



Australian Government
**Australian Customs and
Border Protection Service**

**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

Ilim Timber HWN Holz Werke Nord GmbH Germany

November – December 2011

THIS REPORT AND VIEWS OR RECOMMENDATIONS CONTAINED THEREIN
WILL BE REVIEWED BY THE CASE MANAGEMENT TEAM AND MAY NOT
REFLECT THE FINAL POSITION OF CUSTOMS AND BORDER PROTECTION

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2 ABBREVIATIONS

| | |
|-------------------------------|---|
| \$ | Australian dollars |
| BSG | Building Supplies Group Holding Pty Ltd |
| CIP | Carriage and insurance paid |
| CLS | Canadian Lumber Standard |
| CPT | Carriage paid to |
| 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 |
| FOB | Free On Board |
| HWN | HWN Holz Werke Nord GmbH, |
| IFRS | International Financial Reporting Standards |
| INT | Ilim Nordic Timber GmbH & Co.KG |
| ITB | Ilim Timber Bavaria |
| ITE | Ilim Timber Europe |
| m ³ | Cubic metres |
| MGP | Machine grade pine |
| NIP | Non-injurious Price |
| PAD | Preliminary Affirmative Determination |
| SAP | Accounting software |
| SEF | Statement of Essential Facts |
| structural timber | As defined in section 3.1 of this report |
| Tariff Act | Customs Tariff Act 1995 |
| The Act | Customs Act 1901 |
| The applicants | Building Supplies Group Holding Pty Ltd (BSG), Hyne & Sons Pty Ltd (Hyne) and Gunns Limited (Gunns) |
| 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 |

3 BACKGROUND**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-General¹) 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

At initiation, Ilim Timber HWN Holz Werke Nord GmbH (herein after referred to HWN and/or Ilim Timber) was identified as an exporter of certain structural timber from Germany. Customs and Border Protection wrote to Ilim Timber seeking its cooperation with the investigation and forwarded an exporter questionnaire.

Ilim Timber lodged a response to the exporter questionnaire. The response to the exporter questionnaire was supported by non-confidential and confidential appendices and attachments. Customs and Border Protection reviewed the non-confidential version of the exporter questionnaire and asked that it be revised and resubmitted for the purposes of the public record. Consequently a revised non-confidential version of Ilim Timber's response to the exporter questionnaire was placed on the public record.

Ilim Timber's response to the exporter questionnaire was assessed and found to be sufficient to warrant a verification visit. Subsequently, Customs and Border Protection undertook a verification visit at Ilim Timber's premises at Wismar, Germany.

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

¹ 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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3.2 Purpose of visit

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

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 Ilim Timber; 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.

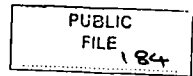
We informed Ilim Timber that interested parties are invited to make submissions to Customs and Border Protection in response to the SEF within 20 days of that statement being placed on the Public Record. Timely submissions received in response to the SEF will be considered when compiling the report and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

Ilim Timber (Wismar Plant)
Am Haffeld 2
23970 Wismar
Germany

The following were present at various stages of the interview:

| | |
|-------------------------------|---|
| Dates | 28 - 29 November, 1 and 6 December 2011 |
| Ilim Timber | Theresa Reff – Logistics Manager Ulf Seckert - IFRS Accounting Manager |
| Customs and Border Protection | Joanne Reid – Director, Operations 2 Sanjay Sharma – Manager, Operations 2 |

3.4 Cooperation and preliminary issues

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

We advised Ilim Timber 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 Ilim Timber.
- if the delegate is satisfied that Ilim Timber 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 Ilim Timber; 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 or that dumping is negligible, then Customs and Border Protection would be required to terminate the investigation.

4 COMPANY INFORMATION**4.1 General**

In August 2010, Ilim Timber Europe (ITE), a Russian based company, acquired two German sawmills from Klausner - Ilim Nordic Timber GmbH & Co.KG (INT) and HWN Holz Werke Nord GmbH (HWN).ITE currently owns three Ilim Timber plants in Germany - INT, HWN and Ilim Timber Bavaria (ITB). Hereafter 'Ilim Timber' will be used to describe the combined group of entities INT, HWN and ITB.

Ilim Timber produces timber from two main species, spruce for the domestic market and Europe and pine for the export market outside Europe. There is a small proportion of timber (approximately 5 percent of the total production) produced from another species, larch.

The Wismar plant has two mills, INT and HWN, while ITB is situated in Landsberg. The mills share some common general and administrative resources. All accounting and administrative work is performed at the Wismar plant. For accounting and reporting purposes, all three companies are stand alone entities and do not consolidate their audited financial accounts.

During the investigation period Ilim Timber collectively produced [REDACTED] cubic metres of finished products. Around [REDACTED] cubic metres ([REDACTED]%) was sold in the German domestic market and [REDACTED] cubic metres ([REDACTED]%) was exported.

Depending on the type of product (planed or sawn) and the location of the customer, each entity issues its own invoice. The sales team and logistics department determine from which mill the product will be supplied and the customer is advised accordingly to place the purchase order with the respective company within Ilim Timber.

The organisational chart of Ilim Timber group and the details of each mill and department were provided during our visit. The organisational structure also provided the reporting structure of inter-departments who share common resources such as the IT department and Finance (**confidential attachment GEN 1**).

Wismar plant

The Wismar plant comprises two mills – INT and HWN. INT buys about [REDACTED]% of its logs from overseas private suppliers, then sorts, saws and dries the timber before selling to HWN for planing. [REDACTED] [Method of transfer to HWN]. All INT products are sawn and are sold in the market either dried or green. HWN products are all kiln dried and planed. All exports to Australia are from HWN.

The key outputs from the process are lengths of timber from the centre of the log, sideboards used for pallets and other purposes, and rejects. The HW1, HW2 and HW3 grades are of high quality timber while HW4 and HW5 are a lower quality product.

Landsberg plant

The Landsberg plant has only one sawmill, ITB. The plant was shut down for some time prior to its acquisition from Klausner and re-starting only commenced in August 2010. ITB buys most of its logs domestically, [REDACTED] [Purchase arrangements]. There is no planing activity at the mill in Landsberg. All finished products sold by ITB are sawn timber either dried or sold green.

Accounting process

Ilim Timber noted that its financial reports are in accordance with Generally Accepted Accounting Principles (GAAP) of Germany, and that its monthly results are reported in SAP, its accounting information system. The reporting system that feeds from SAP is BWA.

Ilim Timber advised that due to its recent acquisition of these mills from Klausner they are going through a process of reorganising the structure.

Accounting structure

Ilim Timber also explained the accounting structure and the cost centres for each of its sawmills - INT, HWN and ITB. ITE is [REDACTED]

[REDACTED] [Details of accounting structure for each entity]. The Ilim Timber charts of accounts were provided with the exporter questionnaire response.

[REDACTED] [Confidential details of accounting structure for the group].

Ilim Timber's financial reports are audited by the accounting firm Ernst and Young. Ernst and Young's independent opinion of the INT's, HWN's and ITB's financial position and financial performance was provided together with copies of audited financial statements for the 6 months ending December 2010 (**confidential attachment GEN 2**). Ilim Timber also provided a translated copy of the auditors' opinion for each entity (**confidential attachment GEN 3**).

4.2 Related parties

Tilling Timber Australia Pty Ltd

All of Ilim Timber's export sales to Australia were to Tilling Timber Pty Ltd, which has an exclusive contract with Ilim Timber for supply of structural timber to Australia. Ilim Timber submitted in its response to the exporter questionnaire that the prices of

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these sales were determined through negotiations and were at arms' length. At verification we found no evidence to suggest this was not the case.

Log supply

Ilim Timber submitted that fifty percent of log is purchased domestically while the other fifty percent is imported from [REDACTED]. Most of the pine is imported as there is only limited supply of pine in Germany.

During the investigation period, Ilim Timber purchased some log from its related company in Russia. The company claims that the purchase price was at arms' length and there was no special deal given to them by its related company. [REDACTED] it only bought a minimal quantity. No evidence for the quantity purchased by the company from its related party was provided.

[REDACTED] [Details of log purchase arrangements].

At the verification visit, Ilim Timber claimed that INT had no log supply contracts in force and claimed that it paid market prices for logs from the government and from private suppliers in the region.

[REDACTED]

[Details of log purchase arrangements].

All imports were from [REDACTED].

5 GOODS UNDER CONSIDERATION AND LIKE GOODS**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 120cm²; 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.

Detailed information of the goods is contained in ACDN 2011/41.

5.2 Like goods

Log species

Ilim Timber advised that it mostly produces timber from two species, spruce for the domestic market and European markets and pine for the export market outside Europe. Ilim Timber also produces a small proportion of timber (approximately 5 percent of the total production) from another species, larch, which is mostly for the domestic niche market.

Production process

The general timber production process that Ilim Timber (Wismar plant) follows is described below:

- **Log purchase** - logs are supplied to mill by rails and trucks. Most of the logs is imported. They arrive at the nearby port in ships and are then transported to the Sawmill by trucks.
- **Sorting** – Once at sawmill, logs are sorted according to species, diameter, length.
- **Marking and Scanning** - all logs are marked and scanned and entered into the system at this point to determine the correct price of log to be paid to the suppliers.
- **Debarking** – bark from the logs is removed in preparation for the log to be sawn to dimension.
- **Sawing** – logs are cut to a straight length most appropriate to determine a sawing pattern.

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- Green sorting – sawn timber pieces are sorted between those that will be kiln-dried and those that are sold as is to customers with drying.
- Drying – timber can be kiln-dried to reduce moisture content. Timber is dried at different moisture levels.
- Planing – timber is planed at the Wismar plant only.
- Grading – timber is visually graded for all other markets except for Australia, which is machine graded.
- Packaging – all export timber are packaged and covered with Plastic to for promotional of Ilim Timber and protecting timber.

Ilim Timber advised that typical by-products from sawmilling are woodchips, sawdust and bark. Bark is used in Ilim Timber's own energy plant in the production of energy that is used to dry the timber.

Domestic market

Ilim Timber explained that most of its domestic sales volume in Germany relates to non certified construction timber and glue lam timber. These are mostly dried and un-planed. Construction timber is thicker and longer in length, and normally greater (60mm plus) in thickness.

The final products are graded, with HW1, HW2 and HW3 being higher quality and therefore higher value products, and HW4 and HW5 (rejects) being lower quality and value. The lower quality and reject product comes from lower quality log. Construction timber is only visually graded with the most important feature being that it is sharp edged.

Ilim Timber's customers will usually further process the product, such as planing or finger-jointing to make longer lengths if necessary.

Products are referred to as either 'main board' or 'side board'. Main boards are from the centre part of the log and are used for the construction timber. Side boards are from the outside of the log and are mainly used for packaging applications.

Ilim Timber's views on like goods

In its response to exporter questionnaire, Ilim Timber claimed that the products it sold domestically were not like goods to the timber exported to Australia for several reasons. In summary, Ilim Timber claimed that

- A different species of timber is used to produce the domestic versus export product. The construction timber for the domestic market is mostly produced from spruce (more than [REDACTED]), whereas products produced for the Australian market are mostly from pine [REDACTED] and a small quantity from spruce ([REDACTED]). Ilim Timber explained that Australia is not prepared to pay extra costs for spruce, which is a more expensive timber.
- Different sizes of logs are processed for the domestic versus the Australian export market. The domestic market uses large beams for construction timber, usually greater than 60mm in diameter, whereas the Australian market requires smaller diameters.

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- The domestic product is not machine stress graded, and the majority are not planed. All products exported to Australia are machine graded, dried and planed.

Like goods analysis

Physical likeness

The goods sold domestically by Ilim Timber have physical characteristics that are similar to the exported goods in that they are construction timber with similar appearance. However, the domestic products have significantly larger dimension than the product exported to Australia and are made from a different species of timber.

Production likeness

The production process used to manufacture the domestic goods is exactly the same as that for the exported goods up to the point of planing. The majority of the domestic product is not planed, and none is machine graded.

Functional likeness

Both the higher graded domestic goods and the exported goods can be used for structural applications.

Commercial likeness

The domestic goods and exported goods compete in the same market sector, however there is no domestic market for construction timber manufactured from pine. In addition, the domestic market requires larger size beams for structural purposes compared to the Australian market.

5.3 Conclusion

Having regard to all of these factors, we consider that the structural timber sold domestically by Ilim Timber is not identical to the goods exported to Australia; however the products sold domestically have characteristics that closely resemble those of the exported goods. The volume of such sales in the investigation period was [REDACTED] cubic metres for INT and [REDACTED] cubic metres for ITB. Together this volume of [REDACTED] cubic metres represents 353% of the export volume of structural timber to Australia ([REDACTED] cubic metres) in the investigation period

6 EXPORT SALES TO AUSTRALIA**6.1 General**

In the investigation period, Ilim Timber exported structural timber only to Tilling Timber. Tilling Timber has an exclusive contract with Ilim Timber. A copy of the contract was provided with the response to the exporter questionnaire (**confidential attachment EXP 1**)

6.1.1 Export sales data provided

In its response to the exporter questionnaire, Ilim Timber provided an export sales spreadsheet, listing each export sale to Australia in the investigation period.

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

- customer name
- invoice date
- invoice number
- packaging list number
- product code and model (specifying, species, dried/green, sawn/planed, dimension & grade)
- quantity and unit (M3)
- ExW export price (Euro/M3)
- ocean freight

Additionally, Ilim Timber provided a 'Turnover' spreadsheet (showing sales values and volumes for both the investigation period and the most recent six months audited accounts to 31 December 2010. This spreadsheet was revised by Ilim Timber during the verification meetings to correct the export sales volume and value to reflect figures from August 2010 to June 2011 (investigation period) as the original data submitted was from August 2010 to September 2011.

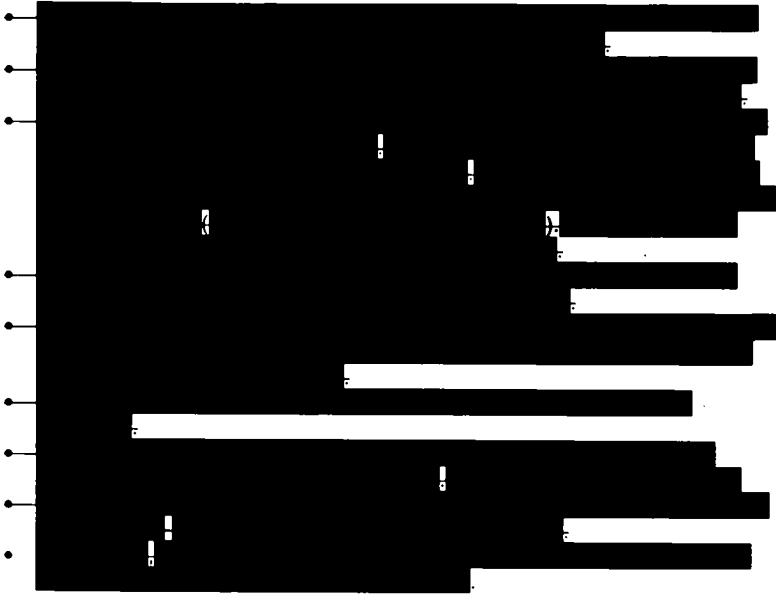
6.2 Sales volume and value

All Australian exports are dried, planed and machine graded. The total volume exported to Australia in the investigation period was [REDACTED] cubic metres at a value of [REDACTED] Euros.

All exports were from Ilim Timber's Wismar plant from the HWN mill. Most exports to Australia ([REDACTED]%) were pine with a very small proportion of spruce ([REDACTED]%).

6.3 Export sales process

Ilim Timber described its export sales process as follows:



The following table describes the grades and sizes of timber supplied by Ilim Timber to Tilling Timber during the investigation period.

| Grade | Dimension (mm) |
|--------|----------------|
| F5 | 35x70mm |
| MPG10 | 35x90mm |
| MPG 12 | 35x120mm |
| | 35x190mm |
| | 45x70mm |
| | 45x90mm |
| | 45x140mm |
| | 45x190 |
| | 45x240 |

6.4 Date of sale

We advised Ilim Timber 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.

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6.5 Pricing and terms

Ilim Timber claimed that it exclusively supplies Tilling Timber all of its products that were sold to Australia.

Ilim Timber advised that there were no rebates, discounts, or other reimbursements, nor any commissions, in relation to its sales of structural timber to Tilling Timber Australia. Ilim Timber advised that the invoiced price was the final price payable.

6.6 Export packaging

Ilim Timber advised that there was no difference in packaging costs per cubic metre for exports and the domestically sold product. Ilim Timber also explained that it does not record the packaging costs separately.

6.7 Ocean freight, inland freight and insurance

In its detailed export sales spreadsheet submitted in the responses to the exporter questionnaires, Ilim Timber provided line-by-line data for the ex-works price and cost of ocean freight. Ilim Timber advised that the inland freight cost was included in the charge for ocean freight as the same company undertook both operations. Ilim Timber provided a spreadsheet of its current freight rates that showed the all-inclusive cost, and that some companies break this amount into ocean and inland freight while others do not distinguish (**confidential attachment EXP 3**).

Ilim Timber advised that freight charges are paid by container. The freight charged is all-inclusive from point of load to the port of discharge in Australia.

Ilim Timber said it held one marine insurance policy that covered all exports. The insurance rate is calculated as **[REDACTED]** % of the value of the exported goods. A copy of the marine insurance policy is attached (**confidential attachment EXP 4**).

6.8 Quarantine charges

Ilim Timber advised that it did not incur quarantine charges. It stated that other than Western Australia, kiln drying of structural timber meets the quarantine requirements for Australia. For Western Australia, there is an additional requirement to chemically treat the finished goods for termites. Tilling Timber performs this treatment and incurs this charge. Ilim Timber also advised that it carried out no other chemical treatment for its exports to Australia.

6.9 Verification of export sales to source documents

Prior to the visit we requested that Ilim Timber provide supporting documents for twelve shipments to Australia.

Ilim Timber provided source document bundles for each of these shipments during the verification, containing the following:

- invoice to Tilling Timber

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- order confirmation
- packing list
- invoice from freight company
- evidence of payment from customer
- evidence of payment to freight company
- credit/debit note (where applicable)

Document bundles for exports from Ilim Timber form **confidential attachment EXP 5**. We compared the data contained in the source documents to that provided by Ilim Timber in its export sales spreadsheet.

6.9.1 Sales volume and value

We were able to reconcile sales volume (in m³) using the commercial invoices and packing lists.

The export sales spreadsheet only provided the unit cost of the transaction, excluding freight (EXW), and the total freight for the transaction. Using the commercial invoice and the freight invoice we were able to calculate the EXW unit price and matched it to the export sales spreadsheet. We found only a minor difference in one transaction. We consider the data provided for the export sales to be reasonably reliable.

We observed that the proof of payment for each invoice showed [REDACTED]

6.9.2 Ocean freight and land transport freight

We observed that all selected shipments were listed as having [REDACTED] terms on their commercial invoices, as reported by Ilim Timber within its export sales spreadsheet.

We noted that the ocean freight was also included in the invoices. There were no separate inland transport freight charges as the [REDACTED] prices included inland freight.

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 6**.

6.9.3 Credit terms

We observed within the export sales spreadsheet, and on the invoices, that payment terms to Tilling Timber were all listed as [REDACTED]. Ilim Timber explained that Tilling Timber's payment was always on time.

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.

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6.9.4 Handling, marine insurance 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 verified the cost of marine insurance by reference to the insurance contract and deducted this from the freight inclusive price to determine an EXW price. We found no evidence to believe that any further charges should be reported against the transactions.

6.9.5 Other data

Ilim Timber 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 (pine (KI), Spruce(FI))
 - planed (GKB)
 - grade (HW2M, HW3M etc)
 - drying (kiln-dried (KD))
 - physical dimension (35 x 90 x 3600, 35 x 70 x 3600, etc.)
- Invoice date
- Invoice number

6.10 The exporter

We consider Ilim Timber to be the exporter of product shipped from Germany to Australia because Ilim Timber:

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

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6.11 The importer

We noted that Tilling Timber:

- negotiates directly with Ilim Timber 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 Tilling Timber is the beneficial owner of product at the time of importation and is therefore the importer of the structural timber exported by Ilim Timber from Germany.

6.12 Arms length

In relation to all of Ilim Timber's export sales of structural timber to Tilling Timber 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 Tilling Timber Australia, all of Ilim Timber's export sales to Tilling Timber during the investigation period to be arms' length transactions.

6.13 Export price – preliminary assessment

In the case of export sales to Australia by Ilim Timber, 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 Ilim Timber can be established under Section 269TAB(1)(a) of the Act.

Export price calculations are included at **Confidential Appendix EXP 7**.

PUBLIC RECORD**7 DOMESTIC SALES****7.1 General**

As discussed at section 5.2 above, Ilim Timber claimed that it did not sell like goods on the domestic market. Ilim Timber prepared a spreadsheet showing a sub-category of goods within its total domestic sales, this sub-category representing goods described as 'construction timber'. The reference to 'domestic sales' in this section of the report refers to this sub-category of goods.

7.2 Levels of trade

Ilim Timber advised that its domestic sales are only made to wholesalers, who may further work or treat the product before sale to retailers or end users. The minimum order quantity is one container load.

7.3 Sales to related parties

Ilim Timber does not sell any goods on the domestic market to related parties. It makes small quantities of sales to staff members at discounted prices, but these products are not construction timber.

7.4 Domestic sales process, pricing and terms**7.4.1 General**

Ilim Timber advised that in the domestic market it competes with the German manufacturers Egger and Klausner, as well as Austrian and other countries' manufacturers.

Ilim Timber advised that it does not have a price list for domestic sales. The sales manager and the production planners agree on a minimum price taking into account the cost of manufacture. The sales people determine a range of selling prices above that minimum taking into account the conditions of the market. Ilim Timber offers different prices to different customers for the same product depending on the size of the customer, logistics and other considerations.

On the domestic market customers will contact Ilim Timber and advise their requirements and a price will be negotiated. It is common for there not to be a purchase order raised.

7.4.2 Delivery terms

Ilim Timber advised that only around █% █% [a small percentage] of domestic sales are collected from the factory; the remainder are sold at a delivered price. Ilim Timber uses outsourced freight providers.

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7.4.3 Payment terms and discounts

Ilim Timber advised that it has around 200 different payment terms that it provides to customers depending on the individual customer. Ilim Timber provided us with a list of all the payment terms offered (**confidential attachment DOM 1**).

Ilim Timber advised that it was not possible for it to produce a detailed domestic sales transaction list that showed the payment terms for each individual transaction. It advised that the most common payment terms used were [REDACTED], [REDACTED]%, [REDACTED].

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

7.5 Verification of domestic sales to audited financial statements

We sought to trace the detailed domestic sales data provided by Ilim Timber 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.

During the visit Ilim Timber supplied a revised version of the turnover spreadsheet (**confidential attachment DOM 2**). The one supplied with the questionnaire response included data for the period up to 31 August 2011, which is outside of the investigation period. Ilim Timber demonstrated how the total sales volume and value of its domestic sales of timber (including construction timber plus all other sawn timber), as shown in the revised turnover spreadsheet and the transaction-by-transaction sales listings, could be linked to the profit and loss statements of the audited financial statements for 2010.

Ilim Timber advised that it obtained the domestic sales transaction listing from its BWA reporting system. It provided us with copies of the original reports run from this system, which showed the query that was run to obtain the data (**confidential attachment DOM 3**). The reports included data for INT, HWN and ITB. The volume and value from the transaction listing matched the volume and value in the turnover spreadsheet provided with the questionnaire, and also matched the BWA reports.

We compared the volume and value from the BWA reports to the SAP ledgers for INT, HWN and ITB for sales of sawn timber (**confidential attachment DOM 4**) and found an immaterial discrepancy. Ilim Timber advised that differences could arise due to the date parameters used in the BWA report query compared to when sales are booked as revenue in the SAP ledger.

We matched the revenue from the SAP ledgers for INT, HWN and ITB to the audited accounts for the respective entities.

By checking a sample of transactions from the sub-category report for construction timber we are satisfied that the like goods report is an accurate sub-set of the total domestic sales of timber.

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 Ilim Timber a list of 12 selected domestic sales 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, Ilim Timber provided copies of the invoice, packing list, freight (where applicable) 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. Copies of the source documents for the selected domestic sales are at **confidential attachments DOM 5**.

As discussed earlier, Ilim Timber explained that most domestic sales are sold on delivery terms of CPT. The spreadsheet data supported this, with only a very small volume (1%) sold on EXW terms. It provided in its questionnaire response a copy of a price list for domestic transport from its main freight provider showing the rates to each location in Germany (**confidential attachments DOM 6**). Ilim Timber also provided copies of the invoice from the freight company with each of the selected invoices. We verified that the invoiced amounts matched the details on the domestic sales spreadsheet.

In terms of evidence of payment, Ilim Timber provided copies of the debtor's ledger from SAP showing the payment being credited. The ledgers indicated that the invoice price was the price paid. Copies of the documents supporting the price paid in domestic sales are included at **confidential attachment DOM 7**.

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

7.7 Arms length

In respect of Ilim Timber'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 Ilim Timber's domestic sales of timber products are made at arms length transactions.

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7.8 Ordinary course of trade

Although domestic sales may not be used as the basis for normal values, we still examined Ilim Timber's domestic sales of construction timber 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. 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.

We found that all the domestic sales were recoverable, and therefore in the ordinary course of trade.

7.9 Suitability of profitable sales

We found all domestic sales of construction timber were in the ordinary course of trade, and therefore potentially suitable for use as normal values. The volume of domestic sales in the ordinary course of trade represents ■% of the volume of exports to Australia if both INT and ITB's sales are included, or ■% if only INT's sales are included. The volume is therefore also suitable for use as normal values.

As discussed in section 5.2 above, Ilim Timber advised that the main differences between the domestic sales of construction timber and the goods exported to Australia are:

- Construction timber is exclusively spruce whereas export sales are almost exclusively pine. Spruce is a higher cost species;
- Construction timber is not planed but all export sales are planed;
- Construction timber predominantly has much larger dimensions than the structural timber exported to Australia.

We considered whether adjustments could be made to the domestic selling prices to take account of the differences set out above.

- **Species** – Ilim Timber provided a spreadsheet of all domestic sales (construction timber and other). From this there was sufficient volume to confirm that there was a price difference between goods made from spruce and goods made from pine, with spruce being sold at a higher average price.
- **Planing** – no planing is carried out by ITB, which makes the majority of the domestic sales of construction timber. Planing is carried out by HWN, and therefore the cost to plane the domestic sales could theoretically be estimated by using HWN's costs.
- **Dimensions** – Ilim Timber does not have any export sales to Australia of similar dimensions to the construction timber. The volume of domestic sales

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of goods with similar dimensions to the Australian goods is too small to make any meaningful comparison. Ilim Timber advised that the larger dimension construction beams attract a premium due to their size but could not provide any estimate of such a premium.

Taking into account the above, we are of the view that it is not possible to accurately adjust the selling price of the construction timber to equate to what a domestic price would be for the same product that is exported to Australia. There is no domestic market for the exported product and the intangible premium afforded by the domestic market to larger beams cannot be meaningfully calculated.

7.10 Sales by other sellers

Ilim Timber advised that there are other manufacturers of construction timber in Germany that make domestic sales. Egger Sagewerk Brilon GmbH is also participating in the investigation.

7.11 Domestic sales conclusion

Having regard to the differences between domestic sales of like goods and the exported goods, we do not consider the construction timber products sold domestically by Ilim Timber are an appropriate basis for normal values.

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8 THIRD COUNTRY SALES

In its exporter questionnaire response, Ilim Timber provided a summary of volumes and values for timber products exported to third countries.

Ilim exports to the European Union, Middle East, USA, China and Japan. Ilim Timber explained that only its sales to the [REDACTED] market could be regarded as similar product to the Australian exports as these were also products adhering to the planed timber products, although, Ilim Timber 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 response, Ilim Timber provided cost to make and sell calculations, per cubic metre, separately for domestic and export. The data was broadly categorised and presented as:

- material costs;
- direct labour;
- manufacturing overheads;
- other manufacturing costs;
- administration costs; and
- revenue from by-products.

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 ITB costs

As discussed earlier in this report, ITB makes the majority of Ilim Timber's domestic sales of construction timber. In its questionnaire response Ilim Timber provided one cost to make and sell figure for the period January to September 2011. At the verification we asked Ilim Timber to provide quarterly cost to make and sell data for ITB for the investigation period. Ilim Timber objected to the preparation of this data as it considered the domestic sales were not like goods and therefore could not see the relevance of this data. It said that it would take significant time to prepare.

We observed the following in relation to ITB cost data:

- ITB's average unit cost to make and sell provided in the questionnaire was [REDACTED] than INT's cost to make and sell;
- nothing in the information provided to us at the visit gives us any reason to expect that ITB's costs would be substantially different to those of INT. While ITB buys some logs from the state government at a low price, Ilim Timber advised that this volume is small. Any advantage from cheaper log costs would be offset by ITB's higher fixed costs due to low production during the investigation period (as explained below);
- the data provided to assist in matching ITB's income statement provided in the questionnaire response to the audited accounts included data on log purchases, input and output, and yields (in addition to other operating costs). From this data we estimated the quarterly cost to make sell for ITB. Our calculated weighted average cost during the investigation period was [REDACTED] than INT's cost. [REDACTED]

[REDACTED] [Details
of factors affecting ITB's costs];

- if ITB's domestic sales of construction timber are excluded, there is still sufficient volume of domestic sales by INT (around [REDACTED] cubic metres) to use for the purpose of assessing a reasonable amount of profit; and
- HWN, the mill in Wismar, makes all export sales to Australia. Therefore to theoretically calculate a domestic selling price based on costs it is more relevant to use the costs of the Wismar plant.

Based on the above we did not consider it necessary to pursue the completion or verification of ITB's quarterly cost to make and sell.

9.3 Verification of costs to audited financial statements

The company provided us with the worksheets for INT and HWN (CTMS worksheet) linking SAP accounts to the CTMS spreadsheets. The company showed us how the figures in this work sheet reconciled with the audited financial statement. The company provided a separate worksheet for INT which provides costs up to and including the drying process, and HWN, which incorporates costs for planing.

INT

The company calculated the raw material costs by dividing the average cost of log by the yield. The average purchase price was sourced from the summary table that showed the volume and value of log purchased each month. Because the company explained that pine and spruce are significantly different they were able to separate the costs for each species.

The summary of purchases was sourced from a worksheet prepared by the log purchasing department ("log purchase worksheet", **confidential attachment CTMS 1**). We verified that the volume and value for November 2010 matched the volume and value in the summary table. We also compared the total value from the summary sheet for the period January to March 2011, to the value recorded in the SAP ledger for log purchases. We found an immaterial difference.

The yield for the sawing process was calculated by dividing the finished goods output volume for the quarter by the log transferred into production in that quarter. These figures are sourced from a SAP query that the company also provided in spreadsheet format. All costs other than raw material were calculated by dividing the total costs from SAP by the finished goods volume. We verified that all the costs in the CTMS worksheet matched the amounts recorded in the SAP extract included in that worksheet.

We checked whether the SAP account codes included in the CTMS worksheet matched the amounts in the SAP profit and loss statement. While the amounts

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matched, we observed that there were a number of account codes in the profit and loss statement that were not included in the CTMS worksheet. As both the CTMS worksheet and SAP profit and loss statement are in German we asked Ilim Timber to explain why. Ilim Timber advised that there was an error in the formulae used to produce the CTMS worksheet and some account codes were not picked up. It provided a revised CTMS worksheet incorporating all SAP account codes.

In verifying the CTMS, it became apparent that administration costs were not included in the CTMS. We also observed that the drying costs were included but allocated across all the finished goods, not just those that went through the drying process. Because all Australian exports were dried, we explained the need to correctly allocate drying costs and noted the method that Ilim Timber had used understated the cost to make the Australian goods.

The company advised that it did not have a separate cost centre within SAP to report the drying costs. It explained that it had attempted to calculate these costs for another purpose for the period January to August 2011. We asked Ilim Timber to provide a copy of this calculation. The company provided a worksheet that showed the total costs for INT, by SAP account code, in one column and the amount allocated to the drying process in a separate column (**confidential attachment CTMS 2**). The worksheet showed that the drying function represented around [REDACTED] of INT's total costs. This worksheet was provided to us on the last day of our verification visit. On our return to Australia we asked Ilim Timber, via email, to explain how the cost allocation was made given that there was no separate cost centre for drying. The company's response to this question was to show that all the SAP account codes had been included, but it did not explain how the allocation to drying had been performed.

HWN

The company calculated the raw material costs by dividing the cost of sawn timber by the yield. Ilim Timber advised us that it calculates yield by comparing output volume to input volume. It advised that it does not maintain formal records of this calculation. Ilim Timber provided us with the calculation of yields for the months of September 2011 to November 2011, which ranged from [REDACTED]% to [REDACTED]% (**confidential attachment CTMS 3**). Ilim Timber explained that the variations over the time period are caused by [REDACTED]. Ilim Timber claimed that the reasonable long-term assumption on a monthly planning is a yield of [REDACTED]%.

The cost of material is transferred from INT, with separate costs for pine and spruce. All costs other than raw material were calculated by dividing the total costs from SAP by the finished goods volume. The process of determining and verifying these costs was the same as for INT.

As with INT, in verifying the CTMS it became apparent that administration costs were not included in the worksheet. The company amended the original CTMS to reflect these changes.

9.4 Verification of production costs to source documents

9.4.1 Log costs

Depending on the arrangement with the supplier, log is either imported or bought domestically. Domestic purchase is mostly restricted to [REDACTED]. Around [REDACTED]% of the log is imported while the other [REDACTED]% is supplied locally. At the point of entry into the mill, all logs have been marked to identify the supplier. Each supplier's logs are sorted individually. During this process the grade and dimensions of the log are calculated to determine the final purchase price of the log.

[REDACTED] [Billing process].

From the log purchase worksheet, we selected two pine and one spruce invoice in November 2010 to verify the purchase of log. We noted the price difference between pine and spruce was not that great. The company explained that our sample could include an inferior grade of spruce. We noted that for some invoices, the transport costs were included in the price while for others there was a separate invoice for transportation.

9.4.2 Depreciation

The audited reports contain a statement by the auditors that the financial statements are prepared in accordance with German accounting standards. Given that we identified that the depreciation included in the cost to make and sell matched the SAP accounts, and therefore the financial statements, we identified this was a low risk area. However, we requested asset registers for both INT and HWN for the period July to December 2010 (**confidential attachment CTMS 4**). We matched the depreciation expense from the asset registers to the amount in the SAP accounts. We noted that the asset register appeared to include all assets, including both production and administrative.

9.5 Verification of administration, selling and general expenses

As stated above, in verifying the CTMS, it became apparent that not all the administration costs were included in the calculation. Ilim Timber explained that for German accounting purposes such administration costs were not included in the valuation of finished goods. We explained to Ilim Timber that for our purposes we need to calculate the full cost to make and sell the products, including all administrative costs.

Ilim Timber provided a revised CTMS worksheet. We verified that the total value of administrative costs included in the calculation of the unit CTMS matched the value of administrative costs in the CTMS worksheet, which in turn matched the SAP accounts.

In responding to our questions about the revised CTMS worksheet we identified that Ilim Timber had not included any interest or financing costs in the CTMS, for the same reason as for administrative expenses. Ilim Timber subsequently provided a further revised CTMS worksheet.

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We were satisfied that the final revised CTMS worksheet included and allocated all administration, selling and general expenses from the SAP accounts. The final CTMS worksheet is attached at **confidential attachment CTMS 5**.

We observed that the administrative costs for the second quarter of the investigation period were unusually high compared to the other 3 quarters. The company explained that this was due to an accrual of [REDACTED] for a legal claim. The company advised that the claim is related to [REDACTED]. We have deducted this accrual from the costs for quarter two on the basis that it is a one-off extraordinary expense.

As noted previously, INT and HWN employ people that perform shared functions for these entities as well as ITB, mainly in relation to IT and finance. We asked Ilim Timber whether it could apportion the costs that would relate to ITB so that we could isolate them from INT and HWN's costs. Ilim Timber advised that it could not do this because it would take too much time to calculate/estimate and in its view the amount would not be significant.

9.6 Cost to make and sell conclusion

We consider the final revised costs to make and sell are a reasonably complete, relevant and accurate reflection of the company's actual cost to make and sell 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

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 that is incurred by the Australian product and the different species used; and
- selling costs, with [REDACTED] devoted to domestic sales and [REDACTED] devoted to Australian sales,

because these are already incorporated in the constructed normal value which is based on the production costs of the exported product.

In relation to credit terms, export sales to Australia are made on [REDACTED] terms. We noted that payment was made within these terms. As mentioned earlier, the domestic sales spreadsheet provided by Ilim Timber in the response to the exporter questionnaire did not identify the payment terms applicable to each sale. Ilim Timber advised that it was not possible to provide a report that included this information. Ilim Timber provided us a list of all the payment terms offered, which include around 350 different terms. Ilim Timber advised that most domestic sales were made on [REDACTED]; however it could not provide evidence to support this.

We consider there is insufficient evidence to make any adjustment for the different credit terms between domestic sales and export sales to Australia.

11 NORMAL VALUE**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 the domestic sales were not suitable 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 Ilim Timber, 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.

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 by the exporter or producer of the goods in the ordinary course of trade. To this end, we examined the profit on Ilim Timber's domestic sales of construction timber by INT, which measured as a percentage of revenue was ■.■%. This pertains to ■; ■ cubic metres. We consider this is a reasonable amount for profit to include in constructed normal values.

In constructing normal values, we consider that no adjustments, in accordance with s. 269TAC(9) of the Act, are necessary to ensure fair comparison of normal values with export prices. The reasons are set out in section 10 above.

Details of the constructed normal value calculation for Ilim Timber are at **confidential appendix 1**.

12 DUMPING MARGIN – PRELIMINARY ASSESSMENT

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 dumping margin for structural timber exported to Australia by Ilim Timber in the investigation period was 15.7%. Details of this calculation are at **confidential appendix 1**.

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13 LIST OF APPENDICES AND ATTACHMENTS**Confidential Appendices**

| | |
|-------------------------|--|
| Confidential appendix 1 | Dumping Margin and Export Price Calculations |
| Confidential appendix 2 | Ordinary course of trade and Profit calculations |
| Confidential appendix 3 | CTMS calculations using adjusted SAP worksheet |
| Confidential appendix 4 | Final amended CTMS |

Confidential Attachments**General**

| | |
|-------|--|
| GEN 1 | Organisational Structure – Ilim Group of companies and different department |
| GEN 2 | Audited Financial Statements for INT, HWN and ITB 6 months to December 2010. |
| GEN 3 | Translated copy of the auditors' opinion for INT, HWN and ITB |

Export Sales

| | |
|-------|---|
| EXP 1 | Copy of Ilim Timber's exclusive contract with Tilling Timber |
| EXP 2 | Latest negotiated price list for tilling timber (15/11/2010) |
| EXP 3 | Current Ocean Freight Rates (including inland Freights) |
| EXP 4 | Marine insurance contract |
| EXP 5 | Selected exports – document bundles for exports |
| EXP 6 | Evidence of invoice payment overseas and inland freight for selected transactions |
| EXP 7 | Export price calculations |

Domestic Sales

| | |
|-------|--|
| DOM 1 | List of payment terms offered |
| DOM 2 | Revised turnover spreadsheet |
| DOM 3 | Snapshot of BWA and SAP volume and value |
| DOM 4 | Comparing volume and value from BWA to SAP Ledgers |
| DOM 5 | Selected domestic sales and payment |
| DOM 6 | Domestic freight charges |
| DOM 7 | Price paid domestic sales (debtors ledger) |

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Costs to make and sell

| | |
|--------|---|
| CTMS 1 | Log purchase worksheet |
| CTMS 2 | Worksheet for total costs for INT (drying costs) |
| CTMS 3 | Calculation for yields (September 2011 to November 2011) |
| CTMS 4 | Depreciation registers for INT and HWN |
| CTMS 5 | Final amended CTMS |