

Market Evolution

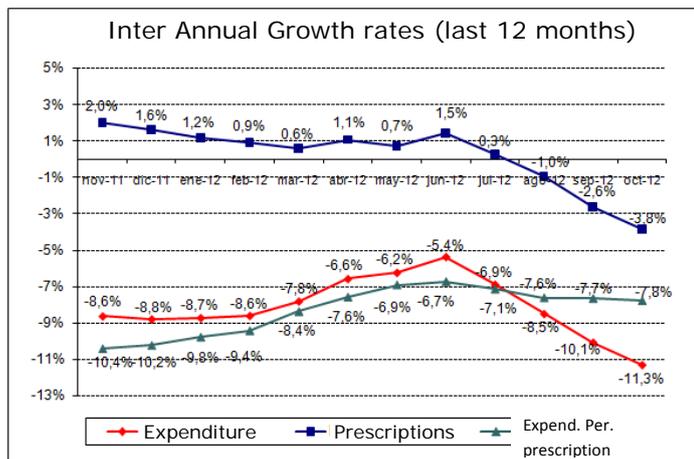
Public Pharmaceutical Expenditure (pharmacies)

	October 2012	October 2011	% var. 2012/11
Exp. (€ Mill.) *	768,8	935,4	-17,81%
Prescrip. (Millions)	72,3	82,4	-12,21%
Av. Exp. per. prescription (€) *	10,63	11,36	-6,38%

* Retail price (VAT included)

Data from the Ministry of Health, Social Services and Equality shows that in October 2012, public pharmaceutical expenditure experienced a drop of -17.8%, compared to the same month the previous year. This variation is a consequence of a fall in the number of prescriptions (-12.2%), and of a fall in the average cost of prescriptions (-6.4%).

Where annual expenditure evolution is concerned, as seen in the chart below, October registered a drop of -11.3%. We can also see that public pharmaceutical expenditure's variation rate has dropped once again reaching a new historic low, a minimum that will exceed at least for the first half of 2013.



It is important to point out how much of an impact the R.Decree Law 16/2012 is having on the demand-side of prescriptions.

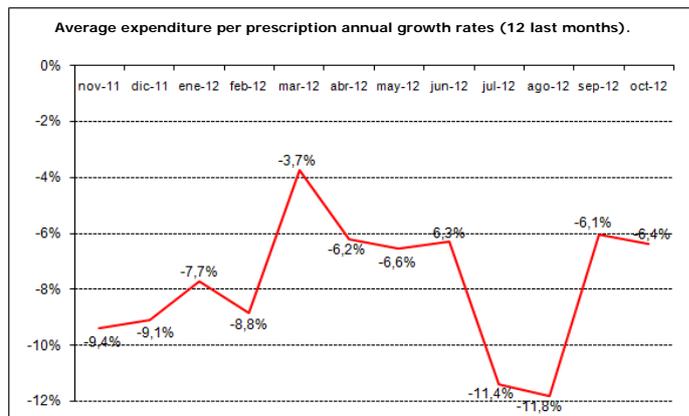
As seen in the previous chart, the demand on prescriptions has gone from an annual accumulated rate to 12-months of around +1% up until June 2012, and from thereon, it started to fall and reached -3.8% in October; it will wind up closer to -5% by the end of the year.

The new co-payment scheme and, to a lesser degree, the de-listing of certain medicines are the main reasons for this negative performance on the demand-side of prescriptions which will carry on at least during the first half of 2013.

The variable that seems to be developing in a less negative way than expected is the average expenditure per prescription, and since the coming into force of R. Decree 16/2012 it has remained relatively stable at around -7% / -8% in the annual accumulated rate to 12-months.

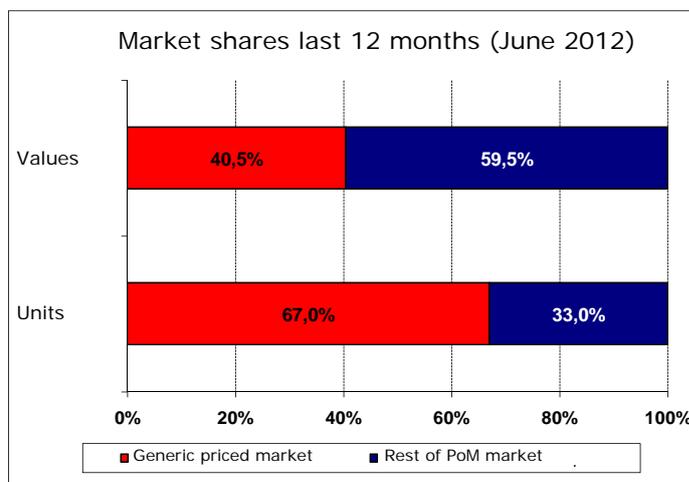
As shown in the following chart, and after two hefty falls in July and August 2012 (-11.4% and -11.8% respectively), the average annual expenditure rate per prescription is back to levels of around -6% during September and October; the same levels that were regis-

tered prior to the entering into force of R. Decree Law 16/2012.



Notwithstanding, the forecast is that the average expenditure per prescription carries on falling in the short-term, probably not very noticeably, but we do expect this variable to end the year registering around -7% / -8%.

Finally, data from the IMS covering the 12-month period ending in September 2012 shows that the medicines market with generic prices reached 67% of the total prescription market in units in Spain, and 40.5% of said market value.



The demand on prescriptions per capita for civil servants with a Mutual Insurance scheme is 16% lower than the average demand on the NHS

The Spanish public healthcare system offers two large insurance regimes: i) that provided by the NHS, and ii) that which gives cover to those civil servants who are members of MUFACE, ISFAS and MUGEJU. Civil servants can choose between either of the above, and the private healthcare scheme (financed by public funds) is contracted by the mutual insurance companies.

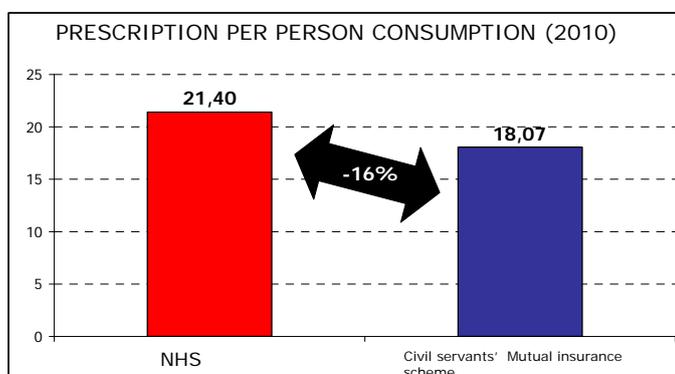
Where medicines are concerned, the NHS and the Mutual insurance companies for civil servants have a different pharmaceutical co-payment. Comparable data of pharmaceutical expenditure in both models is pub-

lished in the INE¹ (the national institute of statistics) and the latest figures correspond to 2010; this was when the general NHS co-payment was 40% of the retail price for financed medicines for working people, and 0% for pensioners.

On the other hand, co-payment for civil servants belonging to the mutual insurance companies was 30% of the retail price of said medicines, irrespective of the patients' labour situation (working or retired).

The reform introduced by RDL 16/2012 has affected the NHS copayment, but not the mutual insurance for civil servants who have maintained the same %.

Having said this, according to figures published by INE (the Institute of National Statistics), in 2010 the average demand on prescriptions in the NHS was 21.40€ per person / year, while those under the mutual insurance reflected an annual average of 18.07€ per prescription / year; a -16% lower.



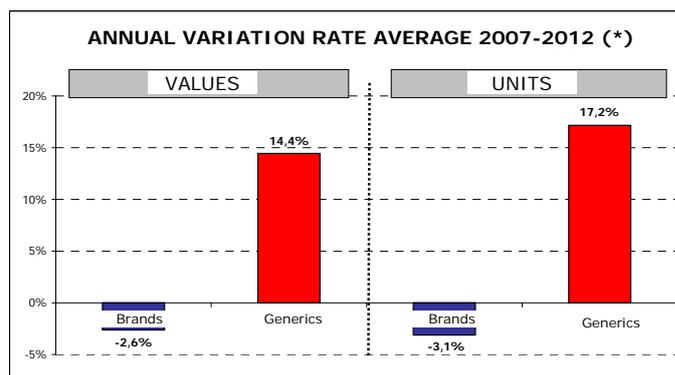
Source: Farmaindustria from National Institute of Statistics data

This data proves that beyond the possible differences in composition and in epidemiological characteristics of both parties, it is very likely that the larger contribution from those under the Mutual cover (civil servants and their beneficiaries) is the main reasons behind the lower demand on prescriptions.

It is foreseeable therefore that the change in the co-payment structure introduced in RDL 16/2012, whereby pensioners of the NHS (with just a few exceptions) will pay 10% of the retail price on financed medicines (with ceiling limits depending on their income), will close the gap on the average demand of prescriptions per capita of the NHS population towards those values of the mutual insurance company's patients.

The latest pharmaceutical policy measures have widened the existing gap between the growth of generics and the brand medicines

Amongst the many differences that exist between generics and brands, the main one is the different growth rhythm in Spain over the last few years.

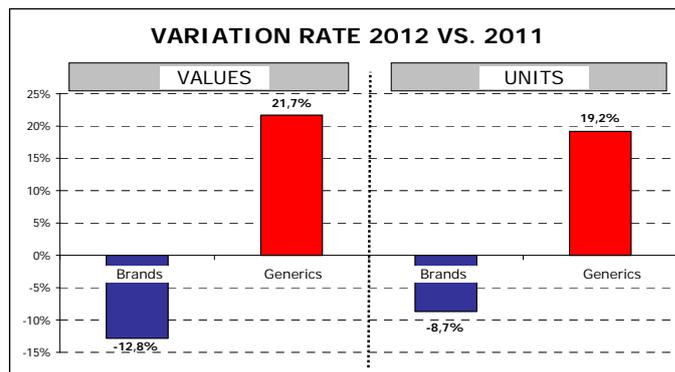


(*) 2012 gathers 12 month data up to Sep. 2012

Source: Farmaindustria+IMS

As shown in the chart above, the average growth rate of generics in Spanish pharmacies was +14.4% in value and +17.2% in units from Sept. 2007-Sept. 2012. Said rates contrast with the falls experienced with brand medicines over the same period which were -2.6% in average annual value and -3.1% in units.

Looking beyond the differences registered in the last 5-years we find that far from them getting narrower, they are actually widening, as shown in the chart below.



(*) Comparison are made between 12 months up to v. same period in 2011

Source: Farmaindustria+IMS

In this last year, generics have grown by +19.2% in units and +21.7% in value, meanwhile brand medicines have dropped by -8.7% in units and -12.8% in value.

The widening of the gap has been undoubtedly influenced by the general practice of prescribing by active ingredient (INN) in November 2011, and, some months later, the obligation to prescribe INN was laid out in RDL 16/2012; in the case that the INN medicine is the same price as the lowest 2 or more medicines, the generic will always be dispensed. This constitutes discrimination towards brand medicines and lacks economic and technical reasoning.

The most recent data from the IMS in their latest report² gives market share figures on generics at the end of October of 17.6% in value and 34.2% in units. If the market shares in units rose to 71.4%, and if we take into account the core molecules market only (whose patents have expired), this would prove to be why

¹ <http://www.ine.es/jaxi/menu.do?type=pcaxis&path=%2F125/p444&file=inebase&L=0>

² *Evaluación del mercado farmacéutico desde la implantación del copago* http://image.respond.imshealth.com/lib/fef2137726c04/m/1/_6+mes+desde+la+publicacion+del+RD+16_2012.pdf

brands lose their market share so quickly once the patent has expired.

In view of these results and being well aware that a strong and competitive off-patent sub-market exists, it is questionable if the duality of growth rates experienced over the last few years (especially the hefty fall in brand medicines) is compatible with a firm commitment to R&D (carried out by the innovative pharmaceutical industry), and if the Reforms penalising brands are just and fair when no savings are made for the national health system at all.

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