

GRIFOLS, S.A.

Annual Accounts and Directors' Report

31 December 2006

(With Auditors' Report thereon)

(Free translation from the original in Spanish.  
In the event of discrepancy, the Spanish-language version prevails)



**KPMG Auditores S.L.**  
Edifici La Porta de Barcelona  
Av. Diagonal, 682  
08034 Barcelona

### **Auditors' Report on the Annual Accounts**

(Free translation from the original in Spanish.  
In the event of discrepancy, the Spanish-language version prevails)

To the Shareholders of  
Grifols, S.A.

We have audited the annual accounts of Grifols, S.A. (the Company) which comprise the balance sheet at 31 December 2006, the related statement of profit and loss for the year then ended and the notes thereto, the preparation of which is the responsibility of the Company's directors. Our responsibility is to express an opinion on the annual accounts taken as a whole, based on our examination which was conducted in accordance with generally accepted auditing standards in Spain, which require examining, on a test basis, evidence supporting the amounts in the annual accounts and assessing the appropriateness of their presentation, of the accounting principles applied and of the estimates employed.

In accordance with prevailing Spanish legislation, these annual accounts also include, for each individual caption in the balance sheet, statement of profit and loss and disclosure of source and application of funds, comparative figures for the previous year. We express our opinion solely on the annual accounts for 2006. On 15 February 2006 we issued our unqualified audit report on the annual accounts for 2005.

In our opinion, the annual accounts for 2006 present fairly, in all material respects, the shareholders' equity and financial position of Grifols, S.A. at 31 December 2006, and the results of its operations and source and application of funds for the year then ended, and contain sufficient information necessary for their adequate interpretation and understanding, in accordance with generally accepted accounting principles in Spain, applied on a basis consistent with that of the preceding year.

The accompanying directors' report for 2006 contains such explanations as the directors consider relevant to the situation of Grifols, S.A., the evolution of its business and other matters, but is not an integral part of the annual accounts. We have verified that the accounting information contained therein is consistent with that disclosed in the annual accounts for 2006. Our work as auditors is limited to the verification of the directors' report within the scope described in this paragraph and does not include a review of information other than that obtained from the Company's accounting records.

**KPMG AUDITORES, S.L.**

David Ghosh Basu (signed)

19 February 2007

# GRIFOLS, S.A.

## Balance sheets 31 December 2006 and 2005 (Expressed in Euros)

(Free translation from the original in Spanish.  
In the event of discrepancy, the Spanish-language version prevails)

Assets	2006	2005
<b>Fixed assets</b>		
Share issue costs (note 5)	16,306,900	16,447,851
Intangible assets (note 6)	5,524,658	5,165,473
Tangible assets (note 7)	21,014,308	21,302,698
Investments (note 8)	87,234,236	87,236,070
Total fixed assets	130,080,102	130,152,092
<b>Deferred expenses (note 4 (f))</b>	2,198,886	1,201,155
<b>Current assets</b>		
Stocks	588,097	528,557
Debtors (note 10)	18,173,179	9,110,153
Short-term investments (note 11)	351,749,127	316,973,695
Cash in hand and at banks	137,358	369,699
Prepayments	2,093,452	1,570,395
Total current assets	372,741,213	328,552,499
<b>Total assets</b>	<b>505,020,201</b>	<b>459,905,746</b>

The accompanying notes form an integral part of the annual accounts.

# GRIFOLS, S.A.

## Balance sheets 31 December 2006 and 2005 (Expressed in Euros)

(Free translation from the original in Spanish.  
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Liabilities	2006	2005
<b>Shareholders' equity (note 12)</b>		
Share capital	106,532,449	70,299,149
Share premium	131,831,810	115,665,110
Reserves	8,692,913	22,534,694
Net profit for the year	18,206,627	12,960,959
Total shareholders' equity	265,263,799	221,459,912
<b>Deferred income (note 13)</b>	992,896	1,189,685
<b>Long-term liabilities</b>		
Borrowings (note 14)	175,347,237	179,592,455
Total long-term liabilities	175,347,237	179,592,455
<b>Current liabilities</b>		
Borrowings (note 15)	34,818,600	20,561,704
Short-term debt with group companies (note 16)	17,681,707	15,351,814
Trade creditors (note 17)	7,266,989	10,103,875
Other creditors (note 18)	3,648,973	11,646,301
Total current liabilities	63,416,269	57,663,694
<b>Total liabilities</b>	<b>505,020,201</b>	<b>459,905,746</b>

The accompanying notes form an integral part of the annual accounts.

# GRIFOLS, S.A.

## Statements of profit and loss for the years ended 31 December 2006 and 2005 (Expressed in Euros)

(Free translation from the original in Spanish.

In the event of discrepancy, the Spanish-language version prevails)

Expenses	2006	2005
<b>Operating expenses</b>		
Materials consumed	200,388	178,094
Personnel expenses (note 20)	15,921,194	14,550,517
Amortisation and depreciation (notes 5, 6 and 7)	21,269,170	5,919,553
Other operating expenses	21,749,383	19,369,480
Total operating expenses	59,140,135	40,017,644
<b>Financial expenses</b>		
Interest and similar expenses	11,193,793	10,720,640
Changes in provisions for investments	147,458	--
Exchange losses	1,351,375	151,154
Total financial expenses	12,692,626	10,871,794
<b>Net financial income</b>	<b>39,200,867</b>	<b>20,618,423</b>
<b>Profit on ordinary activities</b>	<b>9,978,335</b>	<b>8,211,884</b>
<b>Extraordinary losses and expenses</b>		
Movement in provisions for tangible and intangible assets and own shares (note 8)	(85,108)	829,790
Losses on tangible and intangible assets and own shares (note 5)	550,982	228,282
Extraordinary expenses	49,335	2,185
Prior years' expenses and losses	--	17,031
Total extraordinary expenses and losses	515,209	1,077,288
<b>Net extraordinary income</b>	<b>--</b>	<b>5,864,177</b>
<b>Profit before income tax</b>	<b>9,630,797</b>	<b>14,076,061</b>
Income tax (note 23)	(8,575,830)	1,115,102
<b>Profit for the year</b>	<b>18,206,627</b>	<b>12,960,959</b>

The accompanying notes form an integral part of the annual accounts.

# GRIFOLS, S.A.

## Statements of profit and loss for the years ended 31 December 2006 and 2005 (Expressed in Euros)

(Free translation from the original in Spanish.  
In the event of discrepancy, the Spanish-language version prevails)

Income	2006	2005
<b>Operating income</b>		
Net sales (notes 19 and 21)	29,404,747	27,344,911
Self-constructed assets	437,843	243,831
Other operating income	75,013	22,363
Total operating income	29,917,603	27,611,105
<b>Operating losses</b>	<b>29,222,532</b>	<b>12,406,539</b>
<b>Net financial income</b>		
Dividends (notes 8 and 21)	36,238,913	14,340,230
Other interest and similar income (note 21)	14,486,923	15,449,890
Exchange gains	1,167,657	1,700,097
Total financial income	51,893,493	31,490,217
<b>Extraordinary profit and income</b>		
Profits on disposals of fixed assets	97,728	--
Profits on own share and bond operations (note 9)	--	6,940,593
Extraordinary income	18,000	872
Prior years' profit and income	51,943	--
Total extraordinary income	167,671	6,941,465
<b>Net extraordinary expenses</b>	<b>347,538</b>	<b>--</b>

The accompanying notes form an integral part of the annual accounts.

# GRIFOLS, S.A.

## Notes to the Annual Accounts

### 31 December 2006 and 2005

(Free translation from the original in Spanish.  
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#### **(1) Nature and Principal Activities**

Grifols, S.A. (hereinafter the Company) was incorporated with limited liability under Spanish law on 22 June 1987. On 27 June 2005, the Company changed its name from Probitas Pharma, S.A. to Grifols, S.A. Previously, on 25 May 2001, the Company had changed its name from Grupo Grifols, S.A. to Probitas Pharma, S.A.

The Company's principal activity is to render administrative and management services to its subsidiaries (see note 8).

The Company's registered offices are located in Barcelona and its main installations are in Barcelona and in Parets del Vallés (Barcelona).

The Company is the parent company of the Grifols Group, which is composed of the Company and the subsidiaries listed in note 8 to these annual accounts which operate in an integrated manner and under common management. The Group's principal activities comprise the manufacture, preparation and sale of therapeutic products, especially haemoderivatives.

On 17 May 2006 the Company completed the public offering of shares through a capital increase of Euros 312.4 million (including the share premium) equivalent to 71,000,000 ordinary shares of Euros 4.40 par value each (see note 12).

#### **(2) Basis of Presentation**

The accompanying annual accounts have been prepared by the board of directors in the format established by prevailing Spanish legislation to present fairly the shareholders' equity, financial position, results of operations, and changes in financial position for 2006 and 2005 and to present the proposed distribution of profit for the latter year.

These annual accounts have been prepared on the basis of the Company's auxiliary accounting records.

The directors consider that the annual accounts for 2006 will be approved without significant changes. The comparative accounts for 2005 were approved in an annual general meeting held on 5 April 2006.

Solely for the purpose of presentation, these annual accounts have been rounded off to whole numbers, and do not include decimals.

# GRIFOLS, S.A

## Notes to the Annual Accounts

In accordance with Royal Decree 1815 dated 20 December 1991, the Company prepares consolidated annual accounts for its group of companies. On 15 February 2007 the consolidated annual accounts of the Grifols Group at 31 December 2006 were prepared under International Financial Reporting Standards, presenting a net profit of Euros 45,394 thousand and shareholders' equity of Euros 368,352 thousand.

### (3) Distribution of Profit

The board of directors will propose to the shareholders at their annual general meeting that the profit for the year ended 31 December 2006 be distributed as follows:

	<u>Euros</u>
Legal reserve	1,820,663
Voluntary reserves	3,580,764
Dividends	12,805,200
	<u>18,206,627</u>

The distribution of profit for the year ended 31 December 2005 is shown in details of movement in shareholders' equity in note 12.

### (4) Significant Accounting Principles

The accompanying annual accounts have been prepared in accordance with accounting principles established in the Spanish General Chart of Accounts, the most significant of which are as follows:

#### (a) Share issue costs

Share issue costs are stated at cost less accumulated amortisation, calculated on a straight-line basis over a period not exceeding five years.

#### (b) Intangible assets

Intangible assets are stated at cost of acquisition or direct cost of production, as appropriate, net of accumulated amortisation, as follows:



# GRIFOLS, S.A

## Notes to the Annual Accounts

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- The amounts paid to acquire industrial property rights, distribution rights and the capitalised expenses incurred as a result of registering patents, are amortised on a straight-line basis over a period not exceeding five years.
- Software acquired or developed by the Company is stated at cost and amortised on a straight-line basis over a period of between three and six years. Software maintenance costs are expensed when incurred.
- The rights to use and the option to purchase tangible assets contracted through lease financing are recorded at the cash value of the asset at the time of acquisition. These rights are generally amortised on a straight-line basis over the useful lives of the leased assets.

The total lease instalments and the amount of the purchase option are recorded as a liability. The initial difference between the cash value of the asset and the total debt, equivalent to the financial cost of the operation, is recorded under deferred expenses and expensed over the term of the contract using the interest method.

When the purchase option is exercised, the cost and accumulated depreciation of the assets is transferred to the relevant tangible asset category.

### (c) Tangible assets

Tangible assets are stated at cost, revalued in 1983 as permitted by legislation prevailing at that time, less related accumulated depreciation.

Depreciation is provided on a straight-line basis over the estimated useful lives of the assets as follows:

	<u>Rates</u>
Buildings	1% - 3%
Plant and machinery	8%-10%
Other installations, equipment and furniture	10% - 30%
Other tangible assets	16% - 25%

Based on an appraisal by an independent third party, the Company has revalued the useful life of buildings with effect from 1 January 2005, which are now depreciated over a period of between 33 and 100 years. Since 2005, depreciation of the affected assets has been calculated based on their net book value as at 31 December 2004 over their remaining re-estimated useful life.

Repairs and maintenance costs which do not improve the related assets or extend their useful lives are expensed when incurred.

**Notes to the Annual Accounts**

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**(d) Investments**

Variable income securities are stated at cost, including inherent costs.

For the purpose of preparing the Company's individual annual accounts, investments in group companies are not consolidated and are stated at cost.

Provision is generally made for a decline in value of investments where circumstances so dictate. To this end, a provision is made where cost exceeds the underlying net book value adjusted to take into account any latent unrecorded goodwill at year end.

Guarantee deposits are stated at the amount disbursed.

**(e) Own shares**

Own shares acquired by the Company are stated at the lower of cost or market or net book value. The Company appropriates to an undistributable reserve the amounts required by law.

**(f) Deferred expenses**

Deferred expenses basically include the following:

- Deferred financial expenses related to lease financing operations, which are expensed over the terms of the operations using the interest method.
- Loan arrangement costs, which are expensed over the terms of the loans.
- Implicit interest on loans deferred for more than a year, which is expensed over the terms of the loans using the interest method.

**(g) Stocks**

Stocks are stated at cost and mainly comprise raw materials and other materials consumed.

The Company adjusts the value of stocks when cost exceeds market value.

**(h) Debtors and notes receivable**

Practically all the Company's revenues are collected from the different subsidiaries (see notes 10 and 21).

## Notes to the Annual Accounts

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### **(i) Income taxes**

Income taxes are calculated based on profit reported for accounting purposes, adjusted for permanent differences with fiscal criteria and taking into consideration any applicable tax credits and deductions. The effects of timing differences, where applicable, are included in deferred tax assets or liabilities.

The Company files consolidated tax returns with the other Spanish subsidiaries. As parent company, Grifols, S.A. is responsible for preparing and paying income tax and, as such, receives as a provision of funds those payments which the subsidiaries would have to pay if their tax returns were presented on an individual basis.

Tax credits in respect of loss carryforwards are generally recognised to the limit that they can be offset with profits from the same year of other companies from the consolidated tax group.

Nevertheless, the Company has recognised a tax credit on considering that its recovery is reasonably assured since it is estimated that future profits will be generated, which represents a reduction in income tax payable in the future of Euros 4,791 thousand (see notes 10 and 23).

In accordance with the Spanish Institute of Accountants and Auditors' ruling dated 15 March 2002, since the fiscal year started 1 January 2002, the Company recognises tax credits pending application, mainly for foreign investments, as it is estimated that they will be reasonably recovered during the term established by prevailing legislation (see notes 8, 10 and 23). In accordance with this legislation, income from recognising such tax credits is deferred over the estimated useful life of the assets which have generated these tax credits, mainly foreign investments (see note 13).

### **(j) Transactions and balances in currencies other than the Euro**

Transactions in currencies other than the Euro are accounted for in Euros at the rates of exchange prevailing at the transaction date. Exchange gains or losses on settlement of balances in currencies other than the Euro are taken to profit and loss when they arise.

Balances receivable and payable in currencies other than the Euro are expressed in Euros at the rates of exchange prevailing at year end. Unrealised foreign exchange losses, determined for groups of currencies with similar maturity or market trends, are charged to expenses while unrealised exchange gains, similarly determined, are deferred. Exceptionally, when exchange-rate hedging contracts exist, balances in currencies other than the Euro are expressed in Euros at the rate of exchange stipulated in these contracts.

## Notes to the Annual Accounts

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Cash account balances in currencies other than the Euro are expressed in Euros at the rate of exchange prevailing at year end and any exchange gains or losses are taken to profit and loss.

### **(k) Compensation for termination of employment**

Except in the case of justifiable cause, companies are liable to pay indemnities to employees whose services are discontinued.

In the absence of any foreseeable need for abnormal termination of employees' services and because the indemnities are not payable to those employees who retire or voluntarily leave the Company, indemnity payments, if they arise, are expensed when the decision to terminate employment is taken.

### **(l) Current/long-term**

Assets and liabilities are classified as current if maturing within twelve months and long-term if maturing more than twelve months from the balance sheet date.

### **(m) Income and expenses**

Net sales are presented net of taxes on sales and discounts and comprise the value of goods sold or services rendered during the normal course of business.

Income and expenses are generally recognised on an accruals basis, irrespective of collections and payments. Nevertheless, in accordance with prudent criteria, the Company only records realised gains at year end, while expected liabilities and estimated losses are recognised as soon as they become known.

### **(n) Pension obligations**

On 24 May 2002, the Company set up a defined contribution pension plan for employees with more than two years of service at that date. This plan is integrated into the Bansabadell 18 pension fund which is managed by Bansabadell Pensiones.

The annual contribution of the Company is recorded under personnel expenses in the statement of profit and loss on an accruals basis (see note 20).

### **(o) Business activities affecting the environment, energy-saving and efficiency projects**

Expenses incurred acquiring systems, equipment and installations for preventing, reducing or controlling the possible environmental impacts of the Company's normal activities are recorded as fixed asset investments.

# GRIFOLS, S.A

## Notes to the Annual Accounts

Expenses incurred on environmental activities other than those involving the acquisition of fixed assets are expensed.

The acquisition of assets destined for energy saving and efficiency which increase the productivity, capacity or extend the useful lives of the assets are recognised as an increase in the value of the fixed asset installations.

The directors of the Company consider that any possible environmentally related contingencies that may arise would not be significant.

### (p) Financial derivatives

Differences in the value of OTC financial derivatives are recognised when the operations are settled or repaid, on the following basis:

- For hedging operations, the differences in value are registered according to the nature of the hedged risk. Gains and losses on interest-rate hedging operations are taken to income or expensed in line with the accrual of interest hedged.
- For operations that do not fulfil the criteria to be classified as hedges, differences in value are taken directly to income on settlement or repayment. Nevertheless, if accumulated and unpaid losses are expected at year end, the necessary provision for liabilities and charges is made.

### (5) Share Issue Costs

Details of and changes in share issue costs at 31 December 2005 are as follows:

	Euros			Balances as at 31/12/05
	Balance s as at 31/12/04	Additions	Amortisation	
Share issue costs	218,147	18,484,661	(2,254,957)	16,447,851
	218,147	18,484,661	(2,254,957)	16,447,851

# GRIFOLS, S.A

## Notes to the Annual Accounts

Details of and changes in share issue costs at 31 December 2006 are as follows:

	Euros			
	Balances as at			Balances as at
	31/12/05	Additions	Amortisation	31/12/06
Share issue costs	16,447,851	17,852,167	(17,993,118)	16,306,900
	16,447,851	17,852,167	(17,993,118)	16,306,900

Additions of share issue costs for the year 2006 comprise those the Company incurred in connection with the capital increase through the public offering of shares conducted in 2006 (see note 12(a)).

Amortisation of share issue costs during 2006 comprises the costs incurred by the Company mainly in connection with the capital reduction, on repurchasing own shares, conducted during 2006 (see note 12(a)).

# GRIFOLS, S.A

## Notes to the Annual Accounts

### (6) Intangible Assets

Details of and changes in intangible assets at 31 December 2005 are as follows:

	Euros				Balances as at 31/12/05
	Balances as at 31/12/04	Additions	Transfers	Disposals	
<b>Cost:</b>					
Concessions, patents, licences, trademarks and other property rights	2,265,971	--	--	(214,146)	2,051,825
Software	7,300,786	677,537	5,247	--	7,983,570
Rights over leased assets	2,216,683	307,271	(554,381)	--	1,969,573
	11,783,440	984,808	(549,134)	(214,146)	12,004,968
<b>Accumulated amortisation:</b>					
Concessions, patents, licences, trademarks and other property rights	(777,813)	(183,078)	--	--	(960,891)
Software	(3,929,234)	(1,003,801)	(509,339)	--	(5,442,374)
Rights over leased assets	(976,135)	(204,496)	744,401	--	(436,230)
	(5,683,182)	(1,391,375)	235,062	0	(6,839,495)
<b>Net value</b>	6,100,258	(406,567)	(314,072)	(214,146)	5,165,473

(note 7)

# GRIFOLS, S.A

## Notes to the Annual Accounts

Details of and changes in intangible assets at 31 December 2006 are as follows:

	Euros				
	Balances as at				Balances as at
	31/12/05	Additions	Transfers	Disposals	31/12/06
<b>Cost:</b>					
Concessions, patents, licences, trademarks and other property rights	2,051,825	--	--	(702,654)	1,349,171
Software	7,983,570	2,300,673	--	(541)	10,283,702
Rights over leased assets	1,969,573	197,002	(724,891)	--	1,441,684
	12,004,968	2,497,675	(724,891)	(703,195)	13,074,557
<b>Accumulated amortisation:</b>					
Concessions, patents, licences, trademarks and other property rights	(960,891)	(124,183)	--	89,261	(995,813)
Software	(5,442,374)	(876,061)	--	436	(6,317,999)
Rights over leased assets	(436,230)	(126,507)	326,650	--	(236,087)
<b>Net value</b>	(6,839,495)	(1,126,751)	326,650	89,697	(7,549,899)
<b>Cost:</b>	5,165,473	1,370,924	(398,241)	(613,498)	5,524,658

(note 7)

At 31 December 2006 software additions comprise the different software licenses acquired or developed by the Company.



# GRIFOLS, S.A

## Notes to the Annual Accounts

The Company uses certain assets through lease financing. At 31 December 2006 the main terms and conditions of these contracts are as follows:

Assets	Date of contract	Number of monthly payments	Euros		
			Cash value	Amount of each instalment (*)	Purchase option
Land and buildings	1998	120	625,053	6,118	6,741
Plant and machinery	2004	36	276,358	8,063	3,102
Furniture	2004	36	36,000	1,021	1,021
Plant and machinery	2005	36	307,271	8,917	2,902
Plant and machinery	2006	36	32,593	975	1
Information technology equipment	2006	36	164,409	4,911	--
Total cost			1,441,684		
Less accumulated amortisation			(236,087)		
			1,205,597		

(\*) Variable linked to interest rate

A summary of the liabilities resulting from these operations at 31 December 2006 and 2005 is as follows:

	Euros	
	2006	2005
Total amount of operations	8,463,890	8,252,007
Payments made in prior years	(7,427,498)	(6,826,647)
Payments made during the year	(462,221)	(600,851)
Lease financing creditors	574,171	824,509

# GRIFOLS, S.A

## Notes to the Annual Accounts

Details of these liabilities are follows:

	Euros			
	2006		2005	
	Short-term	Long-term	Short-term	Long-term
Capital	316,503	230,530	420,325	370,242
Interest	14,425	12,713	21,517	12,425
	330,928	243,243	441,842	382,667
	(note 15)	(note 14)	(note 15)	(note 14)

# GRIFOLS, S.A

## Notes to the Annual Accounts

### (7) Tangible Assets

Details of and changes in tangible assets at 31 December 2005 are as follows:

	Euros					
	Balances as at	Additions	Transfers	Disposals		Balances as at
	31/12/04					31/12/05
<b>Cost:</b>						
Land and buildings	16,559,046	--	--	--	16,559,046	
Plant and machinery	2,193,545	--	46,446	--	2,239,991	
Other installations, equipment and furniture	21,542,450	10,128	588,708	--	22,141,286	
Other tangible assets	2,639,020	7,629	166,779	(17,368)	2,796,060	
Work in progress	210,673	493,877	(252,799)	--	451,751	
	43,144,734	511,634	549,134	(17,368)	44,188,134	
<b>Accumulated depreciation:</b>						
Buildings	(3,562,940)	(182,713)	--	--	(3,745,653)	
Plant and machinery	(1,096,219)	(183,457)	--	--	(1,279,676)	
Other installations, equipment and furniture	(13,530,201)	(1,644,815)	(110,649)	--	(15,285,665)	
Other tangible assets	(2,204,469)	(262,236)	(124,413)	16,676	(2,574,442)	
	(20,393,829)	(2,273,221)	(235,062)	16,676	(22,885,436)	
<b>Net value</b>	22,750,905	(1,761,587)	314,072	(692)	21,302,698	

(note 6)

# GRIFOLS, S.A

## Notes to the Annual Accounts

Details of and changes in tangible assets at 31 December 2006 are as follows:

	Euros				Balances as at 31/12/06
	Balances as at 31/12/05	Additions	Transfers	Disposals	
<b>Cost:</b>					
Land and buildings	16,559,046	--	--	--	16,559,046
Plant and machinery	2,239,991	--	400,660	--	2,640,651
Other installations, equipment and furniture	22,141,286	15,396	593,127	(15,356)	22,734,453
Other tangible assets	2,796,060	20,445	271,201	(8,271)	3,079,435
Work in progress	451,751	1,426,829	(540,097)	--	1,338,483
	44,188,134	1,462,670	724,891	(23,627)	46,352,068
<b>Accumulated depreciation:</b>					
Buildings	(3,745,653)	(183,873)	--	--	(3,929,526)
Plant and machinery	(1,279,676)	(200,373)	(108,583)	--	(1,588,632)
Other installations, equipment and furniture	(15,285,665)	(1,555,293)	(25,576)	15,356	(16,851,178)
Other tangible assets	(2,574,442)	(209,762)	(192,491)	8,271	(2,968,424)
	(22,885,436)	(2,149,301)	(326,650)	23,627	(25,337,760)
<b>Net value</b>	21,302,698	(686,631)	398,241	0	21,014,308

(note 6)

The Company's policy is to take out insurance to cover what it estimates as the possible risks that could affect tangible assets. At 31 December 2006 the Group has taken out insurance for all the group companies, which more than covers the net book value of all the Company's assets.

# GRIFOLS, S.A

## Notes to the Annual Accounts

At 31 December 2006 the cost of fully depreciated assets totals Euros 10,820,548 (Euros 7,637,862 at 31 December 2005).

At 31 December 2006 mortgaged land and buildings exist securing certain loans with an outstanding balance of Euros 460,685 (Euros 1,619,182 at 31 December 2005) (see note 14).

Fixed assets under construction at 31 December 2006 and 2005 comprise the investments made to extend the Company's installations.

### (8) Investments

Details of and changes in investments at 31 December 2005 are as follows:

	Euros				Balances as at 31/12/05
	Balances as at 31/12/04	Additions	Transfers	Disposals	
Investments in group companies	74,282,613	22,771,130	--	--	97,053,743
Other long-term investments	245,298	--	--	--	245,298
Long-term guarantee deposits	225,245	3,248	--	--	228,493
Tax credits for deductions (note 23)	1,550,667	17,622	(958,993)	--	609,296
Loans to group companies	36,705,934	389,477	(14,324,281)	(22,771,130)	0
	113,009,757	23,181,477	(15,283,274)	(22,771,130)	98,136,830
Less, provisions for decline in value of investments	(9,533,216)	(3,377,498)	--	2,009,954	(10,900,760)
	103,476,541	19,803,979	(15,283,274)	(20,761,176)	87,236,070

(notes 10 y  
11)

# GRIFOLS, S.A

## Notes to the Annual Accounts

Details of and changes in investments at 31 December 2006 are as follows:

	Euros			Balances as at 31/12/06
	Balances as at 31/12/05	Additions	Disposals	
Investments in group companies	97,053,743	39	--	97,053,782
Other long-term investments	245,298	--	--	245,298
Long-term guarantee deposits	228,493	9,078	--	237,571
Tax credits for deductions (note 23)	609,296	51,399	--	660,695
	98,136,830	60,516	0	98,197,346
Less, provisions for decline in value of investments	(10,900,760)	(147,458)	85,108	(10,963,110)
	87,236,070	(86,942)	85,108	87,234,236

### (a) Investments in group companies

The debt of Euros 22,771 thousand held with Grifols Biologicals, Inc. was cancelled on 1 March 2005.

On the same date, the Company subscribed the capital increase carried out by Grifols, Inc. for an amount of Euros 22,771 thousand. In addition, Grifols, Inc. subscribed the capital increase carried out by Grifols Biologicals, Inc. for an amount of Euros 22,771 thousand.

On 1 March 2005, the Company transferred the debt of Euros 14,324 thousand held with Biomat USA, Inc. to Instituto Grifols, S.A. (see note 11), the latter of which is fully owned by the Company and, in turn, owns 100% of the capital of Biomat USA, Inc.. Instituto Grifols also subscribed the capital increase carried out by Biomat USA, Inc. for an amount of Euros 14,324 thousand.

# GRIFOLS, S.A

## Notes to the Annual Accounts

Details of investments in group companies are as follows:

	Euros	
	Cost	
	2006	2005
Laboratorios Grifols,S.A.	4,798,330	4,798,330
Instituto Grifols,S.A.	1,537,990	1,537,990
Movaco,S.A.	2,404,619	2,404,619
Diagnostic Grifols,S.A.	336,561	336,561
Grifols Chile,S.A.	385,454	385,454
Biomat,S.A.	60,041	60,041
Grifols Argentina,S.A.	7,027,854	7,027,854
Grifols,s.r.o.	51,600	51,600
Grifols México,S.A. de C.V.	696,544	696,544
Grifols Viajes,S.A.	60,041	60,041
Grifols International, S.A.	2,860,085	2,860,085
Grifols Italia,S.p.A.	12,226,606	12,226,606
Grifols UK,Ltd.	22,847,046	22,847,046
Grifols Deutschland,GmbH	2,924,811	2,924,811
Grifols Brasil,Ltda.	764,095	764,095
Grifols Portugal Productos Farmacéuticos e Hospitalares, Lda.	139	100
Grifols France,S.A.R.L.	7,623	7,623
Grifols Engineering , S.A.	60,090	60,090
Squadron Reinsurance Ltd.	999,999	999,999
Grifols, Inc.	33,140,256	33,140,256
Grifols Asia Pacific Pte. Ltd.	714,769	714,769
Alpha Therapeutic Europe, Ltd.	2,502,581	2,502,581
Grifols Polska, Sp.z.o.o.	10,714	10,714
Alpha Therapeutic Italia S.p.A.	635,934	635,934
	97,053,782	97,053,743

Certain additional information relating to these companies is as follows:

– **Laboratorios Grifols, S.A.**

Its registered offices are located on the Levante Industrial Estate, calle Can Guasch s/n, 08150 Parets del Vallés, Barcelona. Its activity consists of the manufacture, preparation and sale of therapeutic and other pharmaceutical specialities, especially parenteral solutions.

# GRIFOLS, S.A

## Notes to the Annual Accounts

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### – Instituto Grifols, S.A.

Its registered offices are located on the Levante Industrial Estate, calle Can Guasch s/n, 08150 Parets del Vallés, Barcelona. Its activity consists of the manufacture, preparation and sale of therapeutic products and other pharmaceutical specialities, especially haemoderivatives.

Instituto Grifols, S.A. directly owns 100% of Biomat USA, Inc., acquired on 1 March 2002, with registered offices at 1209 Orange Street, Wilmington, New Castle (Delaware Corporation). Its activity, developed in the bioscience area, consists of the obtaining of human plasma.

This company also directly owns 100% of Plasmacare, Inc., acquired on 3 March 2006, with registered offices at Corporation Trust Center, 1209 Orange Street, County of New Castle, Wilmington, Delaware 19801. Its activity, developed in the bioscience area, consists of obtaining human plasma. This company is the holding company of a group of 15 companies comprising the sub-consolidated group.

### – Movaco, S.A.

Its registered offices are located on the Levante Industrial Estate, calle Can Guasch s/n, 08150 Parets del Vallés, Barcelona. Its activity consists of the distribution and sale of reactives, chemical products and other pharmaceutical specialities, as well as medical-surgical supplies, machinery and instruments for hospital and laboratory use.

Movaco, S.A. owns 99.985% of Grifols Portugal Productos Farmacéuticos e Hospitalares, Lda. and 99.971% of Logister, S.A. The registered offices of the former are located in c/ Jorge Barradas, 30 –c R/C, 1500 Lisbon (Portugal) and its activities are the import, export and distribution of pharmaceutical and clinical products, in particular Grifols products. The registered offices of the latter company are located on the Levante Industrial Estate, calle Can Guasch, s/n 08150 Parets del Vallés, Barcelona, and its activities are the manufacture, purchase, sale and distribution of computer hardware and software.

### – Diagnostic Grifols, S.A.

Its registered offices are located on the Levante Industrial Estate, calle Can Guasch s/n, 08150 Parets del Vallés, Barcelona. Its activities are the manufacture, preparation, distribution and sale of reagents and chemical products for laboratories and hospitals, as well as supplies, machines and instruments for medical-surgical use.



# GRIFOLS, S.A

## Notes to the Annual Accounts

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– **Grifols Chile, S.A.**

Its registered offices are located in Avda. Americo Vespuccio 2242, Comuna de Conchali, Santiago de Chile (Chile). Its statutory activity is to operate pharmaceutical businesses involving the import, production, distribution and export of pharmaceutical products.

– **Biomat, S.A.**

Its registered offices are located on the Levante Industrial Estate, calle Can Guasch s/n, 08150 Parets del Vallés, Barcelona. Its statutory activity consists of the collection and distribution of biological products.

– **Grifols Argentina, S.A.**

Its registered offices are located in Bartolomé Mitre 1371, 5<sup>th</sup> floor, room P, 1036 Buenos Aires (Argentina). Its statutory activity consists of biological and clinical investigation, the preparation and sale of reagents, therapeutic and dietetic products as well as the manufacture and distribution of other pharmaceutical specialities.

– **Grifols s.r.o.**

Its registered offices are located in Zitná 2, 120 00 Prague (Czech Republic). Its statutory activity consists of the purchase, sale and distribution of pharmaceutical products including human plasma.

– **Grifols México, S.A. de C.V.**

Its registered offices are located in calle Eugenio Cuzin 909, Parque Industrial Belenes Norte, 45150 Zapopan, Jalisco, (Mexico). Its statutory activity consists of the manufacture and sale of pharmaceutical products for both human and veterinary use.

– **Grifols Viajes, S. A.**

Its registered offices are located on the Levante Industrial Estate, calle Can Guasch s/n, 08150 Parets del Vallés (Barcelona). Its statutory activity is to operate a retail travel agency and organise associated activities, group travel arrangements and passes.

# GRIFOLS, S.A

## Notes to the Annual Accounts

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– **Grifols International, S. A.**

Its registered offices are located on the Levante Industrial Estate, calle Can Guasch s/n, 08150 Parets del Vallés, Barcelona, and its statutory activity consists of the manufacture, import, export, preparation, distribution and the sale of reagents, chemical products for laboratory and hospital use, as well as supplies, devices and instruments for medical-surgical use or use in laboratories and warehouses.

– **Grifols Italia S.p.A.**

Its registered offices are located in Via Carducci 62 d, 56010 Ghezzano, Pisa (Italy), and its statutory activity consists of the purchase, sale and distribution of chemical and pharmaceutical products.

– **Grifols UK, Ltd.**

Its registered offices are located in 72, St. Andrew's Road, Cambridge CB41G (United Kingdom). Its activity consists of the distribution and sale of therapeutic and pharmaceutical products, in particular haemoderivatives.

– **Grifols Deutschland GmbH**

Its registered offices are located situated in Siemestrasse 18, D-63225 Langen (Germany) and its statutory activity consists of the import, export, distribution and sale of reagents, chemical and pharmaceutical products for laboratory and hospital use, as well as medical-surgical supplies, devices and instruments for laboratory use.

– **Grifols Brasil, Ltda.**

Its registered offices are located in Rua Marechal Hermes 247, Centro Cívico, CEP 80530-230, Curitiba (Brazil) and its statutory activity consists of the import and export, preparation, distribution and sale of chemical and pharmaceutical products for laboratories, hospitals and medical-surgical supplies.

– **Grifols Portugal Productos Farmacéuticos e Hospitalares, Lda.**

Its registered offices are situated in c/ Jorge Barradas, 30 –c R/C, 1500 Lisbon (Portugal) and its activities are the import, export and sale of pharmaceutical and clinical products, in particular Grifols products. Movaco, S.A. owns 99.985% of this company.

# GRIFOLS, S.A

## Notes to the Annual Accounts

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– **Grifols France, S.A.R.L.**

Its registered offices are located in Centre d'affaires auxiliares system, Bat. 10, Parc du Millenaire – 125, Rue Henri Becquerel, 34036, Montpellier (Francia) and its statutory activity consists of selling chemical and medical products.

– **Grifols Engineering, S.A.**

Its registered offices are located on the Levante Industrial Estate, calle Can Guasch s/n, 08150 Parets del Vallés, Barcelona, and its activity consists of the design and performance of industrial engineering projects for pharmaceutical companies and health centres, as well as the design, assembly, sale and maintenance of machinery, equipment and installations for pharmaceutical companies and health centres.

– **Squadron Reinsurance, Ltd.**

Its registered offices are located in 38/39 Fitwilliam Square, Dublin 2, (Ireland). Its statutory activity involves reinsuring the group companies' insurance policies.

– **Grifols, Inc.**

Its registered offices are located in 15, East North Street, Dover, Delaware 19901 (United States of America). Its principal activity consists of holding investments in companies.

This company owns 100% of Grifols Biologicals, Inc. with registered offices in 15, East North Street, Dover, Delaware 19901 (United States of America). The principal activity of this company consists of the manufacture, preparation and sale of therapeutic products and other pharmaceutical specialities, especially haemoderivatives.

This latter company also owns 100% of Grifols USA, Inc. with registered offices in 8880 N.W. 18 Terrace, Miami, Florida (USA). The statutory activity of this third company is to conduct any business permitted under United States of America law.

– **Grifols Asia Pacific Pte., Ltd.**

Its registered office is situated in 501 Orchard Road, 20-01 Wheelock Place, Singapore 238880. Its statutory activity is to sell medical and pharmaceutical products.

# GRIFOLS, S.A

## Notes to the Annual Accounts

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This company owns 48% of Grifols (Thailand) Ltd., with registered offices in No. 287 Liberty Square, Level 8, Silom Road, Bangrak, Bangkok (Thailand). The statutory activity of this latter company consists of the import, export and retail and wholesale marketing of pharmaceutical products.

This latter company also owns 30% of Grifols Malaysia Sdn Bhd, with registered offices in Selangor, (Malaysia), the activity of which relates to the sale and distribution of pharmaceutical products.

– **Alpha Therapeutic Europe, Ltd.**

Its registered offices are located in 100, New Bridge Street, London, EC4V6JA (United Kingdom). Its activity consists of providing technical, financial and marketing support to its subsidiaries.

This company owns 100% of Alpha Therapeutic UK, Ltd. with registered offices in 100, New Bridge Street, London, EC4V6JA (United Kingdom). This latter company's statutory activity consists of the distribution and sale of therapeutic products.

– **Alpha Therapeutic Italia, S.p.A.**

With registered offices in 3, Piazza Meda, Milano 20121 (Italy). Its statutory activity consists of the distribution and sale of products.

– **Grifols Polska, Sp.z.o.o.**

With registered offices in UL. Nowogrodzka, 68, 00-116, Warsaw, Poland. Its activity consists of the preparation and sale of pharmaceutical products, cosmetics and others.

Details of the shareholders' equity of group companies at 31 December 2006 and 2005 according to their financial statements is included as Appendix I, which forms an integral part to this note of the annual accounts. All subsidiaries have the same closing date.

# GRIFOLS, S.A

## Notes to the Annual Accounts

The Company has received dividends from the following companies:

	Euros	
	2006	2005
Movaco, S.A.	10,999,863	3,499,956
Diagnostic Grifols, S.A.	8,999,839	2,499,956
Biomat, S.A.	3,196,800	1,498,500
Grifols Italia, S.p.A.	2,800,000	1,100,000
Grifols UK, Ltd.	5,172,923	5,141,818
Grifols Deutschland, GmbH	2,500,000	--
Grifols France, S.A.R.L.	369,488	--
Alpha Therapeutic Italia S.p.A.	1,200,000	600,000
Grifols, Inc.	1,000,000	--
	<u>36,238,913</u>	<u>14,340,230</u>

### (b) Tax credits for deductions

Tax credits for deductions correspond to the part of the 2002 to 2006 tax credits for deductions pending application which the Company estimates will be recovered in more than a year (see note 4(i) and 23).

### (c) Provision for investments

Details of the provision for investments at 31 December 2006 and 2005 are as follows:

	Euros	
	2006	2005
Grifols Argentina, S.A.	4,613,009	4,671,842
Grifols International, S.A.	--	2,560,177
Grifols UK, Ltd.	5,759,608	3,508,054
Grifols Brasil, Ltda.	442,962	160,634
Grifols Portugal Productos Farmacéuticos e Hospitalares, Lda.	73	53
	<u>10,815,652</u>	<u>10,900,760</u>
Provision for long-term investments	147,458	--
	<u>10,963,110</u>	<u>10,900,760</u>

## Notes to the Annual Accounts

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### (9) Own Shares

At 31 December 2006 the Company has performed the following transactions with own shares:

- On 5 April 2006 the Company increased capital by Euros 863,300 with a charge to the share premium by issuing and putting into circulation 1,726,600 shares of Euros 0.50 par value each. These shares were issued by the Company as a result of the waiving of preferential subscription rights by the Company's shareholders in order for the shares to be distributed to the employees of the group companies, based on previously established terms and conditions (see note 12(a)).
- On 16 May 2006 the Company acquired 260,000 own shares without voting rights for Euros 279,802,740 (see note 12(a)).
- On 16 May 2006 the Company redeemed 260,000 own shares without voting rights for an amount of Euros 279,802,740 (see note 12(a)).
- On 17 May 2006 the Company issued the group companies' employees with 1,726,600 own shares of Euros 0.50 par value each, based on previously established terms and conditions (see notes 12(a) and 24(b)).

During the year ended 31 December 2005 the Company performed the following own share transactions:

- On 25 July 2005 the Company acquired 1,048,509 own shares for an amount of Euros 3 each at a total cost of Euros 3,145,527.
- On 10 August 2005 the Company acquired 111,039,045 own shares for an amount of Euros 320 million.
- On 10 August 2005 the Company redeemed 107,828,446 own shares for an amount of Euros 310,750,799 (see note 12(a)).
- On 30 November 2005 the Company sold all of its own shares for Euros 19,996,821, generating a profit of Euros 6,940,593.

# GRIFOLS, S.A

## Notes to the Annual Accounts

### (10) Debtors

Details of debtors at 31 December 2006 and 2005 are as follows:

	Euros	
	2006	2005
Trade debtors for sales and services rendered	201,572	210,630
Trade debtors, group companies	9,650,444	4,133,490
Sundry debtors	117,870	69,171
Personnel	44,935	10,388
Public entities	8,360,528	4,888,644
	<u>18,375,349</u>	<u>9,312,323</u>
Less, provision for bad debts	(202,170)	(202,170)
	<u>18,173,179</u>	<u>9,110,153</u>

Balances receivable from public entities are as follows:

	Euros	
	2006	2005
Tax authorities :		
VAT	--	174,038
Grants	37,380	--
Withholdings	5	--
Withholdings for double taxation	11,409	--
Social Security	9,041	11,811
Deferred tax assets (note 23)	191,087	1,264,047
Balances receivable from tax authorities for income tax:		
Current period (note 23)	2,253,561	2,817,133
Prior years	395,661	--
Tax credit for deductions (note 23)	671,365	621,615
Tax credit for loss carryforwards (note 23)	4,791,019	--
	<u>8,360,528</u>	<u>4,888,644</u>

# GRIFOLS, S.A

## Notes to the Annual Accounts

### (11) Short-term Investments

Details of and changes in short-term investments at 31 December 2005 are as follows:

	Euros				Balances as at 31/12/05
	Balances as at 31/12/04	Additions	Transfers	Disposals	
Short-term investments	317,175,412	77,036,767	14,324,281	(91,562,765)	316,973,695
(note 8)					

Details of and changes in short-term investments at 31 December 2006 are as follows:

	Euros			
	Balances as at 31/12/05	Additions	Disposals	Balances as at 31/12/06
Loans to group companies on account of the tax effect:				
Income tax (note 23)	8,990,790	6,006,980	(8,990,790)	6,006,980
Prior years	1,176,235	--	(1,176,235)	0
Payments on account	(2,734,111)	(2,013,468)	2,734,111	(2,013,468)
Loans to group companies	309,540,781	128,716,268	(90,501,434)	347,755,615
	316,973,695	132,709,780	(97,934,348)	351,749,127

At 31 December 2006 loans to group companies include a loan of Euros 311,483 thousand (Euros 290,283 thousand at 31 December 2005) extended to Instituto Grifols, S.A. which is renewable on an annual basis and accrues interest at a variable market rate.



# GRIFOLS, S.A

## Notes to the Annual Accounts

### (12) Shareholders' Equity

On 17 May 2006 the Company completed its flotation on the Spanish stock market which was conducted through the public offering of 71,000,000 ordinary shares of Euros 0.50 par value each and a share premium of Euros 3.90 per share. The total capital increase (including the share premium) amounted to Euros 312.4 million, equivalent to a price of Euros 4.40 per share (see note1).

Since that date, all of the Company's shares have been quoted on the Barcelona, Madrid, Valencia and Bilbao stock exchanges and on the electronic stock market.

Details of and movement in shareholders' equity are presented as Appendix II, which forms an integral part of this note to the annual accounts.

#### (a) Share capital

At 31 December 2006 the Company's share capital is represented by 213,064,899 ordinary shares of Euros 0.50 par value each, which are subscribed and fully paid and have the same voting and profit-sharing rights (140,598,299 shares of Euros 0.50 par value each at 31 December 2005).

At 31 December 2005 the Company's share capital was represented by 140,598,299 shares of Euros 0.50 par value each, 260,000 of which did not confer voting rights.

The Company only has information on the identity of its shareholders when this information is provided voluntarily or to comply with prevailing legislation. Based on the information available to the Company, its most significant shareholders at 31 December 2006 and 2005 are as follows:

	Percentage ownership	
	2006	2005
Scranton Enterprises, B.V.	10.78	16.45
Thorthol Holdings, B.V.	7.00	10.59
Novosti, S.L.	7.76	11.79
Deria, S.A.	8.77	13.32
Morgan Stanley & Co. Inc.	13.25	20.99
Others	52.44	26.86
	100.00	100.00

# GRIFOLS, S.A

## Notes to the Annual Accounts

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### – Increase of share capital charged to share premium

In a general meeting held on 5 April 2006 the shareholders agreed to increase the Company's capital with a charge to the share premium of Euros 863.3 thousand by issuing and putting into circulation 1,726,600 new ordinary shares of Euros 0.50 par value each.

All of the Company's shareholders agreed to freely grant their free assignment rights to the Company to enable the Company to fulfil the obligation agreed with the Group's employees on 25 May 2001 (see notes 9 and 24(b)).

### – Reduction of share capital

In a general meeting held on 6 April 2006 the shareholders agreed to reduce share capital by Euros 130,000 by redeeming with a charge to voluntary reserves all of the 260,000 non-voting shares (see note 9). This agreement was made on the condition that the Company would first acquire these shares without voting rights and that the operation would take place prior to the Company's shares being floated on the stock market.

The board of directors exercised the rights granted to it by the shareholders and acquired all the non-voting shares for an amount of Euros 279.8 million and redeemed these shares with a charge to voluntary reserves of Euros 19.8 million and a charge to the share premium of Euros 259.8 million, all of which took place prior to the flotation of the Company's shares.

### – Increase of share capital through a public offering

As authorised by the shareholders in their general meeting held on 5 April 2006, on 6 April 2006 the board of directors increased the Company's share capital by Euros 35.5 million by issuing and putting into circulation 71,000,000 ordinary shares of Euros 0.50 par value each.

All of the shareholders waived their preferential subscription rights in relation to this capital increase to enable these shares to be offered publicly.

## Notes to the Annual Accounts

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On 15 May 2006 the price of the shares to be offered publicly was established at Euros 4.40 per share, equivalent to a share premium of Euros 3.90 per share. Consequently, the total capital increase was fixed at Euros 312.4 million, Euros 35.5 million of which corresponds to the nominal value and Euros 276.9 million to the share premium. On 16 May 2006 this capital increase was registered by public deed, which was filed in the Mercantile Registry on the same date.

– **Increase of share capital charged to share premium**

On 30 June 2005 and as authorised by the shareholders in their general meeting, the Company increased share capital with a charge to the share premium of Euros 7,016,916, by issuing and putting into circulation 14,033,831 new shares of Euros 0,50 par value.

All of the shareholders agreed to freely grant their free assignment rights to Morgan Stanley & Co, Inc.

– **Share capital increase with monetary contribution and subsequent share capital reduction**

At their annual general meeting held on 10 August 2005 the shareholders agreed to:

Increase share capital by issuing 260,000 new non-voting shares with a par value of Euros 0.50 each, plus a total share premium of Euros 259,870,000. The total share capital increase amounted to Euros 260 million.

The Company's shareholders waived their preferential subscription rights and this share capital increase was fully subscribed and paid by the new shareholder Morgan Stanley & Co., Inc.

At their annual general meeting held on 10 August 2005 the shareholders agreed to issue 260,000 non-voting shares of Euros 0.5 par value each, which included a new Class B share without voting rights. The preferential rights of non-voting shares, as stated in the share issue agreements, were also approved by the shareholders at their annual general meeting and are as follows:

# GRIFOLS, S.A

## Notes to the Annual Accounts

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1. Non-voting shares are entitled to receive a minimum annual dividend of:

- 10% during the first period
- 12.5% during the second period
- 13.125% during the third period, increasing at an annual rate of 0.625% every three months up to a maximum of 17.5% per annum, and
- 0.5% during the fourth period

The first period is until 10 August 2007. The second three-month period starts the day after the end of the first period and last for three months, whereas the third period begins the day after expiry of the second period and continues until 1 October 2012 unless, (i) the shareholders, at an annual general meeting, agree to redeem the non-voting shares, in which case the period will last until this resolution is adopted, or (ii) the Company is floated on the stock exchange, in which case this period shall continue until part or all of the ordinary shares are admitted for trading in any organised national or international market. The fourth period is of indefinite duration, commencing on the day subsequent to the end of the third period.

The minimum dividend will be distributed pro rata temporis, taking into account the date that shares were issued. Accordingly, if non-voting shares were issued on 1 July, the minimum dividend in respect of these shares for the year of issue would be fixed taking into account the days remaining until year end, resulting in a minimum dividend of 5%.

2. The minimum annual dividend is calculated in accordance with deemed cost of non-voting shares (hereinafter Deemed Cost), which is set at Euros 1,000 per share. Once the minimum dividend has been approved, holders of non-voting shares shall be entitled to the same dividend as that corresponding to ordinary shares.

Deemed cost of non-voting shares reflects the value of the investment, which is the par value plus share premium paid, or the minimum dividend which substitutes it, in accordance with section 1.3 below.

# GRIFOLS, S.A

## Notes to the Annual Accounts

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3. As approved by the shareholders at their annual general meeting and without the need for the majority approval of non-voting shares, the Company may opt to pay the minimum dividend either in cash or by distributing new non-voting shares with the same characteristics as those which are the subject of the present agreement. Accordingly, the number of non-voting shares to be distributed would be calculated by dividing the total dividend corresponding to each holder of non-voting shares by the deemed cost of the non-voting shares.

4. Although the right to receive the minimum dividend depends on distributable profits for the year, the Company will pay dividends (either in cash or by distributing new non-voting shares) from the share premium reserve where possible.

5. If there are distributable profits for the year, the Company is obliged to approve distribution of the minimum dividend indicated in the preceding paragraphs. If there are no distributable profits, or if profits are insufficient to pay the established minimum dividends, the unpaid portion of the dividend must be paid within seven years of the year in which the minimum dividend was not paid, with annual interest of 10%. While the minimum dividend remains unpaid, non-voting shares shall be entitled to vote in equal conditions as ordinary shares, and retaining, where applicable, their economic benefits.

Minimum dividends accrued from prior years shall be settled prior to payment of the minimum dividend of the current year.

6. In the event of the Company's dissolution and liquidation, holders of non-voting shares shall have the right to repayment of the shares' deemed cost plus, where applicable, the unpaid dividends accrued at the date of liquidation, prior to the distribution of any amounts to the other shareholders. Nevertheless, this repayment must be equivalent to deemed cost plus the additional amount required for non-voting shareholders to receive a return of at least 10% of deemed cost per share annually, from the date of issue to the date of repayment.

7. In exceptional circumstances, the holders of non-voting shares shall have the right to vote on matters defined as Extraordinary Agreements in Article 12 bis as permitted by Company by-laws.

8. Non-voting shares are freely transferable.

9. Non-voting shares shall benefit from all other rights as established by articles 91 and 92 of the Spanish Companies' Act.

**Notes to the Annual Accounts**

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10. The holders of non-voting shares have the right to convert these into ordinary shares at a ratio of one ordinary share for each non-voting share, in the following circumstances:

- i. Merger of the Company, except in the event of downward merger as described in Article 250 of the Spanish Companies' Act.
- ii. Change of control of the Company. Change of control is defined as where one shareholder or group of shareholders acting jointly acquire, directly or indirectly, over 24% of the Company's share capital for the first time.
- iii. If shareholders do not approve the redemption of the non-voting shares at an annual general meeting prior to 1 October 2012.
- iv. If 30 days have elapsed subsequent to all or some ordinary shares having been admitted to trade in any organised national or international market, and the shareholders, at their annual general meeting have not agreed to redeem non-voting shares.

11. Conversion rights must be exercised in writing within two months of the reference date.

- Increase share capital by issuing 22,451,474 new voting shares with a par value of Euros 0.5 each, plus a share premium of Euros 48,775 thousand. The total share capital increase amounts to Euros 60 million.

The Company's shareholders waived their preferential subscription rights and the share capital increase was fully subscribed and paid by the new shareholder Morgan Stanley & Co., Inc.

- Reduce share capital by redeeming 107,828,446 own shares (see (d)) of Euros 0.5 par value each. The total share capital reduction, including a par value of Euros 53,914 thousand, amounted to Euros 310,752 thousand of which Euros 231,082 thousand was charged against share premium and Euros 25,756 thousand charged against voluntary reserves.

# GRIFOLS, S.A

## Notes to the Annual Accounts

### (b) Share premium

The share premium is subject to the same restrictions and may be used for the same purposes as the voluntary reserves, including conversion into share capital. The share premium is freely distributable except for an amount of Euros 14,999,946 which, along with the voluntary reserves of Euros 1,306,954 (see note 12(e)), comprises the net book value at 31 December 2006 of the share issue costs pending amortisation (see note 5).

### (c) Legal reserve

Companies are obliged to transfer a minimum of 10% of the profits for the year to a legal reserve, until such a reserve reaches an amount equal to 20% of the share capital. This reserve is not distributable to shareholders and may only be used to offset losses if no other reserves are available. Under certain conditions it may be used to increase the share capital provided that the balance left on the reserve is at least equal to 10% of the nominal value of the total share capital after the increase.

### (d) Non-distributable reserve

This reserve includes Euros 3,020 resulting from the translation and round-off of share capital to Euros.

### (e) Voluntary reserves

Voluntary reserves are freely distributable, except for an amount of Euros 1,306,954 which, along with the share premium of Euros 14,999,946 (see note 12(b)), comprises the net book value at 31 December 2006, of the share issue costs pending amortisation (see note 5).

## (13) Deferred Income

Details are as follows:

	Euros	
	2006	2005
Deferred income from income tax credits (note 23)	992,896	1,189,685
	992,896	1,189,685

# GRIFOLS, S.A

## Notes to the Annual Accounts

### (14) Long-term Borrowings

Long-term borrowings are as follows:

	Euros	
	2006	2005
Syndicated loan with a Euros 225 million limit, maturing on 21 June 2011 and bearing interest at a rate of Euribor plus a spread of between 0.7% and 1.50% depending on compliance with certain covenants, the agent bank of which is Banco Bilbao Vizcaya Argentaria, S.A.	175,000,000	192,500,000
Loans from Institut Català de Finances maturing on 29/11/2016 and bearing interest at a rate of Euribor + 1%.	731,703	804,873
Mortgage loan of Euros 902 thousand maturing on 16/05/2012 and bearing interest at a rate of Euribor + 1% (note 7).	460,685	536,138
Mortgage loan of Euros 1,300 thousand maturing on 30/07/2015 and bearing interest at a rate of 3.55% (note 7)	--	1,083,044
Other loans with a limit of Euros 600 thousand maturing on 12/03/2006 and bearing interest at a rate of 3.12%.	--	600,000
Spanish Official Credit Institute loan of Euros 30,000 thousand maturing on 25/05/2016 and bearing interest at a rate of Euribor + 1%.	30,000,000	--
Lease financing creditors (note 6)	243,243	382,667
	206,435,631	195,906,722
Less, current portion (note 15)	(31,088,394)	(16,314,267)
	175,347,237	179,592,455



# GRIFOLS, S.A

## Notes to the Annual Accounts

Details of maturities of long-term borrowings at 31 December 2006 and 2005 are as follows:

	Euros	
	2006	2005
Maturity:		
Two years	31,282,812	31,449,294
Three years	33,142,192	31,317,425
Four years	33,094,870	31,201,774
Five years	33,097,648	31,208,800
Thereafter	44,729,715	54,415,162
	<u>175,347,237</u>	<u>179,592,455</u>

On 21 June 2005, the Company signed a syndicated loan for an amount of Euros 225 million, the agent bank of which is BBVA. This syndicated loan, maturing on 21 June 2011, is subject to compliance with certain obligations relating to financial ratios. In accordance with the agreed conditions, the degree of compliance with the financial ratios will be determined at the close of each financial year and the Company must provide certain financial information to the granting banks during the six months following 31 December of each year of the term of the loan.

On 21 November 2006 the Company and the syndicate of banks that extended the syndicated loan have signed a new contract to renew this loan.

At 31 December 2006 the Company has complied with the financial ratios established in the contract.

# GRIFOLS, S.A

## Notes to the Annual Accounts

### (15) Short-term Borrowings

Short-term borrowings are as follows:

	Interest rate, % Min - Max	Euros			
		Drawn down		Limit	
		2006	2005	2006	2005
<b>Borrowings in:</b>					
Euros	2.54% - 5%	3,011,924	2,454,582	50,888,394	21,245,517
		3,011,924	2,454,582	50,888,394	21,245,517
<b>Current interest</b>					
on borrowings		387,354	1,351,013		
<b>Lease financing</b>					
creditors (note 6)		330,928	441,842		
<b>Current portion of</b>					
long-term debt					
(note 14)		31,088,394	16,314,267		
		34,818,600	20,561,704		

### (16) Short-term debt with group companies

Details of short-term debts with group companies are as follows:

	Euros	
	2006	2005
Suppliers	52,650	35,602
Loans	10,886,196	9,512,516
Other short-term debt	3,198,857	5,391,674
<b>Debts for tax effect:</b>		
Income tax		
for the year (note 23)	1,690,624	492,105
Prior years	--	6,901
Payments on account	1,853,380	(86,984)
	17,681,707	15,351,814

# GRIFOLS, S.A

## Notes to the Annual Accounts

Intercompany loans bear interest at rates of between 2.58% and 5.75% per annum (see note 21).

### (17) Trade Creditors

Details are as follows:

	Euros	
	2006	2005
Suppliers	7,138,130	6,032,836
Notes payable to suppliers	128,859	4,071,039
	<u>7,266,989</u>	<u>10,103,875</u>

Practically all outstanding balances are expressed in Euros.

### (18) Other Creditors

Details of other creditors are as follows:

	Euros	
	2006	2005
Public entities	1,689,030	9,940,831
Other debts	133,862	66,645
Salaries payable	1,826,081	1,638,825
	<u>3,648,973</u>	<u>11,646,301</u>

# GRIFOLS, S.A

## Notes to the Annual Accounts

Balances payable to public entities are as follows:

	Euros	
	2006	2005
Tax authorities:		
VAT/CIGT	37,340	--
Withholdings	353,577	296,734
Social Security, creditor	217,932	202,489
Deferred tax liabilities (note 23)	849,017	1,059,057
Balances payable to tax authorities for income tax:		
Prior years	--	1,215,789
Delayed payments on account	--	7,166,762
Other public entities	231,164	--
	<u>1,689,030</u>	<u>9,940,831</u>

At 31 December 2005 the second and third payments on account of 2005 income tax were payable. During February 2006 the second payment on account of 2005 income tax has been settled.

### (19) Net Sales

As detailed in note 1, practically all revenues are generated from operations with group companies (see note 21).

### (20) Personnel Expenses

Details of personnel expenses are as follows:

	Euros	
	2006	2005
Wages and salaries	13,178,668	11,978,980
Pension plan contributions	42,061	40,619
Welfare benefits	2,700,465	2,530,918
	<u>15,921,194</u>	<u>14,550,517</u>

# GRIFOLS, S.A

## Notes to the Annual Accounts

A breakdown of the average headcount, by professional category, is as follows:

	Average number of employees	
	2006	2005
Management	20	18
Technicians and middle management	120	114
Administrative staff	60	60
Auxiliary staff	32	31
	232	223

### (21) Intercompany Transactions

The main intercompany transactions are as follows:

	Euros	
	2006	2005
<b>Income</b>		
Net sales and services rendered	29,393,909	27,320,783
Interest income	14,453,726	12,552,600
Dividends (note 8)	36,238,913	14,340,230
<b>Expenses</b>		
Other operating expenses	225,363	145,542
Interest expenses	511,653	379,292

In addition to the above transactions, during 2006 the Company has acquired certain tangible assets from group companies amounting to Euros 251,239 (Euros 2,707 at 31 December 2005).

# GRIFOLS, S.A

## Notes to the Annual Accounts

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### **(22) Remuneration of and Balances with Members of the Board of Directors**

The members of the board of directors of Grifols, S.A. have not received any amounts by way of remuneration for their duties.

The overall remuneration of the members of the board of directors who have a working relationship with the Company amounts to Euros 1,697,508 in 2006 (Euros 1,505,463 at 31 December 2005).

At 31 December 2006 and 2005 no debtor or creditor balances are held with the members of the board of directors.

The directors of Grifols, S.A. do not hold any investments in companies with a statutory activity which is identical, similar or complementary to that of the Company. The posts held and duties and activities conducted by the directors of Grifols, S.A. in group companies and/or companies with a statutory activity which is identical, similar or complementary to that of the Company are detailed in Appendix III which forms an integral part of this note to the annual accounts.

### **(23) Taxation**

The Company presents annual income tax returns. The standard rate of tax is 35%, which may be reduced by certain credits.

The Company is authorised to file consolidated income tax returns. Owing to the fact that Grifols, S.A. is the parent company, it is responsible before the tax authorities for the filing and payment of consolidated income tax returns.

# GRIFOLS, S.A

## Notes to the Annual Accounts

Due to the treatment permitted by fiscal legislation of certain transactions, the accounting profit differs from the profit for fiscal purposes. A reconciliation of accounting profit for the year with the taxable income that the Company expects to declare after approval of the annual accounts is as follows:

	Euros	
	2006	2005
Accounting income before income tax	9,630,797	14,076,061
Permanent differences:		
Generated during the year	(10,757,653)	(3,383,851)
Intercompany transactions	(23,196,502)	(7,498,412)
	(33,954,155)	(10,882,263)
<b>Taxable accounting income/(losses)</b>	<b>(24,323,358)</b>	<b>3,193,798</b>
Timing differences		
Generated during the year	282,917	19,151
Reversal of prior years	(3,093,054)	(518,077)
	(2,810,137)	(498,926)
Tax loss carryforwards	14,741,598	--
Other adjustments to taxable income/(tax loss)	(52,916)	(167,855)
	(12,444,813)	2,527,017
Tax at 35%	(4,355,685)	884,456
Deductions and credits	--	(2,354,514)
	(4,355,685)	(1,470,058)
<b>Net income tax</b>	<b>(4,355,685)</b>	<b>(1,470,058)</b>
Withholdings and payments on account	(2,214,232)	(9,845,760)
	(6,569,917)	(11,315,818)
Income tax recoverable	(6,569,917)	(11,315,818)

Owing to the fact that Grifols, S.A. is the parent company, it is responsible before the tax authorities for the filing and payment of consolidated income tax returns.

# GRIFOLS, S.A

## Notes to the Annual Accounts

Details of consolidated income tax expense comprising the Company's individual income tax expense plus the income tax expense of the other group companies filing consolidated income tax returns are as follows:

	Euros	
	2006	2005
Individual income tax:		
Individual, recoverable:	(6,569,917)	(11,315,818)
Group companies, recoverable (note 16)	(1,690,624)	(492,105)
Group companies, payable (note 11)	6,006,980	8,990,790
Consolidated income tax recoverable	(2,253,561)	(2,817,133)
	(note 10)	(note 10)

The income tax expense for the year is calculated as follows:

	Euros	
	2006	2005
Taxable accounting income/(losses)	(24,323,358)	3,193,798
Tax at 35%	(8,513,175)	1,117,829
Deductions and credits	--	(61,262)
Income from accrual of deductions	(203,831)	(217,936)
Other income taxes	347,911	--
Adjustments to prior years' income tax	(206,735)	276,471
<b>Expense / (income) for the year</b>	<b>(8,575,830)</b>	<b>1,115,102</b>



# GRIFOLS, S.A

## Notes to the Annual Accounts

Details of timing differences in the recognition of expenses and income for accounting and tax purposes and the corresponding accumulated deferred tax assets and liabilities are as follows:

	Euros			
	Timing difference		Tax effect	
	2006	2005	2006	2005
<b>Deferred tax assets</b>				
Amortisation	--	360	--	126
Pension fund	218,417	345,417	76,446	120,896
Provision for decline in value of investments	52,917	3,097,931	18,521	1,084,276
Provision for expenses pending valuation	230,000	--	80,500	--
Capitalisable expenses	101,200	167,854	35,420	58,749
	602,534	3,611,562	210,887	1,264,047
				(note 10)
<b>Deferred tax liabilities</b>				
Lease financing	(2,826,986)	(2,877,174)	(989,445)	(1,007,011)
Increase in useful lives of buildings	--	(148,703)	--	(52,046)
	(2,826,986)	(3,025,877)	(989,445)	(1,059,057)
				(note 18)

# GRIFOLS, S.A

## Notes to the Annual Accounts

On 28 November 2006 Law 35 on Personal Income Tax was published, which partially modifies the Corporate Income Tax Law. This law establishes that an additional provision to the modified text of the Corporate Income Tax Law enacted by Royal Decree Law 4 dated 5 March 2004 will be applicable for periods starting 1 January 2007 which states that the income tax rate for tax periods starting on 1 January 2007 will be 32.5% and 30% for tax periods starting on 1 January 2008 and thereafter. At 31 December 2006 the Company's deferred tax assets and liabilities have been recalculated in accordance with the new criteria and are as follows:

	2006		Reversal in 2007	Reversal in 2008 and thereafter	2006
	Tax at 35%		Tax at 32.5% 2.5% adjust. of tax effect	Tax at 30% 5% adjust. of tax effect	Adjusted tax effect
	Timing difference	Tax effect			
<b>Deferred tax assets</b>					
Pension funds	218,417	76,446	(265)	(10,392)	65,789
Provision for decline in value of investments	52,917	18,521	--	--	18,521
Provision for expenses pending valuation	230,000	80,500	(5,750)	--	74,750
Capitalisable expenses	101,200	35,420	(1,666)	(1,727)	32,027
	602,534	210,887	(7,681)	(12,119)	191,087
					(note 10)
<b>Deferred tax liabilities</b>					
Lease financing	(2,826,986)	(989,445)	920	139,508	(849,017)
	(2,826,986)	(989,445)	920	139,508	(849,017)
					(note 18)

Under the provisions of Royal Decree Law 3/1993 concerning urgent measures for budgetary, tax and financial items and of Royal Decree Law 7/1994 and 2/1995 concerning accelerated depreciation on investments that generate employment, Grifols, S.A. and its subsidiaries have decided to apply accelerated depreciation to certain fixed assets for fiscal purposes. The corresponding deferred tax has therefore been recognised in the individual and consolidated annual accounts.

# GRIFOLS, S.A

## Notes to the Annual Accounts

Under current legislation, taxes cannot be considered definitive until they have been inspected and approved by the tax authorities or before the inspection period has elapsed. At 31 December 2006 the Company has open to inspection by the tax authorities all main applicable taxes since the year ended 31 December 2004. The directors do not expect that any significant liabilities would arise in the event of inspection.

On 8 February 2005 the Spanish tax authorities notified the Company of an inspection of all applicable taxes payable in a consolidated tax regime (2002 to 2003, both inclusive, for income tax). On 30 January 2006 the Company approved the associated tax assessments. The total income tax expense including delay interest and sanctions amounts to Euros 294 thousand, whilst income tax payable amounts to Euros 54 thousand.

On the basis of income tax returns filed and the provisional tax return for 2006, the Company has the following tax loss carryforwards to be offset against future profits:

Year of origin	Euros	Available until
2006	14,741,597	2021
	<u>14,741,597</u>	

At 31 December 2006 the Company's directors have recognised Euros 4,719,019 for the tax credit resulting from the loss carryforwards amounting to Euros 14,741,597 at that date, the future recovery of which is estimated to be reasonably assured (see notes 4(i) and 10).

The Company has the following deductions for investments pending application:

Year of origin	Euros	Available until
2002	159,069	2017
2003	804,337	2018
2004	340,466	2019
2005	21,146	2020
2006 (estimated)	7,042	2021
	<u>1,332,060</u>	

# GRIFOLS, S.A

## Notes to the Annual Accounts

As mentioned in note 4 (i), at 31 December 2006 the Company's directors have recognised an amount of Euros 1,332 thousand (see notes 8 and 10) corresponding to the tax credit on deductions pending application, having estimated that its future recovery is reasonably assured. The income related to this recognition has been deferred over the useful life of the assets which have generated this deduction, mainly comprising foreign investments.

Details of the tax effect of this recognition and the amounts pending application as at 31 December 2006 and 2005 are as follows:

	Euros	
	2006	2005
Tax credit for deductions pending application	1,230,911	3,966,701
Other movements	94,107	(463,684)
Deductions generated during the year	7,042	21,146
Deductions applied during the year	--	(2,293,252)
Tax credit for deductions (notes 8 and 10)	1,332,060	1,230,911
Deferred income	1,189,685	1,386,475
Income generated during the year	7,042	21,146
Income recognised during the year	(203,831)	(217,936)
Deferred income (note 13)	992,896	1,189,685

**(24) Guarantees with Third Parties and Other Contingent Liabilities**

**(a) Guarantees**

The Company has extended bank guarantees to group companies for a sum of Euros 177,901 thousand.

Instituto Grifols, S.A., Laboratorios Grifols, S.A., Movaco, S.A., Diagnostic Grifols, S.A. Biomat, S.A., Grifols Biologicals, Inc and Biomat USA, Inc. have extended joint bank guarantees to secure the syndicated loan for a total amount of Euros 209,531 thousand (Euros 225,000 thousand at 31 December 2005).

**(b) Employee commitments**

As mentioned in note 4(n), in conjunction with the Spanish group companies, the Company is obliged to set up a defined contribution pension plan.

In the general meeting held on 25 May 2001 the shareholders authorised the board of directors to distribute 1,740,892 shares free-of-charge to the Group's employees (excluding directors and senior management) with a minimum of one year of service at the date of the agreement, following criteria based on years of service. The board of directors must establish when the shares should be awarded, which must be subsequent to flotation of the Company's shares on the stock market.

During 2006 and subsequent to the flotation of the Company's shares on the stock market (17 May 2006), the board of directors distributed these shares to employees free-of-charge.

**(c) Swap contracts**

The Company carries out interest-rate swap operations. The results of these operations are registered on an accrual basis and, where applicable, at the moment early repayment is made.

At 31 December 2006 the Company has a swap contract for a nominal amount of Euros 50,000 thousand, maturing on 26 July 2011. The fair value of this contract is a negative amount of approximately Euros 611 thousand.

**Notes to the Annual Accounts**

**(25) Environmental Information**

The most significant systems, equipment and installations for protecting and improving the environment as at 31 December 2006 are as follows:

Project	Euros		
	Cost	Accumulated depreciation	Net value
Equalisation pools	20,872	(4,895)	15,977
Waste disposal point connections	57,243	(21,391)	35,852
Well improvements	38,542	(18,307)	20,235
Water recovery	42,218	(42,218)	0
Chemical product storage deposit	20,033	(14,357)	5,676
Neutralisation tank automation	6,053	(5,701)	352
Drainage improvements	8,907	(8,907)	0
Preparation of external areas	19,495	(4,224)	15,271
HCl deposit for water area	16,201	(4,455)	11,746
NaOH deposit for water area	14,201	(3,905)	10,296
TOC meter for waste water	72,456	(7,820)	64,636
	316,221	(136,180)	180,041

The expenses incurred by the Company in the protection and improvement of the environment during the year ended 31 December 2006 have amounted to approximately Euros 278 thousand.

The Company considers that environmental risks are adequately controlled by the procedures currently implemented.

The Company has not received any environmental grants during the year ended 31 December 2006.

# GRIFOLS, S.A

## Notes to the Annual Accounts

### (26) Other information

KPMG Auditores, S.L. and other companies related to the auditors as defined in the fourteenth additional provision of legislation governing the reform of the financial system have invoiced the following fees and expenses to the Company for professional services during the year ended 31 December 2006:

	Euros
Annual audit services	78,675
Other audit and related services	695,502
	<u>774,177</u>

Audit services detailed in the above table include the full amount of fees and expenses relating to the audit for 2006, irrespective of the date of invoice.

### (27) Statements of Source and Application of Funds

The statements of source and application of funds for the years ended 31 December 2006 and 2005 are detailed in Appendix IV, which forms an integral part of this note to the annual accounts.

**APPENDIX I  
GRIFOLS, S.A.**

**Details of shareholders' equity of group companies  
31 December 2006**

(Expressed in Euros)

(Free translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails)

Name	% ownership		Share capital	Share premium	Reserves	Currency translation differences	Prior year's profit/(loss)	Profit/(loss) for the year	Interim dividend	Total shareholders' equity
	Direct	Indirect								
Laboratorios Grifols S.A.	99.998	0.002	4,798,324	--	7,204,623	--	--	892,685	--	12,895,632
Instituto Grifols,S.A.	99.998	0.002	1,537,989	--	30,064,375	--	--	2,033,070	--	33,635,434
Movaco,S.A.	99.999	0.001	2,404,601	--	885,442	--	--	6,891,123	--	10,181,166
Grifols Portugal Productos Farmacéuticos e Hospitalares,Lda.	0.015	99.985	685,790	--	13,173	20,379	--	(265,459)	--	453,883
Diagnostic Grifols,S.A.	99.998	0.002	336,560	--	7,055,903	--	--	5,767,658	(3,000,000.00)	10,160,121
Logister,S.A.	--	100.000	105,325	--	248,126	--	--	6,631	--	360,082
Grifols Chile,S.A.	100.000	--	385,453	--	1,555,517	255,964	--	1,245,870	--	3,442,804
Biomat,S.A.	99.900	0.100	60,110	--	1,873,017	--	--	280,677	--	2,213,804
Grifols Argentina,S.A.	100.000	--	955,675	--	6,072,175	(595,765)	(4,378,970)	361,730	--	2,414,845
Grifols s.r.o.	100.000	--	51,597	--	1,701,391	221,450	--	345,405	--	2,319,843
Grifols México,S.A. de C.V.	100.000	--	553,676	--	1,095,073	487,183	--	823,968	--	2,959,900
Grifols Viajes,S.A.	99.900	0.100	60,110	--	178,660	--	(34,469)	31,824	--	236,145
Grifols USA, LCC	--	100.000	561,686	198,985	5,332,311	187,940	(4,269,516)	11,711,597	--	13,723,003
Grifols International,S.A.	99.900	0.100	2,860,154	--	1,106,982	--	(3,666,837)	2,859,382	--	3,159,591
Grifols Deutschland, GmbH	100.000	--	2,924,813	--	1,553,647	8,913	(1,086,776)	4,089,442	--	7,490,039
Grifols Italia,S.p.A.	100.000	--	308,662	2,829,415	2,177,533	17,111	--	2,352,485	--	7,685,206
Grifols UK,Ltd.	100.000	--	4,285	4,385,892	8,468,267	350,984	--	3,120,072	(8,263,313)	8,066,187
Grifols Brasil,Ltda.	100.000	--	764,095	--	513,469	(292,648)	(589,719)	(74,064)	--	321,133
Grifols France,S.A.R.L.	99.000	1.000	7,700	--	532,005	--	--	236,756	--	776,461
Grifols Engineering, S.A.	99.950	0.050	60,120	--	1,551,732	--	--	214,702	--	1,826,554
Biomat USA, Inc.	--	100.000	--	74,050,489	(501,662)	(14,763,944)	(12,074,624)	1,447,584	--	48,157,823
Squadron Reinsurance Ltd.	99.999	0.001	1,000,000	--	4,114,290	(2)	--	620,063	--	5,734,351
Grifols, Inc.	100.000	--	--	34,585,918	1,325,226	(2,430,503)	(10,484,796)	494,224	--	23,490,069
Grifols Asia Pacific Pte. Ltd.	100.000	--	362,387	883,464	1,492,053	(239,815)	(180,344)	1,369,043	--	3,686,788
Alpha Therapeutic Europe, Ltd.	100.000	--	9,277,682	--	892,911	320,720	(5,223,229)	561,000	--	5,829,084
Grifols Biologicals, Inc.	--	100.000	--	33,372,773	19,528,381	(4,451,739)	--	9,778,665	--	58,228,080
Grifols (Thailand), Ltd.	--	100.000	61,198	234,646	172,078	(79,603)	(295,228)	393,024	--	486,115
Alpha Therapeutic UK, Ltd.	--	100.000	1	--	1,075,887	17,137	--	432,126	--	1,525,151
Alpha Therapeutic Italia, S.p.A	100.000	--	100,000	--	736,641	(47,522)	--	834,955	--	1,624,074
Grifols Polska, Sp.z.o.o.	100.000	--	10,714	--	163,585	16,555	--	97,603	--	288,457
Grifols Malaysia Sdn Bhd	30.000	--	30,283	--	66,840	797	--	123,128	--	221,048
Plasmacare, Inc.	--	100.000	8,319	--	5,631,950	(598,785)	--	2,860,666	--	7,902,150

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This Appendix forms an integral part of note 8 to the annual accounts.



APPENDIX I  
GRIFOLS, S.A.

Details of shareholders' equity of group companies  
31 December 2005

(Expressed in Euros)

(Free translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails)

Name	% ownership		Share capital	Share premium	Reserves	Currency translation differences	Prior years profit/(loss)	Profit/(loss) for the year	Interim dividend	Total shareholders' equity
	Direct	Indirect								
Laboratorios Grifols, S.A.	99.998	0.002	4,798,324	--	7,183,643	--	--	20,980	--	12,002,947
Instituto Grifols, S.A.	99.998	0.002	1,537,989	--	21,451,713	--	--	8,612,662	--	31,602,364
Movaco, S.A.	99.999	0.001	2,404,601	--	6,501,047	--	--	5,384,396	--	14,290,044
Grifols Portugal Produtos Farmacéuticos e Hospitalares, Lda.	0.015	99.985	652,203	--	22,047	20,379.00	(293,156)	17,841	--	419,312
Diagnostic Grifols, S.A.	99.998	0.002	336,560	--	7,400,142	--	--	5,655,760	--	13,392,462
Logister, S.A.	--	100.000	105,325	--	237,777	--	--	10,349	--	353,451
Grifols Chile, S.A.	100.000	--	385,453	--	(347,588)	687,108	1,033,999	869,106	--	2,628,078
Biomat, S.A.	99.900	0.100	60,110	--	3,631,333	--	--	1,441,684	--	5,133,127
Grifols Argentina, S.A.	100.000	--	955,675	--	6,074,406	(298,794)	(4,625,332)	244,131	--	2,350,086
Grifols s.r.o.	100.000	--	51,597	--	184,092	109,196	914,395	602,904	--	1,862,184
Grifols México, S.A. de C.V.	100.000	--	553,676	--	1,177,085	826,909	(261,522)	179,511	--	2,475,659
Grifols Viajes, S.A.	99.900	0.100	60,110	--	178,680	--	--	(34,469)	--	204,321
Grifols USA, Inc.	--	100.000	561,686	198,985	--	1,070,296	(3,870,281)	4,932,853	--	2,893,539
Grifols International, S.A.	99.900	0.100	2,860,154	--	1,017,080	--	(4,475,145)	898,120	--	300,209
Grifols Deutschland, GmbH	100.000	--	2,924,813	--	1,293,343	8,913	(2,379,030)	4,052,558	--	5,900,597
Grifols Italia, S.p.A.	100.000	--	308,662	2,829,415	3,847,178	17,111	--	1,126,640	--	8,129,006
Grifols UK, Ltd.	100.000	--	4,285	4,385,892	6,038,720	134,619	--	2,429,547	(3,090,390)	9,902,673
Grifols Brasil, Ltda.	100.000	--	764,095	--	(1,954,720)	(308,730)	2,111,157	(232,688)	--	379,114
Grifols France, S.A.R.L.	99.000	1.000	7,700	--	770	2	533,001	367,722	--	909,195
Grifols Engineering, S.A.	99.950	0.050	60,120	--	1,324,445	--	--	227,286	--	1,611,851
Biomat USA, Inc.	--	100.000	--	68,932,851	593,303	(9,596,216)	(17,843,042)	(1,297,883)	--	40,789,013
Squadron Reinsurance Ltd.	99.999	0.001	1,000,000	--	--	(2)	1,891,663	2,222,627	--	5,114,288
Grifols, Inc. (antes										
Probitas Pharma, Inc.)	100.000	--	33,372,773	1,213,145	--	428,578	(10,484,796)	1,716,879	--	26,246,579
Grifols Asia Pacific Pte. Ltd.	100.000	--	362,387	883,464	--	82,787	641,610	670,099	--	2,640,347
Alpha Therapeutic Europe, Ltd.	100.000	--	9,277,682	--	--	204,882	(5,004,859)	674,541	--	5,152,246
Grifols Biologicals, Inc.	--	100.000	33,372,773	--	8,143,927	1,478,676	--	7,102,350	--	50,097,726
Grifols (Thailand), Ltd.	--	100.000	61,198	234,646	--	(80,633)	(129,019)	5,870	--	92,062
Alpha Therapeutic UK, Ltd.	--	100.000	1	--	--	(12,850)	351,721	724,166	--	1,063,038
Alpha Therapeutic Italia, S.p.A	100.000	--	100,000	--	720,358	(47,522)	--	1,111,271	--	1,884,107
Grifols Polska, Sp.z.o.o.	100.000	--	10,714	--	--	12,760	25,667	137,918	--	187,059
Grifols Malaysia Sdn Bhd	30.000	--	30,283	--	--	7,817	41,713	25,127	--	104,940

**APPENDIX II**  
**GRIFOLS, S.A.**

**Movement in shareholders' equity for the years ended**  
**31 December 2006 and 2005**

(Expressed in Euros)

(Free translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails)

	Share capital	Share premium	Legal reserve	Non-distributable reserve	Voluntary reserve	Profit for the year	Total
<b>Balances at 31 December 2004</b>	105,840,720	45,118,683	5,498,720	873,466	38,877,352	5,881,233	202,090,174
Distribution of 2004 profit							
Reserves	--	--	588,123	--	2,452,688	(3,040,811)	0
Dividends	--	--	--	--	--	(2,840,422)	(2,840,422)
Increase in share capital through monetary contribution	11,355,737	308,644,263	--	--	--	--	320,000,000
Increase in share capital with a charge to share premium	7,016,915	(7,016,915)	--	--	--	--	0
Reduction in share capital	(53,914,223)	(231,080,921)	--	--	(25,755,655)	--	(310,750,799)
Elimination of own share reserves	--	--	--	(870,446)	870,446	--	0
Profit for the year	--	--	--	--	--	12,960,959	12,960,959
<b>Balances at 31 December 2005</b>	70,299,149	115,665,110	6,086,843	3,020	16,444,831	12,960,959	221,459,912
Distribution of 2005 profit							
Reserves	--	--	1,296,096	--	4,664,863	(5,960,959)	0
Dividends	--	--	--	--	--	(7,000,000)	(7,000,000)
Increase in share capital through monetary contribution	35,500,000	276,900,000	--	--	--	--	312,400,000
Increase in share capital with a charge to share premium	863,300	(863,300)	--	--	--	--	0
Reserves	(130,000)	(259,870,000)	--	--	(19,802,740)	--	(279,802,740)
Profit for the year	--	--	--	--	--	18,206,627	18,206,627
<b>Balances at 31 December 2006</b>	106,532,449	131,831,810	7,382,939	3,020	1,306,954	18,206,627	265,263,799

This Appendix forms an integral part of note 12 to the annual accounts.

**APPENDIX III  
GRIFOLS, S.A.**

**Members of the board of directors with posts in companies with identical, similar or complementary activities  
31 December 2006**

(Free translation from the original in Spanish. In the event of discrepancy the Spanish-language version prevails)

Board member	Company in which post is held	Position
Dagà Gelibert, T.	Grifols, Inc.	Director
Dagà Gelibert, T.	Biomat USA, Inc.	Director
Dagà Gelibert, T.	Plasmacare, Inc.	Director
Doster, T. E.	Instituto Grifols, S.A.	Director
Glanzmann, T.	Instituto Grifols, S.A.	Director
Grifols Roura, V.	Biomat, S.A.	Administrator
Grifols Roura, V.	Diagnostic Grifols, S.A.	Administrator
Grifols Roura, V.	Grifols Engineering, S.A.	Administrator
Grifols Roura, V.	Grifols International, S.A.	Administrator
Grifols Roura, V.	Grifols Viajes, S.A.	Administrator
Grifols Roura, V.	Instituto Grifols, S.A.	Administrator
Grifols Roura, V.	Laboratorios Grifols, S.A.	Chairman / Director / CEO
Grifols Roura, V.	Logister, S.A.	Administrator
Grifols Roura, V.	Movaco, S.A.	Administrator
Grifols Roura, V.	Grifols Deutschland, GmbH	Administrator
Grifols Roura, V.	Grifols, Inc.	Director
Grifols Roura, V.	Biomat USA, Inc.	Director
Grifols Roura, V.	Grifols, s.r.o.	Administrator
Grifols Roura, V.	Grifols UK, Ltd.	Administrator
Grifols Roura, V.	Alpha Therapeutic UK, Ltd.	Administrator
Grifols Roura, V.	Alpha Therapeutic Europe, Ltd.	Administrator
Grifols Roura, V.	Grifols Portugal Produtos Farmacéuticos e Hospitalares, Lda.	Administrator
Grifols Roura, V.	Grifols France S.A.R.L.	Joint manager
Grifols Roura, V.	Grifols Chile, S.A.	Board member
Grifols Roura, V.	Grifols Italia S.p.A.	Chairman
Grifols Roura, V.	Grifols Italia S.p.A.	Chairman
Grifols Roura, V.	Plasmacare, Inc.	Director
Purslow, C.M.C.	Instituto Grifols, S.A.	Director
Riera Roca, R.	Grifols International, S.A.	Administrator
Riera Roca, R.	Instituto Grifols, S.A.	Director
Riera Roca, R.	Grifols, Inc.	Director
Riera Roca, R.	Biomat USA, Inc.	Director
Riera Roca, R.	Grifols Argentina, S.A.	Chairman
Riera Roca, R.	Grifols Polska Sp.z o.o.	Chairman
Riera Roca, R.	Grifols France S.A.R.L.	Joint manager
Riera Roca, R.	Grifols Chile, S.A.	Board member
Riera Roca, R.	Alpha Therapeutic Italia, S.p.A.	Chairman
Riera Roca, R.	Plasmacare, Inc.	Director
Twose Roura, J.I.	Grifols Engineering, S.A.	Administrator
Twose Roura, J.I.	Instituto Grifols, S.A.	Director
Twose Roura, J.I.	Grifols, Inc.	Director
Twose Roura, J.I.	Biomat USA, Inc.	Director
Twose Roura, J.I.	Plasmacare, Inc.	Director

**APPENDIX IV  
GRIFOLS, S.A.**

**Statement of source and application of funds for the years ended  
31 December 2006 and 2005**

(Expressed in Euros)

(Free translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails)

Applications	2006	2005	Sources	2006	2005
<b>Funds applied to operations</b>			<b>Funds generated from operations</b>		
Establishment costs and loan arrangement costs	17,852,167	18,484,661	Profit for the year	18,206,627	12,960,959
Acquisition of fixed assets:			Amortisation and depreciation	21,269,170	5,919,553
Intangible assets	2,497,675	984,808	Provision for investments	62,350	3,377,499
Tangible assets	1,462,670	511,634	Excess in provision for investments	--	(2,009,954)
Investments	60,516	23,181,478	Excess in provision for liabilities and charges	--	(537,754)
Reduction of share capital	279,802,740	--	Amortisation of loan arrangement costs	684,319	769,171
Dividends	7,000,000	2,840,422	Amortisation of other deferred expenses	21,908	30,494
Acquisition of own shares	--	323,145,527	(Profit)/Loss from disposal of fixed assets	453,254	(7,387,255)
Cancellation or transfer to short term of long-term debt	43,395,454	224,651,491	Deferred income taken to profit	(203,831)	(217,936)
			<b>Total funds generated from operations</b>	<b>40,493,797</b>	<b>12,904,777</b>
			Capital increase through monetary contribution	312,400,000	320,000,000
			Long-term debts	37,446,278	214,830,341
			Other deferred income	7,042	21,146
			Disposal of fixed assets:		
			Intangible assets	160,244	--
			Investments	--	22,771,130
			Disposal of own shares	--	19,996,821
			Cancellation or transfer to short-term of investments	--	15,283,274
<b>Total applications</b>	<b>352,071,222</b>	<b>593,800,021</b>	<b>Total sources</b>	<b>390,507,361</b>	<b>605,807,489</b>
<b>Increase in working capital</b>	<b>38,436,139</b>	<b>12,007,468</b>	<b>Decrease in working capital</b>	<b>--</b>	<b>--</b>
	<b>390,507,361</b>	<b>605,807,489</b>		<b>390,507,361</b>	<b>605,807,489</b>

**APPENDIX IV**  
**GRIFOLS, S.A.**

**Statement of source and application of funds for the years ended**  
**31 December 2006 and 2005**

(Expressed in Euros)

(Free translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails)

Changes in working capital are as follows:

	Increase (Decrease)	
	2006	2005
Stocks	59,540	18,994
Debtors	9,063,026	(2,553,078)
Short-term investments	34,775,432	(201,718)
Cash in hand and at banks	(232,341)	(1,577,833)
Deferred expenses	523,057	(531,405)
Issue of bonds	--	5,241,000
Borrowings	(14,367,810)	21,753,186
Lease finance creditors	110,914	126,324
Debts with group and associated companies	(2,329,893)	(2,911,469)
Trade creditors	2,836,886	(4,825,123)
Other creditors	7,997,328	(4,361,011)
Exchange gains	--	1,829,601
<b>Changes in working capital</b>	<b>38,436,139</b>	<b>12,007,468</b>

This Appendix forms an integral part of note 27 to the accompanying annual accounts.

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## **DIRECTORS' REPORT**

(Free translation from the original in Spanish.  
In the event of discrepancy, the Spanish-language version prevails)

# GRIFOLS, S.A.

(Free translation from the original in Spanish.  
In the event of discrepancy, the Spanish-language version prevails)

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To the Shareholders:

Grifols, S.A.'s principal activities consist of the following:

- Define action plans and general procedures for the entire Group.
- Plan future investments by entering new markets or diversifying product portfolio.
- Provide support to the various functional areas in each group company (product divisions, technical division, marketing/sales division, scientific division, financial division and planning and control division).
- Lease its buildings to group companies.
- Render a series of services to its subsidiaries, which these companies are unable to perform due to their limited structures, such as: personnel recruitment and management, communications and corporate image, IT services and maintenance.

The Company's revenues are generated from the leasing of its buildings, services rendered, and dividends obtained from its subsidiaries.

The Company's future profits could be affected by events relating to its own activities, such as a lack of raw materials for product manufacturing, the appearance of competitor products on the market or regulatory changes in the markets in which it operates, inter alia.

At the date of preparation of these annual accounts, the Company has taken the necessary measures to mitigate any possible effects arising from the aforementioned events.

Details of transactions with own shares during 2006 are provided in note 9 to the accompanying annual accounts.

The Company does not conduct any research and development activities.

# GRIFOLS, S.A.

(Free translation from the original in Spanish.  
In the event of discrepancy, the Spanish-language version prevails)

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In accordance with the provisions of article 171, section 1, of the Spanish Limited Companies Act currently in force, the directors of Grifols, S.A. have prepared the annual accounts and directors' report of the Company for 2006, both of which are drawn up and identified on sheets of paper bearing the official State seal, 8th class, numbered from OI0377558 to OI0377623.

Parets del Vallés, 16 February 2007

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R. Riera R.  
(signed)

---

V. Grifols R.  
(signed)

---

C.M.C. Purslow  
(signed)

---

Thortol Holdings B.V.  
(J.A. Grifols G.)  
(signed)

---

T. Daga G.  
(signed)

---

E.D. Jannotta  
(signed)

---

T. E. Doster  
(signed)

---

J.I. Twose R.  
(signed)

---

T. Glanzmann  
(signed)

---

R. Grifols R  
(signed)