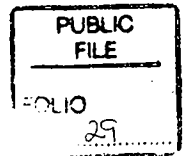




Australian Government
**Australian Customs and
Border Protection Service**

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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 EESTI AS (NAPI)

February 2012

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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No. 28

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1 PURPOSE

The purpose of the visit was to:

- obtain information for recommending normal values under s. 269TAC of the Customs Act 1901 (the Act);
- obtain export price information for recommending export price under s. 269TAB of the Act; and
- compare normal values to the export price for the purpose of recommending dumping margins (if any);

for the goods under consideration (GUC) exported to Australia by Stora Enso Eesti AS.

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2 BACKGROUND

The Napi sawmill was originally founded in 1991 with the mill coming under the control of Stora Enso Timber in 2003. In the following year, the mill installed the use of its planning line and 2007 the coating line commence operations. More recently, in 2009 the mill started up the use of its stress graded material planning line.

The Napi sawmill, along with the Imavere sawmill are controlled by the legal entity, Stora Enso Eesti AS, which is wholly owned by its Finnish parent, Stora Enso Oyj. The parent company is listed on NASDAQ OMX Helsinki and NASDAQ OMX Stockholm.

Stora Enso Napi provided certain company overview information, including a presentation of its operations which is at **confidential attachment GEN 1**.

Stora Enso Napi sells structural timber sections in both the domestic and overseas markets including Australia. The questionnaire response indicated that during 2010, the company had sales to XX countries, with exports to Australia accounting for XX% of total volume. Domestic sales accounted for only XX% over the same period. Exports of structural timber to Australia during the investigation period comprised XX cubic metres (m3).

Stora Enso Napi's corporate reporting period is the calendar year. It uses the SAP accounting and financial reporting system, with a number of additional software and systems for management reporting.

Stora Enso Napi provided copies of its:

- annual Report for 2009 and 2010;
- Chart of Accounts;
- audited consolidated financial statements for 2010; and
- operating income statements for 2009 and 2010;

as part of its submission.

A list of discrete profit and cost centres was provided in the submission.

In its submission Stora Enso Napi provided a list of all structural timber product codes and descriptions exported to Australia; those sold on the domestic market and a description that outlined Stora Enso Napi's assessment of the similarities between the exported and domestic products.

Contact details and information

Name	Stora Enso Näpi Sawmill
Address	Näpi tee 2E, Rakvere, Estonia
Contact Telephone No.	00372 322 91 91
Contact Fax No.	00372 322 91 90
E-mail	tonu.saaber@storaenso.com

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Stora Enso provided a submission in response to Exporter's Questionnaire including confidential exhibits. Further information was provided during the course of the interview. FOLIO 25

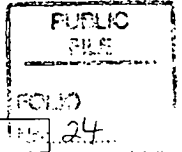
Information was given on a confidential basis however no confidentiality undertaking was requested nor given. Stora Enso was advised of the investigation timeframes and, in particular, that a preliminary affirmative determination (PAD) could be made not less than 60 days from the date of initiation. Stora Enso was also advised that although provisional measures could be imposed after a PAD was made Customs would not make a PAD until it was satisfied there appears to be sufficient grounds for the publication of dumping duty notices.

Present at interview

The interview was conducted at the offices of Stora Enso's sawmill in Napi, Estonia on 8, 9, 10 and 11 November 2011.

Stora Enso	Jari Lehto Tonu Saaber Mark Einaste
Customs	Mr John Bracic – Customs Director, Operations 1, Trade Measures Branch Mr Rod Jones – Customs Manager, Operations 1, Trade Measures Branch

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3 INVESTIGATION PROCESS

Customs and Border Protection initiated an investigation into the alleged dumping of certain structural timber exported to Australia from the Austria, Canada, Czech Republic, Estonia, Germany, Lithuania, Sweden, USA on 9 September 2011 following an application by the Australian producers of like goods.

Australian Customs Dumping Notice 2011/41 was issued on 9 September 2011. The notice gave details of the investigation and stated that interested parties should lodge submissions no later than 19 October 2011.

Customs and Border Protection intends issuing a statement of essential facts on or before 28 December 2011. The statement will set out the material findings of fact on which Customs and Border Protection intends to base its recommendation to the Minister. The statement will invite interested parties to respond within 20 days to the issues raised in the statement.

Submissions received in response to the statement will be taken into account in compiling the report and recommendations to the Minister. The report to the Minister is due no later than 13 February 2012.

Stora Enso's submission was received on 20 October 2011 and contained sufficient information to justify a verification visit. The detailed submission contained background to the company's structure and operations, details of exports to Australia, domestic sales, normal values and cost of production. Exhibits supplemented the submission.

Stora Enso was advised that a draft of the visit report would be provided for review of its factual accuracy and to identify those parts of the report considered confidential. Following consultation about confidentiality, a non-confidential version of the report would be prepared for the public record.

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4 GOODS AND LIKE GOODS

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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.

The application states that the goods are classified to the following tariff subheadings and statistical codes of Schedule 3 to the *Customs Tariff Act 1995*:

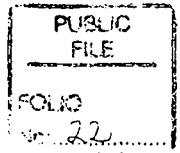
- 4407.10.10 (statistical codes 22, 23, 24, 25 and 33); and
- 4407.10.99 (statistical codes 08, 09, 10, 11, 12 and 13)

The general rate of duty is currently 5 per cent. Imports from Canada are subject to a preferential duty rate of 4 per cent and imports from the USA are free of duty.

In its submission, Stora Enso provided a detailed description of the different types of structural timber exported to Australia and those types considered like goods that are sold on the domestic market in Estonia. The table below provides a summary of the various grades and types of structural timber products sold in each market, and their individual characteristics.

	Export	Domestic
Species	<ul style="list-style-type: none">• Whitewood (Spruce)• Redwood (Pine)	<ul style="list-style-type: none">• Whitewood (Spruce)• Redwood (Pine)
Profile	<ul style="list-style-type: none">• S4SEE	<ul style="list-style-type: none">• S4S• S4SEE
Dimensions	<ul style="list-style-type: none">• 35mm x 42mm• 35mm x 70mm• 35mm x 90mm• 35mm x 120mm• 35mm x 170mm• 45mm x 70mm• 45mm x 90mm• 45mm x 190mm	<ul style="list-style-type: none">• 35mm x 42mm• 35mm x 70mm• 35mm x 90mm• 35mm x 120mm• 35mm x 170mm• 45mm x 70mm• 45mm x 90mm• 45mm x 190mm

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	<ul style="list-style-type: none"> • 45mm x 240mm 	<ul style="list-style-type: none"> • 45mm x 240mm
Grade	<ul style="list-style-type: none"> • A (stress graded) • B (reject - failed stress or visual grading) • A+B (ungraded) 	<ul style="list-style-type: none"> • A (stress graded) • B (reject - failed stress or visual grading) • A+B (ungraded)
Stress grades	<ul style="list-style-type: none"> • F5 • MGP10 • MGP12 • MGP15 	<ul style="list-style-type: none"> • C18 and C24
Dried	<ul style="list-style-type: none"> • All 	<ul style="list-style-type: none"> • All
Treatment	<ul style="list-style-type: none"> • Untreated • Treated 	<ul style="list-style-type: none"> • Untreated

'A' grade products meant that the timber passed the stress grading test and was fit for use in a structural or construction purpose. Product that failed the stress grade test or failed a visual check was considered to be 'reject' material and classified as 'B' grade. Where the customer has no requirements in relation to the stress grading or the visual appearance of the timber, the product is classified as 'A+B' or 'ungraded'.

We consider that product that has not been graded to meet a structural standard does not fall within the description of the goods under investigation and are not like goods for normal value purposes. This includes all products given a 'B' or 'A+B' grading. For exports to Australia, these sales represented less than XX% of total export volume.

Of the remaining 'A' graded product, the primary difference in the characteristics of the exported and domestically sold structural timber were physical and technical properties of the various stress grades. The table below outlines the key properties of the various exported and domestically sold stress grades.

Grade	European standard strength classes									Australian standard machine graded timber strength	
	C14	C16	C18	C22	C24	C27	C30	C35	C40	MGP10	MGP 12
Bending strength N/mm ²	14	16	18	22	24	27	30	35	40	17	28
Tensile strength N/mm ²	8	10	11	13	14	16	18	21	24	7,7	12
Compressive strength N/mm ²	16	17	18	20	21	22	23	24	26	18	24
Mean E modulus KN/mm ²	7	8	9	10	11	12	12	13	14	10	12,7
Density Kg/m ³	290	310	320	340	350	370	380	400	420		

We consider that whilst not identical to the goods exported to Australia, the 'A' grade product sold on the domestic market to the European structural standard, have characteristics closely resembling the exported goods and are therefore like goods. They possess the following common characteristics to be like goods to the goods exported:

Physical – manufactured from the same logs or purchased sawn timber being either spruce or pine, dried and planed to identical or similar various dimensions;

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Production likeness – the manufacturing process is identical for the domestic and exported goods and are produced on the same sawing, kilning and planning lines, and

Functional likeness – used in structural applications typically in the construction of house framing or roof trusses.

Therefore, we consider that the structural timber sold by Stora Enso Napi on the domestic market have characteristics closely resembling the GUC in terms of s. 269T(1) of the Act.

In terms of model comparisons between the exported goods and the like goods sold domestically, Stora Enso Napi explained that the only characteristic that determines a products classification on the domestic market is the modulus of elasticity (MOE). Using the MOE as the basis for comparison, the C22 would be most like the MGP10, C30 or C35 would be most like the MGP12, and C40 would be most like the MGP15.

However we note that during the investigation period, Stora Enso Napi only made sales of the C18 and C24 strength classes. Stora Enso Napi explained that the only characteristic required to comply with a domestic strength class is the MOE. They advised that this differed to the exported MGP grades which were additionally required to comply with set bending strengths and tensile strengths. Stora Enso Napi confirmed that the domestic grades would be subject to higher production yields if they were required to also meet these additional set criteria. These higher yields would be expected to impact on production costs.

In the absence of any production or sales of comparable domestic strength classes to the exported goods, we consider that there is insufficient information to properly ensure fair comparison. Accordingly, whilst the domestic sales of 'A' grade structural timber sold by Stora Enso Napi during the investigation period are considered like goods, we recommend that they not be used for establishing normal value under s.269TAC(1).

5 SALES TO AUSTRALIA

During the investigation period Stora Enso exported all of its structural timber to Stora Enso Australia (SE AUS). The different types and grades of structural timber exported to Australia are set out in a table in the previous section of this report.

XX
XX
XX
XX
XXXXXXXXXXXX.

XX
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XX
XX
XXXXXXXXXXXXXXXXXXXX. *[Overview of negotiations, ordering and sales confirmation on export sales]*

Delivery terms for all shipments are (CIP). SEE arranges and pays for the goods to be delivered and cleared at the port of discharge. Payment terms for the goods are by bank transfer with invoices showing credit of XXX days from the date of invoice. In verifying payment of a number of selected export transactions, we noted that payment was received in excess of the established XXX days. In the case of all selected transactions, payment was received either XXX or XXX days after the invoice date. All invoices were denominated in XXX.

Export sales verification

Stora Enso Eesti provided in its submission a database of all its export sales to Australia during the investigation period.

During the meeting Stora Enso Napi was able to display the operating income statement for the legal entity, Stora Enso Eesti As, and the various sawmills and business units controlled by the entity. We were able to reconcile the total sales revenue identified in SAP for the Napi mill with the sales revenue produced in the company's WPS sales reporting system.

Summary reports for the Napi mill showed sales made to each country with total volume and value. The total volume for sales to Australia reconciled to the volume figure included in the company's 'turnover' spreadsheet provided in the questionnaire response. Sales to Australia included products other than the goods and this included 'B' grade timber and internal and external profile boards.

We requested a product breakdown of the summary sales information for the 2010 accounting year and the investigation period and were provided with a sales report showing the three distinct product groups. The volume shown for structural timber sales during the investigation period reconciled to the export sales spreadsheet included in the questionnaire response.

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In its submission, Stora Enso Napi provided a set of supporting documents relating to two shipments during the investigation period. We selected a further four invoices for full verification which covered all four quarters of the investigation period. Stora Enso Napi provided the following documents for these selected invoices:

- commercial invoice to customer;
- tax invoice
- bill of lading;
- inland freight invoice;
- invoice covering ocean freight and import clearance charges; and
- bank payment advices for the goods, ocean freight and import charges.

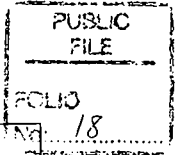
We examined these documents and verified that the information provided was accurate and matched the information on Stora Enso Napi's export sales database. We confirmed that the payment received for these shipments was the amount on the commercial invoice. However, we noted that the date of payment did not reflect the payment terms stated on the commercial invoice and the export sales spreadsheet.

Stora Enso Napi explained that the extended payment terms possibly reflected the delayed payment by Australian customers for the goods to SE AUS. For one of the selected transactions, payment occurred XXX days after the date of sale and on another, payment occurred XXX days. We advised Stora Enso Napi that any adjustment for credit terms need to reflect the actual credit.

Stora Enso provided a payment history report for all goods exported to Australia during the investigation period. The report showed that payment from SE AUS was received on average XXX days after the invoice date. This exceeds the standard payment terms by XXX days. We consider that any adjustment to the normal value for export credit should be based on the average payment period of XXX days.

We consider that the data provided by Stora Enso has been satisfactorily verified to allow an export price to be calculated.

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6 EXPORT PRICE

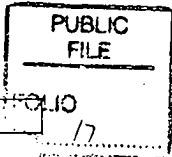
Store Enso has the characteristics of an exporter; it manufactures the goods and makes export arrangements in response to sales orders with the Australian customer or its representative; and it selects the market for export. Store Enso is aware of the destination and Australian customer for all goods manufactured for the Australian market. We therefore consider Store Enso to be the exporter.

We found no evidence of:

- any consideration payable for or in respect of the goods other than their price; or
- the price being 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
- any direct or indirect reimbursement, compensation or other benefit in respect of the whole or any part of the price.

Accordingly, we consider Store Enso's export transactions to be arms length in terms of s. 269TAA of the Act. Given that the importer pays the exporter in transactions that are arms length, we consider that ex-factory export prices should be determined in accordance with s. 269TAB(1)(a) of the Act, using the invoiced CIP prices less deductions for port charges in Australia, ocean freight and inland freight.

Calculations of export prices are at **confidential appendix 1**.



7 DOMESTIC SALES

As noted in section 4 of this report, we do not consider that domestic sales of like goods are suitable for the purposes of establishing normal values for the goods exported to Australia. Whilst the domestic grades are considered to be like goods, the technical specifications are sufficiently different that is it reasonable to expect that the yields generated through the production process would differ between the exported and domestic models. This was confirmed by Stora Enso Napi.

We consider that a variation in the yields would impact on the cost of production and therefore an adjustment would be warranted to properly compare the domestic and exported goods for dumping purposes. However, there isn't sufficient information to accurately estimate the impact of the yields on costs and therefore the magnitude of the adjustment.

Notwithstanding these limitations surrounding the domestic sales, we have verified and gathered sufficient information to enable normal values to be determined under s.269TAC(1) should the delegate and/or Minister consider them suitable.

At the outset of our discussions on domestic sales, Stora Enso Napi explained that the detailed domestic sales data included in its exporter questionnaire response represented only those sales of products that it considered were like the exported goods. To that end, this was limited only to products of the identical species and dimensions.

We explained that like goods should include all domestic sales of 'A' grade structural timber, regardless of their dimensions or strength class. Stora Enso Napi extracted from their sales system a revised listing of domestic sales during the investigation period (confidential attachment DOM1). This revised listing was used for the remainder of our domestic sales verification.

General

Stora Enso Napi explained that the Estonian market for structural timber was predominantly driven by its industrial customers that focused on pre-fabricated homes. Its largest customer manufactured pre-fab homes for sales into the Norwegian market.

Competition in the domestic market was comprised of
XX
XXXXXXXXXXXXXXXXXXXX. There was no seasonality in its sales as the majority of its customers undertook further processing or production indoors and therefore, the weather conditions did not impact on demand.

Stora Enso Napi confirmed that like the exported goods, prices did differ according to the strength grade of the timber but that prices were generally fixed with only slight variations, such as for customised lengths.

Levels of trade

Stora Enso Napi advised that it uses two distribution channels. In its response to the exporter questionnaire, it explained that it uses traders where

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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 Stora Enso Napi are able to manage the direct sales to them.

We examined the relative weighted average prices between the trader and industrial customers and noted that weighted average prices over all products were very similar.

Delivery terms

Stora Enso Napi explained that delivery terms were a combination of 'delivered duty unpaid' (DDU), 'free carrier' (FCA) and 'carriage paid to' (CPT). For all DDU and CPT sales, an amount for inland transport was included in the revised domestic sales spreadsheet to enable an ex-factory price to be calculated.

Payment terms and discounts

The revised domestic sales spreadsheet provided by Stora Enso Napi identified various payment terms, including options for payment
XX
XXXXXXXXXXXXXXXXXXXX.

Stora Enso Napi advised that there are no discounts, rebates, or commissions applicable to the domestic sales.

Verification of domestic sales to audited financial statements

7.1.1 Completeness of domestic selling price data

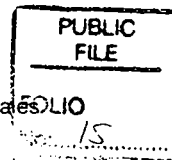
We firstly sought assurance that the data submitted by Stora Enso Napi in respect of its domestic structural timber sales was comprehensive.

Beginning with the audited financial statements for 2010, Stora Enso Napi was able to demonstrate the break down of total sales between the various mills and units within the Stora Enso Eesti As legal entity. Tracing the total sales for the Napi sawmill we were able to undertake a more detailed interrogation of the mills sales data using their WPS sales system. We requested and were provided with a further breakdown of total sales volumes for all products sold to each country.

We then requested for further detail of sales into the Estonian market and were provided with a report for the 2010 financial year which identified volumes and values for each customer. We noted that the sales system allowed for a much detailed interrogation by various products and grades and requested a download which would clearly identify the sales by species, dimension, quality, and strength grading for each month of the investigation period. The report provided contained all relevant information including the actual volumes of sales, the gross value and the unit net price.

When reconciling the total sales volume to the revised domestic sales spreadsheet we noted a discrepancy of 3%. This was explained by some of the domestic transactions being invoiced in nominal cubic metres. When all transactions were converted to actual cubic metres, the total volume of

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domestic sales matched the volume contained in the company's sales reporting system.

Having regard to the above, we consider the revised detailed domestic sales data provided by Stora Enso Napi is complete and relevant in relation to the investigation period.

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.

Following receipt of the revised domestic sales spreadsheet, we selected a number of domestic transactions for closer examination. We requested copies of source documents to support the transaction details. In relation to each of the selected transactions, Stora Enso Napi provided copies of the invoice 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 documents supporting the price paid in domestic sales are included at confidential attachments DOM.

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

Arms length

In respect of Stora Enso Napi'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.

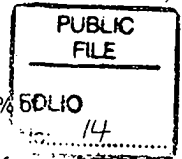
We consider Stora Enso Napi's domestic sales of structural timber products are made in arms length transactions.

Ordinary course of trade

Although domestic sales are not recommended as the basis for normal values, we still examined whether domestic sales of like goods 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. We

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found that the volume of unprofitable sales accounted for approximately 9% of the total volume of domestic sales.

Therefore the sales at a loss were not a substantial quantity and are therefore considered to be in the ordinary course of trade.

Suitability of profitable sales

We considered whether there was a sufficient volume of like goods sold domestically in the ordinary course of trade, when compared to the volume of exported product.

Overall, sales of like goods represented approximately 18% of the export volume. We consider this to be a sufficient volume of sales and therefore consider that the normal value of goods exported to Australia could be ascertained using domestic sales.

Domestic sales conclusion

We consider that sufficient domestic sales of like goods exist to be able to establish normal values under s.269TAC(1). However, as pointed out earlier, we are of the view that these sales are not directly comparable to the exported goods and would require adjustment to ensure fair comparison. The ability to quantify such adjustments are restricted due to costing information not being recorded for the various grades of structural timber sold domestically and exported.

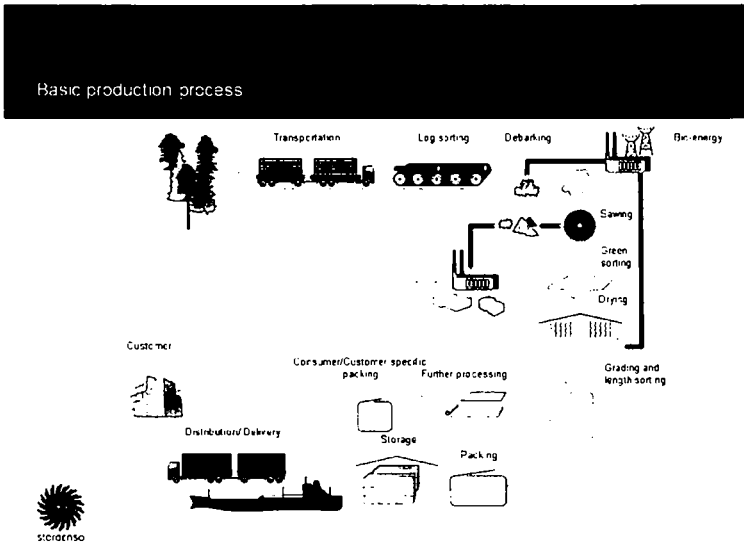
Details of the OCOT, sufficiency and profit calculations are at **confidential appendix 2**.

8 COST TO MAKE & SELL

Production process

The manufacturing process for structural timber consists of various stages. The first is the sawing of logs into sawn timber, followed by a drying process which reduces the water content of the timber. After drying, the sawn timber is planed to the correct dimensions before being mechanically and visually graded. The process does generate a number of by-products which are either used internally or sold externally.

An illustration of the production process is below.



During the 2010 accounting period, the Napi sawmill produced approximately XXX m3 of planed product, with XXX represented by structurally graded timber and the remaining XXX consisting of profile boards (eg, external cladding and floorboards) and coated products (painted profile boards and internal cladding).

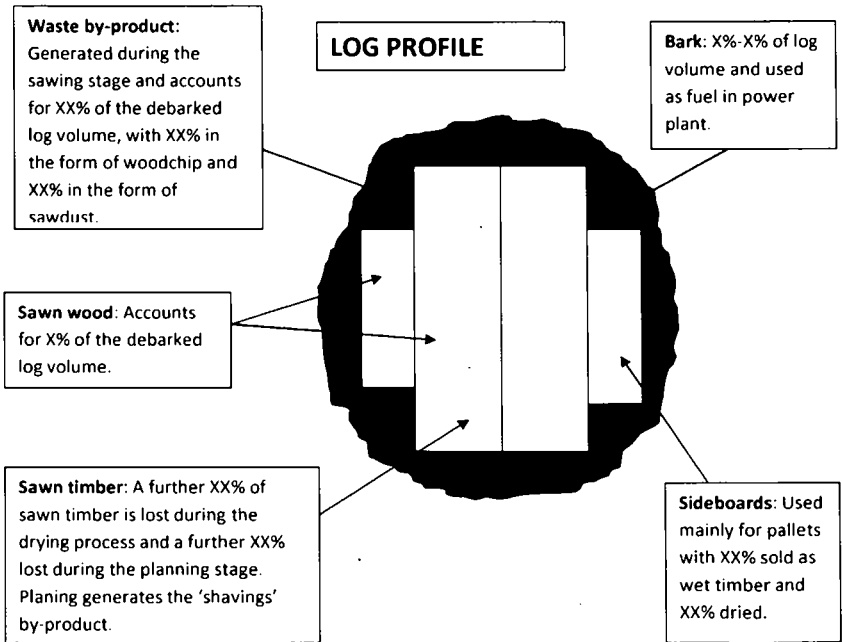
Production of these three product groups came from a mixture of purchased sawn timber (accounting for XXX %) and XXXXXXXXXXXX (XX%). Sawn timber produced by the Napi sawmill is derived from logs, of which 70% is sourced and supplied by XXXXXXXXXXXX. The remaining 30% is supplied to Napi by the XXXXXXXXXXXXXXXXXXXX. These logs are sourced from XXXXXXXXXXXXXXXXXXXX within Estonia.

Of the total volume of purchased sawn timber, approximately XX% is sourced from XXXXXXXXXXXXXXXXXXXX, with the remainder coming from

numerous XXXXXXXXXXXXXXXXXXXX entities. The largest of these XXXXXXXXXXXX is the XXXXXXXXXXX located in XXXXX. Stora Enso advised that it had previously sourced logs directly from XXXXXXXX however that had ceased since the introduction of export taxes. Similar export taxes do not apply to sawn timber.

The species used by the Napi mill in its production of the structural graded product, whether logs or sawn timber, is XXXXXXXX (XXXX) and XXXXXXXX (XXXX).

At a number of stages of the production process, by-products are generated which are either used internally or sold externally. The diagram below outlines the yields and by-products generated from the production process.

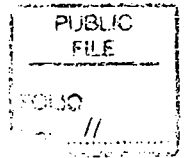


Approach to verification

In its submission, Stora Enso Eesti provided unit cost calculations for structural timber sold in both the domestic and Australian export markets. The data was not presented separately for each type or grade of structural timber, and was broken into:

- materials costs;
- labour costs;

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- manufacturing overheads;
- selling and administration expenses;
- finance expenses; and
- delivery expenses.

Prior to the visit, we noted that the approach used by the company to identify its production costs was to calculate the average cost using all production costs divided by the total volume of product sold. We advised the company prior to our departure that this method may not be the most reasonable approach to identifying the true costs of the exported and domestic goods.

We emphasised our requirement to reconcile the data to audited financial statements and management reports, and also down to source documents.

Completeness of cost data

We explained that we required cost data that had been gathered from company records that have been kept in accordance with the generally accepted accounting principles for Estonia, and that the costs provided should reasonably reflect the costs associated with the production and sale of the goods.

We noted the Stora Enso Eesti consolidated financial statements for 2010 contained the following statement within the report of independent auditors, AS Deloitte Audit Eesti:

'In our opinion, the annual accounts present fairly, in all material respects, the financial position of Stora Enso Eesti AS as at 31 December 2010, and its financial performance and its cash flows for the year then ended in accordance with Estonian Accounting Act and the guidelines issued by the Estonian Accounting Standards Board.'

We requested that the costs submitted for the purpose of this investigation can be reconciled to the company's audited financial statements and to its management reports in respect of the period for which an audit report had not been completed. In this case, the investigation period includes the 3rd and 4th quarters of 2010 which overlaps with SE Eesti audited statements for 2010. The remainder of the investigation period, ie the first two quarters of 2011 have no corresponding audited financial statements completed at this time. In the case of the 3rd and 4th quarters 2010, we sought to establish the links between financial statements and management reports, so as to gain confidence in relying upon the management reports as summary assessments of financial performance and position for the first half of 2011.

Stora Enso Eesti demonstrated a reconciliation from its Audit report of 2010 to its SAP financial accounting system. The SAP system only contained relevant information for the various profit centres within the legal entity. This included the Napi sawmill and the Imavere sawmill. We were advised that an examination of the various cost centres within each of the profit centres could only be undertaken using the metadata located within its linked Hyperion Financia; Management system. The company was able to demonstrate that

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the dataset contained in Hyperion was consistent with data captured within the financial accounting system, SAP.

Focusing on the Napi sawmill, we were provided with downloads of the mill's operating income statements for the 2010 accounting period and YTD June 2011. These were further broken down into quarterly periods that make up the July to June investigation period. The income statements identified the mill's operating expenses as:

- Raw materials;
- Wages and salaries (production)
- Depreciation;
- Manufacturing overheads;
- Other operating expenses, and
- Other fixed costs (cost pool).

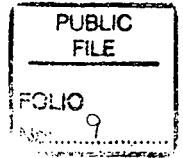
SE Eesti advised that the total domestic and export cost to make and sell information presented in its questionnaire response was compiled by calculating simple average costs for each of the operating expenses using the total sales volume in cubic metres for each quarter. The unit costs were then multiplied by the volume exported to Australia and sold domestically to derive the total export and domestic costs.

As explained earlier, we advised the company during our meeting that we had concerns that this approach did not properly reflect the true cost of the goods exported to Australia or the like goods sold domestically. The concern was that the actual costs of the goods may be understated if a significant proportion of the total output was not attributable to some of the production costs. Therefore we advised the exporter that we preferred and intended to calculate the cost to make of the goods by calculating the unit cost for each relevant activity within the production process using the actual volume of output from each activity.

We began by requesting a detailed breakdown of expenses incurred in each of the following cost centres:

- Raw material handling (log sorting);
- Sawing;
- Kilning;
- Quality sorting;
- Power plant (boiler)
- Maintenance (wages + tools)
- Storage / material output;
- Small planer;
- Big planer;
- Coating line;

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- Small wadkin;
- Other common production costs;
- SGA – common administration;
- SGA – sales (management);
- SGA – logistics
- Napi head office costs (management).

SE Eesti provided this costing information for the first half and second half of the investigation period. We were able to reconcile the sum of total expenses for all the above cost centres against the operating expenses (less raw materials) contained in the mill's income statement with only an insignificant discrepancy of less than 0.8%. We were therefore satisfied that the mill's complete costs were captured within the company's cost centre structure.

We then sought to calculate the unit cost for each activity using the production output at each stage. We were provided with production reports for each discrete cost centre showing the production volume over the investigation period. The calculated unit costs from each activity would be used to construct a cost to make and sell for the goods.

SE Eesti claimed that the costs generated from the 'Big Planer' and the 'Small Wadkin' were not relevant to structural timber and therefore should not be included in the costs of the goods and like goods. The 'big planer' was used exclusively for the planning of the mill's profile boards, whilst the 'small wadkin' was a specialist planning line.

Further, the company claimed that costs relating to priming materials were only relevant to the production of its profile boards and should be subtracted from the coating line's total costs.

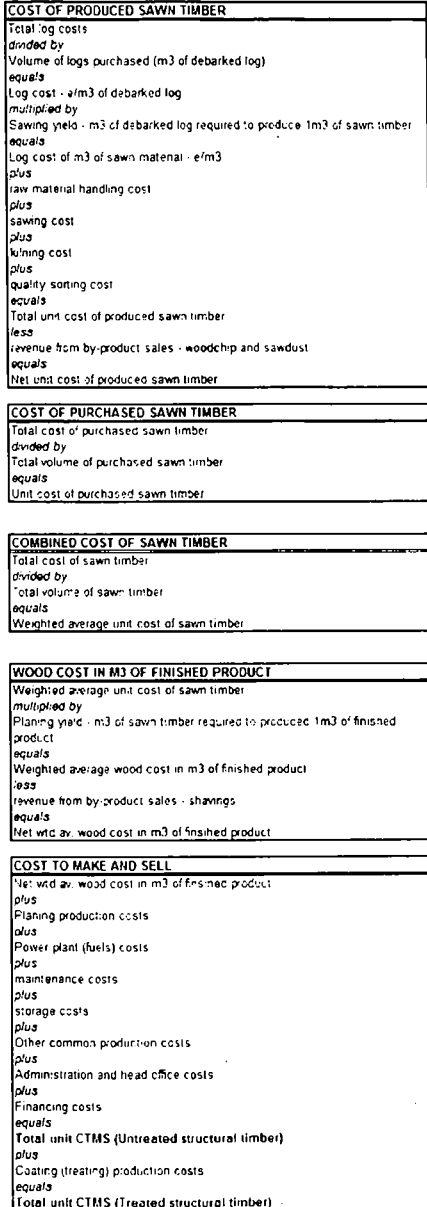
Using the relevant costs from the various cost centres applicable to the production of structural timber and adjusting to account for the appropriate yields and revenue from the sale of by-products at the sawing and planning stages of the production process, we were able to calculate a total unit cost to make and sell for both treated and untreated structural timber during the investigation period.

Copies of documents relevant to the calculation of the cost to make and sell are at **confidential attachment CTMS 1**.

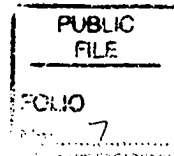
The table below provides an outline of the structure used to construct a cost to make and sell for goods and like goods.

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Verification to source documents

8.1.1 Logs

Logs can be purchased as either delivered or stumpage sale. The delivered log price included a royalty/stumpage fee plus a harvesting/hauling charge to the mill. Stumpage sales include only the stumpage/royalty fee.

Logs purchased by Stora Enso Napi were all sourced from XXXXXXXXXX. Logs supplied by XXXXXXXXXX were purchased directly by the mill, whilst logs supplied from XXXXXXXXXX plantations were purchased indirectly through a related trading entity, Stora Enso Wood Supply.

Stora Enso Napi advised that the Stora Enso Wood Supply undertakes all private log and pulp purchases on behalf of the various mills within Estonia. Stora Enso Wood Supply arranges for the payment, storage and delivery of the log to Napi mill.

As part of the typical verification of log purchases to source documents, we sought to establish that the purchases of log through Stora Enso Wood Supply were reasonable when benchmarked against their direct log purchases. To do this, we requested a detailed list of all log purchases during the investigation period by the Napi mill and by Stora Enso Wood Supply. The report provided contained sufficient information to establish the price paid by Stora Enso Wood Supply, the species, type and dimensions of the logs, the volume and purchase price.

We then selected a number of suppliers for the month of July 2010 for further verification and were provided with relevant invoices and proof of payment which reconciled.

An initial examination of Stora Enso Wood Supply's log prices for a particular dimension of log for the selected month and the equivalent log prices paid by the Napi mill indicated that the mill prices may have been less than that paid to the supplier by Stora Enso Wood Supply. However, Stora Enso Napi advised that an additional invoice is raised by Stora Enso Wood Supply that covers the services undertaken by the trading intermediary.

We also requested and conducted a visit to the Stora Enso Wood Supply representative responsible for the purchase of logs. During the discussion, it was confirmed that during the initial months of the investigation period, prices to the Napi mill were based on quarterly prices which has since changed from November 2010 to monthly pricing. It was also confirmed that Stora Enso Wood Supply set its price to the mill based on its purchase price XXXXX per cubic metre. This additional charge was issued via a separate invoice to the mill.

To further satisfy ourselves in respect of the log sales between Stora Enso Wood Supply and the Napi mill, we requested an income statement for Stora Enso Wood Supply to ensure that it was trading profitably. We established that during their 2010 accounting year, the profit achieved by the trading unit represented XXX% of net revenue.

8.1.2 Sawn timber

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As explained earlier, Stora Enso Napi purchases its sawn timber requirements from XXXXXXXXXXXXXXXXXXXX. The largest of the XXXXXXXXXXXX purchases was the XXXXXXX sawmill located in XXXXXX. The predominant supply of sawn timber from unrelated parties was also from XXXXXX. As part of the verification of sawn timber purchases to source documents, we sought to establish that the intercompany transactions were at arms length by benchmarking those prices with purchases from unrelated suppliers.

We sought and were provided with a detailed transactional listing of all sawn timber purchases during the investigation period. The purchasing report identified for each month the supplying customer, the species and dimensions of the sawn timber, the volume purchased and the net mill price in euros.

A further examination of purchases during the month of September 2010 for a single particular species and dimension of sawn timber revealed that the weighted average net mill price from XXXXXXXXXXXX was XX% lower than the equivalent mill price from XXXXXXXXXXXX. An examination of weighted average net mill prices over the investigation period for all sawn timber purchased shows that the price from XXXXXXXXXXXX was XX% higher than the price from XXXXXXXXXXXX.

This is sufficient to be satisfied that the sawn timber purchased from Stora Enso related sawmills were at prices considered to be arms length.

We selected a number of suppliers from the detailed list of purchased sawn timber and requested evidence of the commercial invoice and proof of payment. An examination for the relevant documents showed that the amount paid reconciled to the amount invoiced.

8.1.3 Woodchip

During the sawing stage of production, woodchip is generated as a by-product which is either sold intracompany to Stora Enso Wood Supply or externally to unrelated parties. Revenue generated from the sale of woodchip is used to offset the cost of the log in the cost to make and sell and given that it is a significant amount, we sought to benchmark their intracompany selling prices to external prices.

We requested and were provided with a sales report of all woodchip sales during the investigation period with sufficient detail to properly identify the customer, the volume sold and the sales value. A comparison of weighted average net mill prices shows that selling prices to XXXXXXXXXXXX were approximately XX% lower than XXXXXXXX prices with a difference of XXX XXXX per cubic metre.

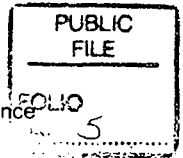
Given the small difference between these prices, we consider that the intracompany sales of woodchip to be indicative of an arms length transaction.

Selling, general and administration expenses

Unit selling, general and administration (SG&A) expenses were calculated by apportioning the total costs in the SG&A relevant cost centres plus the allocated head office costs across total sales.

The only remaining item not allocated to the goods was financial gains and losses. We calculated this to be approximately XX% of the cost of the

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manufactured goods and have applied used this to calculate a unit finance cost.

Documents supporting the calculation of SG&A expenses form **confidential attachment CTMS 2**.

Profit

We calculated that all 'A' graded domestic sales of structural timber by Stora Enso Napi achieved a weighted average profit of XX% (of the cost to make and sell) over the investigation period. The weighted average profit achieved on domestic sales of C18 and C24 grades respectively was XX% and XX% over the investigation period.

We consider that the profit level achieved on domestic sales of C24 grade of structural timber is appropriate to use if normal values are to be constructed in accordance with paragraph 269TAC(2)(c) of the Act.

Conclusion

We were able to reconcile all relevant data provided to audited accounts and source documents. In doing so, we formed the view that the cost constructions contained in Stora Enso Napi's submission were not the most appropriate basis of the actual costs incurred in manufacturing the goods. Instead we were able to properly calculate the actual manufacturing costs using information directly obtained from the cost centres relevant to the production of structural timber. We also considered some minor amendments were necessary to finance expenses.

In summary, sufficient information was obtained and verified to determine:

- a constructed normal value under section 269TAC(2)(c) of the Act for the investigation period; .and
- the cost of goods to assess ordinary course of trade under section 269TAAD of the Act.

The amended cost to make and sell spreadsheets form **confidential appendix 3**.

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9 ADJUSTMENTS

We discussed with Stora Enso Napi a number of items that may require consideration in order to ensure the normal value is properly comparable to the export price.

Credit terms

Export payment terms were described as XXX days from invoice date. Although actual payment was on average received XXX days from the invoice date. We consider that the average XXX days best reflects the actual payment terms on exports to Australia.

Accordingly, we consider any upward adjustment to the domestic selling price is required to ensure the normal value is comparable with the export price.

Conclusion

We consider the following adjustment to constructed selling prices, in accordance with s. 269TAC(9) of the Act, is necessary to ensure a fair comparison with the export price of the goods:

Adjustment	Add to, or deduct from, domestic selling prices
Export credit terms	add

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10 NORMAL VALUE

Domestic sales

The price paid for the goods in domestic sales of like goods was established satisfactorily. There are a sufficient volume of arms length sales made in the ordinary course of trade to determine a normal value on the basis of domestic selling prices.

However, we are of the view that significant limitations exist in the costing information to allow for a proper comparison of these domestic sales to the goods exported. Accordingly, we recommend that normal value not be established using domestic selling prices in terms of section 269TAC(1) of the Act.

Constructed normal value

Based on the information provided by Stora Enso Napi, 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, 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 found that the profit achieved on domestic sales of 'A' grade timber with a C24 stress grading would be suitable for the construction of domestic selling prices for the exported grades of structural timber. This profit measured X% as a percentage of the cost of goods.

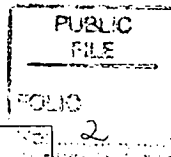
In constructing normal values, we consider that certain adjustments, in accordance with s. 269TAC(9) of the Act, are necessary to ensure fair comparison of normal values with export prices. Using the data verified we consider adjustment for differences in export credit terms are warranted and are therefore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

Adjustment	Add to, or deduct from, domestic selling prices
Export credit terms	Add an amount based on XXX days credit and an interest rate of XX%

Details of the constructed normal value calculations are at **confidential appendix 4**.

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11 DUMPING MARGINS

We compared the individual export prices for each grade of structural timber with a corresponding quarterly constructed normal value, 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 Stora Enso Napi over the investigation period was -7.5%. Details of this calculation are at **confidential appendix 5**.

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LIST OF ATTACHMENTS

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