

Market Evolution

Public Pharmaceutical Expenditure (pharmacies)

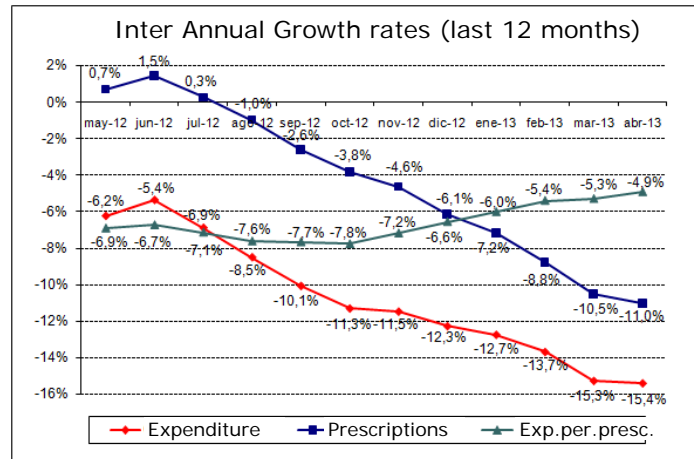
	Abril 2013	Abril 2012	% var. 2013/12
Exp. (€ Mill.) *	805,8	860,9	-6,40%
Prescrip. (Millions)	75,7	79,8	-5,11%
Av. Exp. per. prescription (€) *	10,64	10,79	-1,37%

*Retail price (VAT included).

Data from the Ministry of Health, Social Services and Equality shows that in April 2013, public pharmaceutical expenditure at pharmacies experienced a drop of -6.4%, compared to the same month the previous year. This variation in expenditure is a consequence of a fall in the number of prescriptions (-5.1%) and a drop in the average price per prescription of -1.4%.

As anticipated in our last month's bulletin, the drop in expenditure was lower in April than the months running up to it. This difference was due to the Easter holiday period which fell in March this year, (in reverse order to last year), and as April has been compared to April 2012 (which had less working days in it), then this imbalanced comparison gives an artificially high annual variation rate of pharmaceutical expenditure, but nevertheless, one which compensates somewhat when the opposite effect was registered in March.

Where annual expenditure evolution is concerned (as seen in the chart below), a drop of -15.4 % was registered in April 2013 and pharma's expenditure variation rate continues to drop significantly too.



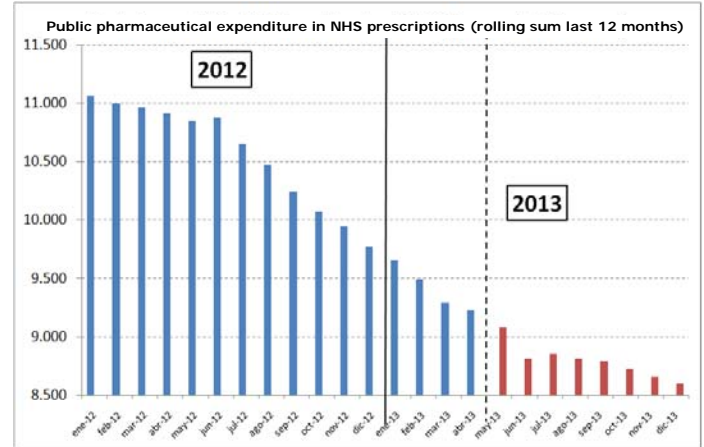
The variation rate accumulated to 12-months for Public pharmaceutical expenditure in pharmacies, although still negative and will remain so for some time, will not be as negative as we have seen in previous months. Public pharmaceutical expenditure will carry on decreasing, but the annual rates, although negative, will not be in double figures.

This will happen in July 2013, one year after the new co-payment system came into force, which has been the main reason why this correction in public pharmaceutical expenditure is happening in our country, especially where the demand on prescriptions is concerned.

Now that a year has gone by since the co-payment measure was implemented, the year-on-year statistical effect of comparing "different" months disappears. As from July 2013, the annual variation rates will be compared to "the same" type of month, (that is to say, both with the new pharmaceutical co-payment system in

force) and expenditure, although still falling, will find that its decrease rate moderates due to the statistic effect.

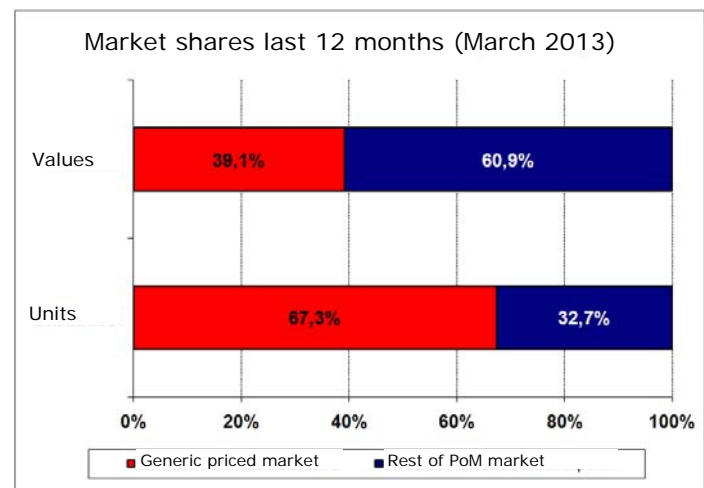
Therefore, during 2013, the pharmaceutical expenditure accumulated variation rate to 12-months will go from -12.3% (which is how it ended 2012) to -19% which it will probably happen in June 2013, to -12% if it meets Farmaindustria's estimates for the end of year 2013.



Source: Farmaindustria estimation from IMS.

In turn, analysts forecast that 2014 will carry on registering a fall for pharma market expenditure in pharmacies of around -4%. This would imply that throughout 2014, pharma's expenditure variation rate accumulated to 12-months would remain negative month after month (expenditure will keep on falling), however it will gradually go from a -12% to -4%, thus matching the analysts' forecasts by the year end 2014.

Finally, data from the IMS covering the 12-month period ending March 2013 shows that the whole of the medicines market with generic prices reached 67.3% of the total prescription market, in units, in Spain, and 39.1% of said market value.



Source: Farmaindustria estimation from IMS.

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

Pharma Co's have contributed more than 1,400 millions € to the NHS through deductions made on sales in pharmacies over the last 3-years.

Three years ago, in May 2010, extraordinary measures were adopted in R.D. Law 8/2010 to reduce public deficit. This RD Law incorporated a legal provision establishing a rebate of 7.5% on ex-factory prices for

those medicines not included in the Reference Price System, but that were financed by the NHS and sold at hospital pharmacies; the only exception being orphan medicines with a deduction of 4%.

Subsequently, in August 2011, said rebate of 7.5% was increased to 15% for those medicines with no generic or biosimilar equivalent that met two conditions:

i) the medicine has been financed by the NHS for more than 10-years, and ii) that the patent with full protection of industrial property rights has expired in one of the European Union Member countries.

Now, three-years later, is an appropriate time to take stock of how the rebates of 4%, 7.5% and 15% have influenced the Spanish public treasury.

According to Farmaindustria's estimations, between June 2010 (the first month of the first deduction) and May 2013, the innovative pharmaceutical industry (R&D) has contributed more than 1,400 million euro to sustain the NHS through regulated deductions laid down in R.D. 8/2010 and 9/2011 for those medicines dispensed at pharmacies.

Although these R.D.L. rebates are also applicable to NHS hospitals (where supplies are made directly by laboratories), there is not enough information to calculate the amounts paid by the pharmaceutical companies in the hospital scope, and therefore this data is not included in the abovementioned figure.

In turn, we should remember that this is not the only direct contribution made by the pharma industry to the treasury. Since 2005, companies have also been paying between 1.5% and 2% of the sales turnover to the NHS (1.5% and 2%, depending on their sales volumes).

According to Farmaindustria's estimations, payments stemming from this contribution are more than 375 million euros.

The abovementioned figures validate the extent of direct contributions made by the pharma industry to sustain the NHS; contributions that, in an indirect way, keep on happening through other economic regulating tools that the authorities use to reduce pharmaceutical costs (allowing public reimbursements and price regulations of innovative medicines, Reference Price System, homogenous groupings, co-payment, de-listing etc.)

All these direct and indirect saving mechanisms should allow for a speedy access of innovative medicines on to the market; it is the only way to safeguard the likelihood of research carried out by pharma companies and to ensure patients have the latest innovative treatments available, which in some cases, is not happening.

The pharmaceutical sector has been the only one within the industrial sector that has increased its production during the crisis.

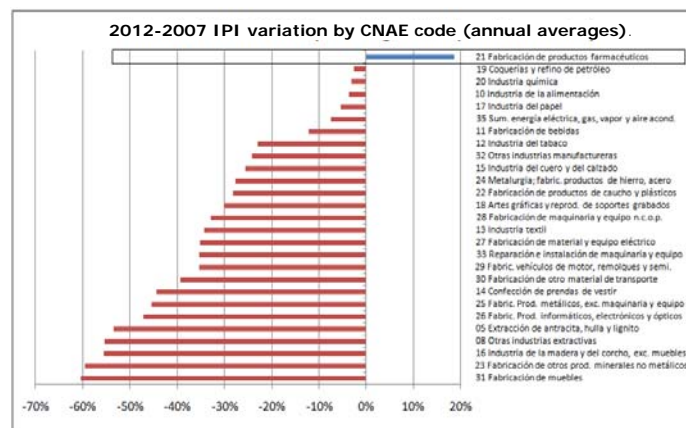
The monthly publication of the Industrial Production Index (IPI) by the National Statistics Institute is an economic indicator that measures the evolution of different industrial lines of productivity in constant terms, eliminating the distorted effect that could be produced by price variations.

We believe it is of interest to analyse how production in the different industrial sectors has performed in Spain during this economic crisis so we see which sectors have

contributed positively to sustain the national production over this prolonged period of economic difficulties.

In this regard, if we analyse the years 2007-2012 (using annual averages to avoid seasonal biases or unforeseeable economic factors), we can verify that the only industrial sector whose production index has had a positive increase is the pharmaceutical sector; volume rose by +18.6%, driven especially by a large increase in medicine exports.

As seen in the following chart, the rest of the industrial sectors registered a negative result.



Source: INE Index of industrial production

When considering the general Industrial Production Index (IPI) or the IPI of the manufacturing industry as a whole, both indexes fell by -27.5% and -28.9% in 2007 and 2012 respectively, revealing plain and clear the extent of the industrial crisis that Spain is suffering.

These figures prove the great value pharmaceutical Co's have setting up in our country and who, in spite of witnessing their public market reduce by 25% in three-years, have been able to increase production in Spain, thanks to the demand of medicine exports.

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