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Australian Government
Australian Customs and
Border Protection Service

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FOLIO No. 151

CUSTOMS ACT 1901 – PART XVB

REVIEW OF ANTI DUMPING MEASURES

CERTAIN ALUMINIUM EXTRUSIONS

**EXPORTED FROM THE PEOPLE'S REPUBLIC OF
CHINA TO AUSTRALIA**

VISIT REPORT
AUSTRALIAN INDUSTRY
CAPRAL LTD

JULY 2012

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2 ABBREVIATIONS

\$	Australian dollars
ACDN	Australian Customs Dumping Notice
The Act	<i>Customs Act 1901</i>
ASX	Australian Securities Exchange
B & D	B & D Aluminium (Aust) Pty Ltd
CEO	The Chief Executive Officer of the Australian Customs and Border Protection Service
China	The People's Republic of China
Capral	Capral Ltd
CTMS	Cost To Make & Sell
Customs and Border Protection	Australian Customs and Border Protection Service
FIFO	First in, first out
FIS	Free into store
GUC	Goods under consideration
LME	London Metal Exchange
Mt	Metric tonnes
SEF	Statement of Essential Facts
Tariff Act	<i>Customs Tariff Act 1995</i>
the goods	the goods the subject of the application
the Minister	the Minister for Home Affairs
WXPAP	Wuxi Xisha Photoelectric Aluminium Products Co. Ltd.

INTRODUCTION**3.1 Background to the Review**

On 29 March 2012, B&D Aluminum (Aust) Pty Ltd (B & D), an importer of aluminium extrusions from China, lodged an application requesting a review of the variable factors relevant to the dumping and countervailing duty notices applying to certain aluminium extrusions exported to Australia by Wuxi Xisha Photoelectric Aluminium Products Co., Ltd (WXPAP) from the People's Republic of China (China).

The review application lodged by B & D sought the review for one exporter only, being WXPAP, and the application did not seek a revocation of those relevant measures.

Following consideration of the application, the Chief Executive Officer of the Australian Customs and Border Protection Service (CEO) decided not to reject the application. On 21 May 2012 a notice indicating that Australian Customs and Border Protection Service (Customs and Border Protection) commenced the review was published in *The Australian*. Interested parties were invited to lodge written submissions concerning the review no later than 29 June 2012.

3.1.1 Review

Affected parties of the dumping duty and countervailing duty notices may apply for a review of the measures 12 months after the publication of those notices or the last review of those notices.

The Minister may at any time initiate a review of the measures upon a recommendation from the CEO, or on his or her own initiative where the Minister feels it is appropriate.

Division 5 of Part XVB of the *Customs Act 1901* (the Act) sets out, among other things, the procedures to be followed by the CEO in dealing with an application for the review of measures.

The review period is from 1 April 2011 to 31 March 2012.

After concluding the review, Customs and Border Protection will recommend to the Minister that the dumping duty notice:¹

- i. remain unaltered; or
- ii. have effect as if different variable factors had been ascertained for WXPAP.

The variable factors relevant to this review are the normal value, export price, countervailable subsidies and non-injurious price.

¹ In accordance with s.269ZDA of the Act



3.2 History of the measures

On 11 May 2009 a dumping investigation was initiated for aluminium extrusions exported from China to Australia following an application by Capral Limited (Capral). In that investigation, and as outlined in Trade Measures Report No. 148, it was found that:

- with the exception of one exporter, Tai Ao (Taishan) Co Ltd (Tai Ao), the goods were exported from China at dumped prices;
- with the exception of Tai Ao, the goods exported from China were subsidised;
- the Australian industry producing like goods had suffered material injury as a result of those dumped and subsidised goods; and
- future exports from China may be dumped and subsidised and that continued dumping and subsidisation may cause further material injury to the Australian industry.

Accordingly, it was recommended that the Minister impose anti-dumping measures on the goods exported from China. On 28 October 2010, the Attorney General published a dumping duty and countervailing duty notice for aluminium extrusions exported from China to Australia. Notification of the Attorney General's decision was given in Australian Customs Dumping Notice (ACDN) No. 2010/40.

Following a review by the Trade Measures Review Officer (TMRO), Customs and Border Protection conducted a reinvestigation into certain findings made in Trade Measures Branch Report No. 148. International Trade Remedies Report No. 175 sets out the findings affirmed and new findings made by Customs and Border Protection as a result of the reinvestigation.

To give effect to this decision, the Attorney-General published a new notice under section 269ZZM of the Act. This notice is in substitution of the dumping and countervailing duty notices published 28 October 2010. The new notice is effective from 27 August 2011 and replaces the earlier notice.

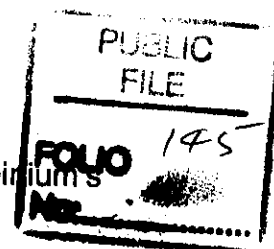
The effect of the new dumping duty notice and countervailing duty notice was that the measures apply by finish. The finishes being, milled, anodised, powder coated, and other. Another consequence of the new notices was that the dumping duty notice no longer applied to Zhaoqing New Zhongya Aluminium Co Ltd now called Guangdong Zhongya Aluminium Co. Ltd

Customs and Border Protection visited Capral Limited (Capral) in 2009 as part of the original aluminium extrusions investigation.

3.3 Purpose of visit

The purpose of the visit was to:

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- discuss with the Australian industry member, Capral, B&D Aluminium's claims relating to the review of measures;
- discuss procedural matters relating to the review;
- collect and verify information submitted relevant to the review, including sales and cost information; and
- discuss methods to determine an unsuppressed selling price; from which non-injurious price is determined.

Prior to the verification visit, Capral provided its costs and sales worksheets named Appendices A3, A5 and A6 for the goods under consideration. See Confidential Attachment GEN 1

3.4 Visit details

Contact details for the applicant and visit details are as below.

Company	Capral Ltd
ABN	78004213692
Address	Level 4 10-14 Smith Street PARRAMATTA NSW 2000
Company representatives	Phil Jobe – Chief Executive Officer and Managing Director Andrew Barlow – National Manager Commercial – Extrusion
Telephone	02 9682 0967
Fax	02 9682 0777
Nominated representative	Justin Wickes – Anti-dumping Specialist, Justin Wickes & Associates
Telephone	0438 700 570
Customs and Border Protection	John Bracic, Director – Operations 1 Tom O'Connor, Manager – Operations 1 Timothy Flor, Supervisor – Operations 3
Dates of visit	17 – 18 July 2012

3.5 Review details

At the commencement of the meeting, we discussed the time frames and inquiry and review processes.

3.5.1 Review timeframes

The review commenced on 21 May 2012.

A statement of essential facts (SEF) on which the CEO proposes to base recommendations to the Minister for Home Affairs (the Minister) will be placed on the public record on or before 10 September 2012 (or such longer period as the Minister allows²).

The SEFs will invite interested parties to respond, within 20 days, to the issues raised therein. Submissions received in response to the SEFs will be

² In accordance with s.269ZHI of the Act.

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considered when compiling the Final Report and recommendations to the Minister.

The Final Report to the Minister is due on or before 23 October 2012 (or such longer period as the Minister allows³).

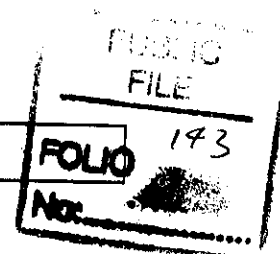
3.5.2 Confidential information

We advised Capral that any documents obtained during the course of the meeting would be treated as confidential unless otherwise indicated by Capral.

We stated that we would prepare a report of our meeting and that we would provide a copy to Capral in order to review its accuracy. We also stated that we would ask Capral to identify any confidential information so that a public file version could be made available for other interested parties.

³ In accordance with s.269ZHI of the Act

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THE GOODS

4.1.1 The goods under consideration

The imported goods the subject of this application (the goods) are:

Aluminium extrusions produced via an extrusion process, of alloys having metallic elements falling within the alloy designations published by The Aluminium Association commencing with 1, 2, 3, 5, 6 or 7 (or proprietary or other certifying body equivalents), with the finish being as extruded (mill), mechanical, anodized or painted or otherwise coated, whether or not worked, having a wall thickness or diameter greater than 0.5 mm., with a maximum weight per metre of 27 kilograms and a profile or cross-section which fits within a circle having a diameter of 421 mm.

The goods include aluminium extrusion products that have been further processed or fabricated to a limited extent, after aluminium has been extruded through a die. For example, aluminium extrusion products that have been painted, anodised, or otherwise coated, or worked (e.g. precision cut, machined, punched or drilled) fall within the scope of the goods.

The goods do not extend to intermediate or finished products that are processed or fabricated to such an extent that they no longer possess the nature and physical characteristics of an aluminium extrusion, but have become a different product.

Aluminium extrusions can generally be described as lengths of extruded aluminium, in various profiles including hollow aluminium sections (tubes and pipes) that are not further worked except, in some instances, to coat the 'mill finish' product and to further simply work the product by cutting, drilling or punching, but not by more complex fabrication processes such as joining and adding other parts to the extruded lengths.

4.1.2 Tariff classification

The GUC may be classified to the following subheadings in Schedule 3 of the Customs Tariff Act 1995:

Reference Number/Statistical Code	Goods
7604.10.00/06	non alloyed aluminium bars, rods and profiles;
7604.21.00/07	aluminium alloy hollow angles and other shapes;
7604.21.00/08	aluminium alloy hollow profiles;
7604.29.00/09	aluminium alloy non hollow angles and other shapes;
7604.29.00/10	aluminium alloy non hollow profiles;
7608.10.00/09	non alloyed aluminium tubes and pipes;
7608.20.00/10	aluminium alloy tubes and pipes;
7610.10.00/12	Doors, windows and their frames and thresholds for doors
7610.90.00/13	Other

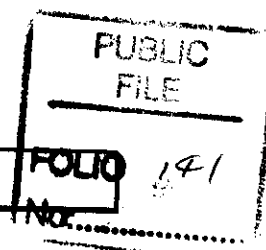
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In most cases where goods are correctly classifiable to tariff codes with the prefix 7604 or 7608, those goods would be the goods subject of this investigation and subject to any resulting securities or duties.

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The rates of duty for the goods from China are 4 percent for goods classified to headings 7604 and 7608 and 5 percent for goods classified to heading 7610.

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**5 AUSTRALIAN INDUSTRY****5.1 Introduction**

Customs and Border Protection has found in previous investigations that Capral is Australia's largest manufacturer and distributor of aluminium extrusions in Australia. Report 148 refers.

At this verification visit Customs and Border Protection did not visit Capral's manufacturing facilities. However, referring to Capral's 2011 annual report and the information provided during the verification, Customs and Border Protection considers that Capral has not materially changed its manufacturing operations since Report 148 was finalised for Customs and Border Protection to change its view that Capral is no longer a manufacturer of aluminium extrusions in Australia.

5.2 Like goods and the Australian industry

Again referring to report 148, the physical characteristics of aluminium extrusions are:

- Primary – aluminium alloy (wrought alloy designation) and temper;
- Secondary – profiles and shapes, finishes, length and mass.

Customs and Border Protection considers the Australian industry produces like goods to the goods the subject of the application on the following grounds:

- i. Physical likeness:
 - Capral's extruded products are made of aluminium alloys;
 - Capral manufactures aluminium extrusions in numerous profiles; and
 - The finish of Capral's product is predominately mill, painted and anodised;
- ii. Commercial likeness:
 - Capral's products compete directly with the imported goods; and
- iii. Functional likeness:
 - Both imported and locally produced goods have the same end-uses.

5.3 Company overview and corporate structure

Capral is a public company listed on the Australian Securities Exchange (ASX Code: CAA). It was first listed as Alcan Australia Limited in 1986. In 1995 it changed its name to Capral Aluminium Limited, and in 2008 changed to its current name, Capral Limited. Capral's major shareholder is GPG Nominees Pty Ltd which at 29 February 2012 held 30.43% of issued ordinary shares of Capral.⁴ The top twenty shareholders own approximately 90% of issued share capital.

⁴ Capral 2011 Annual Report, 78

Capral is engaged in the manufacturing, marketing and distribution of semi-fabricated aluminium products used in residential, commercial and industrial applications. It is Australia's largest manufacturer and distributor of aluminium extrusions. It employs approximately [REDACTED] staff.

Capral is the holding company for the following group of companies. Capral advised that all subsidiaries below excluding Aluminium Extrusion & Distribution Pty Ltd and Austex Dies Pty Limited were deregistered in 2012:

- Aluminium Extrusion & Distribution Pty Limited;
- Capral Superannuation Pty Limited;
- Capral Wages Superannuation Pty Limited;
- Aluminium Distributors Pty Limited;
- Capral Finance Pty Limited;
- Capral Aluminium NZ Limited (non-Australian subsidiary); and
- Austex Dies Pty Limited (this company was acquired on 17 September 2010 by Capral Limited).

We were further advised that the companies deregistered were dormant companies with no trading activities. Capral provided a copy of its 2011 audited financial statements. see **Attachment GEN 1**.

5.4 Accounting structure

To assist with the verification Capral provided a document addressing a number of the agenda item questions. **Confidential attachment GEN 2**

Below the audited financial statements, in terms of reporting, Capral has split its business into three main business operations. These are Manufacturing, Corporate and Distribution.

Manufacturing and Manufacturing other

Within this division, Capral advised that it has five manufacturing sites. Each manufacturing site being Penrith, Bremer Park, Angaston, Campbellfield and Canning Vale is a profit centre for the purposes of its accounts. Capral has extrusion pressing facilities in:

- New South Wales (Penrith);
- Queensland (Bremer Park);
- South Australia (Angaston);
- Victoria (Campbellfield); and
- Western Australia (Canning Vale).

We were advised that not all of Capral's extrusion facilities make all finishes. The table below identifies the respective facility and finish.

Facility	Mill	Anodised	Powder Coated	Other
Penrith	X			
Bremer Park	X	X	X	

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Angaston	X		X	
Campbellfield	X			X
Canning Vale	X		X	

The business segment Manufacturing is divided into two parts. Manufacturing, and Manufacturing (other). Manufacturing consists of the five manufacturing sites.

Manufacturing (other) has three parts which are;

- ex-warehouse sales (which due to the 'level of trade' were excluded by Capral in its cost allocations for the like goods in its cost to make spreadsheets; and
- divisional costs which are a subset of the manufacturing costs. These costs include for example general management, commercial, technical, and human resources etc. These costs are allocated to each manufacturing plant based on a forward looking budget. The budget in turn is based on estimated levels of activity and previous experiences.
- Austex dies, although 100% owned, is a separate business with the dies being purchased on an arms length basis.

Distribution

These costs relate to the distribution of the goods from a warehouse or trade centre - and are considered to be at a different level of trade to those sold for the purposes of this review.

Corporate

This cost centre refers to head office and corporate costs. These costs are shared services (accounts payable and accounts receivable), corporate finance and treasury, IT, executive management, company secretariat, and costs associated being a publicly listed company on the ASX.

Where the costs are deemed to be directly attributable to the business, they are allocated to the business (based on annual budget cost estimates as explained above). For example, IT costs are allocated to each business based on the appropriate cost drivers. For example SAP licence costs are directly attributable to the number of people in each business with a SAP licence. Accounts receivable costs are allocated based on the proportion of work performed by the accounts receivable team for each business. Some costs are not allocated to the manufacturing and distribution businesses and these costs remain unallocated and apportioned to corporate costs.

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5.4.1 Cost accounting systems

The company uses SAP as its financial management information system. Capral operates on a 1 January to 31 December financial year.

To allocate metal, labour and overheads Capral uses a standard costing system. Metal is allocated based on a standard consumption level for the pieces produced and labour and overhead are allocated on a standard output rate multiplied by a standard activity rate. Inventory valuation is based on the First In, First Out (FIFO) principle.

Each Plant accounts for its manufacturing costs separately.

5.5 Selling and distribution

Capral informed us that it has two defined selling segments for the goods. Namely;

- [REDACTED] customers
- [REDACTED] Customers

Some customers in each segment may also purchase product from a distribution centre or trade centre.

The main factor separating the selling segments is [REDACTED].

For the purposes of this report the [REDACTED] and the [REDACTED] will all be considered mill customers collectively. Also for the remainder of this report the analysis concerns mill customers only unless otherwise stated.

5.5.1 Mill Customers

These customers are able to purchase directly from the mill. They are typically large entities with large orders and the goods purchased are the extruded profiles which are to be further processed into other products such as window frames and doors for example.

Apart from the [REDACTED] customers, the [REDACTED] customer list is approximately [REDACTED].

Minor re-processing may occur such as cutting, punching, routing, de-burring or slight polishing etc. The majority of the customers in this segment use the aluminium extrusion profiles in downstream processing facilities.

5.5.2 Distribution customers

All of the distribution customers' sales have been excluded in this analysis, however the distribution division has about [REDACTED] customers in its database. These are Capral's customers who predominately require and purchase ex-stock.

Sales via the distribution centres are significantly different. The price is [REDACTED]

[REDACTED] and purchase volumes [REDACTED]. Whilst the goods are generally purchased from a distribution centre or trade centre, larger or more specific orders are sometimes placed directly on the Mill.

5.5.3 Terms of sales

Mill customer sales are generally sold on [REDACTED] terms.

5.5.4 Sales value and volume

During the investigation period, Capral's sales value of like goods was \$ [REDACTED] with [REDACTED] tonnes being sold. The table below identifies the sales by finish and volume.

During the investigation period [REDACTED] of like goods were sold from the mill to the distribution centre which are included in the figures below. The sales from the distribution centres to Capral's customers have been excluded from this table.

Finish	Value (\$000)	Volume (mt)
Mill	[REDACTED]	[REDACTED]
Anodised	[REDACTED]	[REDACTED]
Powder coated -	[REDACTED]	[REDACTED]
Painted	[REDACTED]	[REDACTED]
Other - fabricated	[REDACTED]	[REDACTED]
Total	[REDACTED]	[REDACTED]

Within the financial statements [REDACTED] of sales value needed to be eliminated due to the internal sales value between the mills and the distribution centres. To record this elimination at the corporate level, the division 'corporate' records a negative of \$ [REDACTED].

Capral uses the term painted to describe powder coating and fabricated to describe other. Fabricated goods are considered to be minor re-processing of like goods. This may include processes such as cutting, punching, routing, polishing and de-burring. Capral indicated that these fabricated goods are goods whereby the process undergone does not significantly alter the characteristics of the goods so that they become something else or another type of good. These goods hold the same essential characteristics to the goods before they went under the additional processes.

5.5.5 Internal sales

Although Capral has defined its customers into various segments it informed us that the sales from the mill to the distribution centres is equivalent to an arms length price - and comparable to its major external distribution customers [REDACTED]

To demonstrate the price comparability between the internal sales to the distribution centres and its major external distribution customers, Capral provided copies of the selling agreements of the two groups. At **Confidential Attachment Sales 1** is the Supply Agreement between the mill and the distribution centres. At **Confidential Attachment Sales 2** is the supply agreement to [REDACTED]. Capral informed us this is a major external distribution customer. Whilst the agreement is for [REDACTED], the pricing is updated on a needs basis, generally [REDACTED]. To this end we were provided with the March 2012 price schedules for the distribution centre and [REDACTED]. We confirmed the prices for sales of mill finish of between 250kg, 500kg and 1000kg varied by only 2 cents between these two customers. See **Confidential Attachments 3 and 4** respectively. On inspection we found the price for the other products were also very similar.

For internal sales to the distribution centres no invoice is raised. To confirm the sales process we selected two transactions of mill sales to the distribution centre. We selected two purchase orders and Capral provided these. From the purchase order we could identify the mill location and the destination for the sales purchased. **Confidential Attachment Sales 5**

Capral provided further evidence to confirm the price between the Mill and the Distribution centres. Whilst no invoice is raised between the two divisions, via its SAP system we could identify the price paid by the distribution centre. These prices agreed with the price lists. **Confidential attachment Sales 6**

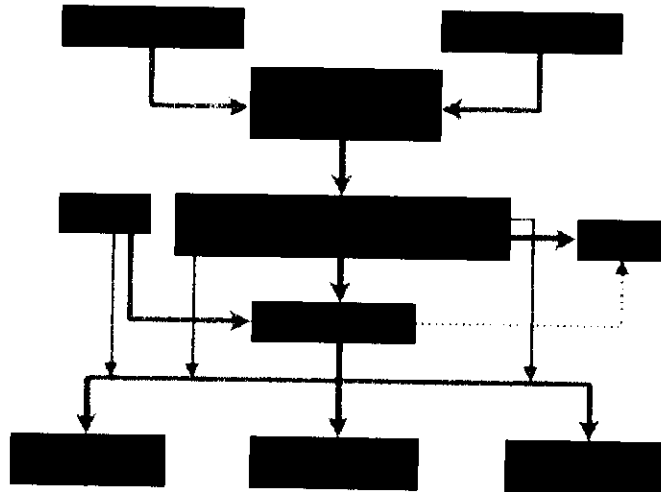
5.5.6 Export Sales

Capral exports a very small volume of aluminium extrusions to the [REDACTED] region. Details of these export sales were recorded in Capral's A4 sales spreadsheets. Capral exported approximately [REDACTED] tonnes of aluminium extrusions during the investigation period.

5.5.7 Ordering, pricing, invoicing and delivery arrangements

Capral sells to third parties and to its distribution centres as shown below. It sells directly to fabricators, distributors and other users either directly or via its distribution network.

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5.5.8 External sales prices and quotations

Capral receives an order and it is recorded in SAP. Price lists are maintained within SAP masterdata. These prices are generally based on market prices. Given current market conditions, Capral advised that prices are often under pressure.

The invoice price is the price set at the date the order is confirmed.

The supply agreement between Capral and [REDACTED] was provided. See **Confidential Attachment Sales 2**. According to this supply agreement pricing is based on:

[REDACTED]

5.5.9 Payment terms

Sales are made on a [REDACTED] basis with payment terms offered to the mill customers being either [REDACTED] days after the end of the month in which the invoice is raised.

Regional cities incur a regional freight surcharge and other freight premiums may need to be charged should the transport distance be significant and outside the parameters set by Capral.

5.5.10 Discounts and rebates

Capral has a system of processing the following rebates:

[REDACTED]

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These rebates are recorded as credit notes within Capral's A6 Spreadsheets. Other adjustments to sales such as returns and pricing adjustments are processed as debit and credit notes.

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6 Verification of Sales data**6.1 Sales**

To verify the sales value provided by Capral in its Appendix A6 spreadsheet, Capral provided a complete electronic download of all its sales and costs for the investigation period. See **Confidential Attachment CTM 1** Capral separated the sales data into GUC and non-GUC goods. The data presented was as follows:

GUC

- Mill
- Powder-Coated
- Anodised
- Worked (Campbellfield Aluminium Light Fabrication)

Non-GUC

- Ex-warehouse



- Rolled product. These are flat products used, for example, for hot water systems. Capral claimed they are not manufactured by Capral and are not extrusion products.
- Export – Mill Finish

The GUC and non-GUC A6 spreadsheets also provide the total value and volume for the investigation period.

To confirm the value and costs incurred in the investigation period we were provided with three schedules of Capral's costs and revenue that covered 15 months from 1 January 2011 to 31 March 2012 **Confidential Attachment GEN 3**. These represented the companies' three divisions, manufacturing, corporate and distribution. The total revenue of the divisions equalled the 2011 annual report. The total revenue for the months April 2011 through to March 2012 equalled the total revenue indicated in the Appendix A3 total Company Turnover.

To reconcile the value of goods under consideration to the divisional reports **confidential attachment GEN 3**, Capral provided a copy of a document presented in Appendix A6 format **Confidential Attachment GEN 4** for all sales. This Non Goods Under Consideration Appendix A6 separately identified the non goods under consideration. We totalled the sales values of the respective goods,

. We then subtracted this total sales value from the divisional

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total sales to reconcile to the goods under consideration in Appendix A6 confidential attachment GEN1.

Following is our reconciliation of from the Appendix A3 to the audited financial statements.

At **Confidential Attachment GEN 5** is a document prepared by Capral to reconcile the domestic goods under consideration sales to the total sales as presented in the manufacturing division performance report at confidential attachment GEN 3.

6.1.1 Like good sales to source documents

At the verification visit we selected the following 8 sales transactions and requested Capral supply source documents for those sales.

These selected sales covered a variety of finishes and from different sites. We also identified sales with rebates and those that were identified with zero volume. Capral supplied the tax invoice, credit notes, extracts from its customer ledger and bank statements. We traced the details from the source documents to Capral's electronic domestic sales spreadsheet. These source documents are supplied at **Confidential Attachment Sales 5**.

Via bank statements and remittance advices we confirmed that the amount paid by its customers agreed to the invoice total.

6.2 Conclusion

Following the verification of Capral's Appendix A3, A5 and A6 supplied, we are satisfied the information presented reasonably reflect the selling values as in these documents.

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Verification of Cost to Make

7.1.1 Background

We explained to the company that we needed to be satisfied that the data submitted in the application was complete, relevant and accurate. We also explained that the company would have to demonstrate that the data could be verified and traced to financial statements and to source documents.

To verify the costs of each finish we again used the information presented in Confidential Attachment CTM 1. Although the following verification does not specifically identify the cost of the finish, within the Confidential attachment CTM 1, the data is presented in a manner that identifies the goods by finish, by cost centre, by month, by mill, by activity and value. Within the Appendix A6 that we verify, this is the total costs of all finishes. It was considered for the purposes of this report, and given the level of detail provided in Confidential attachment CTM1, a discussion of total costs was appropriate.

7.1.2 Production volumes

Capral, stated that determining total production capacity precisely was difficult. They stated that this difficulty stems from the many variables that determine the production volume, namely; the alloy mix, the profile size, the profile length and the production run size. Accordingly Capral did not indicate production capacity because it would vary depending on the variable inputs.

In its A6 appendix Confidential attachment GEN 4, Capral indicated that total volume sold was [REDACTED] kilograms.

	Kgs
Domestic mill	[REDACTED]
Export	[REDACTED]
Domestic ex Distribution	[REDACTED]
Domestic Rolled	[REDACTED]
Total	[REDACTED]

During the investigation period Capral manufactured the following like good volumes

Finish	kgs
Mill	[REDACTED]
Anodised	[REDACTED]
Painted (powder coated)	[REDACTED]
Other	[REDACTED]
Total	[REDACTED]

7.1.3 Production scheduling

Orders placed on the mill go into production scheduling management. The goods are sorted by alloy, die, length and the pool of other orders to maximise the production run efficiency. Small individual production runs are spread throughout the overall production to minimise bottle necks.

7.1.4 Dies

We were advised that Capral has approximately [REDACTED] dies in its inventory. Each different aluminium extrusion profile has its own die. Capral informed us that it either designs and manufactures the die itself, or is approached by a customer that has a design or seeks help to design and manufacture a new die. The die cost is

[REDACTED]

Capral manufactures approximately [REDACTED] of dies in house via Austex Dies Pty Ltd and out sources the remainder.

7.1.5 Aluminium Extrusion Alloy

Aluminium extrusions are made from various aluminium alloys. The alloy will influence the speed at which the profile can be extruded. Also depending on the aluminium alloy components, price premiums may be charged.

We were informed that the main aluminium alloy used is 6060. Price premiums are charged for some alloys (eg: [REDACTED]). This is due to a number of factors namely the speed in which the profile can be extruded and the cost of the raw material.

6082	315	50
6005	285	70
6063	250	95
1350	80	185

7.1.6 Raw aluminium purchases

Capral informed us that it does not operate an aluminium foundry. As such, it needs to purchase the aluminium in the alloy state.

In its electronic copy of the cost to make, Capral provided its total raw material aluminium purchases. Capral indicated the raw aluminium alloy material used in the manufacture was \$[REDACTED] see **Confidential Attachment CTM 2**. To confirm this value we selected to see the inventory transfer-in for the month of January 2012. **Confidential Attachment CTM 3**.

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The raw material transfer-in in the general ledger total agreed with the confidential attachment CTM2. We calculated the unit value of \$ [REDACTED] kilograms. Although this is a standard cost we asked to see direct purchases of the goods to confirm the accuracy of the standard.

Capral informed us that the aluminium alloy is purchased from [REDACTED] suppliers,

[REDACTED]. Capral purchases aluminium log. This log is then cut into smaller sizes (aluminium billet), which is then used in the extrusion process.

We were informed the pricing of the aluminium log is dependant on the LME price, the alloy specification and the diameter. Capral provided a January 2012 price summary for the December 2011 purchases. **Confidential Attachment CTM 4.** We were informed that the price paid is based on the LME average of the [REDACTED].

Capral also provided a January 2012 invoice of aluminium alloy purchases. The unit value in the invoice agreed to the standard cost entered into the general ledger. It also agreed to the January 2012 price summary. **Confidential Attachment CTM 5**

7.1.7 Scrap

Scrap aluminium accounted for approximately [REDACTED] tonnes and approximately \$ [REDACTED] revenue during the investigation period.

The Appendix A6 provided by Capral didn't indicate the amount of scrap aluminium. Capral informed us that the scrap is sold. However in the raw material manufacturing account, the raw material value has an automatic negative adjustment by a standard credit of aluminium scrap sales revenue.

We calculated, based on value the aluminium credit in the electronic data, to be approximately [REDACTED]% however we were informed this credit is valued at approximately [REDACTED]% of the LME price and not the full value of the purchase price.

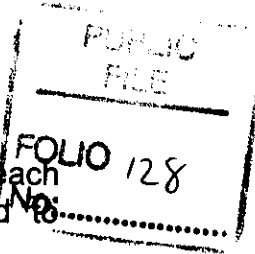
The manufacturing account shown did not indicate the volumes being transferred, only value.

To make the aluminium extrusions, scrap is created under two main categories: 'engineered' waste, which is unavoidable at the beginning and end of each production run; and "process" waste - as the extrusion presses are not fully automated and not capable of total repeatability from run to run, unplanned scrap is unavoidable. We were advised, from experience the standard waste credit in the raw material manufacturing account is reasonably accurate.

At confidential attachment CTM 2 the scrap credit is shown against the raw material transfer in.

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Approximately [REDACTED] to [REDACTED] tonnes of scrap aluminium is sold each year. In the 2011 financial year aluminium scrap revenue amounted to \$[REDACTED].

To verify the value of the scrap aluminium sold we examined the scrap sales revenue account. We selected the Scrap credit account in the general ledger for January 2012. It totalled \$[REDACTED]. See confidential attachment CTM 2. Capral provided the January 2012 general ledger detail **Confidential Attachment CTM 6**

Capral informed us that the selling price of scrap is a function of the LME, however the actual value entered into the general ledger is after adjustments which decreases the unit scrap down to approximately [REDACTED]% of the LME price.

Before the scrap can be sold back to [REDACTED], the scrap is [REDACTED]

[REDACTED] Capral provided an invoice for December 2011 for approximately [REDACTED] tonnes. **Confidential Attachment CTM 7**

Scrap aluminium is sold back to [REDACTED] who set the price on [REDACTED]. To confirm this amount Capral provided a copy of a sales invoice to [REDACTED] for January 2012. **Confidential Attachment CTM 8**

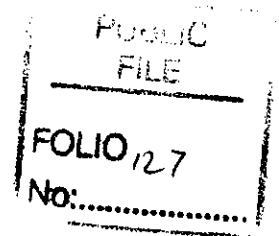
The invoice amount paid by [REDACTED] was \$[REDACTED] per kilo. [REDACTED] pricing arrangements to set the buy back price for a given volume of purchases.

We found the difference between the standard price in the scrap credit general ledger and the amount paid to be [REDACTED] cents lower. However that difference needed to be adjusted for the aluminium scrap processing fee. We were also provided with the March 2012 scrap sales general ledger and the unit price received for the month was \$[REDACTED]. We were also provided with an invoice that reconciled to the line value within that month's sales. see **Confidential attachment CTM 9**

7.1.8 Reconciliation of Standard Scrap Credit to Actual Revenue

We examined the electronic data confidential attachment CTM 1 to determine the following table.

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Scrap credit	
Standard Cost	
Scrap sales	
Actual Revenue	
Difference between actual and standard scrap revenue received	
Group sales volume kg	
Difference / kg	

Given that the cost to make is based on a standard cost and the aluminium credit is based on a standard cost.

Capral informed us that the variance is reasonable; and journal entries are made to adjust the difference between actual costs and standard costs. We examined the electronic data and confirm such journal entries were made in Confidential Attachment CTM 1.

7.1.9 Work in progress

We asked to examine the work in progress account. Capral informed us that its accounting system records work in progress on a perpetual basis. To demonstrate this Capral provided a copy of the work in progress for the investigation period. The amount in the Appendix A6 and the schedule printed from their accounting system agrees. **Confidential Attachment CTM 10**

7.1.10 Direct labour variable

The submitted cost to make indicated that direct labour was \$[REDACTED]. Capral informed us that labour was identified by activity in the manufacturing processes. Capral demonstrated this via the electronic cost data confidential attachment CTM 1 which identified the location, activity, and fixed and variable wages as well as the variable components that made up the labour costs. Shop floor labour was the variable component. Salaried staff were considered fixed costs in the A6 schedules.

To confirm the wages we selected June 2011 extrusion activity at the Bremer Park mill to see the wages detail. Capral provided a copy of the Bremer Park site wages schedule for this activity where the total agreed to the electronic data supplied. See **Confidential Attachment CTM 11**

7.1.11 Variable Overheads

In the appendix A6, variable overhead totalled \$[REDACTED]. Variable overhead had [REDACTED] categories and [REDACTED] sub categories See **Confidential Attachment CTM 12**. We were advised that new dies purchased during the year were amortised over [REDACTED] months for standard costing purposes as it was

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considered to be a better match of cost and revenue. Remake dies are expensed at the time the cost is incurred.

We selected the August 2011 Bremer Park die amortisation which formed part of the variable overhead expense. We were provided a schedule that itemised the amortisation charge for that month. The schedule also included other die amortisation charges but the cost centre code was different and was excluded from the Bremer Park calculation. **Confidential Attachment CTM 13**. The amortisation charge for the Bremer Park dies agreed with the electronic data supplied.

7.1.12 Variable overheads other

Variable overheads other expense code is used to record the charges imposed by external vendors for undertaking additional processes on behalf of Capral. Although Capral can extrude mill finishes at all of its facilities it does not have the capability to undertake all finishes in all locations. Hence, due to the cost of transporting goods in Australia, depending on the order, it is sometimes preferable to use external vendors to undertake this task. Variable overhead was \$ [REDACTED] for the period of investigation.

7.1.13 Fixed variable overheads

From the electronic data we examined the fixed overheads. These costs included the salaried staff and the costs associated with the administration of the manufacturing process.

Capral informed us that the majority of the cost in this category was [REDACTED] expenses. We were advised that Capral [REDACTED]

Of the fixed variable overhead total of \$ [REDACTED] expense was \$ [REDACTED]

7.1.14 Depreciation

Within the preparation of the Appendix A6, depreciation is considered a fixed manufacturing cost. The depreciation expense in the Appendix A6 was \$ [REDACTED]. To reconcile this amount to the 2011 annual report, we again were referred to the Non GUC Appendix A6 see Confidential Attachment GEN 3. A depreciation charge had been calculated for all manufacturing. This amount could be traced to Confidential Attachment GEN 2 the divisional costs and revenue performance reports, specifically the manufacturing division report.

We could trace the value of the depreciation in the Non GUC Appendix A6 to the manufacturing division performance report.

7.1.15 Other Income

Within the cost to make we identified some other income received. Capral provided evidence that showed the other income identified was an

[REDACTED]

Confidential attachment CTM 14

7.2 Cost to sell

7.2.1 General

The costs to sell are divided up into two basic components. Costs that can be directly allocated and other corporate costs that are allocated on per kilogram sold basis.

7.2.2 Selling costs

We were advised these costs relate directly to the selling activity of the goods. For that matter these are the salesmen's salaries, cars and other direct functions associated with the sale of the goods. For the investigation period the total selling costs associated with all manufacturing volume sold was \$[REDACTED]. A per kilogram rate based on total volume sold of each finish was applied to the goods under consideration sold in the investigation period.

To demonstrate this allocation Capral provided a Divisional Allocation budget worksheet that itemises the costs by cost centre and month. **Confidential Attachment CTMS 1.**

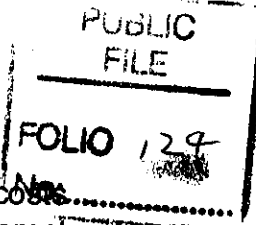
The budget is developed on a bottom up approach and is based on people, travel and incidentals. After subtracting the shared services component, we could identify the selling costs. Capral also identified these selling costs in the electronic data worksheet.

Within this allocation worksheet are the shared services. Shared service costs have been separately captured under the other administration heading at 6.3.4, but removed in the selling cost allocation for Appendix A6 purposes. Shared services include the IT functions, accounts receivable, accounts payable and human resources etc.

7.2.3 Administration

Total overhead costs for allocation during the investigation period was \$[REDACTED]. These included the selling costs at 7.3.2 and the administration-other costs at 6.3.4. The balance was allocated on the basis of manufacturing sales volume versus distribution selling volume. This split is calculated at a [REDACTED]% to [REDACTED]% respectively. **Confidential attachment CTMS2** is the calculation provided by Capral.

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At **Confidential Attachment CTMS3** is the calculation of the corporate costs for allocation. After deducting the costs at 7.3.2 and 7.3.4 and adding interest and a small abnormal, \$ [REDACTED] million is available for allocation. This is recorded in the Appendix A6 non goods under consideration **Confidential Attachment GEN 3**. This amount is divided by total volume sold (all goods) and then applied by the volume sold of the various finishes for the goods under consideration.

7.2.4 Administration other

Capral indicated there are numerous other activities that needed allocation; however, these functions are undertaken at the corporate head office. These costs included IT, payroll, staffing, accounts receivable and accounts payable. To calculate these costs, Capral develops a budget each year. The budget is based on expected future costs and these costs are entered into the standard cost with a variance being charged at the end of the period. The charge for the investigation period was \$ [REDACTED] for all goods sold. A per kilogram rate was calculated and applied to each finish the subject of the review to complete the Appendix A6.

Capral provided a copy of the 2012 financial year budget which is forecast to be lower than 2011. It also showed the 2011 budget. The amount charged during the investigation period was between the two budgets. **Confidential attachment CTMS 4**

We were able to trace the budgeted amounts for January, February, and March 2012 in **Confidential Attachment CTMS3** to the electronic data in **Confidential Attachment CTM 1**.

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7.2.5 Distribution

Total distribution costs were \$ [REDACTED]. From an examination of the electronic data, we could see that the significant majority of the distribution costs were for outward freight.

Within the accounting structure, each site records the freight charge. We selected the freight charge incurred by the Penrith Mill for February 2012. To verify the value in the electronic data, Capral provided two copies of invoices from an external freight company and the general ledger detail where the invoices were recorded. The general ledger detail identified the two invoices and we could see they were posted into the general ledger in February 2012. The values of the invoices agreed to the general ledger detail. We also traced the general ledger detail for December 2011 and January 2012 values to the electronic data worksheet. **Confidential attachment CTMS 5**

We were informed that within a delivery, a number of orders of different finishes could be carried. Conversely it could be one order of goods being located from a number of sites around Australia. For this reason, to specifically apply a freight charge to a single finish was difficult. Accordingly, Capral calculated a per kilogram rate based on the total volume sold and then applied this rate to the various finishes.

7.3 Conclusion

Following the verification of Capral's Appendix A3, A5 and A6 supplied, we are satisfied the costs reasonably reflect the cost to make and sell as presented in these documents.

8 Profitability

The mill finish forms the basis for the cost of the other finishes. To calculate the cost of the other finishes, the unit cost to make of the mill finish is calculated and then the cost to make of the processes involved in the other finishes, is calculated per unit, for anodised, powder coated or other, and then added to the mill finish unit cost to make.

By applying the above calculations, Capral was able to calculate a unit cost to make for all finishes.

Of the [REDACTED] kgs production quantity only [REDACTED] kgs was sold as a mill finish. The balance was used in the manufacture of the other finishes.

This adjustment was made prior to calculating the cost to make and sell of the mill customers.

To calculate profitability it was a simple arithmetic formula that subtracted the unit selling value from the unit cost to make and sell.

The rate of profitability is for mill customer sales which exclude the distribution division sales.

Finish	Profitability
Mill	[REDACTED]
Anodised	[REDACTED]
Painted	[REDACTED]
Other	[REDACTED]

9 LIST OF APPENDIXES AND ATTACHMENTS

Attachment GEN 1	2011 Audited Annual Report
Conf attachment GEN 1	Cost to make and sell Appendices A3, A5 and A6
Conf attachment GEN 2	Agenda item questions and answers
Conf attachment GEN 3	Divisional costs and revenue performance reports.
Conf attachment GEN 4	Cost to make and sell Appendices A6 non goods under consideration.
Conf attachment GEN 5	GUC sales reconciled to manufacturing division sales
Conf attachment Sales 1	Supply agreement between the Mill and the Distribution Centres
Conf attachment Sales 2	Supply Agreement between Capral and [REDACTED]
Conf attachment Sales 3	March 2012 Pricing schedule between Mill and the Distribution Centres
Conf attachment Sales 4	March 2012 Pricing schedule between Capral and [REDACTED]
Conf attachment Sales 5	Internal sales transfer evidence
Conf attachment Sales 6	SAP price evidence Mill to Distribution centre
Conf attachment Sales 7	Selected invoices and evidence of payment
Conf attachment CTM 1	Electronic copy of costs and sales data for investigation period.
Conf attachment CTM 2	Aluminium raw material general ledger.
Conf attachment CTM 3	Raw material aluminium transfer in general ledger
Conf attachment CTM 4	Aluminium price summary for January 2012 purchases.
Conf attachment CTM 5	Aluminium alloy purchase invoice
Conf attachment CTM 6	Scrap aluminium general ledger January 2012
Conf attachment CTM 7	[REDACTED] scrap aluminium processing fee
Conf attachment CTM 8	Aluminium scrap sales invoice January 2012
Conf attachment CTM 9	Aluminium scrap sales invoice March 2012 and general ledger posting.
Conf attachment CTM 10	Work in progress 31 March 2012 schedule
Conf attachment CTM 11	Wages detail Bremer Park extrusion activity
Conf attachment CTM 12	Variable overhead list
Conf attachment CTM 13	Die amortisation charge Bremer Park
Conf attachment CTM 14	Other income
Conf attachment CTMS 1	Divisional allocation selling and shared services costs.
Conf attachment CTMS 2	Calculation of allocation split of manufacturing and distribution
Conf attachment CTMS 3	Corporate allocation of non allocated costs
Conf attachment CTMS 4	Share services budget allocation
Conf attachment CTMS 5	Distribution invoices