Market Evolution

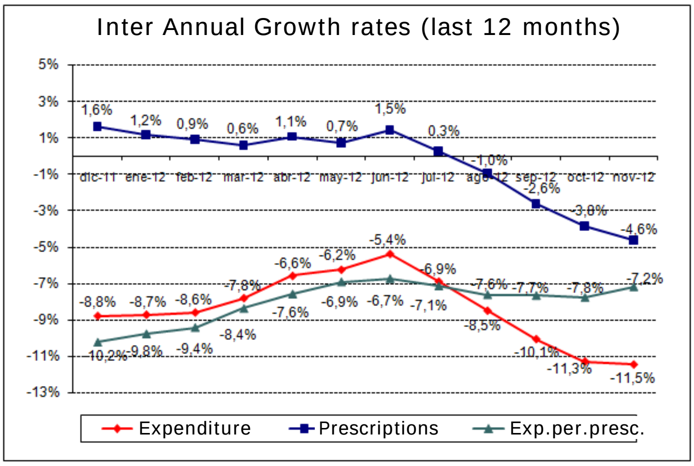
Public Pharmaceutical Expenditure (pharmacies)

	November 2012	November 2011	% var. 2012/11
Exp. (€ Mill.) *	720,7	849,6	-15,18%
Prescrip. (Millions)	67,7	78,4	-13,60%
Av. Exp. per. prescription (€) *	10,64	10,84	-1,82%

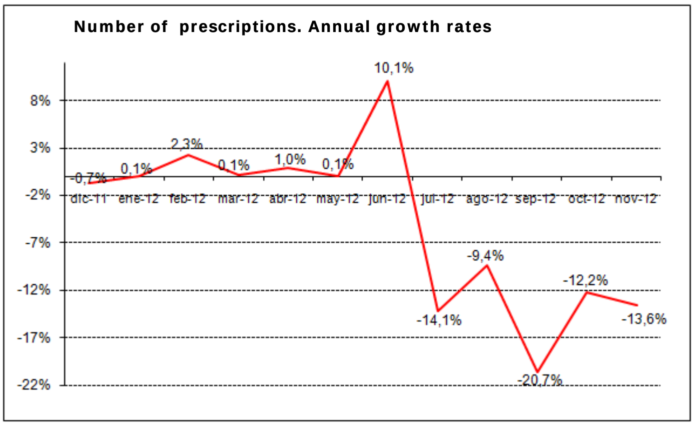
* Retail price (VAT included)

Data from the Ministry of Health, Social Services and Equality shows that in November 2012, public pharmaceutical expenditure experienced a drop of -15.2%, compared to the same month the previous year. This variation is a consequence of a fall in the number of prescriptions (-13.6%), and of a fall in the average cost of prescriptions (-1.8%).

Where annual expenditure evolution is concerned, as seen in the chart below, November registered a drop of -11.5%. We can verify that public pharmaceutical expenditure's variation rate continues to drop, albeit provisionally, and at a slower pace than in previous months. This slow-down is due to a slump in pharmaceutical expenditure during November and December 2011 (-12.7% y -9.7% respectively).

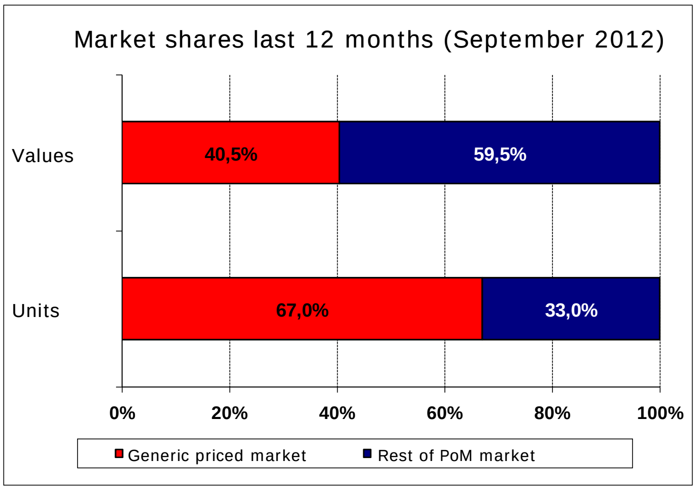


Both the pharmaceutical co-payment scheme implemented in July, and to a lesser degree the de-listing of certain medicines in September are affecting public demand on prescriptions in a rather negative way.



As shown in the previous chart, the performance on the demand side of prescriptions has been fairly constant during the first five-months of the year, however, the implementation of the co-payment scheme last July made the annual variation rate fall to annual rates of -10% / -20%, which could bring the final figures for 2012 to those levels registered mid 2009.

Finally, data from the IMS covering the 12-month period ending in September 2012 shows that the whole of the medicines market with generic prices reached 67.0% of the total prescription market in units in Spain, and 40.5% of said market value.



Latest figures from INE (the National Institute of Statistics) show that employment in the pharmaceutical industry has dropped to levels registered in 2004

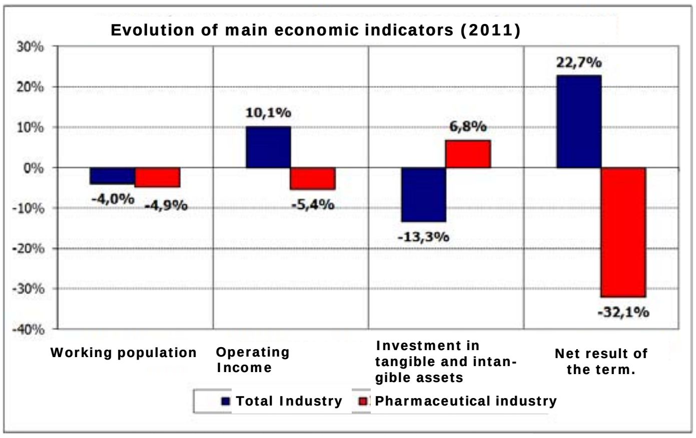
INE has recently published the results of a survey conducted on industrial companies. The results show how the main activity parameters of the different industrial sectors in Spain have evolved during 2011.

Although 2012 has been even more difficult, we should remember that 2011 was also a very complicated year for the pharmaceutical industry in Spain, given that: a) it was the first complete fiscal year in which the measures established in RD Law 4 and 8/2010 were applied, in particular, the adjustments made to the Price Reference System and the implementation of rebates of 4% and 7.5% on ex-factory prices when purchasing innovative products for the NHS, and b), RD Law 9/2011 came into force in November which laid down obligatory prescribing of INN and also increased the rebates from 7.5% to 15% for off-patent medicines whose 10-years market authorization in Spain has expired and doesn't have a generic or biosimilar in our country.

These measures caused pharmaceutical expenditure to shrink by a -8.8% at the end of 2011. Additionally, in the same year, the NHS's debt on healthcare medicines and products for hospitals and the average payment times reached historic maximums which forced many pharmaceutical companies into an unbearable situation creating an adverse effect for the pharma industry in Spain.

Data published by the INE with regard to the survey conducted on industrial companies confirms just how negative 2011 was for the whole of the pharmaceutical industrial based in Spain.

The following chart shows the evolution of some key indicators in the pharmaceutical industry and in the Spanish industry as a whole in 2011.



Source: Farmaindustria from INE statistics

One of the first signs of difficulty is reflected in the number of employees. Employment in the pharma industry dropped by -4.9% in relation to 2010, (1,961 less workers), a total of 37,971 employed people, which is the lowest level registered since 2004.

In turn, in 2011, the pharma industry experienced a reduction of -32.1% in net results, with total profits of 598,2 million €, the lowest since 2001, which contrasts with an increase in profits of +22.7% produced in the Spanish industry as a whole.

If we analise this as business net margins (net result /total operating income), in 2011, the pharmaceutical industry gave a ratio of 4.2% which is the lowest ratio registered to date, even lower than the average Spanish industry ratio (4.6%) which is surprising, given that our sector is innovative.

And finally, it is important to mention that, in spite of improvement seen in the economic-financial indicators (see previous chart), the Spanish industry as a whole made adjustments on employment and investment in 2011.

In the pharmaceutical industry, where employment adjustments were made, a noticeable drop was registered in business results, however, investment stimulus was maintained during 2011 increasing volume by +6.8% compared to 2010.

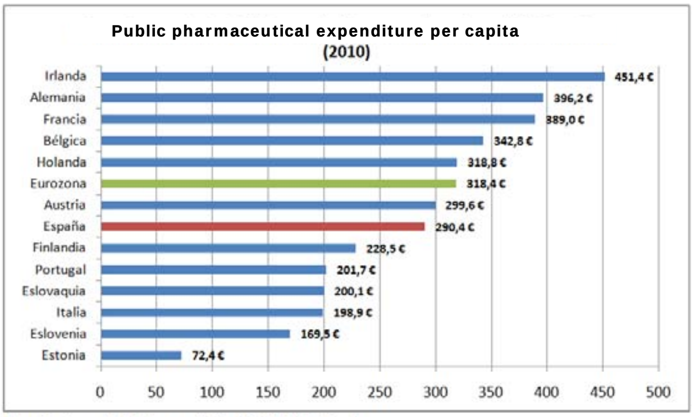
Summarising, 2011 was an especially difficult year for the Spanish pharma industry; the measures implemented to reduce public expenditure produced knock-on effects on their business margins which hit a historical low.

Nevertheless, the pharmaceutical industry has managed to continue its positive contribution where investments and exports are concerned. This proves that through adverse times, our industry is a strategic one that can help towards economic recovery and is the type of productive model that Spain needs.

Public Pharmaceutical expenditure per capita in Spain is -8.8% lower than the average in the Euro zone.

The latest figures published by OECD (2010) rank Spain well below the average in the Euro-zone countries in terms of public pharmaceutical expenditure per capita.

As shown in the following chart, expenditure per capita was 290.4€, -8.8% lower than the average per capita in the euro zone[1] (318.4€).



Source: Farmaindustria from OCDE.

Additionally, we need to remember these figures correspond to 2010 and that since then, public pharmaceutical expenditure in Spain has fallen by -19%,[2] which in turn, will cause a drop in Spanish figures for 2012 and consequently, the differential will be larger. It is also to be pointed out that since price reductions in Spain have been greater than in other Euro zone countries, the difference is also more marked. (This has been mentioned in previous bulletins.)

In fact, if we analyse just the official NHS prescription costs only, over the 12-month period to November 2012, Spain's end figure per habitant[3] would be €210.6, and the forecast is for this amount to keep on dropping over the coming months and years.

On the other hand, in terms of private pharmaceutical expenditure, Spain is the fourth country in the Euro zone with the lowest pharmaceutical cost per capita: -27% lower than the average in the Euro zone.

Bringing both scenarios together, the total pharmaceutical expenditure per capita in Spain would be 401.6€, a -15% lower than the average Euro zone country (470€ per capita).

In light of OEDC's data, Spain's pharmaceutical expenditure is in line with other European countries with similar economical environments.

In turn, the imbalance that seems to exist between public and private healthcare, will have evened itself out in 2012 following the implementation of the new co-payment scheme.

[1] The comparative includes data from 13 of the 17 countries that make up the Euro zone, due to lack of data from 4 other countries (Cyprus, Greece, Luxemburg and Malta). Countries were chosen from the Euro zone to avoid differences in fluctuations of exchange rates.

[2] Data from monthly summaries of prescriptions invoiced, published by MoH. The period taken as a reference to calculate the differential is data to 12-months in December 2010 vs. November 2012.

[3] This result is obtained by dividing public pharmaceutical expenditure on official NH prescriptions accumulated to 12-months to November 2012 (9.945,1 million €) by the Spanish population at 1 January 2012 (47,213 million people, according to the figure from INE).