



Australian Government

Anti-Dumping Commission

**INVESTIGATION INTO THE 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**

EXPORTER VISIT REPORT

HYUNDAI HEAVY INDUSTRIES CO., LTD

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 the Anti-Dumping Commission

January 2014

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2 BACKGROUND

2.1 Background to the current investigation

On 8 July 2013, Wilson Transformer Company Pty Ltd (Wilson Transformers) lodged an application requesting that the Minister for Home Affairs (the Minister) publish a dumping duty notice in respect of power transformers exported to Australia from the People's Republic of China (China), the Republic of Indonesia (Indonesia), the Republic of Korea (Korea), Taiwan, Thailand and the Socialist Republic of Vietnam (Vietnam). A full description of the goods under consideration is included in section 4 of this report.

On 29 July 2013, the Commissioner of the Anti-Dumping Commission (the Commission) decided not to reject the applications and initiated an investigation into the alleged dumping of power transformers from the nominated countries. Public notification of initiation of the investigation was made in The Australian newspaper on 29 July 2013. Anti-Dumping Notice No. 2013/64 provides further details of the investigation and is available on the Commission's website at www.adcommission.gov.au.

Since the investigation was initiated there have been changes to the administration of Australia's anti-dumping system. The Parliamentary Secretary is now responsible for making decisions concerning the publication of dumping and countervailing duty notices.

Wilson Transformers alleges that the Australian industry has suffered material injury caused by power transformers being exported to Australia from the nominated countries at dumped prices. It claimed that injury commenced with the significant increase in imports in 2007-08.

The application identified Hyundai as an exporter of power transformers from Korea. A search of Customs and Border Protection's import database indicated that Hyundai Corporation (HDCP) exported power transformers from Korea to Australia during the investigation period. The Commission wrote to HDCP advising it of the initiation of the investigation, requesting co-operation with the investigation and providing copies of an exporter questionnaire for it to complete. Hyundai Heavy Industries Co., Ltd (HHI) completed the exporter questionnaire, providing details regarding the company, exports, domestic sales and cost to make and sell (CTMS) power transformers.

2.2 Purpose of visit

The purpose of the visit was to verify information submitted by HHI in its exporter questionnaire response. The exporter questionnaire response was supported by confidential appendices and attachments, including confidential spread sheets containing sales and cost data requested in the exporter questionnaire. A non-confidential version of the exporter questionnaire response was placed on the public record. We used verified information gathered at the visit to make preliminary assessments of:

- like goods;

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

2.3 Meeting dates and attendees

Verification meetings were held at the offices of HHI in Seoul and Ulsan, Korea.

The following people were present at various stages of the meeting:

HHI	
Mr S H Oh	General Manager, Marketing Strategy & Promotions Department, Electro Electric Systems
Mr Gregory Northrup	In-House Counsel, International Legal Team
Mr Min-Sung Kim	In-House Counsel, Legal Department
Mr Sang-Seol Lee	Cost Management Department, Electro Electric Systems
Ms Jeong-A Song	Senior Regional Manager, Int'l Sales & Marketing Dept III, Electro Electric Systems
Mr B J Cho	Regional Sales Manager, Int'l Sales & Marketing Dept I, Electro Electric Systems
Mr Woo-Hyun Lee	General Manager, Electric Power System Sales Dept, Electro Electric Systems
Mr Jae-Young Shin	General Manager, EPC Sales Dept, Electro Electric Systems
Mr S G Lee	Quotation Engineer, Transformer Design Dept, Electro Electric Systems
Mr Bo Seong Seo	Assistant Manager, Transformer Design Dept, Electro Electric Systems
White & Case	
Mr William J Moran	Associate
Kim & Chang	
Mr Ju-Hwan Yoon	CPA
Mr Ryu-Yun Tso	Consultant
Mr Dai-Seung Lee	US CPA
Anti Dumping Commission	
Mr Chris Vincent	Manager, Operations 1
Mr Tim King	Supervisor, Operations 3

HHI were also represented in Australia by Mr John Cosgrave of MinterEllison Lawyers. Mr Cosgrave was not present during the verification.

At the commencement of the meeting HHI made a submission on a number of issues:

- HHI agreed that normal values should be ascertained by reference to the CTMS and profit;

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- the CTMS spreadsheets lodged with the exporter questionnaire response did not include inland packing, handling and packing costs and revised spreadsheets would be submitted;
- the method for calculating the profit on domestic sales by excluding unprofitable sales amounted to zeroing and should not be used;
- the calculation of the dumping margin should not include power transformers that were not shipped during the investigation period; and
- further adjustments will be required for differences in inland transportation, packing and handling.

Details are at **confidential attachment GEN 1**.

HHI also identified a number of minor errors in the export and domestic sales spreadsheets. Details are at **confidential attachment GEN 2**.

2.4 Meeting and preliminary issues

We advised HHI of the following.

- The investigation period is July 2010 to June 2013.
- The Commission will examine the Australian market from January 2008 for the purpose of analysing the condition of the Australian industry.
- The Commission published a preliminary affirmative determination (PAD) on 20 November 2013. Securities apply in respect of imports of power transformers from China, Korea, Indonesia, Taiwan and Vietnam and entered for home consumption on or after 27 November 2013. No securities apply in respect of imports of power transformers from Thailand as the imports from Thailand are not subject to this PAD.
- In October 2013, the Minister granted an extension to the publication date for the statement of essential facts (SEF). The revised due date for the SEF is 18 March 2014.
- The SEF will set out the material findings of fact on which the Commission intends to base its recommendations to the Minister. The SEF will invite interested parties to respond, within 20 days, to the issues raised.
- Submissions received in response to the SEF will be considered when compiling the report and recommendations to the Minister.
- The Commission's report to the Minister is now due no later than 30 April 2014.
- The Minister's decision is due within 30 days from the date of receipt of the final report.

We advised HHI that following our visit we would prepare *For Official Use Only* and *Public Record* versions of our visit report. We would provide the company with a draft of our report to review its factual accuracy and to identify those parts of the report it considered confidential. We further advised that, following consultation about confidentiality, we would prepare a non-confidential version of the report for the public record.

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3 COMPANY INFORMATION

3.1 Company background

HHI was incorporated in 1973 under the Commercial Code of Korea and is engaged in the manufacture and sale of ships, offshore structures, plant, engines and other products. It was listed on the Korean Stock Exchange in 1999 and at December 2012 the major shareholders were Mong-Joon Chung (10%) and Hyundai Mipo Dockyard Co., Ltd. (8%).

HDCP was established in 1976 under the Commercial Code of Korea to engage mainly in exporting and importing goods. It was listed on the Korean Stock Exchange in 1977 and was designated as a general trading company by the Korean Government in 1978. HHI holds 22.4% of the shares in HDCP.

HDCP has a wholly owned subsidiary in Australia, Hyundai Australia (HA). HA is the Australian sales office of HDCP.

The founder of HHI also founded many other companies in Korea, including Hyundai Motor Company, Hyundai Construction and Engineering and KCC Corporation. Ownership in these companies was divided among the founder's descendants in a manner that separated the companies by family member. HHI is a member of the Hyundai Heavy Industries Group of companies (HHI Group). The HHI Group is not a legal entity but rather an informal affiliation of several companies that share common ownership interest.

3.2 Commercial operations

3.2.1 General

HHI initially was engaged in the construction of large ocean vessels, but has since diversified into other product lines. It is divided into seven unincorporated operating divisions:

- Shipbuilding;
- Offshore & Engineering;
- Industrial Plant & Engineering;
- Engine & Machinery;
- Construction Equipment;
- Electro Electric Systems; and
- Green Energy.

In addition, there are two sections that handle general matters for the seven operating divisions: Administration & Assistance and Research & Development.

The Electro Electric Systems Division produces and sells power transformers. In addition to the goods under consideration, the Electro Electric Systems Division produces goods not under consideration consisting of power transformers with a capacity less than 10 MVA, gas insulated switchgears, low and medium voltage circuit breakers, power electronics, control systems and integration, motors and

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generators, marine purpose equipment, traction power supply and propulsion systems.

Until December 2012, the Electro Electric Systems Division was organised into four departments:

- [Redacted]
- [Redacted]
- [Redacted]
- [Redacted]; and [Redacted]
- [Redacted]. [Internal organisational details]

From January 2013 the division has been re-organised into [Redacted]. [Internal organisational details]

Since it was established, HDCP has expanded to handle international trade and distribution services for a wide range of products, including steel, heavy machinery, ships, industrial plants, automobiles, electrical and electronic equipment, and basic commodities. HDCP also has diversified into investments into energy resource development projects in many countries and to the formation of a Chinese subsidiary specialising in the construction of mid-sized commercial vessels.

The exporter questionnaire response stated that no management fees or corporate allocations were charged to HHI during the investigation period.

HHI provided a package giving a company overview (**confidential attachment GEN 3**).

3.2.2 Summary of power transformer production process

Power transformers are capital goods that are engineered to order and manufactured to the specifications of the customer. The lead time between design and the completion of production may span more than one accounting period. HHI provided the following description of the production process.

During active part assembly the core and coil are assembled together with various types of insulation materials. The core is manufactured from silicon steel that is cut and slit, laminated and tightened. The coils consists of insulated copper cable and insulation materials. HHI uses several types of conductors depending on the magnitude of the voltage and current - single, twin, triple and continuously transposed conductor. The coils are connected to the tap changer and high/low voltage bushings and the assembled active part is placed into a drying oven to remove moisture.

While the core and coils are being assembled, the tank is fabricated and painted.

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The first step of the final assembly process is to put the active part into the tank. The tank is sealed and the final bushing leads connected. The cooling equipment such as radiator, cooler and protective equipment is attached to the tank.

The power transformer is filled with transformer oil and tested. Once the test is successful transformer oil may be removed and external fittings disassembled before the power transformer is packed for shipping.

We inspected HHI's production facility and observed all stages of the production processes outlined above. HHI provided a diagram of the factory lay out (**confidential attachment GEN 4**).

3.2.3 Production capacities and actual rates of production

HHI stated in its exporter questionnaire response that its annual production capacity was [REDACTED] MVA and its capacity utilisation during the investigation period was [REDACTED] %.

3.3 Accounting

Four legacy systems form the Electro Electric Systems' accounting system:

- sales;
- materials (EEMTOS);
- production (INTORAS); and
- human resources.

HHI uses SAP as its financial accounting system and [REDACTED].

[Accounting practice] This data is then aggregated with those of HHI's other divisions.

HHI stated that revenue and costs are recognised when the power transformer is shipped. [REDACTED]

[REDACTED]. [Accounting practice]

In its exporter questionnaire response, HHI produced a summary of HHI's and the Electro Electric Systems' incomes statements for each year of the investigation period. We were able to reconcile totals for 2011 and 2012 to HHI's audited income statements. Initially, we could not reconcile the individual categories of sales to total sales by HHI's audited income statements, so HHI provided a detailed reconciliation, including screen prints of ledger accounts (**confidential attachment GEN 5**). We then verified the ledger accounts on-line.

The exporter questionnaire response states that HHI's and HDCP's financial accounting practices are in accordance with Korean GAAP, which complies with the IFRS set by the IASB. HHI's financial year is the calendar year and it uses SAP.

Both HHI's consolidated and separate accounts are audited. HHI's independent auditor provided the following audit opinion in the audit report for the 2012 separate financial statements:

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In our opinion, the separate financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2012 and 2011 and its financial performance and its cash flows for the years then ended, in accordance with Korean International Financial Reporting Standards.

The audit opinion for 2012 consolidated financial statements was similarly worded.

The audit report provided for HHI's separate financial statements was not signed. A signed copy is at **confidential attachment GEN 6**.

We noted that the audit reports included the following statements.

Without qualifying our opinion, we draw attention to the following:

The procedures and practices utilized in the Republic of Korea to audit such separate financial statements may differ from those generally accepted and applied in other countries. Accordingly, this report is for use by those knowledgeable about Korean auditing standards and their application in practice.

HHI stated that this was standard wording used by KPMG in Korea and understood it was included for foreign investors. It stressed that the audit opinion was unqualified and provided an audited report for an unrelated Korean company that included similar wording (**confidential attachment GEN 7**).

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4 THE GOODS UNDER CONSIDERATION

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

The goods are referred to as power transformers in this report.

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:

- the steel core;
- the windings;
- electrical insulation between the windings; and
- the mechanical frame.

Gas filled and dry type power transformers are not included in the goods.

The application stated that distribution power transformers are not the subject of this application. The applicant considers that distribution power transformers are smaller transformers that have design and manufacturing technology which is different from power transformers. We note that some interested parties have a different definition of distribution power transformers. However, the Commission considers that all power transformers with a capacity of greater than or equal to 10 MVA are the goods under consideration.

The goods are currently classified to the tariff subheading 8504.22.00 (statistical code 40) and 8504.23.00 (statistical codes 26 and 41) of Schedule 3 to the *Customs Tariff Act 1995*. The general rate of duty is 5% and applies to power transformers imported from China, Korea and Taiwan. Power transformers from Indonesia, Vietnam and Vietnam are duty free.

Power transformers are individually designed and engineered to meet the customer's specifications. While electrical steel and copper conductor are the most significant cost components, there are many other variables that affect price. Items such as whether the power transformer is single or three phase, design costs, lead times and ancillary options (such as tap changers) can significantly affect price. We consider that because of the many variables it is not meaningful to adjust domestic prices to make them comparable with export prices. Therefore we have constructed normal values. HHI agrees with this approach and provided the following comments in its exporter questionnaire response.

The goods are of a complex nature and are customised to a degree in which no two transformers are identical and they all include a large number of variables, for example: number of phases; type of tap changer and percentage regulation; low line voltage; power efficiency (ie, load/no-load loss); cooling class designation.

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In our view, it would be totally unrealistic and inimical to both the Anti-Dumping Agreement and Australian law to compare domestic market sales with export sales to Australia.

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5 VERIFICATION OF SALES TO FINANCIAL STATEMENTS

Prior to the meeting we advised HHI that we wanted the company to show how export sales and domestic sales in the HHI spreadsheets are a complete record by reconciling sales recognised in 2012 through the Electro Electric Systems Division's income statement to total sales in HHI's separate audited financial statements for 2012.

HHI provided a package reconciling Australian sales from the export sales spreadsheet to the audited financial statements (**confidential attachment REC 1**). The package included the following.

- A summary of total sales for each year of the investigation period and a breakdown of these sales by division. The sum of divisional totals reconciled to the total sales and the figures for 2011 and 2012 reconciled to HHI's separate audited financial statements. The divisional totals reconciled to a print screen of the 2012 SAP income statement by division. We verified the print screen live on-line.
- A summary of sales for the Electro Electric Systems' Division for each year of the investigation period identifying export sales (project sales and other sales) and domestic sales (project sales, other construction and other sales).
[REDACTED]. [Accounting Practice]
During the investigation period other export sales represented [REDACTED]% of total export sales. The totals for each category reconciled to a print screen of the SAP income statement for the Electro Electric Systems Division. We verified the print screen live on-line.
- A summary of project sales for orders containing transformers and orders not containing power transformers, including a summary by month. HHI stated that this breakdown of project sales could only be done manually and advised that it dumped all data for the investigation period from SAP into an Excel spreadsheet. HHI provided a summary of all project sales for [REDACTED] 2012 – we verified the total live in SAP on-line. HHI stated that [REDACTED].
[Accounting Practice] We viewed selected entries on line and checked the project numbers. We selected one entry with a negative value – this project was shipped in January and the March figure was an adjustment.
- A summary of project sales for orders containing power transformers into sales to Australia and sales to other countries, including a summary by month. HHI provided a summary of project sales for March 2012. There were [REDACTED] sales to Australia in March, but the amounts recorded did not match the total for the project. This was explained by the fact that for one project there were additional shipments in [REDACTED] 2012 and for the other there were additional shipments in [REDACTED]. We verified that selected other projects were sales to other countries.
- A summary of income by project number for exports to Australia during the investigation period. [REDACTED] projects were not included in the export sales spreadsheet. We checked the [REDACTED] largest projects – one was for a power transformer where the shipment [REDACTED] [shipment details] was before the investigation period and [REDACTED]

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- ██████████ and the other was for ██████████ (invoice provided). [Further shipment details]
- Allocation of the contract value between the goods and non-subject goods. One contract during the investigation period included power transformers and ██████████. [Goods description] The contract between HHI and HDCP only specified the total contract value. HHI allocated the contract value to the goods and non-subject goods ██████████ ██████████. [Allocation method]
 - The total value for power transformers shipped to Australia during the investigation period differed slightly from the sales value recorded in the export sales spreadsheet. HHI explained that the export sales spreadsheet used the exchange rate at ██████████ while SAP used the exchange rate at ██████████. [Dates]

HHI also provided a package reconciling domestic sales from the domestic sales spreadsheet to the audited financial statements (**confidential attachment REC 2**). The first part of the package followed the same steps as the reconciliation of export sales. The package included the following.

- A summary of total sales for each year of the investigation period and a breakdown of these sales by division.
- A summary of sales for the Electro Electric Systems' Division for each year of the investigation period identifying export sales (project sales and other sales) and domestic sales (project sales, other construction and other sales). HHI advised that power transformers are included in project sales.
- A summary of project sales for orders containing transformers and orders not containing transformers, including a summary by month. As with export sales this was done manually using data downloaded from SAP. HHI provided a summary of all project sales for ██████████ 2012 – we verified the total live in SAP on-line. We verified selected project numbers to SAP on-line to check whether the project numbers indicated the contract contained power transformers.
- A summary of income by project number for domestic sales during the investigation period. A number of projects were not included in the domestic sales spreadsheet – ██████████ ██████████. [Reasons for exclusion] We selected a power transformer shipped before the investigation period and verified that it was shipped in ██████████. [Date] We also noted that the value for another project was much higher than the value shipped in ██████████. [Date] We checked the project number on-line and verified that there were a total of █ shipments and the total value reconciled.
- A summary of the value of contracts allocated to like goods and non-subject goods. The total for like goods reconciled to the domestic sales spreadsheet. The allocation process was reviewed during verification of the selected transactions and one sample submitted with the exporter questionnaire response.

We are satisfied that the sales data provided in the exporter questionnaire response is relevant and complete.

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6 SALES TO AUSTRALIA

6.1 General

In the exporter questionnaire response, HHI identified [REDACTED] power transformers that were exported, or contracted to be exported, to Australia during the investigation period; [REDACTED] of these are not scheduled to be shipped until [REDACTED]. HHI produces the power transformers and sells them to HDCP who then sells them to HA. HA is wholly owned by HDCP. HA sells the power transformers to the final end-user in Australia. The goods are shipped directly from HHI to HA. HHI stated that there are contracts between the parties for each transaction.

HHI provided a package explaining the role of HA (**confidential attachment EXP 1**). HA is responsible for facilitating the sale of products manufactured by HHI to Australian end-users, and for developing new commercial opportunities with potential customers in Australia for a variety of products, including power transformers. It currently employs [REDACTED]. [Staff numbers] HA subcontracts to an unaffiliated sole trading engineering consultant, trading as [REDACTED], who is responsible for:

- [REDACTED];
 - [REDACTED]; and
 - [REDACTED].
- [Subcontractor identity and functions]

HHI stated that HA is responsible for minor warranty issues, but HHI would be responsible for major warranty claims; there were no major warranty claims during the investigation period. The terms of its sales during the investigation period were either [REDACTED] [terms of sale] and HHI stated that it did not pay any costs beyond its contractual requirements. HHI stated that [REDACTED] [subcontractor] is an unaffiliated sales agent in Australia and the package included ASIC documents and details of an ASIC search to support the claim.

HHI referred to the Commissions visit report to HA. HA considers that the Australian market can be categorised into two segments – public utilities and engineering, procurement and construction contractors (EPC customers).

6.2 Export sales process

HHI provided a package explaining the export sales process (**confidential attachment EXP 2**). HHI mainly sells to the Australian market under long-term panel contracts between [REDACTED], a public utility. [REDACTED]. [Contract details and successful tenders] These contracts establish general terms that will be applied if [REDACTED] places an order on HA for a power transformer. Under these contracts, the customer then issues a request for quotation and letter of acceptance, which

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6.3 Pricing

HHI stated that it provides information for any request for quotation that HA responds to. HA is then responsible for developing a price that covers HHI's quoted price plus any costs that HA is responsible for under the terms of the proposed sale, such as customs' clearance, inland freight, installation and commissioning. Some of these services are performed by [REDACTED]. [Subcontractor]

The [REDACTED] panel contract included prices for specific power transformers for specific projects. However, the relevant schedule in the panel contract included the statement that

[REDACTED]. [Price variation details]

There were no shipments of power transformers to Australia under the second panel contract.

6.4 Verification to source documents

Prior to the visit we raised queries with one of the sample transactions provided in the exporter questionnaire response. The contract between HHI and HDCP identified two progress payments and there was no evidence of payment. HHI provided a package supporting the transaction (**confidential attachment EXP 3**). One tax invoice was issued on [REDACTED] (which was also the bill of lading date) identifying the value in Australian dollars and Korean won. The package included bank receipts for payment of [REDACTED]. [Payment details]

Prior to the visit, we requested HHI to provide supporting documents for three selected export sales transactions. These documents are at **confidential attachments EXP 4 to 6** and included:

- letter of acceptance from [REDACTED] to HA or purchase order from an EPC customer placed on HA;
- the sales contract between HHI and HDCP;
- HHI's invoices to HDCP;
- evidence of payment;
- sales contract between HDCP and HA;
- commercial invoice from HDCP to HA, packing list, bill of lading and export permit; and
- documents supporting expenses including inland transport, ocean freight and marine insurance.

We verified that the sales volume and value in the export sales spreadsheet reflected the volume and value in the source documents provided. Based on the transactions examined, we are satisfied that the invoice price shown in the export sales spread

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sheet accurately reflected the price paid by HDCP and that payments were made pursuant to the terms of sale.

Export sample 1 included the supply of [REDACTED]

[REDACTED]. [Consignment and delivery details]

In the export sales spreadsheet HHI used the exchange rate at invoice date. HHI advised that an essential feature in the formulation of sales contracts involving long delivery lead times is the forecasting of exchange rate movements. When HHI received a request for quotation that involves other currencies, HHI's cost and price estimators gather information from long term exchange rate forecasting models and undertake the judgements involved in factoring such data into a quotation. We consider that in this case the most appropriate exchange rate to use to convert export prices from Australian dollars to Korean won is the exchange rate at invoice date.

We verified the costs for ocean freight, marine insurance, inland freight and handling & other charges from the documents provided to the export sales spreadsheet.

HHI did not incur any warranty costs or technical and other charges in respect of its exports to Australia during the investigation period.

HHI calculated average payment terms for each export sale by comparing the weighted average payment date with the delivery date for each power transformer. We verified the weighted average payment dates for the selected transactions.

6.5 The exporter

For export sales during the investigation period, we consider HHI to be the exporter because it:

- is the manufacturer of the goods;
- 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 point at the port of export; and
- sent the goods for export to Australia and was aware of the identity of the purchaser of the goods.

6.6 The importer

We note that HA:

- negotiates directly with HHI 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.

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We consider that HA is the beneficial owner of the goods at the time of importation and is therefore the importer of power transformers exported by HHI during the investigation period.

6.7 Arms' length

In determining export prices and normal values, the legislation requires that the relevant sales are arms' length transactions. Section 269TAA¹ outlines the circumstances in which the price paid or payable shall not be treated as arms' length. These are 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 HHI and HDPC were profitable during the investigation period with a weighted average profit of █%. 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 also found that sales between HDPC and HA were profitable, with a weighted average profit of █%. We consider that this is reasonable considering the role played by HDPC. The HA visit report found that its weighted average profit for sales to █ was █%, but that the profitability of shipments to █ customer was █%. We found that the overall weighted average profitability was over █%. We consider that transactions between HHI, HDPC and HA are at arms-length, subject to further review of the HA visit report.

6.8 Export price preliminary assessment

In the case of export sales to HA, we consider:

- that the goods have been exported to Australia otherwise than by the importer;
- that the goods have not been purchased by the importer from the exporter; and
- the purchases of the goods were arms' length transactions.

Therefore, we consider that export prices for exports from HHI to HDPC can be established under section 269TAB(1)(c) having regard to all the circumstances of the exportation. FOB export price calculations are at **confidential appendix 1**.

¹ All references in this report to sections of legislation, unless otherwise specified, are to the *Customs Act 1901*.

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7 COST TO MAKE & SELL

7.1 Introduction

As part of its exporter questionnaire response HHI provided cost to make and sell spreadsheets for its domestic sales and exports to Australia during the investigation period. It provided a description of all cost centres within HHI and the Electro Electric Systems Division. HHI stated that no significant or unusual cost variances occurred during the investigation period. It advised there were errors in the original CTMS spreadsheets and provided details at **confidential attachment COSTS 1**. It also provided revised CTMS spreadsheets. The main difference is the inclusion of packing, inland transport and handling & other expenses which HHI originally only reported in the sales spreadsheets. HHI also reported some minor errors in the CTMS information originally provided – the percentage changes against the original CTMS were -0.28% for domestic CTMS and -0.002% for Australian CTMS.

7.2 Cost to make and sell

HHI advised that all material other than [REDACTED] are ordered for each project. [REDACTED]

[REDACTED]. [Purchase and production details]

HHI purchases the majority of its components from unrelated companies, [REDACTED]

[REDACTED]. [Purchase and production details]

HHI stated that when it wins a job, production is scheduled based on the required delivery date. Major components are ordered so that delivery fits in with the production schedule, unless price increases are anticipated.

HHI provided a flowchart of its cost accounting system (**confidential attachment COSTS 2**). Four legacy systems form HHI's accounting system:

- sales;
- materials ([REDACTED]);
- production ([REDACTED]); and
- human resources.

HHI uses SAP as its financial accounting system and data from the four separate legacy systems is transferred to SAP and aggregated on a project specific basis. SAP calculates the cost of manufacturing, allocates general administrative costs, non-operating costs and income to determine the profit and loss of the Electro Electric Division. This data is then aggregated with those of HHI's other divisions.

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The cost accounting system is based on [REDACTED]

- [REDACTED]

[REDACTED]; and

- [REDACTED]

[REDACTED]. [Cost accounting details]

HHI calculated the cost of production provided in the exporter questionnaire response using the actual BOM for each project.

HHI provided a material costing overview to explain the costing system (**confidential attachment COSTS 3**). HHI selected a project ([REDACTED]) and provided a summary of costs from SAP, recalculated costs based on actual material consumption, direct selling costs in project costs and reported costs. Direct selling are discussed later in this section. It explained that SAP breaks down each project into a number of sub-projects. Sub-projects include [REDACTED]

[REDACTED]. [Sub-project details]

- For the main body, [REDACTED]

- Direct [REDACTED]

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- Scrap

- Sub materials

- Labour costs

- Fixed costs

- Depreciaition

. [Costing details]

HHI then explained how actual costs for the selected project were identified. It provided a summary of actual material costs for the selected project, including

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- [Redacted]
- [Redacted]
- [Redacted] [Costing details]

[Redacted]

[Redacted] [Cost
reconciliation details]

Direct selling costs

Direct selling costs include packing, inland freight, ocean freight and installation. HHI deducted these costs in determining the cost to make each power transformer, but these were added back into the CTMS except for ocean freight and installation. The reported CTMS for Australian sales is cost to FOB level. The reported CTMS for domestic sales is the cost delivered to site, but not including installation.

Packing costs

HHI calculated packing costs using standard values for materials and known usage. Variances are captured monthly. HHI provided a summary of packing costs for the three selected export sales, including screen prints from SAP (**confidential attachment COSTS 4**). We noted that during the investigation period packing costs were about █% of the FOB value for export sales and about █% of the net invoice value before installation for domestic sales. In constructing normal values we have used the packing costs for Australian sales.

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7.3 Cost of production

7.3.1 Reconciliation to financial statements

Reconciliation of material costs

HHI provided a package reconciling material costs (**confidential attachment COSTS 4**). The package included a summary of material costs for the [REDACTED] general ledger accounts referred to above for each year of the investigation period, supported by screen prints of the Electro Electric System Division's income statements. We verified the print screen live on-line. We noted that the income statements included two additional account codes. HHI explained that [REDACTED]. [Account code details]

HHI provided a summary of material costs by work area for the investigation period that separately identified power transformer material costs. The total reconciled to the summary of material costs. HHI also supplied a monthly summary of power transformer material costs. It provided material costs for every project in July 2011 which reconciled to the monthly summary.

HHI provided [REDACTED] material costs for each project in July 2011 – the monthly totals of the [REDACTED] material costs were the same. It provided the [REDACTED] BOMs for the selected project ([REDACTED]), identifying costs in July 2011. The totals reconciled to the monthly material costs by project.

We requested and Hyundai provided an electronic copy of monthly actual and SAP material costs for each month of the investigation period. We reviewed costs for the selected project and found that the totals did not match the respective BOMs. HHI explained that the electronic file only included costs incurred during the investigation period, but some expenditure was incurred before the investigation period. We consider that the [REDACTED] BOMs for expenditure before the investigation period should be identical and that the difference between the actual and SAP BOMs should be the same as the difference between the actual and SAP costs in the electronic file provided. We verified that this was the case.

We are satisfied the the total of actual and SAP BOMs for all power transformer projects reconcile each month.

Reconciliation of costs

HHI provided a package reconciling costs to the audited financial statements (**confidential attachment COSTS 5**). The package included the following.

- A summary of cost of sales for each year of the investigation period and a breakdown of these sales by division. The sum of divisional totals reconciled to the total cost of sales and the figures for 2011 and 2012 reconciled to HHI's separate audited financial statements. The divisional totals reconciled to a print screen of the 2012 SAP income statement by division. We verified the print screen live on-line.
- A summary of cost of sales for the Electro Electric Systems' Division for each year of the investigation period identifying costs for export sales (project

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sales and other sales) and domestic sales (project sales, other construction sales and other sales). As noted previously, power transformers are included in project sales and other sales were merchandise sales produced for inventory. The totals for each category reconciled to a print screen of the SAP income statement for the Electro Electric Systems Division. We verified the print screen live on-line.

- A spreadsheet containing details of the SAP cost of sales for each project number exported to Australia, with additional columns for costs incurred before and after the investigation period. This spreadsheet also identifies allocations of SAP costs for project numbers other than the main body which may be allocated to main body project numbers or non-subject goods. For each main body project number HHI provided a spreadsheet identifying the SAP cost after allocation, adjustments, the recalculated cost ([REDACTED]) recalculated cost details], direct selling costs and the costs included in the CTMS spreadsheet.
- HHI provided similar spreadsheets for the domestic cost of sales.
- For a selected sample, HHI provided a spreadsheet allocating costs to the main body project numbers. This project number included six main body project numbers, two of which were non-subject goods (greater than [REDACTED] kV). [REDACTED] for each main body had a separate project number so was fully allocated to the respective main body. Other costs were allocated to main bodies using sales value (we verified sales value to SAP on-line). Some costs were only allocated to certain main bodies, while others were allocated to all main bodies. Costs allocated included [REDACTED]. [Cost items] Costs allocated to main bodies that were non-subject goods were treated as non-subject costs.

The allocation percentages determined for each main body were used to allocate the recalculated SAP costs using [REDACTED] material costs.

We are satisfied that the cost of sales data provided in the exporter questionnaire response is relevant and complete.

7.3.2 Verification to source documents

Prior to the visit we advised HHI that we wanted to verify selected cost components for power transformers sold on the domestic market and exported to Australia. For each sample HHI provided:

- a summary sheet identifying costs from SAP, actual material costs, recalculated costs and allocations from the various sub-projects to the main body project code;
- details of how costs for sub-projects were allocated to the main body project number;
- a SAP printout supporting costs for the main body;
- a translated summary of the SAP printout;
- a summary of the various material costs for the power transformer; and
- the actual BOM or each sample.

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Sample 1 – core steel and HV bushings

This sample was the example used to show allocation methods in the cost reconciliation package. To support the cost of core steel, HHI provided;

- a core steel processing report dated 19 May 2012 [REDACTED]; [Confidential report contents]
- design sheets for the cores confirming that the [REDACTED] quantities matched the design quantities;
- inventory reports identifying the unit price of [REDACTED] mm and [REDACTED] mm core steel issued on the closest date before the processing report;
- supplier invoice for one delivery identified in the inventory records;
- purchase order summary, accounts payable details and payment summary; and
- bank receipt evidencing payment.

To support the cost of HV bushings HHI provided:

- the actual BOM for bushings for the main body;
- the actual BOMs for bushings for sub-projects (such as spare parts) – the total cost of bushings reconciles to the CTMS spreadsheets;
- design sheet confirming that the identified bushings were included in the design documents;
- supplier invoice;
- accounts payable details; and
- bank receipt evidencing payment.

Supporting documents are at **confidential attachment COSTS 6.**

Sample 2 – conductor and control panel

To support the cost of conductor HHI provided:

- the actual BOM for conductors which reconciles to the CTMS spreadsheet;
- design sheet identifying type and quantity of conductor;
- details of purchase order;
- supplier invoice for one item on the purchase order;
- accounts payable details; and
- bank receipt evidencing payment.

To support the cost of the control panel HHI provided:

- the actual BOM for the control panel which reconciles to the CTMS spreadsheet;
- design sheet identifying type of control panel required;
- details of purchase order;
- supplier invoice;
- accounts payable details; and
- bank receipt evidencing payment.

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Supporting documents are at **confidential attachment COSTS 7.**

Sample 3 – tap changer and production direct labour

To support the cost of the tap changer HHI provided:

- the actual BOM for the tap changer which reconciles to the CTMS spreadsheet;
- design sheet identifying type of tap changer required;
- details of purchase order;
- supplier invoice;
- accounts payable details; and
- bank receipt evidencing payment.

To support the cost of production direct labour HHI provided:

- a SAP printout showing the hours worked for the process in May 2012 (most labour for this selected sample was sub-contact labour);
- a SAP printout showing the labour cost in May, June and July 2012 (the total reconciled to the summary of total costs for the project);
- a SAP printout of labour costs for the relevant cost centre in May 2012; and
- a SAP printout allocating unallocated man hours to this project.

Supporting documents are at **confidential attachment COSTS 8.**

Sample 4 – core steel, insulation and fibre optic probes

To support the cost of core steel, HHI provided;

- a core steel processing report dated 2 November 2011 [REDACTED]; [Confidential report contents]
- design sheets for the cores confirming that the [REDACTED] quantities matched the design quantities;
- inventory report identifying the unit price of core steel issued on the closest date before the processing report;
- supplier invoice for one delivery identified in the inventory report;
- purchase order summary, accounts payable details and payment summary; and
- bank receipt evidencing payment.

To support the cost of insulation HHI provided:

- the actual BOMs for insulation for the main body and auxiliary transformer – the total cost of insulation reconciles to the CTMS spreadsheets;
- design sheet confirming that the identified insulation was included in the design documents;
- purchase order;
- supplier invoice;
- accounts payable details; and

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- bank receipt evidencing payment.

To support the cost of fibre optic probes HHI provided:

- the actual BOM for fibre optic probes;
- purchase order;
- supplier invoice;
- accounts payable details; and
- bank receipt evidencing payment.

Supporting documents are at **confidential attachment COSTS 9.**

Sample 5 – conductor, HV bushings and manufacturing overhead labour

To support the cost of conductor HHI provided:

- the actual BOM for conductors which reconciles to the CTMS spreadsheet;
- design sheet identifying type and quantity of conductor;
- details of purchase order;
- supplier invoice for one item on the purchase order;
- accounts payable details; and
- bank receipt evidencing payment.

To support the cost of HV bushings HHI provided:

- the actual BOM for bushings which reconciles to the CTMS spreadsheet;
- design sheet confirming that the identified bushings were included in the design documents;
- purchase order;
- supplier invoice;
- accounts payable details; and
- bank receipt evidencing payment.

To support the cost of manufacturing overhead labour HHI provided:

- a SAP printout showing the monthly cost of manufacturing overhead labour - the total reconciled to the CTMS spreadsheet;
- a summary sheet showing how the August 2012 total was allocated to each project in that month using total direct costs (we verified total direct costs for the selected sample in August 2012 to SAP on-line); and
- a SAP printout and translated summary of all costs allocated to the Electro Electric Division in August 2012.

Supporting documents are at **confidential attachment COSTS 10.**

Sample 6 – tap changer, LV bushings and design labour

To support the cost of the tap changer HHI provided:

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- the actual BOM for the tap changer which reconciles to the CTMS spreadsheet;
- design sheet identifying type of tap changer required;
- details of purchase order;
- supplier invoice;
- accounts payable details; and
- bank receipt evidencing payment.

To support the cost of LV bushings HHI provided:

- the actual BOM for bushings and the actual BOM for bushings spare parts which reconciles to the CTMS spreadsheet;
- purchase order;
- supplier invoice;
- accounts payable details; and
- bank receipt evidencing payment.

To support the cost of design labour HHI provided:

- a SAP printout showing the monthly cost of design labour - the total reconciled to the CTMS spreadsheet;
- a summary sheet showing how the August 2013 total was allocated to each project in that month using total direct costs (we verified total direct costs for the selected sample in August 2013 to SAP on-line); and
- a SAP printout and translated summary of all costs allocated to the Electro Electric Division in August 2013.

Supporting documents are at **confidential attachment COSTS 11**.

7.4 Selling, general and administrative (SG&A) expenses

HHI provided a package reconciling SG&A expenses to the audited financial statements (**confidential attachment COSTS 12**). The package included the following.

- A summary of COGS excluding packing and freight costs. It also included selling expenses (domestic, export and common) and administration expenses as a percentage of COGS net of packing and freight costs (which are separately recorded in the CTMS spreadsheets).
- Income statements for each year of the investigation period identifying COGS for exports and domestic sales plus packaging and freight costs.
- Details of SG&A expenses by account code for each year of the investigation period and allocating them to selling expenses (domestic, export and common) and administration expenses. It also provided copies of income statements supporting the SG&A expenses.
- Similar documents and methodology identifying general expenses from non-operating income and expenses.

We noted that some non-operating expenses were not allocated to the goods. The main items were [REDACTED]

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[REDACTED]. [Non-operating expense detail] We consider that the exclusion of these items is appropriate.

SG&A expenses, expressed as a percentage of COGS are:

- domestic selling expenses [REDACTED] %
- export selling expenses [REDACTED] %
- administration expenses [REDACTED] %
- finance expenses [REDACTED] %

We are satisfied that the allocation of SG&A expenses is reasonable.

7.5 Cost to make and sell – summary

We are satisfied that sufficient information was available and verified to substantiate the CTMS data submitted by HHI. We consider the CTMS data is suitable for:

- determining a rate of profit for domestic sales; and
- determining constructed normal values.

The revised Australian CTMS is at **confidential appendix 2**.

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8 DOMESTIC SALES

8.1 General

HHI sells power transformers on the Korean domestic market. It sells to two categories of customers, public utilities and EPC customers. HHI performs all the selling and distribution activities in respect of domestic sales and [REDACTED]. [Selling and distribution details] HDCP plays no part in domestic sales.

HHI does not maintain any price lists and prices are based on a transaction specific evaluation of the specifications in the bid documents received from the purchaser. However, HHI's selling functions vary according to the category of customer:

- public utilities provide a request for a quote to all pre-qualified producers and prices are not negotiable after bidding has closed; and
- EPC customers decide which producers it will send the quotation request to and may negotiate prices after bidding has closed.

We noted that there were a number of public utility customers identified in the domestic sales spreadsheet. HHI stated that the main public utility is [REDACTED], but all the others were related to [REDACTED].

8.2 Market conditions

HHI stated during the verification visit that the market conditions varied between public utility and EPC customers. [REDACTED].

[Market condition intelligence] HHI claimed that demand in the EPC sector largely depended on overall market conditions in Korea and any proposed projects that EPC customers may be planning.

HHI stated that other domestic suppliers of power transformers included Hyosung, LSIS Co., Ltd and ILJIN. HHI is not aware of any overseas manufacturers supplying power transformers in the domestic market.

8.3 Domestic sales process

The sales process typically proceeds as described below.

- Request for a quote. The sales process begins when a customer issues a request for a quote and HHI decides to submit a bid. HHI stated that it tries to bid for every request for quote, but it depends on the factory loading at the time.
- EPC customers may not issue a request for quotation. HHI stated that its sales team has been in the market for a long time, is aware of possible investment decisions and is generally aware of what is happening in the market. The team will contact potential customers that it considers may be in the market for a new power transformer.

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- Bidding. HHI evaluates the project in order to formulate a bid and submits the bid to the customer. The sales team will advise the factory of what is required and the factory will provide costs. The sales team is responsible for submitting the final price. HHI stated that factors that can influence price include cost, time from order to delivery, market conditions and internal goals. HHI stated that once a price is submitted to a public utility there is no further negotiation. However, in the case of EPC customers there may be further negotiation between submitting the bid and the awarding of the contract.
- Purchase order/contract. If HHI is the winning bidder, the customer sends an acknowledgment such as purchase contract.
- Kick off meeting. Some customers request a kick-off meeting to discuss timelines and areas of concern. Whether or not there is a formal meeting, HHI discusses and agrees a timeline and test plan with the customer.
- Design. Once HHI learns that it has won a bid, it assigns a design team and reserves a slot for the project in its manufacturing schedule. HHI provides detailed drawings of the power transformer to the customer for approval.
- Customer approval. The customer approves the drawings or asks for minor alterations to the specifications. [REDACTED]
[REDACTED]. [Modification process]
- Manufacturing. Production of the power transformer and ordering raw materials begins once the customer approves the drawings. HHI stated that production is normally scheduled based on the required delivery date. The customer can visit the manufacturing facility to inspect and monitor the assembly process.
- Testing. After manufacturing is completed, the finished and assembled power transformer is tested at the factory. The customer is normally present to witness the tests. Once testing is completed, the customer approves the power transformer for release. The power transformer is disassembled, packed, and shipped.
- Installation. Installation can be performed by the customer, a third party vendor or HHI.
- Invoicing. In Korea, commercial invoices are not issued. Rather, tax invoices in standard, government specified formats are issued. Tax invoices will be issued per the terms of the purchase orders (such as [REDACTED]
[REDACTED]). [Tax invoice details]
- Payment. The customer pays pursuant to terms in the contract after it receives the tax invoice from HHI. [REDACTED]
[REDACTED]. [Payment details]

We asked HHI what features and characteristics had the greatest effect on price. HHI stated that [REDACTED] [components] have the greatest effect on price, but other than that there are so many possible variations it is not possible to list factors that had the greatest effect on price.

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HHI stated that during the investigation period it did not provide any discounts, rebates or other allowances on its domestic sales.

8.4 Verification to source documents

Prior to the visit we raised queries with one of the sample transactions provided in the exporter questionnaire response. We could not reconcile the information to the domestic sales spreadsheet. HHI provided a package supporting the transaction (**confidential attachment DOM 1**). The purchase order only identified the total contract value, which included non-subject goods. The package included the bid documents that identified the prices for the individual components and calculations allocating the installation component to the power transformer and non-subject goods using sales values. We verified the power transformer component to the domestic sales spreadsheet.

HHI supplied a list of its domestic sales in its exporter questionnaire response which reflected sales made between HHI and its domestic customers during the investigation period. During the investigation period, HHI sold power transformers to both unaffiliated and affiliated customers. In the domestic sales spreadsheet, HHI identified [REDACTED] power transformers that were delivered during the investigation period and of these [REDACTED] were sold to affiliated companies (representing [REDACTED]% [a small proportion] of total invoice value).

Prior to the visit, we requested HHI to provide supporting documents for three selected domestic sales transactions. We requested HHI provide the purchase order, details of any progress payments schedule, tax invoices and evidence of payment. These documents are at **confidential attachments DOM 2 to 4**. We verified that the sales volume and value in the domestic sales spreadsheet reflected the volume and value in the source documents provided. Based on the transactions examined, we are satisfied that the invoice price shown in the domestic sales spreadsheet accurately reflected the price paid by domestic customers and that payments were made pursuant to the terms of sale.

Delivery terms were stated to be [REDACTED]. HHI stated that sales to [REDACTED] were mostly [REDACTED], but sales to [REDACTED] may be [REDACTED]. Sales to EPC customers were predominately [REDACTED]. [Confidential delivery terms]

Credit terms were stated to be cash on delivery or by progress payments. HHI stated that public utilities paid cash on delivery and that EPC customers normally paid progress payments. A typical progress payment schedule was [REDACTED]. HHI calculated average payment terms of [REDACTED] days by comparing the weighted average payment date with the delivery date for each power transformer. Where payment was by [REDACTED], HHI used the [REDACTED]. We verified the weighted average payment dates for the selected transactions.

8.5 Arms' length

HHI submitted that it sold its transformers directly to domestic customers and that no third party, wholesaler or other intermediary was involved. During the visit, no

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evidence was identified which would suggest that, in relation to sales between HHI and any of its non-affiliated domestic customers that;

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

We consider HHI's domestic sales of power transformers to non-affiliated customers were arms' length transactions.

Sales to affiliated companies only represented about █% [a small proportion] of total invoice value. We found that the profitability of domestic sales to affiliated and non-affiliated customers was similar and are satisfied sales to affiliated companies were also arms' length transactions.

8.6 Ordinary course of trade

We have constructed normal values and added the profit achieved on profitable domestic sales of power transformers, excluding warranty costs. We verified the revenue and costs associated with domestic sales. The profit on profitable domestic sales, expressed as a percentage of CTMS, was █%. We consider it appropriate to only use profitable domestic sales as each power transformer is a separate model, so if a sale is not profitable, that model is not profitable. HHI disputes only using profitable sales to calculate the profitability of domestic sales. In calculating this profit we deducted the cost of installation from the invoiced price as installation was not included in the CTMS but was included in the invoiced price. The calculation of the profitability of domestic sales is at confidential appendix 3.

8.7 Volume and suitability of sales

We have constructed normal values rather than use domestic sales.

8.8 Sales by other sellers

There are other sellers of power transformers in Korea and it is proposed to visit one other producer that exported power transformers to Australia.

8.9 Domestic sales – summary

We found the price paid for the goods in those domestic sales was established satisfactorily. Based on the information provided by HHI, and the verification processes conducted on site, we are satisfied that domestic sales are arm's length transactions in the ordinary course of trade. However, we do not consider they are suitable or relevant for the purpose of s.269TAC(1) because of the significant physical differences between power transformers. Details of domestic sales are at confidential appendix 3.

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9	THIRD COUNTRY SALES
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We have constructed normal values rather than use selling prices.

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10 ADJUSTMENTS

We have constructed FOB normal values using the profit achieved on domestic sales that were in the ordinary course of trade (as noted in section 8.6 disputes this method). We have adjusted the constructed normal values for credit costs and do not consider any other adjustments are necessary.

HHI calculated average payment terms for domestic sales of ■ days by comparing the weighted average payment date with the delivery date for each power transformer. Where payment was by ■■■■■■■■■■, HHI used the ■■■■■■■■■■. We verified the weighted average payment dates for the selected transactions.

HHI calculated average payment terms for each export sale by comparing the weighted average payment date with the delivery date for each power transformer. We verified the weighted average payment dates for the selected transactions. The weighted average credit period for all sales to Australia was ■ days.

HHI calculated its short term interest rate using its average monthly interest payment on short term borrowings expressed as a percentage of its average monthly short term borrowings during the investigation period.

We made a positive adjustment to the constructed normal value by applying HHI's short term interest rate to the calculated payment terms for each export transaction less the weighted average payment terms for domestic sales.

Supporting documents are at **confidential appendix ADJ 1**.

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11 NORMAL VALUE

We consider that information gathered and detailed in this report and its attachments can be relied upon to establish constructed normal values for comparison with export prices for power transformers exported to Australia during the investigation period under s. 269TAC(2)(c). We have made adjustments to the normal values under s. 269TAC(9) to make them fairly comparable with export prices by adding export credit costs (net of domestic credit terms). Normal value calculations are at **confidential appendix 1**.

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12 DUMPING MARGIN – PRELIMINARY ASSESSMENT

In calculating the dumping margin we compared each export transaction with the corresponding normal value. We have not included export transactions where the power transformer was not delivered during the investigation period. The weighted average product dumping margin is minus 5.4 %, subject to further review of the HA visit report. The dumping margin calculation is at **confidential appendix 1**.

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13 LIST OF APPENDICES AND ATTACHMENTS

Confidential appendix 1	Export prices, normal values and dumping margins
Confidential appendix 2	Australian CTMS
Confidential appendix 3	Domestic sales
Confidential attachment GEN 1	Submission lodged prior to the visit
Confidential attachment GEN 2	Identification of minor errors in sales spreadsheets
Confidential attachment GEN 3	Company overview
Confidential attachment GEN 4	Factory layout
Confidential attachment GEN 5	Reconciliation of sales
Confidential attachment GEN 6	Audit report for HHI's separate financial statements
Confidential attachment GEN 7	Example of KPMG audit opinion
Confidential attachment REC 1	Reconciliation of Australian sales
Confidential attachment REC 2	Reconciliation of domestic sales
Confidential attachment EXP 1	Role of HA
Confidential attachment EXP 2	Export sales process
Confidential attachment EXP 3	Documents supporting queried transaction
Confidential attachment EXP 4 to 6	Documents supporting selected transactions
Confidential attachment COSTS 1	Identification of minor errors in costs spreadsheets
Confidential attachment COSTS 2	Flowchart of cost accounting system
Confidential attachment COSTS 3	Material costing overview
Confidential attachment COSTS 4	Reconciliation of material costs
Confidential attachment COSTS 5	Reconciliation of costs
Confidential attachment COSTS 6 to 11	Documents supporting selected samples
Confidential attachment COSTS 12	SG&A expenses
Confidential attachment DOM 1	Documents supporting queried transaction
Confidential attachment DOM 2 to 4	Documents supporting selected transactions
Confidential attachment ADJ 1	Credit adjustment