



## **INVESTIGATION 219**

### **ALLEGED DUMPING OF POWER TRANSFORMERS**

#### **EXPORTED FROM**

**THE PEOPLE'S REPUBLIC OF CHINA, THE REPUBLIC OF  
INDONESIA, THE REPUBLIC OF KOREA, TAIWAN, THAILAND  
AND THE SOCIALIST REPUBLIC OF VIETNAM**

#### **VISIT REPORT - EXPORTER**

### **SIEMENS WUHAN, SIEMENS JINAN AND SIEMENS GUANGZHOU**

**November 2013**

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

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- **ABBREVIATIONS**

ADN	Anti-Dumping Notice
AUD	Australian dollars
CFR	Cost and freight
COGS	Cost of goods sold
Commission	Anti-Dumping Commission
CTM	Cost to make
CTMS	Cost to make & sell
CTS	Cost to sell
EBIT	Earnings before interest and tax
EDITA	Earnings before interest, tax, depreciation and amortisation
FOB	Free On Board
GAAP	Generally accepted accounting principles
NIP	Non-injurious Price
PAD	Preliminary Affirmative Determination
REQ	Response to exporter questionnaire
SEF	Statement of Essential Facts
The Act	<i>Customs Act 1901</i>
The applicant	Wilson Transformer Company Pty Ltd
the goods	the goods the subject of the application (also referred to as the goods under consideration or GUC)
the Minister	the Minister for Industry
USP	Unsuppressed Selling Price

## 1 BACKGROUND AND PURPOSE

### 1.1 Background

On 8 July 2013, Wilson Transformer Company Pty Ltd (Wilson Transformers) lodged an application requesting that the relevant Minister publish dumping duty notices in respect of power transformers exported to Australia from China, Indonesia, Korea, Taiwan, Thailand and Vietnam.

Wilson Transformers alleges the Australian industry has suffered material injury caused by power transformers exported to Australia at dumped prices.

On 29 July 2013, following consideration of the application, the Anti-Dumping Commissioner decided not to reject the application and initiated an investigation in the alleged dumping of power transformers from China, Indonesia, Korea, Taiwan, Thailand and Vietnam. Public notification of initiation of the investigation was published on 29 July 2013. Anti-Dumping Notice (ADN) No. 2013/64 provides further details of the investigation and is available at [www.adcommission.gov.au](http://www.adcommission.gov.au)

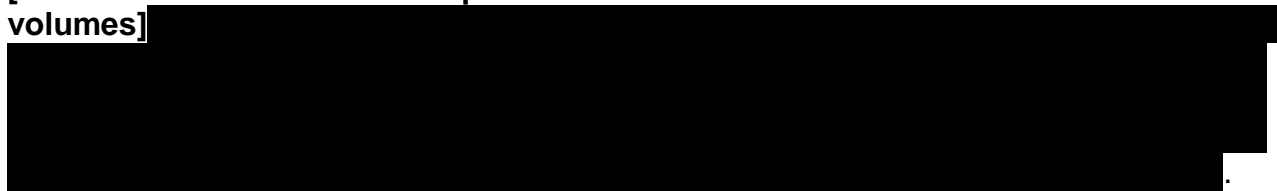
So far as China is concerned the application identified Siemens Transformer (Wuhan) Co., Ltd (Siemens Wuhan), Siemens Transformer (Jinan) Co., Ltd (Siemens Jinan); and Siemens Transformer (Guangzhou) Co., Ltd (Siemens Guangzhou), as exporters of power transformers. This report refers to all three companies as Siemens China.

A search of Australian Customs and Border Protection Service's (ACBPS) import database also indicated that Siemens Wuhan, Siemens Jinan, and Siemens Guangzhou exported power transformers from China to Australia during the investigation period (IP) of 1 July 2010 to 30 June 2013.

The Anti-Dumping Commission wrote to Siemens Wuhan, Siemens Jinan and Siemens Guangzhou advising them of the initiation of the investigation, requesting their co-operation and providing copies of the exporter questionnaire.

Siemens Wuhan, Siemens Jinan, and Siemens Guangzhou each completed the exporter questionnaire separately, providing details regarding their company, export and domestic sales, cost to make and sell, and other attachments as required.

Based on the responses to exporter questionnaire (REQ), the Commission identified that **[Confidential text deleted – export volumes]**



The Commission decided that it would not be possible to conduct an on the spot visit to all of the Siemens companies in China. Because Siemens Wuhan accounted for the majority of the exports that company was chosen for on the spot verification visit.

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Siemens Jinan and Siemens Guangzhou were however required to provide selected domestic sales and exports sales documentation for examination.

## 1.2 Purpose of visit

The purpose of the visit was to verify information in the exporter questionnaire responses by Siemens China. The exporter questionnaire response included confidential appendices and attachments, confidential spread sheets containing sales and costs data as requested. A non-confidential version of the response to exporter questionnaire was placed on the public record.

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

- like goods;
- who is the exporter and who is the importer;
- export prices;
- normal values; and
- dumping margins.

## 1.3 Meeting details

Prior to the meeting the Commission forwarded an agenda to Siemens China and advised that they would require supporting documentation for the selected consignments that had been previously identified. The Commission also identified key issues. A copy of the visit agenda is at **Confidential Attachment GEN 1**.

Verification meetings were held at Siemens Wuhan in Wuhan city, Hubei Province from Wednesday 13 November 2013 to Friday 15 November 2013. A follow up meeting was held on Monday 18 November 2013. The General Manager, Mr Galloy, was present for part of the time and the others were present throughout the verification:

<b>COMPANY:</b>	<b>Siemens Transformer (Wuhan) Co., Ltd</b>
<b>ADDRESS:</b>	No.1 Jinyang Avenue, Yangluo Economic Development Zone, Hubei Province, 430415 P.R. China
<b>DATES:</b>	13,14,15 and 18 November 2013
<b>ATTENDEES: Siemens China</b>	
Mr Patrick Galloy Ms Emily Madder Ms Emma Semmelroth Mr Jeff Walker Ms Xie Zhi Min	General Manager (Siemens Wuhan) General Counsel & Company Secretary, Siemens Australia CFO – Medium Power Transformers, Siemens AG Manager – Transformer Business Unit, Siemens Australia Commercial Manager, Siemens Wuhan
<b>ATTENDEES: Customs and Border Protection</b>	
Mr Bill Walsh Mr Sanjay Sharma	Manager, Operational Policy Manager, Operations 2

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## 1.4 Investigation process and timeframes

At the commencement of the meeting we advised the company of the investigation process and timeframes as follows.

- The investigation period is from 1 July 2010 to 30 June 2013.
- The injury analysis period is from 1 July 2008 for the purpose of analysing the condition of the Australian industry.
- A preliminary affirmative determination (PAD) may be made no earlier than day 60 of the investigation 27 September 2013 and provisional measures may be imposed at the time of the PAD or at any time after the PAD has been made.
- The Commission will not make a PAD until it becomes satisfied that there appears to be, or that it appears there will be, sufficient grounds for the publication of a dumping duty notice.

This was distinguished from the 'reasonable grounds' threshold for initiation of the investigation. (A PAD was issued by the Commission on 20 November 2013).

- The Statement of Essential Facts (SEF) for the investigation is due to be placed on the public record by 18 November 2013, or such later date as the Minister for Industry (the Minister) allows under s.269ZHI of the *Customs Act 1901* (the Act).

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

- Following receipt and consideration of submissions made in response to the SEF, the Commission will provide its final report and recommendations to the Minister.
- This final report is due no later than 31 December 2013, unless an extension to the SEF is approved by the Minister.

We informed Siemens China that anti-dumping measures may only be imposed where the Minister is satisfied that the goods were dumped and the dumped goods had caused or were threatening to cause material injury to the Australian industry.

## 1.5 Visit report

We explained to Siemens China that we would prepare a report of our visit and provide it to the company to review its factual accuracy, and to identify those parts of the report it considers to be for official use only.

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We explained that, in consultation with the company, we would prepare a public record version of the report.



## 2 COMPANY INFORMATION

### 2.1 General

Siemens Wuhan, Siemens Jinan and Siemens Guangzhou are all independent legal entities operating in China with a common Shareholder Siemens Ltd. China (Beijing) (SLC). SLC is a wholly owned subsidiary of Siemens Aktiengesellschaft (Siemens AG) headquartered in Munich and Berlin in Germany. Siemens principal activities are in the fields of industry, energy, transportation and healthcare. It is organised into four main sectors:

1. Industry
2. Energy
3. Healthcare
4. Infrastructure & Cities

Siemens Financial Services (SFS) is a cross-sector business of Siemens and an international provider of business-to-business financial solutions.

Siemens claims that it collectively employs approximately 360,000 people across nearly 190 countries and reported global revenue of approximately 77.3 billion Euros for the financial year 2012.

Siemens China stated that its power transformer business is part of its Energy sector and it can either supply power transformers for individual projects or as part of a packaged solution involving other areas of its business such as building wind farms.

Siemens has 21 transformer manufacturing factories worldwide. Details of the three Siemens power transformer factories operating in China are discussed below.

#### Siemens Wuhan

Siemens Transformer (Wuhan) Co., Ltd. is the only one of the three companies that is a wholly owned foreign enterprise invested by **[Confidential text deleted – shareholder information]** ██████████. Siemens Wuhan focuses on the design and production of transformers (Siformers) up to 150kV. It also manufactures oil immersed large distribution transformers up to 36kV. Siemens Wuhan is the newest of the three plants in China, having been established in 2008. The annual capacity is said to be 12,500MVA.

Siemens Wuhan claims that the design of the Siformer adopts technical characteristics from the worldwide network of Siemens transformer plants and that it uses the most advanced equipment. The Siformers are said to have features of lower losses, lower

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noise, lower partial discharge, higher short-circuit withstand ability, higher reliability, long life and are easy for installation and maintenance.

In response to the exporter questionnaire, Siemens Wuhan provided the Company chart, Organisational structure (**Confidential Attachment GEN 2 refers**) and company brochure.

### Siemens Jinan

Siemens Transformer (Jinan) Co., Ltd. is a Sino-German joint venture established in 1994 and produces oil-immersed power transformer up to 720MVA / 500kV, traction transformers, and line feeders together with related equipment and services.

**[Confidential text deleted – production capacity and shareholder information]**

In response to the exporter questionnaire, Siemens Jinan provided Company chart, Organisational structure and company brochure (**Confidential Attachment GEN 3 refers**).

### Siemens Guangzhou

Siemens Transformer (Guangzhou) Co., Ltd. (formerly known as VA TECH ELIN Transformer Guangzhou Co., Ltd.) is a large Sino-German joint venture with

**[Confidential text deleted – shareholder information]**

. As one of the key enterprise of Guangdong equipment manufacturing industry, Siemens Guangzhou has been listed in “Top 100 Electrical Enterprises in China” for the last four years.

Siemens Guangzhou was established in 1998 covering an area of 65,000 m<sup>2</sup> with annual manufacturing capability of 26,415MVA and about 500 employees. Siemens Guangzhou provides HVDC converter transformers up to ±800kV, power transformers up to 1000kV, oil-immersed distribution transformers up to 8MVA/35kV and dry type cast resin transformers up to 20MVA/35kV with related service to utilities and industry customers. Siemens Guangzhou is one of the few companies which is able to manufacture full

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voltage range transformers in the same plant, and the only transformer manufacturer which is capable of designing, manufacturing and testing 500kV and above transformers in Southern China.

Siemens Guangzhou is located in East Section of Guangzhou Economic and Technological Development District (GETDD) and has access to Guangzhou- Shenzhen Railway, highway and Huangpu Port. Its products are featured as having short circuit withstanding capability, low losses, low noise, low temperature rise, long lifecycle and are oil leakage free. In response to the exporter questionnaire, Siemens Guangzhou provided a Company chart, Organisational structure and company brochure (**Confidential Attachment GEN 4 refers**).

## 2.2 Related parties

As noted, Siemens Wuhan, Siemens Jinan, and Siemens Guangzhou are related by a common shareholder Siemens Ltd. China (SLC).

Siemens explained that all transactions between the related companies are at arm's length in accordance with 'Siemens Global Transfer Pricing Policy'. A copy of Global Transfer Pricing is at **confidential attachment GEN 5**.

Chapter 4.6 of that document sets out 'Principles' concerning dealing at arms- length. The transfer price to be applied to cross border, intercompany business is the compensation that would be paid in the same transaction under similar conditions if the transaction were conducted with an external third party. Intercompany transactions are required to have an appropriate contractual basis, be agreed in advance, and be binding and clear and unambiguous. Uncertainty about tax issues must be referred to the Transfer Pricing Coordinator at Business or Sector level.

Siemens China claims that all export prices between Siemens China and Siemens Australia were in accordance with Siemens policy [**Confidential information deleted – accounting policies**]

At the visit Siemens China also provided us a copy of 'conditions of Purchase' for external customers (**Confidential Attachment GEN5(a) refers**) and a copy of terms and conditions for deliveries and services for Siemens internal transactions (**Confidential Attachment GEN5(b) refers**).

## 2.3 Relationship with suppliers and customers

Siemens China claims none of its factories purchase raw material or parts of the power transformer from a related company except Siemens at times purchases tap changers from [Confidential information deleted – supplier information]

All purchases are in accordance with the Siemens global policy requirements where three quotes are taken and assessed before placing an order (subject to a sufficient number of qualified suppliers being available).

For most domestic utility sales, Siemens China goes through a tender process organised by the Government of China which is held several times a year. The detailed tender process is discussed in section 6.1 of this report.

All export sales to Australia are through Siemens Australia. The details of export sales process is discussed in section 4.1 of this report.

## 2.4 Accounting structure and details of accounting system

### 2.4.1 General

Siemens China advised that each of the three companies is a separate legal entity. They all operate independently and keep all their records separately. They are not publically listed. However, their parent company, Siemens AG, is listed on the Deutsche Boerse (German Stock Exchange), London Stock Exchange; Swiss Exchange and the New York Stock Exchange.

Siemens China advised that the Siemens group of companies keeps its financial records in accordance with International Financial Reporting Standards (IFRS). These accounting standards are issued by the International Accounting Standards Board. For statutory reporting and audit purposes Siemens Wuhan, Siemens Jinan and Siemens Guangzhou produce accounts in accordance with the generally accepted accounting principles (GAAP) in China.

Siemens China provided a summary detailing differences between IFRS and Chinese GAAP accounting systems (**Confidential Attachment GEN 6 refers**).

Siemens explained that it follows IFRS for Siemens global reporting purposes to enable audited consolidated group accounts to be prepared in accordance with IFRS, and Chinese GAAP for the statutory reporting of the local Chinese companies. The two accounting methods have different financial years as shown below.

- Siemens global accounting period (using IFRS) is from 1 October to 30 September
- Local Chinese GAAP accounting period is from 1 January to 31 December

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Siemens China advised that the Siemens global group of companies' internal financial statements and the financial data provided in the exporter questionnaire spread sheet for each company are based on IFRS and the accounting period is from 1 October to 30 September.

Siemens China uses the SAP computer software accounting system. For accounting purposes Siemens China reports in Chinese RMB domestically, and in Euro globally.

As part of its response to exporter questionnaire for each of the three factories, Siemens China provided:

- chart of accounts (**confidential attachment GEN 7**);
- details of cost centres (**confidential attachment GEN 8**);
- WBS Structure (**confidential attachment GEN 9**);
- audited financial statement for financial years 2011 and 2012 (**confidential attachment GEN 10**);
- tax returns for financial years 2011 and 2012 (**confidential attachment GEN 11**); and
- Esprit reports<sup>1</sup> for financial years 2011 and 2012 and first half of 2013 (**confidential attachment GEN12**).

At the visit, Siemens provided consolidated financial reports for Q4 and fiscal year 2013 (**confidential attachment GEN 13 refers**)

Siemens China advised that each factory's financial records and statutory accounts are audited by independent auditors Ernst and Young. For the 2012 Statutory Accounts for Siemens Wuhan, the auditors stated:

*"In our opinion, the financial statements present fairly, in all material aspects, the financial position of Siemens Transformer (Wuhan) Company Ltd as at 31 December 2012 and its financial performance and cash flows for the year then ended in accordance with Accounting Standards for Business Enterprise".*

Similar audit opinion was issued by the auditors Ernst and Young for the following companies:

- (i) Siemens Wuhan - 2011 financial statements
- (ii) Siemens Jinan – 2011 and 2012 financial statements and
- (iii) Siemens Guangzhou - 2011 and 2012 financial statements.

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<sup>1</sup> The Esprit reports are explained at section 2.4.3.

2.4.2 Accounting treatments

(i) Costs

Siemens China advised that [Confidential information deleted – accounting policies]

[Redacted content]

(ii) Offer Price Calculation

Siemens China advised that for the purposes of calculating the costs for offers and order entry [Confidential information deleted – pricing]

[Redacted content]

(iii) Calculation of Cost of Goods Sold (COGS) in SAP for each project

Siemens China advised that [Confidential information deleted – accounting policies]

[Redacted content]

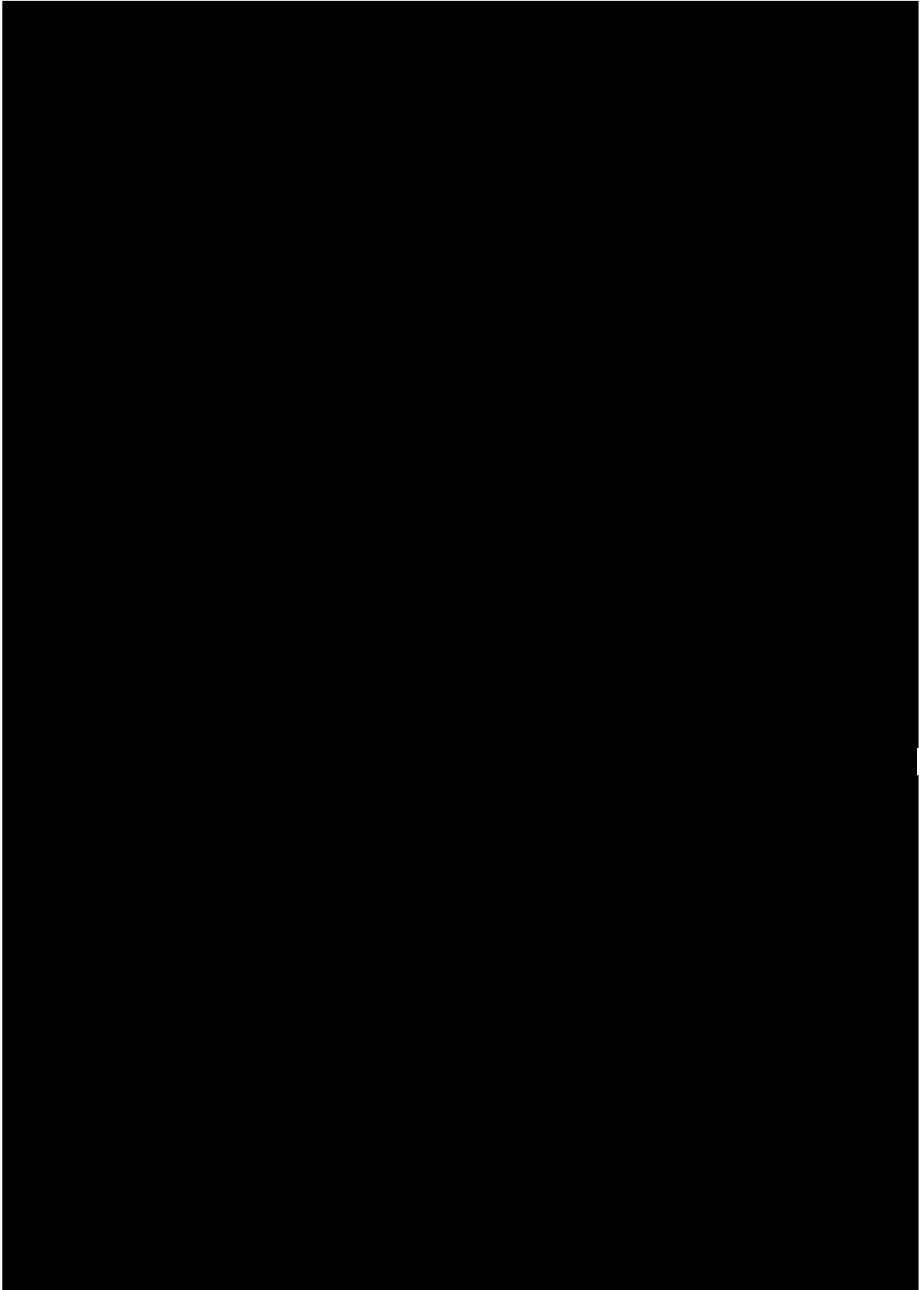
[Redacted]  
[Redacted] This was described by Siemens as a prudent accounting policy which allows for the principle of matching the timing of the recognition of related revenue and costs in the same period.

[Confidential information deleted – accounting policies]

For sales orders the actual invoices and actual costs are [Confidential information deleted – accounting policies].

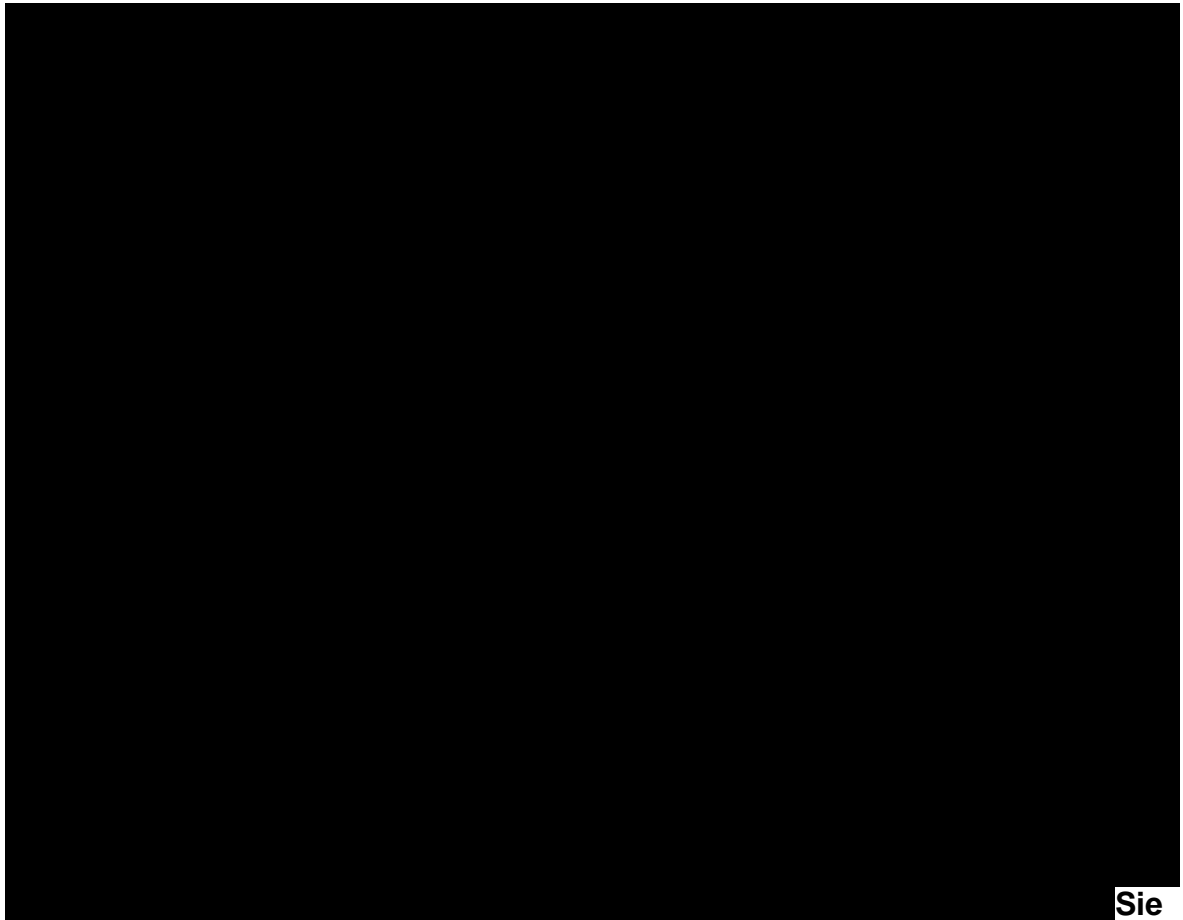
2.4.3 For all cost centres [Confidential information deleted – accounting policies]

[Redacted]



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**Siemens' accounting system**

Siemens China uses SAP software accounting system for financial and cost accounting recording and reporting functions. Each factory has its own independent SAP system where all the original data and transactions are recorded. SAP reports can be generated showing the main financial statements in accordance with the IFRS.

**[Confidential information deleted – accounting policies]**

SAP is the source of the original data and the basis for the reports which have been generated to provide information to the Commission for this investigation. During the verification process we sighted numerous accounting records and reports extracted from the SAP. Siemens China's accounting system and methodology are further discussed in section 5.1 of this report.

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### 3 THE GOODS UNDER CONSIDERATION AND LIKE GOODS

#### 3.1 The goods

The goods the subject of the application (the goods) are:

*liquid dielectric power transformers with power ratings of equal to or greater than 10 MVA (mega volt amperes) and a voltage rating of less than 500kV (kilo volts) whether assembled or unassembled, complete or incomplete.*

Incomplete power transformers are subassemblies consisting of the active part and any other parts attached to, imported with or invoiced with the active parts of power transformers.

The active part of a power transformer consists of one or more of the following when attached to or otherwise assembled with one other:

- (i) the steel core;
- (ii) the windings;
- (iii) electrical insulation between the windings; and
- (iv) the mechanical frame.

The following are excluded from the scope of the goods:

- Distribution transformers; and
- Gas filled and dry type power transformers.

##### 3.1.1 Tariff classification

The goods are classified to the following tariff subheadings in Schedule 3 to the Customs Tariff Act 1995:

- 8504.22.00 (statistical code 40); and
- 8504.23.00 (statistical codes 26 and 41)

The general rate of duty is 5% and applies to power transformers imported from China, Korea and Taiwan.

Indonesia, Thailand and Vietnam are subject to the ASEAN-Australia-New Zealand free trade agreement and the rate for power transformers from these countries is duty free.

### 3.1.2 Production process

Siemens China stated that each power transformer produced (either for domestic market or export) is unique and is custom built to customer specific requirements. The lead time required for each project from winning the tender, design & engineering, completion and delivery can be between **[Confidential information deleted – lead times]**

In REQ Siemens China submitted a detailed manufacturing flowchart for each of the three Siemens Chinese factories. It also submitted '*manufacturing introduction*' manual that outlines all major equipment used in the production of major components of power transformers by Siemens Wuhan (**confidential attachment GEN15 refers**).

#### Design and Engineering

Siemens China stated that after winning tenders, a purchase order is received. **Confidential information deleted – production process]**

During the verification we conducted an inspection of the production facilities at Siemens Wuhan factory in China. The production process is summarised below.

#### Insulation material

**Confidential information deleted – production process]**

The core cutting

[Confidential information deleted – production process]



Winding

The winding workshop has [Confidential information deleted – production process]



Oven drying

The wound coil is placed in an oven [Confidential information deleted – production process]



[Redacted]

Final assembly and oil filling

After drying [Confidential information deleted – production process]

[Redacted]

Testing

Once the power transformer is fully assembled including installation of all minor components and monitors, [Confidential information deleted – production process]

[Redacted]

Dismantling, packing and delivery

Once the power transformer passes the testing phase, [Confidential information deleted – production process]

[Redacted]

Siemens China stated that a similar power transformer manufacturing process is followed at Siemens Jinan and Siemens Guangzhou factories.

Oil

[Confidential information deleted – production process]

[Redacted]

### 3.1.3 Like goods

Siemens China stated that the physical characteristics of exported and locally produced power transformers may be similar. However, the goods exported to Australia are based on international design and specific customer standards and, therefore, Siemens China believes their product is designed to a higher quality specification than those of the domestic market.

Siemens China also claims that the design of its power transformers results in lower electricity loss during transmission and lower noise levels.

#### Like goods and comparison under s269TAC:

The Commission has assessed normal values under s269TAC(2)(c). The legal and policy rationale for doing so will be set out in the SEF.

The goods under consideration sold to Australia and the like goods sold in the Chinese domestic market, cannot be readily compared for the purposes of s269TAC(1) and (8) of the Act.

There are a number of factors that make comparison under s269TAC(8) both complex and impractical:

- Power transformers are custom designed and built. Each project is unique with different ratings, specifications, quality, materials, and accessories used.
- The specifications concern not only a key component such as the tap changer which of itself could possibly be adjusted for, but this is not the only specification difference and different technical standards have to be met depending on the rules in the country of destination (as noted above), the number and nature of the windings, connections, and customer requirements for quality design. The specification differences can be numerous even between transformers having the same power rating.
- Usually transformers exported and those sold on the home market also have different power and voltage design.

The Act recognises that there can be circumstances where, although having domestic sales of like goods, the normal value is constructed under s269TAC(2)(c).

Regulation 181 'Determination of administrative, selling and general costs (section 269TAAD of the Act)' provides that those expenses can use data from '*records relating to the like goods*'. Likewise, Regulation 181A 'Determination of profit (subsection 269TAC (5B) of the Act)' provides that profit may be worked out where reasonably possible using data in relation to the '*production and sale of like goods*' by the exporter or producer of the goods in the ordinary course of trade.

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Section 269TAC(2)(c) provides for a constructed normal value where the Minister is satisfied under s. 269TAC(2)(a) that:

- “(i) because of the absence, or low volume, of sales of like goods in the market of the country of export that would be relevant for the purpose of determining a price under subsection (1); or*
  - (ii) because the situation in the market of the country of export is such that sales in that market are not suitable for use in determining a price under subsection (1);*
- the normal value of goods exported to Australia cannot be ascertained under subsection (1); or ...”.*

Thus a normal value can be constructed under s. 269TAC(2)(c) where there is an absence of sales that would be relevant, not merely an absence of sales altogether. That is, it covers the circumstance in the Commission's view where there are domestic sales but a decision has been made that because of the case circumstances those domestic sales that do exist are not relevant. An absence of sales altogether would also however be grounds to construct a normal value. Section 269TAC(2)(a) also allows at (ii) for a constructed normal value because of the situation in the market of the country of export.

In the circumstances where, as in this case, the Commission has decided that the domestic sales cannot be used as no reasonably calculated method of making a fair comparison adjustment is possible, then either of these two provisions at s. 269TAC(2)(c) (2)(a) (i) and (ii) can apply and both provide a means to then construct the normal value using all relevant production costs, selling and general expenses, and profit.

In its submission dated 24 September 2013 and in its comments on the draft visit report, Siemens stated that its goods exported to Australia are not like goods to the goods under consideration. We understand that Siemens is likely to make further submissions on this point.

### **3.2 Like goods – preliminary assessment**

We consider that power transformers sold domestically by Siemens China during the investigation period has characteristics are like goods to those exported to Australia in terms of subsection 269T(1). Having said that, we also consider that the domestic sales of transformers are not relevant in terms of s. 269TAC(2)(a) (i) and not suitable in terms of s. 269TAC(2)(a) (ii) for reasons that have been given above and the normal values must be constructed under s. 269TAC(2)(c).

**4 SALES TO AUSTRALIA**

**4.1 General**

Siemens China exported the goods under consideration from its three Chinese factories in the investigation period. The quantity and value of the goods exported to Australia are as follows:

[Confidential information deleted – sales]

Factory	Quantity	Value (RMB)	%age by Value
Siemens Guangzhou			
Siemens Jinan			
Siemens Wuhan			
<b>Grand Total</b>			

As discussed earlier in section 1.1 of this report, Siemens Wuhan exported the majority of the goods under consideration to Australia in the investigation period. All goods exported to Australia were to Siemens Australia.

Siemens Australia is responsible for [Confidential information deleted – sales]

[Redacted content]

**4.1.1 Export sales process**

Siemens China explained that Siemens Australia Energy Transmission projects are divided into three main market segments. These are;

- industry;
- utility; and
- oil and gas.

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All sales are through a tender process organised in different states and territories. Tender documents are either downloaded from websites or sent out to tenderers.

Tenders are prepared jointly by Siemens Australia and the respective Siemens Chinese factory. Siemens Australia prepares the commercial aspect of the tender while Siemens China prepares the technical aspects. The design and specification requirement is reviewed in Australia (for compliance with Australian and customer standards and specifications) by Australian engineers.

The tender evaluation process considers different design aspects. Each project is made to unique customer requirements and specifications. Some of the main aspects for the tender evaluation process include:

- Delivery time
- Tap changer and other major component supply
- Load loss and no-load loss
- Total life cycle cost
- Compliance to specifications
- Safety, Quality and Environmental performance
- Supplier's ability to deliver and factory capacity
- Previous references
- Local support
- Spares management
- Price (although this is usually only one part of total life cycle cost)

Siemens claims that the complexity of each individual customer's specifications can result in periods of up to **[Confidential information deleted – lead times]** for customers to assess tender proposals, including detailed technical tender information requests (TIRs) being issued.

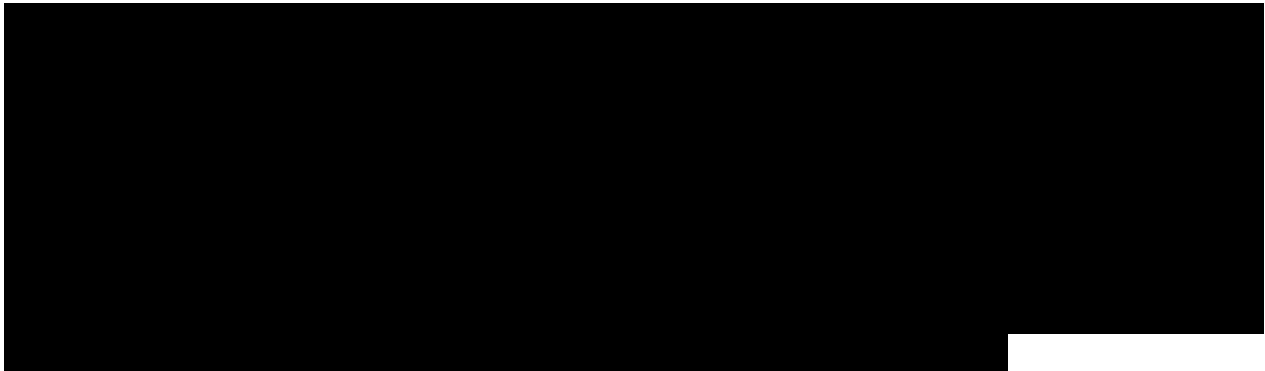
Once the tender is won, **[Confidential information deleted – tender process]**

. The production process of the power transformer is discussed in section 3.1.2 of this report.

After manufacturing Siemens China delivers per the contracted agreement with Siemens Australia. **[Confidential information deleted – shipping]**

For all exports to Australia, **[Confidential information deleted – shipping]**

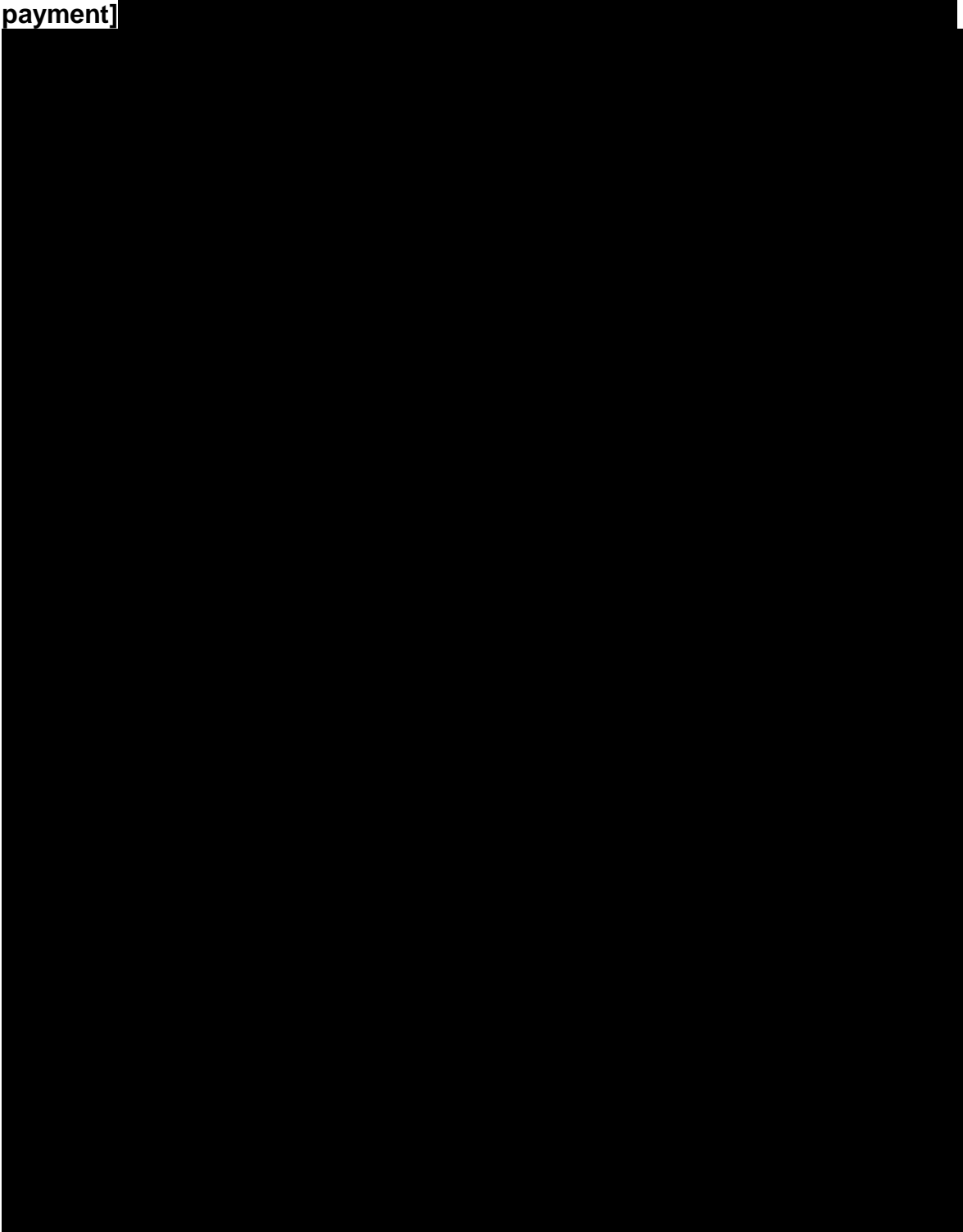
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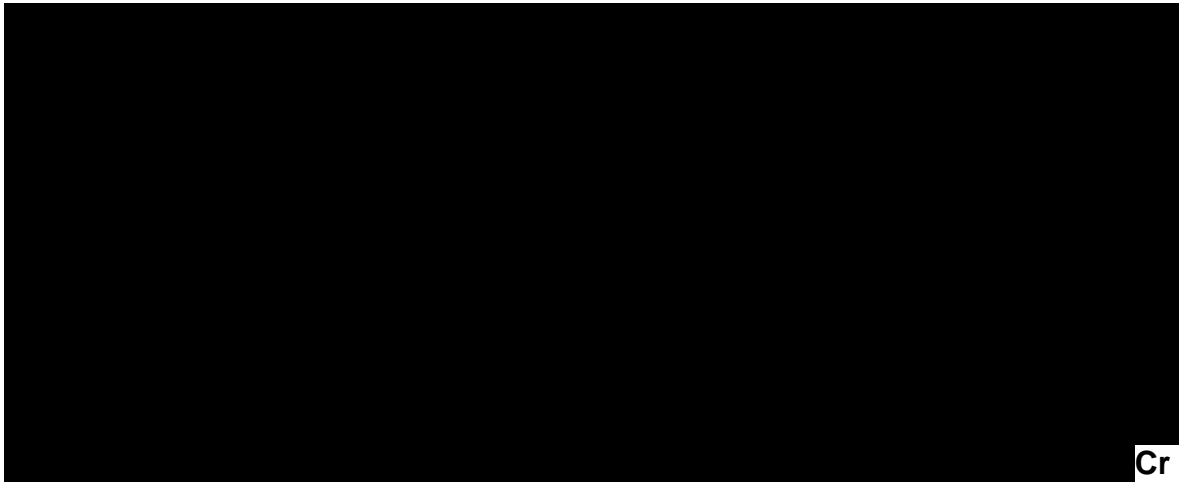


Siemens China stated that some end user customers prefer to take responsibility for specific steps after EXW themselves, in which case this would be excluded from the respective Siemens scope.

**4.1.2 Pricing and Payment terms**

4.1.3 Siemens China claims that for each power transformer, pricing is negotiated and determined on an individual basis. Siemens China stated that Siemens Australia uses a spreadsheet called [Confidential information deleted – pricing and payment]

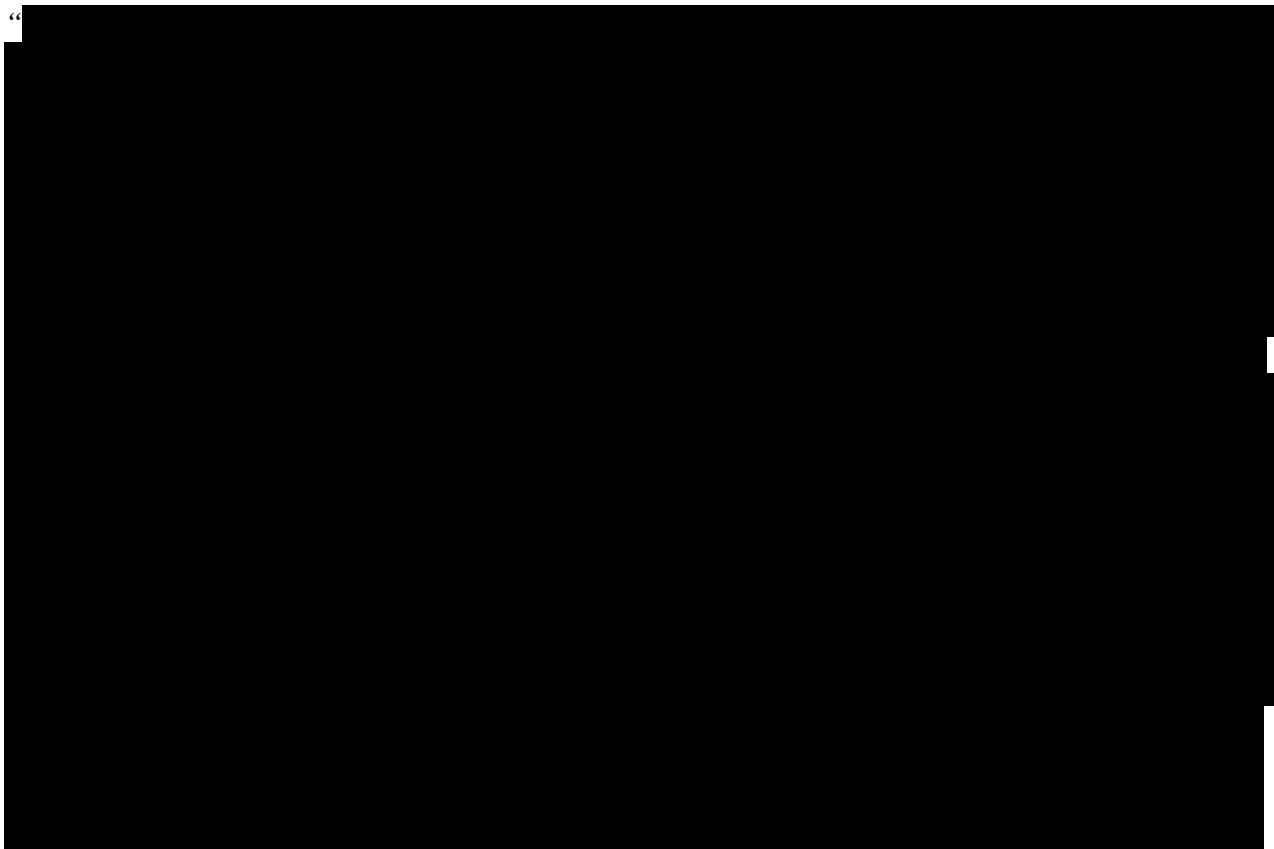




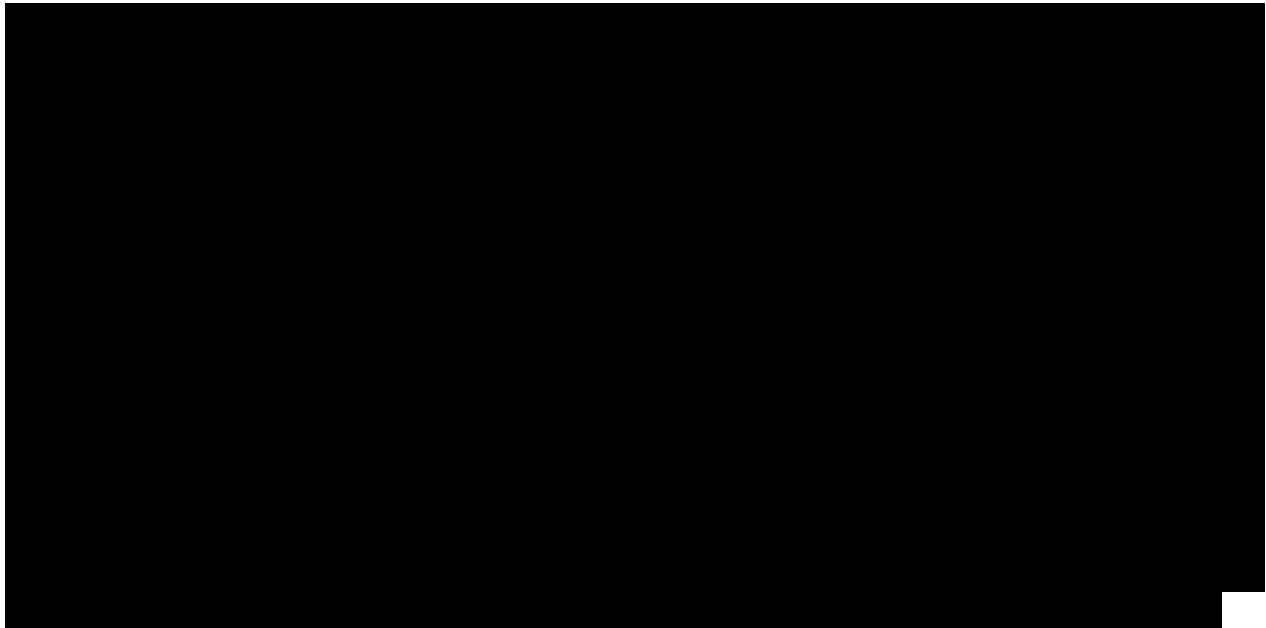
**edit terms**

At the visit we discussed credit terms. Prior to the meeting, we supplied Siemens China with a calculation methodology about a likely credit terms calculation which used the date of contract. After discussing the matter at the visit, we agreed that Siemens China could consider it more carefully and provide a more considered response. This was received in an email dated 16 December 2013. In that email, Siemens China state that;

**[Confidential information deleted – pricing and payment terms]**

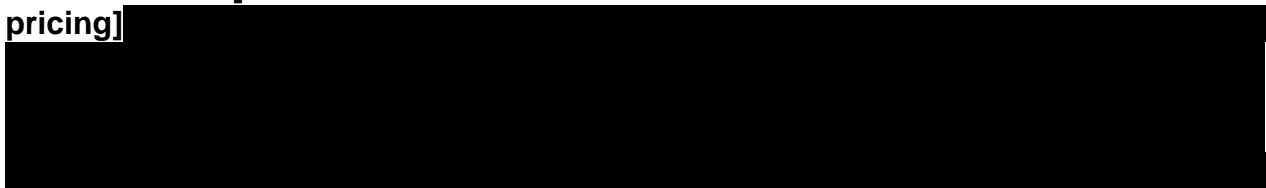


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We have noted Siemens comments. The Commission will review the calculation of credit costs.

Siemens China [**Confidential information deleted – pricing**]



During the verification visit, we found no evidence to indicate that this was not the case.

#### 4.1.4 Warranty

Siemens China claims that [**Confidential information deleted – warranty terms**]



#### 4.1.5 Date of sale

The investigation proceeded on the basis that the date of contract is the date of sale for all exports sales to Australia. Therefore, all contracts signed during investigation period

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(including incomplete projects) have been taken for determining export price of the goods under consideration.

However, Siemens China disagrees with our approach and it considers that the date of sale is the date of invoice.

We have noted Siemens China's concerns and asked it to make formal submission regarding this issue.

## 4.2 Verification of export sales to audited financial statements

In the REQ, for each of the three factories, Siemens China completed sales turnover spreadsheet for all sales including exports to Australia in the investigation period and in the most recent financial year (i.e. FY2012). A copy of turnover spreadsheet is at **confidential attachment EXP 1**.

As discussed in section 5.2 of this report, at the visit we requested and Siemens China provided 'All sales spreadsheet' that included all sales of the goods under consideration in the investigation period.

We selected a number of random transactions provided in the REQ spreadsheet and compared them to the revised 'All sales spreadsheet'. We found that contract numbers **[Confidential information deleted – contracts]**

**[Confidential information deleted – contracts]** were omitted in the new revised 'All sales spreadsheet'. We asked Siemens to explain the reasons to exclude these transactions. In its email dated 16 December 2013, Siemens China stated that **[Confidential information deleted – accounting policies]**

**[Confidential information deleted]** Other than the above contract numbers, we were able to reconcile the total export sales to Australia provided in the REQ for all three Siemens **Power Transformers – Exporter Visit Report – Siemens Wuhan, Siemens Jinan and Siemens Guangzhou**

Chinese factories to the 'All sales spreadsheets' provided at the visit (**Confidential attachment EXP 2 refers**).

We are satisfied that all domestic sales of the goods under consideration in the investigation period by the three Chinese factories are included in the 'All sales spreadsheets'.

For completeness, we asked Siemens Wuhan to show us the total export sales in the SAP system for the financial year 2012 that would reconcile to the audited financial statements for 2012. Siemens Wuhan stated that it will not be able to extract for export sales report independently from the SAP system. However, Siemens Wuhan was able to show us on the computer screen the total sales recorded in the SAP system for the financial year 2012. Screenshot of the SAP system is at **confidential attachment EXP 3**.

We noted that total sales provided in turnover spreadsheet in REQ to the total sales did not reconcile to the audited financial statement for Wuhan for FY 2012. The difference was less than **[Confidential information deleted – financial]** where the total turnover spreadsheet was understated.

We also noted that total sales of the goods provided in the turnover spreadsheet did not reconcile to the audited financial statements for Siemens Jinan and Siemens Guangzhou for the financial year 2012. We noted that for Siemens Jinan the difference was approximately **[Confidential information deleted – financial]** and Siemens Guangzhou had a difference of approximately **[Confidential information deleted – financial]**.

Siemens Wuhan explained this difference was due to timing and the conversion of IFRS to Chinese GAAP accounting. A detailed reconciliation from IFRS to Chinese GAAP was provided by Siemens during REQ.

## **Conclusion**

We are satisfied that the total export sales provided by the three Siemens factories are a complete record of sales of all power transformers with power ratings of equal to or greater than 10 MVA and a voltage rating of less than 500kV sold in the investigation period.

### **4.3 Verification of export sales to source documents**

In the REQ, Siemens China provided two export sales contracts for each of the three factories. Prior to our visit, we selected the following export sales contract numbers and asked Siemens China to prepare the source documents for each contact number including proof of payment, inland freight and terms of payment.

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- Siemens Wuhan: export contracts 4503503719, 4504315721 and 4502894292 (**EXP 4 refers**)
- Siemens Jinan: export contract 4503503732; (**EXP 5 refers**)
- Siemens Guangzhou: export contracts 4502811003/3001111573 (**EXP 6 refers**)

For each of the above export sales, Siemens China provided the following documents;

- Sales contract identifying customer name and specification details
- Date of contract
- Date of payment
- Terms of trade
- Power rating (MVA)
- Maximum voltage ratings (kV)
- Project code
- Delivery date
- Shipping documents
- Pre-exportation expenses
- Proof of delivery
- SAP Screen shots for data entered into the system

We were able to reconcile the power transformer's description and values of each selected transaction using the purchase orders, commercial invoices and packing lists provided during the verification visit to the export sales spreadsheet.

We noted that payments made to Siemens China by Siemens Australia were in USD. The amount received in USD was translated into RMB using Deutsche Bank's rate on that day. Any difference between the value at date of invoice and date of receipt of payment is recorded as an exchange gain or loss.

#### Export costs and charges

We noted that all exports to Australia had either FOB or FCA shipping terms [Confidential information deleted – customer terms].

Therefore, other than those projects, no adjustments were required to calculate FOB export price.

#### Inland freight

Siemens China stated that it uses independent contractors to transport the goods from the factory to the port of export in China. All contracts are awarded in accordance with Siemens' contract policy where Siemens China is required to take three quotes before awarding the contract.

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For all export sales, freight charges were invoiced by the supplier for each consignment of the goods. Transport is invoiced on the basis of unit charges applied by the freight provider. Transport costs have been allocated in the export sales spread sheet using the actual charges specified in the relevant transport invoice.

For each selected export contract Siemens China provided the purchase order issued by Siemens China requesting the transport and the invoice and proof of payment made to transport company. A copy of individual transport contract provided in REQ is at **confidential attachment EXP 7**.

#### **4.4 The exporter**

For all export sales during the investigation period, we consider either Siemens Wuhan; Siemens Jinan or Siemens Guangzhou to be the exporter of GUC because it:

- is the manufacturer of the goods;
- owned the goods at the time prior to export;
- is listed as the supplier on the bill of lading;
- invoices the importer for the goods directly;
- arranges and pays inland transport costs from the place of manufacture to port of export;
- arranges and pays for associated handling costs and other export expenses incurred in moving the goods to the FOB or FCA point at the port of export;
- 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;
- sent the goods for export to Australia and was aware of the identity of the purchaser of the goods; and
- received payment for the goods from the importer.

#### **4.5 The importer**

We noted that Siemens Australia:

- negotiates directly with Siemens Wuhan; Siemens Jinan or Siemens Guangzhou for the supply of goods and enters binding legal contracts pursuant to negotiated terms;
- is named as the consignee on the bill of lading; and
- becomes the beneficial legal owner of the goods.

We consider that Siemens Australia is the beneficial owner of the goods at the time of importation and is therefore the importer of power transformers exported by Siemens Wuhan, Siemens Jinan or Siemens Guangzhou during the investigation period.

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## 4.6 Arms' length

In determining export prices and normal values, the legislation requires that the relevant sales are arms' length transactions. Section 269TAA of the Customs Act outlines the circumstances in which the price paid or payable shall not be treated as arms' length where:

- there is any consideration payable for in respect of the goods other than 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
- in the opinion of the Minister, the buyer, or an associate of the buyer, will, 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 verified that overall; transactions between Siemens China and Siemens Australia were profitable during the investigation period. We reviewed how prices between the two companies were negotiated and are satisfied the price is not influenced by the relationship between the companies. We note that the importer visit report recommends an arms length finding. Conclusions on the arms length issue for the sales between Siemens China and Siemens Australia, and Siemens Australia's sales into the Australian market, need to rest on the findings reached in relation to Siemens Australia.

## 4.7 Export price preliminary assessment

In the case of all export sales to Australia by Siemens China, 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 consider that the export price for direct export sales from Siemens China can be established under section 269TAB(1)(a) using the invoiced price. FOB export price calculations are at **confidential appendix 1**.

## 5 COST TO MAKE & SELL

### 5.1 Approach to verification

As discussed in section 3 of this report all three Siemens Chinese factories are operating independently. All power transformers are custom made to the customer's specific needs and requirements.

Siemens China stated that it has some inter-company and intra-company sales including **[Confidential information deleted – supplier]** of the power transformers. Siemens China claims that all sales are at arm's length in accordance with Siemens global transfer pricing policy.

Siemens China purchases raw materials (including core components of the power transformers) such as **[Confidential information deleted – supplier]**

Siemens Wuhan exported the majority of the power transformers to Australia in the investigation period. As such, detailed cost verification was undertaken at the Siemens Wuhan factory.

### 5.2 Cost to make and sell

In response to the exporter questionnaire, Siemens China provided all export sales to Australia and corresponding cost to make and sell (CTMS) for all projects (power transformers exported to Australia) for each of its three Chinese factories.

For domestic sales Siemens China only provided 'comparable' domestic sales and related CTMS for Siemens Wuhan and Siemens Jinan. Siemens China claims that the reason for doing so was that significant effort was required in extracting the data from the 3 factories in the format that was set out in the exporter questionnaire. For Siemens Guangzhou, the 'comparable' domestic sales contract did not match the contract numbers provided in the CTMS spreadsheet. (**Confidential attachment CTMS 1** refers).

Prior to our visit, we asked Siemens Guangzhou to prepare and explain why the corresponding CTMS for each of 'comparable' domestic sales was not provided. We also advised Siemens China that we require all domestic costs and sales for all three factories. Siemens China confirmed that it would undertake to provide domestic sales and costs for all three Chinese factories at the visit.

At the visit Siemens China provided an 'All sales spreadsheet' containing details of all sales for all power transformers with power ratings of equal to or greater than 10 MVA and a voltage rating of less than 500kV sold in the investigation period. This main spreadsheet included all sales to Australia, to all third countries, and all domestic sales in China. At the visit after having received the initial 'All sales spreadsheet' we asked Siemens China to include the following additional columns for each of the three factories

- contract numbers for each project;
- date of contract;
- order number;
- revenue;
- CTMS;
- FOB date;
- warranty expenses;
- SG&A; and
- absorption costs

Siemens China agreed to provide a revised 'All sales spreadsheet' including the above information for all sales for all three factories (**Confidential attachment CTMS 2** refers).

On receipt of the revised 'All sales spreadsheet' we selected number of random transactions provided in the REQ spreadsheet and matched them to the new spreadsheet. We found that contract numbers [**Confidential information deleted – contracts**]

[REDACTED] were omitted in the revised all sales spreadsheet. Siemens confidential explanation to omit these transactions is at section 4.2 of this report. Siemens has advised [**Confidential information deleted – contracts**]

Other than the above contract numbers, we were able to reconcile the total CTMS, total domestic sales, and total export sales to Australia provided in the REQ for the three Siemens Chinese factories to the 'All sales spreadsheet'.

We are satisfied that the new 'All sales spreadsheet', other than the three contracts identified above, includes all data provided initially in the REQ spreadsheet.

Siemens China stated that even though the electricity voltage output can be the same for certain power transformers, the different design specification and raw materials used can differ and have significant cost differences. Some of the major power transformer components and cost elements include:

- core steel;

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- copper;
- bushing;
- tapchanger;
- windings;
- cooling systems;
- engineering design;
- testing;
- packaging; and
- delivery.

Siemens China claims that **[Confidential information deleted – CTMS]** [REDACTED].

These types are mostly produced by Siemens Wuhan. The majority of power transformers exported to Australia in the investigation period fall in this category.

Siemens China purchases **[Confidential information deleted – suppliers]** [REDACTED].

For each project, **[Confidential information deleted – accounting]** [REDACTED]

(Confidential attachment CTMS 3 refers).

**[Confidential information deleted – accounting]** [REDACTED]

Screen shot of the SAP system is at **confidential attachment CTMS 4.**

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[Confidential information deleted – accounting]



## 5.3 Cost of Production

### 5.3.1 Completeness and relevance

Prior to our visit we asked Siemens China to prepare records to show how the cost of selected projects can be reconciled through management reports to total costs in audited financial statements for 2012 for Siemens Wuhan. This item was listed at item 5, page 2, of the visit agenda of 31 October 2013 (**Confidential attachment GEN1 refers**). The extract item 5 is as follows:

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*"Please prepare for our meeting by being able to show how the cost of selected projects can be reconciled through management reports to total costs in your audited financial statements for 2012 for Siemens Wuhan only".*

Another email of 8 November 2013 addressed this reconciliation:

*"...We think it is important for us to emphasise the significance of reconciling the cost of the goods to the audited financial statements. As part of our verification agenda (item 5 bullet ps. 3 and 9), for completeness test we asked Siemens to prepare the following:*

*" Timing of recognition of costs in financial statements. "*

*" Please prepare for our meeting by being able to show how the cost of selected projects can be reconciled through management reports to total costs in your audited financial statements for 2012 for Siemens Wuhan only."*

*This upward reconciliation to the audited financial statement is the most important part of our cost verification.*

*We realise that complications can arise when while some projects are complete while others are not and only the portion is carried to the Audited Financial Statements. Please prepare in advance to ensure that this part of the process has been considered by the Company."*

At the visit, Siemens Wuhan explained that this is a large task and they would require more time to reconcile the costs to the audited financial statements.

Siemens Wuhan explained that this was a multi-step process. At the visit we were unable to verify the profit or COGS to the audited financial statements. Siemens explained that the profit in the income statement could not readily be reconciled to the sum of the profits of each project for the following reasons:

**[Confidential information deleted – accounting]**

- 



As such we were unable to undertake upwards verification at the visit and the report notes this deficiency.

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**5.3.2 Verification of certain cost items in the "All sales spreadsheet "**

We had already satisfied ourselves by testing that the 'All sales spreadsheet' was a complete record of all sales, a matter which has been described in detail in sections 4 and 6 of this report.

To further test the accuracy of the information provided in the 'All sales spreadsheet' we randomly selected a number of purchases and checked details back to the SAP system. The following purchase order numbers from the 'All sales spreadsheet' were selected and we asked Siemens Wuhan to show them how they are recorded in the SAP system.

**[Confidential information deleted – contracts]**

[Confidential information deleted] Other than purchase order number **[Confidential information deleted – contracts]** [Confidential information deleted]

[Confidential information deleted], Siemens Wuhan showed that the total cost to make (CTM) totals provided in the spreadsheet matched the total CTM recorded in the SAP system.

For the order number **[Confidential information deleted – purchase orders and accounting]** [Confidential information deleted]

**5.3.3 Adjustment to costs for the change of accounting methodology**

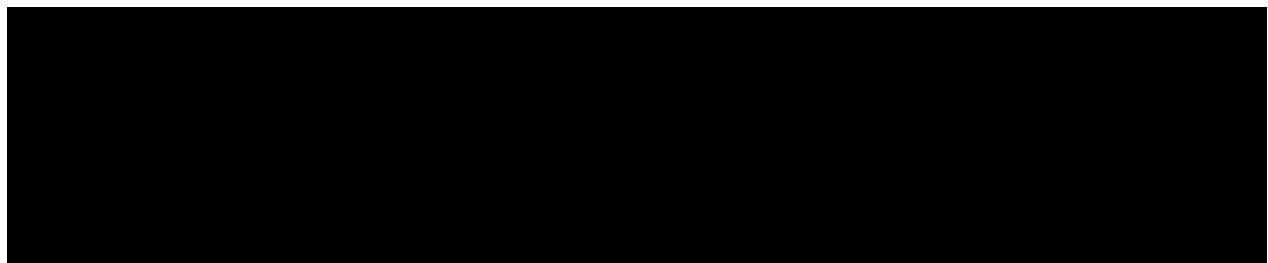
**[Confidential information deleted – accounting]** [Confidential information deleted]



(i) Start-up costs for Siemens Wuhan

Siemens China claims that we should adjust the start-up costs for Siemens Wuhan as it's a new factory which commenced operating in 2009. During that start-up phase Siemens China explained that Siemens Wuhan faced significant increased costs due to

**[Confidential information deleted – CTMS]**



Siemens Wuhan estimated that in total **[Confidential information deleted – financial]** RMB would be expected as under absorption or start-up costs in FY2013. Siemens Wuhan also

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explained that during the period under consideration **[Confidential information deleted – financial]** RMB remained unallocated in the income statement, therefore total start-up costs related to cost of full set-up with start-up loading was said to be **[Confidential information deleted – financial]** RMB.

Siemens Wuhan claims that this should be taken into account and applied consistently (i.e. across both domestic and export project results).

**[Confidential information deleted – financial]**

The email response dated 16 December 2013 by Siemens China regarding start-up costs, absorption costs and explanation regarding cost reconciliation to the audited financial statement for FY2012 for Wuhan is at **Confidential Attachment CTMS 5**.

Regulation 180(5) concerns start-up costs and provides that the Minister must adjust the costs to take these circumstances into account. While we accept that Siemens Wuhan may have a valid claim for start-up costs, we were not able to verify these calculations and methodology used to quantify these values at the visit. Therefore no adjustment has been made for start-up costs for Siemens Wuhan.

In an email dated 14 January 2014, Siemens claims that we should make appropriate adjustments for Siemens Wuhan start-up costs. It stated that the **[Confidential information deleted – start-up cost]** for Siemens Wuhan was greater for export sales in the investigation period.

We noted Siemens Wuhan's claims and asked Siemens Wuhan to make a submission to the Commission to consider its claims regarding start-up costs.


#### **5.3.4 Verification to source documents**

Prior to our visit we provided Siemens China the following contract numbers and identified the raw materials (components of the power transformers) that we would like to examine in detail.

As one of the agenda items for our meeting, we asked Siemens China to prepare source documents including screen shots as to how the costs are recorded in the accounting system, proof of payment, supporting documents for internal costs such as time sheets (for labour costs) and overhead costs.

**[Confidential information deleted – contracts]**

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For each of the above contracts, we selected certain cost components of the major raw materials and examined in detailed. The following raw materials were selected.

- (i) core steel;
- (ii) tank - mild steel(steel plate);
- (iii) control panel;
- (iv) conductor (copper);
- (v) tapchanger
- (vi) oil;
- (vii) bushings; and
- (viii) radiators and valves.

(i) Core steel

Siemens Wuhan provided purchase orders (PO) for project numbers [**Confidential information deleted – sales**]



We noted a minor difference of [**Confidential information deleted – inventory and valuation**]



[REDACTED]

To support the cost of core steel, Siemens Wuhan provided the following documents:

- Purchase Order;
- Tax invoice from the supplier;
- Posting into the SAP system and Screenshots linking the purchase order to the contract numbers;
- Payment details;
- Bank statement; and
- PTS stock summary and movements.

Copy of the above documents is at **confidential attachment CTMS 6**.

We also asked and Siemens China provided us copies of all of the above mentioned documents for the purchase of core steel for the following contract numbers:

- Siemens Wuhan (export sales) contract number **[Confidential information deleted – contracts]** [REDACTED] (**confidential attachment CTMS 7 refers**);
- Siemens Wuhan (domestic sales) Contract number **[Confidential information deleted – contracts]** [REDACTED] (**confidential attachment CTMS 8 refers**); and
- Siemens Jinan (export sales ) **[Confidential information deleted – contracts]** [REDACTED] (**confidential attachment CTMS 9 refers**)

(ii) Tank - mild steel (also known as steel plate)

Siemens Wuhan provided purchase order **[Confidential information deleted – purchase orders and suppliers]** [REDACTED]

[REDACTED]

The costs recorded in the system and reported in the spreadsheet reconciled.

To support the cost of the tank, Siemens Wuhan provided the following documents:  
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- Purchase Order
- Tax invoice from the supplier
- Posting into the SAP system and Screenshots linking the purchase order to the contract numbers
- Payment details
- Bank statement

Copy of the above documents is at **confidential attachment CTMS 6**. Furthermore, we asked and Siemens China provided copies of the above documents for the purchase of tank for following contract numbers:

- [Confidential information deleted – contracts] [REDACTED] (confidential attachment CTMS 7 refers)
- [Confidential information deleted – contracts] [REDACTED] (confidential attachment CTMS 8 refers)
- [Confidential information deleted – contracts] [REDACTED] (confidential attachment CTMS 9 refers)

[Confidential information deleted – procurement] [REDACTED]

[REDACTED] Siemens Wuhan provided the following documents:

- Purchase Order
- Tax invoice from the supplier
- Posting into the SAP system and Screenshots linking the purchase order to the contract numbers
- Payment details

Copy of the above documents is at **confidential attachment CTMS 6**.

(iii) Conductor (copper)

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Siemens Wuhan provided purchase order number for [Confidential information deleted – procurement] [REDACTED]

[REDACTED] Siemens showed us the SAP systems linking the purchase order numbers to the contract numbers.

We noted a minor difference of [Confidential information deleted – number] [REDACTED] from the invoice value and the value recorded in the system. Siemens Wuhan explained the difference was due to [Confidential information deleted – accounting] [REDACTED]

[REDACTED] After deducting the surplus from the value for the goods received (GR), the value recorded in SAP reconciled with the CTMS value shown in the CTMS spreadsheet.

[Confidential information deleted – procurement] [REDACTED]

[REDACTED] Siemens Wuhan provided the following documents:

- Purchase Order
- Tax invoice from the supplier
- Posting into the SAP system and Screenshots linking the purchase order to the contract numbers
- Detailed movement of the stock SAP report from its storage in relation to this purchase
- Siemens booking instructions
- Payment details

Copy of the above documents is at **confidential attachment CTMS 10.**

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(iv) Tapchanger

Siemens Wuhan provided purchase order number for project **[Confidential information deleted – procurement]**

**[Confidential information deleted – procurement]**

We were able to reconcile the cost of tapchanger to the spreadsheet.

To further support the cost of purchase of tapchanger, Siemens Wuhan provided us the following documents.

- Purchase Order
- Booking instructions into SAP system
- Tax Invoice
- Payment details

Copy of the above documents is at **confidential attachment CTMS 11**. We asked and Siemens Guangzhou provided the above documents for export sale contract number **[Confidential information deleted – contract]** for the purchase of the tapchanger (**confidential attachment CTMS 12** refers).

(v) Oil

As discussed in section 5.2 of this report, Siemens China stated **[Confidential information deleted – procurement]**

**[Confidential information deleted – procurement]**

Siemens Wuhan also provided documents for the purchase of oil **[Confidential information deleted – procurement]**

**[Confidential information deleted – procurement]**

To support the cost of oil, Siemens Wuhan provided the following documents;

- Purchase Order
- Booking instructions into SAP system for goods received
- Tax Invoice
- Payment details



We were able to reconcile the cost of oil purchases [Confidential information deleted – procurement] [REDACTED]. Copy of the above documents is at **confidential attachment CTMS 13**. We asked and Siemens Jinan provided the above documents for the purchase of the Oil for export sale Contract number [Confidential information deleted – contract] [REDACTED] (**confidential attachment CTMS 14** refers).

(vi) Bushings

Siemens Wuhan provided purchase order number for project [Confidential information deleted – procurement] [REDACTED]

[REDACTED] To further support the cost of bushings, Siemens Wuhan provided us the following documents:

- Purchase Order
- Booking instructions into SAP system
- Stock movement records from SAP system
- Tax Invoice
- Payment details

Copy of the above documents is at **confidential attachment CTMS 13**.

(vii) Radiators and Valves

We asked and Siemens Guangzhou provided purchase order for export sale contract number [Confidential information deleted – contract] [REDACTED] for the purchase of radiators and valves from [Confidential information deleted – procurement] [REDACTED]. To further supports the costs Siemens Guangzhou provided us the following documents:

- Purchase Order
- Screenshots of the records from the SAP system
- Tax Invoice
- Payment details

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Copies of the above documents are at **confidential attachment CTMS 14**. We were able to reconcile the cost of bushing to the spreadsheet.

#### 5.4 Depreciation of assets

Siemens China claims that for all three Chinese factories depreciation is calculated [Confidential information deleted – accounting]

At the visit we asked Siemens China to reconcile the depreciation value shown in Siemens Wuhan audited financial report for FY2012. We noted that there was a minor difference of [Confidential information deleted – number]. Siemens stated that this difference is due to the timing difference of different accounting periods between IFRS and the Chinese GAAP accounting period. Screen shot of SAP is at **confidential attachment CTMS 15**.

We asked and Siemens Wuhan showed us how the asset details are entered in the SAP system for a selected asset.

We are satisfied that the depreciation values shown recorded in the SAP system and shown in the audited financial reports are correct and accurate.

#### 5.5 Selling, general and administration (SG&A) expenses

Siemens China stated that SG&A provided in the spreadsheet in REQ is based on [Confidential text deleted – accounting practices]

For Siemens Wuhan, [Confidential text deleted – accounting practices]

Siemens China provided [Confidential text deleted – accounting practices] in the 'All sales spreadsheet'. The 'All sales spreadsheet' uses figures from Siemens China' global management accounts, prepared in according with IFRS.

We set out a detailed record of events of issues which included SG&A in **Confidential Appendix A** to this report.

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Siemens China stated at the visit that the SG&A expenses should be based on the [Confidential text deleted – accounting practices]

[Redacted]. Siemens China claims that this approach will take into account the changes in the accounting policy and other changes in the investigation period.

To calculate the SG&A we added the following expenses from the audited Income statement for 2011 and 2012 audited statements and divided it by the total revenue for each financial year:

- Selling expenses
- General and Administration expenses
- Finance expenses
- Impairment losses of assets
- Gains from fair value Changes

Using the above methodology to calculate SG&A, we prepared a draft visit report and forwarded it to Siemens China on 23 December 2013 for checking accuracy of the facts reported and for clearance by 8 January 2014. Siemens China requested, and the Commission granted, an extension of time to 20 January 2014 to respond to the draft report.

On 8 January 2014, Siemens China requested and we accepted a teleconference to be held on 9 or 10 January 2014 to clarify certain aspects of the draft report. We responded to Siemens China that we were available for a teleconference on 14, 15, 16 or 17 January 2014. A teleconference was arranged for 10am on 14 January 2014. Prior to our teleconference, Siemens China circulated an agenda for the meeting. The following issues were discussed in the Teleconference:

- SG&A – Siemens China disagreed with our methodology to calculate SG&A expenses using the weight averaged SG&A expenses from audited financial statements. Siemens China referred to 'Siemens China Confidential Wuhan A-4.5 IFRS Chinese GAAP differences' provided to the Commission on 16 December 2013 and stated that it is not appropriate to calculate the dumping margin using figures drawn from accounts prepared under different accounting standards. Siemens China stated that this method 'double counts' in some instances due to IFRS and PRC GAAP accounting system treating some of the same costs differently so that, for example, a cost can be recorded as COGS under IFRS with the same cost being recorded as SG&A under PRC GAAP. Siemens China suggested that we calculate SG&A expense using their data provided in 'All sales spreadsheet', or use the income statements for each factory separately. We asked Siemens China to provide us with the IFRS and PRC GAAP reconciliation in order to identify all alleged double counts for Siemens Wuhan for FY 2012;

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- Warranty costs – Siemens China submitted that warranty costs should be deducted from the Australian CTMS. We noted Siemens China claims and asked Siemens China to make further submission on this point for the case team to consider after the visit report is finalised;
- Credit Terms – Siemens China disagreed with the methodology used to calculate the credit costs. We asked Siemens China to provide a detailed submission at a later date (the calculations discussed in the agenda were not forwarded to us at the time of this teleconference but was provided the same day);
- We noted a minor error in the formula to calculate credit costs and made the correction after the meeting;
- Start-up costs (COGS and SG&A) – Siemens China stated that there are higher costs for exports sales than domestic sales and this should be included in the calculations (in particular for Siemens Wuhan). We asked Siemens China to make further submissions on this issue for further consideration by the case management team. On 28 February 2014 Siemens China, through its lawyers, Allens, filed a confidential and public submission on this point with the Commission; and
- Profit on domestic sales - Siemens China stated that although the volume of unprofitable sales in the investigation period exceeded 20% the costs were recovered in the investigation period. Therefore, it stated all sales should be included in the calculation of domestic profits. We noted Siemens China claims and asked Siemens China to make further submissions if they want to follow this issue further.

Following the teleconference, Siemens China provided an excel worksheet providing examples how it calculates credit costs.

On 17 January 2014, Siemens China provided the summary of income statement “translation” to do with the ‘double count’ issue. There were two parts to the summary – the postings made under PRC GAAP but not under the IFRS, the other being the postings which are treated as one cost type under PRC GAAP (e.g. Cost of Goods Sold) and a different cost type under IFRS (eg G&A). Siemens China asked us to examine the information provided and advise whether or not it is necessary to go through the same exercise for all years for all three factories or whether this one full worked example is sufficient. Siemens China stated that it would need at least 3 working days to compile the remainder of the data if it was needed.

After reviewing the information provided, on 29 January 2014, we sought the following clarification from Siemens China:

1. Can Siemens Wuhan identify all double counting of costs in PRC GAAP for the following items and provide supporting documents and explanations (justification):
  - Selling expense [Confidential text deleted – value] [REDACTED]
  - G&A [Confidential text deleted – value] [REDACTED]
  - Financial Expense [Confidential text deleted – value] [REDACTED]

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2. It is unclear why the 'impairment loss on assets' and 'Gain / Loss on fair value change' have no value for IFRS GAAP (for PRC GAAP the values are **[Confidential text deleted – value]** [REDACTED]).
3. At this stage, we are of the view that it is appropriate to use average SG&A costs using the average audited accounts per site (factory) after eliminating any double counts. This method is also suggested in your email attachment (agenda item 1(d)) dated 14 January 2014. As such, it would be useful if Siemens China can identify all such double counts (identified in item 1 above) for Siemens Jinan and Siemens Guangzhou).

On 6 February 2014, Siemens China requested a further teleconference with us to assist it to respond to our above request made on 29 January 2014. On 10 February 2014, we informed Siemens China that a further teleconference was not possible and invited Siemens China to seek any clarification required in relation to our request by email.

In the same email on 6 February 2014, Siemens China also asked our position on credit term adjustment and SG&A calculation methodology.

On 7 February 2014, Siemens China requested an extension of time to respond to these issues, and stated that it required input from their Chinese factories in order to finalise its comments on the draft Site Visit Report. Siemens China stated that due to office closures for Chinese New Year that input can only be obtained within a week.

On 10 February we advised Siemens China that we have not changed our methodology for credit terms adjustment and SG&A calculations. We also advised Siemens China to provide feedback on the draft visit report that was forwarded to the company on 23 December 2013. We stated the Siemens China will be given further opportunity to review and provide comments before the report is finalised. Siemens China provided us the draft report on 10 February with its comments.

On 17 February, Siemens China provided one minor amendments to the draft report. While acknowledging Siemens China email, we followed-up with Siemens China regarding the issues raised in our email dated 29 Jan 2014 (i.e. clarification sought regarding double count of SG&A). At this point in time Siemens China did not respond to our inquiry.

On 17 February 2014, a further amended draft visit report was forward to Siemens China for final review, accuracy check and to identify information which it considers commercial-in-confidence. In the report it was noted that at the time of finalising that report, Siemens China had not provided information regarding the double counting of SG&A expenses in PRC GAAP accounting. At that stage we used SG&A for each of the Chinese factories using weighted average SG&A expenses as per the audited financial statements.

On 21 February 2014, Siemens China through its lawyers "Allens" filed a submission (confidential and non-confidential versions) together with attachments.

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Siemens China submitted that the SG&A calculation using the audited statements gives rise to the double counting of expense items. This was said to arise because of the differing treatment of such selling expenses between the Chinese GAAP as used in the audited statement and the cost data under the IFRS system. In other words, Siemens China said that that the cost to make as provided to the Commission had included elements of selling expenses which are part of the SG&A in the audited statements (**Confidential Attachment SUB1 refers**).

On 24 February, Siemens China's legal representative wrote to us stating that "we understand that the Commission will now review the submission and further data provided and will respond or request any further necessary information by early next week, prior to finalising the draft verification report. In the meantime, we confirm that Siemens China is reviewing the draft verification report and will provide its input in relation to accuracy and confidentiality as soon as possible this week". The deadline for Siemens China to provide comments on the draft report was due on 24 February 2014.

On 26 February 2014, a follow-up reminder was sent to Siemens China.

On 27 February 2014, Siemens China's legal representative called us to seek our response to the submission made on 21 February 2014 in relation to SG&A costs. We stated that we would consider the submission and would respond to Siemens China by the end of that week, or early the following week. During that call, Siemens China's legal representative asked whether it would be possible for Siemens China to meet with the case director to discuss its issues with the report.

On 28 February 2014, Siemens China, through its lawyers, Allens, provided a further submission (confidential and non-confidential versions) regarding credit costs, warranty costs and start-up costs. (**Confidential Attachment SUB2 refers**).

On 3 March 2014, Siemens China's legal representative requested by email a meeting with the case director.

On the same date (3 March 2014), we sent the final copy of Siemens China visit report "For Official Use Only" and "Public Record" versions and appendices 1 to 5 to Siemens China for clearance by COB 6 March 2014. In that email we advised that that there may be certain issues in the report that Siemens China does not agree with and that Siemens China may continue to make submissions to the Commission after the report is completed and placed on the public file.

We also informed Siemens China's legal representative that while the report is being finalised and cleared by Siemens China, the Commission proposes to prepare a brief summary of our main findings and recommendation and this summary will be placed on the public file and a copy of this summary was provided to them before being published. We also advised that as requested the case director was prepared to organise a teleconference with Siemens China before the deadline of 6 March 2014.

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On 3 March 2014, a summary of our visit report that was expected to be published on the public file that afternoon was provided to Siemens China's legal representative (**Non-Confidential SUMM1 refers**). Following a request from Siemens China, we agreed not to publish that summary until close of business on 4 March 2014.

On 4 March 2014, Siemens China again requested a teleconference with the case director to discuss SG&A costs. A teleconference was held between Siemens China representatives and the Commission that day. Just prior to the teleconference, Siemens China advised that the Commission to refer to the excel spread sheet previously provided to us on 21 February 2014 as 'Confidential Attachment 3 IFRS PRC GAAP reconciliation Wuhan with GL detail' to Siemens China's submission regarding SG&A costs, which detailed the reconciliation of the Chinese GAAP accounting and IFRS for SG&A.

We were anticipating from this process that Siemens China will be able to clearly identify each of the three expense item and provide information to eliminate all double accounts.

Following our discussion with Siemens China's representatives on 4 March 2014, we agreed not to publish the summary of findings pending further consideration of the issues by the case director and visit team.

Having reviewed the spreadsheets, we consider there is likely to be some double counting where in instances in PRC GAAP costs have been recognised as SG&A while in IFRS they are recognised as COGS. This spreadsheet showed details by general ledger account codes however we still had the following concerns:

- while this showed that there was an element of double counting we were uncertain if this had identified all double counts and it was not clear how the allocations were made;
- beyond that we were uncertain as to how this data related to the goods being examined (for domestic sales and export sales separately).

The SG&A which had been estimated by Siemen's in the SAP project costing's were not subjected to any verification. That is, the selling expense estimates in the IFRS system were not examined to source data or method of allocation. This is made clear in the **Confidential Appendix A** timeline of events.

The Commission can appreciate that Siemens China, after having considered this issue carefully following the verification meeting, had decided that revisions are needed.

Regulation 181 provides:

(2) *If:*

- (a) *an exporter or producer of like goods keeps records relating to the like goods; and*

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(b) the records:

- (i) are in accordance with generally accepted accounting principles in the country of export; and
- (ii) reasonably reflect the administrative, general and selling costs associated with the sale of the like goods;

the Minister must work out the amount by using the information set out in the records.

(3) If the Minister is unable to work out the amount by using the information mentioned in subregulation (2), the Minister must work out the amount:

- (a) by identifying the actual amounts of administrative, selling and general costs incurred by the exporter or producer in the production and sale of the same general category of goods in the domestic market of the country of export; or
- (b) by identifying the weighted average of the actual amounts of administrative, selling and general costs incurred by other exporters or producers in the production and sale of like goods in the domestic market of the country of export; or
- (c) by using any other reasonable method and having regard to all relevant information.

Regulation 181(7) provides:

(7) For this regulation, the Minister may disregard any information that he or she considers to be unreliable.

There are 3 sources of information provided by Siemen’s to calculate the SG&A expenses:

First, the response to the exporter questionnaire (based on IFRS accounts) provided prior to the visit and set out in the table below:

Chinese Factory	SG&A as a %age of net revenue of the goods in the Investigation Period
Siemens Wuhan	
Siemens Jinan	
Siemens Guangzhou	

**[Confidential text deleted – SG&A values]**

Second, the information provided at the visit in “All sales spreadsheet” (based on IFRS accounts) and set out in the table below. These are based on Siemens China estimate for all sales. The total revenue shown on the “All sales Spreadsheet” did not reconcile to the total revenue in the turnover spreadsheet in the REQ.

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Chinese Factory	SG&A as a %age of net revenue of the goods in the Investigation Period
Siemens Wuhan	
Siemens Jinan	
Siemens Guangzhou	

[Confidential text deleted – SG&A values]

Third, using the weighted average SG&A expenses for FY2011 and FY2012 shown in the audited financial statement (based on PRC GAAP accounts) as a proportion of the revenue and set out in the table below:

Chinese Factory	using weighted avg SG&A expensess - 2011 and 2012 audited income statement
Siemens Wuhan	
Siemens Jinan	
Siemens Guangzhou	

[Confidential text deleted – SG&A values]

The SG&A estimates in the first two methods had not been verified. See **Confidential Appendix A** for the timeline of events. In the circumstances the audited record provides some independent measure of selling expenses and because of the possible double counts not being identified to allow an adjustment to the SG&A expenses in the audited statement, we will make a preliminary dumping calculation using the SG&A from the audited statement under Regulation 181(3)(c).

We re-considered the above information following our teleconference with Siemens China on 4 March 2014. We decided that the only change we would make is to use the proportion of SG&A of the revenue using audited financial statements applied separately for each of the three Siemens China factories and not as a single weighted average.

A detailed calculation of SG&A is at **confidential appendix 4**.

**5.6 Costs to make and sell – conclusion**

Section 5.3.1 of this report discusses the reasons as why we were not able to reconcile the total costs for FY2012 to the audited financial report for Siemens Wuhan.

We conducted number of tests and examined how the costs were recorded in the SAP system for accuracy. We did not find any major discrepancy. However because verification was not complete we consider that costs cannot be determined under section 269TAC(2)(c) of the Act. We recommend that s269TAC(6) apply. Siemens cost to make

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information is considered to be the most relevant information and the proportion from the audited statement for selling and general expenses.

## 6 DOMESTIC SALES

### 6.1 General

Siemens China claims that due to the history of private enterprise in China, many companies are or have been partly or wholly owned by the Chinese Government. Companies wholly owned by the Chinese Government are often referred to as State Owned Enterprises (SOEs).

Siemens China claims that the two biggest single purchasers of transformers in China each year are the two government owned utilities – State Grid Corporation of China (SGCC) and China Southern Grid (CSG). **[Confidential information deleted – sales]**

Siemens China stated that the domestic Chinese market for power transformers is divided into three categories as follows:

- (i) Utilities (SGCC and CSG);
- (ii) Industry business; and
- (iii) Engineering procurement and construction (EPC).

Siemens China claims that in its history **[Confidential information deleted – sales]**

- (i) Utilities (SGCC and CSG)

**[Confidential information deleted – sales]**

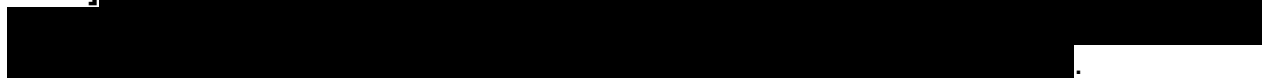
- (ii)



(iii) Industry business

Siemens China stated that industry business can have a similar bidding process and qualification requirements as utility using open tenders, or they can have bidding by invitation. The evaluation criteria differ from customer to customer depending on the individual companies' procurement procedures. After bids are evaluated some customers invite the manufacturers to negotiations on all aspects including design, price, terms and conditions and payment terms.

Siemens China claims that **[Confidential information deleted – sales]**



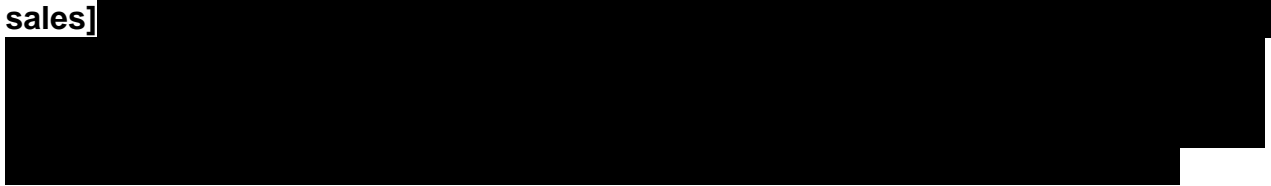
(iv) EPC

There are state owned EPC and private EPC. Siemens China claims that while state owned EPC typically go through tender process, the privates ones depend on the case by case basis. Siemens China stated that EPC is not a major part of its business during the investigation period.

Domestic market conditions

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Siemens China stated that since the introduction of the central bidding system in 2009, the prices of power transformer ‘crashed’ in China and did not recover until 2012. As a result **[Confidential information deleted – sales]**



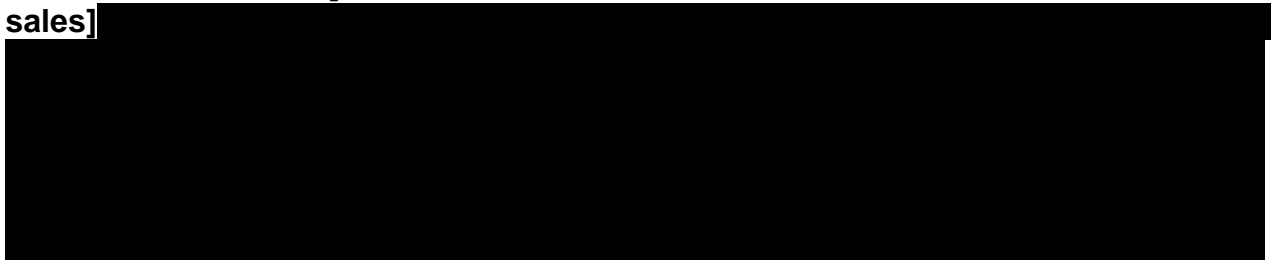
Siemens China claims that the overall demand for power transformers in China has been increasing. The central bidding process introduced by the Government has created a very competitive market for power transformers. Siemens China claims that there are approximately 100 power transformer factories in China. About 50 of them are well established and qualified to compete directly with Siemens China.

Siemens China stated that the demand for power transformers in China is driven by the increasing demand for energy (electricity). The power transformer business was affected by rapid economy recovery post GFC, introduction of the central bidding system in 2009 and global overcapacities in transformer manufacturing facilities.

Siemens China claims that some of world’s biggest power transformer factories are situated in China such as TBEA, Xidian (XD) and TWBB. Siemens China claims that transformer businesses in China face fierce competition in the domestic market.

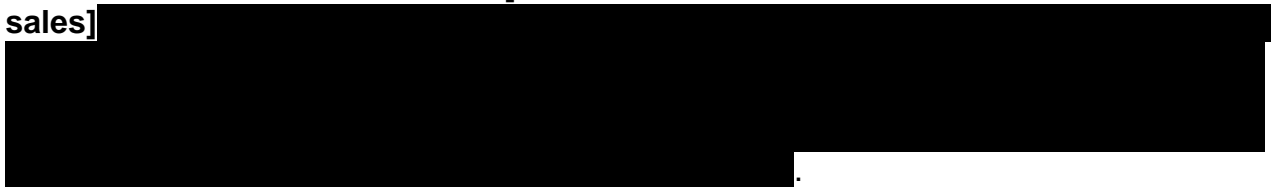
Commercial Sales

Siemens China stated **[Confidential information deleted – sales]**



**confidential agreement DOM 1.**

Siemens China stated that each of **[Confidential information deleted – sales]**



## 6.2 Verification of sales to audited financial statements

In response to the REQ, for each of the three factories, Siemens China provided sales turnover spreadsheets and 'comparable domestic sales'. At the visit as asked and Siemens China provided a complete list of all domestic sales for all power transformers with power ratings of equal to or greater than 10 MVA and a voltage rating of less than 500kV sold in the investigation period for all three factories. (**Confidential attachment CTMS 2** refers).

The table below shows the total value of sales of the power transformers sold domestically by each of Siemens Chinese factories in the investigation period (IP).

[**Confidential information deleted – financial**]

Sales Revenue in the IP	RMB	%age of Sale
Siemens Guanghzou		
Siemens Jinan		
Siemens Wuhan		
Grand Total		

We compared the domestic sales details provided in the REQ with the 'All sales spreadsheet'. We found all domestic sales provided in the REQ were included in the revised spreadsheet. For each of the 3 factories, we were able to reconcile the total domestic sales to the "turnover spreadsheet" provided in the REQ (**Confidential attachment DOM 2** refers). We noted that there were [**Confidential information deleted – sales**] domestic sales of power transformers in the investigation period.

We are satisfied all domestic sales of the goods are included in the 'All sales spreadsheet'.

For completeness, we asked Siemens Wuhan to show us the total domestic sales in the SAP system for the financial year 2012 that would reconcile to the audited financial statements for FY2012. Siemens Wuhan claims that it will not be able to extract for domestic sales separately from the SAP system since the SAP system is not set up to filter for the specific ratings under consideration in this investigation.

However, Siemens Wuhan was able to show us in the SAP system the total sales recorded in the SAP system for the FY2012. Screenshot of the SAP system is at **confidential attachment DOM 3**.

As discussed in section 4.2 of this report, the total sales did not reconcile to the audited financial statement for Siemens Wuhan, Siemens Jinan and Siemens Guangzhou for the FY2012.

Siemens Wuhan stated that this difference was due to timing and conversion of accounts from IFRS to Chinese GAAP accounting. A reconciliation of the total sales for Siemens

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Wuhan for 2012 from IFRS to Chinese GAAP was provided by Siemens Wuhan in the REQ.

## Conclusion

We are satisfied that the total domestic sales individually provided by the three Siemens factories are a complete record of sales of all power transformers with power ratings of equal to or greater than 10 MVA and a voltage rating of less than 500kV sold in the investigation period.

### 6.3 Verification of sales to source documents

In the REQ, Siemens China provided two domestic sales contracts for each of the three factories. Prior to our visit, we selected the following domestic sales contract numbers and asked Siemens China to prepare the source documents for each contract number including proof of payment, inland freight and terms of payment.

- Siemens Wuhan: domestic contract **[Confidential information deleted – contract]** [REDACTED] (DOM 4 refers)
- Siemens Wuhan: domestic contract **[Confidential information deleted – contract]** [REDACTED] (DOM 5 refers)
- Siemens Jinan: domestic contract **[Confidential information deleted – contract]** [REDACTED] (DOM 6 refers)
- Siemens Guangzhou: domestic contract number **[Confidential information deleted – contract]** [REDACTED] (DOM 7 refers)

For each of the above domestic sales, Siemens China provided the following documents;

- Sales contract identifying customer name and specification details
- Date of contract
- Date of payment
- Terms of trade
- Power rating (MVA)
- Maximum voltage ratings (kV)
- Project code
- Delivery date
- Offer report summary
- SAP Screen shots for data entered into the system
- Proof of delivery statement
- Proof payment received

### Commission

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[Confidential information deleted –  
commission]

Credit terms

In the REQ, Siemens China provided the terms of trade for each of the ‘comparable domestic sales’. We noted that each contract had different payment terms. At the visit, we asked Siemens China if it was able to provide the credit terms for all contracts for each of the three factories. Siemens China stated that this was a very time consuming task. Siemens China agreed that we can use the sales of the power transformers to the GOC as representative of credit terms for its sales for all three companies. From the data submitted, Siemens identified that approximately [Confidential information deleted – sales]

. The terms of trade were:

[Confidential information deleted – payment terms]

XX For the purpose of calculating the credit term adjustment value,  
[Confidential information deleted – payment  
terms]

From the audited financial statements we noted the average borrowing interest rate for Siemens finance group were [Confidential information deleted – financial]

. The Commission will review the calculation of credit costs.

Warranty

In the REQ, Siemens China [Confidential information deleted – warranty terms]

(confidential attachment CTMS 2 refers).

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Siemens China in its email dated 14 January 2014, claimed that **[Confidential information deleted – warranty terms]**

**[Confidential information deleted]** Siemens also claims that the warranty costs should be deducted from the Australian CTMS since they have been excluded from the calculation of domestic profits.

We noted Siemens concerns. However, the warranty costs are not determined at the time Siemens signs contracts. These costs occurred afterwards and any such costs reduce Siemens profits. Therefore, the price of the transformer factors all costs (including warranty costs) at the time contracts are signed. Hence, to calculate the profits on the domestic sales that will be used to construct the normal values, the warranty costs have been eliminated for domestic sales. However, to correctly reflect the CTMS for Australian sales, warranty costs have been included.

#### Oil Costs

**[Confidential information deleted – costing]**

#### Inland Freight

Siemens China explained that it is difficult for it to extract delivery costs for all domestic sales. Since the delivery cost recorded and entered in the system was the aggregate value, Siemens China claims that it will be very time consuming task to individually extract the domestic delivery costs.

Siemens China agreed that we use a percentage of revenue based on weighted average delivery cost to calculate the domestic inland freight.

#### **6.3.1 Accuracy of sales – conclusion**

We are satisfied that all domestic sales are correctly recorded in the SAP system by all three Siemens factories in China.

#### **6.4 Arms length**

In respect of domestic sales during the investigation period, we found no evidence that there is any consideration paid or payable for or in respect of the goods other than their price.

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We therefore consider that all export sales to Australia during the investigation period were arms length transactions.

## 6.5 Volume of sales and ordinary course of trade

For all transformers sold domestically by Siemens Wuhan, Siemens Jinan and Siemens Guangzhou in the investigation period, Siemens China provided corresponding CTMS (line by line). We calculated the profit for each sale. The weighted average profit was calculated (excluding warranty costs) for each factory separately.

Since, there were no two transformers alike, we constructed the normal value using the profits for each factory separately as discussed in detail in section 9 of this report. For each factory we used the net revenue for each transaction and compared it with the CTMS. We verified the revenue and costs associated with domestic sales and are satisfied that they correctly reflect the correct values in the 'All sales spreadsheet'. The profit on profitable sales, expressed as a percentage of CTMS, for each of three factories is as follows:

**[Confidential information deleted – profit]**

Chinese Factory	Profit
Siemens Guangzhou	
Siemens Jinan	
Siemens Wuhan	
<b>Weighted Average</b>	

The profit on domestic sales calculation is at **confidential appendix 3**.

In an email dated 14 January 2014, Siemens China claims **[Confidential information deleted – profit]**

We noted Siemens China's claims and asked it to make a submission and provide evidence regarding the recovery of unprofitable sales.

## 6.6 Conclusion – domestic sales

Based on the above we found the price paid for the goods in those domestic sales was established satisfactorily. Based on the information provided by Siemens China, and the verification processes conducted on site, we consider that prices paid in respect of domestic sales would be suitable for assessing normal values for similar power transformers under s. 269TAC(1). However, because of the significant physical differences between power transformers we have constructed normal values.

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## **7 THIRD COUNTRY SALES**

### **7.1 Approach**

As discussed in section 6.6 above, as each transformer was custom made to meet the requirements and specifications of each customer, normal value was constructed. Therefore third country sales do not need to be considered.

**8 ADJUSTMENTS**

**8.1 Adjustments to constructed normal value**

The following adjustments were made to the constructed FOB normal values for fair comparison to the export sales. We constructed the normal value using profitable sales as discussed in section 6.5 for each factory. We made the following adjustments to the constructed normal value.

Export credit costs

We considered two methods for the cost of credit.

- (i) The first method recognises that the CTMS of the exported goods, and part of the normal value as it is being constructed using costs, includes the financial expenses from the income statement, together with SG&A expenses.

As discussed in section 6.2 of the report how in the domestic market the progress payments are intended to make the purchase of raw materials and components of power transformers using just-in-time (JIT) management process which is self-financing. It was also explained how in the export market Siemens Australia retains the progress payments from the Australian customers. This suggests that Siemens China is incurring finance costs that are likely to be largely related to building the exported transformers.

Under this method the credit cost would accept the underlying financial expenses that are built into the costs, and add the cost of credit for 45 days being the average time extended to Siemens Australia to make payment.

The Siemens internal finance short-term interest rates are as follows:

**[Confidential information deleted – financial]**

Average interest rate 2011 and 2012	Intertest rate
[REDACTED]	[REDACTED]

- (ii) The second method has regard to the date of contract as sale and the credit days were calculated as the difference between the contract date and the FOB date, plus the 45 days.

The net revenue value would be multiplied by the interest rate using the number of days since the contract date plus the 45 days credit terms.

The formula used to calculate the credit cost is as follows:

$$\text{Contract value} * \text{ir \%} * ((\text{FOB/FCA Delivery date} - \text{Contract date} + 45)/365)$$

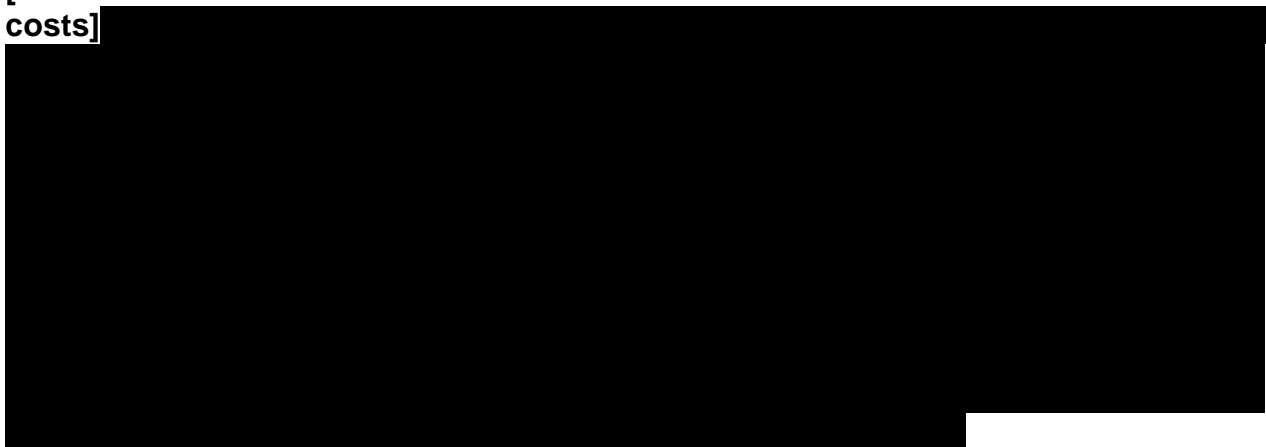
We have added export credit costs to the normal values using the second method.

In its email dated 14 January 2014, Siemens stated that there is no material difference in the credit costs arising from the different credit terms applicable to domestic sales and Australian export sales. Siemens provided a worked example how it finances its projects. Siemens claims that no adjustment should be made.

We asked Siemens to make a detailed submission regarding the credit terms adjustments to the Commission to consider its claims. The Commission will review the calculation of credit costs.

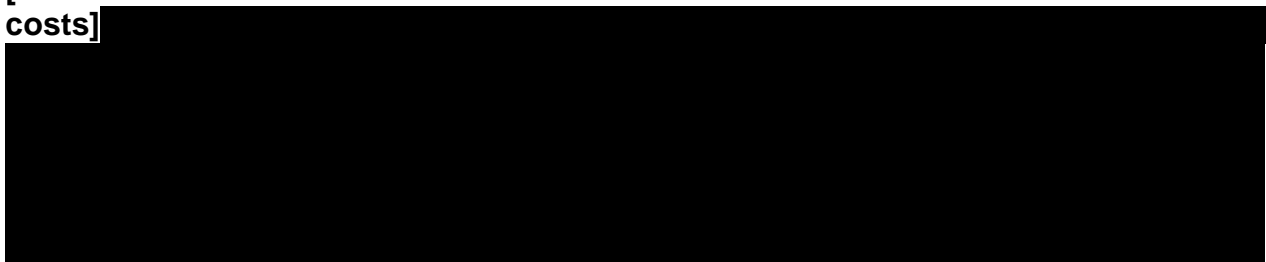
#### Oil Costs

[Confidential information deleted – costs]



#### Inland Freight

[Confidential information deleted – costs]





Warranty Costs

At the visit we asked and Siemens China provided warranty costs incurred including the testing phase and after delivery for all three factories in the 'All sales spreadsheet'. We noted that warranty costs were included in CTMS (column "L" of the All sales spreadsheet refers) for all costs. As such no further adjustment was required.

## 9 NORMAL VALUE

We consider that the information provided by Siemens China during the course of this investigation (as detailed in this report) can be relied upon to construct normal value for all power transformers in the investigation period in accordance with s. 269TAC(2)(c).

We used verified information to construct the normal value for all goods under consideration in the investigation period. Using the CTMS data provided in the 'all sales spreadsheet' we made the following adjustments:

- added SG&A costs as discussed in section 5.4 of this report;
- deducted absorption costs as discussed in section 2.4.2 of this report
- added domestic profit using each of the three Siemens Chinese factories from where the goods were exported from in the IP
- downward adjustment for credit costs

Normal value calculations are at **confidential appendix 2**.

## 10 DUMPING MARGIN

We calculated the export price for all exports to Australia in the investigation period by all three Siemens China Chinese factories. We then compared the total export price with the total constructed normal value. The weighted average product preliminary dumping margin for Siemens China is 30.85%. The preliminary dumping margin calculation for Siemens China is at **confidential appendix 5**.

The preliminary dumping margin may be revised having regard to all submissions from Siemens China concerning various issues discussed in the report.



<b>11 APPENDICES AND ATTACHMENTS</b>
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<b>Confidential Appendix A</b>	Timeline of events
<b>Confidential Appendix 1</b>	Export Price calculations
<b>Confidential Appendix 2</b>	Normal value calculations
<b>Confidential Appendix 3</b>	Profit Calculations
<b>Confidential Appendix 4</b>	SG&A calculations
<b>Confidential Appendix 5</b>	Dumping Margin Calculations
<b>Confidential Attachment GEN1</b>	Visit agenda
<b>Confidential Attachment GEN2</b>	Organisational structure and Company brochure for Siemens Wuhan
<b>Confidential Attachment GEN3</b>	Organisational structure and Company brochure for Siemens Jinan
<b>Confidential Attachment GEN4</b>	Organisational structure and Company brochure for Siemens Guangzhou
<b>Confidential Attachment GEN5</b>	Copy of Siemens global transfer pricing policy
<b>Confidential Attachment GEN5(a)</b>	Copy of 'conditions of Purchase' for external customers

<b>Confidential Attachment GEN5(b)</b>	Copy of terms and conditions for deliveries and services for Siemens internal company transactions
<b>Confidential Attachment GEN6</b>	Summary of differences between IFRS and Chinese GAAP accounting system
<b>Confidential Attachment GEN7</b>	Chart of accounts for all three Chinese factories
<b>Confidential Attachment GEN8</b>	Details of cost centres for all three Chinese factories
<b>Confidential Attachment GEN9</b>	WBS Structure for all three Chinese factories
<b>Confidential Attachment GEN10</b>	Audited financial statements for FY2011 and FY2012 for all three Chinese factories
<b>Confidential Attachment GEN11</b>	Tax returns for FY 2011 and FY 2012 for all three Chinese factories
<b>Confidential Attachment GEN12</b>	Esprit Reports for FY 2011, FY2012 and first half of FY2013 for all three Chinese factories
<b>Confidential Attachment GEN13</b>	Consolidated Financial Reports for Q4 fiscal year 2013
<b>Confidential Attachment GEN14</b>	Siemens Energy Sector Costing Guidelines
<b>Confidential Attachment GEN15</b>	Manufacturing flowchart for each of the three Siemens Chinese factories and 'manufacturing introduction' for Siemens Wuhan

<b>Confidential Attachment EXP1</b>	Turnover spreadsheet for all three Chinese factories
<b>Confidential Attachment EXP2</b>	'All sales spreadsheet' for all three Chinese factories
<b>Confidential Attachment EXP3</b>	SAP Screenshot for total sales record for Siemens Wuhan
<b>Confidential Attachment EXP4</b>	Siemens Wuhan: export contracts [Confidential information deleted – contracts] [REDACTED]
<b>Confidential Attachment EXP5</b>	Siemens Jinan: export contract [Confidential information deleted – contracts] [REDACTED]
<b>Confidential Attachment EXP6</b>	Siemens Guangzhou: export contracts [Confidential information deleted – contracts] [REDACTED]
<b>Confidential Attachment EXP7</b>	Inland freight contract provided with REQ
<b>Confidential Attachment CTMS1</b>	'Comparable' domestic sales for all three Chinese factories
<b>Confidential Attachment CTMS2</b>	Revised 'All sales' spreadsheet for all three Chinese factories & Warranty claims
<b>Confidential Attachment CTMS3</b>	Economic Value Added (EVA) template
<b>Confidential Attachment CTMS4</b>	SAP Screen shot for contract number [Confidential information deleted – contracts] [REDACTED] reconciled to EVA
<b>Confidential Attachment CTMS5</b>	Email dated 16 December 2013 by Siemens China - [Confidential information deleted – CTMS] [REDACTED]

<b>Confidential Attachment CTMS6</b>	Core Steel - purchase and supporting source documents
<b>Confidential Attachment CTMS7</b>	Siemens Wuhan (export sales) contract number <b>[Confidential information deleted – contracts]</b> [REDACTED]
<b>Confidential Attachment CTMS8</b>	Siemens Wuhan (domestic sales) Contract number <b>[Confidential information deleted – contracts]</b> [REDACTED]
<b>Confidential Attachment CTMS9</b>	Siemens Jinan (export sales ) <b>[Confidential information deleted – contracts]</b> [REDACTED]
<b>Confidential Attachment CTMS10</b>	Copper conductor - purchase and supporting source documents
<b>Confidential Attachment CTMS11</b>	Tapchanger - purchase and supporting source documents
<b>Confidential Attachment CTMS12</b>	Tapchanger - purchase and supporting source documents – contract number <b>[Confidential information deleted – contracts]</b> [REDACTED]
<b>Confidential Attachment CTMS13</b>	Oil and Bushings - purchase and supporting source documents
<b>Confidential Attachment CTMS14</b>	Oil, Radiators and Valves - purchase and supporting source documents – contract number 811595/596
<b>Confidential Attachment CTMS15</b>	Depreciation reconciliation to the audited financial statements with SAP
<b>Confidential Attachment DOM1</b>	Copy of domestic service level agreement

<b>Confidential Attachment DOM2</b>	Turnover spreadsheet for all three Chinese factories for domestic sales
<b>Confidential Attachment DOM3</b>	SAP Screen shots for total sales reconciliation
<b>Confidential Attachment DOM4</b>	Siemens Wuhan: domestic contract [ <b>Confidential information deleted – contracts</b> ] [REDACTED]
<b>Confidential Attachment DOM5</b>	Wuhan: domestic contract [ <b>Confidential information deleted – contracts</b> ] [REDACTED]
<b>Confidential Attachment DOM6</b>	Siemens Jinan: domestic contract [ <b>Confidential information deleted – contracts</b> ] [REDACTED]
<b>Confidential Attachment DOM7</b>	Siemens Guangzhou: domestic contract number [ <b>Confidential information deleted – contracts</b> ] [REDACTED]
<b>Confidential Attachment SUB1</b>	Siemens confidential submission date 21 February 2014
<b>Non- Confidential Attachment SUB1.1</b>	Siemens Non- confidential submission date 21 February 2014
<b>Confidential Attachment SUB2</b>	Siemens confidential submission date 28 February 2014
<b>Non- Confidential Attachment SUB2.1</b>	Siemens Non-confidential submission date 28 February 2014
<b>Non-Confidential SUMM1</b>	A summary of our visit report that was expected to be published on the public file on 4 March 2014