

SEAH STEEL CORPORATION

**Oil Country Tubular Goods from Korea
11th Antidumping Duty Administrative Review**

SECTION D

**Cost of Production and
Constructed Value**

I. General Explanation of Section D Questionnaire

This section of the antidumping questionnaire provides instructions for reporting the cost of production (“COP”) of the foreign like product and the constructed value (“CV”) of the subject merchandise. Please refer to the cover letter to determine your reporting requirements.

If you have questions concerning any part of the section D questionnaire, you are instructed to contact the official in charge. Please note, however, that requests by your company to alter the reporting of the information requested in the section D questionnaire must be submitted in writing to the Department.

A. Cost of Production

Cost of production is the weighted-average control number (“CONNUM”) specific cost of the product sold by your company in the comparison market (*i.e.*, the home or third country market). The Department will compare the COP to the sale prices for that product in the comparison market to determine whether those prices can be used as the basis for normal value. Unless otherwise instructed by the Department, you should report per-unit COP information for each CONNUM included in your home market or third country sales listing submitted in response to section B of this questionnaire.

B. Constructed Value

Constructed value is the weighted-average CONNUM specific cost of the product sold by your company in the U.S. market, plus an amount for profit. Because CV is a type of normal value, selling, general and administrative (“SG&A”) expenses and profit are computed as if the merchandise had been sold in your comparison market. Unless otherwise instructed by the Department, you should report per-unit CV information for each CONNUM included in your U.S. market sales listing submitted in response to section C of this questionnaire.

C. Reporting Period for Cost of Production and Constructed Value

Calculate reported COP and CV figures based on the actual costs incurred by your company during the period of review (“POR”), as recorded under your company’s normal accounting system. If you have any questions regarding the appropriate cost calculation period for the merchandise under consideration, notify the Department in writing before preparing your response to this section of the questionnaire.

D. Weighted-Average COP and CV

Calculate reported COP and CV figures on a weighted-average basis using the CONNUM specific production quantity, regardless of market sold, as the weighting factor. Thus, each CONNUM should be assigned only one cost, regardless of the market or markets in which the product(s) were sold. If more than one unique product produced at a domestic facility falls within the definition of a specific CONNUM, determine first the weighted-average CONNUM specific costs at that facility; then calculate the company-wide weighted-average CONNUM specific costs. If you have any questions regarding how to compute the weighted-average cost of the merchandise under consideration, notify the Department in writing before preparing your response to this section of the questionnaire.

In this response to Section D, SeAH has calculated the cost of production (“COP”) for all models of the foreign like product as sold to the selected third country, Canada,¹ and for all models sold in the U.S. market during the period of review (“POR”). As requested, SeAH has prepared a single cost file. A printout of the cost file and its file format are provided in **Exhibit D-1** to this submission.

The cost file includes the cost of manufacturing (“COM”) for the third country and U.S. merchandise, general expenses (including non-operating items related to production), and interest expenses.

SeAH’s fiscal year is the calendar year, January 1 through December 31. All costs are reported on a weighted-average basis for the POR. The cost of manufacture is reported in

¹ The home market sales of OCTG are not viable. See SeAH’s December 14, 2006 Section A Response at Exhibit A-1.

accordance with the normal cost accounting system, *i.e.*, on an actual weight basis.² As explained in more detail below, the actual weight-based costs have been converted to a theoretical weight basis in order to equate the cost data to the same basis as the sales data.

In accordance with the Department's reporting instructions, the submitted costs reflect the weighted-average cost of production for every control number (CONNUM) corresponding to a product as defined by the Department. Production quantity was used as the weighting factor. A list of corresponding control numbers for all subject merchandise is provided in Exhibit B-2 to SeAH's Section B Response.

II. General Information

The production process, financial accounting, and cost accounting information requested below is necessary for the Department to better understand your company's operations, its products and production processes, and its financial and cost accounting practices. Therefore, you should provide complete narrative responses to each of the items listed below.

A. Products and Production Processes

Provide a description of your company's production process for the merchandise under consideration. Your description should address each of the items 1 through 8 listed below.

- 1. Provide a description of your company's production facilities. If production of the merchandise under consideration takes place at more than one facility, identify each facility and describe the production activities that take place at each facility. Identify all products manufactured at each facility, including products not under consideration.**

SeAH owns and operates four production facilities, in Pohang, Changwon, Kunsan, and Ansan. Subject OCTG pipe is produced only at the Pohang plant (along with non-subject line

² As discussed in further detail in the body of this narrative, SeAH switched from a process actual cost system to a SAP standard cost accounting system in April 2006. Accordingly, there are two accounting systems applicable in this review period, one (referred to as a "Legacy" system) for the period August 2005 through March 2006, and the SAP system from April through July 2006.

pipe, standard pipe, and other non-subject merchandise). Production at the Ansan plant is limited to slitting and welding ordinary and structural pipe. SeAH produces non-subject stainless steel and pre-insulated pipes at its Changwon facilities. SeAH produces non-subject painted flat-rolled products at its Kunsan factory. *See* Exhibit A-3 to SeAH's December 14, 2006 Section A Response (listing production facilities and the products produced at each facility). An organizational chart and factory layout of the Pohang facilities is included in **Exhibit D-2**.

Within the Pohang Works, there are seven plants described as follows:

Plant 1: Pipes between 2" and 8" nominal pipe size are produced in this facility. The pipes produced include subject OCTG pipe, as well as non-subject standard pipe, structural pipe, line pipe, mechanical tube, and boiler tube. The plant includes one slitting line and two welding lines (designated as []) where the pipe is "formed" after it is slit. As noted in the organizational chart, the welding lines are distinguished by size range. After welding, the pipes are faced, tested, and packed. Plant 1 also includes a stretch-reducing machine ("SRM"), on which SeAH produces OCTG pipes with outside diameters ("OD") of less than 4 inches. Non-subject products produced on the SRM include standard ASTM A53A with wall thicknesses in the range of schedule 80 to sizes (OD) of 3½", ASTM A53B with sizes less than 3½", structural pipes with size less than 3½", ASTM A587 with sizes less than 3½", and line pipes less than 2-½".

Plant 2: This plant is structured similarly to Plant 1, with one slitting line and four welding lines (designated as []) divided by sizes ranging from ½" to 2 7/8". The same variety of standard pipe (except line pipe) as produced in Plant 1, plus OCTG, are produced in Plant 2. This plant also contains a heat treatment line.

Plant 3: This plant (designated as []) produces standard pipe, structural pipe, line pipe, mechanical tube, including OCTG, with nominal pipe size in the range of 8” to 20” – *i.e.*, medium-sized pipe. There is one welding line, but no slitting line.

Plant 4: This plant produces non-subject submerged arc and spiral pipe.

Plant 5: This plant is the galvanizing plant. Because OCTG is not galvanized, this plant is not involved in the production of the subject merchandise.

Plant 6: This plant produces non-subject pipe over 16” in outside diameter, including standard pipe, line pipe and roll-bender pipes.

Plant 7: This plant (designated as []) produces OCTG with outside diameters greater than 20 inches, non-subject large diameter standard carbon steel, structural and line pipe. It has one welding line and no separate slitting lines.

2. Provide a flowchart of the production process for the merchandise under consideration. Please supplement your flowchart with descriptions of each stage in the process.

A flowchart of the production process is provided at pages 6-7 of the product brochure submitted as Exhibit A-24 to SeAH’s December 14, 2006 Section A Response. As requested, SeAH has annotated the production process flowchart to correlate the cost centers and the steps in the production process. As the cost center codes changed with the implementation of the SAP system, there are two flowcharts in **Exhibit D-3**, one for the Legacy system and one for the SAP system. The cost center lists under the two accounting systems are provided in **Exhibit D-4**. A brief description of the production process is as follows:

Slitting: The production process for OCTG pipe begins with hot-rolled steel coil, the primary raw material, which SeAH purchases from unaffiliated foreign and domestic suppliers. Because the hot-rolled coil is generally supplied with fairly broad widths, the first stage in the

production process is slitting. The coil is uncoiled and passed through a slitting machine that cuts off the rough edges on both sides of the coil and slits the coil into two or more strips that are referred to in the industry as “skelp.”³ At the opposite end of the slitting line, the skelp is recoiled. The slitting section at the Pohang facility has two slitting lines.

Welding: The second stage is the welding (or forming) stage. Skelp of the appropriate grade and dimensions is fed into the tubing line where it passes through a series of rollers that bend the skelp to form a tube shape. An electric-resistance welding (ERW) device along the production line welds a seam to close the tube as the pipe passes through. A cutting device then trims the “bead” which forms along the welded seam to create a smooth surface for the pipe. The pipe is then passed through a series of rollers that “size” the pipe to give it a uniform circular cross-section and outside diameter. Finally, before leaving the tubing line, the pipe is cut to predetermined lengths and the ends will be faced and chamfered to remove sharp edges. As described above, Pohang has a number of welding lines that perform this process for the subject merchandise.

Stretching and Reducing: Small-sized OCTG pipe products (*e.g.*, less than 4 inches in diameter) are lengthened through a process known as stretching and reducing. During this process (referred to as the SRM process), the pipe is heated and run through rollers that both lengthen the pipe and reduce the wall thickness. After stretching and reducing, the pipe is cut to pre-determined lengths and the ends are then faced.

Testing and Finishing: The final stage of the production process consists of various testing and finishing operations. Pipes are hydrostatically and ultrasonically tested as required by the specifications. The pipe may additionally be threaded and/or coupling may be added.

³ Pipes with an OD greater than 8 inches that were produced at Plant 1 and Plant 2 do not pass through the slitting process.

- 3. List all coproducts, byproducts, and scrap that result from producing the merchandise under consideration. Describe why your company considers these items to be coproducts, byproducts, or scrap.**

There are no co-products generated in the manufacture of OCTG pipe. The only by-products of pipe production are off-grade pipe, defective pipe, and scrap. None of the scrap or by-product is reintroduced into the production cycle.

- 4. State whether your internal product codes used for production control, cost accounting and inventory records differ from those used for sales purposes. Provide a key to the internal product codes used in the production process, cost accounting, and inventory records. Include an explanation of the full range of prefixes, suffixes, or other notations that identify special features.**

SeAH uses the same coding system for production control, cost accounting and inventory. A key to SeAH's product coding system under the Legacy and SAP systems was provided in Exhibit A-25 to SeAH's December 14, 2006 Section A Response. Under the Legacy system, SeAH defines the subject merchandise in terms of: (1) the production type, *i.e.*, ERW, SRM, Large Diameter (LD) and Spiral; (2) the target market (*i.e.*, export or domestic); (3) the product specifications; (4) outside diameter (OD); (5) wall thickness; (6) surface finish; and (7) end finish. Under the SAP system, finished products are assigned a unique 8 digit "material code". This material code corresponds to: (1) the product type; (2) the product specifications; (3) surface finish; (4) end finish; (5) outside diameter; (6) wall thickness; (7) length; (8) packing type; and (9) coating type. *See* Section C.4 below (illustrating the correlation between the serial number and the physical characteristics).

5. List all inputs used to produce the merchandise under consideration, including specific types of raw materials, labor, energy, subcontractor services, research and development, etc.

The raw materials used to produce the merchandise under review are: (a) hot-rolled carbon steel coil, and (b) couplings when the end finish is threaded and coupled. The hot-rolled coil is purchased from unaffiliated companies in arms-length transactions. The couplings are purchased from PPA, who in turn, purchases the couplings from unaffiliated U.S. manufacturers.

With respect to labor, SeAH utilizes its own factory, management and research and development for all production-related activities at Pohang with some work performed by unaffiliated subcontractors. A list of the subcontractors used in the production of OCTG is included in **Exhibit D-5**.

Electricity and other power supplies and water are all purchased from local unaffiliated municipal utilities. SeAH performs maintenance with the exception of minor maintenance and repair performed by SeAH E & T at the Pohang facility. Machinery and equipment are also purchased from unaffiliated companies. During the POR, SeAH purchased drawings from PPA for a hydraulic test machine for OCTG production. See **Exhibit D-4** (listing account code [] as OCTG hydraulic test). PPA, in turn, had commissioned an unaffiliated supplier to make the drawings.

Exhibit D-6 consists of a chart that summarizes all of SeAH's purchases from affiliated parties during the POR at all of its manufacturing facilities and at its headquarters (identified as Seoul on the chart). The information in this chart confirms that affiliated party transactions related to production at the Pohang factory are minimal, accounting for approximately [] % of the total cost of manufacture at the Pohang factory. The couplings purchased by PPA and sent to SeAH are the only inputs that are directly related to production of OCTG. See **Exhibit D-6**.

6. **Identify those inputs, and other items (e.g., fixed assets, services, etc.), that your company receives from affiliated parties. For each item received from an affiliated party, provide the name of the affiliated party and state the nature of the affiliation. Finally, state whether the transfer price of the good or service reflects the market price of the item, in the market under consideration.**

As discussed in the answer to question 5, affiliated suppliers play only a minimal role in the production of the subject merchandise. A list of the affiliated party suppliers is included in **Exhibit D-6**. SeAH's transactions with affiliated parties are on an arms-length basis. For example, the price paid by SeAH to PPA for the couplings that PPA purchases from unaffiliated U.S. suppliers is the sum of the couplings price and a mark-up by PPA for making the purchase. The price paid by SeAH, therefore, reflects the market price of the item or service. The same is true of the drawings purchased from PPA for the OCTG hydraulic test machine.

7. **List the major inputs purchased from affiliated parties that are used to produce the merchandise under consideration during the cost calculation period. A major input is an essential component of the finished merchandise which accounts for a significant percentage of the total cost of manufacturing incurred to produce one unit of the merchandise under consideration. For each major input identified, complete the following chart (i.e., complete a separate chart for each major input):**

Name of Major Input	Total Volume Purchased	Total Value Purchased	Average Price	Affiliated Supplier's COP	% Supplier-Specific Purchases Represent of Total Purchases of that Input (b) Volume (a) Volume	% Input Represents of COM (Consumption Value of Input, Total COM)
Name(s) of Affiliated Supplier(s)	(b)	(b)	(e)	(f)	(g)	
Unaffiliated Supplier(s)	(c)	(c)	(d)			
Total	(a)	(a)				(g)

The letters below are descriptions of the corresponding letters contained in the chart:

- a. **the total volume and value (as recorded under your company's normal accounting system) of the input purchased from all sources by your company during the cost calculation period;**

- b. the total volume and value of the input purchased from each affiliated supplier (list and identify each affiliated supplier separately);**
- c. the aggregate volume and value of the input purchased from unaffiliated parties during the same period;**
- d. the average unit market value per unaffiliated supplier(s) (note, if there are no such purchases but your affiliated supplier sells the identical input to unaffiliated customers in the market under consideration, in a separate schedule provide the average price paid for the input by the unaffiliated purchasers);**
- e. the average unit transfer price for each affiliated supplier;**
- f. if you are responding to this section of the questionnaire in connection with an investigation of sales below cost, or you were unable to obtain a market value for the input, provide the product specific per-unit cost of production incurred by each affiliated supplier producing the major input (list and identify each affiliated supplier separately); and,**
- g. complete the rest of the chart accordingly.**

As discussed in the answers to questions 6 and 7, and as demonstrated in **Exhibit D-6**, there are no major inputs supplied by affiliated suppliers. This question, therefore, does not apply to SeAH in this review.

- 8. Identify and describe all internal tax programs that assess taxes on purchases of inputs used to produce the merchandise under consideration. Identify the tax rate associated with each internal tax. Explain whether the tax is rebated or not collected on exports. If it is collected and not rebated upon export, but it is recovered through some other means, explain how (*e.g.*, through home country sales, export sales, or some other means). If you did not recover such internal taxes paid during the POI through either home market sales, export sales, or some other means, report the net amount incurred for each type of internal tax during the cost calculation period.**

The only internal tax paid by SeAH on the purchases of raw materials is the Korean value-added tax (“VAT”). The VAT is not included in the cost of materials, but is handled in a separate account. SeAH fully recovers all internal taxes.

Import duties paid on the purchases of imported raw materials are included in the reported cost of manufacture.

B. Financial Accounting Systems and Policies

Describe your company's financial accounting practices and the system it uses to accumulate and summarize accounting data for purposes of preparing financial statements. Your description should address each of the items listed below.

- 1. State whether your company's financial accounting practices are in accordance with generally accepted accounting principles ("GAAP") practiced in the country in which the merchandise under consideration is produced. If not, explain all differences.**

SeAH's financial accounting practices are in accordance with generally accepted accounting principles ("GAAP") practiced in the Republic of Korea. Copies of the unconsolidated and consolidated financial statements for fiscal years 2004 and 2005 were submitted in Exhibits A-19 and A-20 to SeAH's December 14, 2006 Section A Response. Lists of SeAH's chart of accounts under the Legacy and SAP systems were provided in Exhibit A-18 of SeAH's December 14, 2006 Section A response.

- 2. Provide a flowchart illustrating your company's financial accounting books and record keeping system. Show in your flowchart all subsidiary ledgers and reports generated by your company's financial accounting system (e.g., subsidiary ledgers maintained for raw materials purchases, inventories, sales, accounts receivable, etc.).**

A flowchart of SeAH's financial accounting system under both the Legacy and SAP system is provided in **Exhibit D-7**. The same exhibit provides a list of the financial books and records, as well as a list of the subsidiary ledgers generated by the company's accounting system.

3. Explain your financial accounting practices with regard to the following:

a. valuation methodologies for raw materials, work-in-process, finished goods inventories, and cost of goods sold;

Raw material, work-in-progress, and finished goods inventories are valued at the lower of cost or net realizable value, cost being determined by the weighted-average method, except for materials-in-transit, for which costs are determined by the specific identification method.

b. fixed asset valuation, revaluation, depreciation, and treatment of idled assets;

Plant, property and equipment are recorded at cost, except for upward revaluations in accordance with the Asset Revaluation Law as of April 1, 2000. In 2000, in accordance with the Asset Revaluation Law, SeAH revalued various plant, property and equipment assets, including some at the Pohang plant.

SeAH values property, plant and equipment at acquisition cost or the appraised value of the asset under the Asset Revaluation Law. SeAH utilizes the declining balance method to depreciate all assets other than buildings and structures, which are depreciated on a straight-line method. Korean GAAP requires that idle assets be depreciated. During the POR, SeAH did not have any idle assets.

c. whether the depreciation methodology or useful lives of any assets have changed within two years of the beginning of the POI (provide a summary table of the useful lives of each class of assets);

The useful lives used by SeAH are as follows:

Buildings.....	20-40 years
Structures.....	10-40 years
Machinery and Equipment.....	8 years
Vehicles.....	4 years
Tools.....	4 years
Furniture and Fixtures.....	4 years
Testing Equipment.....	8 years

There have been no changes in either the depreciation method or in the useful lives of assets within two years of the beginning of the POR. There is no difference between the financial and cost accounting treatment of production assets.

d. inventory write-off and write-down methods for raw materials, work-in-process, and finished goods;

Inventory write-offs of raw material and finished goods will occur if there is a difference between the physical inventory count and the inventory control records. In the rare instance of an inventory write-off, the loss is recorded as a non-operating expense.

Under Korean GAAP, inventory is written down if the market value declines below book value. The write-down, if it occurs, is recorded as a cost of sales.

Under Korean GAAP, if the fair value of inventory is less than its cost, a contra inventory account representing the valuation loss, is presented to reduce the inventory to its net realizable value. This valuation loss is charged to the cost of sales. If the circumstances that caused the valuation loss cease to exist, causing the market value to rise above the carrying amount, the valuation loss is reversed limited to the original carrying amount before valuation. This reversal is a deduction to the cost of sales. During the POR, there was a valuation loss charged to the cost of sales in the end of 2005, but the loss was reversed in the first half of 2006.

e. income and expense accounts requiring year-end and periodic provisions, accruals, and other adjustments;

SeAH records all costs as incurred with a few exceptions as provided for under Korean GAAP. The income and expense items that are accrued and booked on a one-time basis include severance benefits, depreciation, water and heating expenses, insurance, electricity, interest income or expense, and rent income.

f. treatment of exchange gains and losses, on both a consolidated and unconsolidated financial statement basis, resulting from foreign

currency transactions and from translations of year-end asset and liability balances;

Gains and losses may be incurred on foreign currency transactions due to exchange rate fluctuations between the time an expense is incurred and the time of payment. Such gains and losses are separately reported at the date of the balance sheet as “gains/losses on foreign currency transactions.”

Non-monetary assets and liabilities denominated in a foreign currency are translated at the effective exchange rate at the time of acquisition. Monetary assets and liabilities denominated in a foreign currency are translated at the effective exchange rate on the date of the balance sheet. All gains or losses from translation of foreign currency at the balance sheet date are recognized as gains or losses as incurred.

g. capitalization of general and administrative expenses or interest expenses as part of inventory or fixed asset valuation;

Under Korean GAAP, financing charges (such as interest and discount expenses) related to debt used to fund the manufacture, purchase, or construction of tangible fixed assets, and which are incurred prior to completion of the assets, should be capitalized. These capitalized expenses should also be reduced by the interest income earned on the temporary investment of the proceeds of the debt. Direct expenses can be capitalized under Korean GAAP only when the expenditure prolongs the useful life of the asset, or increases the value of the tangible fixed assets. During the cost reporting period, SeAH did not have any capitalized expenses.

h. plant closure, shut-down (including periods for maintenance and retooling), or restructuring costs (state whether you recognized any expenses during the cost calculation period as a result of shut-downs, closures, or restructuring during previous periods);

There were no plant closures or shutdowns during the cost reporting period. The maintenance of production facilities occurs on a staggered basis to avoid shutting down the facility.

- i. changes in accounting methods (e.g., accounting principles or estimates) during the fiscal period(s) that include part of the POI and one preceding fiscal year; and,**

There have been no changes in accounting methods during the fiscal period that includes the POR and the prior preceding fiscal year. The switch to the SAP system in April 2006 had no impact on financial accounting practices. Changes related to the cost accounting system are discussed in point C below.

- j. the effects of inflation on financial statement information.**

There are no effects on inflation on SeAH's financial statement information.

C. Cost Accounting Systems and Policies

1. Describe your company's normal cost accounting system and how it is used to record, classify, aggregate, and allocate the costs incurred to produce the merchandise under consideration in the normal course of business. Your narrative should illustrate how the system records and reports costs for the merchandise throughout the production process and identify the various subsidiary cost ledgers and reports maintained. Begin your narrative by identifying whether your company uses a job order, process, operations, or other type of cost accounting system.

SeAH uses a process cost accounting system. The cost accounting system is an integral part of SeAH's financial accounting system used to prepare the company's audited financial statements. Flowcharts of the cost accounting systems in effect during the POR (*i.e.*, under the Legacy and SAP systems) are provided in **Exhibit D-8**.

SeAH's cost accounting system is structured so that all costs incurred at the manufacturing works level (*i.e.*, Pohang) are recorded as production costs that flow to the cost of sales on the company's financial statements. Costs incurred in the various corporate departments, including the selling departments, corporate administration, business planning, etc., are classified as selling, general and administrative expenses.

The cost accounting system, including the definition of the product, the calculation of inventory value, the cost center numbers, and the structure of the common and indirect cost centers changed with the implementation of the SAP system in April 2006. For ease of reference, SeAH will separately discuss the two systems as needed in responding to this questionnaire.

Legacy System: The Pohang Works manufacture the subject merchandise. As illustrated in the cost center list in **Exhibit D-4**, there are a number of different cost centers, relating to the different stages of production, involved in the production of the subject merchandise. In addition, there are five indirect cost centers at Pohang, where costs common to all direct cost

centers are accumulated. The nature of the expenses incurred and the recording and allocation methodologies are summarized in **Exhibit D-9** (Allocation Basis and Classification).

SAP System: Under the SAP system, the number of cost centers has increased. *See Exhibit D-4*. The cost centers are divided between direct cost centers related directly to the production of the merchandise, a common cost center for each of the 7 manufacturing plants described above under Section A.1, indirect cost centers that relate to the overall administration of the plant, and repair and maintenance cost centers that are associated with specific direct cost centers. **Exhibit D-9** summarizes the basis on which the common and indirect costs are allocated to the direct cost centers.

2. Describe how the company's cost accounting system reconciles to the financial accounting system.

The cost accounting system reconciles directly with the financial accounting system. Costs of manufacture adjusted for beginning and ending inventory represent the cost of sales on the audited financial statements. The cost reconciliation that is being provided in response to Question III.B., below will illustrate the linkage between the financial and cost accounting systems.

3. List and describe all reports generated by your company's cost accounting system. List and describe all reports generated by your company's production control system. List and describe all reports prepared for reporting cost and production information to management.

As explained above, SeAH's financial and cost accounting systems are linked. The same records, therefore, are used in both systems. *See Exhibit D-8* (illustrating the flow of the COM ledger from the cost accounting system to the financial accounting system under both accounting systems).

Briefly, under the Legacy system: (1) the company's cost accounting system generates the accounting ledgers used in the compilation of costs and in the preparation of the cost of manufacture statements, which are produced monthly at the factory level; (2) monthly production reports detail the production quantities by process; and (3) daily production reports show production quantity and productivity data, such as machine times.

Under the SAP system, SeAH does not generate hard copies of any monthly reports as all data are maintained within the system itself. The system can be used however to generate any number of reports that SeAH requires in the normal course of business. For example, there are (1) monthly inventory ledgers for finished goods, semi-finished goods, raw materials, sub-materials and scrap; (2) cost statements by manufacturing division; (3) fabrication cost details by process; and (4) production reports that detail production quantities by process.

4. Describe the level of product specificity over which your company's cost accounting system normally captures production costs. Explain how the product specific costs recorded in your normal accounting system compare to the weighted-average CONNUM specific costs reported for COP and CV.

SeAH's process cost accounting system is structured to identify and associate costs through the packing process to individual products. Under the Legacy system, the product is defined by type (*e.g.*, ERW and SRM), targeted market (export or domestic), specification, outside diameter, wall thickness, surface finish and end finish. *See also*, SeAH's December 14, 2006 Section A Response at Exhibit A-25 (defining SeAH's product code used for cost and sales purposes). Under the SAP system, SeAH calculates the actual cost of manufacture for each "material code" (as described above) on a monthly basis. SeAH's SAP system is structured to the cost through the material ledger to individual products defined by material codes. The material codes are defined by product type, finished production process, specification, surface

finish and end finish, outside diameter, wall thickness, length, packing type, coating type. A simple example makes the point:

Material Code	Description
SP010036	J55TPANS BSC 60.3x4.83tx10.211M A11 121

- (1) S = SRM.
- (2) P = Packing process is finished (finished goods).
- (3) 10036 = Serial number.
- (4) J55TPANS = Specification.
- (5) BSC = Surface finish and end finish (black and both end finish 90° facing).
- (6) 60.3 = Outside diameter.
- (7) 4.84t = Wall thickness (Thickness has two meaning -- theoretical thickness and actual thickness. 4.84t is the theoretical thickness that is referred to in SeAH’s system as “spec. thickness”).
- (8) 10.211M = Length.
- (9) A11 = Packing type (A11 = Steel band).
- (10) 121 = Coating type (121 = Varnish coating).

The inventory value of each product is recorded on the same basis. Because SeAH’s product definition for inventory purposes under both the Legacy and SAP is virtually identical to the Department’s product definition set forth in Appendix V of the questionnaire, the inventory values (adjusted as described below) provide the basis for the submitted costs. There are four differences in the calculation methodology between the cost accounting system and that used for response purposes. First, under the Legacy system, SeAH’s normal cost accounting methodology calculates a weighted-average cost of hot-rolled coil for the pipe produced in the welding process. For response purposes, SeAH has adjusted the cost to account for the fact that the hot-rolled coils used in the production of OCTG that are processed through the SRM process generally have a [] cost than the coils used to produce other pipe products. Second, for response purposes, SeAH calculates a single-weighted average cost for a given CONNUM, while the normal accounting system also takes into account the factors described in point II. A. 4.

under the Legacy and SAP systems. Therefore, in most cases, more than one product as defined by SeAH is included in the reported CONNUM cost. Third, in accordance with the Department's long-standing practice, packing costs have been subtracted from the total cost of manufacture and reported separately as a sales adjustment. Finally, under the SAP system, it is necessary to capture variances that are not included in the cost of manufacture but are charged directly to the cost of sales.

5. **List the direct cost centers included as part of your company's cost accounting system. Identify those cost centers through which the merchandise under consideration passes during production and describe the operations that take place at each of the direct cost centers. Explain how materials, labor, and other direct costs incurred at each cost center are recorded and charged to the merchandise produced. If direct costs are allocated to individual units of the merchandise at these cost centers, then state the basis for the allocation.**

As described in Question II.A.2 above, SeAH's Pohang Works consist of a number of plants. Within each plant are direct and indirect cost centers that correspond to production lines. A listing of the direct and indirect cost centers at the Pohang Works under the Legacy and SAP systems is provided in **Exhibit D-4**. The costs centers through which the subject OCTG pipe is processed are described in the annotated production flowcharts in **Exhibit D-3**.

Legacy System: Materials, labor and other fabrication costs incurred at each direct cost center are recorded and charged to individual products as product is defined for inventory purposes. Material costs are charged to individual products based on actual input experience. The allocation of fabrication costs is based on actual tonnage, labor hours, or machine time depending on the production process. A list of the fabrication expenses charged to each section, the classification in the normal cost accounting system, and the classification for response purposes is included in **Exhibit D-9**.

SAP System: The SAP system implemented by SeAH in April 2006 is a standard cost accounting system with variances tracked and charged to each product through production to arrive at a monthly actual cost for each product (as defined by the inventory code in **Exhibit D-4**). Briefly, an inventory value is assigned at the semi-finished product stage (*i.e.*, skelp for OCTG) and the specific production route (as a given product can be produced in different cost centers as there a number of different lines performing the same process) is taken into account. Each inventory code has a standard cost and the variances (purchase price and cost variances) are calculated by production order (*i.e.*, coil)(referred to as “single-level settlement”) accumulated and traced through the production process by material code (*i.e.*, the semi-finished production and finished production)(referred to as “the multi-settlement”). *See* Question 8a below for a discussion of the calculation of variances. *See also*, **Exhibit D-12** (providing a sample calculation of the cost under the SAP system).

The actual cost of raw material (*i.e.*, hot-rolled coil) is the actual input quantity times the actual contract price during the month, adjusted for the purchase price variance (usually cost variance owing to fluctuation of exchange rate) at the receipt of invoice.

Under SeAH’s SAP system, the pipe products have two levels (semi-finished goods and finished goods). The skelp passed through the slitting process is defined as semi-finished goods, and the level of finished goods is from the welding to packing process. Accordingly, most of fabrication costs are summarized at the finished goods level.

The actual fabrication costs, and the basis for the variance assigned to each production order, are calculated for each cost center and each product by (a) allocating the repairs maintenance, indirect, and plant common costs to the direct cost centers; (b) summing the costs charged directly to the cost centers and those allocated (from point a) and splitting them into 6

activity categories – Labor cost (L100); Power (E100); Supplies and Repairs (M100); Sub-contractor Fee (S100); Depreciation (D100), and Set-up (P100 – cost due to roll change); (c) calculating the unit activity cost by dividing the total actual fabrication costs for each activity by the actual processing time for each process; and, (d) allocating the actual fabrication costs to individual production orders by multiplying the actual processing time for the production order by the unit activity code (determined at point c). The difference between the standard and actual cost by production order are summed, allocated to the material codes. *See Exhibit D-12* (providing a sample calculation).

- 6. List the indirect or other common cost centers included as part of your company's cost accounting system. If not already included as part of your narrative, describe the operations that take place in each of those cost centers and how the costs of those operations are accumulated and recorded. Explain how the costs accumulated by each indirect or common cost center are allocated to the direct cost centers listed pursuant to item 5 above and state the basis for the allocation.**

Legacy System: There are five indirect cost centers at the Pohang facility: (1) Machinery Maintenance; (2) Electricity Maintenance; (3) Quality Control; (4) Wastewater Boiler; and (5) Factory Administration. These centers were established to provide supporting operations (indicated by the name of the cost center) that benefit the entire manufacturing facility. **Exhibit D-4** contains a list of the allocation methodologies used to split the costs of these indirect/common cost centers to the various direct cost centers in the normal course of business and for purposes of this response.

SAP System: Under the SAP system, there are 3 categories of indirect or common cost centers: (1) maintenance, (2) indirect, and (3) plant (*i.e.*, the 7 plants described above in Section A.1.) common cost centers. First, Pohang works has a supporting division that handles maintenance (*i.e.*, machinery maintenance and electricity maintenance). These costs are

allocated to the plant common and direct cost centers on an actual basis depending on the repair hours. *See Exhibit D-9.*

Second, Pohang works has an administration department, which is comprised of a number of cost centers where the material, labor, and overhead related to activities such as production management, quality assurance, etc. are recorded. These indirect cost centers are categorized into 2 different categories depending on the allocation basis – number of employees and fabrication costs. *See Exhibit D-9.*

Third, each plant has a common cost center. Costs that are common to the plant but not to an individual production line (direct cost center) within the division are accumulated at the common cost center level and then charged on a monthly basis to the direct cost centers. These common costs, which include salaries for plant workers, depreciation for buildings, and other common expenses, are allocated to each direct cost center within the division using the allocation bases set forth in **Exhibit D-9**.

- 7. Explain how your company's cost accounting system accounts for unfinished units (*i.e.*, work-in-process) within each cost center at the end of an accounting period. If it involves special calculations (*e.g.*, calculation of equivalent units of production), explain the calculation methodology.**

Legacy System: The number of unfinished units is physically counted. SeAH values work-in-process (WIP) by accumulating the raw material and conversion costs for each product.

SAP System: Under the SAP system, if a particular production order (*i.e.*, a target order) does not settle until the end of month, the cost of material code is recorded as the standard cost to the material ledger, and the cost variance of the material code is assigned to WIP.

8. If your company's cost accounting system is based on standard or budgeted costs, then provide the following information:

The accounting system in place through March 31, 2006 did not include a standard cost system. In the SAP system that commenced on April 1, 2006, standard cost is used during a month, prior to the monthly closing, to provide users with real time cost information. At the end of each month SeAH calculates actual costs for each product, and adjusts the standard cost for the difference between the standard and actual cost. Accordingly, the inventory value for each product represents the actual cost of the product. **Exhibit D-11** provides a flow chart that illustrates the calculation of cost under the standard cost system.

- a. list each variance recorded under your company's cost accounting system and how they are used by management in the normal course of business; for each variance, identify the level of product specificity for which the variance is measured and the types of costs included in the variance;**

The variances fall into two categories, material cost variance calculated when the invoice is received and the cost variance for the semi-finished product cost variance. In the normal course of business, SeAH distinguishes between "single-level settlement" variances and "multi-level settlement" variances. The single-level settlement variances are determined on a production order (*i.e.*, skelp specific). The material cost variance (calculated by multiplying the actual quantity by the difference between the actual price and the contract price) is determined at the time of invoice receipt and if the ending inventory exist at the time of invoice receipt, the material cost variance is reflected the material ending inventory, otherwise, it is recoded as cost of sales.

- b. the period for which your company computes and records each type of variance;**

SeAH determines the actual cost of each product monthly.

c. the methods used to develop each variance used in your company's cost accounting system;

As described above, the "variance" in SeAH's SAP cost accounting system is the difference between the standard cost of the product and the actual cost of the product. The variance is developed by determining the difference between the standard price and the actual price.

d. a description of how the standard or budgeted costs (e.g., input prices, usage, etc.) were calculated and the frequency with which your company revises its cost accounting standards or budgeted costs, including the dates on which the latest revisions were made for input price and usage for merchandise under consideration and merchandise not under consideration; and,

SeAH just started the new system in April, 2006. SeAH intends to review the standard cost every six months and revise accordingly. The SAP system calculates the standard cost for each material using the bill of materials, (BOM), the production routing, the planned production quantity, the planned six activity times (as discussed above in Section II.C.5), the planned raw material price, and the budget for fixed fabrication costs, etc.

Basically, the standard costs for each material are calculated by multiplying the standard price by standard quantity. The standard quantity is determined based on the BOM and the production routing. SeAH does not revise BOM unless the cost variance for a certain material is significant. The raw material for a finished product is a semi-finished material in the BOM, because SeAH employs a process cost accounting system. The standard price for scrap revenue is determined using the average sales price of scrap during the past one year.

The standard price for each activity, *i.e.*, the unit fabrication cost for each manufacturing process, is determined based on the monthly budget for fixed fabrication costs and the standard unit usage for variable fabrication cost, and (a) by allocating the maintenance repairs, plant

common and indirect costs to the direct cost centers; (b) summing the costs charged directly to the cost centers and those allocated (from point a) and splitting them into six activity categories; and (c) calculating the unit activity cost by dividing the total calculated fabrication costs for each activity by the planned processing time for each process.

- e. the disposition of favorable or unfavorable variances (including under- or over-applied overhead) resulting from production operations during each accounting period (e.g., charge to cost of sales, prorate between cost of sales and inventory balances).**

Price and cost variances are charged to each product. *See* Point a. above for a description of the calculation methodology, and the methods used to track the variances through the production process. There are certain variances that are not distributed in production and/or not allocated in consumption that are charged directly to cost of sales. For example, differences in the contract price for raw materials and the actual price paid (e.g., net of a discount) if the raw material inventories are zero, are charged to cost of sales. Likewise, variances incurred in a given month that are not related to finished goods are directly charged to cost of sales. As discussed above, for reporting purposes, all variances have been captured.

- 9. Describe the method used under your company's cost accounting system to account for scrap generated at each stage of the production process. State whether the scrap material generated is reintroduced into the production cycle as raw materials, sold, or otherwise disposed of in the normal course of business.**

Steel scrap, including defective and off-grade pipe, is collected at the slitting and tubing stages of production. None of the scrap is reintroduced in the production process, but is sold to unaffiliated purchasers. The revenue received from the sale of all types of scrap is netted against the cost of manufacturing on the basis of net realizable value.

- 10. Describe the method used under your company's cost accounting system to account for coproducts and byproducts that may result from producing the merchandise under consideration. Identify the point in the production process where coproducts or byproducts become individually identifiable.**

There are no co-products involved in the production of OCTG pipe. Off-grade pipe, defective pipe and scrap are the only by-products of the production process. Scrap is generated at each production process. Off-grade and defective pipe are generally identified in the last stage of production. The revenue earned on the sale of by-products is deducted from the cost of manufacture on the basis of net realizable value.

- 11. Describe how your company accounts for processing yields or losses throughout the production cycle. Indicate each stage in the production cycle where processing yields are measured. Provide a schedule showing the average actual yield experience during the cost calculation period.**

Production yields are measured as the difference between input and output at each stage of production. See **Exhibit D-10** for a schedule listing the average yield rates during the POR. As SeAH purchases hot-rolled coil, the stages relating to steel production are not included on the chart. It is the same in the SAP system.

- 12. List and describe all production costs incurred by your company which are valued differently for cost accounting purposes than for financial accounting purposes.**

There are no costs incurred by SeAH that are valued differently for financial and cost accounting purposes.

D. Startup Costs

If a startup operation has taken place at your company during the POI and you are claiming a startup adjustment for a new product or a new production facility, address each of the following:

- 1. describe the new product or production facility and provide the total costs attributable to the new product or production facility (*i.e.*, the total construction or development costs prior to the startup phase of production; also, describe how those costs were treated in your company's normal accounting records);**
- 2. state the total costs associated with the startup phase of production and describe how those costs were treated in your company's normal accounting records;**
- 3. for a new facility, identify the date on which the new facility was completed;**
- 4. if the claimed startup adjustment is for an expansion of capacity to an existing facility, demonstrate that the expansion constituted such a major undertaking that it required the construction of a new facility and resulted in the depression of production levels due to technical factors associated with the new facility's initial production phase (as part of your analysis, provide the amount spent in expanding the facility compared to the historical cost of the existing facility);**
- 5. if the claimed startup adjustment is for retooling of an existing facility, demonstrate that the retooling involved the replacement of nearly all production machinery or the equivalent rebuilding of existing machinery (as part of your analysis, provide the amount spent in refurbishing or retooling the facility compared to the historical cost of the machinery and equipment used previously in the facility);**
- 6. if the claimed startup adjustment is for a new product, demonstrate that the new product required substantial additional investment or, in the case of an existing product, involved the complete revamping or redesign of the product (as part of your analysis, demonstrate that the "new" product is technically distinct from those already manufactured by the company and provide the amount spent to develop the product);**
- 7. provide all dates relevant to the startup period, including: the beginning and ending dates of any test manufacturing prior to the startup phase of production, the start date of the initial start-up period, and the date when commercial production levels were reached or the projected date for reaching commercial production levels;**

8. explain how the production levels were limited by technical factors associated with the initial phase of commercial production (as part of your analysis, describe the technical factors which limited production, demonstrate how these technical factors restricted the number of units processed by the company, and demonstrate how these technical factors are unique to the startup phase, not a result of chronic or normal production problems);
9. explain how commercial production levels were determined; as part of your analysis, provide: 1) the monthly production volumes and the number of units started into production each month during both the startup period and the cost calculation period (*i.e.*, the post startup period); 2) the production capacity of the old and new facility; 3) the planned production quantity for the new product; 4) quantitative historical data reflecting experiences in producing the same or similar products; and 5) an analysis showing that low production levels were not caused by factors unrelated to startup operations;
10. include the claimed startup adjustment in a computer data field entitled **STARTUP**, which represents the difference between the normalized cost and the actual cost, on a CONNUM specific per-unit basis; and,
11. provide worksheets documenting the calculation of your claimed startup adjustment (the calculations must demonstrate not only the claimed startup adjustment, but also how the unit production costs incurred during the startup period were substituted with the unit production costs incurred after the startup period).

SeAH has not had any start-up operations during the POR. This question therefore does not apply to this review.

III. Response Methodology

The CONNUM specific per-unit COP and CV figures that you provide in response to this section of the questionnaire must reconcile to the actual costs reported in your company's normal cost accounting system and to the accounting records used by your company to prepare its financial statements. Therefore, be advised that you will be required to reconcile the summation of the per-unit COP and CV figures to the amounts recorded in your cost accounting system and to the cost of manufacturing recorded in your financial accounting system.

If your company normally uses a cost accounting system based on actual costs, use that system for purposes of computing your submitted COP and CV amounts. Similarly, if your company normally uses a standard cost accounting system, use that system for purposes of computing COP and CV; in such case, however, ensure that you have allocated to the merchandise under consideration all variances resulting from differences between standard and actual production costs.

You should compute COP and CV based on your company's normal accounting records. If in preparing the COP and CV calculations you intend to depart from your company's normal accounting system and normal cost allocation methods, you must notify the Department in writing before you respond to this section of the questionnaire.

A. Description of Response Methodology

Describe the method you used to compute your company's submitted COP and CV figures.

1. Describe how you developed the reported CONNUM specific per-unit costs from your normal cost accounting system.

The CONNUM-specific actual cost data in the COP files reflect fully the actual costs accumulated in SeAH's cost accounting system for finished goods inventory valuation, which, in turn, is used in preparing SeAH's audited financial statements. The cost of manufacture (COM) for each product has been drawn directly from the cost accounting system, with the only adjustments made to conform to the Department's reporting requirements. SeAH utilized the cost accounting systems in effect through March 31, 2006 and the one in effect from April 1, 2006 through July 31, 2006, and calculated the reported weighted-average cost of manufacture for each CONNUM based on the information maintained in these systems as described below.

2. Describe how you used your normal cost and financial accounting records to compute each of the following cost elements:

a. direct materials;

During the POR, SeAH produced subject OCTG pipe that varied by specification, size, and end finish. Direct materials for these products include: (1) hot-rolled coils for all products, and (2) couplings for the threaded and coupled pipes. The reported cost of direct materials includes the full purchase price, associated transportation charges, import duties, and other expenses (*e.g.*, insurance, wharfage, and handling) associated with obtaining raw materials. The only internal taxes associated with raw material purchases are value-added taxes, which are not

included in the raw material cost. The reported raw material cost includes the yield loss associated with production and is net of the scrap revenue earned. Each step in the material cost calculation is illustrated in the sample calculations being submitted in **Exhibits D-12** and **D-13**, for the third-country market and U.S. market, respectively.

The calculation methodology for each primary material is described in greater detail below, distinguishing between the Legacy system and the SAP system:

Hot-Rolled Coil:

Legacy System: The primary raw material used in the manufacture of the subject OCTG pipe is hot-rolled carbon steel coil. SeAH purchases the hot-rolled coil from unaffiliated domestic and foreign suppliers. A number of grades and wall thicknesses of hot-rolled coil can be used to produce pipe with a given industry specification. The reported cost of the hot-rolled coil represents the weighted-average requisition cost of the different grades of hot-rolled coil used in the manufacture of a given product. For OCTG pipes that are processed through the SRM process, SeAH has made an adjustment to convert the weighted-average hot-rolled coil cost recorded in the normal system to the weighted-average cost for the specific coils used to produce SRM products.

The weighted-average cost of coil takes into account the quantity produced, the average requisition cost of the material, yield loss, and scrap recovery. The average requisition cost represents the weighted-average moving cost, taking into account beginning and ending inventory. Under SeAH's cost accounting system, the yielded material cost net of scrap revenue earned on recovered material is computed on the basis of the input and the output for the individual product from the time it is input into the slitting process through the completion of production at the packing process.

SAP System: The raw material cost reported under the SAP system is the actual cost of the material, inclusive of freight, insurance and other charges related to the purchase. As the sample calculation in **Exhibit D-12** illustrates, the raw material cost is assigned to a specific production order and is tracked through production (semi-finished and finished stages) to arrive at the actual cost of materials. The variances associated with differences in contract price, exchange rate, etc. are not charged to the product, but are in the category of variances that are charged directly to cost of sales. For purposes of the response, SeAH has calculated an average ratio of these raw material variances and applied that ratio to the cost of raw materials. *See Exhibit D-12* providing a sample calculation.

Couplings:

For the OCTG pipe products with threaded and coupled end finish, the cost of manufacture includes the cost of couplings. The couplings were purchased by PPA in the U.S. from unaffiliated suppliers and were shipped directly by the supplier to Korea. PPA sells to SeAH on a CIF basis.

Legacy System: The reported cost of the coupling represents the weighted-average requisition cost of the specific couplings used in the production of the merchandise. In each case, SeAH uses the average cost as recorded in its accounting records.

SAP System: Couplings are classified as sub-materials in the finishing process. The standard is adjusted through the single-level variance in that process as illustrated in the sample calculation in **Exhibit D-12**. *See also, Exhibit D-11* (providing a summary of the standard cost system).

- b. internal taxes (including value added taxes (“VAT”)) and import duties on materials purchases. State whether you were exempted from paying or were rebated these taxes and duties on imported raw materials used to produce the merchandise under consideration;**

Other than value-added taxes, no internal taxes are imposed on purchases of raw materials. Value-added taxes are not part of the purchase price of the materials. The weighted-average actual material cost includes all charges and expenses incurred in obtaining the materials. Raw material costs, therefore, are inclusive of import duties paid on the imported raw material.

- c. direct labor;**

Under SeAH’s cost accounting system, labor costs are recorded as variable or fixed overhead costs. For response purposes, SeAH isolated the labor related expenses, whether categorized as fixed or variable, and reported the total allocated to each product in field DIRLAB. *See Exhibit D-9* (listing all fabrication costs by account and indicating the classification in the normal accounting system, and the classification for response purposes). The reported cost includes the cost incurred for all production workers, inspection/testing workers and other workers directly involved in the production of the subject merchandise. The reported amounts include the base pay, overtime pay, bonuses and retirement allowance.

All fabrication costs (*i.e.*, labor, variable overhead and fixed overhead) are charged to individual products through SeAH’s process cost accounting system. Under the Legacy system, the fabrication costs charged or allocated to the individual cost centers are assigned to the products depending on the processes through which the individual product passes. Under the SAP system, SeAH calculates a standard labor cost for each product, which is adjusted through single-level and multi-level variances, to account for differences between the standard and actual cost. **Exhibit D-11** includes a diagram that illustrates the methodology used to build-up the cost

of manufacture for inventory purposes under both the Legacy and SAP systems, including the allocation basis for the different processes and cost elements, and, in the case of the SAP system, the basis on which variances are determined. The sample calculations in **Exhibits D-12** and **D-13** further illustrate the calculation methodology.

d. variable production overhead (provide a list of the cost categories that comprise your submitted variable overhead cost figures);

Variable factory overhead costs include utilities, transportation, repairs, etc. A complete list of fabrication costs is provided in **Exhibit D-9**. This list designates the classification of each expense in the normal cost accounting system and for response purposes. These expenses are charged directly to the cost centers. Under the Legacy system, variable overhead costs were directly allocated to each product processed through each of the direct cost centers on the basis of machine hours and metric tons, as illustrated in the flowchart in **Exhibit D-11** and in the sample calculation in **Exhibit D-13**. Under the SAP system, each product is assigned standard overhead costs, which are adjusted for actual costs in the six SAP activities as summarized in **Exhibit D-11** and illustrated in the sample calculation in **Exhibit D-12**.⁴

e. fixed production overhead (provide a list of the cost categories that comprise your submitted fixed overhead cost figures);

Fixed overhead costs include depreciation, taxes and the costs charged to the indirect cost centers. *See* **Exhibit D-9** for a list of the expenses. Under the Legacy system, variable overhead costs were directly allocated to each product processed through each of the direct cost centers on the basis of machine hours and metric tons, as illustrated in the flowchart in **Exhibit D-11** and in the sample calculation in **Exhibit D-13**. Under the SAP system, each product is assigned

⁴ In the SAP system, virtually all overhead costs are classified as fixed costs. For response purposes, SeAH has classified utilities, supplies and repairs, subcontractor fees and set up as variable costs.

standard overhead costs, which are adjusted for actual costs in the six activities as summarized in **Exhibit D-11** and illustrated in the sample calculation in **Exhibit D-12**.

f. research and development costs;

All research and development expense are accumulated at the corporate level and are general rather than product-specific. Such amounts are included in the reported COP file.

g. general and administrative (“G&A”) expenses (provide a list of the cost categories that comprise your submitted G&A costs); and,

SeAH has reported the general and administrative expenses, including non-operating items related to production, for fiscal year 2005, the most recently completed fiscal year for which audited statements are available.

To calculate the general expense factor, which is applied to the cost of manufacture, SeAH began with the amount recorded on the unconsolidated income statement. From this total, SeAH subtracted the transportation expenses, direct selling, and indirect selling expenses that are related to sales. SeAH has also adjusted the general expense total amount to account for the non-operating income and expense items that relate to production. The general expense factor was calculated by dividing the total general expenses by the cost of goods sold.

Calculation of the general expense factor is provided in **Exhibit D-14**. The general expense factor was then applied to the total cost of manufacture for each CONNUM to arrive at the per metric ton amount reported in field GNA.

h. net interest expense (include a list of all interest income and expense items and other financing amounts used to compute net interest expense).

Short-term and long-term interest expenses, net of short-term interest income and inclusive of total exchange gains and losses relating to financing, that were incurred by SeAH on

a combined group basis in fiscal year 2005, provide the basis for the reported interest expense factor.

Derivation of the interest rate factor and reconciliation of the expenses to the group's combined financial statements is attached as **Exhibit D-15**. The interest expense factor, applied to the total cost of manufacture of each product (field TOTCOM), yields the reported per metric ton interest expense reported on the COP listing.

(i) conversion factor

SeAH's cost accounting system records production costs for all products on an actual weight basis. To conform the cost data to the same weight basis as the sales data – *i.e.*, a theoretical weight basis – SeAH has converted all of the variables on the cost file to a theoretical weight basis. No additional conversions are required. The conversion factor used in the calculation of the reported theoretical weight-based costs is reported on the cost file for reference purposes. Consistent with the verified approach in prior investigations and reviews of other products in which SeAH has participated, SeAH calculated a conversion factor for each CONNUM based on the difference between the weighted-average theoretical weight and the weighted-average actual weight of each CONNUM. A worksheet with the calculation of the conversion factor is included in the sample calculations in **Exhibits D-12** and **D-13**.

- 3. If a physical characteristic identified by the Department is not tracked by the company's normal cost accounting system, calculate the appropriate cost differences for that physical characteristic, using a reasonable method based on available company records (*e.g.*, production records, engineering statistics). The starting point for any such calculation must be the product specific costs as recorded in your normal cost accounting system. If there is a physical characteristic not tracked by the company for which the company believes that there is an insignificant cost difference between products, identify the particular physical characteristic, quantify, and explain your reasons for not reporting a cost difference.**

SeAH's product definition encompasses the physical characteristics in the Department's product definition. Accordingly, there are no physical characteristics that are not accounted for in the reported cost of manufacture.

4. List and describe all differences between costs computed under your company's normal cost and financial accounting systems and the costs submitted in response to this section of the questionnaire. Include in your description the reasons why it was necessary for you to depart from your company's normal accounting practices in order to compute the submitted COP and CV figures.

All costs incurred in manufacturing the subject merchandise and recorded in the normal course of business have either been directly charged or fully allocated to the reported COP figures in the manner described above, relying on the process cost accounting methodologies that are used in SeAH's normal cost accounting system. Therefore, all reported costs also trace directly to SeAH's normal cost accounting records.

As explained above, SeAH's calculation of inventory values for financial reporting purposes is virtually identical to the Department's definition of product. Both definitions take into account size, wall thickness, surface finish and end finish of each pipe. The main differences between the inventory value and the reported cost of manufacture are the adjustment to account for the [] cost of coils for SRM products, the inclusion of specification in SeAH's definition (but not in the Department's), which requires the weight-averaging of products of different specifications that fit the CONNUM definition, the reclassification of packing costs as a sales adjustment (from cost of manufacture in the normal course of business), and in the case of the SAP system, the inclusion of variances that are normally charged directly to cost of sales.

B. Reconciliations

Provide the following worksheets that illustrate how the costs reported on the financial statements reconcile to the general ledger or trial balance and to the cost accounting system (*i.e.*, the source used to derive the reported costs). On the worksheets, identify the source documents for all major items shown and cross-reference the worksheets where appropriate (*i.e.*, link between worksheets). If your company does not have a cost accounting system, reconcile the general ledger or trial balance to the books and records normally kept by the company which were used to derive the reported per-unit costs.

- 1. Provide a worksheet reconciling the fiscal year cost of goods sold (or equivalent) on the audited financial statements to the financial accounting system (*i.e.*, general ledger or trial balance). Describe and quantify each reconciling item.**
- 2. Provide a worksheet reconciling the total fiscal year costs from the financial accounting system (*i.e.*, general ledger or trial balance) to the total costs from the cost accounting system (*i.e.*, the source used to derive the reported costs). Describe and quantify each reconciling item.**
- 3. Provide worksheets reconciling the total fiscal year cost of manufacturing from the cost accounting system to the total of the per-unit manufacturing costs submitted to the Department (*i.e.*, multiply the COM of all merchandise under consideration for the POI by their respective production quantities, then sum the totals). Identify and quantify the following reconciling items:**
 - a. differences between the reporting methodology and the normal record keeping;**
 - b. cost of merchandise not under consideration;**
 - c. cost of merchandise under consideration not sold in the United States or comparison market (*i.e.*, multiply the COM of all merchandise under consideration not sold in either the U.S. or the comparison market for the POI by their respective production quantities, then sum the totals); and,**
 - d. all other reconciling items.**

The requested cost reconciliation is provided at **Exhibit D-16**. The reconciliation is divided into 10 steps: (1) the reconciliation of the cost of manufacture to the cost of sales for the period in which the Legacy system was in place (*i.e.*, fiscal year 2005, the first half of 2005, July 2005, and the first quarter of 2006); (2) the split of the cost of manufacture for the same periods

among the four manufacturing plants (Pohang, Changwon, Kunsan, and Ansan) and, Seoul headquarters, where certain sub-contracting costs for galvanizing and coating non-subject merchandise are booked; (3) a breakdown of the cost of manufacture of the Pohang factory (the only facility that produces the subject merchandise) for the same periods; (4) the split of the finished goods cost of manufacture between ERW products (which includes OCTG and SRM products) and others (*e.g.*, spiral pipe and large diameter pipe) for the same periods (5) the split of ERW cost of manufacture between subject and non-subject merchandise for the five periods; ; (6) the split of the cost of manufacture between subject and non-subject merchandise for the four months in which the SAP system was in place; (7) a reconciliation of the costs as recorded in the normal SAP system and for the response for April through July 2006; (8) a breakdown of the OCTG cost of manufacture for the entire POR (distinguishing between merchandise sold to the U.S. and Canada and to other markets; (9) a breakdown of the costs for OCTG by CONNUM in the normal course of business and reconciliation to the response⁵; and, (10) a breakdown of the costs for OCTG by CONNUM for reporting purposes.

⁵ Under the Legacy system, the costs are recalculated on an annual basis. To calculate the cost for the months in the POR, SeAH subtracts the six-month cost from the annual cost. During this period, there was one product produced only in the first six months of 2005 but whose costs were adjusted on an annual basis. When the costs for the first six months of the year were deducted, the production quantity was zero (because all production occurred in the first six months), but the adjustment made in the second six months remained. This adjusted amount is not reported (because there was no production in the POR) but it is in the books. Hence the reconciling item shown at Step 9.

C. CONNUM Specific Worksheets

For two CONNUMs -- 1) the CONNUM with the highest sales volume in the market used for comparison purposes, and 2) the CONNUM with the highest U.S. market sales volume -- provide the following worksheets that illustrate how your company calculated the CONNUM specific per-unit COP and CV figures submitted in response to this section of the questionnaire.

- 1. If you produced the merchandise under consideration at more than one domestic facility during the POI, provide a worksheet that demonstrates the method you used to weight-average the production costs of each facility in order to compute the single weighted-average COM (and the individual fields included therein) for the CONNUMs.**

The CONNUMs with the highest sales value in Canada and in the United States are CONNUMs [] (in **Exhibit D-12**) and [] (in **Exhibit D-13**), respectively. The sample calculations in **Exhibits D-12** and **D-13** explain the methodology used under the SAP and Legacy systems, respectively. The calculations are based on the costs as they are recorded in the normal course of business and, therefore, provide the requested movement of the product cost through each of the different stages of production as normally recorded. The calculation then shows the adjustments needed to arrive at the cost of manufacture on an actual weight basis and the factor used to convert the cost to a theoretical-weight basis for analysis purposes.

- 2. For the facility with the highest production quantity for each of these two CONNUMs, if that facility's CONNUM specific cost is itself a weighted-average cost of several unique products, provide worksheets showing the calculation of that facility's weighted-average figures for the CONNUM. Show on the worksheet all products produced at the facility that were weight-averaged together to obtain that facility's cost for the specified CONNUMs. For each unique product shown on the worksheet, show the product's internal product code, production quantity, and corresponding value for each computer field.**

All production of subject merchandise occurred at SeAH's Pohang manufacturing facility. Production can occur on different lines at the facility. The reported weighted-average

CONNUM cost represents the cost of the different lines that produce the merchandise. In both of the sample calculations, the selected products were produced on different welding lines. The sample calculation illustrates how costs from the two lines are weight-averaged for both the calculation of the inventory value in the normal course of business and for response purposes.

See Exhibits D-12, D-13.

- 3. For the unique product with the highest production volume per each set of worksheets reported for question C.2, provide worksheets that demonstrate how each data field within TOTCOM was determined. If there is only one product included in the selected CONNUMs, provide these worksheets for that product. Also, from your normal cost accounting system, provide copies of the product costing documents for the unique product.**

In addition, if your company relies on a standard cost accounting system, show how you allocated cost variances to derive actual production costs.

In those cases in which there is more than one specification, SeAH has calculated the weighted-average cost of the specifications that meet the same CONNUM definition.

SeAH implemented a standard cost system in April 2006 as described above. The sample calculation in **Exhibit D-12** illustrates the methodology used in the normal cost accounting system and for reporting purposes.

D. Worksheets for General Expenses

- 1. Provide a worksheet that demonstrates how you computed your company's G&A expense ratio. Include in your reported G&A expenses an amount for administrative services performed on your company's behalf by its parent company or other affiliated party. Compute G&A expenses on an annual basis as a ratio of total company-wide G&A expenses divided by cost of goods sold ("COGS"). In calculating your company's G&A ratio, use the full-year G&A expense and COGS reported in your company's audited fiscal year financial statements for the fiscal year that most closely corresponds to the POI. Demonstrate how the G&A expenses and the COGS used in the ratio reconcile to your company's audited fiscal year financial statements. To compute the per-unit amount of G&A expense, multiply the G&A expense ratio by the per-unit TOTCOM for each of the CONNUMs.**

The reported general expenses are based on the expenses incurred by SeAH in fiscal year 2005. The general expenses recorded on the financial statements have been adjusted to account for expenses reported elsewhere in the submission (most notably, movement expenses) or expenses that are not related to production. A list of the expenses and calculation of the general expense factor are included in **Exhibit D-14**. The general expense factor was applied to the TOTCOM for each product, with the resultant Korean won amount on a theoretical-weight basis reported in field GNA.

- 2. Provide a worksheet that demonstrates how you computed your company's net interest expense ratio. If your company is a member of a consolidated group of companies, calculate your financial expense based on the consolidated audited fiscal year financial statements of the highest consolidation level available. In calculating your company's net interest ratio, use the full-year net interest expense and COGS reported in the consolidated audited fiscal year financial statements for the period that most closely corresponds to the POI.**

In calculating net interest expense for COP and CV, include interest expense relating to both long- and short-term borrowings made by your company. Reduce the amount of interest expense incurred by any interest income earned by your company on short-term investments of its working capital. Demonstrate how the interest income, interest expense, and COGS used in the ratio reconcile to your company's audited fiscal year financial statements. To compute the per-unit amount of net interest expense, multiply the net interest expense ratio by the per-unit TOTCOM for each of the CONNUMs.

SeAH has reported interest expenses based on the interest expenses incurred in fiscal year 2005 on the SeAH Group basis. Included in the financing expense factor are total interest expenses, exchange gains and losses, and short-term interest income. A worksheet detailing the calculation of the factor is included in **Exhibit D-15**.

IV. Instructions for Submitting COP and CV Data File

In accordance with the instructions provided below, provide one computer data file reporting the costs incurred for the merchandise under consideration. The file should contain per-unit cost information for the products sold in the U.S. market or the comparison market.

Instructions regarding the specific information required to complete each data field for the cost file are provided below. “FIELD NUMBER” includes the number and descriptive name of the field in the computer data file. “FIELD NAME” includes the “short” or variable name for the submitted hard copy printouts of the data file. “DESCRIPTION” defines the data that you must report in the field of the computer data file. For each of the computer fields, state the unit of currency and the unit of measure.

As instructed, SeAH has provided a computer listing of the COP data for each model of the subject merchandise sold in Canada and to the United States during the period of review.

With the exception of production quantity, which is reported in metric tons, all figures are in Korean won. All actual-weight-based costs have been converted to a theoretical-weight basis to correspond to the basis on which sales have been made in the United States. As SeAH is not an integrated manufacturer, the fields related to the production of hot-rolled coil have been eliminated. The fields correspond to the way the costs are recorded in the normal course of business. The COP listing, including the file format, is provided in **Exhibit D-1**.

FIELD NUMBER 0.0: Observation Number

FIELD NAME: OBSNO

For reference purposes, SeAH has added this field to identify each line on the database.

FIELD NUMBER 1.0: Matching Control Number

FIELD NAME: CONNUM

DESCRIPTION: Report the unique CONNUM assigned to the products on the comparison market sales file from section B of this questionnaire and the U.S. market sales file from section C of this questionnaire. Unless otherwise instructed by the Department, ensure that your cost computer file contains a

separate record for each unique product CONNUM contained in your comparison market and U.S. market sales files.

As requested, SeAH has reported the control number for each product. A list of control numbers, and the corresponding physical characteristics, is included in Exhibit B-2. A single weighted-average cost is submitted for each CONNUM.

FIELD NUMBER 2.0: Production Quantity

FIELD NAME: PRODQTY

DESCRIPTION: For each CONNUM, report the quantity produced during the cost calculation period.

SeAH has reported the actual metric tons (APRODQTY) produced (as recorded in the accounting records) and the theoretical metric tons (TPRODQTY) (calculated using the standard industry formula) for each CONNUM. The theoretical weight divided by the actual weight yields the conversion factor.

FIELD NUMBER 3.0: Direct Material Costs

FIELD NAME: DIRMAT

DESCRIPTION: Report the yielded CONNUM specific per-unit direct material costs incurred to produce the merchandise under consideration. Direct material costs should include transportation charges, import duties and other expenses normally associated with obtaining the materials that become an integral part of the finished product. Exclude from your reported direct material costs the amount of any internal taxes imposed on the purchase of materials used to produce the merchandise under consideration. See field 10.0 for instructions on reporting internal taxes.

Total direct material costs are reported in this field. The reported costs cover the cost of the hot-rolled coil (for all products), and couplings (for the only product with a threaded and coupled end finish). Direct material costs include transportation charges, import duties, and other expenses associated with obtaining the materials. The reported direct material costs

account for any yield loss associated with the production of the subject merchandise and are net of revenue earned on sales of scrap recovered during the production process.

FIELD NUMBER 4.0: Direct Labor Costs

FIELD NAME: DIRLAB

DESCRIPTION: Report the yielded CONNUM specific per-unit direct labor costs incurred to produce the merchandise under consideration. Direct labor includes the costs incurred for all production workers, inspection/testing workers, relief workers, and all other workers directly involved in producing the merchandise. Direct labor consists of your workers= base pay, overtime pay, incentive wages, shift differentials, bonuses, and all other form of wages or benefits paid to them by your company (e.g., vacation, holidays, sick pay, insurance, government mandated social programs).

The labor costs reported in field DIRLAB include base pay, overtime pay, bonuses, and other employee benefits. The labor costs charged or allocated to the direct cost centers were assigned to the individual products processed through the respective cost centers on the basis of metric tons or working hours as summarized in **Exhibit D-11**.

FIELD NUMBER 5.0: Variable Overhead Costs

FIELD NAME: VOH

DESCRIPTION: Report the yielded CONNUM specific per-unit variable overhead costs incurred to produce the merchandise under consideration. Variable overhead costs include those production costs that generally vary in total with changes in the volume of merchandise produced at a given level of operations. Variable overhead costs may include the costs incurred for indirect materials, indirect labor, utilities, and other variable overhead costs.

The categories of variable costs charged and allocated to each cost center are listed in **Exhibit D-9**. These costs were allocated to the individual products on the basis of metric tons or working hours, as summarized in **Exhibit D-11**.

FIELD NUMBER 5.1: Variable Cost of Manufacture

FIELD NAME: VCOM

For the Department's reference, SeAH provides the sum of material, labor and overhead costs. This cost is the cost reported in fields VCOMT and VCOMU on the third country and U.S. sales listings, respectively, on a theoretical-weight basis.

FIELD NUMBER 6.0: Fixed Overhead Costs

FIELD NAME: FOH

DESCRIPTION: Report the yielded CONNUM specific per-unit fixed overhead costs incurred to produce the merchandise under consideration. Fixed overhead costs include those production costs that generally do not vary in total with changes in the volume of merchandise produced at a given level of operations. Fixed overhead costs may include the costs incurred for building or equipment rental, depreciation, supervisory labor, plant property taxes, and factory administrative costs. In addition, include in fixed overhead costs research and development ("R&D") costs which relate specifically to the merchandise under consideration.

The categories of fixed overhead costs allocated or charged to each cost center are provided in **Exhibit D-9**. These costs were allocated to the products using either metric tons or working hours as summarized in **Exhibit D-11**.

FIELD NUMBER 7.0: Total Cost of Manufacture

FIELD NAME: TOTCOM

DESCRIPTION: Report the yielded CONNUM specific per-unit total COM incurred to produce the merchandise under consideration. Compute this amount as the sum of data fields 3.0 through 6.0.

The total cost of manufacture – *i.e.*, the sum of material, labor, and overhead costs (both variable and fixed costs) – is reported in this field. All manufacturing costs are reported on a theoretical-weight basis.

FIELD NUMBER 8.0: General and Administrative Expenses

FIELD NAME: GNA

DESCRIPTION: Report the per-unit G&A expenses incurred by your company. G&A expenses are those period expenses which relate indirectly to the general operations of the company rather than directly to the production process. G&A expenses include amounts incurred for general R&D activities, executive salaries and bonuses, and operations relating to your company's corporate headquarters.

The per metric ton general expense amount (on a theoretical-weight basis) reported in this field was calculated by applying the G&A expense factor (computed in **Exhibit D-14**) to the cost of manufacture in field TOTCOM.

FIELD NUMBER 9.0: Net Interest Expense

FIELD NAME: INTEX

DESCRIPTION: Report the per-unit net interest expense incurred by your company.

The reported per metric ton interest expense in this field was calculated by applying the interest expense factor (as detailed in **Exhibit D-15**) to the total cost of manufacture in field TOTCOM. This cost is on a theoretical metric ton basis.

FIELD NUMBER 10.0: Total Cost of Production

FIELD NAME: TOTCOP

SeAH has added the field TOTCOP to report the total cost of production on a theoretical-weight basis. The TOTCOP is the sum of the total cost of manufacture (TOTCOM), general and administrative expenses (GNA) and interest (INTEX).

FIELD NUMBER 11.0: Conversion Factor

FIELD NAME: CONVER

SeAH records and maintains its cost accounting records for all subject products on an actual weight basis. The sales data reported in this response is on a theoretical-weight basis for both home market and U.S. sales. To ensure that the sales and cost analysis is performed on the same weight basis, SeAH has calculated a conversion factor for each CONNUM to reflect the difference between the actual and theoretical weight. The factor, which is reported for the Department's reference, was derived based on the weighted-average theoretical and actual weights for all gauges of coil used to produce the merchandise under review. The factor was applied to each cost element of the actual weight-based cost. The resultant theoretical-weight-based cost is reported on the COP listing. No additional conversions are therefore required. *See Exhibits D-12 and D-13* (providing the sample calculations, including the calculation of the conversion factor).

FIELD NUMBER 12.0: Internal Taxes on Inputs

FIELD NAME: TAXES

DESCRIPTION: Report the net per-unit amount incurred for all internal taxes on purchases of inputs which were not refunded.

There are no internal taxes, other than value-added taxes, paid on the purchases of inputs.