Market Evolution

Public Pharmaceutical Expenditure (pharmacies)

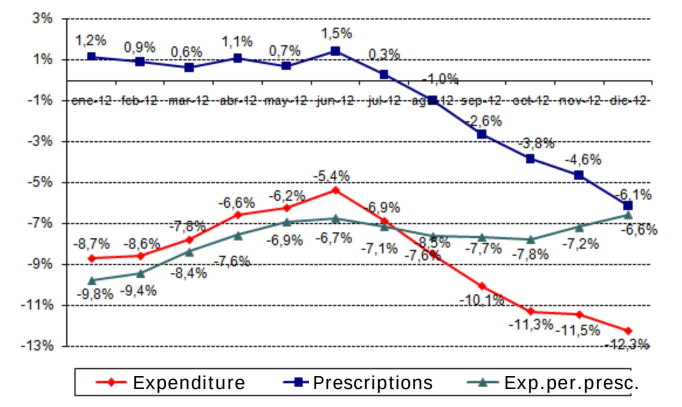
	December 2012	December 2011	% var. 2012/11
Exp. (€ Mill.) *	712,4	888,0	-19,78%
Prescrip. (Millions)	66,4	81,6	-18,57%
Av. Exp. per. prescription (€) *	10,73	10,89	-1,48%

* Retail price (VAT included)

Data from the Ministry of Health, Social Services and Equality shows that in December 2012, public pharmaceutical expenditure experienced a drop of -19.8%, compared to the same month the previous year. This variation is a consequence of a fall in the number of prescriptions (-18.6%), and of a fall in the average cost of prescriptions (-1.5%).

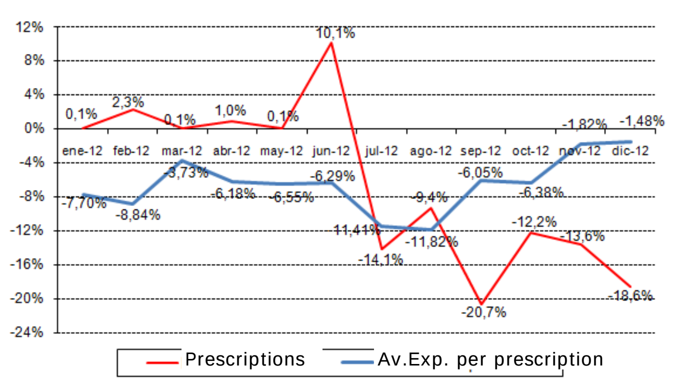
Where annual expenditure evolution is concerned (as seen in the chart below) a drop of -12.3% was registered in December and the pharmaceutical expenditure's variation rate continues to drop significantly, although a brief respite in November was registered, which, as mentioned in the previous Bulletin, was due to statistical effects from a sharp fall in November of 2011 (-12.7%).

Inter Annual Growth rates (last 12 months)



After the new copayment system was implemented in July 2012, and as reflected in the previous chart, the demand on prescriptions reached negative evolution rates which have been the general trend during the second half of 2012 and which will probably continue (to a greater or less extent) during the first half of 2013.

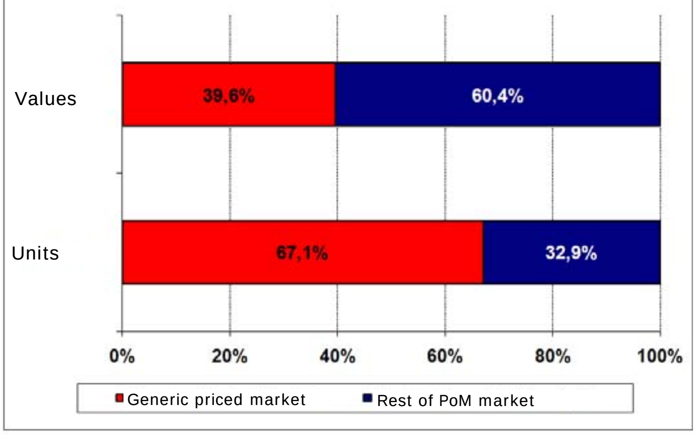
Prescriptions and Average Expenditure. Annual growth rates



On the other hand, the average cost per prescription shows a clear downturn in the last two-months of 2012, whereby annual rates have gone from around -6% to close to -1% / -2%. In turn, it is not foreseeable that big changes occur to these variation rates, at least not until the new Price Reference Order comes into force.

Finally, data from the IMS covering the 12-month period ending December 2012 shows that the whole of the medicines market with generic prices reached 67.1% of the total prescription market, in units, in Spain, and 39.6% of said market value.

Market shares last 12 months (December 2012)



Source: Farmaindustria estimation from IMS.

Note: Total market net from RDL 8-2010 and 9-2010 RDLs

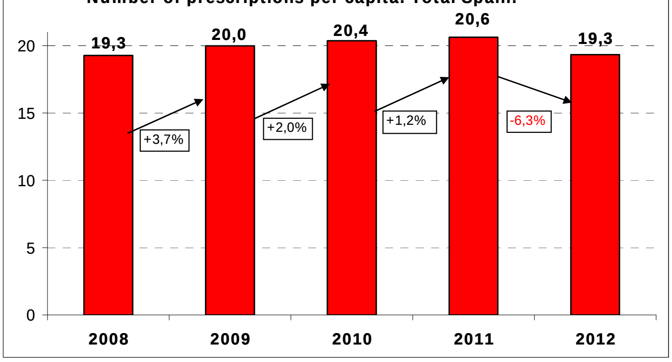
The evolution of public pharmaceutical expenditure in pharmacies in Spain in 2012

With regard to the evolution in the series of public pharmaceutical expenditure in 2012, an unprecedented fact occurred: a simultaneous drop in the two variables was experienced that affected not only its unfolding, but also the average expenditure per prescription and the number of prescriptions dispensed, financed by the NHS.

Specifically, the number of prescriptions fell -6.1% last year (the biggest drop in the last decade) while average expenditure per prescription fell by -6.6%.

The drop in the number of prescriptions was even more pronounced when measured in per capita terms; 2012 ended up registering figures similar to those of 2008.

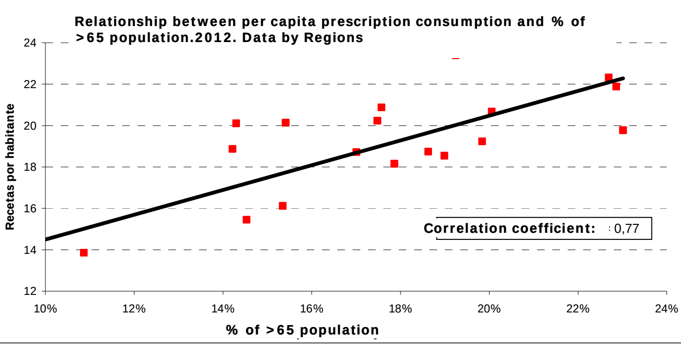
Number of prescriptions per capita. Total Spain.



Source: Minister of Health. Statistics Institute. Population at 1 January each year.

The changes made to patient's contributions (RDL 16/2012) have influenced the demand on prescriptions and a noticeable drop was registered. These effects started back in July 2012, and, to a smaller degree, the knock on effects of de-listing 416 medicines (as from 1st September of last year) has also caused a drop in consumption.

Although there are noticeable differences in the amount of prescription dispensing per capita between different regions, there is also a strong correlation (lineal correlation coefficient =0.77) between the amount of prescriptions dispensed per capita and the percentage of the population older than 65 years.



Source: Minister of Health. Statistics Institute.

In addition, the average expenditure per prescription in Spain has fallen for the 4th consecutive year and accumulated a reduction of more than -20% on the final figure of 2008.

With an average expenditure of 10.69€ per prescription, this variable ended 2012 at its lowest level since 1998.

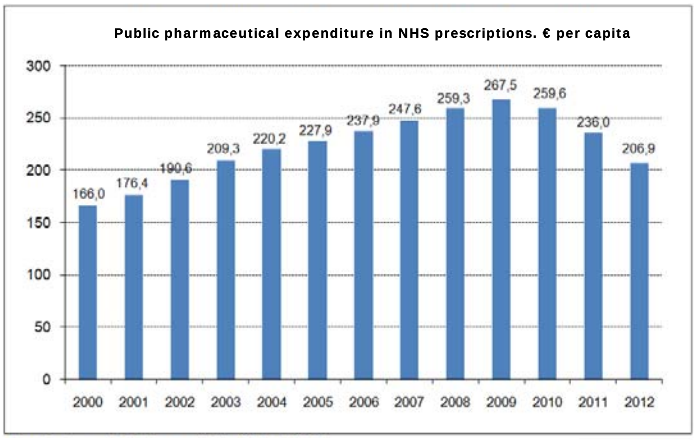
This fact reaffirms the governments' excessive tradition to regulate the Spanish pharmaceutical sector so as to contain pharmaceutical expenditure growth; this is done by means of lineal price reductions, the reference price system, lower price / lowest price etc.

On the other hand, both the modifying of the co-payment system and the de-listing of certain medicines have caused the user to pay more; even though the average price of medicines has reduced continually during 2012.

In fact, the consumer price index under the group heading 'medicines and other pharmaceutical products' has experienced noticeable growth in 2012 (an annual average of +12.5%), however, this increase is actually a consequence of a greater demand by users on average costing medicines (bearing in mind the new co-payment and de-listing of essential products), and not an increase in medicine prices, as mentioned previously, the average cost for the NHS fell -6.6% in 2012.

As a result of the performance in the number of prescriptions and average costs per prescription, public pharmaceutical expenditure per capita in 2012 registered a third consecutive fall and now stands at 206.9€ per capita (12.3% lower than in 2011 and also -25% lower than the lowest ever recorded).

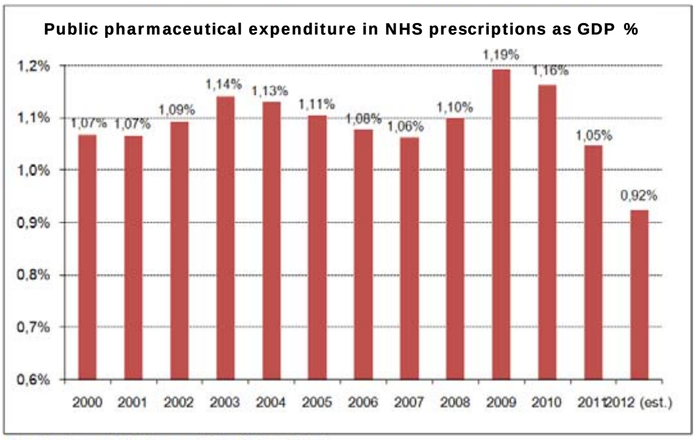
Said value places the indicator at its lowest level since 2002; that is to say, public pharmaceutical expenditure per capita in Spain is actually at the same level as it was 10-years ago, and furthermore, prospects for this variable are expected to drop continually for at least the next 3-years.[1]



Source: Farmaindustria from Minister of Health and Statistics Institute.

In turn, it is worth analising how the public pharmaceutical expenditure evolution (in NHS prescriptions) has influenced GDP over the last decade.

As seen in the chart below, between the years 2000 and 2011, pharmaceutical expenditure was about 1.10% of GDP, with minor deviations (up and down), except for in 2009 when the deviation was almost 0.1 point of GDP, coinciding with an increase in public pharmaceutical expenditure of +4.5 percentage points and a fall in GDP of -3.7 points that particular year.



Fuente: Farmaindustria a partir de INE y MSSSI

It is precisely from 2009 that the downward trend in this particular ratio began causing GDP to fall 0.27 points (-23%) in the last 3-years. In fact, in 2012 public pharmaceutical expenditure represented less than 1% GDP, the maximum threshold enforced by Troika for bailed out countries like Greece or Portugal.

Furthermore, the performance prospects for the pharmaceutical industry within this ratio over the next few years are even more worrying.

The latest available forecasts for Spain estimate that in 2015, GDP will be 8.6% higher than in 2012, while pharmaceutical expenditure is expected to be -18.1% lower than in 2012.[2] If these predictions are met, public pharmaceutical expenditure at pharmacies will be below 0.8% of GDP in 2013, and lower than 0.7% in 2015.

1 See for example IMS, Market Prognosis Europe 2012-2016. Spain 4.0.

2 GDP forecasts: The Spanish Government. Pharmaceutical expenditure forecasts: Farmaindustria and IMS (see previous note).