Market Evolution

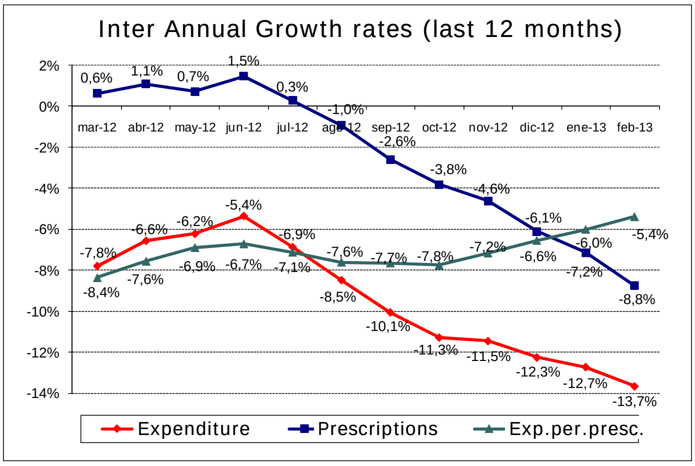
Public Pharmaceutical Expenditure (pharmacies)

	Febrero 2013	Febrero 2012	% var. 2013/12
Exp. (€ Mill.) *	719,0	878,5	-18,16%
Prescrip. (Millions)	68,1	82,1	-17,00%
Av. Exp. per. prescription (€) *	10,55	10,70	-1,40%

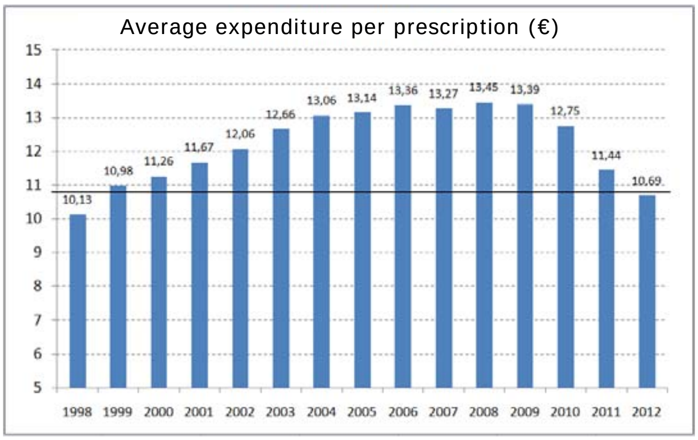
* PVP con IVA

Data from the Ministry of Health, Social Services and Equality shows that in February 2013, public pharmaceutical expenditure at pharmacies experienced a drop of -18.2%, compared to the same month the previous year. This variation in expenditure is a consequence of a fall in the number of prescriptions (-17.0%) and a drop in the average price per prescription of 1.4%.

Where annual expenditure evolution is concerned (as seen in the chart below), a drop of -13.7% was registered in February 2013 and the pharmaceutical expenditure's variation rate still continues to drop significantly. It is foreseeable during the first half of 2013 that this variation will continue to register sharp falls that will lead to around a -18% -20% in June 2013.



The substantial drop in the demand of prescriptions plays a significant role in the negative evolution of pharmaceutical expenditure in our country; we could see a fall in rates of around -12% / -14%, or even more, in the 12-month period to June.

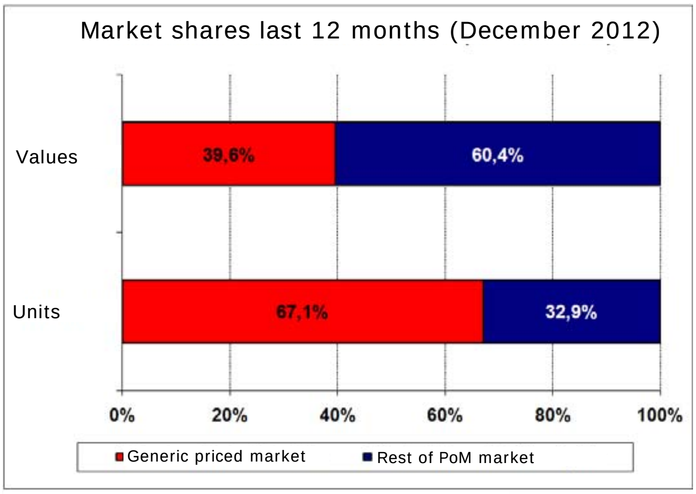


Nevertheless, while variable rates show a bigger drop in prescription consumption, the average expenditure per prescription sill registers negative variation rates.

In fact, as shown in the previous chart, 2012 ended with an average expenditure of 10.69 € per prescription, which placed this variable to those levels registered mid-1999.

The evolution of this particular series remains negative and it is very likely that in the second half of the year (especially in the last quarter), this negative rate is accentuated somewhat more.

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.

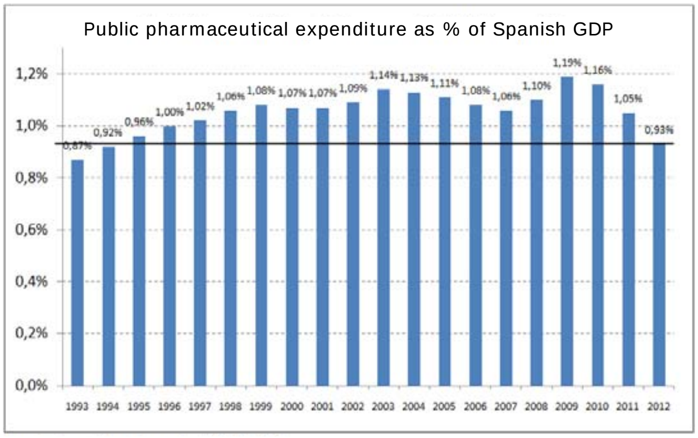


Source: Farmaindustria estimation from IMS.

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

For the first time since 1995, public pharmaceutical expenditure registered less than 1% of GDP at the end of 2012.

Over the last few years, a gradual reduction of pharmaceutical expenditure on NHS prescriptions has had an impact on Spanish GDP.



Source: Farmaindustria, from MoH and National Institute of Statistics

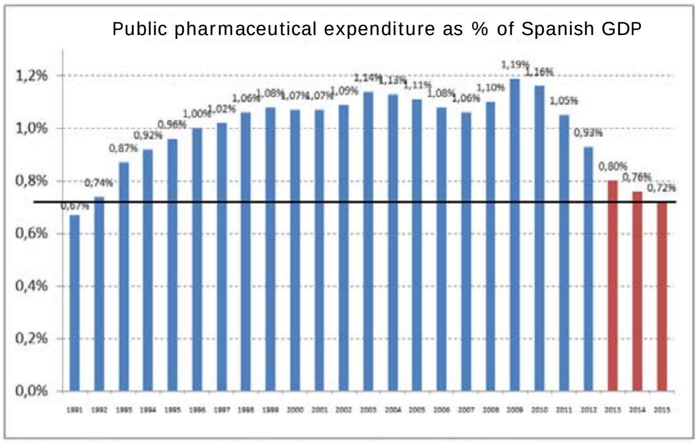
The fall in the ratio of public pharmaceutical expenditure over GDP between 2003 and 2007 happened while there was a strong nominal GDP growth period in Spain.

Likewise, although pharmaceutical expenditure grew by +25% in this same period, said increase was lower that the GDP which increased +35% and therefore the expenditure ratio evolution over GDP decreased.

On the other hand, the registered fall for this ratio during 2009-2012 occurred when there was a standstill of nominal Spanish GDP, which barely increased +0.3% in those particular years. Similarly, the impact of the drop in public pharma expenditure over GDP is almost entirely due to the reduction in pharmaceutical expenditure produced during that same period. Hence, the percentage of Spanish GDP representing public pharmaceutical expenditure dropped by 26 basic points between 2009 and 2012. This was the first time that this ratio dropped to a 1% threshold since 1995. We would have to rewind 18-years (until 1994) to find a lower level than the one just mentioned, as it can be seen in the previous chart.

Furthermore, it is worth highlighting the fact that the impact of the drop in public pharmaceutical invoicing over GDP occurred for the second consecutive year in all of the autonomous regions.

On a national level, the latest forecasts for the 3-year period 2013-2015 indicate: i) an increase in nominal GDP of +8.6% accumulated over said period [1] and ii) an accumulated reduction in public pharmaceutical expenditure of -15.2%.[2]



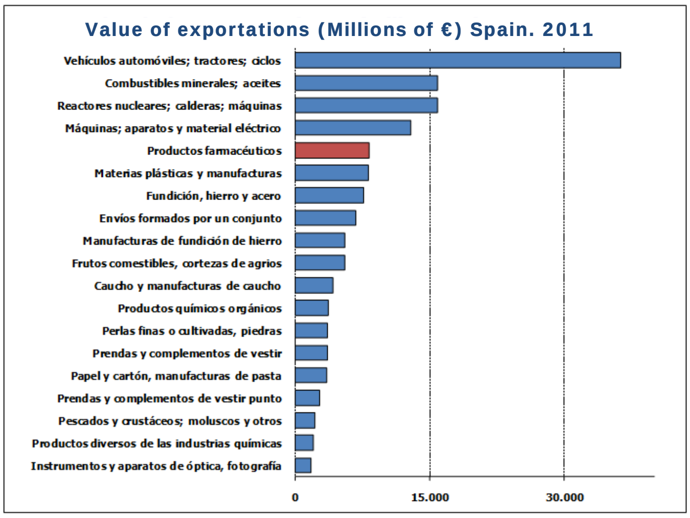
Fuente: Farmaindustria a partir de MSSSI e INE. Predicciones, Farmaindustria, IMS y MEC

Should these forecasts prove to be correct, the impact of pharmaceutical expenditure over GDP for the whole of Spain will fall continuously in the coming 3-years, ending 2015 with a value of slightly above 0.7%, which would mean having ratios of pharma expenditure over GDP in Spain similar to those of the early 1990s, almost 25-years ago.

The pharmaceutical industry is a very dynamic sector in terms of Spanish foreign trade.

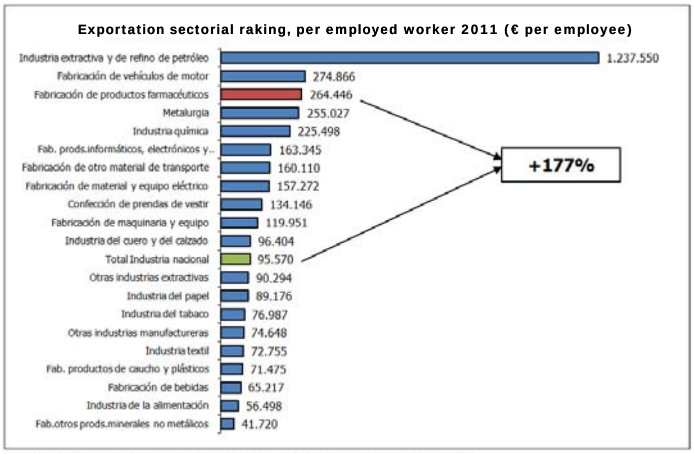
Recently, final figures on foreign trade for 2011 have been released. These figures show that pharmaceutical companies have exported close to 10,000 million euros in 2011 from Spain which is equivalent to 4.5% of the total Spanish exports in said year.[3]

Final exports figures on medicines in 2011 accentuate how a relatively small sector by size (like the pharmaceutical industry) has ranked 5th in values of exports in Spanish economy according to Customs' item lists, as shown in the chart below.



Fuente: Agencia Estatal de Administración Tributaria. Información estadística sobre el comercio exterior. Diciembre 2011

In addition, when analised in relative terms, the results are even more revealing. The pharmaceutical industry holds 3rd position where export value per employee are concerned in Spain with an export value of more than 260,000 Euros per employee; only preceded by the automobile Industry and extraction and production of oil refinery Industry.



Fuente: Farmaindustria a partir de datos de la Secretaría de Estado de Comercio y del INE

Given that the foreign trade department is taking significant steps to alleviate the negative effects of the Spanish crisis, most analysts agree that foreign markets are the main motor for economic growth in the short and medium term in our country. In this manner, the pharma industry could consolidate as one of the economic sectors capable of getting Spain back on its path of sustained growth -which we lost during the 2nd quarter of 2008- and which is turning out to be a very difficult task indeed.

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[1] Nominal growth forecasts of GDP for 2013-2015, carried out by the Ministry of Economy and Competitiveness (the Stability Programme 2012-2015).

[2] Public pharma growth and expenditure forecasts for 2013 by Farmaindustria, and, for the biennium 2014-2015, Farmaindustria, using values from the IMS Health in its report for the Spanish market "IMS Market Prognosis. September 2012".

[3] The final figure of pharmaceutical exports in 2011 was 9,791 million euros, while up until just a few months ago, the provisional figure was 8,801 million euro. This very marked difference between provisional figures and final ones is due to technical matters related with accounting methods of some items in foreign trade operations.