



Australian Government  
Australian Customs and  
Border Protection Service

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| PUBLIC<br>FILE |
| FOLIO 238      |
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**INVESTIGATION INTO THE ALLEGED DUMPING OF  
CERTAIN STRUCTURAL TIMBER**

**EXPORTED TO AUSTRALIA FROM  
AUSTRIA, CANADA, THE CZECH REPUBLIC,  
ESTONIA, GERMANY, LITHUANIA, SWEDEN AND  
THE USA.**

**EXPORTER VISIT REPORT**

**STORA ENSO WOOD PRODUCTS PLANÁ S.R.O.**

**AND**

**STORA ENSO WOOD PRODUCTS ŽDÍREC S.R.O.**

**CZECH REPUBLIC**

January 2012

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## 2 ABBREVIATIONS

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|-------------------------------|--|
| \$                            | Australian dollars   |
| The Act                       | Customs Act 1901   |
| The applicants                | Building Supplies Group Holding Pty Ltd (BSG), Hyne & Sons Pty Ltd (Hyne) and Gunns Limited (Gunns)  |
| BSG                           | Building Supplies Group Holding Pty Ltd  |
| CIP                           | Carriage and insurance paid  |
| CLS                           | Canadian Lumber Standard   |
| CTMS                          | Cost To Make & Sell  |
| Customs and Border Protection | Australian Customs and Border Protection Service   |
| EBIT                          | Earnings before interest and tax   |
| ERP                           | Enterprise resource planning   |
| EXW                           | Ex-works   |
| FCA                           | Free carrier   |
| Fj                            | Finger jointed product   |
| FOB                           | Free On Board  |
| GAAP                          | Generally Accepted Accounting Principles   |
| H2                            | Hazard level 2 – specification for preservative treatment to protected interior timber applications against the potential for termite attack |
| HFM                           | Hyperion Financial Management  |
| IFRS                          | International Financial Reporting Standards  |
| KD                            | Kiln-dried   |
| KVH                           | Konstruktionsvollholz, i.e. Solid construction timber  |
| KVH HV                        | Konstruktionsvollholz, HV i.e. solid construction timber – semi-processed  |
| LIBOR                         | London Interbank Offered Rate  |
| m <sup>3</sup>                | Cubic metres   |
| MGP                           | Machine grade pine   |
| NIP                           | Non-injurious Price  |
| PAD                           | Preliminary Affirmative Determination  |
| RW                            | Redwood  |
| SAP                           | Accounting software  |
| S4S                           | Surface four sides   |
| S4SEE                         | Surface four sides rounded corner  |
| SD                            | Special dried  |
| SEF                           | Statement of Essential Facts   |
| SEWP Czech                    | Stora Enso Wood Products Ždírec S.R.O. and Stora Enso Wood Products Planá S.R.O., Czech Republic   |
| SPF                           | Spruce-pine-fir<br>Spruce (Picea abies excelsa), pine (Pinus sylvestris) and douglas fir/larch (Pseudotsuga-larix deciduas)                  |
| structural timber             | As defined in section 3.1 of this report   |
| Tariff Act                    | Customs Tariff Act 1995  |
| the goods                     | the goods the subject of the application   |
| the Minister                  | the relevant Minister, in this case the Attorney-General   |
| USA                           | United States of America   |
| USP                           | Unsuppressed Selling Price   |
| WW                            | Whitewood  |

**3 BACKGROUND**

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**3.1 Introduction**

On 5 August 2011, Building Supplies Group Holding Pty Ltd (BSG), Hyne & Sons Pty Ltd (Hyne) and Gunns Limited (Gunns) lodged an application requesting that the relevant Minister (in this case the Attorney-General<sup>1</sup>) publish a dumping duty notice in respect of structural timber exported to Australia from Austria, Canada, the Czech Republic, Estonia, Germany, Lithuania, Sweden and the United States of America (USA). On 18 and 24 August 2011, the applicants provided further information in support of their application. As a result, the Australian Customs and Border Protection Service (Customs and Border Protection) restarted the twenty day period for considering the application.

The application alleges that exports of certain structural timber from the above nominated countries has been exported to Australia at prices less than its normal value and that this dumping has caused material injury to the Australian industry.

Following consideration of the application, an investigation was initiated by Customs and Border Protection on 9 September 2011. Public notification of the initiation of the investigation was published in *The Australian* on 9 September 2011. Australian Customs Dumping Notice (ACDN) No. 2011/41 refers to the initiation of this investigation, and is available at [www.customs.gov.au](http://www.customs.gov.au)

At initiation, Stora Enso Wood Products Ždírec S.R.O. and Stora Enso Wood Products Planá S.R.O., (hereinafter collectively referred to SEWP Czech) were identified as exporters of certain structural timber from the Czech Republic. Customs and Border Protection wrote to both these entities seeking their cooperation with the investigation and forwarded each of these entities an exporter questionnaire.

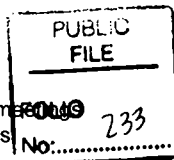
These entities completed and lodged a response to the exporter questionnaire, one for each of the two mills in the Czech Republic. The response to the exporter questionnaires were supported by non-confidential and confidential appendices and attachments. Customs and Border Protection reviewed each entity's completed and returned non-confidential version of the exporter questionnaire and asked that the non-confidential version be revised and resubmitted for the purposes of the public record. Consequently non-confidential versions of SEWP Czech's responses to the exporter questionnaires were placed on the Public Record.

SEWP Czech responses to the exporter questionnaires were assessed and found to be sufficient to warrant a verification visit. Subsequently, Customs and Border Protection undertook a verification visit at SEWP Czech premises at Planá, Czech Republic.

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<sup>1</sup> The Minister for Home Affairs may have a conflict of interest in respect to the wood product industry and therefore this matter will be dealt with by the Attorney-General.

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This report details the discussion and verification undertaken during these meetings with SEWP Czech, and makes recommendations for relevant determinations regarding SEWP Czech within this investigation.

### 3.2 Purpose of visit

The purpose of the visit was to verify information contained in the responses to the exporter questionnaires submitted by SEWP Czech.

Information verified during the visit has been used to make preliminary assessments of:

- who is the exporter and who is the importer;
- export prices and normal values for products manufactured and exported by SEWP Czech; and
- dumping margins.

At the commencement of the meeting we provided a brief explanation of the background to the investigation, the Australian anti-dumping process and the following key dates for the investigation:

- 8 November 2011, the earliest date when Customs and Border Protection could make a preliminary affirmative determination (PAD) and impose provisional anti-dumping measures;
- 28 December 2011, when (at the time of the verification visit) the statement of essential facts (SEF) for this case is due to be placed on the Public Record, setting out the facts on which Customs and Border Protection proposes to base the recommendations to the Minister; and
- 11 February 2011, when Customs and Border Protection's Final Report and recommendations are due to the Minister.

We informed SEWP Czech that interested parties are invited to make submissions to Customs and Border Protection in response to the SEF within 20 days of that statement being placed on the Public Record. Timely submissions received in response to the SEF will be considered when compiling the report and when making recommendations to the Minister.

We explained our responsibilities in relation to confidentiality. We stated that we would:

- prepare a report of the visit (this report);
- provide SEWP Czech with the draft report to review its completeness and accuracy of facts and calculations; and
- following consultation about confidentiality and accuracy, prepare a copy of the report of the visit for the Public Record.

We advised that any information provided by SEWP Czech during the verification meetings would be treated as confidential unless we were advised otherwise.

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3.3 Meeting – dates and attendees

The verification meetings took place at:

Stora Enso Timber Planá S.R.O.  
Address: Tachovská 486, 348 15 Planá  
Czech Republic  
Phone number: +420 374 699 269

The following were present at various stages of the interview:

|  |   |
|--|---|
| Dates                                  | 24, 25, 26, 27 October 2011   |
| Stora<br>Enso<br>Wood<br>Products      | <p><b>Stora Enso Wood Products GmbH</b><br/>Kurt Schrammel – Vice President, Marketing &amp; Sales Overseas, Austria<br/>Jari Lehto – Business Controller, Marketing &amp; Sales</p> <p><b>Stora Enso Oyj</b><br/>Jaakko Liljeroos – Legal Counsel, Legal Services Finland</p> <p><b>Central European Unit</b><br/>Marcel Rusinko – Sales &amp; Marketing Manager<br/>Rainer Schrenk – Sales Planning &amp; Coordination Manager</p> <p><b>Planá Sawmill</b><br/>Ing. Radek Pecka – Mill Manager, Planá Sawmill</p> <p><b>Ždírec Sawmill</b><br/>František Vomočil – Managing Director, Ždírec Sawmill<br/>Pavel Urban – Mill Manager, Ždírec Sawmill<br/>Zbyněk Vokáč – Controller, Marketing &amp; Sales, Ždírec Sawmill<br/>Lukas Jirasek – Controller for Czech Republic<br/>Michael Mach – Controller for Czech Republic</p> |
| Customs<br>and<br>Border<br>Protection | <p><b>International Trade Remedies Branch</b><br/>Kim Farrant – National Manager (Policy and Implementation)<br/>Geoffrey Gleeson – Director, Operations 3<br/>Timothy Flor – Supervisor, Operations 3</p>  |

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**3.4 Cooperation and preliminary issues**

SEWP Czech cooperated with the verification of details contained in the exporter questionnaire responses and provided further information when requested.

We advised SEWP Czech that:

- our findings and recommendations would be subject to internal review;
- if the delegate of the Chief Executive Officer of Customs and Border Protection (the delegate) is satisfied that there appears to be sufficient grounds for publication of a dumping duty notice, Customs and Border Protection may make a Preliminary Affirmative Determination (PAD) and collect securities on future imports of product from SEWP Czech;
- if the delegate is satisfied that SEWP Czech had not exported the products to Australia in the investigation period at dumped prices, Customs and Border Protection would be required to terminate the investigation so far as it relates to SEWP Czech; and
- if the delegate is satisfied that there has been dumping from Austria, Canada, Czech Republic, Estonia, Germany, Lithuania, Sweden, and the USA., but the injury, if any, to the Australian industry that has been caused by that dumping is negligible, then Customs and Border Protection would be required to terminate the investigation.

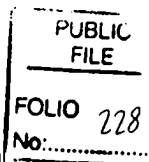


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A copy of a presentation about the Žďarec sawmill is provided in **confidential attachment GEN 2**. Further information about KVH product is provided in **no confidential attachment GEN 3**.



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### *Planá sawmill*

In comparison to the Ždírec sawmill, in 2010, the Planá sawmill reported annual timber sales of XXXXXXXX m<sup>3</sup>. The majority of production was focused on Canadian Lumber Standard (CLS) timber and sideboards. SEWP Czech considered CLS timber to be suitable for the Australian market, given that CLS is of a similar standard to US, UK and Australian standards in terms of machine stress grading, use of timber species, kiln-drying and planing processes.

SEWP Czech also claimed that sideboards are generally not for structural applications and are usually used for packaging applications (also used for concrete forming). Sideboards are not kiln-dried and are not planed.

XXXXXXXXXX per cent of the products produced at the Planá sawmill were exported. Unlike Ždírec, Planá's key markets were Australia, the Czech Republic, the United Kingdom and the United States of America. XXXXXXXXXX percent of the products produced were transported to customers by truck or rail and the remainder shipped in containers to customers. A copy of the presentation about Planá sawmill is provided in **confidential attachment GEN 4**.

### *Accounting process*

SEWP Czech noted that its financial reports are in accordance with Generally Accepted Accounting Principles (GAAP) of the Czech Republic, and that its quarterly results are reported in Hyperion Financial Management (HFM). SEWP Czech advised that all Stora Enso units report their quarterly financial results in HFM.

SEWP Czech uses SAP enterprise resource planning (ERP) as its accounting information system. In 2009, SEWP Czech outsourced transaction processing such as vendor invoice handling to XXXXXXXXXX [company]. SEWP Czech stated that XXXXX staff are located at the Country Accounting Service at the Ždírec sawmill to handle complex transactions that have not been outsourced to XXXXXXXXXX [company]. This information forms **confidential attachment GEN 5**.

### *Accounting structure*

SEWP Czech also provided a diagram of its accounting structure that forms **confidential attachment GEN 5**. Each sawmill is a separate cost/profit centre in SEWP Czech accounts, with cost centre groups including administration, sales, marketing, log handling, sawing, sorting, planing, kiln-drying and finger-jointing. SEWP Czech's charts of accounts (for the Ždírec sawmill and Planá sawmill) were enclosed in the exporter questionnaire responses.

Czech SEWP's financial reports are audited by the accounting firm Deloitte. An English translation of Deloitte's independent opinion of the Planá sawmill's financial position and financial performance is provided **confidential attachment GEN 6**. Deloitte's independent opinion of the Planá sawmill states:

*'In our opinion, the financial statements give a true and fair view of the financial position of Stora Enso Wood Products Planá as at 31 December*

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## 4.2 Related parties

SEWP Czech submitted that, during the investigation period, it had no legal or other relationship with any domestic or Australian customer except Stora Enso Australia, a wholly owned subsidiary of Stora Enso Wood Products GmbH and through it, Stora Enso Wood Products Oy Ltd in Finland.

Within its responses to the exporter questionnaires, SEWP Czech submitted that none of its log suppliers during the investigation period are related companies. At verification we found no evidence to suggest this was incorrect. We asked about the parent company's ownership of forest plantations. SEWP Czech explained that Stora Enso held a XXXXXXXXXXXXXXXX ownership interest in XXXXXXXXXXXXXXXX forest asset sales, and that logs from XXXXXXXX are not purchased by SEWP Czech. SEWP Czech considered that ownership interest irrelevant as XXXXXXXX sales were within the XXXXXXX market, a country not relevant to Customs' investigation. We accepted that forest plantation ownership in XXXXXXX is irrelevant to our investigation of the Czech Republic sawmills.

**Structural Timber - Austria, Canada, Czech Republic, Estonia, Germany, Lithuania, Sweden, and the USA.**

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SEWP Czech also explained that the Ždírec sawmill, which sourced mostly XXXXXX logs, were supplied by  
XX  
XX [log sources]. It stated that  
XXXXXXXXXXXX per cent of log inputs into the Ždírec sawmill were of  
XXXXXXXXXXXXXXXXXXXX metre lengths, with XXXXXX per cent transported to the  
Ždírec sawmill by truck and the remainder transported by rail.

At the verification visit, SEWP Czech claimed that it had no log supply contracts in force and claimed that it paid market prices paid for logs from  
XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX [log source]. SEWP Czech claimed that it did not own, or hold any ownership interest in any log plantations within the Czech Republic.

SEWP Czech explained that, overall for the two mills log requirements, the log supply was approximately XXXXXX in terms of being from  
XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX suppliers. It provided a summary of its log purchases (by proportion) for the investigation period which demonstrated that log purchases from XXXXXXXXXXXXXXXXXXXXXXX [log source], though fluctuating on a monthly basis, averaged around XX%. A copy of the log purchase summary is at **confidential attachment GEN 7.**

**5 GOODS UNDER CONSIDERATION AND LIKE GOODS**

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**5.1 The goods under consideration**

The goods the subject of the application are described as follows.

*Structural timber, being coniferous wood that is sawn or chipped lengthwise, capable of being used in structural applications in accordance with the Building Code of Australia and that:*

- *has a thickness exceeding 6mm; and*
- *has a cross-sectional area of less than 120cm<sup>2</sup>; and*
- *is untreated, or treated to meet the requirements of hazard class H1 or H2 as specified in Australian standard AS1604.1.*

*For clarification, the goods do not include weatherboards, laminated veneer lumber, glued laminated timber or timber treated to a level above hazard class H2 but do include end-jointed or finger-jointed structural timber.*

**5.2 Like goods***Log species*

SEWP Czech noted it sources logs in three species –  
 XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX,  
 XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX.

*Production process*

A general outline of SEWP Czech's timber production process (as a diagram) was provided in the exporter questionnaire responses and forms **attachment GEN 8**. The general timber production process that SEWP Czech follows is described below:

1. Log sorting – upon arrival at a sawmill, logs may be sorted according to species, diameter, length and end-use
2. Debarking – bark from the logs is removed in preparation for the log to be sawn to dimension
3. Sawing – logs are cut to a straight length most appropriate to determine a sawing pattern. The sawing pattern minimises log wastage whilst sawing to length, width and thickness to meet market requirements
4. Green sorting – sawn timber pieces are sorted between those that will be kiln-dried and those that are sold as is to customers
5. Drying – timber can be kiln-dried to reduce moisture content
6. Planing – timber can be planed smooth or rougher headed (finish with finely grooved surface)
7. Processing of ends – timber may also be processed to have squared edges.  
 XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX

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8. Grading – timber may be machine graded or visually graded to market requirements

9. Further treatment – Product may be further treated to market requirements.

XX  
 XX  
 XX  
 XX  
 XX

[Description of treatment processes]

SEWP Czech advised that typical by-products from sawmilling are woodchips, sawdust, shavings and bark.

### Timber manufacturing

SEWP Czech provided a table in the responses to the exporter questionnaires regarding the goods that they produced. At the verification visit they also provided a full listing, by dimension and quality of the products produced in the 2011 calendar year to date by SEWP Czech for domestic and export. This is provided in **confidential attachment GEN 9**. In summary SEWP Czech produces these products:

### Examples of products manufactured and sold by SEWP Czech

| Product                        | Export market  | Species of timber        | Mill site       |
|--------------------------------|--|--------------------------|-----------------|
| Mainboards                     | XXXXXXXXXXXXXXXXXX   | XXXXXXX<br>XXXXXXX       | Ždírec<br>Planá |
| KVH                            | XXXXXXXXXXXXXXXXXXXXXXX  | XXXXXXX                  | Ždírec<br>Planá |
| KVH HV                         | XXXXXXXXXXXXXXXXXX<br>XXXXXXXXXXXXX<br>XXXXXXXXXXXXXXXXXX<br>XXXXXXXXXXXXX | XXXXXXX                  | Ždírec          |
| Sideboards                     | XXXXXXXXXXXXXXXXXX   | XXXXXXX                  | Ždírec<br>Planá |
| Boards                         | XXXXXXXXXXXXXXXXXX   | XXXXXXX                  | Ždírec<br>Planá |
| Boards                         | XXXXXXXXXXXXX  | XXXXXXX                  | Ždírec<br>Planá |
| Canadian Lumber Standard (CLS) | XXXXXXXXXXXXXXXXXX<br>XXXXXXXXXXXXXXXXXX                                   | XXXXXXXXXX<br>XXXXXXXXXX | Planá           |
| Hagarazi                       | XXXXXX   | XXXXXXXXXXXXXX           | Planá           |
| Blueshield                     | XXXXXXXXXX   | XXXXXXXXXX<br>XXXXXXXXXX | Planá           |

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Main products manufactured by SEWP Czech for sale on the domestic market

SE explained that the Czech Republic market comprises three main product groups for timber:

- o Mainboards – these are sometimes not XXXXXX, and often XXXXXX, because they are usually further processed by the industrial customers
- o Sideboards, rejects and laths – noting the sideboards are generally not for structural applications and are usually used for packaging applications (also used for concrete forming); rejects are the lesser quality products that have been rejected on basis of not passing the stress grading or they failed visual grading. Laths are used for roofing, to support tiling
- o KVH (Solid construction timber) – singular beams, or comprising duo and trio laminated beams. These are finger jointed products, produced from larger diameter logs. In the case of duo/trio, these are planed and glued in laminated beams. (Refer to the KVH product brochure that forms non-confidential attachment GEN 3).

SEWP Czech explained that the first two categories account for around XX% of its domestic sales volume in the Czech Republic, and KVH accounts for around XX%. SEWP Czech explained that in a year the total (for Planá and Ždírec) external domestic sales volumes of all timber sales would be around XXXXXXm<sup>3</sup>. It stated that around XXXXXXm<sup>3</sup> of this would be KVH. It noted another XXXXXXm<sup>3</sup> of KVH is exported.

SEWP Czech also produces B-grade product (rejects) that was not typically sold to Australia. B-grade reject product came about in two ways: 1) timber that failed machine stress grading; or 2) product that passed machine stress grading but failed visual grading (e.g. Warped timber).

*SEWP Czech views on like goods*

Within its exporter questionnaire, SEWP Czech claimed that the products it sold domestically were not similar to the timber exported to Australia for several reasons. At the verification visit we clarified these. In summary, SEWP Czech claimed:

- There are no directly comparable domestic sales – SEWP Czech claimed that there were no significant volumes of comparable domestic sales in the Czech Republic of A-grade product, which are suitable for the Australian market
- A different species of timber is used to produce domestic versus export product – the mainboards for the domestic market are '99.9' percent produced from XXXXXX, and all XXXXXXproduct are made entirely from XXXXXXfor the Czech Republic domestic market, whereas products produced for the Australian market can be made from XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX
- Different sizes of logs are processed for domestic versus the Australian export market –
  - a. XX  
XX

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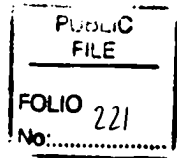
XX [comment  
on timber manufacturing process] which are better used for the larger  
dimension demands of European market

- b. the Australian product is made from  
XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX [size of log] and XXXX in  
length, while the domestic product is made from larger diameter logs.  
Ždirec uses mainly XXXXXXXXXX [log lengths] logs, with an average  
diameter of XXXX (ranging from XXcm to XXcm). The Planá mill uses  
XXXXXXX [log lengths] logs (but is mainly for export products), with  
average diameter XXcm (range XXcm to XXcm)
- c. it is commercially viable to make the Australian MGP grades from the  
XXXXXXXXXXXXXXXXXXXX [log dimensions] as Australian market does not  
XXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXXX, whereas the European market  
prefers  
XX  
XX [discussion of  
species].
- Products exported to Australia have comparatively standardised characteristics compared to the domestically sold product – mainboards and KVH are made to order and the dimensions reflect a wide variety of customer requirements. Our analysis shows there are hundreds of product specifications for domestic customers within the Czech Republic
  - Different production processes for domestic versus exported product – the domestic product is not machine stress graded (although reject grades from export production runs are sold domestically as B-grade), often not kiln-dried and regularly not planed (noting domestic customers often further process these). Comparatively, all products exported to Australia are machine stress graded, kilned and planed
  - The cost of XXXXXX logs (used mainly for domestic market) and XXXXXXXXXX logs (used mainly for exports including Australia) is different. XXXXXX logs will generally cost more than XXXXXXXXXX. One reason why XXX logs are less expensive is that the suppliers need XXXXXXXXXXXXXXXXXXXX and this provides a degree of purchasing power to the customer (mill). As another distinction, the XXX XXXXX [drying process].

We considered all these factors in our consideration of like goods. We also compared the models sold domestically in the Czech Republic and the models exported to the Australian market. Our analysis shows that, during the investigation period, there was only one of the 36 models<sup>1</sup> exported to Australia where identical products were sold domestically in the Czech Republic.

<sup>1</sup> This does not include B grade exports which are not considered to be the goods subject of the application.

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*Like goods analysis*

In terms of physical and production likeness, the goods sold domestically by SEWP Czech have some physical characteristics that closely resemble the exported goods. They are sawn timber products of coniferous wood with similar appearance. However, in many cases the products sold domestically are not XXXXXXXXXXXXXXXXXXXXXXXXXX [timber type], and/or are made from XXXXXXXXXXXXXXXXXXXXXXXXXX wood. In addition, the mainboards are often of a significantly larger dimension than the product exported to Australia.

The structural timber products sold domestically by SEWP Czech have a degree of functional likeness to the goods exported to Australia. However, the commercial likeness is less evident. Functionally, the A-grade structural timber sold domestically is intended for structural application, although it may require further processing (e.g. planing, laminating to KVH). The commercial likeness of many of the structural timber products sold by SEWP Czech on the domestic market to that of the exports to Australia is not strong because the domestic market would rarely be interested in buying the size and species of wood that is commonly exported to Australia.

Having regard to all of these factors, we consider that the structural timber sold domestically by SEWP Czech is not identical to the goods exported to Australia (except in the case of one product code<sup>2</sup>), but the products sold domestically have characteristics that closely resemble those of the exported goods. Ensuring appropriate product comparisons, or product group comparisons, between export and domestic sales is important if domestic sales are to be used as a basis for normal value.

We noted that there was only one product code of structural timber exported to Australia (XXXXXXXXXXXXXXXXXXXXXXX [product code]) where there were sales of the identical product on the domestic market.

In terms of product groupings (i.e. into subsets of structural timber) we noted that in relation to Ždirec domestic sales of planed and kiln-dried product (excluding B-grade) the volume of such sales in the investigation period was XXXXX cubic metres. The same figure for Planá was XX cubic metres. Together this volume of XXXXX cubic metres represents XXX% of the combined SEWP Czech export volume to Australia (XXXXXX cubic metres<sup>3</sup>) in the investigation period.

<sup>2</sup> There was only one product code of structural timber exported to Australia (XXXXXXXXXXXXXXXXXXXXXXX) during the investigation period where there were sales of the identical product on the domestic market. The export volume was XXXXX cubic metres and the domestic volume was XXXX cubic metres. All domestic sales of this model were made in April and May 2011, while export sales were in May 2011.

<sup>3</sup> This figure is calculated as the total exports of XXXXXX cubic meters minus XXXXX cubic metres of B grade product exported to Australia that is not considered to be the goods subject of the application.

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**5.3 Conclusion**

We consider that the A-grade structural timber sold by SEWP Czech domestically in the Czech Republic has characteristics that closely resemble those of the structural timber exported to Australia and are therefore like goods. Specifically, we consider the A-grade planed and kiln-dried products sold domestically to be the most closely comparable goods to the goods exported to Australia.

**6 EXPORT SALES TO AUSTRALIA**

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No:

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**6.1 General**

In the investigation period, SEWP Czech exported structural timber only to its Australian national distributor, Stora Enso Australia.

**6.1.1 Export sales data provided**

In its responses to the exporter questionnaires, SEWP Czech provided an export sales spreadsheet for each of the Ždírec and Planá mills, listing each export sale within the investigation period.

This spreadsheet included line-by-line information relating to:

- customer
- level of trade
- model
- product code (specifying  
XX  
XXXXXXXXXXXXXXXXXXXX)
- invoice date
- date of sale
- order number
- shipping terms
- payment terms
- quantity (nominal m<sup>3</sup>)
- gross invoice value
- net invoice value
- exchange rates
- ocean freight
- FOB export price
- inland freight.

Additionally, SEWP Czech provided for Ždírec s.r.o. and Planá s.r.o.:

- a 'Turnover' spreadsheet (showing sales values and volumes for both the investigation period and the most recently audited 2010 calendar year;
- This spreadsheet was also revised by SEWP Czech during the verification meetings to correct some ocean freight and inland freight miscalculations within the originally-submitted sheet.

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## 6.2 Sales volume and value

We observed within SEWP Czech's revised export sales spreadsheet that it had exported product to Australia in the investigation period in the following volume and value:

Table 1 - Planá sawmill exports

| Grade (F or MGP)   | Total quantity (m <sup>3</sup> ) | % total quantity | Total value (AUD\$ FOB export price)* | % total value |
|--------------------|----------------------------------|------------------|---------------------------------------|---------------|
| XXXXXX             | XXXXXXXXXXXX                     | XX               | XXXXXXXXXXXX                          | XX            |
| XXXXXX             | XXXXXXXXXXXX                     | XX               | XXXXXXXXXXXX                          | XX            |
| XXXXXX             | XXXXXXXXXXXX                     | XXX              | XXXXXXXXXXXX                          | XXX           |
| XXXXXX             | XXXXXXXXXXXX                     | XX               | XXXXXXXXXXXX                          | XX            |
| <b>Grand Total</b> | <b>XXXXXXXXXXXX</b>              | <b>100%</b>      | <b>XXXXXXXXXXXX</b>                   | <b>100%</b>   |

\*The FOB value is at port of loading XXXXXXXXXXXXXXXXXXXXXXXXXXXX. This figure had been calculated by SEWP Czech by deducting overseas freight from the CIP value of the goods.

The majority of Planá sawmill export volume and value were MGP10.

Table 2 - Ždírec sawmill exports

| Grade (F or MGP)   | Total quantity (m <sup>3</sup> ) | % total quantity | Total value (AUD\$ FOB export price)* | % total value |
|--------------------|----------------------------------|------------------|---------------------------------------|---------------|
| XX                 | XXXXXXXXXXXX                     | 100%             | XXXXXXXXXXXX                          | 100%          |
| <b>Grand Total</b> | <b>XXXXXXXX</b>                  | <b>100%</b>      | <b>XXXXXXXXXXXX</b>                   | <b>100%</b>   |

\*The FOB value is at port of loading XXXXXXXXXXXXXXXXXXXXXXXXXXXX. This figure had been calculated by SEWP Czech by deducting overseas freight from the CIP value of the goods.

All the Ždírec sawmill export volume and value were all XX grade timber.

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### 6.3 Export sales process

SEWP Czech described its export sales process as follows:

1. Stora Enso Australia places orders with a  
XX  
XX  
XXXXXXXXXXXXXXXXXXXXXXXXXXXX.
2. The sales coordinator allocates production to the appropriate mills.  
XX  
XX  
XX [detail  
of production allocation] – see an example production/delivery coordination  
schedule at **confidential attachment EXP 1**.
3. Prices for the order are negotiated between Stora Enso Australia and SEWP  
Czech.  
XX  
XX  
XXX [negotiation details] The price offer is only accepted if it is considered  
profitable by the mill.
4. Once the price is finalised, the sawmill order is input to the production  
schedule for the mill. When volumes are confirmed contracts are issued from  
the mill's order and invoicing systems.
5. Once produced, SEWP Czech loads the products into shipping containers on-  
site at the mill. A packing list is issued and the goods are despatched and a  
waybill is issued.
6. Invoices, in XXXXXXXXXXXXXXX, are issued when delivery of the goods  
commences from the mills.

### 6.4 Date of sale

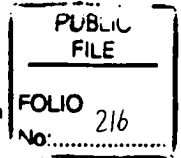
We advised SEWP Czech that Customs and Border Protection usually regards the invoice date as the date of sale (i.e. the date that best represents when the material terms of the sale have been established) unless there is clear evidence to indicate that another date is appropriate.

### 6.5 Pricing and terms

SEWP Czech claimed that all of its products that were sold to Australia were to its national distributor, Stora Enso Australia. SEWP Czech explained that all of its shipments to Australia were  
XX [terms of trade].  
SEWP Czech also advised that its terms of payment were XXX days net from invoice value. However this could be up XXX days for the payment to be processed.

SEWP Czech explained that the products are made-to-order and as such prices do  
XX [price details]. However

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some of its products, such as side-board and lath products are all similar in specifications and

XX.

XX  
XX  
XX  
XXX. [price details] SEWP Czech advised that the invoiced price was the final price payable.

### 6.6 Export packaging

SEWP Czech advised that packaging costs per cubic metre for exports are XXXXXXXXXXXXXXXXXXXXXXXX than its packaging costs per cubic metre for domestically sold product. SEWP Czech explained that it does XXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXX [packaging cost details]

### 6.7 Ocean freight and inland freight

In its detailed export sales spreadsheet submitted in the responses to the exporter questionnaires, SEWP Czech provided line-by-line data for the cost of ocean freight and for the cost of inland freight from mill to port of loading.

SEWP Czech advised that freight charges are paid in XXXXXXXXXXXXXXXXXXXXXXXX XXXXXXXXXXXXXXXXXXXXXXXX [payment terms], and that a typical load is XXm<sup>3</sup> (for a XX foot container). SEWP Czech claimed the freight charged is all-inclusive from point of loading at the mill to the point of delivery at the Australian port.

We requested an example of a shipping contract to demonstrate what is included in the freight charges, particularly identifying the inclusion of all port and terminal handling charges.

After the verification visit, SEWP Czech provided an email from the shipping company, XXXXXXXXXXXXXXXXXXXXXXXX [company], that confirmed the overseas freight charge and inland freight charge covered:

- internal land transport from the mill to the port
- port charges
- customs clearance
- ocean freight from port of loading to Australian port;
- port charges in Australia; and
- bunker and currency adjustment factors.

This information is provided in **confidential attachment EXP 1A**.

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### 6.8 Quarantine charges

SEWP Czech advised that it did not incur quarantine charges. It stated that Stora Enso Australia would incur this charge. SEWP Czech also advised that there were no XXXXXXXXXXXXXXXXXXXX [export process] of its exports to Australia.

### 6.9 Verification of export sales to source documents

Prior to the visit we requested that SEWP Czech provide supporting documents for ten shipments to Australia from Planá, and six shipments to Australia from Ždirec.

SEWP Czech provided source document bundles for each of these shipments during the verification, containing the:

- waybill
- packing list
- commercial invoice
- phytosanitary certificate
- evidence of payment (where applicable)
- credit/debit note (where applicable)
- credit note for ocean freight and land transport (where applicable).

Document bundles for exports from Planá form **confidential attachment EXP 2**.  
Document bundles for exports from Ždirec form **confidential attachment EXP 3**.  
Account ledgers showing remittance of payment for the selected transactions form **confidential attachment EXP 4**.

We compared the data contained within the source documents to that provided by SEWP Czech within its export sales spreadsheet.

#### 6.9.1 Sales volume and value

We were able to reconcile sales volume (in m<sup>3</sup>) using the commercial invoices and packing lists, and sales value in XXXXXXXXXXXXXXXXXXXXXXXXXX [currency].

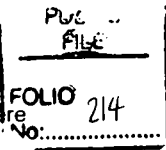
We observed that the proof of payment for each invoice showed that SEWP Czech's Australian customer, Stora Enso Australia paid the purchase price XXXXXXXX [currency] into SEWP Czech's account.

#### 6.9.2 Ocean freight and land transport freight

We observed that all selected shipments were listed as having CIP terms on their commercial invoices, as reported by SEWP Czech within its export sales spreadsheet.

We noted that the ocean freight and land transport amounts within the export sales spreadsheet differed from the amounts invoiced by SEWP Czech's ocean freight and

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inland freight suppliers for all of the selected invoices, and the discrepancies were material.

SEWP Czech investigated the origins of the freight data that was input to the spreadsheet and subsequently explained that the data was generated with reference to an incorrect standard amount for freight which had not been updated. Consequently, SEWP Czech revised the export spreadsheets with the actual freight amounts. We checked the revised freight figures against source documents and noted that the figures were reasonably consistent after currency conversion.

We confirmed that the freight charged on the invoice was the actual amount paid. Evidence of payment for the selected transactions of ocean freight and inland transport charges is at **confidential attachment EXP 5**.

### 6.9.3 Credit terms

We observed within the export sales spreadsheet, and on the invoices, that payment terms to Stora Enso Australia were all listed as XXX days net from invoice date. SEWP CZECH explained that it could sometimes be more than that before payment. We noted that for some of the selected transactions the actual payment dates recorded on copies of their bank statements, exceeded XXX days from the invoice date. However, as the additional days credit did not appear to be excessive, we accepted that payment dates were reasonably consistent with the payment terms of XXX days.

We observed that the spreadsheet matched the payment terms on all commercial invoices. We consider the credit terms contained within the export sales spreadsheet to be reasonably reliable. Refer to the adjustments section of this report for further discussion of a credit term adjustment.

### 6.9.4 Handling and other charges

We observed that no other marine insurance, packing, invoice handling, delivery handling, warranty, technical support, commissions or other costs were recorded within the export sales spreadsheet. We found no evidence to believe that any further charges should be reported against the transactions.

### 6.9.5 Other data

SEWP Czech also included several other columns of data that we were able to verify from the provided source documents. These were as follows:

- Product code specifying:
  - type of timber  
XX  
XXXXXXXXXXXXXXXXXXXX
  - planing (surface four sides (S4S), surface four sides rounded corner (S4SEE))
  - physical dimension XXXXXXXXXXXXX

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- internal grade type (A-grade)
- export grade to Australia (XXXXXXXXXXXXXXXXXXXX [product code])
- drying (special dried (SD), kiln-dried (KD))
- treatment (Blueshield)
- Finger jointed product (Fj)
- Invoice number
- Invoice date
- Payment terms
- Quantity m<sup>3</sup>
- Gross invoice value (\$XXX)
- Container number

### 6.10 Forward orders

Within its responses to the exporter questionnaires, SEWP Czech provided a listing of its outstanding forward orders for the Planá sawmill for October and November 2011. This displayed only six forward orders. No forward orders had been listed for the Ždírec sawmill for October and November 2011.

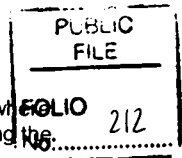
The outstanding forward orders from Planá show the quality, dimension and delivery to Australian ports. The outstanding forward orders also show the price for each order listed for the contract number. The December forward order prices for mostly XXXXX product ranged from XXXXX/m<sup>3</sup> to XXXXX/m<sup>3</sup>. In the last quarter of the investigation period the average price per cubic metre of XXXXX product was XXXXX/m<sup>3</sup>.

### 6.11 The exporter

We consider SEWP Czech to be the exporter of product shipped from the Czech Republic to Stora Enso Australia because SEWP Czech:

- is the manufacturer of the goods and manufactured the goods to the specific order to Stora Enso Australia;
- owned the goods at the time of export;
- is listed as the supplier on the waybill;
- invoices Stora Enso Australia for the goods directly;
- arranges and pays the ocean freight and inland transport to ship the product to Australia;

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- is the principal in the transaction located in the country of export from where the goods were shipped that gave up responsibility by knowingly placing the goods in the hands of a freight forwarder for delivery to Australia; and
- sent the bulk goods for export to Australia and was aware of the identity of the purchaser of the goods.

### 6.12 The importer

We noted that SEWP Czech's Australian customer, Stora Enso Australia:

- negotiates directly with SEWP Czech for the purchase of timber;
- are named as the consignee on the waybill; and
- arranges customs clearance, quarantine, logistics, and storage of the goods after they have been delivered to the Australian port.

We consider that SEWP Czech's invoiced Australian customer, Stora Enso Australia, is the beneficial owner of product at the time of importation and is therefore the importer of the structural timber exported by SEWP Czech.

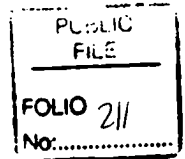
### 6.13 Arms length

In relation to all of SEWP Czech's export sales of structural timber to Stora Enso Australia during the investigation period, we found no evidence that:

- there is any consideration payable for or in respect of the goods other than their price;
- the price is influenced by a commercial or other relationship between the buyer, or an associate of the buyer, and the seller, or an associate of the seller; or
- the buyer, or an associate of the buyer, will directly or indirectly, be reimbursed, compensated or otherwise receive a benefit for, or in respect of, whole or any part of the price.

We therefore consider, subject to the findings of the importer visit report in relation to Stora Enso Australia, all of SEWP Czech's export sales to Stora Enso Australia during the investigation period to be arms length transactions.

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**6.14 Export price – preliminary assessment**

In the case of export sales to Australia by SEWP Czech, we consider:

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

Therefore, we are satisfied that export price for direct export sales from SEWP Czech can be established under Section 269TAB(1)(a) of the Act.

Export price calculations are included at **Confidential Appendix 1**.

**7 DOMESTIC SALES****7.1 General**

SEWP Czech advised that the Czech Republic market for timber is very competitive as there are two other large Czech producers and many smaller producers. SEWP Czech provided a Holzkurier map of timber mills within Central Europe, demonstrating the level of mill concentration and competition for log supplies that forms **confidential attachment GEN 10**.

SEWP Czech reported that the Czech Republic market rates as the XXXXX largest market for direct and intergroup sales behind XXXXXXXXXXXXXXXXXXXXXXXXXX and XXXXXXX [export markets]. As such, SEWP Czech reported that domestic sales of timber had XXXXXX in volumes since 2004. Australia was the XXXXX largest direct and intergroup sales market for Stora Enso Wood Products.

SEWP Czech advised that the Czech Republic market has a positive growth profile with a developing domestic building market and increasing foreign direct investment in the automotive, chemical and electricity sectors. The company specialises in three key market segments, namely the XXX [market segments]. Information regarding SEWP Czech's analysis of Eastern European markets forms **confidential attachment GEN 11**.

In addition, SEWP Czech explained, there are considerable volumes of timber imports from other European producers. However, SEWP Czech regards itself as the XXXXXXXXXXXX XXXXXXXX in the Czech Republic.

**7.2 Levels of trade**

SEWP Czech advised that it uses two distribution channels. In its response to the exporter questionnaire, it explained that it uses traders where the customers are very small and the traders are able to distribute the bigger volume to a lot of small customers (where it does not have the capability for that). It also explained that it makes direct sales to industrial companies, where they buy large volumes and SEWP Czech are able to manage the direct sales to them.

We noted that SEWP Czech included a level of trade category in its detailed domestic sales listing for Planá<sup>4</sup>. The descriptions and relative proportion of total domestic sales volume for the investigation period were:

- producer (XX%);
- wholesaler (XX%);
- retailer (XX%);

<sup>4</sup> SEWP Czech did not provide level of trade details in the Ždirec detailed sales data.

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- We examined the relative weighted average prices among these customer groups, and noted that weighted average prices over all products were very similar.

SEWP Czech advised that it makes sales from the Ždírec mill to a related company, Stora Enso WP HV S.R.O. It explained that the product sold to this related entity is mostly the raw material boards for KVH production. Analysis of the Ždírec detailed sales data shows that a XXXXXXXXXXXXXXXXXXXXXXXX (XX%) of total domestic sales from Ždírec was to Stora Enso WP HV S.R.O. We noted the product was all XXXXXXXXXXXXXX of good quality, special-dried (longer drying cycle), sawn and not planed.

#### 7.4 Domestic sales process, pricing and terms

SEWP Czech advised that it has two broad groups of customers. It explained that Group 1 comprises customers

SEWP Czech advised that price negotiation is  
 XX  
 XX  
 XXXXXX [price negotiation details]. SEWP Czech advised there are no written  
 contracts.

SEWP Czech further explained that Group 2 customers comprise those that buy XXXXXXXXXXXXXXXXXXXX, and this group is made up mainly of XXXXXXXXXXXXX. SEWP Czech advised that a monthly price list is issued for these products. A copy of the price list for June 2011 is at **confidential attachment DOM 1**.

In terms of setting price, SEWP Czech advised that it has regard to its costs and to the market trend at the time.

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- SEWP Czech and customer agree price, volume and quality as discussed above;
- Customer places the orders according to agreed volume for the quarter, and this volume is delivered according to "call-offs" received from customers;
- Customers arrange transport where delivery terms are EXW or FCA, while SEWP Czech arranges transport where delivery terms are CPT; and
- SEWP Czech loads the truck, and prepares the dispatch papers, and at that time the invoice is issued.

SEWP Czech explained that most sales were EXW or FCA. While this was the case for the XXXXXX sales (almost XXX% were EXW or FCA), it was not the case for sales from XXXXXX. In the case of domestic sales from XXXXXX, the delivery terms (and proportion of sales volume) were FCA and EXW (XX%), CPT (XX%) and a XXXXXXXXXXXXXXXXXXXX at DDU.

The domestic sales spreadsheet provided by SEWP Czech in the response to the exporter questionnaire identified various payment terms, including options for payment

XX

XX

[illegible]

SEWP Czech advised that there are no other discounts, rebates, or commissions applicable to the domestic sales.

We sought to trace the detailed domestic sales data provided by SEWP Czech in its response to the exporter questionnaire through management reports to the audited financial statements to provide us with confidence in the completeness and relevance of the data.

SEWP Czech demonstrated how the sales volume and value of its domestic sales of timber of similar dimension to the Australian exports, as shown in the spreadsheets provided in its response to the exporter questionnaire, could be linked to the profit and loss statements of the audited financial statements for 2010.

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SEWP Czech explained that the profit and loss statement of the audited accounts is set down in accordance with the generally accepted accounting principles of the Czech Republic, while the detailed Czech accounts are maintained in accordance with International Financial Reporting Standards (IFRS). Therefore, it provided a bridging report to demonstrate the slightly different alignment of the two reporting formats. We noted that operating profit was identical for the two formats.

SEWP Czech also provided detailed profit and loss reports for 2010 from its Hyperion Financial Management (HFM) system and from its SAP system, both sorted in accordance with the IFRS structure. The sales revenue figures from these profit and loss reports matched the amount shown in the bridging report.

SEWP Czech then provided a total sales reconciliation spreadsheet that provided volume and value details for three core categories of sales as follows:

- Sales, finished products, domestic,
- Sales, finished products, EU; and
- Sales, finished products, non-EU.

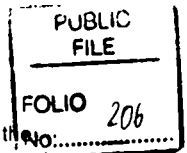
We noted that each of these revenue amounts matched the corresponding revenue line on the bridging report and also on the SAP profit and loss report. It was evident that the remaining revenue items were not for finished goods.

To this point of reporting, the figures all were denoted in XXXXXXXXXXXX. SEWP Czech converted the total value figures to Euro with an average exchange rate for 2010 and the resulting figure was very similar to the total value of sales shown in the "turnover" spreadsheet of the response to the exporter questionnaire for total company sales of finished product, which was expressed in Euro. The discrepancy, explained by using an average rate of exchange compared with using the relevant exchange rates in transactional data represented less than 0.5%.

SEWP Czech then provided a summary of sales data by country, by dimension, for all finished goods sales in 2010, with volume and value data. These figures matched the Australian, Czech, and other sales summaries provided in the "turnover" spreadsheet provided in the response to the exporter questionnaire for 2010. Using the same reporting format but with parameters set by dimensions similar to the Australian exports, SEWP Czech also provided summary sales volumes and values for the "like goods" subset of finished goods. This data matched the figures provided in the transactional data provided in the spreadsheets submitted. We therefore considered the link from the audited financial statements to the sales data for the second half of 2010 was established.

We noted that SEWP Czech had used only the *dimensions* of timber as a set of parameters to identify the "like goods" sub-category for the purposes of the turnover spreadsheet and for the detailed domestic and third country sales listings that make up the "like goods". As discussed earlier, SEWP Czech does not consider the domestic sales are like goods for the reasons provided, and simply used the dimension parameters to create a subset of products similar in dimension to the Australian exports.

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Having established the links between the audited financial statements and the transactional data for 2010, we asked for similar sales summaries data by country, by dimension, for all finished goods in the first half of 2011. We noted these volume and value figures also matched the turnover spreadsheet and the transactional data supplied in the response to the exporter questionnaire.

Having regard to the above, we consider the listing of timber of similar dimension to the Australian exports, as shown in the SEWP Czech spreadsheets provided in its response to the exporter questionnaire is a complete and relevant listing of such sales. Furthermore, we consider the revised spreadsheet provided by SEWP Czech that contained details of all domestic sales (for which the total volume and value data reconciled with total company turnover figures in the "turnover" spreadsheet) are also a complete list of all domestic sales by SEWP Czech.

The documents linking the audited financial statements to the transactional data, for the Planá and Ždírec mills, are at **confidential attachment DOM 2 and DOM 3** respectively. The revised detailed domestic sales spreadsheets for Planá and Ždírec are contained in Excel spreadsheets called "**WPS Domestic Sales Plana – final.xls**" and "**WPS Domestic Sales Ždírec – final.xls**".

Having regard to the above, we consider the detailed domestic sales data provided by SEWP Czech in its response to the exporter questionnaire is a reasonably complete and relevant in relation to the investigation period.

### 7.6 Verification of domestic sales to source documents

Having established the completeness and relevance of the domestic sales data, we then sought to trace that data down to source documents to ensure the accuracy of the data.

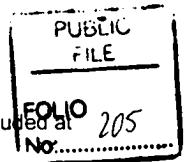
Prior to the visit we sent SEWP Czech a list of 10 selected domestic sales for Planá and 4 selected domestic sales for Ždírec that we had chosen for closer examination, and we asked for copies of source documents to support the transaction details. In relation to each of the selected transactions, SEWP Czech provided copies of the invoice, packing list and evidence of payment.

We found that all the data contained in the domestic sales spreadsheet agreed with the source documents provided. We paid particular attention to quantities, prices, dates, delivery and payment terms, and inland freight amounts. Copies of the source documents for the selected domestic sales for Planá and Ždírec are at **confidential attachments DOM 4 and DOM 5** respectively.

As discussed earlier, SEWP Czech explained that most domestic sales are sold on delivery terms of EXW or FCA. The spreadsheet data supported this, with only a very small volume (XX cubic metres), to one customer, sold on DAF terms. We therefore did not pursue the verification of domestic inland freight details.

In terms of evidence of payment, SEWP Czech provided copies from its customer account ledgers and these details indicated that the invoice price was the price paid.

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Copies of the documents supporting the price paid in domestic sales are included at confidential attachments DOM 4 and DOM5.

Having regard to the above, we consider the detailed domestic sales data provided by SEWP Czech are a reasonably accurate account of domestic sales details over the investigation period.

### 7.7 Arms length

In respect of SEWP Czech's domestic sales we found no evidence that:

- there is any consideration payable for or in respect of the goods other than their price; or
- the price is influenced by a commercial or other relationship between the buyer, or an associate of the buyer, and the seller, or an associate of the seller; or
- the buyer, or an associate of the buyer, will, subsequent to the purchase or sale, directly or indirectly, be reimbursed, be compensated or otherwise receive a benefit for, or in respect of, the whole or any part of the price.

We consider SEWP Czech's domestic sales of timber products are made in arms length transactions.

### 7.8 Ordinary course of trade

Although domestic sales may not be used as the basis for normal values, we still examined SEWP Czech's domestic sales to determine whether they were sold in the ordinary course of trade.

We compared the price paid for each domestic transaction with the corresponding quarterly domestic CTMS for the investigation period. As we were testing the profitability of all domestic sales, we used the average quarterly CTMS that was provided by SEWP Czech in the response to the exporter questionnaire. Where the sales were unprofitable we then compared the prices of those sales to the weighted average CTMS for the investigation period as a measure of whether the loss was recoverable.

In relation to Planá, we found that the volume of unprofitable sales, where the losses were not recoverable, represented approximately 97% of the domestic sales. For Ždírec, we found that the volume of unprofitable sales, where the losses were not recoverable, represented approximately 98% of the domestic sales. This may appear as an unusually high proportion, but we noted that approximately 97% of Planá's domestic sales were of B grade product, and approximately 27% of Ždírec sales were B grade product.

We consider that the sales at a loss, where the losses were not recoverable, represent a substantial quantity and are therefore those sales are considered not to be in the ordinary course of trade.

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### 7.9 Suitability of profitable sales

In relation to sub-groups of the structural timber, we considered whether there were sales of A-grade, planed, kiln-dried structural timber sold by SEWP Czech on the domestic market at prices paid in the ordinary course of trade.

Sales of structural timber with these characteristics from the Ždírec mill during the investigation period that recovered the costs represented XXXXX cubic metres. Sales of structural timber with these characteristics from the Planá mill during the investigation period that recovered the costs represented 0 cubic metres. In total, the volume of sales in the ordinary course of trade (XXXXX cubic metres) represents approximately XXX% of the volume of structural timber exported to Australia by SEWP Czech during the investigation period. A summary of the A-grade, planed, kiln-dried sales in ordinary course of trade, and the detailed ordinary course of trade calculations are provided in **confidential appendices 2A** (Planá) and **2B** (Ždírec).

We consider this to be a low volume of sales<sup>5</sup> and therefore we consider that the normal value of goods exported to Australia cannot be ascertained using domestic sales<sup>6</sup> by reason of the low volume of sales<sup>7</sup> relevant for determining normal value using domestic selling prices.

### 7.10 Sales by other sellers

SEWP Czech advised that there are other manufacturers of structural timber in the Czech Republic that make domestic sales. Apart from the two SEWP Czech mills, no other Czech mills are participating in the investigation.

### 7.11 Domestic sales conclusion

Having regard to low volume of relevant domestic sales, we do not consider the structural timber products sold domestically by SEWP Czech are an appropriate basis for normal values.

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<sup>5</sup> Section 269TAC(14) of the Act

<sup>6</sup> Section 269TAC(1) of the Act

<sup>7</sup> Section 269TAC(2)(a)(i) of the Act

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8 THIRD COUNTRY SALES

FOLIO 203

In its exporter questionnaire response for both mills, SEWP Czech provided a summary of products volumes and values for timber products exported to third countries.

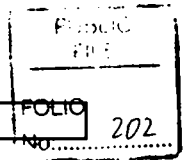
Planá's countries of export were

XX and

XXXXXX. Ždírec's countries of export were XXXXXXXXXXXXXXXX and XXXXX.

SEWP Czech explained that the sales volumes listed pertained only to sales of the similar dimension products that it exported to Australia. It further explained that only its sales to the XX market could be regarded as similar product to the Australia exports as these were also products adhering to the CLS classification of timber products, although, SEWP Czech explained, even these timber exports would have been made of spruce logs.

As it seemed we were in possession of enough verified information from the submission and our visit to calculate normal values using a construction method we did not pursue further verification of third country export data.

**9 COSTS TO MAKE & SELL****9.1 General**

In its exporter questionnaire responses, SEWP Czech provided cost to make and sell calculations, in total and per cubic metre, separately for domestic and export, and separately for Planá and Ždírec. SEWP Czech also provided a separate cost calculation for the Blueshield product. The data was broadly categorised and presented as:

- material costs;
- direct labour;
- manufacturing overheads;
- other manufacturing costs;
- administration costs; and
- delivery costs.

We sought to trace the cost data that was submitted up through management reports to audited financial statements to establish confidence in the completeness and relevance of the data. We also sought to trace the cost data to source documents to establish confidence in the accuracy of the data.

**9.2 Verification of costs to audited financial statements**

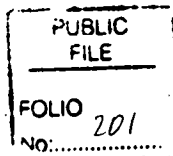
We chose to focus on the 4th quarter of 2010 in order to establish the link to audited financial statements. SEWP Czech provided an Excel spreadsheet (CTMS – Support file.xls) that showed how the CTMS amounts were calculated. The links in this file showed clearly how the various production cost components for the investigation period were compiled. The support file allowed us to trace the quarterly CTMS data back to total costs by category in the form of an Income Statement for 2010.

SEWP Czech demonstrated how the net profit result from this Income Statement matched the Profit and Loss result for 2010 as provided in the detailed SAP profit and loss report contained in confidential attachment DOM 1, which is discussed in the domestic sales verification section of this report. The link between the SAP report and the audited financial statements is also discussed in that section of the report.

SEWP Czech provided a copy of the Income Statement together with detailed breakdown of the raw materials, direct labour, depreciation, manufacturing overheads, other operating expenses and selling expenses. We traced each sub-component cost from these reports to the corresponding detail in the SAP profit and loss report.

Copies of the documents that demonstrate the link from the CTMS data to audited financial statements are at **confidential attachment CTMS 1 (Planá)** and **CTMS 1A (Ždírec)**.

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9.2.1 Reallocation of cost data

We were satisfied that all costs elements had been assigned to the goods in question. However, we noted that the manner in which costs were calculated was effectively providing for an average unit production cost for all finished products (excluding by-products). We advised SEWP Czech that we did not consider this reasonable because certain process costs, such as kiln-drying and planing, should really only be attributed to those goods that undergo such processing, and not to all products.

SEWP Czech agreed to recalculate costs to ensure the costs of kiln-drying, planing, finger-jointing and Blueshield were only assigned to the respective volumes of goods that had undergone those processes. SEWP Czech was able to do this because each of these processes represents a separate cost centre, and sales volumes are reported against each category. Calculations of adjustments to average costs for planing, kilning, finger jointing and Blueshield are at **confidential attachments CTMS 2 (Planá) and CTMS 3 (Ždírec)**.

To support the reallocation of certain processing costs, SEWP Czech also provided a breakdown of costs by process which identified total cost pools for each process, and sales volumes for which those processing costs were attributable. The "costs by process" report is at **confidential attachment CTMS 4**. As this format of cost reporting was a different structure to others we had examined to this point, we asked SEWP Czech to reconcile the total "costs by process" back to the reporting formats we had already checked. SEWP Czech provided a reconciliation of the "costs by process" and the audited profit and loss figures for 2010. The reconciliation document is at **confidential attachment CTMS 5**.

The reallocation of costs directly to the products that incurred the particular processes caused the production costs for the Australian exports to increase relative to the previously declared average by XXX to XXX% for Planá, and by XXX to XXXX% for Ždírec. The range is because the adjusting calculation was done twice; once for July to December 2010 and once for January to June 2011.

In the process of reallocating costs more specifically to those goods that incurred the particular costs, SEWP Czech identified a small component of costs related only to domestic sales staff and logistics, which it deducted from the Australian cost to make and sell data. SEWP Czech provided detail of the expenses posted to this account for Planá for the investigation period. Documents supporting the amount of domestic sales and logistic expenses are at **confidential attachment CTMS 6**.

Having regard to the above, we consider the revised costs submitted by SEWP Czech are reasonably complete and relevant accounts of its actual costs to make and sell structural timber in the investigation period.

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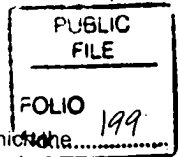
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FOLIO 200  
No. ....

CTEHS

## Security

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### 9.3.2 Depreciation

SEWP Czech provided a summary of the Planá depreciation accounts, of which the sum of these expenses, when converted from Czech Crown to Euro, was consistent with the Depreciation item in the Income Statement for Planá at CTMS 1, which in turn provided the basis for allocation of costs to the goods.

SEWP Czech also provided SAP extracts that summarised asset history and posted depreciation. In addition, it provided a detailed asset register which included the depreciation posted for each asset in 2010, which summed up to be the same figure used in the summary of the Planá depreciation accounts.

SEWP Czech provided a similar package of documents in relation to Ždírec depreciation expenses.

Copies of the documents supporting the depreciation expenses for Planá and Ždírec are at **confidential attachment CTMS 8**.

### 9.3.3 Electricity

SEWP Czech provided copies of SAP extracts for the Planá electricity expense account, which showed the cumulative electricity expense for Planá for 2010 matched the amount shown as the electricity expense item in the Income Statement for Planá at CTMS 1, which in turn provided the basis for allocation of costs to the goods.

SEWP Czech also provided detailed general ledger displays that showed each monthly expense for electricity, again matching the relevant yearly sum. We chose one month and asked for an invoice to support the data. SEWP Czech provided a copy of the relevant electricity invoice, which contained details consistent with the posted electricity expense. It also provided evidence of payment for the selected invoice.

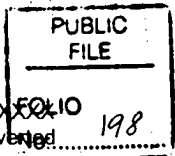
SEWP Czech provided a similar package of documents in relation to Ždírec electricity expenses.

Copies of the documents supporting the electricity expenses for Planá and Ždírec are at **confidential attachment CTMS 9**.

## 9.4 Verification of administration, selling and general expenses

We noted that SEWP Czech had accounted for its plant administrative costs partly within manufacturing overheads and partly within other operating expenses. This means that the only expenses reported in the category of "Administration costs" were the XXXXXXXXXXXXXXXXXXXX fees incurred. SEWP Czech explained that there are XXXXXXXXXXXXXXXXXXXX fees; one in relation to the XXXXXXXXXXXXXXXXXXXX and one in relation to the XXXXXXXXXXXXXXXXXXXX.

## PUBLIC RECORD



SEWP Czech provided a general ledger display that showed all such XXXXXXXX fees incurred throughout the investigation period. When these figures are converted to Euro, the results were reasonably consistent with the amounts contained in confidential attachment CTMS 1 and in the CTMS support file which shows how the expenses were allocated to the goods. Irrespective of which category the administrative, selling and general expenses were reported in, we were confident from the operation of the Income Statement at CTMS 1 and the CTMS Support file that they were all allocated to the goods.

The documents supporting the XXXXXXXXXX fees are at **confidential attachment CTMS 10**.

### 9.5 Costs to make and sell – conclusion

We consider these costs to make and sell are a reasonably complete, relevant and accurate reflection of the actual SEWP Czech costs to make and sell the structural timber during the investigation period.

We consider these costs to make and sell are suitable for:

- determining a constructed normal value under section 269TAC(2)(c) of the Act; and
- assessing ordinary course of trade under section 269TAAD of the Act.

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10 ADJUSTMENTS

FOLIO

No. 197

We considered whether any adjustments were required to a constructed normal value to ensure it was properly comparable to export prices of structural timber exported to Australia.

It should be noted that we calculated an export price at EXW level and therefore consider that no adjustment for inland freight is required to constructed normal values that are calculated as EXW.

Furthermore, it is not necessary to adjust for differences in production costs (for example the additional costs of planing, kiln-drying and finger-jointing that is incurred in greater proportion by the Australian product) because these are already incorporated in the constructed normal value which is based on the production costs of the exported product.

10.1 Credit terms

As mentioned earlier, the domestic sales spreadsheet provided by SEWP Czech in the response to the exporter questionnaire identified various payment terms, including options for

XX  
XX  
XX).

On the basis that evidence of payment indicated that payment was made reasonably consistently with the quoted terms, we calculated an average number of days credit for each of the two mills,

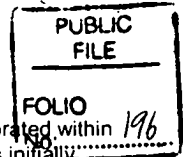
XX  
XXXXXXXXXXXXXXXXXXXX. The average number of days credit extended on domestic sales in the investigation period for Planá was X days, and for Ždírec was XX days.

We asked SEWP Czech for evidence of a short term borrowing cost so we could measure the likely impact on price generated by extending credit. SEWP Czech explained that access to capital was an inter-group activity and there was no need for the SEWP Czech mills to borrow funds outside the group. It provided an email from its financial controlling team that stated the interest rate applicable to short term borrowings within the group was charged at LIBOR XXXXX%. SEWP Czech also provided a schedule of LIBOR rates. Copies of the documents supporting the interest rate applicable to short term borrowings are at **confidential attachment ADJ 1**.

The average LIBOR rate for 3 months for the investigation period was 0.26%, which provided for an average interest rate applicable to SEWP Czech of XXXX%. We used this in conjunction with the number of days credit to calculate an amount for credit applicable to domestic sales.

In relation to export sales to Australia, we noted that payment was made reasonably consistently with the quoted terms of XXX days.

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We consider a negative adjustment for domestic credit should be incorporated within the constructed normal value because that constructed normal value was initially and notionally inclusive of domestic credit terms. We also consider a positive adjustment should be incorporated to bring the constructed normal value to XXX day credit terms and therefore a comparable basis to export sales.

**11 NORMAL VALUE**

FOLIO

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**11.1 Domestic sales not suitable**

Although the price paid for the goods in domestic sales of like goods was established satisfactorily, we found that there was a low volume of sales relevant for determining a normal value on the basis of domestic selling prices. Accordingly, normal value cannot be established using domestic selling prices in terms of section 269TAC(1) of the Act.

**11.2 Constructed normal value**

Based on the information provided by SEWP Czech, and the verification conducted on site, we are satisfied that the costs to make and sell are suitable for determining a constructed normal value under section 269TAC(2)(c) of the Act.

In terms of profit, we note the Dumping and Subsidy manual provides that:

*In constructing a normal value, Customs may include an amount for profit. Where all sales are made at a loss, no profit is added. Where sales in the ordinary course of trade are not in sufficient quantities, an amount for profit may be added in constructing the normal value. However in this scenario, Customs will not base the profit amount upon the low volume of domestic sales that were found to be unsuitable for determination of a normal value under s. 269TAC(1) of the Act.*

Consistent with this policy, we will not apply the amount of profit that is applicable only to those sales of most comparable products – A-grade, planed, kiln dried product.

Customs Regulation 181A provides that, if reasonably possible, the profit must be worked out by using data relating to the production and sale of like goods made by the exporter or producer of the goods in the ordinary course of trade. To this end, we examined the profit on Ždirec domestic sales of A-grade product sold in the ordinary course of trade (irrespective of whether the goods were planed or kiln-dried) and found the profit, measured as a percentage of revenue was XXX%. This pertains to XXXXX cubic metres. The same measurement for Planá was XXXX% but is not considered reliable as it pertains only to XX cubic metres. Inverted to become a measure of mark-up on CTMS, the XXX% profit on sales for Ždirec becomes XXX% on CTMS. We consider this is a reasonable amount for profit to include in constructed normal values.

In constructing normal values, we consider that certain adjustments, in accordance with s. 269TAC(9) of the Act, are necessary to ensure fair comparison of normal values with export prices. Using the data verified we consider adjustments for differences in domestic and export credit terms are warranted and are therefore incorporated into the constructed normal value calculation.

The nature and extent of the adjustments are discussed in detail in the section above, and summarised in the table below.

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|                       |   |
|-----------------------|---|
| Adjustment            | Add to, or deduct from, domestic selling prices   |
| Domestic credit terms | <b>Deduct</b> an amount based on the relevant number of days credit (XXXdays for Ždirec and X days for Planá) and an interest rate of XXXX% |
| Export credit terms   | <b>Add</b> an amount based on XXX days credit and an interest rate of XXXX%   |

Details of the constructed normal value calculation for SEWP Czech are at **confidential appendix 3.**

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12 DUMPING MARGIN – PRELIMINARY ASSESSMENT

FOLIO

No.

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We compared the quarterly weighted average export prices with corresponding quarterly constructed normal values, for the whole of the investigation period, in accordance with s. 269TACB(2)(a) of the Act.

The weighted average product margin for structural timber exported to Australia by SEWP Czech in the investigation period was negative 0.7%. Details of this calculation are at **confidential appendix 4**.

**13 LIST OF APPENDICES AND ATTACHMENTS**

FOLIO

No. 193

**Confidential Appendices**

|                          |   |
|--------------------------|---|
| Confidential appendix 1  | Export price calculations and summary   |
| Confidential appendix 2A | Ordinary course of trade calculations and summary – Planá   |
| Confidential appendix 2B | Ordinary course of trade calculations and summary – Ždírec  |
| Confidential appendix 3  | Constructed normal value calculations for each mill and the weighted average quarterly normal values, including adjustments |
| Confidential appendix 4  | Dumping margin calculations   |

**Confidential Attachments****General**

|        |  |
|--------|--|
| GEN 1  | Presentation – Stora Enso Wood Products: General Presentation 2011                         |
| GEN 1A | Planá and Ždírec – Organisational structure  |
| GEN 2  | Presentation – Ždírec 2011   |
| GEN 3  | Product brochure – Solid construction timber (KVH): duo and trio laminated beams           |
| GEN 4  | Presentation – Planá sawmill 2011  |
| GEN 5  | Presentation – Accounting structure  |
| GEN 6  | Independent Auditor's Report – Stora Enso Wood Products Planá s.r.o. (English translation) |
| GEN 7  | Czech Republic – share of log deliveries - source  |
| GEN 8  | Diagram – General production process for timber  |
| GEN 9  | Various products available domestic/export year to date 24 October 2011                    |
| GEN 10 | Holzkurier – report on mill concentration and competition for logs in Central Europe       |
| GEN 11 | Presentation – Eastern European markets  |
| GEN 12 | Global timber/sawmill/lumber cost benchmarking report – extract                            |

**Export Sales**

|        |   |
|--------|---|
| EXP 1  | Example production/delivery coordination schedule |
| EXP 1A | Extract of shipping contract                      |
| EXP 2  | Selected exports - Planá                          |
| EXP 3  | Selected exports - Ždírec                         |

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|       |   |
|-------|---|
| EXP 4 | Evidence of invoice payment - Planá and Žďirec    |
| EXP 5 | Evidence of payment - overseas and inland freight |
| EXP 6 | Production delivery list                          |

### Domestic Sales

|       |   |
|-------|---|
| DOM 1 | Price list - Group 2 domestic customers                                       |
| DOM 2 | Documents linking audited financial statements to transactional data - Planá  |
| DOM 3 | Documents linking audited financial statements to transactional data - Žďirec |
| DOM 4 | Selected domestic sales and payment - Planá                                   |
| DOM 5 | Selected domestic sales and payment - Žďirec                                  |

### Costs to make and sell

|         |  |
|---------|--|
| CTMS 1  | Documents that demonstrate the link from the CTMS data to audited financial statements - Planá             |
| CTMA 1A | Documents that demonstrate the link from the CTMS data to audited financial statements - Žďirec            |
| CTMS 2  | Calculations of adjustments to average costs for planing, kilning, finger jointing and Blueshield - Planá  |
| CTMS 3  | Calculations of adjustments to average costs for planing, kilning, finger jointing and Blueshield - Žďirec |
| CTMS 4  | "Costs by process" report  |
| CTMS 5  | Reconciliation of the "costs by process" and the audited profit and loss figures for 2010                  |
| CTMS 6  | Documents supporting the amount of domestic sales and logistic expenses                                    |
| CTMS 7  | Documents supporting the log costs in relation to Planá and Žďirec   |
| CTMS 8  | Documents supporting the depreciation expenses for Planá and Žďirec  |
| CTMS 9  | Documents supporting the electricity expenses for Planá and Žďirec   |
| CTMS 10 | Documents supporting the XXXXXXXXXX fees   |

### Adjustments

|       |  |
|-------|--|
| ADJ 1 | Documents supporting the interest rate applicable to short term borrowings |
|-------|--|