



Review 248

**REVIEW OF ANTI-DUMPING MEASURES ON CERTAIN ALUMINIUM
EXTRUSIONS**

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

VISIT REPORT - AUSTRALIAN INDUSTRY

Capral Limited

**THIS REPORT AND THE VIEWS OR RECOMMENDATIONS CONTAINED THEREIN
WILL BE REVIEWED BY THE CASE MANAGEMENT TEAM AND MAY NOT REFLECT
THE FINAL POSITION OF THE ANTI-DUMPING COMMISSION**

November 2014

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ABBREVIATIONS

\$	Australian dollars
The Act	<i>Customs Act 1901</i>
ADN	Anti-Dumping Notice
COGS	Cost of goods sold
the Commission	Anti-Dumping Commission
CTM	Cost to make
CTMS	Cost to make & sell
CTS	Cost to sell
EBIT	Earnings before interest and tax
EDITA	Earnings before interest, tax, depreciation and amortisation
FOB	Free On Board
GAAP	Generally accepted accounting principles
NIP	Non-injurious Price
SEF	Statement of Essential Facts
the goods	the goods the subject of the application (also referred to as the goods under consideration or GUC)
the Parliamentary Secretary	the Parliamentary Secretary the Minister for Industry
USP	Unsuppressed Selling Price

1 BACKGROUND AND PURPOSE

1.1 Background to the current investigation

On 12 June 2014, the Anti-Dumping Commission (the Commission) commenced a review of the anti-dumping measures applying to certain aluminium extrusions exported to Australia from the People's Republic of China (China). The visit to Capral Limited (Capral) detailed in this report relates to that review.

This review of measures

This review of measures is the result of an application by PanAsia Aluminium (China) Co, Ltd seeking a review of the anti-dumping measures as they apply to its exports to Australia. The Parliamentary Secretary to the Minister for Industry (Parliamentary Secretary), who is responsible for anti-dumping matters, accepted a recommendation from the Anti-Dumping Commissioner to extend the review of measures to all exporters covered by the measures.

The review period is 1 April 2013 to 31 March 2014.

The anti-dumping measures currently in place

On 24 June 2009, the Australian Customs and Border Protection Service¹ (ACBPS) initiated an investigation into the alleged dumping and subsidisation of certain aluminium extrusions exported to Australia from China. The ACBPS's findings are set out in International Trade Remedies Report No 148 (**REP148**). On 28 October 2010, anti-dumping measures - in the form of a dumping duty notice and a countervailing duty notice - were imposed on certain aluminium extrusions exported from China.

Following a review by the Trade Measures Review Officer (TMRO), ACBPS conducted a reinvestigation into certain findings made in REP 148. International Trade Remedies Report No. 175 (**REP 175**) sets out the findings affirmed and new findings made by the ACBPS as a result of the reinvestigation. Subsequent to this, the Attorney-General published revised dumping and countervailing notices under s. 269ZZM of the *Customs Act 1901* (the Act) substituting for the dumping and countervailing duty notices published on 28 October 2010. The revised notices came into effect on 27 August 2011, replacing the earlier notices to the extent of any inconsistencies.

¹ The Australian Customs and Border Protection Service was previously responsible for functions now performed by the Anti-Dumping Commission

1.2 Purpose of the meeting

The Commission's initial investigation was in response to an application by Capral alleging dumping and subsidisation of certain aluminium extrusions to Australia from the People's Republic of China caused material injury to the Australian industry that produces like goods. As noted above, this investigation led to anti-dumping measures being applied.

Capral has participated in the current review of measures and, at the time of the visit, had made several submissions including:

- submission on Market Situation dated 19 June 2014 (EPR248/05);
- submission on countervailable subsidies dated 19 June 2014 (EPR 248/06);
- submission on exporter sampling dated 8 July 2014 (EPR 248/012) ;
- submission on goods covered by the notice dated 18 July 2014 (EPR 248/16); and
- submission on competitive market costs dated 31 July 2014.

Capral also provided the Commission with updated cost to make and sell data in response to the Australian industry questionnaire as well as information on its sales.

The purpose of the visit was to:

- verify information provided by Capral and obtain additional data verifying selling price and cost to make and sell;
- gain a greater understanding of the Australian Industry; and
- provide Capral with an opportunity to discuss its submissions to date and any other issues relating to the investigation.

The review of measures will be limited to examining whether the variable factors relevant to the taking of the anti-dumping measures, as they affect exporters of the goods from China generally, should be varied. Accordingly, this visit report does not consider injury or causal link as those factors are not being considered as part of the current review.

1.3 Meeting details

Company	Capral Limited ABN: 78004213692 Level 4, 60 Phillip Street Parramatta NSW 2150
Dates of visit	27-28 August 2014
Capral	Andrew Barlow, Group Commercial Manager
Consultant to Capral	Justin Wickes
the Commission	Mick Kenna, Assistant Director, Operations 4 Melanie Brandis, Assistant Director, Operations 4 Kerry Taylor, Director, Operations 4

A copy of the meeting agenda is at **Confidential Attachment 1**.

1.4 Review process and timeframes

The visit team advised Capral of the review of measures process and timeframes as follows.

- The review period is 1 April 2013 to 31 March 2014.
- The Statement of Essential Facts (SEF) for the review of measures is due to be placed on the public record by 1 October 2014, or such later date as the Parliamentary Secretary allows under s.269ZHI of the *Customs Act 1901* (the Act).²

The SEF will set out the material findings of fact on which the Commission intends to base its recommendations to the Parliamentary Secretary, and will invite interested parties to respond, within 20 days, to the issues raised therein.

- Following receipt and consideration of submissions made in response to the SEF, the Commission will provide its final report and recommendations to the Parliamentary Secretary.

This final report is due no later than 17 November 2014, unless an extension to the SEF is approved by the Parliamentary Secretary.³

1.5 Visit report

The visit team advised Capral that the visit team would prepare a report of the visit and provide it to Capral to review its factual accuracy, and to identify those parts of the report it considers to be confidential.

It was explained that, in consultation with Capral, the visit team would prepare a non-confidential version of the report, and place this on the review of measure's public record.

² Subsequent to the verification visit, the Parliamentary Secretary provided an extension such that the SEF is now due no later than 30 December 2014.

³ Subsequent to the verification visit, the Parliamentary Secretary provided an extension to the SEF such that final recommendation to the Parliamentary Secretary is now due no later than 13 February 2015.

2 THE GOODS

2.1 Description

The goods the subject of the review (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, originating in or exported from China.

2.2 Tariff classification

The goods may be classified to tariff subheadings 7604.10.00 (statistical code 06), 7604.21.00 (statistical codes 07 and 08), 7604.29.00 (statistical codes 09 and 10), 7608.10.00 (statistical code 09), 7608.20.00 (statistical code 10), 7610.10.00 (statistical code 12) and 7610.90.00 (statistical code 13) in Schedule 3 of the Customs Tariff Act 1995. The rates of duty for the goods from China are 4 per cent for goods classified to headings 7604 and 7608 and 5 per cent for goods classified to heading 7610.

3 COMPANY DETAILS

3.1 Corporate, organisational and ownership structure

Capral is a public company listed on the Australian Securities Exchange.

Capral is the main operating company in the group. There are two relevant subsidiaries:

- Aluminium Extrusion and Distribution Pty Ltd – a non-trading entity which owns the Angaston (SA) extrusion plant property (acquired from the Crane group in 2005). Austex Dies Ltd – Capral's extrusion die shop operation in Minto, NSW.

Capral shares are held by a number of Australian institutional investors. Capral's board is largely independent from its shareholders.

Capral provided documentation of its organisational and ownership structure at **Confidential Attachments 2 and 3**.

3.2 Accounting structure and details of accounting systems

Capral uses SAP which captures costs in cost centres, which are linked to profit centres. The manufacturing plants use a standard costing system. Payroll is outsourced to a third-party provider.

Capral prepares a number of management accounts on a monthly basis. These are prepared by division. Capral and its two subsidiaries noted above report in consolidated group accounts.

3.3 Relationship with suppliers and customers

Capral advised that it is not related to any of its customers. However, Capral does have a distribution business division and for internal record-keeping purposes, Capral records in its accounts sales to this distribution business as internal transfers (e.g. recording internal cost of goods sold).

3.4 Functions of company

Capral commenced operations in Australia in 1936 and is Australia's largest manufacturer and distributor of Aluminium extrusions in Australia.

Capral manufacturing operations include plants located in:

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

Capral's manufacturing operations produce a range of aluminium extrusion finishes from its powder coating and anodising lines.

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Capral is Australia's largest distributor of extruded aluminium products and systems. It offers architectural, residential and industrial products direct from its plants, and through its national distribution network. The range of products includes:

- geometric sections;
- residential and commercial window & door extrusions and systems; and hardware;
- security window & door extrusions and systems;
- customer exclusive extrusions; and
- rolled, coil, plate products and accessories.

3.5 The goods and like goods

Capral has provided a detailed submission on its views on goods covered by the notices (submission dated 18 July 2014, EPR248/16). At the visit, Capral reiterated its statements in that submission.

Capral noted it was important that goods coming into Australia that should be subject to anti-dumping duties, were in fact subject to those duties. Capral raised with the visit team some concerns that some goods may not be being subject to anti-dumping duties. Capral stated that they had observed large rises in the 7610 tariff class over time. Capral expressed the view that the goods were being declared under this tariff class, and being incorrectly identified as not being subject to anti-dumping duties.

4 AUSTRALIAN MARKET

4.1 Background

Capral advised that the market structure in Australia with respect to aluminium extrusions has not changed significantly since the original investigation. Capral provided some updated information on market participants and market prices, as detailed below.

4.2 Aluminium extrusions applications and market segments

Aluminium extrusions are used in a wide variety of applications. Capral considers the main market segments are:

- Residential, comprising approximately [REDACTED] per cent of the overall market. The residential segment includes products such as windows and doors, security, internal fitout of showers and robes, external fit out, and fencing.
- Commercial, comprising approximately [REDACTED] per cent of the overall market. The commercial market segment includes commercial window and doors, internal and external fitout, and curtain wall.
- Industrial, comprising approximately [REDACTED] per cent of the overall market. The industrial market segment includes automotive, truck and trailer, rail, electrical, signage, marine, portable buildings and large industrial infrastructure.

Of these market segments, Capral estimates its market share as [REDACTED] per cent (residential), [REDACTED] per cent (commercial), and [REDACTED] per cent (industrial).

4.3 Australian market participants

Capral runs eight aluminium extrusion presses from its manufacturing plants. Capral noted that Australian aluminium extrusion manufacturers, other than Capral, include:

- G James – Extrusion, finishing, windows and door fabrication – four presses;
- Almax – Extrusion, finishing, importer – two presses;
- Extrusions Australia – Extrusion, finishing – two presses;
- Inex – Extrusion, finishing – two presses;
- Ullrich – Extrusion, finishing, distributor – one press;
- Extrusion Profiles Australia – Extrusion, finishing – two presses;
- Aluminium Shapemakers (Alushapes) – Extrusion, machining – two presses; and
- Olympic – Extrusion, one press.

4.4 Competition

In terms of local competition, Capral considers that [REDACTED] [company name] offers very low prices considering costs.

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Distributors of aluminium extrusions in Australia include Capral, Alspec, Olympic, Darley, Rapid, Apple, Action, Alsun, Bluescope, Ullrich, MCK, P&O, Oceanic, Pressed Metal and Trango.

The main off-shore extrusion manufacturers competing in the Australian market are:

- Pan Asia – Extrusions (China), importer, distributor;
- Kam Kiu – Extrusions (China), importer;
- Tai-Ao – Extrusions (China), importer;
- Press Metal – Extrusions (China, Malaysia), importer, distributor;
- New Zhongya – Extrusions (China), importer;
- Guang Ya – Extrusions (China), importer; and
- McKechnie (MCK) – Extrusions (NZ), importer, distributor.

In relation to Pan Asia, Capral claimed that:

- [REDACTED] imports into Australia are by Pan Asia;
- this company, or group of companies, has a complex legal and operational structure; and
- [REDACTED] [Information submitted by Capral on Pan Asia]

On 19 March 2014, Capral lodged an application requesting an inquiry into the circumvention of measures applying to certain aluminium extrusions exported to Australia from China and identified PanAsia as the exporter.

Capral noted that New Zhongya, Guang Ya and Press Metal are significant players, with similar business models to Pan Asia.

In relation to Kam Kiu, Capral claimed that:

- Kam Kiu [REDACTED];
 - Kam Kiu [REDACTED];
 - Kam Kiu [REDACTED]; and
 - Kam Kiu [REDACTED].
- [Information submitted by Capral on Kam Kiu]

Capral noted that Tai Ao [REDACTED]

[Information submitted by Capral on Tai Ao]

[REDACTED] [company], a local manufacturer, is also believed to import from a Chinese mill. There are also a number of small to medium size distributors who purchase from various sources overseas. These generally appear to be arms length relationships.

Capral noted that although statistics showed some imports against relevant tariff classes from Japan, these goods did not appear to compete with Australian produced aluminium extrusions.

4.5 Key factors influencing market performance

Capral advised that key drivers of the market are:

- housing construction and commercial building activity;
- general Industrial activity - mining, general fabrication, marine, etc;
- major Infrastructure projects - rail, roads, airports, etc; and
- the level of finished product substitution (for local manufacture).

4.6 Australian market prices

Capral noted that import competition has led to:

- 1) A reduction in selling prices;
- 2) A general flattening of pricing structures in the market.

To demonstrate point (2) Capral used extrusion shape complexity as an example. Shape complexity is a key driver of cost and in the past, there was a strong price differential to compensate for the additional production costs. Over time, that has reduced. Whilst the local industry still attempts to recover a premium for complexity, Capral claimed that dumped imports had increasingly led to commodity based pricing.

Capral's pricing is generally based on the LME, plus a processing fee or 'spread', plus premiums/surcharges. Capral noted that:

- The LME is the London Metal Exchange price of aluminium and represents a market base price benchmark generally used by the industry.
- The spread is a fee to cover the costs of processing, freight, selling & administration costs and an allowance for profit. Over the last 18 months it has been reviewed more often, largely due to increasing world 'billet premiums', leading to significant increases in input costs.
- Premiums/surcharges may include a charge for the particular alloy, finish, or cut length. The value of those premiums has reduced over time as the pricing becomes more commodity driven, as a result of import competition.

Capral noted that it provided a limited number of rebates to customers. Capral's major rebate values relate to [REDACTED]

[REDACTED]

[description of rebates].

The main product input into aluminium extrusion manufacturing is primary aluminium, which Capral purchases as billet. The charge for that is the LME price, plus an ingot premium, plus a billet premium. The ingot premium was for many years generally around US\$100 a tonne. However, since quarter two 2012 (US\$121.50 per tonne) the ingot premium has increased significantly, to a record US\$420 per tonne in Q4 2014. The ingot premium is expected to stay at these high levels, and possibly increase further, over the next three to five years. Capral stated that this has resulted in significant cost pressure on local manufacturers, as many importers have not passed on the ingot premium increases.

Capral noted that ingot and billet premiums, being price components in the supply of physical primary aluminium billet, are distinct from a 'trader premium' paid by Chinese manufacturers. A 'trader premium' is a charge from an intermediary for dealing directly with a primary aluminium smelter or an aluminium warehouse storage facility (i.e. for a service). Capral did not purchase a comparable service as it dealt with the smelter directly.

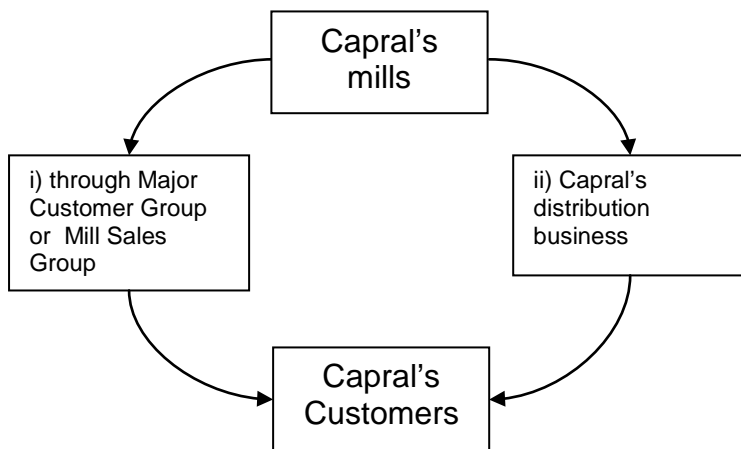
Capral noted that since the original investigation production costs had increased significantly due to metal premiums, and requested the Commission be mindful of this increasing variable cost factor when implementing measures. By contrast, Capral noted that the duty assessment process was available to importers in the event of billet premiums falling.

4.7 Marketing and distribution

4.7.1 General

Capral described its sales flow as shown in figure 1.

Figure 1: Capral manufacturing division sales flow



Capral's "Major Customers Group" services Capral's large customers. These include [REDACTED] [companies]. Capral's Major Customers Group also

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services [redacted] [companies] in order to maintain internal separation from Capral's own distribution business.

The "Mill Sales Group" deals with the next tier of customer. [redacted] [redacted] [information on Mill Sales Group]. The products are shipped from the plant to the customers nominated ship to address.

As shown in figure 1, Capral also sells to customers through its own distribution business.

4.7.2 Mill sales (major customers and mill sales group)

Capral advised that both mill sales and distribution sales are significant parts of the business. Pricing to [redacted] will generally be lower than prices to [redacted] [redacted] [information on pricing].

Capral noted the importance of customer relationships and that Capral was able to differentiate on the quality of its technical and product support.

Capral noted that it generally 'made to order' aluminium extrusions for its mill customers. Capral noted that there was a portion of fixed waste at the start up of an extrusion run as well as set up time associated with preparing the steel die and operating the press. Accordingly, larger volumes were more efficient as that fixed cost could be spread across that larger volume. Average production run sizes are around [redacted] kgs, with much smaller run sizes becoming more common.

Capral noted that there had been a shift in the market towards smaller order sizes, due mainly from import competition, which was now forcing local manufacturers to match this offer. Chinese suppliers were willing to stock and supply smaller quantities from their warehousing facilities. This had led to prices for small order sizes approaching those previously charged for container volumes. As a result – particularly for smaller and ex-warehouse customers – the price difference between ex-mill and ex-warehouse had become much smaller.

In its manufacturing business, Capral had minimal facilities to 'warehouse' product. Capral advised that it did have some storage facilities at its Bremer Park mill. Capral noted the need to consider warehousing costs when calculating the NIP. In particular, that the non-injurious price may need to take into account Australian warehousing costs incurred by importers such as P&O, Oceanic, Darley, Press Metal, and Trango – as the product offers from these companies increasingly compete directly with Capral's ex-mill product offer.

Capral's manufacturing business generally ships [redacted] to ex-mill customers. There are freight surcharges for some interstate or regional deliveries (eg: [redacted]) [information on shipping and routes].

4.7.3 Capral's distribution business

In the distribution business, Capral has an extensive warehouse network. Capral noted that this can be contrasted to mill sales, where Capral has only minimal warehouse facilities. Capral's distribution business generally charges a delivery fee per shipment.

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Capral outsources its freight requirements to external providers such as [REDACTED] [company names], and Capral did not have its own fleet for deliveries.

In its accounts, Capral classifies its mill sales as being either internal or external. It considers internal sales as sales made to its own distribution business, and external sales as sales made directly by the mill to unrelated distributors and fabricators.

Capral explained that it had classified 'like goods' as sales made by its mills, and not sales made by its downstream distribution network. The visit team note that this is consistent with how the data was verified in the original investigation.

5 SALES

5.1 Total sales value and volume of trade

Capral provided the visit team with total sales values and volumes from its SAP system for domestic sales of the goods under consideration, by finish.

Capral provided the spread sheet Appendix A3 Sales Turnover (**Confidential Attachment 22**). This document listed the value and volume of sales of all products and aluminium extrusions (like goods) in total and disaggregated by finish.

	Volume (tonnes)	Value ('000)
All products	████████	████████
Like goods	████████	████████
Proportion like goods	90.01%	████████

Table 5.1.1: Capral Sales Turnover

To assess sales data for completeness and relevance, the visit team verified the calculation of sales revenue. The sales revenue figure for the GUC in Capral's questionnaire was calculated as follows:

- sales revenue from the manufacturing management accounts was used as the starting point;
- adjustments were made to remove “manufacturing other” and Austex sales of dies, as these were not the goods under consideration;
- an adjustment was made to remove ‘scrap sales’ from the sales revenue. Capral reclassified this cost as an offset against / reduction of raw material cost, rather than a source of sales revenue;
- an adjustment to remove a one-off government grant from revenue, reclassifying this as reduction of variable manufacturing costs;
- an adjustment to remove rolled and hardware sales that were not the goods under consideration;
- an adjustment for cross plant recoveries; and
- an adjustment to remove export sales.

Similarly, the figure for sales revenue for total manufacturing (goods under consideration and goods not under consideration) was calculated by using the sales revenue from the manufacturing management accounts and making adjustments for scrap, one-off government grant, and cross plant recoveries.

Capral provided documents to verify each of the above adjustment figures in its management accounts.

To verify the management accounts were accurate, the visit team then sought to reconcile the management account to the audited accounts. The audited consolidated statement of profit or loss and comprehensive income for the financial year ended

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31 December 2013 (**Attachment 11**) revenue of \$310,662,000 (including other income of \$408,000) reconciled exactly to sales revenue in the Capral management accounts over the same period (**Confidential Attachment 12**).

5.2 Verification of data on sales

In order to verify information on sales, Capral provided the visit team with:

- a sales break down of volume and revenue by month, across the review period, divided into aluminium extrusions (by finish) and rolled and hardware products;
- a spread sheet of all sales for the month of September 2013; and
- source documents for a selection of sales for the month of September 2013.

(Confidential Attachment 49)

The total volumes and values shown in the sales break down by month spread sheet matched the values shown in appendix A5 of Capral's questionnaire. As explained above, these values can be reconciled to Capral's management accounts which reconcile to the audited accounts.

For the selected sales listing for September 2013, the visit team verified that the sum of the sales revenue and sales volume for those listings matched the 'sales break down by month' spread sheet.

For the selected sales, Capral provided:

- tax invoices issued by Capral to the named customer;
- proof of payment from Capral's accounting system; and
- supporting documents from Capral's systems on sales volume (weight) for listed sales.

The visit team verified these documents to the sales data provided in the spread sheet of all sales for the month of September 2013. No discrepancies were found.

5.3 Completeness and relevance of sales data - conclusion

Having regard to the above, the visit team consider that the sales data provided represents reasonably complete and relevant accounts of the sales of Aluminium extrusions during the review period.

6 COST TO MAKE AND SELL

6.1 General

Prior to the visit, Capral provided the Commission with cost to make and sell data in Appendix A6 of its Australian industry questionnaire response. At the visit, the visit team sought to verify that data to audited financial statements.

6.2 Verification of cost to make and sell data to audited financial statements

Capral had provided information on its cost to make and sell in Appendix A6 of its questionnaire response. At the visit, Capral identified that these numbers had been sourced from their management accounts with some adjustments.

The visit team undertook a three step verification process:

- Firstly, the visit team checked the information provided in the management accounts to the information presented in Capral's questionnaire response.
- Secondly, the visit team verified the information in the management accounts were supported by underlying source documents.
- Thirdly, the visit team confirmed that the management accounts could be reconciled to audited financial statements.

This three step verification process allowed data provided in Appendix A6 to be traced to management reports from Capral's SAP system and its audited financial statements in order to verify the accuracy of the cost to make and sell data to audited financial statements.

6.2.1 Management accounts and Capral's cost to make and sell data

Capral provided information on how the information in its questionnaire response had been prepared based on its management accounts. Capral provided the visit team with management reports from its SAP systems for the review period and, for the purpose of matching to audited statements, for the financial year ended 31 December 2013 and 2014 half year ending 30 June 2014. These management reports were divided by business unit as well as for total manufacturing.

The visit team confirmed that the breakdown for each of the business units matched the totals shown for 'manufacturing' (**Confidential Attachment 25**), which was used to calculate the expenses by finish.

Capral explained that to provide a division by finish:

- For sales, Capral explained that it had allocated its revenues by finish on the basis of its records as to the sales by finish as recorded in its systems (**Confidential Attachment 24**).
- For expenses, Capral prepared a cost for manufacture of mill finish by deducting costs not associated with the manufacture of mill finish. These include paint costs,

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anodising costs, worked products costs, ex-warehouse, and Austex costs (**Confidential Attachments 39-43**).

As an example, the visit team traced some specific costs recorded in the management reports to costs listed in appendix A6. For example, for the “GUC-Mill Finish” cost to make and sell spread sheet in appendix A6.1:

- the amount recorded for “direct labour” in appendix A6.1 (mill finish) could be traced to the sum of the management account figures for “salaries and wages”, “contractors” and “abnormal” in the appropriate management accounts;
- the amount recorded for “variable overhead” in appendix A6.1 (mill finish) could be traced to the sum of “packaging”, “energy cost” and “dies expense” in the management accounts; and
- the amount recorded for “depreciation” in appendix A6.1 (mill finish) could be traced to the amount for “depreciation” in the management accounts.

For “raw materials metal” Capral provided a more detailed explanation of how this number had been calculated based on numbers from the management accounts. This reconciliation is at **Confidential Attachment 26**. The visit team notes that Capral has adjusted the management account figures to remove the cost of goods sold for export sales and for rolled products. This adjustment is appropriate and the visit team were able to trace the figures used to the management accounts.

From the above, the visit team were satisfied that Capral’s cost to make and sell data in Appendix A6 had been prepared based on management accounts subject to reasonable adjustments and that the basis of those adjustments could be verified. The visit team then sought to establish that those management accounts were themselves accurate and could be verified to source documents and to audited financial statements.

6.2.2 Verification of production costs to source documents

Having established that the information in Capral’s questionnaire response drew largely from management accounts, the visit team conducted a downwards reconciliation from the management accounts to underlying source documents.

As set out below, the visit team verified cost of goods sold (COGS) and certain other production costs.

Cost of goods sold

Capral provided a schedule of its monthly ‘metal’ costs for the review period (**Confidential Attachment 50**). The schedule shows the cost of aluminium incorporated in the COGS from which scrap revenue and other costs have been deducted. The schedule shows how, after making adjustments for inventory changes, sales of products other than aluminium extrusions and exported aluminium extrusions, the total aluminium cost reconciles with the amount shown in Capral’s cost to make and sell for all finishes.

The schedule includes an amount under a row labelled ‘other’ (which is a negative amount for September 2013). The visit team asked Capral to explain what this amount represented. Capral provided a schedule of the general ledger accounts, the sum of which represents the amount described as ‘other’ (**Confidential Attachment 51**). The

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accounts falling under the 'other' item include manufacturing variance, purchase price variance and the gain or loss from the revaluation of billet and aluminium scrap. Capral explained that each month it re-values its inventories of aluminium to the prevailing purchase price. Capral provided screenshots from its accounting system showing a sample of transactions making up the 'other' item in September 2013 (**Confidential Attachment 52**).

The visit team selected the month of September 2013 for further verification. Capral provided an electronic file showing individual transactions making up the unadjusted metal cost for September 2013. The total of the transactions equals the total shown on the metal summary worksheet (**Confidential Attachment 50**). For a selection of the individual transactions, Capral provided screenshots from its accounting system showing the transfer of aluminium costs from the asset account to production (**Confidential Attachment 53**). The cost of aluminium used in production per kilogram for the selected transactions is \$ [REDACTED] per kilogram other than in one instance where a more expensive alloy cost \$ [REDACTED] per kilogram.

Capral also provided two invoices for scrap sales for September 2013 (**Confidential Attachment 54**). The invoices show the sale of aluminium scrap at a price of \$ [REDACTED] per kilogram.

Capral also provided its May 2013, September 2013 and February 2014 pricing schedules for purchases of aluminium billet from its supplier Rio Tinto Alcan (**Confidential Attachment 55**). The schedule shows the delivered price of aluminium billet delivered to Capral's various manufacturing sites. The schedule shows that the price of aluminium billet for September 2013 is the average cash London Metal Exchange (LME) aluminium price for the previous month (in this case August 2013) plus the quarterly cost insurance and freight major Japanese ports (CIFMJP) ingot premium plus a 'base product premium'. The price list includes additional charges for certain alloys and billet diameters. The delivered base price agrees with the principal unit aluminium billet cost shown in Capral's accounts for September 2013.

Capral also provided a sample of invoices for the purchase of aluminium ingot in September 2013 (**Confidential Attachment 56**). The visit team were able to confirm that the invoiced price is consistent with the pricing schedule for September 2013 and the cost recorded in Capral's accounting system.

Other production costs

From the management reports from Capral's SAP systems for the 2013 financial year the visit team selected some additional items for further downwards verification. The selected items reflected a spread of inputs into the appendix A6.1 spread sheet and were:

- for direct labour – "salaries and wages", September 2013, Bremer Park Mill;
- for variable overheads – "dies expense" , September 2013, Bremer Park Mill; and
- for fixed manufacturing costs – "depreciation and maintenance", September 2013, Bremer Park Mill.

For each selected item, Capral then provided a list of general ledgers (with associated totals) (**Confidential Attachment 10**). From this list, the visit team selected the following items for further downwards verification:

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- for external cost of goods sold – “cost of goods sold MTO” (made to order);
- for direct labour – “salaries normal” and “wages normal”;
- for die expense – “remake Dies expense”; and
- for depreciation – “depreciation plant machinery and equipment at cost”.

For salaries and wages, Capral provided from its accounting system a list of all general ledger items for Bremer Park Mill in the months of September 2013 and November 2013 for the general ledgers of “salaries normal” and “wages normal”. The month of November 2013 was added because Capral outsources payroll to a third party provider and underlying source documents were more readily available for November 2013. The visit team then selected some transactions for further verification to source documents. Capral provided records from its third party provider of payroll services verifying details of these payments (**Confidential Attachment 45**).

For remake dies expense, Capral provided the underlying invoices for expenses recorded in its accounting system and the visit team verified these were accurate (**Confidential Attachment 45**).

For depreciation and amortisation, Capral provided from its accounting system a list of how depreciation had been recorded and the visit team verified some items to underlying documents (**Confidential Attachment 46**).

From the above, the visit team were satisfied that Capral's management accounts were reasonably complete and accurate accounts.

6.2.3 Verification to audited financial statements

As above, the visit team were able to verify that information Capral had provided the Commission was based largely on their management accounts and were satisfied as to the accuracy of those management accounts to source documents and how that information had been included by Capral in its questionnaire response.

The visit team then sought to verify the information in Capral's management accounts (**Confidential Attachments 14 to 19**) to audited financial statements. Capral provided audited financial statements for the review period including audited half yearly reports, covering the entire review period (**Confidential Attachments 11, 13 and 20**).

As noted above, the sales revenue in the audited financial statements reconciled exactly to the management accounts. Further, the profit/loss after tax also reconciled exactly for the 2013 financial year. There were some differences in particular expense items, due to differences in how particular expenses had been recorded in the management accounts and the audited accounts.

Capral noted that the audited financial statements showed an ‘impairment loss’ and that this item was listed as ‘abnormals’ in the management accounts. The visit team verified that the ‘impairment loss’ of \$41,487K for the financial year ended 31 December 2013 could be matched to the management accounts for the same period.

6.2.4 Accuracy of production costs - conclusion

Having regard to all of the above the visit team consider that the production cost data provided is a reasonably accurate account of the actual costs to manufacture aluminium extrusions during the review period.

6.3 Selling, distribution and administration costs

To assess selling, distribution and administration cost data for accuracy, verification to source documents was undertaken.

Capral keeps separate management accounts for a corporate cost centre. Capral explained to the visit team that it allocated normally unallocated costs to manufacturing based on a sales volume analysis. That sales volume analysis showed ■ per cent of sales volume were mill sales, and therefore that percentage of unallocated corporate expenses had been allocated to mill sales in Capral's response. The visit team was provided documents to verify this including a sales volume analysis and the corporate management accounts (**Confidential Attachment 28**).

The visit team noted no anomalies with the verification of selling, distribution and administration costs to the source documents.

6.3.1 Accuracy of selling, distribution and administration costs - conclusion

Having regard to all of the above the visit team consider that the selling, distribution and administration cost data provided is a reasonably accurate account of the actual costs to sell Aluminium extrusions during the review period.

6.4 Costs to make and sell – conclusion

The visit team consider that Capral's cost to make and sell data in Appendix A6, is a reasonably complete, relevant and accurate reflection of the actual costs to manufacture and sell aluminium extrusions during the review period.

7 GENERAL COMMENTS AND OTHER MATTERS

Other matters of note discussed during the verification are outlined below.

7.1 Unsuppressed selling price

Capral will make further submissions on the unsuppressed selling price and NIP as the review progresses.

7.2 Current market conditions

The visit team noted that the review of measures would not consider injury or causation issues. For those reasons, injury is not addressed comprehensively in this report.

However, Capral did note that while its production volumes were broadly in line with last year, with some improvements in the residential housing market offsetting industrial market weakness, Capral and the Australian industry was under enormous price pressure. Margins were declining due to a combination of a stable market and a stable level of imports overall (despite dumping & countervailing duties) – leading to significant local capacity underutilisation – and in turn leading to increased price competition.

7.3 Competitive market costs

Capral had previously made a submission on competitive market costs (submission of 31 July 2014, EPR248/021). At the verification visit, Capral repeated its position as outlined in that submission and encouraged the Commission to consider the use of independent experts to assist in that part of the analysis.

Capral indicated that it intended to make a separate submission on the appropriate primary aluminium benchmark. Capral also noted that energy was an important input into aluminium extrusion production, and referred to its position outlined in its submission.

8 APPENDICES AND ATTACHMENTS

Confidential Attachment 1	Visit Agenda
Confidential Attachment 2	Capral organisational Structure
Attachment 3	Ownership details
Confidential Attachment 4	Appendix A6.1 Cost to Make and Sell with information on sales for manufacturing and internal sales
Confidential Attachment 5	Customs Import Data
Confidential Attachment 6	Documents supplied by Capral regarding PanAsia Aluminium (China) Co, Ltd
Confidential Attachment 7	Investment Detail on Capral Limited
Confidential Attachment 8	Breakdown of sales by market segment
Confidential Attachment 9	Capral sales by segment/end use
Confidential Attachment 10	Capral list of general ledgers, September 2013
Attachment 11	Capral's audited financial statements 2013
Confidential Attachment 12	Management accounts (consolidated), 2013
Confidential Attachment 13	Capral Limited condensed statement of P&L and statement of comprehensive income
Confidential Attachment 14	Management accounts (consolidated), 2014
Confidential Attachment 15	Management accounts aligned with review period
Confidential Attachment 16	Management accounts – Manufacturing
Confidential Attachment 17	Management accounts – Distribution
Confidential Attachment 18	Management accounts – Distribution
Confidential Attachment 19	Management accounts – corporate management
Confidential Attachment 20	Audited financial statements first half year 2014

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Confidential Attachment 21	Capral Annual Report 2013
Confidential Attachment 22	Sales Turnover, Appendix A3
Confidential Attachment 23	Sales of other production, Appendix A6
Confidential Attachment 24	Sales volume analysis – management pack 2
Confidential Attachment 25	Management accounts – all manufacturing
Confidential Attachment 26	Sales revenue reconciliation prepared by Capral
Confidential Attachment 27	Cost to make and sell domestic sales A6.1 and analysis
Confidential Attachment 28	Corporate allocation April 2013 to March 2014
Confidential Attachment 29	Sales for manufacturing (excluding Austex and manufacturing other) and expenses by mill finish – based on management accounts
Confidential Attachment 30	CTMS – Domestic Sales – A.6.1 – Domestic GUC – All Finishes
Confidential Attachment 31	CTMS – Domestic Sales – A.6.1 – GUC – Mil Finish
Confidential Attachment 32	CTMS– Domestic Sales – A.6.1 – GUC - Painted
Confidential Attachment 33	CTMS– Domestic Sales – A.6.1 – GUC - Anodised
Confidential Attachment 34	CTMS– Domestic Sales – A.6.1 – GUC – Worked (Cambellfield)
Confidential Attachment 35	CTMS– Export Sales – A.6.1 – GUC Export – Mill Finish
Confidential Attachment 36	CTMS – Ex Stock Sales – A.6.1 – Non GUC – ex-warehouse sales
Confidential Attachment 37	CTMS – Rolled Sales – Non GUC
Confidential Attachment 38	CTMS
Confidential Attachment 39	Management Accounts - Paint Costs

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Confidential Attachment 40	Management Accounts – Anodising costs
Confidential Attachment 41	Management Accounts – worked Campbellfield costs
Confidential Attachment 42	Management Accounts - “Ex warehouse” - review period
Confidential Attachment 43	Management Accounts - Austex - review period
Confidential Attachment 44	Invoices for selected COGS, September 2013
Confidential Attachment 45	Invoices for selected die expenses, September 2013
Confidential Attachment 46	Depreciation documents, September 2013
Confidential Attachment 47	OneSteel pricing, August 2013
Confidential Attachment 48	Capral Distribution pricing, August 2013
Confidential Attachment 49	Capral sales information September 2013 and selected invoices for September 2013
Confidential Attachment 50	Schedule of monthly ‘metal’ costs for the review period
Confidential Attachment 51	Schedule of general ledger accounts
Confidential Attachment 52	Screenshots of sample of transactions for ‘other’ items September 2013
Confidential Attachment 53	Screenshots from accounting system showing transfer of aluminium costs from asset account to production
Confidential Attachment 54	Invoices for scrap sales September 2013
Confidential Attachment 55	Pricing schedules for purchases of aluminium billet, May 2013, September 2013 and February 2014
Confidential Attachment 56	Invoices for the purchase of Aluminium ingot, September 2013

Member Details

(In accordance with the Listing Rules:)

AS AT 28 FEBRUARY 2014

1. Twenty largest holders

Details of Capral's twenty largest shareholders were as follows:

NO.	NAME OF HOLDER	NUMBER OF SHARES HELD	ISSUED CAPITAL HELD (%)
1	National Nominees Limited	115,383,867	24.38
2	Citicorp Nominees Pty Limited	61,855,021	13.07
3	J P Morgan Nominees Australia Limited	57,108,581	12.07
4	RBC Investor Services Australia Nominees Pty Limited - Pipooled Account	44,630,453	9.43
5	HSBC Custody Nominees (Australia) Limited	40,153,613	8.48
6	BNP Paribas Noms Pty Ltd – DRP	21,119,909	4.46
7	Citicorp Nominees Pty Limited – Colonial First State Inv Account	14,433,967	3.05
8	HSBC Custody Nominees (Australia) Limited – Nt-Comnwlth Super Corp Account	13,727,610	2.90
9	RBC Investor Services Australia Nominees Pty Limited – PI Credit	11,729,227	2.48
10	QIC Limited	6,050,878	1.28
11	UBS Nominees Pty Ltd	3,853,572	0.81
12	Mr Philip John Jobe	3,000,000	0.63
13	Mr Anthony Matthew Dragicevich	1,978,118	0.42
14	UBS Wealth Management Australia Nominees Pty Ltd	1,960,500	0.41
15	LSR Autobody Pty Ltd	1,423,438	0.30
16	Chemical Trustee Limited	1,404,000	0.30
17	Mr Cholmondeley Darvall	1,350,000	0.29
18	J P Morgan Nominees Australia Limited – Cash Income A/C	1,217,523	0.26
19	Debuscey Pty Ltd	1,140,604	0.24
20	Mr Herbert Gregory Greber	1,134,697	0.24
Total		404,655,578	85.50

Consolidated Statement of Profit or Loss and Comprehensive Income

FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2013

		2013	2012
	NOTE	\$'000	\$'000
Continuing operations			
Sales revenue		292,383	285,956
Scrap and other revenue		17,871	17,983
Revenue	3	310,254	303,939
Other income	3	408	539
Bargain purchase gain	30	3,126	–
Changes in inventories of finished goods and work in progress		8,733	(2,476)
Raw materials and consumables used		(177,294)	(157,074)
Employee benefits expense	2	(76,668)	(79,728)
Depreciation and amortisation expense	2	(9,451)	(12,444)
Impairment loss		(41,487)	–
Finance costs	2	(832)	(618)
Freight expense		(8,904)	(10,959)
Occupancy costs	2	(15,401)	(14,564)
Repairs and maintenance expense		(5,945)	(6,147)
Restructuring costs	2	(4,298)	(1,344)
Other expenses		(33,948)	(30,111)
Loss before tax		(51,707)	(10,987)
Income tax benefit	4	–	–
Loss for the year		(51,707)	(10,987)
Other comprehensive income			
Items that will not be reclassified subsequently to profit or loss			
Gain on revaluation of properties		–	221
Other comprehensive income for the year		–	221
Total comprehensive loss for the year		(51,707)	(10,766)
Basic and Diluted loss per share (cents per share)	25	(12.5)	(2.8)

The weighted average number of ordinary shares on issue used in the calculation of basic and diluted loss per share was 413,552,536 (2012: 387,898,255).

The above consolidated statement of profit or loss and comprehensive income should be read in conjunction with the accompanying notes.