

Questions on Notice

1st question

CHAIR: Explain this to me: according to your IBISWorld Company report, your income tax expense year ending 31 December last year was -\$8.7 million.

Mr McAllister: I think you will find those figures are not correct.

CHAIR: This is from your own report. This is from your own documents. Could you take that on notice?

Mr McAllister: Yes, we can.

Answer

The -\$8.7 million is the income tax expense amount recorded in our financial statements for the year ended 31 December 2013. That amount is calculated in accordance with the Australian Accounting Standards.

It does not equal to the income tax due to the ATO as the income tax due is calculated in accordance with the tax legislation, which differs from the Australian Accounting Standards. You will find below a reconciliation between the accounting result and the taxable income that is used as a basis to compute the income tax due to the ATO.

For the 31 December 2013 year, the income tax due to the ATO was \$3.4M, which was fully paid.

	\$Ms
Accounting profit/(loss) before tax	-13.2
Adjustments due to differences between accounting and tax principles. Major items include adding back below expenditure which are recognised for accounting purposes, but which are not deductible for tax purposes: 1) R&D expenditure =\$25M; 2) Amortisation of brand names = \$19M.	58.2
Taxable income	44.9
Tax at corporate tax rate of 30% on Taxable income	13.5
Less: R&D tax credit, calculated in accordance with the tax legislation	10.1
Income tax due	3.4

2nd question

Senator EDWARDS: How much does Singapore pay Germany as a percentage of the product?

Mr McAllister: I am not sure about that cost, to be honest.

CHAIR: Could you take that on notice, please?

Mr McAllister: Sure.

Answer

The question raised was related to Lantus, our top selling product. To answer, we have considered our main reference, Lantus Solostar 5 (LS5) which represents 89% of the total Lantus sales in 2014.

LS5 is a German product in the sense that (i) it was discovered in Germany and related intellectual property sits in Germany and (ii) it is mostly manufactured in Germany.

Financial flows from Germany to Australia are as follows:

- 1) Sanofi Germany sells LS5 to a French Sanofi affiliate acting as a regional logistic hub for Europe (French hub);
- 2) French hub sells LS5 to Sanofi Singapore acting as a regional logistic hub for the Asia and Pacific region (Singapore hub).
- 3) Singapore hub sells LS5 to Sanofi-Aventis Australia Pty Ltd (SAA) that acts as a distributor of Lantus in Australia.

The margin that the Singapore hub received in 2014 on the LS5 units sold to SAA is about 1.3% of its LS5 sales to Australia.

3rd question

Senator MILNE: The issue we have had is that people trying to analyse the financial reports have difficulty with that. So could I ask you, on notice: for the past 10 years of annual financial reports for the committee so that we are in a position to analyse those. Thanks, Chair.

Senator XENOPHON: I want to put a question on notice. It was asked of the previous witnesses. I would ask that you do take it on notice, because it is best to do an accurate comparator. That is, the prices that are paid—and we may put this on notice to you to be more specific. There was a question asked about how much is paid for drugs here in Australia compared with other jurisdictions. There were some very high costs. I think Pfizer and others were complaining about the very high costs here in Australia. Are any of you aware of what other countries where your companies operate are paying for drugs compared with what you pay for them here?

I assume that through your head offices you would be able to get a comparator of that so that we can have an accurate reflection of what you pay for drugs—your costs for drugs being sold here—compared to what is being paid in other countries. Do you see any difficulty in that?

Answer

Question 1: As per your request, you will find attached the annual financial reports of Sanofi-Aventis Australia Pty Ltd (SAA) for the past 10 years.

Question 2: Considering again Lantus Solostar 5 (LS5) which represents 89% of the total Lantus sales, our top selling product in Australia, we have obtained from our headquarters the information that the price SAA paid for LS5 in 2014 was lower than the price paid by Sanofi affiliates in the US, Canada, the UK and France. Those countries have been chosen as comparators given their similarities with the Australian market.

4th question

Senator MILNE: That is where we want to go with this. As Senator Xenophon is saying, we want comparative actual prices that you pay for the drugs in each similar jurisdiction—that is, if it is a predominantly distributor jurisdiction, what is the price you pay for the same drug in different countries that are also in distribution? The second thing is you have said that that price is determined by the profitability formula. What I am interested in is what profitability formula is applied. Also would you take on notice—if you can answer now, please do

Answer

The Sanofi Group is involved in the full pharmaceutical value chain. Group affiliates are characterised into various categories or mix of categories. These comprise:

- 1) Intellectual property (IP) owners who have borne the heavy costs and risks associated with discovery and development (R&D) of a drug molecule,
- 2) Drug manufacturers who are licensed by IP holders to undertake either primary (manufacture of chemicals, active ingredients) or secondary (formulation, packaging, assembly) manufacturing,
- 3) Pivots who are licensed by IP owners to manufacture, market and distribute group products on a global or regional basis, and
- 4) Distributors in-country who manufacture and / or market and distribute products within their local markets.

Sanofi –Aventis Australia Pty Ltd (SAA) pertains to category 4 as a distributor of the Sanofi Group products in the country. As such it receives a remuneration commensurate to the role that it plays and the share of investment and risk that it bears in the total pharmaceutical value chain. The remuneration that it receives is in the range of 3.2 to 6.4% of the sales of the products involved in that value chain.

We are pleased to share the above information with you and trust this answers your questions.