owns, or previously owned, the goods but need not be the owner at the time the goods were shipped.

For all export sales during the investigation period, the verification team considers POSCO to be the exporter of the goods because it:

- is the manufacturer of the goods;
- determines the price for the sale of the goods;
- owns the goods at the time prior to export;
- arranges delivery to the port of export;
- arranges and pays for associated handling costs and other export expenses incurred in moving the goods to the FOB point at the port of export;
- is the principal in the country of export from where the goods are knowingly placed in the hands of a trader/freight forwarder for delivery to Australia; and
- sends the goods for export to Australia and is aware of the identity of the importer.

Based on our understanding of the arrangements, we consider that for all sales from POSCO to the trading companies, POSCO is the exporter.

4.5 The importer

As noted previously, POSCO exports to Australia through [redacted] ***[details of distribution channel]***.

We consider the Australian customers of the traders to be the beneficial owners of the goods at the time of importation and therefore the importers of hot rolled plate steel exported by POSCO during the investigation period.

4.6 Arm's length

In respect of exports sales to Australia during the investigation period, we found no evidence that:

- there is any consideration payable for or in respect of the goods other than their price; or
- the price is 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, will directly or indirectly, be reimbursed, compensated or otherwise receive a benefit for, or in respect of, whole or any part of the price.

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

Refer to section 4.1.2 for analysis of pricing to related and unrelated parties.

4.7 Export price – preliminary assessment

We consider that:

- the goods have been exported to Australia otherwise than by the importer; and
- the goods have not been purchased by the importer from the exporter.

In relation to exports by POSCO to Australia, we recommend that the export price be determined under subsection 269TAB(1)(c), having regard to all circumstances of the exportation.

Specifically, we have calculated the export price based on the invoice price paid or payable by POSCO's customers. As all sales were made at FOB terms, this will be the invoiced price without alteration.

Export price calculations form **Confidential Appendix 1.**

5 COST TO MAKE & SELL

This Chapter focuses on the verification and assessment of reasonableness of the calculations in POSCO's submitted cost to make and sell (CTMS) appendices.

5.1 Background

5.1.1 Data provided in Exporter Questionnaire response

In its response to the Exporter Questionnaire, POSCO submitted unit weighted average CTMS calculations for hot rolled plate steel produced at the Pohang and Kwangyang factories (sites that produce this product) by model (developed for questionnaire response) for the investigation period by quarter.

These calculations were provided in separate appendices for the domestic and Australian market, however only the selling, general and administrative (SG&A) [redacted] ***[implications with regard to SG&A]***.

POSCO submitted that the cost to manufacture each model was the same for domestic sales and sales to Australia when sold on either market. Our understanding of POSCO's production and sales of hot rolled plate steel is consistent with this.

POSCO's CTMS calculations provided in response to the Exporter Questionnaire is attached at **Confidential Attachment COSTS 1**.

5.1.2 POSCO costing methodology – standard costs and variances

In its response to the Exporter Questionnaire, POSCO indicated that the company maintains standard costs at product level (using internal product codes) on a monthly basis.

The company further advised that it records variances in its financial accounts at a global (all company) level. [redacted] ***[explanation of product groups' cost accounting]***.

POSCO advised that, as the Exporter Questionnaire required that the company submit actual costs by model, it did so by submitting quarterly:

[redacted] ***[details of cost level]***

Verification and assessment of the accuracy and reasonableness of this variance allocation is discussed below at section 5.2.5.

5.1.3 CTMS categories

POSCO's CTMS calculations included values for the following cost components (by model):

1) Manufacturing costs [redacted] ***[cost components]***
2) Manufacturing variance
3) Selling, general and administrative (SG&A) costs [redacted] ***[cost components]***

5.1.4 Surrogate models

In its CTMS calculations, POSCO identified that, for certain quarters of the investigation period; it had not produced certain models of hot rolled plate steel though it had made sales of those products.

To allow for a CTMS to be provided for these models sold, POSCO undertook a process of identifying 'surrogate' or 'similar' models and reporting the manufacturing costs for the concerned models in the missing quarter.

In the CTMS, POSCO identified the reported surrogate or similar model manufacturing costs were either (in the following hierarchy):

1) 'surrogate' - manufacturing costs for the same model, in a different quarter in the following order of preference:
    a) the immediate previous quarter;
    b) two quarters prior;
    c) three quarters prior;
    d) the immediate subsequent quarter;
    e) two quarters after; then
    f) three quarters after.
2) 'similar' - manufacturing costs for a similar model in the same quarter;
3) 'similar and surrogate' - manufacturing costs for a similar model in a different quarter, using the hierarchy described above at 1) for exact model matches.

POSCO explained that, when determining a similar model under 2) and 3) above, it started with the last digit of the model code [redacted] ***[product characteristic]***, then moved backwards through the internal product code until a match was found.

POSCO explained that this was done as the internal product code's order of 'importance' or complexity is from the first digits onwards, and hence starting at the end digit would yield a more physically similar match.

As the CTMS calculations did not identify what surrogates were used for which quarters, or which similar models were used where a similar model was adopted, we requested POSCO provide us with a listing of what quarters/models were used in the CTMS appendices.

POSCO provided listings for both Australian and domestic CTMS identifying the surrogate or similar models used in the CTMS. Within that listing, POSCO also provided calculations of the volume of sales impacted by the use of surrogate or similar models ([redacted]% and [redacted]% of Australian and domestic sales respectively).

We observed how this listing applied to our CTMS appendices. We also considered this approach to determining model costs for missing quarters to be reasonable.

The surrogate and similar manufacturing costs listing forms **Confidential Attachment COSTS 2**.

5.1.5 Amendment to data

Prior to the verification visit with POSCO, the verification team noticed some anomalies with POSCO's submitted costs to manufacture. There were significant fluctuations in total unit manufacturing costs and unit manufacturing cost elements (e.g. iron ore, coal) within models across quarters, and across models themselves.

We considered that these fluctuations were so great that they could not reasonably be explained by changes to input costs.

We provided POSCO with this analysis and queried the fluctuations, requesting that POSCO address the issues prior to our verification visit.

In response, POSCO provided revised CTMS appendices (Australian and domestic), explaining that this issue had occurred due to POSCO inadvertently including costs for 'abnormal' production, which were included as the model-level CTMS was produced using work-in-progress (WIP) data.

POSCO explained that, as a matter of course, it generates sub-quality hot rolled plate steel (identified as 'abnormal items') and that the monthly cost of these sub-standard plates are recorded in its cost system at the lowest standard cost for any internal product code produced in the relevant month. This is regardless of whether it is a higher value product that was produced. Subsequently, low values of standard manufacturing costs were included in the original CTMS.

POSCO provided spreadsheet calculations to demonstrate how this issue impacted its submitted CTMS, attached at **Confidential Attachment COSTS 3**.

During the verification of POSCO's CTMS data, which was concerned with the amended CTMS appendices, we observed how these abnormal manufacturing costs were removed (see below).

We undertook analysis of POSCO's revised CTMS appendices and observed that the unreasonable fluctuations had been corrected in the revision.

POSCO's revised CTMS appendices (Australian and domestic) form **Confidential Attachment COSTS 4**. As outlined above, it was the amended appendices that were verified in detail with POSCO, and have been used for the purposes of this report.

5.2 Verification of cost to manufacture to audited accounts - completeness and relevance of data

We explained to POSCO that we sought to reconcile its manufacturing costs data by model to the company's audited financial statements to assess the completeness and relevance of that data.

POSCO provided a comprehensive 'Cost Reconciliation' package that facilitated this process, which is discussed below. The reconciliation package forms **Confidential Attachment COSTS 5**.

5.2.1 Audited accounts to total cost of finished goods production (standard)

POSCO directed the verification team to the total cost of sales figure in its 2014 audited financial accounts income statement (**Confidential Attachment GEN 4**). The company then provided a trial balance for 2014 from its [redacted] ***[system]*** showing the break-down of this total cost of sales figure into:

- Finished products;
- By products;
- Other products – including cost of semi-finished goods sold, cost of under-graded products sold and cost of port facility use);
- Cost variance; and
- Duty drawback (negative).

As discussed above, the finished products, by-products and other product costs recorded in the trial balance are [redacted] ***[details of cost elements]***.

POSCO isolated the cost of finished products in the trial balance and provided a summary of its 2014 inventory ledger (generated from its inventory management system) showing the volume and value of:

- Opening inventory;
- Total cost of production;
- Inventory 'increases' and 'decreases' (i.e. transfer of inventory between factories); and
- Closing inventory.

POSCO provided inventory reports from its inventory management system to verify each figure (volume and value) in this inventory summary.

We observed that the cost of finished products from the inventory management system did not directly reconcile with the cost of finished product in POSCO's 2014 trial balance. POSCO explained that this was due to an 'accounting reclassification' in the period where sales of certain metals were recorded in the inventory ledger as finished products. This was amended in the financial accounts (trial balance) to be other products.

5.2.2 Cost of finished goods production to relevant product segments

Having demonstrated the total cost of manufacture for finished goods (standard), POSCO provided a 'Breakdown of Manufacturing Costs' report showing the total production volume and manufacturing costs for product by 'segment'.

POSCO explained this was generated directly from its detailed inventory ledger. POSCO provided printouts from the detailed inventory ledger that reconciled to the volume and values recorded in the breakdown report.

We observed that the total of this report equated to the total cost to manufacture finished goods (standard) in the 2014 inventory ledger summary (discussed above).

Within this report, POSCO isolated the following segments:

- [redacted].
  [product segments]

POSCO explained that these segments included hot rolled plate steel (the goods and like goods) while others did not. We examined the other segments in the report and identified that no other segment was related to hot rolled plate steel.

POSCO totalled the volume and value of the above product segments in the inventory ledger break down report.

5.2.3 Product segments to CTMS appendices

Having arrived at the volume and value of production for the relevant production segments, POSCO explained that to arrive at the CTMS in the submitted (amended) appendices, the following costs would need to be removed:

a) manufacturing costs for products that are not the goods (less than 4.75mm in thickness); and
b) manufacturing costs for 'abnormal items' (see section 5.1.5 above).

Further, account must be made for:

c) models only sold to third countries (therefore not included in the Australian or domestic CTMS appendices); and
d) the overlap of models sold to Australia and on the domestic market (as these appeared in both appendices).

To demonstrate a) and b) above, POSCO provided an 'excluded production summary' report showing the total volume and value of each of these removed categories of production.

To verify the volume and value of hot rolled plate steel that is less than 4.75mm in thickness that was removed from production in the CTMS calculations, we requested that POSCO provide a detailed listing of this production from its inventory system. We observed that all goods within this listing were less than 4.75mm in thickness and the total volume and value of the report equated to the reported volume and value of less than 4.75mm goods in the excluded production report.

To further test the inventory system's records, we selected two orders and were provided with detailed order sheets for each identifying the goods listed.

To verify the volume and value of abnormal products, POSCO produced the same type of report from its inventory system. The volume and value of this detailed report matched the 'abnormal products' volume and value in the excluded production report. We observed that each item in the inventory listing was recorded as an abnormal product (identified by its internal product code).

These listings (products less than 4.75mm thickness and abnormal production) form **Confidential Attachment COSTS 6**. The detailed order sheets (demonstrating less than 4.75mm products) form **Confidential Attachment COSTS 7**.

In relation to c) and d), POSCO provided a report showing summaries of the volume and value of these models, supported by listings of:

- 'overlapped' models between domestic and Australian CTMS appendices; and
- models sold to third countries only.

These listings form **Confidential Attachment COSTS 8**.

We observed that models listed in the overlap listing appeared in both the domestic and Australian CTMS appendices, and that models listed as only sold to third countries correctly did not appear in either of these appendices. We noted that the sales volume and value by model in the domestic and Australian appendices directly reconciled to the previously-verified sales listings (see Chapter 4), and where thus satisfied with this reconciliation.

We observed that the total production volume and value listed in the domestic and Australian CTMS appendices directly reconciled to [redacted] product segments totals after the removal of a) – d) category products discussed above.

5.2.4 Model-level costs

As discussed at section 3.2.6, POSCO generated model codes for the purposes of its response to the anti-dumping questionnaire (to facilitate model matching). This takes into account the grade, dimensions and other physical characteristics of the hot rolled plate steel concerned.

The company's CTMS appendices were submitted by model (standard). These model-level manufacturing costs represented an amalgamation of the production volume and cost for the production of several internal product codes that met the parameters of the model code.

Further, the model-level costs represented [redacted]. ***[model and internal product code linkages]***

Internal product code	Specification	Edge type	Model code
[redacted]	[redacted]	[redacted]	[redacted]
	[redacted]	[redacted]	[redacted]
		[redacted]	[redacted]
		[redacted]	[redacted]

Table 3 – link between model and internal product codes

Note: the above table demonstrates how the [redacted] ***.[incurrence of inland transport details]***

We sought verify POSCO's model-level submitted costs with the company.

POSCO provided a two 'Cost Sample Calculation' packages (one for a domestic model and one for an export model, both in Quarter 2 of the investigation period and both for hot rolled plate steel made on the plate mills (i.e. [redacted] product segment products)) to demonstrate these costs.

In these packages, POSCO provided a full listing of the Quarter 2 monthly volume and value of the production of internal product codes that comprised the submitted model, demonstrating that the model code is made up of the production of various different product codes. The total volume and value of this listing reconciled to the submitted volume and value of manufacturing costs for that model for Quarter 2 recorded in the CTMS appendices.

A sample internal product code of hot rolled plate steel and month (e.g. [redacted] ***[number]*** in June for Australian CTMS) was then selected for further verification. A listing of all production volume and value of that internal product code in June was supplied, demonstrating that particular model was attributed to numerous model codes (depending on the characteristics of the goods made under that internal production code).

POSCO then provided a 'Sample Calculation' document for the selected internal product code, which showed the total production volume and value of the internal product code in the month, as well as the split of this total amongst manufacturing cost elements (listed above). This was supported by 'standard cost of manufacturing' reports for the internal product code in the month from the company's [redacted] ***[system]***, an inventory ledger from the inventory management system, and a detailed WIP report (also from the inventory system).

We observed that the detailed inventory system's WIP report recorded line-by-line production details (including volume and cost by element – noting the costs are the same for each line as these are at the standard cost) for all production for the internal product code in the month, and recorded the physical characteristics of the manufactured goods.

We observed that the volume and cost listed in this WIP spreadsheet reconciled to the inventory ledger total and the [redacted] ***[system]*** total for that internal product code.

POSCO explained this data that was used to determine what model code each line should be classified as, and use it to determine the weighted average for that model recorded in the CTMS appendices. We observed how this report for the selected internal product code split the production in this way.

In addition to the above, POSCO provided its 'Standard Cost Details' report for the internal product code in the month. This showed the unit standard cost of manufacture for the product code, broken down into each individual cost element at each cost centre applicable to that product (e.g. rolling on the plate mill, steel making, slab casting). This was used as the basis for verification of costs to source documents for accuracy, as discussed in section 5.3 below.

POSCO's 'Cost Sample Calculation' packages and further documents obtained to verify model-level costs form **Confidential Attachment COSTS 9**.

5.2.5 Variances

After tracing the submitted standard cost to manufacture from the audited accounts to the CTMS appendices, we sought to verify the completeness, reasonableness and accuracy of the value of the model-specific variances recorded in the CTMS.

As discussed above,

[redacted] ***[recording of cost variances]***.

However, for the purposes of the Exporter Questionnaire, POSCO submitted a variance amount for each model on a quarterly basis in the CTMS appendices.

To verify these model-level amounts, POSCO presented a 'Calculation of Variance Allocation Ratio' package (attached at **Confidential Attachment COSTS 10**).

Within that package, POSCO supplied a trial balance for each quarter of the investigation period, and summed the total variances for each period (recorded under variance type such as 'purchase price variance', 'invoice price variance' and 'exchange rate variance' – see below for further discussion of these variances). The trial balance also showed the quarterly cost of goods sold for the company.

POSCO used this trial balance data to determine a variance ratio for each quarter of the investigation period (i.e. total variance as a percentage of cost of goods sold). POSCO then demonstrated how these quarterly ratios were applied to the model-level standard costs in the CTMS appendices to arrive at a model-level variance amount.

Having regard to:

- the manner in which POSCO's accounts are maintained;

- the fact that all POSCO's production is of steel products using the same steelmaking process and raw materials; and
- the quantum of the monthly variances.

We considered this to be a reasonably accurate way of allocating variances incurred to the model-level cost to manufacture hot rolled plate steel.

5.2.6 Conclusion

Following the above reconciliation, we are satisfied that the manufacturing cost calculations submitted by POSCO in its domestic and Australian CTMS appendices represent reasonably complete and relevant accounts of the company's fully absorbed actual costs of manufacture for hot rolled plate steel during the investigation period, accurately recorded to model.

5.3 Verification CTMS to source documents

Following the above reconciliation to POSCO's audited statements, we sought to verify the company's manufacturing costs to source documents. As part of this reconciliation, we sought to undertake further verification of the standard costs applied as well as the calculation of variances.

Production of the same internal product codes of hot rolled plate steel as examined in the 'Cost Sample Calculation' (to establish model-level standard costs – see above) were adopted for this verification.

5.3.1 Raw materials

Iron ore

We sought to verify the

- standard cost;
- actual purchase price and volume; and
- calculation of variances

of iron ore for each of the sampled internal product codes of hot rolled plate steel for the month of June 2014 to source documents.

For each of the sampled product codes, POSCO provided 'Summary of Material Cost Details' reports for iron ore for the month, outlining the total consumption volume and standard cost (unit and total) of each different type of iron ore consumed. We observed that each type of iron ore had a different standard cost recorded for it for the month.

The total iron ore cost recorded in these reports reconciled directly to the total standard cost of iron ore for each sampled internal product code in June in the 'Standard Cost Details' report for that product code (part of **Confidential Attachment COSTS 9** - discussed at 5.2.4 above).

[redacted] ***[number]*** different types of iron ore listed in the 'Summary of Material Cost Details' reports were selected for further verification. POSCO provided a printout of the standard cost calculation report for these types of coal in June from [redacted] ***[system]***. From this

report, we observed that the standard cost of iron ore in POSCO's accounts was comprised of the cost of the material, freight, insurance, unloading costs, etc. We focused on the verification of the cost of the iron ore itself.

POSCO then provided 'Inventory Ledger (Raw Material)' reports from its inventory system for the selected types of iron ore showing the:

- total actual purchase quantity of that type of iron ore for the company during June; and
- total standard cost for this iron ore (reconciled to the 'Summary of Material Cost Details' reports and standard cost details printout).

POSCO then provided 'Raw Material Purchase Details' reports for the selected iron ore types, showing for each purchase during June (numerous purchases from different suppliers):

- the actual volume of that type of iron ore purchased in the month;
- the standard cost of that material;
- the actual purchase price; and
- the variance between the standard and purchase price, which itself consisted of:
    - purchase price variance – recorded at the time of contract for purchase of the iron ore;
    - invoice price variance – recorded at the time of receiving the invoice for the iron ore where the invoice price varies from the contract price (e.g. due to changes in market prices, etc.); and
    - exchange rate variance.

We obtained invoices for numerous purchases of iron ore as well as proof of payment of those invoices (accounting vouchers and bank receipts). In cases where an invoice price variance was recorded, we were provided the contract price for that purchase.

We were able to reconcile the actual volumes purchased and invoiced amounts from the invoices to the 'Raw Material Purchase Details' reports. We observed that the proof of payment verified that POSCO had paid the invoiced amount to each supplier for the selected purchases.

We were able to verify each type of variance using the invoiced amount, order amount and exchange rate of the date of invoice. We verified these variances for the relevant transactions to the company's inventory ledger.

Documents relevant to the verification of iron ore form **Confidential Attachment COSTS 11**.

<u>Coal</u>

Using the same methodology as described above for iron ore, we were able to verify the:

- standard cost;
- actual purchase price and volume; and
- calculation of variances

of coal for each of the sampled internal product codes for the month of June 2014, selecting [redacted] ***[number]*** different types of coal for verification to purchase documents and proof of payment.

We noted that, as part of this reconciliation, it was necessary to convert the invoiced volume of coal from wet weight (recorded on invoice) to dry weight (recorded in inventory ledger). This was able to be accurately performed using POSCO's recorded 'unit of measure conversions' as recorded in its inventory system (report provided).

Documents relating to the verification of coal for **Confidential Attachment COSTS 12**.

5.3.2 Labour

We sought to verify the labour costs for each of the sampled internal product codes for the month of June 2014.

POSCO directed us to the 'Standard Cost Details' report (part of **Confidential Attachment COSTS 9** - discussed at 5.2.4 above), and highlighted that this report recorded the unit standard cost of labour consumed in the production of each of the sampled internal product codes of hot rolled plate steel at each cost centre that relates to that product code (i.e. the cost centres relevant to iron making, steel making, casting, plate rolling, etc.).

Labour costs at the plate rolling stage were chosen for verification.

Firstly, POSCO explained that the total unit standard cost of labour for the sampled internal product codes recorded in the 'Standard Cost Details' reports involved a calculation by POSCO whereby the [redacted] ***[calculation]***. This is because the product is made on all [redacted] ***[number]*** mills throughout the month. This is demonstrated by the below example table:

	[redacted]			[redacted]	
	[redacted]				
	[redacted]				
	[redacted]				

Table 4 – Example allocation of labour costs from plate mills to product

We observed the unit standard cost of labour at each mill, this allocation methodology, and the allocated labour amount for the product in the 'Standard Cost Details' reports.

We considered this allocation method to be reasonable given our understanding of the company's production process.

Labour on plate mill [redacted] ***[number]*** was selected for verification of the standard cost incurred.

POSCO explained that the standard labour costs for each of the [redacted] ***[number]*** mills recorded in the 'Standard Cost Details' report were calculated as:

- the standard cost of labour [redacted] ***[unit of measurement]***; multiplied by
- the [redacted] ***[unit of measurement]*** to make the internal product code product on that mill (i.e. allocation by [redacted]).

To verify the standard cost [redacted] ***[unit of measurement]*** for the mill, POSCO produced 'Budget and Planning Quantity by Cost Centre' reports for [redacted] ***[area of production]*** 1 in June 2014. The reports listed the mill's June 2014:

- total labour budget;
- total budgeted [redacted] ***[unit of measurement]***; and
- cost per [redacted] ***[unit of measurement]*** for each cost element.

To arrive at the cost of labour for the selected internal product codes recorded in the 'Standard Cost Details' reports, POSCO demonstrated that the [redacted] ***[cost reconciliation details]*** equated to the amounts for each cost element in the 'Standard Cost Details' reports.

In addition to the above reconciliation, POSCO provided its June 2014 trial balance showing the total labour standard cost. This reconciled to the unit standard cost from the 'Budget and Planning Quantity by Cost Centre' reports multiplied by the actual [redacted] ***[unit of measurement]*** used for the [redacted] ***[production area]*** in June 2014.

Further, POSCO identified in the trial balance the actual total labour and overheads costs for June 2014 that were incurred (determined as actual unit cost [redacted] ***[unit of measurement]*** by the actual [redacted] ***[unit of measurement]***). The trial balance also accurately recorded the variance between the actual costs incurred and the standard cost.

We sought to further verify the actual labour costs incurred as recorded in the trial balance, and were provided a copy of the labour ledger and accounting voucher for input into [redacted] ***[system]*** of the labour value.

Documents relating to the verification of labour form **Confidential Attachment COSTS 13**.

5.3.3 Fixed overheads

We sought to verify the fixed overhead costs for each of the sampled internal product codes for the month of June 2014. As with labour costs, we focused on verification of the fixed overheads for the plate mills.

POSCO directed us to the 'Standard Cost Details' reports (part of **Confidential Attachment COSTS 9** - discussed at 5.2.4 above), and identified that fixed overheads for the plate mills were attributed to the internal product codes in the same manner as labour ([redacted]) ***[area where costs incurred]***. We observed this in the 'Standard Cost Details' sheet in the same manner as described for labour above.

As with labour costs, we focused on plate mill [redacted] for further verification, and observed how the standard cost per minute in the 'Standard Cost Details' reports were determined as the:

- the standard cost of fixed overheads on that plate mill [redacted] ***[unit of measurement]***; multiplied by
- the number of [redacted] ***[unit of measurement]*** to make the internal product code product on that mill (i.e. allocation [redacted]) ***[allocation details]***.

As with labour costs, the 'Budget by Cost Centre (Direct)' and 'Budget and Planned Quantity by Cost Centre' reports supported the standard cost used in this calculation.

The 'Budget by Cost Centre (Direct)' reports showed:

- direct fixed overheads costs at the plate mill being recorded; and
- general fixed overheads ([redacted] ***[examples]***) being allocated to the cost centre from indirect cost centres based on various allocation ([redacted] ***[basis for allocations]***.

POSCO provided 'Budget Allocations between Cost Centres' reports to demonstrate this allocation of fixed overheads from indirect accounts.

POSCO then demonstrated the determination of the standard fixed overhead costs in its trial balance
([redacted]) ***[basis for cost determination]***.

POSCO then highlighted the actual fixed overhead costs incurred for June recorded in its trial balance, and the variance between the two. As with budgeted costs, POSCO identified that some of these costs were direct fixed overheads while others were allocated to the plate mill. POSCO provided 'Actual Allocations between Cost Centres' reports to demonstrate these allocations.

Documents used to verify fixed overheads costs form **Confidential Attachment COSTS 14**.

5.3.4 Power

We sought to verify the power costs for each of the sampled internal product codes for the month of June 2014. As with labour and fixed overhead costs, we focused on verification of power costs for the plate mills.

In the same way as for fixed overheads and labour, POSCO demonstrated the:

- standard cost per [redacted] ***[unit of measurement]*** of power on mill [redacted] and number of [redacted] ***[unit of measurement]*** required for mill [redacted] to make the sampled product codes;
- standard cost of power for a unit of the product codes on mill [redacted] ([redacted]); and

[redacted] ***[cost allocation]*** [redacted] In demonstrating the standard cost per [redacted] ***[unit of measurement]*** of power on mill [redacted], POSCO demonstrated how this power cost was allocated to that mill (from indirect cost centres) in 'Budget Allocations between Cost Centres' reports.

POSCO then demonstrated the recorded cost of power in its trial balance as the standard cost per [redacted] of power on [redacted] ***[where costs incurred and basis for recording costs]***.

POSCO also highlighted the actual cost of power recorded in the trial balance for June 2014 and the calculated variance in the trial balance (the difference between these).

To verify the actual cost of power recorded in the trial balance, POSCO provided 'Actual Allocations between Cost Centres' reports for power, showing the cost incurred for various types of power ([redacted] in indirect cost centres and their allocation to plate mill [redacted].

Electricity was selected from these various types of power, and the actual purchase amount identified for the month. We traced this purchase amount to internal accounting vouchers for the electricity purchase and to the electricity bill for the month.

Documents used to verify power form **Confidential Attachment COSTS 15**.

5.3.5 Depreciation

We sought to verify the recorded depreciation costs for each of the sampled internal product codes for the month of June 2014. As with labour, fixed overheads and power, we focused on verification of power costs for the plate mills, and POSCO demonstrated the:

- standard cost per [redacted] ***[unit of measurement]*** of depreciation on mill [redacted] ***[area where costs incurred]***;
- standard cost of depreciation for a unit of the product codes on mill [redacted] ***[number]*** ([redacted]) ***[area where costs incurred]***; and

[redacted] ***[cost allocation]*** [redacted] POSCO demonstrated the standard total cost of depreciation for the mill in its June 2014 trial balance ([redacted]) ***[basis for cost reporting]***. POSCO also identified the actual depreciation costs for the mill in June in the trial balance, as well as the variance between for the month.

To verify the actual depreciation costs for the month, we obtained a depreciation report for plate mill [redacted] for June from the inventory system and a list of the types of depreciation costs that made up the depreciation total (building, machinery, etc.).

Documents used to verify depreciation form **Confidential Attachment COSTS 16**.

5.3.6 Conclusion

Following the above verification, we are satisfied that the costs of manufacture submitted by POSCO are a reasonably accurate record of those incurred by the company in its manufacture of hot rolled plate steel.

5.4 Selling, general and administrative (SG&A) costs

POSCO explained that it had determined SG&A costs by model separately for Australia and domestic CTMS, by:

- determining the total cost of each selling cost element (selling costs, admins costs, financial expenses, financial income, etc.) applicable to the goods or like goods in each market (domestic and export);
- determining the ratio of these costs for each market as a percentage of total revenue of the goods or like goods for that market (verified to the sales listings for each);

[redacted] ***[cost calculation]***

To demonstrate how the total expenses were allocated to the goods and each market, POSCO provided SG&A calculation worksheets listing the total (company-wide) SG&A expenses for 2014, as reported in the company's 2014 audited income statement.

In these worksheets, POSCO allocated the SG&A expenses for all expenses except direct selling expenses to each market based on the goods or like goods sales revenue.

In this calculation, POSCO identified expenses it believed should not be included in the SG&A calculation. POSCO considered they did not relate to the sale of the goods or like goods and removed these expenses from the market totals. We assessed each item removed from the CTMS and agree that they related to non-operational activities ([redacted]) and should be excluded from the SG&A calculation.

In relation to direct selling expenses, POSCO attributed the verified selling expenses to the domestic or export sales listings as appropriate.

Given our understanding of POSCO's operations, we consider this to be a reasonable and accurate method of calculating the company's SG&A expenses for the goods.

Documents relating to the verification of SG&A expenses are at **Confidential Attachment COSTS 17**.

5.5 Costs to make and sell preliminary assessment

We have verified POSCO's CTMS for hot rolled plate steel to source documents and to audited financial statements, as well as assessed the allocation methods and calculations for their reasonableness.

As a result of the verification process, we are satisfied that POSCO's CTMS as amended

is reasonably accurate, relevant and complete and are suitable for use in determining normal values for POSCO's sales of hot rolled plate steel.

6 DOMESTIC SALES

6.1 General

6.1.1 Domestic sales data provided

In its response to the exporter questionnaire, POSCO provided a detailed domestic sales spreadsheet (the *Domestic Sales* listing), including invoice details of all sales to Korean customers.

The sales listings included various details such as:

- customer code;
- customer name;
- level of trade (distributor, end-user or trading company);
- model;
- product code;
- product name;
- floor plate (yes/no);
- standard;
- quality;
- invoice number; invoice date;
- date of sale;
- order number;
- delivery terms;
- payment terms;
- quantity (MT);
- manufacturing route (hot strip mill y/n);
- dimensions: thickness, width, length;
- edge type;
- gross invoice value and net invoice value ([redacted]) ***[currency]***;
- inland transportation costs;
- handling, loading and ancillary expense;
- warranty and guarantee expenses;
- credit expense;
- duty drawback; and
- interest revenue.

The *Domestic Sales* listing forms **Confidential Attachment DOM 1**.

6.1.2 Customer details and relationship

POSCO sold [redacted] ***[number]*** MT of hot rolled plate steel to domestic customers during the investigation period. Sales were made through [redacted] ***[number]*** distribution channels:

- [redacted].

[distribution channels]

In its response to the exporter questionnaire, POSCO submitted that selling prices do not vary according to the distribution channel.

POSCO's response to the Exporter Questionnaire advised that the company made sales on its domestic market to the [redacted] ***[related entity]***. The domestic sales listing also includes sales to the following entities [redacted] ***[related entities]***.

The verification team then identified more related parties in POSCO's audited accounts and structure which was provided during the meeting (and prior in the response to the Exporter Questionnaire). The companies identified were [redacted] ***[related entities]***. POSCO agreed that these companies identified were related. The sales listing was then amended to identify these parties as related.

We then assessed the pricing to each party to assess arm's length and found that there was no pattern of higher or lower pricing to related parties, compared with unrelated parties. The only exception to this rule was [redacted] ***[related entity]***, where pricing appeared to be lower in some months as compared to unrelated parties. See section 6.4 for further discussion.

6.1.3 Domestic sales process

As mentioned, POSCO advised that it sells though [redacted] ***[number]*** channels of distribution to the domestic market, [redacted] ***[distribution channels]***. We noted that the majority of the goods (over [redacted] ***[number]*** of volume) are sold [redacted] ***[distribution channel]***. POSCO explained that the [redacted] ***[distribution channel]*** are made up of more longstanding large customers, while sales through [redacted] ***[type of customer]*** [redacted] ***[details of customer].*** POSCO explained that goods are produced to order and there is no inventory kept on hand. Orders are received through the online system Nexus. The lead time to produce from order is normally [redacted] ***[period]***.

POSCO explained that [redacted] ***[stock]*** produced in an [redacted] ***[event]*** is sold via [redacted] ***[sales process]***. Available inventory is listed in the morning of the sale with customers invited to participate. [redacted] ***[POSCO's experience regarding sale]***. We noted that [redacted] ***[type of sales]*** are paid upfront from [redacted] ***[payment details]***.

6.1.4 Price setting

POSCO explained that the selling price is set on a transaction by transaction basis through a negotiation process. The majority of these negotiations take place through face to face meetings. The team witnessed this at POSCO's Business Centre, with meetings taking place throughout the verification visit. POSCO advised that there were no contracts in place with any domestic customers.

[redacted] ***[basis for setting price]***. POSCO explained that it [redacted] ***[adjustment of prices]***. [redacted] is a key component of [redacted] price and this is calculated on a quarterly basis.

[redacted] ***[pricing details]***. POSCO provided a [redacted] for plate and sheet at the visit (refer **Confidential Attachments DOM 2 & 3**. POSCO also stated that a [redacted] ***[major pricing consideration]***. Prices may be adjusted [redacted] ***[period]***.

POSCO stated that there is no difference in price depending on whether the customer is related or unrelated. POSCO also claimed no difference in pricing to customers based on level of trade, that is, prices do not vary between [redacted] ***[levels of trade]***.

As explained above, ***[sales process]*** [redacted].

6.1.5 Payment terms and currency

POSCO invoiced its domestic customers in [redacted] ***[currency]*** during the investigation period. The company provided a table of domestic payment terms in its response to the exporter questionnaire, [redacted] ***[details of payment terms]***. POSCO has calculated credit expense in the sales listing based on the actual number of days between invoice and payment.

6.1.6 Terms of trade

POSCO stated that their domestic delivery terms are [redacted] ***[terms of trade]***. The Domestic Sales listing identified each sale's terms on a transaction-by-transaction basis.

Analysis of the Domestic Sales listing shows that [redacted] per cent of domestic sales of hot rolled plate steel during the investigation period were on [redacted] ***[terms of trade]***. For goods that are [redacted] ***[details of cost recording]***.

[redacted]

[redacted] ***[terms of trade]***

6.1.7 Discounts and rebates

In its response to the exporter questionnaire POSCO stated that they did not offer any discount, rebate or other allowances to domestic customers during the investigation period.

The verification of the *Domestic Sales* listings to the company's audited accounts confirmed that no other discounts applied to sales of hot rolled plate steel during the investigation period.

6.1.8 Warranty

POSCO explained for a warranty claim a customer is required to contact POSCO. If there is an issue of claim based on quality or specification, POSCO will investigate to see if the warranty claim is valid.

[redacted] ***[details of warranty claims]***

The team selected three sales where warranty claims were made to verify this expense, see below for details of verification.

6.2 Verification of sales to audited financial statements

Verification of POSCO's *Domestic Sales* listing through to the company's audited financial statements is discussed in Section 4.2.

Following this verification, we are satisfied that the sales data included in POSCO's *Domestic Sales* listing response to the Exporter Questionnaire in relation to the following models of hot rolled plate steel is a complete record of those sales, contains all relevant sales and does not contain any irrelevant sales of those models.

6.3 Verification of sales to source documents

Prior to the visit, 12 domestic sales transactions were selected for detailed verification from the detailed *Domestic Sales* listing spreadsheet that POSCO submitted as part of its response to the Exporter Questionnaire.

POSCO was asked to prepare evidence to support the spreadsheet data for the selected domestic transactions. At the visit, POSCO supplied 12 sets of documents, each containing the following:

- Purchase order
- Order confirmation
- Invoice

- Proof of payment
- Inland transport
- Handling costs
- Evidence of other costs in the spreadsheet
- Discounts/Invoice adjustments

These documents form **Confidential Attachment DOM 4**.

6.3.1 Invoice details

Using the source documents we reconciled the volume of hot rolled plate steel sold to domestic customers as listed in the spreadsheet and found that it matched the respective amounts in the source documents. Specifically we reconciled the invoice number and date, order number, model number, product code, standard, dimensions (width, height and length), quantity (MT), gross invoice value, other charges and discounts to the domestic sales listing. We also reconciled total net invoice values to the sales listing.

6.3.2 Proof of payment

The verification team selected four transactions to check for proof of payment. POSCO provided bank statements as evidence.

Two of the bank statements showed a value slightly more than the recorded amount in the spreadsheet. This was attributed to a billing adjustment. Evidence of the billing adjustment was provided in the next month's bank statement and was considered adequate.

There were some slight discrepancies between the invoiced amount and the payment received which we queried. [redacted] ***[explanation regarding variance]***. We deemed that this variation was reasonable.

Proof of payment was also provided for a [redacted] ***[sale type]***. POSCO explained that [redacted] ***[sale type]*** customers have an account which they deposit money prior to the final invoice being settled.

6.3.3 Duty drawback

POSCO advised that it receives duty drawback refunds in respect of hot rolled plate steel exported to Australia. POSCO advised that it predominantly imports raw materials (including iron ore and coal) from foreign suppliers which are used in manufacturing hot rolled plate steel. This product is then sold domestically and exported to other markets. The imported raw materials are subject to customs duty (which is recorded on importation permits).

POSCO advised that the Korean Government under the "*Act on Special Cases Concerning the Refundment of Customs Duties etc. Levied On Raw Material For Export*" provides for a full refund of customs duties applicable to imported raw materials which are used to manufacture products which are subsequently exported.

POSCO provided a list of all relevant export permits and duty drawback claims made in respect of the exported hot rolled plate steel to Australia.

[redacted] ***[allocation of duty drawback]***. We verified that POSCO correctly applied this amount to the domestic sales listing. A copy of the 'Duty Drawback Sample Calculation', can be found at **Confidential Attachment DOM 5.**

6.3.4 Interest revenue

POSCO advised that during the investigation, interest revenue was collected from domestic customers in respect of late payments for domestic sales. It advised that interest revenue was only applicable to domestic customers.

During the visit we verified the payment date and invoice date from the source documents to ensure that the correct interest revenue was applied to each domestic sale selected. POSCO provided a short term interest rate package (**Confidential Attachment DOM 6 (14**) that we verified and were satisfied that the rate used was accurate and reasonable.

6.3.5 Other costs

Inland transport and handling charges

Reviewing the source documents provided, we found a number of discrepancies against the values given for inland transport in the sales listing. We raised this with POSCO and they subsequently provided us with an updated inland transport data for all domestic sales (**Confidential Attachment DOM 7**).

To ensure the accuracy of the new data we requested documentation for a further five sales. We received these five sales with the daily shipment list, inland freight calculation (two excerpts from the sales system identifying the order number, quantity, shipping method and inland freight value), linking to a total inland freight amount for the month, and invoice for services paid to that freight provider. The verification team was satisfied with this evidence and the revised figures (**Confidential Attachment DOM 8)**.

As noted above,

[redacted] ***[mode of delivery]***. We were able to identify the sales transactions that incurred these charges (cross checking against delivery terms provided) and to verify these charges line by line. We were satisfied that charges were accurately applied to the goods shipped.

Billing adjustments

The team noted some billing adjustments in the source documents and raised this with POSCO in the visit. In the example we highlighted,

[redacted] ***[reason for billing adjustment]***. The verification team was satisfied that these billing adjustments were insignificant in size and would not pass the OCOT test. Evidence of the billing adjustment can be found at **Confidential Attachment DOM 9.**

Warranty

We tested the warranty claims and they reconciled to the source documents. We matched the relevant order number from each warranty claim to domestic sales spreadsheet. We were satisfied that the warranty claim values were accurately applied to the relevant sales quantities. Photos attributed to the claim were also identified.

Evidence of the warranty calculation can be found at **Confidential Attachment DOM 10.**

Credit costs

The team was able to verify the date of sale and date of payment for the selected sales and found no issues. We were satisfied that the rate applied was reasonable and the calculations were accurate.

6.3.6 Conclusion

The verification team considers that POSCO's *Domestic Sales* listing is an accurate record of its domestic sales of hot rolled plate steel during the investigation period and has accurately recorded costs associated with the sale of those goods.

6.4 Arms length

The verification team raised concerns over [redacted] ***[customer]*** sales being arms length. POSCO [redacted] provided a statement in regards to these concerns. POSCO claims that the sales to [redacted] ***[customer]*** are at market price and should not be excluded from normal value calculations. [redacted] ***[details of relevant customer]***. POSCO's sales representative was present in the meeting and stated that:

- related customers are not treated differently to unrelated customers;
- pricing is the same for [redacted] ***[customer]*** as it is to others; and
- [redacted] ***[importance of particular pricing consideration]***

The verification team considered this statement and ran testing on the sales data by model and month for the most accurate analysis. We compared pricing to [redacted] ***[customer]*** against pricing to the largest unrelated domestic distributors (by volume of sales). The analysis showed that while pricing was [redacted] in many cases to [redacted] ***[customer]***, this was not a consistent trend across the twelve months. In some months prices were [redacted] and in others prices were [redacted]. The verification team could not conclude that lower pricing in some months was offered on any basis other than [redacted] ***[pricing consideration]***. Considering that [redacted] ***[pricing consideration]*** was an important determinant in setting price, and that pricing was [redacted] to unrelated parties in certain months, we concluded that the sales were arm's length.

Therefore, in respect of domestic sales during the investigation period, we found no evidence that:

- there is consideration payable for or in respect of the goods other than their price; or

- the price is 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, will directly or indirectly, be reimbursed, compensated or otherwise receive a benefit for, or in respect of, whole or any part of the price.

We therefore consider that all domestic sales during the investigation period were arms length transactions.

6.5 Volume of sales and ordinary course of trade

We sought to identify whether sufficient domestic sales of like goods to customers were made in the ordinary course of trade (OCOT) for possible use in normal values under s.269TAC(1).

6.5.1 OCOT

Section 269TAAD provides that if like goods are sold in the country of export at a price less than the cost of such goods and are unrecoverable within a reasonable period, they are taken not to have been paid in OCOT.

Profitability

We compared the net sales value (the net invoice sale value minus any applicable discounts) for each domestic sale of hot rolled plate steel to the CTMS for the applicable model code for the sale in each quarter of the investigation period.

Recoverability

Where the volume of unprofitable sales exceeded 20% for the product category, the team then tested the recoverability of the unprofitable sales by comparing the unit selling price to the corresponding weighted average CTMS for the applicable model code for the sale over the whole of the investigation period. Those sales found to be unrecoverable were deemed not to be made in the OCOT.

Sales in OCOT

The verification team found that overall, [redacted]% of domestic sales of like goods were made in OCOT.

6.5.2 Sufficiency of sales

Section 269TAC(2) provides that certain domestic sales may be unsuitable for use in determining normal values because of factors in the market. One such factor is where there is an absence, or low volume, of sales of like goods in the domestic market that would be relevant for determining normal values (insufficient sales in OCOT).

Low volume is defined in Section 269TAC(14) as less than 5% of the total volume of goods under consideration that are exported to Australia.

The team's assessment of the sufficiency of OCOT sales is below.

Exact model matches

The verification team first compared the volume of like goods sold in OCOT on the domestic market to the volume of the goods exported to Australia over the investigation period and found that, of the [redacted] model codes exported to Australia during the investigation period, there were sufficient sales in OCOT on the domestic market during the investigation period of [redacted] exact model code matches.

Similar model matches

Change of specification

For exported model codes where sufficient OCOT sales of an exact model match weren't found, the verification team then assessed whether there were sufficient sales on the domestic market of similar model code goods that could be used instead. At the visit, working in consultation with POSCO, we identified a number of domestic specifications which could be used interchangeably with Australian specifications in model matching of export sales (refer section **Error! Reference source not found.** for discussion).

We found that there were sufficient OCOT sales of [redacted] out of [redacted] specifications. We used these surrogate specifications to match [redacted] export sales, holding all other variables the same (for example export model [redacted] was matched with domestic model [redacted]).

Change of specification with adjustments

For exported model codes where sufficient OCOT sales of an exact model match or similar specification model match weren't found, the verification team then assessed whether there were sufficient sales on the domestic market of similar model code goods that could reasonably be adjusted for physical differences between that model and the exported model, using the information available to the team.

We considered that the most reasonable way to do this was to adjust the selling prices of domestic model codes to arrive at a selling price for the exported model code using the [redacted] ***[internal pricing information]*** **(Confidential Attachment DOM 2).**

Using the [redacted] ***[information]*** we were able to identify the [redacted] ***[adjustments]*** for differences based on a product's thickness, width and length. These adjustments were made based on the [redacted] ***[information]***. We considered that there was insufficient information to make physical adjustments based on other characteristics such as specification, grade, edge or plate surface and did not seek to adjust models in this way.

The team sought to identify whether there were sufficient domestic sales in OCOT of model codes that differed from the domestic model codes only by thickness, width or length. We identified and adjusted similar sales of model codes with these differences for a further [redacted] ***[number]*** exported model codes, using ***[information]***

[redacted], but where these were not available, using [redacted] ***[information]***.

Remaining model codes

For the remaining model codes exported to Australia, we were unable to identify sufficient sales in OCOT of a domestic model code that only had physical differences that were able to be adjusted using [redacted] ***[internal pricing information]***.

In the absence of a price-based mechanism to make alterations for physical differences to these model codes, we consider that there is an absence, or low volume, of sales of like goods in the domestic market that would be relevant for determining subsection 269TAC(1) normal values for the remaining exported model codes.

6.6 Conclusion

Based on the information provided and the verification processes conducted on site, we are satisfied that prices paid in respect of domestic sales of hot rolled plate steel are suitable for use in determining normal values for exports of the goods to Australia.

Profitability, ordinary course of trade and sufficiency of sales assessments are at **Confidential Appendix 3.**

7 THIRD COUNTRY SALES

In its response to the Exporter Questionnaire, POSCO provided a summary of its sales of hot rolled plate steel to third countries for the top ten countries by sales quantity.

As we considered that we were in possession of enough verified information from the Exporter Questionnaire and our visit to calculate normal values for hot rolled plate steel using domestic sales under s. 269TAC(1) and constructions under 269TAC(2), we did not undertake detailed verification of the third country data.

8 NORMAL VALUE

8.1 Exact model matches

For [redacted] model codes of hot rolled plate steel exported to Australia during the investigation period, we found sufficient volumes of domestic sales that were arms' length transactions at prices that were in ordinary course of trade.

For another [redacted] model codes that did not have an exact model match, we identified a similar specification which we were able to use (refer section 3.2.7 for more detail). Using these similar specifications for models of otherwise identical characteristics, we did not make any adjustments for these sales.

Based on the information provided by POSCO and the verification conducted on site, we are satisfied that prices paid in respect of these domestic sales are suitable for assessing normal values under subsection 269TAC(1) for export sales of hot rolled plate steel to Australia during the investigation period for these model codes.

These selling prices have been adjusted for the purposes of establishing a fair comparison in accordance with subsection 269TAC(8) (see Chapter 9).

8.2 Similar model code matches

For a further [redacted] model codes exported to Australia, we found sufficient domestic sales during the investigation period in the ordinary course of trade of model codes that are considered substantially similar to the exported model codes, and are able to be adjusted for physical differences between these model codes.

Based on the information provided by POSCO and the verification conducted on site, we are satisfied that prices paid in respect of these domestic sales are suitable for assessing normal values under subsection 269TAC(1) for export sales of hot rolled plate steel to Australia for those seven model codes during the investigation period.

These selling prices have been adjusted for the purposes of establishing a fair comparison in accordance with subsection 269TAC(8), including for the physical differences between the exported and domestic model codes (see Chapter 9).

8.3 Other model codes

For the remaining [redacted] model codes of hot rolled plate steel exported to Australia during the investigation period, we did not find sufficient sales of like goods on the domestic market in the ordinary course of trade that were considered relevant for determining normal values under subsection 269TAC(1).

For these remaining models, we constructed normal values under subsection 269TAC(2)(c) using:

- the cost to make and sell the exported goods;

- the selling, general and administrative expenses associated with the sale of like goods on the domestic market; and
- an amount for profit determined as the profit achieved on like goods sold in the domestic market in the ordinary course of trade during the investigation period.

Adjustments to these constructed normal values were made under as adjusted in accordance with subsection 269TAC(9).

8.4 Calculations

Detailed normal value calculations are contained in **Confidential Appendix 4**.

9 ADJUSTMENTS

9.1 Adjustments made

To ensure that the normal value was comparable to the Australian export price, the following adjustments were made.

9.1.1 Credit terms

We consider:

- a downward adjustment for domestic credit costs; and
- an upwards adjustment for export credit costs

are required in the normal value calculation to ensure fair comparison between normal value and export price.

As discussed in Sections 4.3 and 6.3, we have verified the cost of domestic credit and the cost of export credit to source documents.

We have conducted a downwards adjustment to normal values by removing the cost of domestic credit, and an upwards adjustment to normal values to account for the cost of credit costs on export sales.

The calculation of the domestic credit downwards adjustment is in **Confidential Appendix 4** (normal value), while the calculation of quarterly weighted average export credit is contained in **Confidential Appendix 1** (export price).

9.1.2 Inland transport

We consider that the following inland transport adjustments to normal value are warranted:

- an upwards adjustment to include the cost of inland freight incurred in the exportation of goods to Australia; and

- a downwards adjustment to deduct inland freight by POSCO on its domestic sales.

As discussed at Section 6.3, we were able to verify the cost of inland transport for domestic delivered sales on a line-by-line basis. This verified amount has formed the basis of this adjustment.

As discussed at Section 4.3, we were able to verify the cost of inland transport incurred in the transportation of hot rolled plate steel to various ports for export.

In the case of goods exported [redacted], this includes [redacted] charges [redacted] ***[export inland transport costs applied to some sales]***.

This verified amount has formed the basis of an adjustment to calculate a quarterly weighted average export inland transport adjustment. We have included this cost as an upwards adjustment to normal values.

The calculation of the domestic inland transport downwards adjustment is in **Confidential Appendix 4** (normal value), while the calculation of quarterly weighted average export credit is contained in **Confidential Appendix 1** (export price).

9.1.3 Handling and loading charges

We consider that the following inland freight adjustments to normal value are warranted:

- an upwards adjustment to include the cost of handling charges incurred in the exportation of goods to Australia; and
- a downwards adjustment to deduct handling charges incurred by POSCO on its domestic sales.

[redacted] ***[details of incurrence of handling charges]***.

To ensure fair comparison between normal values and export prices, we consider that a downwards adjustment to normal value should be made for handling charges for normal values where these charges were incurred.

As discussed at Section 6.3, we were able to verify the line-by-line recorded handling and charges for [redacted] ***[domestic sales]*** and this verified amount has formed the basis of this adjustment.

As discussed at Section 4.1.6, export sales by POSCO were made at FOB terms and incurred handling and loading charges as a result.

As discussed above, in the case of goods [redacted] ***[incurrence of inland transport cost]*** and hence included in the abovementioned adjustment for inland transport. In relation to all other sales, these charges were incurred separately to inland transport.

As discussed at section 4.3, we were able to verify the handling and other charges for sales made at FOB via ports other than [redacted] ***[port]***. This verified amount has formed the basis of this adjustment, calculated as a weighted average quarterly amount using only the volume of those goods exported via those ports only.

The calculation of the domestic handling downwards adjustment is in Confidential Appendix 4 (normal value), while the calculation of quarterly weighted average export handling charges is contained in Confidential Appendix 1 (export price).

9.1.4 Warranty expenses

As discussed at Section 6.3, we verified the cost of warranty expenses incurred by POSCO in the sale of hot rolled plate steel on the domestic market during the investigation period.

We consider that these warranty costs represent an after sales cost that is different between the export and domestic markets and an adjustment is warranted for this cost.

The verified warranty cost amounts have formed the basis of this adjustment (see Confidential Appendix 4 (normal value).

9.1.5 Duty drawback

As discussed at Section 6.3.3, POSCO is granted a 'drawback' of import duty paid on raw materials used to manufacture hot rolled plate steel that is later exported to Australia.

POSCO uses these imported raw materials to manufacture hot rolled plate steel which is supplied both to the domestic market in Korea and to the Australian export market, and it is only in relation to the exported goods that a drawback is received.

POSCO submits that this amounts to a difference in cost of hot rolled plate steel sold domestically and exported to Australia, and warrants an adjustment as a result.

We verified the quantum of the duty drawback adjustment claimed to source documents and were satisfied with the accuracy of the drawback adjustment claimed.

We consider that, as duty drawback refunds were applicable to the hot rolled plate steel exported to Australia and not to domestically-sold hot rolled plate steel, a negative adjustment to normal values for this duty drawback is warranted, based on the information verified with the company and contained in Confidential Appendix 4 (normal value).

It is noted that this adjustment reflects less than 0. 1% of the domestic sales revenue of hot rolled plate steel.

9.1.6 Interest revenue

As discussed at Section 6.3.4, POSCO charged its domestic customers an amount of interest for purchases of hot rolled plate steel during the investigation period, where those customers exceeded their agree credit terms as per the sales contract or invoice.

Amounts for this interest were recorded in the *Domestic Sales* listing, and we verified the amount for these charges with the POSCO.

We have considered whether it is necessary to perform a downwards adjustment to normal values to account for this additional cost.

However, the verification team notes that the days of credit granted adopted by POSCO in its calculation to determine domestic credit costs for the downwards adjustment to normal values is:

date of payment of the invoice - invoice date

As such, the verification team considers that the domestic credit expense adjustment already includes credit costs for circumstances where the domestic customer paid past their due date, and hence the inclusion of an additional adjustment for this extra interest would double-count this adjustment.

We therefore do not consider an adjustment to normal values for interest expenses is warranted.

9.1.7 Timing adjustment

In the case of Section 269TAC(1) normal values, we found an absence of exact model matches or similar match normal values in certain quarters where export sales were made (due to an absence of domestic sales of those models in the relevant quarters).

To allow for a quarterly normal value for these export sales to be established, we considered it reasonable to make an adjustment to the comparable normal value of the exact model match or similar model match in the closest available quarter in which a normal value exists. This was based on the manufacturing cost difference for the model code between these quarters, adjusted by the gross margin of the company as recorded in its 2014 audited income statement, to reflect a selling price difference between the quarters.

9.2 Adjustments Conclusion

We are satisfied that there is sufficient and reliable information to justify the following adjustments in accordance Sections 269TAC(8) and 269TAC(9), and we consider these adjustments are necessary to ensure a fair comparison of normal values and export prices.

These adjustments are summarised below.

Credit terms	**Deduct** the cost of domestic credit **Add** the cost of export credit
Inland transport	**Deduct** the cost of domestic inland transport where applicable ([redacted] ***[cost element]*** **Add** the cost of export inland transport
Handling	**Deduct** the cost of domestic handling where applicable **Add** the cost of export handling
Warranty	**Deduct** the cost of warranty expenses incurred on the domestic market

Duty Drawback	**Deduct** the revenue generated from duty drawback from the normal value
Timing adjustment	**Amend** the Section 269TAC(1) normal values for model codes in quarter where no domestic sales were made of that model code or a similar model code (as applicable) by basing this normal value on the closest available quarter and adjusting for differences in manufacturing costs between quarters plus the gross margin

Table 5 –Adjustments to normal value summary

10 DUMPING MARGIN

We compared the quarterly weighted average export prices over the whole of the investigation period with the quarterly weighted average corresponding FOB normal values calculated based on:

- domestic sales made in the ordinary course of trade in line with subsection 269TAC(1); and
- constructions of cost to manufacture, selling, general and administrative expenses on the domestic market, and an amount for profit under subsection 269TAC(2)(c)

over the whole of that period, in accordance with subsection 269TACB(2)(a).

The weighted average product dumping margin for hot rolled plate steel export to Australia by POSCO during the investigation period is **-1.2%**.

Details of the dumping margin calculations are at **Confidential Appendix 5**.

11 APPENDICES AND ATTACHMENTS

Confidential Attachment GEN 1	Shareholders listing
Confidential Attachment GEN 2	Affiliation chart
Confidential Attachment GEN 3	Organisational structure chart
Confidential Attachment GEN 4	Chart of accounts and audited consolidated and unconsolidated financial report for 2013 and 2014.
Confidential Attachment GEN 5	Accounting systems overview
Confidential Attachment GEN 6	POSCO Steel Products brochure
Confidential Attachment GEN 7	Like goods appendix
Confidential Attachment GEN 8	Like goods
Confidential Attachment EXP 1	Australian sales listing
Confidential Attachment EXP 2	Analysis of related party pricing – export sales
Confidential Attachment EXP 3	[redacted] ***[pricing of exports]***
Confidential Attachment EXP 4	Exchange rate proof
Confidential Attachment EXP 5	Sales reconciliation
Confidential Attachment EXP 6	Selected export sales source documents
Confidential Attachment EXP 7	Short term interest rate package
Confidential Attachment COSTS 1	CTMS appendices as submitted in response to the Exporter Questionnaire
Confidential Attachment COSTS 2	Surrogate and similar manufacturing costs listing
Confidential Attachment COSTS 3	Attachments demonstrating the impact of abnormal products on CTMS
Confidential Attachment COSTS 4	Revised CTMS appendices
Confidential Attachment COSTS 5	Cost Reconciliation package (upwards verification)

Confidential Attachment COSTS 6	Less than 4.75mm product and abnormal production cost listing
Confidential Attachment COSTS 7	Less than 4.75mm detailed order sheets
Confidential Attachment COSTS 8	Costs overlap between markets and third country markets listings
Confidential Attachment COSTS 9	Cost Sample Calculation packages
Confidential Attachment COSTS 10	Calculation of Variance Allocation Ratio packages
Confidential Attachment COSTS 11	Iron ore verification packages
Confidential Attachment COSTS 12	Coal verification packages
Confidential Attachment COSTS 13	Labour verification packages
Confidential Attachment COSTS 14	Fixed overheads verification packages
Confidential Attachment COSTS 15	Power verification packages
Confidential Attachment COSTS 16	Depreciation verification packages
Confidential Attachment COSTS 17	SG&A verification packages
Confidential Attachment DOM 1	Domestic sales listing
Confidential Attachment DOM 2	Domestic pricing extras list – plate
Confidential Attachment DOM 3	Domestic pricing extras list – sheet
Confidential Attachment DOM 4	Selected domestic sales source documents
Confidential Attachment DOM 5	Duty Drawback Sample Calculation
Confidential Attachment DOM 6	Short term interest rate package
Confidential Attachment DOM 7	Revised inland transport data
Confidential Attachment DOM 8	Source documents for five selected sales – inland transport
Confidential Attachment DOM 9	Billing adjustment
Confidential Attachment DOM 10	Warranty calculation