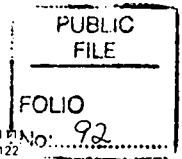




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Mr Geoff Gleeson
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International Trade Remedies Branch
Australian Customs and Border Protection Service
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21 December 2011

Dear Geoff

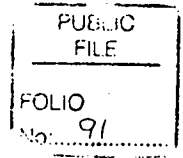
Re: Independent Expert Cost Accounting Advice for the Manufacture of Structural Timber – Stora Enso Eesti AS

Background

The Australian Customs and Border Protection Service (Customs and Border Protection) has undertaken cost verification procedures for an exporter of structural timber to Australia, in response to an application under Section 269TB of the *Customs Act 1901*. The exporter is Stora Enso Eesti AS, which controls the Napi sawmill and the Imavere sawmill. Stora Enso Eesti AS is wholly owned by Finish parent Stora Enso Oyi.

We understand that in respect of the Napi sawmill in the investigation period of 1 July 2010 to 30 June 2011:

- The sawmill produced structural timber.
- XXX of the volume of structural timber produced was exported and XX of the volume was sold domestically.
- Domestic sales were at arm's length.
- Unprofitable domestic sales represented only XX (by volume) of domestic sales.
- Approximately XXX of total production volume XXXXXXXXXXXX was exported to Australia.
- All sales to Australia were through Stora Enso Australia.



- The latest audited financial statements available were for the year ended 31 December 2010.
- XXX of raw materials were sawn timber and XXX were logs.
- XXX of sawn timber were from XXXXXXXX unrelated parties and XXX were from related entities.
- XXX of logs were from XXXXXXXXXXXXXXXX forests and XXX were from Stora Enso Wood Supply (a related party).
- The cost of sawn timber purchased from related parties was XXXX higher than from non-related parties.
- The sale price of woodchip to related party Stora Enso Wood Supply was XXXXX higher XXXXXXXXXXXXXXXm3) than to non-related parties.

Objective

Customs and Border Protection engaged KPMG to undertake an independent review of the procedures followed, and evidence obtained, by the Export Visit Team to determine whether:

- 1 Verification was adequate, and
- 2 Cost data is reasonable and reliable for purpose of assessing *Normal Values*.

Our assessment in relation to your specific requests is provided in the following sections. Our scope, approach and findings are identified in this report. This report should be read in conjunction with *Appendix A – Disclaimer*.

Scope

Our procedures have been limited to discussions with the Exporter Visit Team and examination of a number of documents and files, most notably:

1. International Trade Remedies Branch’s *Verification Guidelines* dated July 2009;
2. Customs and Border Protection’s draft confidential version of the *Exporter Visit Report* for Stora Enso Eesti AS;
3. Audited financial statements for Stora Enso Eesti AS to 31 December 2010;
4. The trial balance of the NAPI sawmill from the SAP general ledger;

5. Costing spreadsheets for total NAPI sawmill production costs for relevant manufacturing processes for the period 1 July 2010 to 30 June 2011;
6. Sales data for Australian sales for the period 1 July 2010 to 30 June 2011; and
7. Dumping calculation sheet using the Normal Values and Ex-Work export sales prices to determine overall dumping margin.

Scope Limitations

The engagement did not extend to reviewing other materials or consulting parties external to Customs and Border Protection, or to considering verification procedures and supporting evidence not related to the calculation of *Normal Values* and *Dumping*, such as may relate to the determination of whether there are *Like Goods* or whether exporters have benefited from a *Subsidy*.

Approach

We have undertaken this engagement by:

- Reviewing key documents, particularly items 1 to 7 above;
- Discussing testing and verification procedures with members of the Exporter Visit Team; and
- Assessing testing and verification procedures with reference to what KPMG would consider to be reasonable procedures.

We have relied upon the representations of staff in the International Trade Remedies Branch to explain the testing and verification procedures performed in respect of the focus areas of the engagement.

Findings

Our findings in respect of the specific issues communicated by Customs and Border Protection are as follows.

1 Adequacy of verification

We observed that Customs and Border Protection conducted the following verification procedures:

- Customs and Border Protection determined to calculate *Normal Values* (cost to manufacture and sell plus profit margin) based on the *Constructed Method*, having determined whether there are *Like Goods* by considering the attributes of the *Goods Under Consideration* and other goods sold by the parties (this determination was not included in the scope of KPMG's engagement);

- Agreed account total expenses to the Napi Sawmill Income Statement - Customs and Border Protection agreed the total processing costs for all the process centres and total raw material costs to the total expenses in the NAPI Sawmill income statement. A variance of less than 0.8% was noted.
- Purchase of logs from related parties - Customs and Border Protection reviewed the accounts of Stora Enso Wood Supply Division and confirmed a XXXXXX / m3 margin on sales to the Napi sawmill.
- Purchase of sawn timber from related parties - Customs and Border Protection confirmed that sawn timber purchased from related parties within the investigation period had a purchase price XXXX higher than for unrelated parties.
- Sale of by-products – Customs and Border Protection confirmed that the prices of woodchip (by-product) sales to related party Stora Enso Wood Supply were XXXXXXXXXXXXXXXXXXXX higher than the sales price to non-related parties.
- Confirm that all sale, general and administration expenses (SGA) were calculated by apportioning the total costs in the SG&A relevant cost centres plus the allocated head office costs across total sales.
- Calculated *Normal Values* based on the *Constructed Method*. For the purposes of the costing, the structural timber cost to manufacture and sell (CTMS) only included the costs from relevant process centres (i.e. processes applicable to the *Goods Under Consideration*) and a profit margin was added to the CTMS (consideration of the profit margin was not included in the scope of this engagement).
- Calculation of Australian sales prices - Customs and Border Protection calculated the Ex-Work average selling prices of goods sold to Australia based on the data submitted. Customs have performed sample testing to sales invoices to confirm the accuracy of sales data.
- Customs and Border Protection compared *Normal Values* with calculated average selling prices Ex-Work of goods exported to Australia to determine any *Dumping Margin*.

We understand from our discussions and review of the Visit Report that Customs and Border Protection conducted the following verification procedures, however sufficient documentation was not available to verify how these procedures were performed, and we have therefore relied upon representations from the Visit Team as to these procedures:

- With regards to cost data for Quarter 3 and 4 of 2010, the Visit Team established links to the audited financial statements



- With regards to cost data for Quarter 1 and 2 of 2011, the Visit Team established links to the Napi sawmill management reports.

KPMG has found that verification procedures in relation to calculating *Normal Values* for dumping allegations were consistent with Customs and Border Protection's *Dumping Manual* and *Verification Guidelines*, and the procedures are considered by KPMG to be reasonable for the purposes of calculating *Normal Values*.

2 Reasonableness and reliability of cost data for the purpose of assessing Normal Values

As noted above, KPMG has been unable to verify the procedures to reconcile the cost items to the audited financial statements.

We note from our discussions that Customs and Border Protection performed substantive testing to verify the relevance and accuracy of costing information to underlying Napi sawmill management reports and to the SAP general ledger.

Transport and handling costs have been examined by Customs and Border Protection for the purposes of the determination of sales prices Ex-Works.

KPMG also tested reported export sales, included in the calculation of the average sales price, to sample sales invoices to Australia, thus providing further evidence as to the accuracy of sales data.

Based on the above procedures and data, KPMG has found that the costs data used appear reasonable and reliable for determining *Normal Values*, although as noted, we have been unable to independently review and confirm that the costs reconcile to the audited financial statements.

Should you have any queries in respect of this report, please contact me or Freddy Lee on (02) 6248 1111.

Yours sincerely

Brandon Brown
Director



Appendix A – Disclaimer

Inherent Limitations

This report has been prepared as outlined in the Scope Section. The services provided in connection with this engagement comprise an advisory engagement, which is not subject to assurance or other standards issued by the Australian Auditing and Assurance Standards Board and, consequently no opinions or conclusions intended to convey assurance have been expressed.

No warranty of completeness, accuracy or reliability is given in relation to the statements and representations made by, and the information and documentation provided by, the Australian Customs and Border Protection Service management and personnel consulted as part of the process.

KPMG have indicated within this report the sources of the information provided. We have not sought to independently verify those sources unless otherwise noted within the report.

KPMG is under no obligation in any circumstance to update this report, in either oral or written form, for events occurring after the report has been issued in final form.

The findings in this report have been formed on the above basis.

Third Party Reliance

This report is solely for the purpose set out in the Objective Section, and for the Australian Customs and Border Protection Service's information, and is not to be used for any other purpose or distributed to any other party without KPMG's prior written consent.

This report has been prepared at the request of the Australian Customs and Border Protection Service in accordance with the terms of Purchase Order CMO026746 under deed 07/1943. Other than our responsibility to the Australian Customs and Border Protection Service, neither KPMG nor any member or employee of KPMG undertakes responsibility arising in any way from reliance placed by a third party on this report. Any reliance placed is that party's sole responsibility.