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Date	21 February 2014
From	Jaime McKenzie / Louise Jenkins
To	**Director, Operations 1**, Anti-Dumping Commission, Canberra
Email	operations1@adcommission.gov.au

Dear Director

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 Submission by Siemens Wuhan, Siemens Jinan and Siemens Guangzhou on Exporter Visit Report – SG&A costs

Attach

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21 February 2014

Director, Operations 1
Anti-Dumping Commission
5 Constitution Avenue
Canberra ACT 2600

By Email

Dear Director

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 Submission by Siemens Wuhan, Siemens Jinan and Siemens Guangzhou on Exporter Visit Report – SG&A costs

We refer to the draft Visit Report – Exporter prepared by the Anti-Dumping Commission in relation to Siemens Transformer (Wuhan) Co, Ltd (***Siemens Wuhan***), Siemens Transformer (Jinan) Co, Ltd (***Siemens Jinan***) and Siemens Transformer (Guangzhou) Co Ltd (***Siemens Guangzhou***) (together, ***Siemens China***).

As requested, Siemens China is in the process of reviewing the revised draft Report and will provide by close of business Monday, 24 February 2014 a mark-up of the Report using track changes for corrections and strikethrough text to ensure that confidential information is not placed on the public file.

This submission is made in relation to the methodology applied by the Commission to determine the selling, general and administrative (***SG&A***) costs in the construction of a normal value. Siemens submits that no dumping margin should be found for Siemens China and that the Commission's calculation of Siemens China's dumping margin is incorrect because, among other things, the cost to make and sell the goods is overstated due to certain costs being double counted as both cost of goods sold (***COGS***) and SG&A costs.

It is critical that the correct methodology is applied in the verification report prior to it being published on the electronic public record for this investigation. This issue has a significant impact on the manner in which the preliminary dumping margin of **[**dumping margin**]** is calculated and applying an incorrect methodology will lead to an inaccurate calculation of any dumping margin.

1 Background

Section 2.4 of the Commission's draft Report for Siemens China summarises the accounting practices for Siemens Wuhan, Siemens Jinan and Siemens Guangzhou, including:

- the Siemens global group of companies keeps financial accounts in accordance with International Financial Reporting Standards (***IFRS***) which allows the ultimate parent, Siemens Aktiengesellschaft (***Siemens AG***), to prepare consolidated audited group statements according to IFRS;
- for statutory reporting purposes, Siemens China produces accounts in accordance with the generally accepted accounting principles in China (***PRC GAAP***);

- the two accounting methods have different accounting periods (1 October to 30 September for IFRS and 1 January to 31 December for PRC GAAP);
- Siemens China uses the SAP accounting software system for financial and cost accounting recording and reporting functions and SAP reports are prepared in accordance with IFRS; and
- SAP is the source of the data and reports provided to the Commission for this investigation.

The draft Report states that Siemens provided an 'All sales spreadsheet' prior to the verification visit at Siemens Wuhan which, for the purposes of establishing cost to make and sell, the Commission was able to verify at the site visit against the SAP system.

2 Calculation of constructed normal value

In the worksheet 'Siemens CTMS Australia' in Appendix 2 to the draft Report, the Commission calculates Siemens' constructed normal value using the formula:

Constructed normal value (FOB) = (Adjusted CTMS[1] *x profit) + Adjusted CTMS + export credit terms adjustment*

2.1 Calculation of adjusted CTMS

In the worksheet 'Siemens CTMS Australia' in Appendix 2 to the draft Report, the Commission calculates Siemens' constructed normal value using the formula:

Adjusted CTMS = COGS (including warranty) + SG&A (including finance charges) + absorption

A higher CTMS calculation results in a higher constructed normal value, causing otherwise profitable sales to be disregarded by the Commission under sections 269TAAD and 269TAC of the *Customs Act 1901* (Cth) and increasing the likelihood of an adverse dumping margin finding.

In calculating COGS, the Commission relied on the 'All sales spreadsheet' provided by Siemens China, which the Commission was able to verify in the SAP accounting system during the site visit. The All sales spreadsheet and SAP are both prepared according to IFRS accounting methods.

2.2 Calculation of SG&A costs

In Appendix 4 to the draft Report, the Commission calculates the SG&A costs for Siemens China as the proportion of total revenue allocated to SG&A costs in Siemens China's audited financial statements. Siemens China's audited financial statements are prepared in accordance with PRC GAAP. The calculations are set out in the worksheet to Appendix 4 entitled 'SG&A'.

2.3 Use of IFRS and PRC GAAP accounts

As noted in section 2 above, the Commission relied upon IFRS accounts for COGS and PRC GAAP accounts for SG&A costs in its calculations of Siemens China's adjusted CTMS and constructed normal value.

Siemens China has previously notified the Commission (Confidential Attachment Siemens Wuhan A-4.5 to Siemens Wuhan's Exporter Questionnaire) of material differences in accounting treatment between IFRS and PRC GAAP for certain SG&A costs and COGS. In particular, certain expense items which are allocated to COGS under IFRS are allocated to SG&A costs under PRC GAAP. As a result, the Commission's approach in drawing COGS from accounts prepared in accordance with IFRS and SG&A costs from accounts prepared in accordance with PRC GAAP results in double

[1] Cost to make and sell (***CTMS***).

counting of some critical expenses. This increases Siemens China's adjusted CTMS and, consequently, Siemens China's constructed normal value, each of which is critical to the calculation of any dumping margin.

We enclose **Confidential Attachment 1 Siemens A-4.3 Chart of Accounts**. As stated on page 1 of the Confidential Attachment 1:

> [Quote from Siemens Chart of Accounts setting out use of IFRS accounting system]

Siemens China has provided SG&A costs calculated in accordance with IFRS in the All sales spreadsheet and all other figures provided by Siemens China were drawn from IFRS accounts. Further, the Commission adopts Siemens China's SG&A costs from the All sales spreadsheet (under IFRS) in Appendix 3 to the draft Report in its calculation of domestic profit. The Commission verified the IFRS data relied upon by Siemens China in the All sales spreadsheet to SAP at the verification visit.

Accordingly, Siemens submits that to ensure a consistent and fair method is applied, the Commission must also use the SG&A costs provided in the All sales spreadsheet (under IFRS) for the calculation of a constructed normal value. In the original version of Appendix 4 to the draft Report, the Commission calculated SG&A costs based on the All sales spreadsheet (see **Confidential Attachment 2 Appendix 4 SG&A)**. Siemens China submits that the calculation of SG&A costs should be undertaken utilising figures from the All sales spreadsheet as demonstrated in Confidential Attachment 2. Not to do so will result in an inaccurate calculation of constructed normal value, which has a significant impact on the calculation of any dumping margin.

Siemens China also states that its financial accounts in SAP according to IFRS are audited by Ernst & Young for the purpose of the global consolidated accounts and, accordingly, it is appropriate for the Commission to rely on them.

3 Responses to the Commission's queries in relation to the reconciliation of PRC GAAP and IFRS accounts

Siemens China has previously provided to the Commission a confidential reconciliation of its accounts from IFRS to PRC GAAP. In response to that reconciliation, the Commission asked the following questions:

1. Can Siemens Wuhan identify all double counting of costs in PRC GAAP for the following items and provide supporting documents and explanations (justification):
    a. Selling expense [total of selling expenses];
    b. G&A [total of general and administrative expenses]and
    c. Financial Expense [total of financial expenses]?
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 [total impairment / loss on assets under PRC GAAP]and [total gain / loss on fair value change under PRC GAAP].

In response to these questions, we enclose **Confidential Attachment 3 2012 IFRS PRC GAAP reconciliation Wuhan with GL detail.** Confidential Attachment 3 is an Excel workbook which identifies how values for particular General Ledger accounts are recorded differently under PRC GAAP compared to IFRS, resulting in some instances in the double counting of costs (identified in section Confidential Attachment 3, as outlined in section 3.1 below) and in some instances in the exclusion of costs.

3.1 Response to question 1

The worksheet 'FY12 RECON summary' in Confidential Attachment 3 provides an overview of the reconciliation undertaken between the PRC GAAP accounts and the IFRS accounts for Siemens Wuhan for the financial year January 2012 to December 2012. The reconciliation demonstrates the total SG&A costs (comprising selling costs, general and administration costs, financial expenses, impairment loss on assets and gain / loss on change in fair value) under IFRS and the total adjustments necessary to reconcile that amount with the total SG&A costs under PRC GAAP. Once the adjustments identified are made, the revenue for Siemens Wuhan under IFRS can be reconciled with the revenue in Siemens Wuhan's income statement in its audited financial accounts prepared under PRC GAAP, which were provided to the Commission.

Confidential Attachment 3 also contains worksheets which identify for each relevant General Ledger account how costs are recorded under PRC GAAP and IFRS. Values are identified as 'function cross' where the functional nature of the costs differs between PRC GAAP and IFRS (for example, the costs are SG&A costs under PRC GAAP but are COGS under IFRS). By way of example:

(a) Selling expense

General Ledger account 67583430[2] (row 625) contains a debit of **[**value**]** in costs of sales (COGS) under IFRS, with no value in costs of sales under PRC GAAP. However, that General Ledger account contains a debit for the same value in gain / loss on fair value under PRC GAAP (SG&A costs) , with no value under IFRS.
As demonstrated in the table below, the total value included in the accounts for that General Ledger account is the same between IFRS and PRC GAAP:

GL A/C 67583430	PRC GAAP	IFRS
Cost of Sales (COGS)	-	**[**value**]**
Gain / loss on fair value (SG&A)	**[**value**]**	-
Total	**[**value**]**	**[**value**]**

If the Commission:

- calculates COGS based on the All sales spreadsheet which was prepared from the IFRS account; and
- calculates SG&A costs based on PRC GAAP accounts,

there will be a double counting of the value in this General Ledger account;

(b) G&A

General Ledger account 68141000 (row 663) contains a debit of **[**value**]**in selling costs (SG&A) under IFRS and a credit of **[**value**]**in cost of sales (COGS) in IFRS, with no corresponding values in selling costs or cost of sales under PRC GAAP. However, that General Ledger account contains the same value as a debit in financial expense (SG&A) under PRC GAAP, with no value under IFRS.
As demonstrated in the table below, the total value included in the accounts for that General Ledger account is the same between IFRS and PRC GAAP:

[2] Confidential Attachment 1 contains a listing of Siemens' General Ledger accounts. General ledger accounts beginning with 67 are 'Other operating expenses' and General Ledger accounts beginning with 68 are 'Changes in allowances and provisions/accruals for other miscellaneous operating expenses'.

GL A/C 68141000	PRC GAAP	IFRS
Selling costs (SG&A)	-	**[**value**]**
Cost of sales (COGS)	-	**[**value**]**
Financial expense (SG&A)	**[**value**]**	-
Total	**[**value**]**	**[**value**]**

If the Commission:

- calculates COGS based on the All sales spreadsheet which was prepared from the IFRS accounts; and
- calculates SG&A costs based on PRC GAAP accounts,

there will be a double counting of the value in this General Ledger account;

(c) Financial expense

General Ledger account 68930000 (row 677) contains a debit of **[**value**]** in cost of sales (COGS) under IFRS, with no value in cost of sales under PRC GAAP. However, that General Ledger account contains a debit for the same value in selling costs (SG&A) under PRC GAAP, with no value under IFRS.
As demonstrated in the table below, the total value included in the accounts for that General Ledger account is the same between IFRS and PRC GAAP:

GL A/C 68930000	PRC GAAP	IFRS
Cost of sales (COGS)	-	**[**value**]**
Selling costs (SG&A)	**[**value**]**	-
Total	**[**value**]**	**[**value**]**

If the Commission:

- calculates COGS based on the All sales spreadsheet which was prepared from the IFRS accounts; and
- calculates SG&A costs based on PRC GAAP accounts,

there will be a double counting of the value in this General Ledger account;

3.2 Response to question 2

(a) Impairment loss on assets has no value under IFRS because, as demonstrated in Confidential Attachment 3:

(i) the amounts allocated to impairment loss on assets (SG&A) under PRC GAAP for the following General Ledger items are allocated to cost of sales (COGS) under IFRS:

- General Ledger item 60810000 (row 165);
- General Ledger item 60810200 (row 167); and
- General Ledger item 68010000 (row 643).

(ii) the amount allocated to impairment loss on assets (SG&A) under PRC GAAP for General Ledger item 68111000 (row 660) is allocated to cost of sales (COGS) and selling costs (SG&A) under IFRS.

(b) Gain / loss on fair value has no value for IFRS because, as demonstrated in Confidential Attachment 3, the amounts allocated to gain / loss on fair value (SG&A) under PRC GAAP for the following ledger items are allocated to cost of sales (COGS) under IFRS:

- General Ledger item 67570100 (row 614);
- General Ledger item 67570200 (row 616); and
- General Ledger item 67583430 (row 625).

For the reasons set out above and as demonstrated by Confidential Attachment 3, if the Commission:

- calculates COGS based on the All sales spreadsheet which was prepared from the IFRS accounts; and
- calculates SG&A costs based on PRC GAAP accounts,

there will be a double counting of the values in these General Ledger accounts.

The Commission cannot undertake a fair and accurate calculation unless all figures are taken from accounts prepared using consistent accounting principles. As PRC GAAP accounts are not available at the project cost level, which are accounted for in accordance with IFRS, all calculations should be undertaken using the IFRS accounts provided by Siemens which were verified by the Commission during the site visit.

We will contact you shortly to discuss any questions that you may have about this submission and look forward to these issues being resolved in advance of the publication of the draft Report.

Yours faithfully

Allens