

GRIFOLS, S.A. and Subsidiaries

Consolidated Annual Accounts prepared under EU-endorsed
International Financial Reporting Standards
and Consolidated 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.
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08034 Barcelona

Auditors' Report on the Consolidated 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 consolidated financial statements of Grifols, S.A. (the Company) and subsidiaries (the Group) which comprise the consolidated balance sheet at 31 December 2006, the related consolidated statement of profit and loss, the consolidated cash flow statement, the statement of changes in consolidated equity for the year then ended and the consolidated notes thereto, the preparation of which is the responsibility of the Parent company's board of directors. Our responsibility is to express an opinion on the consolidated financial statements, 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 consolidated financial statements and assessing the appropriateness of their presentation, of the accounting principles applied and of the estimates employed.

In accordance with prevailing Spanish legislation, these consolidated financial statements also include, for each individual caption in the consolidated balance sheet, consolidated statement of profit and loss, consolidated cash flow statement, statement of changes in consolidated equity and the consolidated notes thereto, comparative figures for the previous year. We express our opinion solely on the consolidated financial statements for 2006. On 3 April 2006 we issued our qualified audit report on the consolidated annual accounts for 2005.

In our opinion, these consolidated annual accounts for 2006 present fairly, in all material respects, the consolidated shareholders' equity and consolidated financial position of Grifols, S.A. and subsidiaries at 31 December 2006, and the consolidated results of their operations, changes in consolidated equity and consolidated cash flows for the year then ended and contain sufficient information necessary for their adequate interpretation and understanding, in accordance with EU-endorsed international financial reporting standards, applied on a basis consistent with that of the preceding year.

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

KPMG AUDITORES, S.L.

David Ghosh Basu (signed)

19 February 2007

GRIFOLS, S.A. AND SUBSIDIARIES

Consolidated Balance Sheets at 31 December 2006 and 2005 (In thousands of Euros)

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

Assets	31/12/06	31/12/05
Non-current assets		
Intangible assets (note 6)		
Goodwill	150.820	117.115
Other assets	60.850	48.718
Total intangible assets	211.670	165.833
Property, plant and equipment (note 7)	184.993	186.621
Investments (note 8)		
Investments accounted for using the equity method	253	210
Other investments	843	803
Total investments	1.096	1.013
Deferred tax assets (note 29)	41.452	30.529
Financial assets available-for-sale (note 9)	1.169	1.393
Total non-current assets	440.380	385.389
Current assets		
Inventories (note 10)	235.475	249.545
Trade and other receivables (note 11)	196.998	155.046
Short-term investments (note 12)	6.232	661
Public entities (note 13)	7.706	8.186
Cash and cash equivalents	26.883	22.856
Total current assets	473.294	436.294
Total assets	913.674	821.683

The accompanying notes form an integral part of the consolidated financial statements.

GRIFOLS, S.A. AND SUBSIDIARIES

Consolidated Balance Sheets at 31 December 2006 and 2005 (In thousands of Euros)

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

Equity and liabilities	31/12/06	31/12/05
Equity (note 14)		
Share capital	106,532	70,169
Reserves	284,040	1,603
Profit for the year	45,394	25,556
Translation differences	(68,022)	(41,502)
Total majority shareholders' equity	367,944	55,826
Minority interests (note 15)	408	121
Total equity	368,352	55,947
Liabilities		
Non-current liabilities		
Notes & other liabilities (note 16)	0	5,323
Borrowings (note 17)	198,329	184,671
Other payables (note 18)	18,367	281,233
Deferred tax liabilities (note 29)	45,862	42,104
Total non-current liabilities	262,558	513,331
Current liabilities		
Notes and other liabilities (note 16)	5,375	0
Borrowings (note 19)	132,748	99,514
Derivatives (note 20)	648	3,049
Payables to related parties (note 21)	39	41
Trade payables (note 22)	82,271	74,708
Other payables (note 23)	45,075	51,981
Public entities (note 13)	16,608	23,112
Total current liabilities	282,764	252,405
Total liabilities	545,322	765,736
Total equity and liabilities	913,674	821,683

The accompanying notes form an integral part of the consolidated financial statements.

GRIFOLS, S.A. AND SUBSIDIARIES

Consolidated income statements for the years ended 31 December 2006 and 2005

(In thousands of Euros)

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

Profit and loss	31/12/06	31/12/05
Revenues		
Net sales (note 24)	648,417	523,727
Other operating income	380	550
Total revenues	648,797	524,277
Operating expenses		
Change in inventories of finished goods and work in progress and cost of raw materials consumed and services (note 10)	(203,172)	(153,897)
Personnel expenses (note 25)	(184,730)	(154,887)
Depreciation and amortisation (notes 6 and 7)	(29,357)	(26,898)
Other operating expenses (note 26)	(132,889)	(114,071)
Total operating expenses	(550,148)	(449,753)
Other income/expense		
Other income	2,799	1,029
Other expense	(958)	(1,967)
Total other income/expense (note 27)	1,841	(938)
Operating profit	100,490	73,586
Financial income/expense		
Financial income	7,107	3,549
Financial expense	(43,100)	(37,855)
Exchange gains/(losses)	(1,064)	1,550
Net financing costs (note 28)	(37,057)	(32,756)
Interest in equity accounted companies (note 8)	76	(10)
Profit before income tax	63,509	40,820
Income tax (note 29)	(17,824)	(15,315)
Profit after income tax	45,685	25,505
Minority interest (note 15)	291	(51)
Profit attributable to the Group	45,394	25,556

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

GRIFOLS, S.A. AND SUBSIDIARIES

Consolidated cash flow statements for the years ended 31 December 2006 and 2005

(In thousands of Euros)

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

	31/12/06	31/12/05
<u>Cash flows from operating activities</u>		
Net profit	45,394	25,556
Profit / (loss) from equity accounted companies	(76)	10
Amortisation and depreciation	29,357	26,898
Net provisions for fixed assets	-	(69)
Net provisions for liabilities and charges	101	114
Profit / (loss) on disposal of fixed assets	574	526
Minority interests	291	11
Capital grants taken to income	(202)	(159)
Exchange gains	-	(10)
Deferred tax assets / liabilities	(7,676)	109
Financial expense / income	35,993	34,306
Income tax expense	25,500	15,315
Operating profit prior to changes	129,256	102,607
Changes in inventories	7,456	6,090
Changes in receivables	(43,616)	39,654
Changes in short-term investments	(5,655)	(219)
Changes in current liabilities	8,159	6,638
	(33,656)	52,163
Cash generated from operations	95,600	154,770
Interest paid	(15,259)	(17,438)
Tax paid / recovered	(31,265)	(17,608)
	(46,524)	(35,046)
Net cash from operating activities	49,076	119,724
<u>Cash flows from investing activities</u>		
Sale of non-current assets	190	323
Business combination	(60,458)	-
Acquisition of non-current assets	(35,025)	(28,934)
Net cash used in investing activities	(95,293)	(28,611)
<u>Cash flows from financing activities</u>		
Purchase / sale of treasury	(279,803)	(303,149)
Net capital increase	300,796	301,515
Additions / settlement of loans	35,381	(88,640)
Dividends paid	(7,000)	(2,840)
Conversion differences	1,038	(638)
Net cash used in financing activities	50,412	(93,752)
Net increase in cash and cash equivalents	4,195	(2,639)
Cash and cash equivalents at beginning of the year	22,856	22,996
Effect of exchange rate fluctuations on cash held	(1,056)	2,499
Cash and cash equivalents from business combinations	888	-
Cash and cash equivalents at close of year	26,883	22,856

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

GRIFOLS, S.A. AND SUBSIDIARIES

Consolidated statements of changes in equity
for the years ended 31 December 2006 and 2005

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

	Attributable to equity holders of the Parent									
	Share capital	Legal reserves	Other reserves	Accumulated earnings for the year	Treasury shares	Conversion differences	Financial instrument reserve	Equity attributable to the parent	Minority interests	Net equity
Balance at 1 January 2005	105,841	7,661	183,975	26,402	(870)	(69,915)	198	253,292	110	253,402
<i>Changes in equity during 2005</i>										
Reserves for foreign currency translation	-	-	-	-	-	27,002	-	27,002	62	27,064
Financial assets available for sale profit/(loss) recognised as equity	-	-	-	-	-	-	(103)	(103)	-	(103)
Revaluation of property, plant & equipment net increase/decrease in assets	-	-	-	-	-	1,411	-	1,411	-	1,411
Operations with treasury shares	-	(870)	4,512	-	870	-	-	4,512	-	4,512
Net income / expense recognised directly in equity	0	(870)	4,512	0	870	28,413	(103)	32,822	62	32,884
Profit / (loss) for the year	-	-	-	25,556	-	-	-	25,556	(51)	25,505
Total income and expense recognised during the year	0	(870)	4,512	25,556	870	28,413	(103)	58,378	11	58,389
Distribution of profits for 2004										
Reserves	-	760	22,802	(23,562)	-	-	-	0	-	0
Dividends	-	-	-	(2,840)	-	-	-	(2,840)	-	(2,840)
Capital increase with monetary contribution	11,226	-	48,774	-	-	-	-	60,000	-	60,000
Capital increase with a charge to share premium	7,017	-	(7,017)	-	-	-	-	0	-	0
Capital increase expenses (with voting rights)	-	-	(2,253)	-	-	-	-	(2,253)	-	(2,253)
Share capital decrease	(53,914)	-	(256,837)	-	-	-	-	(310,751)	-	(310,751)
Balance at 31 December 2005	70,169	7,551	(6,044)	25,556	0	(41,502)	95	55,826	121	55,947
<i>Changes in equity during 2006</i>										
Reserves for foreign currency translation	-	-	-	-	-	(26,520)	-	(26,520)	(4)	(26,524)
Available for sale financial assets profit/(loss)/recognised as equity	-	-	-	-	-	-	(147)	(147)	-	(147)
Other movements	-	-	(405)	-	-	-	-	(405)	-	(405)
Net income/expense recognised directly in equity	0	0	(405)	0	0	(26,520)	(147)	(27,072)	(4)	(27,076)
Profit / (loss) for the year	-	-	-	45,394	-	-	-	45,394	291	45,685
Total income and expense recognised directly during the year	0	0	(405)	45,394	0	(26,520)	(147)	18,323	287	18,610
Distribution of profits for 2005										
Reserves	-	1,579	16,977	(18,556)	-	-	-	0	-	0
Dividends	-	-	-	(7,000)	-	-	-	(7,000)	-	(7,000)
Capital increase with monetary contribution	35,500	-	276,900	-	-	-	-	312,400	-	312,400
Capital increase with a charge to share premium	863	-	(863)	-	-	-	-	0	-	0
Capital increase costs	-	-	(11,604)	-	-	-	-	(11,604)	-	(11,604)
Balance at 31 December 2006	106,532	9,130	274,962	45,394	0	(68,022)	(52)	367,944	408	368,352

GRIFOLS, S.A. AND SUBSIDIARIES
Notes to the Consolidated Annual Accounts
31 December 2006 and 2005

(Free translation from the original in Spanish.
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(1) Nature, principal activities and subsidiaries

(a) Grifols, S.A.

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. Its registered offices are in Barcelona (Spain). The Company's statutory activity consists of providing administrative and management services to its subsidiaries.

The principal activity of Grifols, S.A. and subsidiaries (hereinafter the Group) is the procurement, manufacture, preparation and sale of therapeutic products, especially haemoderivatives.

Grifols, S.A. is the parent company in a Group formed by the subsidiaries listed in section 1(b) of these notes. The Group acts on an integrated basis and under common management.

The Spanish companies' main installations are located in Barcelona, Parets del Vallés (Barcelona) and Torres de Cotilla (Murcia).

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 14).

(b) Subsidiaries

The Group companies are grouped into three areas of activity: industrial, commercial and services.

- Industrial

The following companies are included:

Diagnostic Grifols, S.A., with registered offices in Parets del Vallés (Barcelona), Spain, was incorporated into the Group on 24 March 1987, and is engaged in the development and manufacture of diagnostic equipment, instrumentation and reagents.

GRIFOLS, S.A. AND SUBSIDIARIES

Notes to the Consolidated Annual Accounts

Instituto Grifols, S.A. which has registered offices in Parets del Vallès (Barcelona), Spain, and was incorporated into the Group on 21 September 1987, carries out its activities in the area of bioscience and is engaged in plasma fractioning and the manufacture of haemoderivative pharmaceutical products.

Laboratorios Grifols, S.A., with registered offices in Parets del Vallès (Barcelona), Spain, was incorporated into the Group on 18 April 1989 and is engaged in the production of glass- and plastic-packaged parenteral solutions, parenteral and enteral nutrition products and blood extraction equipment and bags. Its production facilities are in Barcelona and Murcia.

Biomat, S.A. with registered offices in Parets del Vallès (Barcelona), Spain, was incorporated into the Group on 30 July 1991. It operates in the field of bioscience and basically engages in analysis and certification of the quality of plasma used by Instituto Grifols, S.A. It also provides transfusion centres with plasma virus inactivation services.

Grifols Engineering, S.A., with registered offices in Parets del Vallès (Barcelona), Spain, was incorporated into the Group on 14 December 2000 and is engaged in the design and development of the Group's manufacturing installations and part of the equipment and machinery used at these installations. The company also renders engineering services to external companies.

Logister, S.A. was incorporated with limited liability under Spanish law on 22 June 1987 and its registered offices are at Polígono Levante, calle Can Guasch, s/n, 08150 Parets del Vallés, Barcelona. Its activity comprises the manufacture, sale and purchase, marketing and distribution of all types of computer products and materials. 99.985% of this company is solely-owned directly by Movaco, S.A.

Biomat USA, Inc. with registered offices in 1209, Orange Street, Wilmington, New Castle (Delaware Corporation), was incorporated into the Group on 1 March 2002 and carries out its activities in the area of bioscience, procuring human plasma. This company is wholly owned by Instituto Grifols, S.A.

Grifols Biologicals, Inc., with registered offices in 15 East North Street, Dover, (Delaware), was incorporated into the Group on 15 May 2003 and is exclusively engaged in plasma fractioning and the production of haemoderivatives. Grifols, Inc. directly owns 100% of this company.

GRIFOLS, S.A. AND SUBSIDIARIES
Notes to the Consolidated Annual Accounts

Plasmacare, Inc., with registered offices at 1209 Orange Street, County of New Castle, Wilmington, Delaware 19801. This company joined the Group on 3 March 2006 and its activity, developed in the bioscience area, consists of obtaining human plasma. This company is 100% owned by Instituto Grifols, S.A. and is the holding company of a group of 14 companies comprising the sub-consolidated group. On 1 January 2007 this sub-group was restructured, grouping all the companies under PlasmaCare, Inc.

- **Commercial area**

These companies are mainly responsible for the marketing and distribution of products manufactured by the industrial companies and are all grouped under commercial activities:

- **Movaco, S.A.** was incorporated with limited liability under Spanish law on 21 July 1987 and its registered offices are at Polígono Levante, calle Can Guasch, s/n, 08150 Parets del Vallés, Barcelona. Its principal activity is the distribution and sale of reagents, chemical products and other pharmaceutical specialities, and of medical-surgical materials, equipment and instruments for use in laboratories and healthcare centres.
- **Grifols International, S.A.**, with registered offices in Barcelona, Spain, was incorporated into the Group on 4 June 1997. This company directs and coordinates the marketing, sales and logistics for all the Group's commercial subsidiaries. Products are marketed through subsidiaries operating in different countries. These subsidiaries, their registered offices and date of incorporation into the Group, are listed below.
- **Grifols Portugal Productos Farmacéuticos e Hospitalares, Lda.**, was incorporated with limited liability under Portuguese law on 10 August 1988. Its registered offices are at Jorge Barradas, 30 -c R/C, 1500 Lisbon (Portugal) and it imports, exports and markets pharmaceutical and hospital equipment and products, particularly Grifols products. 99.975% of this company is owned directly by Movaco, S.A.
- **Grifols Chile, S.A.** was incorporated under limited liability in Chile on 2 July 1990. Its registered offices are at calle Avda. Americo Vespucio 2242, Comuna de Conchali, Santiago de Chile (Chile). Its authorised activity under its statutes comprises the development of pharmaceutical businesses, which can involve the import, production, marketing and export of related products.

GRIFOLS, S.A. AND SUBSIDIARIES
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- **Grifols Argentina, S.A.** was incorporated with limited liability in Argentina on 1 November 1991 and its registered offices are at Bartolomé Mitre 1371, fifth floor office "P" (CP 1036), Buenos Aires (Argentina). Its authorised activity under its statutes consists of clinical and biological research, the preparation of reagents and therapeutic and diet products, the manufacture of other pharmaceutical specialities and the marketing thereof.
- **Grifols s.r.o.** was incorporated with limited liability under Czech Republic law on 15 December 1992. Its registered offices are at Zitná 2, Prague (Czech Republic) and its authorised activity under its statutes consists of the purchase, sale and distribution of chemical-pharmaceutical products, including human plasma.
- **Grifols México, S.A. de C. V.** was incorporated with limited liability under Mexican law on 9 January 1970, with registered offices at calle Eugenio Cuzin nº 909, Parque Industrial Belenes Norte, 45150 Zapopan, Jalisco (Mexico). Its authorised activity under its statutes comprises the manufacture and marketing of pharmaceutical products for human and veterinary use.
- **Grifols USA, Inc.** was incorporated in the state of Florida (USA) on 19 April 1990. Its registered offices are at 8880 N.W. 18 Terrace, Miami, Florida (USA) and its authorised activity under its statutes is any activity permitted by US legislation. On 1 July 2004 this company merged with the companies Grifols America, Inc, and Grifols Quest, Inc. This company is directly owned by Grifols, Inc.
- **Grifols Italia S.p.A.** has its registered offices at Via Carducci 62 d, 56010 Ghezzano, Pisa (Italy) and its authorised activity under its statutes comprises the purchase, sale and distribution of chemical-pharmaceutical products. 66.66% of this company was acquired on 9 June 1997 and the remaining 33.34% on 16 June 2000.
- **Grifols UK Ltd.**, the registered offices of which are at 72, St. Andrew's Road, Cambridge CB4 1G (United Kingdom), is engaged in the distribution and sale of therapeutic and other pharmaceutical products, especially haemoderivatives. 66.66% of this company was acquired on 9 June 1997 and the remaining 33.34% on 16 June 2000.
- **Grifols Deutschland GmbH** was incorporated with limited liability under German law on 21 May 1997, with registered offices at Siemensstrasse 18, D-63225 Langen (Germany). Its authorised activity under its statutes consists of the import, export, distribution and sale of reagents, chemical and pharmaceutical products, especially to laboratories and healthcare centres, and medical and surgical materials, equipment and instruments for laboratory use.

GRIFOLS, S.A. AND SUBSIDIARIES
Notes to the Consolidated Annual Accounts

- **Grifols Brasil, Ltda.** was incorporated with limited liability in Brazil on 4 May 1998. Its registered offices are at Rua Marechal Hermes 247, Centro Cívico, CEP 80530-230, Curitiba (Brazil). Its authorised activity under its statutes consists of the import and export, preparation, distribution and sale of pharmaceutical and chemical products for laboratory and hospital use, and medical-surgical equipment and instrumentation.
- **Grifols France, S.A.R.L.** was incorporated with limited liability under French law on 2 November 1999, with registered offices at Centre d'affaires auxiliares system, Bat. 10, Parc du Millenaire – 125, Rue Henri Becquerel, 34036, Montpellier (France). Its statutory activity is the marketing of chemical and healthcare products.
- **Alpha Therapeutic Europe, Ltd** was incorporated on 5 April 2000 and its registered offices are at 100 New Bridge Street, London. It renders technical, financial and marketing services to other Group companies.
- **Alpha Therapeutic UK, Ltd** was incorporated on 8 April 2000 and its registered offices are at 100 New Bridge Street, London. Its activity consists of the distribution and sale of therapeutic products, especially haemoderivatives. The company is wholly owned by Alpha Therapeutic Europe, Ltd.
- **Alpha Therapeutic Italia, S.p.A.** was incorporated on 3 July 2000, with registered offices at Piazza Meda 3, 20121 Milan (Italy), and engages in the distribution and sale of therapeutic products, especially haemoderivatives.
- **Grifols Asia Pacific Pte, Ltd (formerly Alpha Therapeutic Asia Pte, Ltd)** was incorporated on 10 September 1986, with registered offices at 501 Orchard Road #20-01 Wheelock Place, Singapore, and its activity consists of the distribution and sale of medical and pharmaceutical products.
- **Grifols Malaysia Sdn Bhd** is partly owned (30%) by Grifols Asia Pacific Pte, Ltd. The registered offices of this company are in Selangor (Malaysia) and it engages in the distribution and sale of pharmaceutical products.
- **Grifols (Thailand) Ltd** was incorporated on 1 September 1995 and its registered offices are at 287 Liberty Square Level 8, Silom Road, Bangkok. Its activity comprises the import, export and distribution of pharmaceutical products. 48% of this company is directly owned by Grifols Asia Pacific Pte., Ltd.
- **Grifols Polska Sp.z.o.o.** was incorporated on 12 December 2003, with registered offices at UL. Nowogrodzka, 68, 00-116, Warsaw, Poland, and engages in the manufacture and sale of pharmaceutical, cosmetic and other products.

GRIFOLS, S.A. AND SUBSIDIARIES
Notes to the Consolidated Annual Accounts

- **Services**

The following companies are included in this area:

- **Grifols, Inc.** was incorporated on 15 May 2003 with registered offices at 15 East North Street, Dover (Delaware, USA). Its principal activity is the holding of investments in companies. The company changed its name from Probitas Pharma Inc. to the current name on 19 September 2005.
- **Grifols Viajes, S.A.**, with registered offices in Barcelona, Spain, was incorporated into the Group on 31 March 1995 and operates as a retail travel agency exclusively serving Group companies.
- **Squadron Reinsurance Ltd.**, with registered offices in Dublin, Ireland, was incorporated into the Group on 25 April 2003 and engages in the reinsurance of Group companies' insurance policies.

(c) Associated companies

Associated companies are as follows:

Quest Internacional, Inc., 35% owned by Diagnostic Grifols, S.A., with registered offices in Miami, Florida (USA), engages in the manufacture and marketing of reagents and clinical analysis instruments and is accounted for under the equity method.

(d) Business combinations

d.1 Acquisition of Plasmacare Inc.

On 3 March 2006 the Group acquired 100% of Plasmacare Inc. through Instituto Grifols, S.A. PlasmaCare Inc. has registered offices in 1209 Orange Street, County of New Castle, Wilmington, Delaware 19801 and its principal activity, consists of obtaining human plasma. The business acquired has generated a consolidated profit of Euros 4,440 thousand for the Group during the period between the date of acquisition and the year-end close.

Had the acquisition taken place at 1 January 2006, the Group's ordinary income and consolidated profit for the year ended 31 December 2006 would have been Euros 655,959 thousand and Euros 46,259 thousand, respectively.

GRIFOLS, S.A. AND SUBSIDIARIES
Notes to the Consolidated Annual Accounts

Details of the aggregated business combination cost and fair value of the net assets acquired and goodwill (or excess of net assets acquired over the cost of the business combination) are as follows:

	<u>Thousands of Euros</u>
Cost of combination	
Cash paid	50,131
Directly attributable costs	364
Total cost of combination	<u>50,495</u>
Fair value of net assets acquired	<u>7,738</u>
Goodwill (excess of net assets acquired over cost of acquisition)	<u>42,757</u>
	(see Note 6)

GRIFOLS, S.A. AND SUBSIDIARIES
Notes to the Consolidated Annual Accounts

The assets, liabilities and contingent liabilities recognised at the acquisition date are as follows:

	Thousands of Euros	
	Fair value	Carrying amount
Property, plant and equipment	2,106	2,106
FDA licences (Note 6)	6,581	--
Intangible assets	18	18
Financial assets	6	6
Trade and other receivables	1,085	1,085
Inventories	2,649	2,649
Cash and cash equivalents	888	888
Deferred tax assets	1,103	--
Total assets	14,436	6,752
Trade and other payables	4,024	873
Deferred tax liabilities	2,674	238
Total liabilities and contingent liabilities	6,698	1,111
Total net assets	7,738	5,641
Goodwill	42,757	
Amount paid in cash	50,495	
Cash and cash equivalents of acquiree	(888)	
Cash flow paid on acquisition	49,607	

d.2 Acquisition of plasma centres

On 1 April 2006 the Group acquired through Biomat Usa, Inc. eight plasma centres in the USA from Biolife Plasma Service L.P., a subsidiary of Baxter Healthcare corporation.

GRIFOLS, S.A. AND SUBSIDIARIES
Notes to the Consolidated Annual Accounts

Details of the aggregated business combination cost and fair value of the net assets acquired and goodwill (or excess of net assets acquired over the cost of the business combination) are as follows:

	Thousands of Euros
Cost of combination	
Cash paid	1,554
Payment deferred	8,408
Total cost of combination	<u>9,963</u>
Fair value of net assets acquired	<u>4,844</u>
Goodwill (excess of net assets acquired over cost of acquisition)	<u>5,119</u>
	(Note 6)

The fair value of the net assets acquired amounting to Euros 4,844 thousand includes Euros 3,357 thousand in FDA licences (see note 6).

(2) Basis of Preparation

The accompanying consolidated annual accounts have been prepared on the basis of the accounting records of Grifols, S.A. and the companies forming the Group. The consolidated annual accounts for 2006 have been prepared under EU-endorsed International Financial Reporting Standards (IFRS-EU) to present fairly the consolidated equity and consolidated financial position of Grifols, S.A. and subsidiaries at 31 December 2006, as well as the consolidated results from their operations, their consolidated cash flows and changes in consolidated equity (changes in recognised income and expenses) for the year then ended. The 2005 consolidated annual accounts were the first to be prepared by the Group under IFRS-EU and consequently, IFRS 1 First-time Adoption of International Financial Reporting Standards was applied with effect from 1 January 2004.

(a) Bases of preparation of the consolidated annual accounts

These consolidated annual accounts have been prepared on the historical cost basis except for:

- Financial instruments, which are stated at fair value through profit or loss, and available-for-sale financial assets, which have been recorded at fair value.

GRIFOLS, S.A. AND SUBSIDIARIES
Notes to the Consolidated Annual Accounts

(b) Comparison of information

The consolidated annual accounts include, for each caption of the consolidated balance sheet and consolidated income statements, cash flow and changes in equity and the consolidated notes thereto for 2006, comparative data for 2005, which was obtained through consistent application of IFRS-EU, except for the criteria outlined in the following paragraphs.

The Group's accounting policies detailed in note 4 have been consistently applied to the years ended 31 December 2006 and 2005.

(c) Relevant accounting estimates, assumptions and judgements

Preparation of the consolidated annual accounts under IFRS-EU requires that accounting estimates, judgements and assumptions be made in the process of applying the Group's accounting policies. Aspects which involved a greater degree of judgement, complexity or for which the assumptions and estimates are significant for preparation of the consolidated annual accounts, are detailed below:

- The assumptions used for calculation of the fair value of financial instruments (see note 4 (f)).
- Measurement of assets and goodwill to determine any related impairment losses (see note 4(d)).
- Useful lives of property, plant and equipment and intangible assets (see notes 4(b) and 4(c)).

(d) Consolidation

The percentages of direct or indirect ownership of subsidiaries by the parent company at 31 December 2005 and 2004, as well as the consolidation method used in each case for preparation of the accompanying consolidated annual accounts, are detailed below:

GRIFOLS, S.A. AND SUBSIDIARIES
Notes to the Consolidated Annual Accounts

	31/12/2006		31/12/2005	
	Percentage interest		Percentage interest	
	Direct	Indirect	Direct	Indirect
Parent company				
Grifols, S.A.	--	--	--	--
Companies fully consolidated				
Laboratorios Grifols,S.A.	99.998	0.002	99.998	0.002
Instituto Grifols,S.A.	99.998	0.002	99.998	0.002
Movaco,S.A.	99.999	0.001	99.999	0.001
Grifols Portugal Productos				
Farmacéuticos e Hospitalares,Lda.	0.015	99.985	0.015	99.985
Diagnostic Grifols,S.A.	99.998	0.002	99.998	0.002
Logister,S.A.	--	100.000	--	100.000
Grifols Chile,S.A.	99.000	--	99.000	--
Biomat,S.A.	99.900	0.100	99.900	0.100
Grifols Argentina,S.A.	100.000	--	100.000	--
Grifols,s.r.o.	100.000	--	100.000	--
Grifols México,S.A. de C.V.	100.000	--	100.000	--
Grifols Viajes,S.A.	99.900	0.100	99.900	0.100
Grifols USA, Inc.	--	100.000	--	100.000
Grifols International,S.A.	99.900	0.100	99.900	0.100
Grifols Italia,S.p.A.	100.000	--	100.000	--
Grifols UK,Ltd.	100.000	--	100.000	--
Grifols Deutschland,GmbH	100.000	--	100.000	--
Grifols Brasil,Ltda.	100.000	--	100.000	--
Grifols France,S.A.R.L.	99.000	1.000	99.000	1.000
Grifols Engineering, S.A.	99.950	0.050	99.950	0.050
Biomat USA, Inc.	--	100.000	--	100.000
Squadron Reinsurance Ltd.	100.000	--	100.000	--
Grifols, Inc.	100.000	--	100.000	--
Grifols Biologicals, Inc.	--	100.000	--	100.000
Alpha Therapeutic Europe, Ltd.	100.000	--	100.000	--
Alpha Therapeutic UK, Ltd.	--	100.000	--	100.000
Alpha Therapeutic Italia, S.p.A.	100.000	--	100.000	--
Grifols Asia Pacific Pte., Ltd.	100.000	--	100.000	--
Grifols Malaysia Sdn Bhd	--	30.000	--	30.000
Grifols (Thailand) Ltd.	--	48.000	--	48.000
Grifols Polska Sp.z.o.o.	100.000	--	100.000	--
Plasmacare, Inc.	--	100.000	--	--
Companies accounted for using the equity method				
Quest International, Inc.	--	35.000	--	35.000

GRIFOLS, S.A. AND SUBSIDIARIES
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Subsidiaries in which the Company directly or indirectly owns the majority of equity or voting rights have been fully consolidated. Associates in which the Company owns between 20% and 50% of share capital and has no power to govern the financial or operating policies of these companies have been accounted for under the equity method.

All significant balances and transactions between consolidated companies and unrealised gains and losses have been eliminated in the consolidation process.

Financial statements of foreign subsidiaries expressed in foreign currencies have been translated to Euros using the closing exchange rate method. According to this method, all assets, rights and obligations are converted to Euros using the prevailing year-end exchange rate. Income statement items are translated to Euros at the average exchange rate for the period. The difference between net equity, including the income for the period, translated at the historical exchange rate, and the net equity position resulting from the translation of assets, rights and liabilities at the closing exchange rate, is included as "Translation differences" under equity in the accompanying consolidated balance sheet.

The accounting principles and criteria used by subsidiaries have been realigned with those applied by the parent company in the preparation of the consolidated annual accounts.

The attached consolidated annual accounts include the assets and liabilities of Biomat USA, Inc. at 31 December 2006 and its income and expenses for the period 1 January 2006 and 31 December 2006, together with the comparative figures of Biomat USA, Inc.'s balance sheet as at 31 December 2005 and its income and expenses for the period 1 December 2004 to 31 December 2005. Inter-group transactions between Biomat USA, Inc. and other group companies for the month of December 2004 were duly considered for consolidation purposes.

(3) Distribution of Profits

The profits of Grifols, S.A. and subsidiaries will be distributed as agreed by respective shareholders at their general meetings.

GRIFOLS, S.A. AND SUBSIDIARIES
Notes to the Consolidated Annual Accounts

The proposal for the distribution of results corresponding of the parent company for the fiscal year ended 31 December 2006, prepared by the directors and pending approval by the shareholders in their general meetings, is as follows:

	<u>Thousands of Euros</u>
Legal reserves	1,821
Voluntary reserves	3,581
Dividends	12,805
	<hr/>
	18,207
	<hr/>

The distribution of the profit for the year ended 31 December 2005 is presented in the Consolidated Statement of Changes in Equity.

(4) Accounting and Valuation Principles applied

(a) Foreign currency transactions

(i) Functional currency and presentation currency

The consolidated annual accounts are presented in thousands of Euros, which is the functional and presentation currency of the parent company.

(ii) Transactions, balances and cash flows in foreign currency

Foreign currency transactions are translated into the functional currency using the exchange rate prevailing at the transaction date.

Monetary assets and liabilities expressed in foreign currencies have been translated into Euros at the year-end exchange rate, whereas non-monetary assets and liabilities measured at historical cost in a foreign currency are translated using the exchange rate at the transaction date. Non-monetary assets denominated in foreign currencies measured at fair value are translated to Euros at the foreign currency exchange rate prevailing at the date the value was determined.

GRIFOLS, S.A. AND SUBSIDIARIES

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Cash flows from transactions in foreign currency are translated into Euros in the consolidated cash flow statement at the foreign exchange rate prevailing at the transaction date. The effect of variations in exchange rates on cash and cash equivalents expressed in foreign currencies is presented separately in the cash flow statement as “Effect of exchange rate conversion differences on cash and cash equivalents”.

Differences arising from settlement of transactions in foreign currency and on the translation to Euros of monetary assets and liabilities expressed in foreign currency are taken to the income statement. However, translation differences arising from monetary items forming part of the net investment in businesses abroad, the functional currency of which is that of the country in which their registered offices are located, are recognised as translation differences in equity.

Translation gains or losses related with monetary financial assets or liabilities expressed in foreign currency are also recognised in the income statement.

(iii) Translation of foreign businesses

The translation to thousands of Euros of foreign businesses for which the functional currency is not that of a hyperinflationary economy is based on the following criteria:

- Assets and liabilities, including goodwill and adjustments to net assets deriving from the acquisition of businesses, including comparative balances, are translated at the year-end exchange rate at each balance sheet date.
- Income and expenses, including comparative balances, are translated at the exchange rates prevailing at each transaction date; and
- Translation differences arising from application of the above criteria are recognised as translation differences in equity.

In the consolidated cash flow statement, the cash flows, including comparative balances, from subsidiaries and jointly-controlled foreign businesses are translated to Euros applying the exchange rates prevailing at the date of the cash flows.

GRIFOLS, S.A. AND SUBSIDIARIES
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(b) Property, plant and equipment

(i) Initial recognition

Property, plant and equipment is measured at cost or attributed cost, less accumulated depreciation and any impairment losses. The cost of self-constructed assets is determined using the same principles as for an acquired asset, considering the principles established for the cost of production of inventories. The cost of production is capitalised with a credit to the caption "Amounts capitalised for self-constructed assets" in the consolidated income statement.

On 1 January 2004 the Group applied the exemption relating to the fair value or revaluation as attributed cost from IFRS 1 First-time Adoption of International Financial Reporting Standards.

(ii) Depreciation

Depreciation of items of property, plant and equipment is calculated using the straight-line basis over their estimated useful lives. The depreciable amount of items of property, plant and equipment is the cost of acquisition or attributed cost less the residual value. Each component of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

Depreciation of property, plant and equipment is determined based on the criteria outlined below:

	Depreciation method	Rates
Buildings	Straight line	1% - 3%
Plant and machinery	Straight line	8%-10%
Other installations, equipment and furniture	Straight line	10% - 30%
Other property, plant & equipment	Straight line	16% - 25%

The Group reassesses residual values, useful lives and depreciation methods at the end of each financial year. Changes to the initially established criteria are recognised as a change in estimates.

On the basis of a study by an independent third party, the Group reestimated the useful lives of buildings with effect from 1 January 2005. These are now depreciated over a period of between 33 and 100 years.

GRIFOLS, S.A. AND SUBSIDIARIES
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(iii) Subsequent recognition

Subsequent to initial recognition of the asset, only those costs incurred which will generate future economic benefits, which can be reliably measured are capitalised. Maintenance costs are expensed as they are incurred.

Replacements of property, plant and equipment which meet the requirements for capitalisation are recognised together with a reduction of the carrying amount of the items replaced. Where the cost of the replaced items has not been depreciated independently and it has not been practical to determine the respective carrying amount, the replacement cost is used as indicative of the cost of items at the time of acquisition or construction.

(iv) Impairment

The Group evaluates and determines impairment losses and reversals of impairment losses on property, plant and equipment based on the criteria set out in point (d) in this note.

(c) Intangible assets

(i) Goodwill

Goodwill is generated on the business combinations. The Group has applied the exception permitted under IFRS 1 “First-time adoption of International Financial Reporting Standards”, whereby only those business combinations performed as from 1 January 2004, date of transition to IFRS_EU, have been recognised using the acquisition method. Acquisitions of entities prior to that date have been recognised in accordance with Spanish GAAP, subsequent to considering any corrections and adjustments required at the transition date.

Goodwill is not amortised, but tested for impairment annually or more frequently where there have been indications of a potential impairment loss. Goodwill on business combinations is allocated to the cash-generating units (CGUs) or groups of CGUs which are expected to benefit from the synergies of the business combination and the criteria described in note 6 are applied. Following initial recognition, goodwill is measured at cost less accumulated impairment losses.

Internally generated goodwill is not recognised as an asset.

(ii) Self-constructed assets

Any research and development expenditure incurred during the research phase of projects is recognised when it is incurred.

GRIFOLS, S.A. AND SUBSIDIARIES
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Costs related with development activities are capitalised when:

- The Group has technical studies justifying the feasibility of the production process.
- The Group has a commitment to complete production of the asset whereby it is in condition for sale (or internal use).
- The asset will generate sufficient economic benefits.
- The Group has the necessary financial and technical resources to complete production of the asset and has developed budget and cost accounting control systems which allow budgeted costs, introduced changes and costs actually assigned to different projects to be monitored.

The cost of self-constructed assets is determined following the same principles as established for determining the production cost for inventories. The cost of production is capitalised with a credit to the caption “Amounts capitalised for self-constructed assets” in the consolidated income statement.

Costs incurred in the course of activities which contribute to increasing the value of the different businesses in which the Group as a whole operates are expensed as they are incurred. Replacements or subsequent costs incurred for intangible assets are generally expensed unless they increase the future economic benefits expected from the assets.

(iii) Other intangible assets

Other intangible assets are stated at cost, less accumulated amortisation and impairment losses.

(iv) Useful lives and amortisation rates

The Group evaluates whether the useful life of each intangible asset acquired is defined or indefinite. An intangible asset is considered to have an indefinite useful life where there is no foreseeable limit to the period over which it will generate net cash inflows.

Intangible assets with indefinite useful lives are not amortised but tested for impairment at least annually.

GRIFOLS, S.A. AND SUBSIDIARIES
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Intangible assets with defined useful lives are amortised on a straight-line basis in accordance with the following criteria:

	Amortisation method	Rates
Development costs	Straight line	3 – 5
Concessions, patents, licences, trademarks & similar	Straight line	5
Software	Straight line	3 – 6

The amortisable amount of intangible asset items is the cost of acquisition or attributed cost less the residual value.

The Group reassesses residual values, useful lives and amortisation methods at the end of each financial year. Changes to initially established criteria are recognised as a change in estimates.

(v) Impairment

The Group evaluates and determines impairment losses and reversals of impairment losses on intangible assets based on the criteria described in note 6.

(d) Impairment of non-financial assets subject to depreciation or amortisation

The Group evaluates whether there are indications of possible impairment losses on non-financial assets subject to amortisation or depreciation to verify whether the carrying amount of these assets exceeds the recoverable amount.

Irrespective of whether any indication of impairment exists, at least annually the Group verifies the possible impairment of goodwill, intangible assets with indefinite useful lives, and intangible assets not yet available for use.

The recoverable amount of assets is the greater of their fair value less selling costs and value in use. An asset's value in use is calculated based on the expected future cash flows deriving from use of the assets, expectations of possible variations in the amount or timing of those future cash flows, the time value of money, the price for bearing the uncertainty inherent in the asset and other factors that market participants would reflect in pricing the future cash flows the entity expects to derive from the asset.

Losses arising from comparison of carrying amounts of assets with their recoverable amounts are expensed through the income statement.

GRIFOLS, S.A. AND SUBSIDIARIES
Notes to the Consolidated Annual Accounts

Recoverable amounts are calculated for individual assets, unless the asset does not generate cash inflows that are largely independent from those corresponding to other assets or groups of assets. In this case, the recoverable amount is determined for the cash-generating unit (CGU) to which the asset belongs.

Impairment losses recognised for cash-generating units are initially allocated to reduce, where applicable, the goodwill distributed to the CGU and then to the other assets of the CGU pro rata on the basis of the carrying amount of each of the assets with a limit of the higher of the following values for each asset, fair value less selling costs, value in use and zero.

At each close the Group assesses whether there is any indication that an impairment loss recognised in prior periods may no longer exist or may have decreased. Impairment losses on goodwill are not reversible. Impairment losses for other assets are only reversed if there has been a change to the estimates used to calculate the asset's recoverable amount.

A reversal of an impairment loss for an asset is recognised in the consolidated income statement. However, the reversal of the loss cannot increase the carrying amount of the asset in excess of the carrying amount which would have been obtained, net of depreciation, had no impairment loss been recorded.

The amount of the reversal of the impairment of a CGU is distributed between its assets, except goodwill, pro rata on the basis of the carrying amount of the assets, with the limit per asset of the lower of its recoverable value and the carrying amount which would have been obtained, net of depreciation, had no impairment loss been recorded.

(e) Leases

(i) Lease accounting

The Group has the right to use certain assets through lease contracts.

GRIFOLS, S.A. AND SUBSIDIARIES

Notes to the Consolidated Annual Accounts

Lease operations are classified as finance leases and operating leases. Unlike operating leases, under finance leases the significant risks and rewards of ownership of the contract asset are transferred.

- Finance leases:

At the commencement of the lease term, the Group recognises finance leases as assets and liabilities at amounts equal to the fair value of the leased asset or, if lower, the present value of the minimum lease payments. Initial direct costs are added to the carrying amount of the leased asset. Lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent payments are expensed in the years when they are incurred.

- Operating leases

Lease payments under an operating lease, net of any incentives received, are recognised as an expense on a straight-line basis unless another systematic basis is representative of the time pattern of the user's benefit.

(ii) *Investment in leased properties*

Long-term investments in properties used under leases from third parties are measured based on the same criteria for property, plant and equipment. Investments are amortised over the lower of their useful lives and the term of the lease contract. The lease period is consistent with that established for the classification of the lease.

(f) Financial instruments:

(i) *Classification of financial instruments*

Financial instruments are classified on initial recognition as a financial asset, financial liability or equity instrument, in accordance with the substance of the contractual agreement and the definitions of a financial liability, financial asset and equity instrument as set out in IAS 32 Financial Instruments: Disclosure and Presentation.

For the purpose of measurement, financial instruments are also classified as financial assets and liabilities at fair value with changes reflected through the income statement, loans and receivables, held-to-maturity investments, available-for-sale financial assets and financial liabilities. This classification depends on the purpose for which the financial instrument was acquired.

GRIFOLS, S.A. AND SUBSIDIARIES
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Conventional purchases and sales are accounted for at trade date, when the Group undertakes to purchase or sell the asset.

a) Financial assets at fair value with changes reflected through profit or loss

Financial assets and financial liabilities at fair value, with changes reflected through profit or loss are those which are classified as held for trading or which the Group has, upon initial recognition, designated as such at and from 1 January 2005.

A financial asset or liability is classified as held for trading if:

- it is acquired or incurred mainly for sale or repurchase in the immediate future
- it forms part of a portfolio of identified financial instruments which are managed jointly and for which there is evidence of a recent pattern of short-term profits, or
- it is a derivative, except a derivative which has been designated as a hedging instrument and complies with conditions for effectiveness

Financial assets and liabilities at fair value with changes through profit or loss are initially recognised at fair value. Transaction costs directly attributable to the purchase or accrual are recorded as an expense in the consolidated income statement.

The Group does not reclassify any financial assets or liabilities from or to this category while they are recorded in the consolidated balance sheet.

b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and differ from those classified in other financial asset categories. Loans and receivables are initially recognised at fair value, including transaction costs incurred and are subsequently carried at amortised cost using the effective interest method.

(c) Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are either designated specifically to this category or do not comply with requirements for classification in the above categories.

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Available-for-sale financial assets are initially recognised at fair value, plus any transaction costs directly attributable to the purchase.

Subsequent to initial recognition, financial assets classified in this category are measured at fair value, recording the gain or loss under recognised gains or losses in equity. Amounts recorded in equity are taken to the consolidated income statement when the financial assets are disposed of or written off.

(d) Financial assets and liabilities measured at cost

Investments in equity instruments for which the fair value cannot be reliably estimated and linked derivatives which are settled through the delivery of these unquoted equity instruments are measured at cost. However, if at any time the Group is able to reliably measure the financial asset or liability, these are then recognised at fair value, recording the gains or losses based on their classification.

For investments in equity instruments measured at cost, the Group recognises income on investments only to the extent that the reserves for accumulated earnings from the investee entity, created following its acquisition, are distributed. Dividends received in excess of these profits are considered as a recovery of the investment and therefore recognised as a decrease in its value.

(ii) *Offsetting principles*

A financial asset and a financial liability can only be offset when the Group has a legally enforceable right to set off the recognised amounts or intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

(iii) *Fair value*

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. In general the Group applies the following hierarchical system to calculate the fair value of assets and liabilities:

- Firstly, the Group applies the price quotations from the most advantageous active market to which it has immediate access, adjusted as necessary to reflect any difference in credit risk between the instruments usually traded and that being measured. The purchasing price is used for purchased assets or liabilities pending issuance and the selling price is used for assets pending purchase or liabilities issued. If the Group possesses assets and liabilities which between them offset market risks, average market prices are used for the offset risk positions, applying the appropriate price to the net position.

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- If no market prices are available, prices of recent transactions are used, adapted to current conditions.
- Otherwise, the Group applies generally accepted measurement techniques using market data as far as possible and, to a lesser extent, specific Group data.

(iv) Amortised cost

The amortised cost of a financial asset or liability is the amount at which the asset or liability was initially measured, less repayments of the principal, plus or minus imputed or gradually accumulated amortisation, based on the effective interest method, from any difference between the initial value and repayment value on maturity, less any reduction due to impairment or defaults.

The effective interest rate is the discount rate when applied to the estimated cash inflows and outflows over the expected life of the financial instrument or, where appropriate, over a shorter period, equals to the carrying amount of the financial asset or liability. For financial instruments, for which the related variable for fees, base points, transaction costs, discounts or premiums is revised at market rates prior to expected maturity, the amortisation period is that until the following review of conditions.

Cash flows are estimated considering all the contractual conditions of the financial instrument without considering future credit losses. The calculation includes the fees and interest base points paid or received by the contract parties, as well as the transaction costs and any other premium or discount. In those cases where the Group is unable to reliably estimate the cash flows or expected life of a financial instrument, contractual cash flows are used over the full term of the contract.

(v) Impairment and default of financial assets

A financial asset or group of financial assets is impaired and has generated an impairment loss if there is objective evidence of impairment as a result of an event or events which have occurred subsequent to initial recognition of the asset, and where the event or events causing the loss have an impact on the estimated future cash flows from the asset or group of financial assets which can be reliably estimated.

The Group recognises impairment losses and defaults on loans and other receivables and debt instruments through recognition of a provision for financial assets.

GRIFOLS, S.A. AND SUBSIDIARIES
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(vi) Impairment of financial assets measured at amortised cost

The amount of the impairment loss on assets carried at amortised cost is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, excluding future credit losses not incurred, discounted at the financial asset's original effective interest rate. The amount of the loss is recognised in the income statement and can be reversed in subsequent years if the decrease of the impairment loss can be related objectively to an event occurring after the impairment was recognised. However, the loss can only be reversed up to the limit of the amortised cost which the assets would have had if the impairment loss had not been recorded.

(vii) Impairment of financial assets measured at cost

The amount of the impairment loss on assets carried at cost is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses cannot be reversed and are therefore recorded directly against the value of the asset and not as a corrective provision.

(viii) Impairment of available-for-sale financial assets

A decline in the fair value of an available-for-sale financial asset which has been recognised directly in equity is recognised in profit or loss when there is objective evidence that the asset is impaired, even though the financial asset has not been derecognised. The amount of the loss recognised in the income statement is the difference between the acquisition cost, net of any repayment or amortisation of the principal, and the current fair value, less any impairment loss on that financial asset previously recognised in the income statement.

Impairment losses relating to investments in equity instruments are not reversible and are therefore recorded directly against the value of the asset and not as a corrective provision.

The increase in the fair value of debt instruments, which could objectively be related with an event subsequent to recognition of the impairment, is recorded in the income statement up to the amount of the previously recognised impairment loss and the excess, where applicable, is recorded against equity.

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(ix) Financial liabilities

Financial liabilities, including trade and other payables, which are not classified at fair value with fluctuations through profit or loss, are initially recognised at fair value, less, as applicable, directly attributable transaction costs. Subsequent to initial recognition, the liabilities classified in this category are measured at amortised cost using the effective interest method.

(g) Parent Company (Treasury) shares

Equity instruments acquired by the Group are presented separately as a reduction in equity in the consolidated balance sheet, irrespective of the purpose of their acquisition, and no gains or losses have been recorded as a result of transactions carried out with own equity instruments.

The Group also applies the following criteria when accounting for operations with its own equity instruments:

- Distributions to holders of own equity instruments are charged to equity once any tax effect has been considered;
- Transaction costs related with own equity instruments, including the issue costs related with a business combination, are recorded as a reduction in equity, once any tax effect has been considered.
- Dividends relating to equity instruments are recognised as a reduction in equity when approved at the general meeting of shareholders.

(h) Inventories

Inventories are measured at the lower of cost and net realisable value. Cost comprises all costs of acquisition, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Inventory conversion costs comprise the costs directly related with the units produced and a systematically calculated part of the indirect, variable or fixed costs incurred in the conversion process. Indirect fixed costs are distributed on the basis of the higher of normal production capacity or actual production.

The cost of materials and other supplies and merchandise and conversion costs are assigned to the different inventory units based on the FIFO method.

The Group uses the same cost formula for all inventories that have the same nature and similar use within the Group.

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Volume discounts extended by suppliers are recognised as a reduction in the cost of inventories when it is probable that the discount conditions will be met. Discounts for prompt payment are recognised as a reduction in the cost of the inventories acquired.

The cost of inventories is subject to adjustments against profit or loss in cases where cost exceeds net realisable value. Net realisable value is considered as the following:

- Raw materials and other supplies: replacement cost. However, materials are not written down below cost if the finished products in which they will be incorporated are expected to be sold at or above cost.
- Goods for resale and finished products: estimated sale price, less selling costs.
- Work in progress: the estimated sale price for corresponding finished products, less the estimated costs for completion of their production and selling costs.

When the circumstances that previously caused inventories to be written down below cost no longer exist or when there is clear evidence of an increase in net realisable value because of changed economic circumstances, the amount of the write-down is reversed against the account captions Changes in Inventories of finished products and work in progress and Consumption of materials and other supplies. Write-downs may be reversed to the limit of the lower of cost and the new net realisable value.

(i) Cash and cash equivalents

Cash and cash equivalents include cash in hand, demand deposits with banks, other short-term highly-liquid investments with original maturities of three months or less, providing these are readily convertible to known amounts of cash.

Bank overdrafts which are recognised as financial liabilities on the consolidated balance sheet are included as a component of cash and cash equivalents for the purposes of the statement of cash flows.

The Group recognises interest received and paid under cash flow from operating activities, and dividends received and distributed by the Company are classified under financing activities.

GRIFOLS, S.A. AND SUBSIDIARIES

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(j) Government grants

Government grants are recognised in the balance sheet when there is reasonable assurance that they will be received and that the Group will comply with the conditions attached.

(i) Capital grants

Outright non-returnable capital grants are initially recorded as deferred income in the consolidated balance sheet. Income from capital grants is recognised as other income in the income statement in line with the depreciation of the corresponding assets financed by the grants.

(ii) Operating subsidies

Operating subsidies are recognised as other income in the consolidated income statement.

Operating subsidies received as compensation for expenses or losses already incurred, or for the purpose of providing immediate financial support unrelated with future expenses, are recognised as other income in the consolidated income statement.

(iii) Interest rate subsidies

Financial liabilities with implicit interest-rate subsidies in the form of below-market rates of interest are initially recognised at fair value. The difference between this value, adjusted where applicable by the costs of issue of the financial liability and the amount received, is recorded as an official grant and classified according to the nature of the grant.

(k) Employee benefits

(i) Defined contribution plans

The Group records contributions to defined contribution plans in line with employees' periods of service. Accrued contributions are recorded as an employee benefit expense in the corresponding consolidated income statement.

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(ii) Termination benefits

The Group recognises benefits for termination of employment unrelated to restructuring processes when it is demonstrably committed to terminating the employment of current employees before the normal retirement date. The Group is demonstrably committed to terminating the employment of current employees when a detailed formal plan has been prepared and there is no possibility of withdrawing or changing the decisions made.

Except in the case of justifiable cause, companies are liable to pay indemnities to employees whose services are discontinued. Indemnity payments are expensed when the decision to terminate employment is taken.

(iii) Short-term employee benefits

Short-term benefits accrued for the Group's personnel is recorded in line with the employees' period of service. The amount is recorded as an employee benefit expense and as a liability once already settled amounts have been deducted. If the contribution already paid exceeds the contribution due, an asset is recorded to the extent that the prepayment will lead to a reduction in future payments or a cash refund.

The Group recognises the expected cost of short-term benefits in the form of accumulated compensated absences, when the employees render service that increases their entitlement to future compensated absences, and in the case of non-accumulating compensated absences, when the leave is taken.

The Group recognises the expected cost of profit-sharing and bonus payments when it has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made.

(I) Provisions

The Group recognises provisions when it has a present obligation (legal or constructive) as a result of a past event; it is more likely than not that an outflow of resources embodying economic benefits will be required to settle the obligation; and a reliable estimate can be made of the amount of the obligation.

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The amounts recognised as a provision are the best estimate of the outflows required to settle the present obligation at the consolidated balance sheet date, taking into account the risks and uncertainties related with the provision and, where significant, the effect of the time value of money, provided that the outflows required in each period can be reliably measured. The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and adjusted for the specific risks which have not been considered in future cash flow estimates related to the provision.

If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision is reversed against the consolidated income statement caption where the corresponding expense was recorded, and any excess is recognised as other income.

(m) Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services, net of VAT and any other amounts or taxes which are effectively collected on the behalf of third parties. Volume or other types of discounts for prompt payment are recorded as a reduction in revenues if considered probable at the time of revenue recognition.

(i) Sale of goods

Revenues on the sale of goods are recognised when the following conditions have been satisfied:

- the Group has transferred the significant risks and rewards of ownership of the goods to the buyer.
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue and associated costs can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

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(ii) Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the balance sheet date. The outcome of a transaction can be estimated reliably when the amount of revenue, the stage of completion, the costs incurred for the transaction and the costs to complete the transaction can all be measured reliably, and it is probable that the economic benefits associated with the services will be received.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

(iii) Dividends

Income from dividends is recognised when the Group's right to receive payment is established.

(n) Income tax

Income tax on the profit for the year comprises current and deferred tax.

Current tax is the amount of income taxes payable or recoverable in respect of the taxable profit or tax loss for the year. Current tax assets or liabilities are measured for amounts payable to or recoverable from tax authorities, using tax rates enacted or substantively enacted at the balance sheet date.

Deferred tax liabilities are the amounts of income taxes payable in future periods in respect of taxable temporary differences, whereas deferred tax assets are the amounts of income taxes recoverable in future periods in respect of deductible temporary differences, the carryforward of unused tax losses, and the carryforward of unused tax credits. Temporary differences are differences between the carrying amount of an asset or liability in the balance sheet and its tax base.

Current and deferred tax is recognised as income or an expense and included in profit or loss for the year except to the extent that the tax arises from a transaction or event which is recognised, in the same or a different year, directly in equity, or from a business combination.

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(i) Taxable temporary differences

Taxable temporary differences are recognised in all cases except where:

- Arising from the initial recognition of goodwill or an asset or liability in a transaction which is not a business combination and at the time of the transaction, affects neither accounting profit nor taxable profit;
- Associated with investments in subsidiaries over which the Group is able to control the timing of the reversal of the temporary difference and it is probable that the timing difference will reverse in the foreseeable future.

(ii) Deductible temporary differences

Deductible timing differences are recognised provided that:

- it is probable that taxable profit will be available against which the deductible temporary difference can be utilised, unless the differences arise from the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction, affects neither accounting profit nor taxable profit.
- the temporary differences are associated with investments in subsidiaries to the extent that the difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilised.

Tax planning opportunities are only considered on evaluation of the recoverability of deferred tax assets and if the Group intends to use these opportunities or it is probable that they will be used.

(iii) Measurement

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the years when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted by the balance sheet date and reflecting the tax consequences that would follow from the manner in which the Group expects to recover or settle the carrying amount of its assets or liabilities.

The carrying amounts of deferred tax assets are reviewed by the Group at each balance sheet date to reduce these amounts to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of the deferred tax assets to be utilised.

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Deferred tax assets which do not comply with the abovementioned conditions are not recognised in the consolidated balance sheet. At year end the Group reassesses unrecognised deferred tax assets.

(iv) Classification and Offset

The Group only offsets current tax assets and liabilities if it has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

The Group only offsets tax assets and liabilities where it has a legally enforceable right, where these relate to taxes levied by the same tax authority and on the same entity, and where the tax authorities permits the entity or a group of entities to settle on a net basis, or to realise the asset and settle the liability simultaneously for each of the future years in which significant amounts of deferred tax assets or liabilities are expected to be recovered or settled.

Deferred tax assets and liabilities are recognised on the consolidated balance sheet under non-current assets or liabilities, irrespective of the date of realisation or settlement.

(o) Segment reporting

A business segment is an identifiable component of the Group that is engaged in providing products or services which are subject to risks and rewards that are different from those of other segments within the Group. Factors considered by the Group in determining whether products or services are related include the nature of the products and services, the nature of the production processes, and the type or class of customer for the products or services.

A geographical segment is an identifiable component of the Group that is engaged in providing products or services within a particular economic environment and that is subject to risks and returns that are different from those of components operating in other economic environments. Factors considered by the Group in identifying geographical segments are essentially the location of its assets and the final destination of sales.

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(p) Classification of assets and liabilities as current and non-current

Assets and liabilities are classified as current and non-current in the consolidated balance sheet based on the following criteria:

- Assets are classified as current when they are expected to be realised, sold or traded in the Group's ordinary course of business within 12 months of the balance sheet date and when held essentially for trading. Cash and cash equivalents are also classified as current, except where they may not be exchanged or used to settle a liability, at least within the 12 months following the balance sheet date.
- Liabilities are classified as current when expected to be settled in the Group's ordinary course of business within 12 months of the balance sheet date and when essentially held for trading, or where the Group does not have an unconditional right to defer settlement of the liability for at least 12 months from the balance sheet date.
- Current liabilities such as trade creditors, personnel expenses and other operating costs are classified as current, even if maturing more than 12 months from the balance sheet date.
- Financial liabilities which must be settled within the 12 months following the balance sheet date are classified as current, even if the original maturity exceeded 12 months and a refinancing or restructuring agreement for long-term payments exists which has been finalised subsequent to the close and before the consolidated annual accounts have been prepared.

(q) Environment

The Group takes measures to prevent, reduce or repair the damage caused to the environment by its activities

Assets used by the Group to minimise the environmental impact of its activity and protect and improve the environment, including the reduction or elimination of future pollution caused by the Group's operations, are recognised in the consolidated balance sheet based on the criteria for recognition, measurement and disclosure detailed in note 33.

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(r) Share-based payment

The Group recognises goods or services received or acquired in a share-based payment transaction when it obtains the goods or as the services are received. If the share-based transaction is equity-settled, equity is increased with a balancing entry under consolidated profit and loss or under assets in the consolidated balance sheet, whilst cash-settled share-based payments are recorded under liabilities.

The Group recognises equity-settled share-based payments, including non-monetary contributions to capital increases and the corresponding increase in equity, at the fair value of the goods or services received, unless fair value cannot be estimated reliably, in which case value is determined by reference to the fair value of the equity instruments granted.

Equity-settled payments for services rendered by the Group's employees or third parties providing similar services are valued by reference to the fair value of the equity instruments granted.

The Group opted to apply IFRS 2 "Share-based payment" for transactions subscribed between parties subsequent to 7 November 2002, the vesting date of which is subsequent to 1 January 2005. Any other transactions are recognised in accordance with accounting principles prevailing in Spain.

(5) Financial Information by Segment

In accordance with IAS 14 Segment Reporting, financial information for business segments is reported in the accompanying Appendix I, which forms an integral part of this note to the consolidated annual accounts.

Group companies are classified under three areas: companies in the industrial area, companies in the commercial area and companies in the services area. Within each of these areas, activities are organised based on the nature of the products and services manufactured and marketed.

Based on the Group's internal management information system, business segments have been defined as primary and geographical segments as secondary.

Assets, liabilities, income and expenses for segments include directly attributable items as well those which can be reasonably and reliably assigned to a segment. Items which are not assigned to segments by the Group are:

- Balance sheet: cash and cash equivalents, debtors, public entities, deferred tax assets and liabilities, borrowings and creditors.

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- Income statement: general administration expenses, other operating income / expenses, financial income / expense and income tax.

(a) Business segments

The business segments defined by the Group are as follows:

- Bioscience: concentrating all activities related with products deriving from human plasma for therapeutic use.
- Hospital: comprising all non-biological pharmaceutical products and medical supplies manufactured by Group companies earmarked for hospital pharmacy. Products related with this business which the Group does not manufacture but markets as supplementary to its own products are also included.
- Diagnostic: comprises the marketing of diagnostic testing equipment, reagents and other equipment, manufactured by Group or other companies.
- Materials: including sales of intermediate biological products and the rendering of manufacturing services to third parties.

b) Geographical segments

Geographical segments are grouped into three areas:

- European Union
- United States of America
- Rest of the world

The financial information reported for geographical segments is based on sales to third parties in these markets as well as the location of assets.

(6) Intangible Assets

Details of intangible assets and movement during the years ended 31 December 2006 and 2005 are included in Appendix II, which forms an integral part of these notes to the consolidated annual accounts.

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Goodwill

Details of goodwill and movement during the year ended 31 December 2005 are as follows:

	Thousands of Euros		
	Balances at	Translation	Balances at
	31/12/04	differences	31/12/05
Net carrying amount:			
Grifols UK,Ltd.	9,746	281	10,027
Grifols Italia,S.p.A.	6,118	0	6,118
Biomat USA, Inc.	87,449	13,521	100,970
	103,313	13,802	117,115

Details of goodwill and movement during the year ended 31 December 2006 are as follows:

	Thousands of Euros			
	Balances at	Business	Translation	Balances at
	31/12/05	combinations	differences	31/12/06
Net carrying amount:				
Grifols UK,Ltd.	10,027	--	206	10,233
Grifols Italia,S.p.A.	6,118	--	--	6,118
Biomat USA, Inc.	100,970	5,119	(10,643)	95,446
Plasmacare, Inc.	--	42,757	(3,734)	39,023
	--			
	117,115	47,876	(14,171)	150,820

(Note 1 (d))

At 31 December 2006 the Group has recognised licenses and other intangible assets with indefinite useful lives for a carrying amount of Euros 24,955 thousand (Euros 16,850 thousand at 31 December 2005). The PlasmaCare and Baxter business combinations have led to increases of Euros 6,581 thousand (note 1(d)) and Euros 3,357 thousand, respectively, in FDA licences with no expiry date. In 2006, additions of concessions, patents, licences, trademarks and similar include Euros 4,030 thousand for the cost of the licences to use patents owned by Novartis Vaccines and Diagnostics, Inc. These licences are amortised over a period of five years.

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Impairment testing:

Goodwill and indefinite-lived intangible assets have been allocated to the Group's cash-generating units (CGUs) in accordance with their respective business segment. These assets have been allocated to the Bioscience segment.

The recoverable amount of a CGU is calculated from its value in use. These calculations are based on cash flow projections from the financial budgets approved by management over a period of five years. Cash flows subsequent to this five-year period are extrapolated using the following estimated growth rates:

The key assumptions used in calculating value in use are as follows:

Growth rate: 3%
Discount rate: 12%

These assumptions have been used in analysing each CGU within the business segment.

Management determines projected gross margins based on past performance and forecast market development. Average weighted growth rates are in line with the forecasts included in industry reports. The discount rates used are before tax and reflect the specific risks of the relevant segments.

(7) Property, plant and equipment

Details of property, plant and equipment and movement in the consolidated balance sheet at 31 December 2006 and 2005 are included in Appendix III, which forms an integral part of these notes to these consolidated annual accounts.

Property, plant and development under construction at 31 December 2006 and 2005 mainly comprises investments made to extend the companies' installations and to increase their productive capacity.

a) Mortgaged property, plant and equipment

At 31 December 2006 certain land and buildings have been mortgaged for Euros 460 thousand (Euros 1,619 thousand at 31 December 2005) to secure payment of certain loans (see note 17).

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b) Official capital grants received

The Group received capital grants totalling Euros 35 thousand in 2006 (Euros 45 thousand in 2005) (see note 18).

c) Insurance

Group policy is to contract sufficient insurance coverage for the risk of damage to property, plant and equipment. At 31 December 2006 the Group has a combined insurance policy for all Group companies, which adequately covers the carrying amount of all the Group's assets.

d) Revalued assets

The Group opted to apply the exemption regarding fair value and revaluation as deemed cost as permitted by IFRS 1 First time Adoption of IFRS. In accordance with this exemption, the Group's land and buildings were revalued based on independent expert appraisals at 1 January 2004. Appraisals were carried out at market value.

The Group has contracted the following types of property, plant and equipment under finance leases at 31 December 2005:

Asset	Thousands of Euros		
	Cost	Accumulated depreciation	Carrying amount
Land and buildings	625	(110)	515
Plant and machinery	7,338	(1,268)	6,070
Other installations, equipment and furniture	3,214	(575)	2,639
Other fixed assets	6,493	(3,482)	3,011
	17,670	(5,435)	12,235

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The Group has contracted the following types of property, plant and equipment under finance leases at 31 December 2006:

Asset	Thousands of Euros		
	Cost	Accumulated depreciation	Carrying amount
Land and buildings	625	(117)	508
Plant and machinery	7,158	(1,545)	5,613
Other installations, equipment and furniture	2,227	(577)	1,650
Other fixed assets	5,129	(2,320)	2,809
	15,139	(4,559)	10,580

Details of minimum lease payments and the current finance lease liabilities, by maturity date, are as follows:

	Thousands of Euros			
	31/12/06		31/12/05	
	Current	Non current	Current	Non current
Minimum payments	3,704	3,850	4,969	2,971
Interest	(266)	(261)	(191)	(72)
Current value	3,438	3,589	4,778	2,899
	(Note 19)	(Note 17)	(Note 19)	(Note 17)

	Thousands of Euros					
	31/12/2006			31/12/2005		
	Minimum payments	Interest	Current value	Minimum payments	Interest	Current value
Maturity:						
Up to 1 year	3,704	266	3,438	4,969	191	4,778
Up to 2 years	2,009	134	1,875	2,386	58	2,328
Up to 3 years	983	72	911	585	14	571
Up to 4 years	275	38	237	0	0	0
Up to 5 years	583	17	566	0	0	0
More than 5 years	0	0	0	0	0	0
Total	7,554	527	7,027	7,940	263	7,677

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(8) Investments

Details of investments and movement during the year ended 31 December 2005 are as follows:

	Balances at 01/01/2005	Additions	Disposals / Reversals	Translation differences	Balances at 31/12/2005
Equity accounted interests:	333	(10)	(110)	(3)	210
Other investments:					
Long-term guarantee deposits	718	105	(67)	43	799
Other investments	4	0	0	0	4
Carrying amount of other investments	722	105	(67)	43	803
TOTAL INVESTMENTS	1,055	95	(177)	40	1,013

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Details of investments and movement during the year ended 31 December 2006 are as follows:

	Thousands of Euros					
	Balances at 31/12/05	Additions	Disposals / Reversals	Business combinations	Translation differences	Balances at 31/12/06
Equity accounted interests	210	76	0	0	(33)	253
Other investments:						
Long-term guarantee deposits	799	192	(120)	6	(38)	839
Other investments	4	0	0	0	0	4
Carrying amount of other investments	803	192	(120)	6	(38)	843
TOTAL INVESTMENTS	1,013	268	(120)	6	(71)	1,096

Investments accounted for using the equity method at 31 December 2006 and 2005 comprise the investment held by Diagnostic Grifols, S.A in the company Quest International, Inc. This company is located in Miami, Florida (USA) and its activity consists of the manufacture and commercialisation of reagents and clinical analysis instruments.

		Thousands of Euros					
2006	Country	% interest	Assets	Liabilities	Equity	Sales	Profit/(Loss)
Quest International, Inc	US	35%	1,048	147	901	1,229	208
			1,048	147	901	1,229	208
2005							
Quest International, Inc	US	35%	825	50	775	788	(29)
			825	50	775	788	(29)

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This company has been accounted for using the equity method, as the Group does not exert significant influence.

(9) Financial Assets Available-for-sale

Details of this caption and movement during the year ended 31 December 2005 are as follows:

	Balances at 01/01/2005	Disposals / Reversals	Effect of valuation	Balances at 31/12/2005
Investments (quoted shares)	534	(9)	(175)	350
Fixed income securities	1,025	(4)	22	1,043
	1,559	(13)	(153)	1,393

Details of this caption and movement during the year ended 31 December 2006 are as follows:

	Thousands of Euros				
	Balances at 31/12/2005	Disposals / Reversals	Effect of valuation	Translation differences	Balances at 31/12/2006
Investments (quoted shares)	350	0	(251)	0	99
Fixed income securities	1,043	0	27	0	1,070
	1,393	0	(224)	0	1,169

Investments in quoted shares mainly reflect the Group's investment in Northfield Laboratorios, Inc (USA), which amounts to less than 1% of share capital.

Fixed interest securities reflect a term deposit of approximately Euros 1 million held by the Group, which matures on 30 June 2013.

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(10) Inventories

Details of inventories at 31 December are as follows:

	Thousands of Euros	
	31/12/06	31/12/05
Goods for resale	33,850	29,968
Raw materials and supplies	77,214	70,320
Work in progress and semi-finished goods	79,105	106,926
Finished goods	48,235	46,585
	238,404	253,799
Less, provision for obsolescence	(2,929)	(4,254)
	235,475	249,545

As mentioned in note 32 (b), at 31 December 2006, the raw materials and supplies caption includes 350 thousand litres of plasma which have been pledged to secure payment of US Dollars 27,500 thousand for the acquisition of Alpha Therapeutic Corporation, which falls due in July 2007.

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Change in inventories of finished products, work in progress and materials consumed was as follows:

	Thousands of Euros	
	31/12/06	31/12/05
Goods for resale		
Net purchases	35,571	36,906
Changes in inventories	(4,800)	7,023
	30,771	43,929
Raw materials and supplies		
Net purchases	157,004	100,437
Changes in supplies	(9,209)	5,156
	147,795	105,593
Other external expenses	2,975	8,566
Supplies of inventories	181,541	158,088
Changes in inventories of finished goods and work in progress	21,631	(4,191)
Changes in inventories of finished goods and work in progress and supply of inventories	203,172	153,897

Movement in goods for resale during 2006 and 2005 was as follows:

	Thousands of Euros	
	31/12/2006	31/12/2005
Opening goods for resale	29,968	34,641
Increase / (Decrease) in goods for resale	4,800	(7,023)
Translation differences	(918)	2,350
Closing goods for resale	33,850	29,968

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Changes in inventories of raw materials and supplies during 2006 and 2005 were as follows:

	Thousands of Euros	
	31/12/2006	31/12/2005
Opening raw materials	70,320	74,212
Business combinations	2,649	0
Increase / (decrease) in raw materials	9,209	(5,156)
Translation differences	(4,964)	1,264
Closing raw materials	77,214	70,320

Changes in inventories of finished products and work in progress during 2006 and 2005 were as follows:

	Thousands of Euros	
	31/12/2006	31/12/2005
Opening finished goods and work in progress	153,511	141,542
Increase / (decrease) in finished goods and work in progress.	(21,631)	4,191
Translation differences	(4,540)	7,778
Closing finished goods and work in progress	127,340	153,511

Net sales include sales made in the following foreign currencies:

Currency	Thousands of Euros	
	31/12/06	31/12/05
US Dollars	125,492	87,637
Other currencies	3,668	962

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Movement in the provision for obsolescence was as follows:

	Thousands of Euros	
	31/12/06	31/12/05
Opening balance	4,254	4,419
Net provision for the year	(1,020)	(556)
Net applications for the year	0	(61)
Translation differences	(305)	452
Closing balance	2,929	4,254

(11) Trade and Other Receivables

Details of trade and other receivables at 31 December are as follows:

	Thousands of Euros	
	31/12/06	31/12/05
Trade receivables	173,053	133,543
Sundry receivables	15,815	14,167
Advances for fixed assets	95	15
Other advances	2,682	3,249
Prepayments	5,353	4,072
	196,998	155,046

Trade receivables net of the provision for bad debts include notes receivable discounted at banks at 31 December 2006, which amount to Euros 1,350 thousand (Euros 1,634 thousand at 31 December 2005) (see note 19).

Sundry debtors at 31 December 2006 mainly comprises Euros 11,324 thousand (Euros 11,215 thousand at 31 December 2005) reflecting interest receivable from social security-affiliated bodies.

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In 2005 the Group also made a Euros 5,000 thousand advance payment on account to the Spanish Haemophilia Federation relating to an agreement which provides an economic contribution to this entity, which is calculated on the basis of sales of a certain product of the Group between 2005 and 2009. At 31 December 2006 Euros 2,189 thousand (Euros 2,188 thousand in 2005) has been accrued and recognised as an expense under other operating expenses. At 31 December 2006 and subsequent to the payment of Euros 1,487 thousand in 2006, the balance of the advance of Euros 2,110 thousand (Euros 2,812 thousand at 31 December 2005) has been included under sundry debtors.

In 2006 and 2005 certain Grifols Group companies have sold trade receivables from several public entities to Deutsche Bank, S.A.E. At 31 December 2006 Euros 2,038 thousand (Euros 2,236 thousand in 2005) receivable from Deutsche Bank for balances receivable from public entities sold in December 2006 was recorded under sundry debtors. This balance will be collected by the Group once Deutsche Bank has collected the nominal amount of the receivables sold plus delay interest.

Total trade receivable balances receivable sold to Deutsche Bank, S.A.E amount to Euros 16.3 million (Euros 47.5 million in 2005).

The Company's directors consider that these contracts transfer all credit collection and financial risks to the purchaser. Consequently, balances of Euros 16,306 thousand have been treated as a sale and derecognised from the balance sheet, (Euros 47,508 thousand in 2005).

The financial cost of these operations for the Group totals approximately Euros 245 thousand which has been recognised under finance costs in the 2006 consolidated income statement (Euros 3,776 thousand in 2005) (see note 28). In 2006 the Group has also collected Euros 640 thousand (Euros 2,251 thousand in 2005) from Deutsche Bank reflecting a cash collection bonus for receivables sold in prior years. This income was recorded on the 2006 consolidated income statement as a reduction in the finance expenses (see note 28).

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Trade receivables include balances in the following foreign currencies:

	Thousands of Euros	
	31/12/06	31/12/05
Currency		
US Dollars	25,432	16,831
Pounds Sterling	4,225	4,766
Czech Crown	2,505	2,952
Argentine Peso	1,056	877
Chilean Peso	4,429	4,891
Mexican Peso	3,139	2,765
Other currencies	2,660	4,688

Movement in the provision for bad debts was as follows:

	Thousands of Euros	
	31/12/06	31/12/05
Opening balance	3,065	3,299
Net provisions for the year	713	91
Net applications for the year	(281)	(434)
Business combinations	4	0
Translation differences	(53)	109
Closing balance	3,448	3,065

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(12) Short-term investments

Details of short-term investments and movement during the year ended 31 December 2005 are as follows:

	Balances at 01/01/2005	Additions	Disposals	Translation differences	Balances at 31/12/05
Investment portfolio	2,773	0	(2,772)	0	1
Guarantee deposits	221	406	(296)	83	414
Other loans	145	77	0	24	246
	3,139	483	(3,068)	107	661

Disposals of investment securities reflect the sale of an option held by the Company to purchase shares in an American company. This sale has generated a net profit of Euros 124 thousand which has been recognised under other financial income (see note 28).

Details of short-term investments and movement during the year ended 31 December 2006 are as follows:

	Thousands of Euros				
	Balances at 31/12/05	Additions	Disposals	Translation differences	Balances at 31/12/06
Investment portfolio	1	5,645			5,646
Guarantee deposits	414	587	(502)	(57)	442
Other loans	246	3,671	(3,682)	(91)	144
	661	9,903	(4,184)	(148)	6,232

Additions to the investment portfolio comprise short-term guarantee deposits extended by a group company.

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(13) Public entities

Accounts receivable from public entities are as follows:

	Thousands of Euros	
	31/12/06	31/12/05
Tax authorities		
VAT	3,002	2,843
Capital grants	38	511
Social security	126	134
Recoverable income tax:		
Current year	3,559	3,268
Prior years	151	338
Other public entities	830	1,092
	<u>7,706</u>	<u>8,186</u>

Accounts payable to public entities are as follows:

	Thousands of Euros	
	31/12/06	31/12/05
Payable to tax authorities: :		
VAT / Canary Island tax	5,841	4,221
Withholdings	2,195	1,907
Social security	2,621	2,300
Income tax payable to tax authorities		
Current year	4,043	3,098
Prior years	302	266
Deferred payment on account	0	7,067
Other public entities	1,606	4,253
	<u>16,608</u>	<u>23,112</u>

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At 31 December 2005 the second and third instalment of income tax on account of 2005 of the Parent company was payable. During 2006 the Company has settled the second payment on account and has requested that the third instalment be offset using the income tax debtor balance for 2005. On 29 December 2006 the Company received notification that this request had been accepted.

At 31 December 2005 other public entities included the amount provided for as a result of additional taxes assessed through a tax inspection which the Company received on 19 December 2005. At 30 January 2006 the Group accepted these assessments, for an amount similar to that which had been estimated (see note 29).

(14) Equity

On 17 May 2006 Grifols, S.A. (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 note 1(a)).

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 consolidated equity and movement are shown in the consolidated statement of changes in equity, which forms an integral part of the consolidated 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.

At 31 December 2005 share capital in Grifols, S.A. comprised 140,598,299 shares of Euros 0.50 par value each, 260,000 of which did not confer voting rights. As mentioned in note 18 (a), these 260,000 shares have been recorded under non-current payables.

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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 interest	
	31/12/06	31/12/05
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%

Movements during 2006 are as follows:

– **Share capital increase with a charge to the 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 transfer their free assignation rights to the Company to enable the Company to fulfil the obligation agreed with the Group's employees on 25 May 2001 (see note 32 (c)).

– **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. 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.

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On 17 May 2006 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, all of which took place prior to the flotation of the Company's shares. These two movements relating to non-voting shares are not recognised under equity but under other non-current payables and other payables (see notes 18 & 23).

– Increase of share capital through a public offering

As authorised by the shareholders in their general meeting 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 the shares included in this capital increase to enable these shares to be offered publicly.

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.

Movements in equity during 2005 were as follows:

- Share capital increase with a charge to the share premium

As authorised by the shareholders at their general meeting on 30 June 2005 the Company agreed to increase share capital by Euros 7,017 thousand, through the issue of 14,033,831 new shares of Euros 0.5 par value each.

The shareholders agreed to freely transfer their assignation 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:

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Increase share capital by issuing 260,000 new non-voting shares with a par value of Euros 0.5 each, plus a total share premium of Euros 259,870 thousand. The total share capital increase amounted to Euros 260,000 thousand, which, after deducting expenses incurred in this operation (Euros 15,018 thousand) was recorded under other non-current payables (see note 18 (a)).

The Company's shareholders renounced 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 of 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:

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.

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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.

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.

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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.

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 absorption 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.

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- 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 60,000 thousand. The issue expenses incurred (Euros 2,252 thousand) were charged to distributable reserves (see consolidated statement of changes in equity).

The Company's shareholders renounced 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 treasury shares (see section (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.

(b) Other reserves

During 2006 other reserves has been reduced by Euros 115,665 thousand due to the share issue costs related to the public share offering.

This caption has also been decreased by Euros 405 thousand, Euros 642 thousand of which is due to the effect of the change in tax rates on deferred tax assets and liabilities (see note 29).

At 31 December 2005 other reserves included a share premium of Euros 115,665 thousand which was partly reduced by the issue of non-voting shares included under other non-current payables (see notes 14 (a) and 18 (a)). This caption also included the Group's other non-legal reserves.

The availability of other reserves is subject to legislation applicable to each of the Group's companies.

(c) Legal reserve

Companies in Spain are obliged to transfer 10% of each year's profits to a legal reserve until this reserve reaches an amount equal to 20% of 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 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.

Distribution of the legal reserves of Spanish companies is subject to the same restrictions as those of the Parent company.

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The Company had set aside in prior years the corresponding reserve for treasury shares (see section (d)). This reserve was released in 2005 when these shares were disposed of.

(d) Treasury shares

At 31 December 2006 the Company has performed the following transactions with treasury 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 distributed to the Company after the Company's shareholders waived their preferential subscription rights. These shares were distributed to Group employees and their distribution was dependant upon meeting certain conditions and previously established periods.
- On 17 May 2006 the Company issued the group companies' employees with 1,726,600 treasury shares of Euros 0.50 par value each, based on previously established terms and conditions (see notes 32 (c)).

During the year ended 31 December 2005 the Company carried out the following operations with treasury shares:

- On 25 July 2005 the Company acquired 1,048,509 treasury shares at Euros 3 each, this operation amounting to Euros 3,146 thousand in total.
- On 10 August 2005 the Company acquired 111,039,045 treasury shares for a total amount of Euros 320,000 thousand.
- On 10 August 2005 the Company redeemed and cancelled 107,828,446 treasury shares for a total amount of Euros 310,751 thousand (see (a)).
- On 30 November 2005 the Company sold all its treasury shares for a total amount of Euros 19,997 thousand. This operation resulted in net movement in distributable reserves of Euros 4,512 thousand.

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(15) Minority interests

Details of minority interests and movement during the year ended 31 December 2005 are as follows:

	Thousands of Euros			
	Balances at 31/12/04	Additions	Translation differences	Balances at 31/12/05
Grifols (Thailand) Pte Ltd	110	(68)	6	48
Grifols Malaysia Sdn Bhd	0	17	56	73
	110	(51)	62	121

Details of minority interests and movement during the year ended 31 December 2006 are as follows:

	Thousands of Euros			
	Balances at 31/12/05	Additions	Translation differences	Balances at 31/12/06
Grifols (Thailand) Pte Ltd	48	204	1	253
Grifols Malaysia Sdn Bhd	73	87	(5)	155
	121	291	(4)	408

(16) Notes and Other Remunerated Liabilities

In 2005 a Group company issued bearer promissory notes of Euros 3,000 thousand par value each for a total amount of Euros 5,748 thousand being the maximum amount authorised by the Spanish Securities and Exchange Commission on 15 April 2005, which were earmarked for Group employees. At 31 December 2006 promissory notes of Euros 5,463 thousand par value have been subscribed (Euros 5,682 thousand at 31 December 2005) which were redeemed during the year). At 31 December 2006 unaccrued interest payable on these promissory notes in 2005 amounts to Euros 88 thousand which is shown deducted from the previous amount (Euros 359 thousand at 31 December 2005).

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(17) Non-current Borrowings

Details of non-current borrowings at 31 December 2005 are as follows:

Extended by	Date awarded	Maturity date	Thousands of Euros				
			Amount awarded	Amount drawn down	Taken to current		31/12/05 Non current
					In prior years	In current year	
Syndicated loan	21/06/2005	21/06/2011	222,532	190,537	0	15,470	175,067
Caja Ahorros Mediterraneo	12/03/2004	12/03/2006	600	600	0	600	0
Institut Catalá de Finances	01/11/2002	01/11/2016	1,024	1,024	220	73	732
Bancaja (Note 7)	01/05/2000	01/05/2012	902	902	366	76	460
EBN (Note 7)	01/07/2003	03/07/2015	1,300	1,300	217	96	987
Banc Sabadell	24/05/2005	31/12/2007	504	504	0	0	504
Institut Catalá de Finances	27/01/2005	28/02/2010	6,221	6,209	937	1,249	4,022
			233,083	201,076	1,740	17,564	181,772
Non current finance lease liabilities (Note 7)							2,899
			233,083	201,076	1,740	17,564	184,671

Amounts are shown net of loan arrangement expenses amounting to Euros 2,002 thousand.

On 21 June 2005 the Company signed a syndicated loan with BBVA as agent bank for Euros 225,000 thousand. This syndicated loan, which matures on 21 June 2011, is subject to compliance with certain financial ratio covenants. In accordance with the agreed-upon conditions, the level of compliance with financial ratios and levels is determined at year end. The Company is required to provide financial information to the lending banks within the six-month period subsequent to 31 December of each year of duration of the contract.

At 31 December 2005 the Company has complied with the ratios established in this contract.

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Details of non-current borrowings at 31 December 2006 are as follows:

Extended by	Date awarded	Maturity date	Amount awarded	Amount drawn down	Thousands of Euros		31/12/06
					Taken to current		
					In prior years	In current year	
Syndicated loan	21/06/2005	21/06/2011	223,632	223,632	15,469	65,469	142,694
Institut Catalá de Finances	01/11/2002	01/11/2016	1,024	1,024	293	73	658
Bancaja (Note 7)	01/05/2000	01/05/2012	902	902	442	77	383
EBN	01/07/2003	01/10/2006	1,300	1,300	313	987	0
Banc Sabadell	24/05/2005	31/12/2007	504	504	0	0	504
Institut Catalá de Finances	27/01/2005	28/02/2010	6,221	6,221	2,186	1,249	2,786
Instituto de crédito Oficial	01/06/2006	26/05/2016	29,844	29,844	0	0	29,844
Banc Sabadell	27/07/2006	30/06/2008	202	202	0	0	202
Banc Sabadell	27/07/2006	30/06/2008	147	147	0	0	147
BBVA	27/02/2006	24/02/2009	14,978	14,978	0	6,000	8,978
Comerica Bank	17/03/2006	17/03/2008	8,544	8,544	0	0	8,544
			287,298	287,298	18,703	73,855	194,740

Amounts are shown net of loan arrangement expenses amounting to Euros 1,609 thousand.

The majority of these loans bear interest at variable rates (of Euribor + between 0.7% and 1.5%).

On 21 November 2006 the Company renegotiated the syndicated loan contract with the relevant financial institutions so that the financial ratios established in the loan contract are calculated using the figures presented under IFRS-EU.

At 31 December 2006 the Company fulfils the ratios established in the syndicated loan contract.

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Details of maturity of non-current borrowings at 31 December 2006 and 2005 are as follows:

	Thousands of Euros	
	31/12/06	31/12/05
Maturity a:		
Two years	47,166	32,356
Three years	36,883	31,946
Four years	33,058	32,040
Five years	32,949	31,210
More than five years	44,684	54,220
	194,740	181,772

Details of the maturities of non-current finance lease liabilities are presented in note 7.

(18) Other Non-current Payables

Details are as follows:

	Thousands of Euros	
	31/12/06	31/12/05
Shareholders with no voting rights (a)	0	247,668
Mitsubishi Pharma Corporation	0	21,640
Biolife Plasma Services LP	1,316	0
Novartis	2,270	0
Privileged loans from Ministry of Science & Technology	9,060	8,701
Other debts (b)	12,646	30,341
Provisions for pensions & similar	685	626
Other provisions	217	156
Provisions for liabilities & charges (c)	902	782
Capital grants	830	908
Other grants	1,663	0
Capital grants for privileged loans	2,326	1,534
Deferred income (d)	4,819	2,442
Other non-current payables	18,367	281,233

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(a) Non-voting share capital increase

As described in note 14, on 10 August 2005 the Company increased share capital by issuing 260,000 new non-voting shares of Euros 0.5 par value each plus a share premium of Euros 259,870 thousand. The share capital increase amounted to Euros 260,000 thousand in total. This operation also incurred net share capital increase expenses of Euros 15,018 thousand, which were deducted from the prior amount at 31 December 2005.

During 2006 Euros 12,332 thousand has been accrued for the redemption of share issue costs (Euros 2,686 thousand during 2005) (note 28).

In relation to the floating of the Company on the stock market, on 17 May 2006 these non-voting shares were purchased and subsequently redeemed by the Company (see note 14(a)).

Details of movement at 31 December 2005 are as follows:

	Balance at 31/12/04	Capital increase	Dividend accrued during year	Share issue costs	Financial expenses accrued during year	Balance at 31/12/05
Other non-current payables	0	260,000	--	(15,018)	2,686	247,668
Other current payables (Note 23)	0	--	10,258	--	--	10,258
	<u>0</u>	<u>260,000</u>	<u>10,258</u>	<u>(15,018)</u>	<u>2,686</u>	<u>257,926</u>
		(Note 14)	(Note 28)	(Note 14)	(Note 28)	

Details of movement at 31 December 2006 are as follows:

	Balance at 31/12/05	Dividend accrued during year	Financial expenses accrued during year	Purchase of non- voting shares	Balance at 31/12/06
Other non-current payables	247,668	--	12,332	(260,000)	0
Other current payables (Note 23)	10,258	9,545	--	(19,803)	0
	<u>257,926</u>	<u>9,545</u>	<u>12,332</u>	<u>(279,803)</u>	<u>0</u>
		(Note 28)	(Note 28)	(Note 14)	

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(b) Other debts

At 31 December 2005 Other debts include Euros 23,311 thousand reflecting the Euros equivalent of a long-term debt in US Dollars payable to Mitsubishi Pharma Corporation for the acquisition of certain assets from Alpha Therapeutic Corporation, (notes 23 and 32 (b)). Deferred financial expenses resulting from the transaction amounted to Euros 1,671 thousand at 31 December 2005, which were deducted from the aforesaid amounts. During 2006 this debt has been reclassified to other payables (see note 23).

At 31 December 2006 other debts includes Euros 1,343 thousand comprising the Euros equivalent of the debt in US Dollars payable in the long term to Biolife Plasma Service L.P., subsidiary of Baxter Healthcare Corporation, for the eight plasma centres acquired in the USA (note 1 (d.2)). Deferred financial expenses resulting from this transaction amount to Euros 27 thousand and have been deducted from the aforementioned amount. Other payables includes the current portion of this debt which amounts to Euros 2,410 thousand (see note 23).

At 31 December 2006 this caption also includes Euros 2,620 thousand comprising the long-term debt with Novartis Vaccines and Diagnostics, for the licence contract signed by a group company during 2006. Deferred financial expenses resulting from this transaction amount to Euros 350 thousand and have been deducted from the aforementioned amount. Other payables includes the current portion of this debt which amounts to Euros 852 thousand (see note 23).

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Details of interest-free privileged loans granted by the Spanish Ministry of Science and Technology, to various different Group companies are as follows:

Company	Date awarded	Thousands of Euros				
		Amount awarded	31/12/2006		31/12/2005	
			Non-current	Current	Non-current	Current
Instituto Grifols S.A	22/02/2002	749	196	106	286	107
Instituto Grifols S.A	31/01/2001	637	231	86	299	86
Instituto Grifols S.A	13/02/2002	691	329	94	400	94
Instituto Grifols S.A	17/01/2003	1,200	718	165	842	165
Instituto Grifols S.A	13/11/2003	2,000	1,422	279	1,623	--
Instituto Grifols S.A	17/01/2005	2,680	2,210	--	2,116	--
Instituto Grifols S.A	29/12/2005	2,100	1,603	--	2,100	--
Instituto Grifols S.A	29/12/2006	1,700	1,232	--	--	--
Laboratorios Grifols, S.A	20/03/2001	219	79	30	103	30
Laboratorios Grifols, S.A	29/01/2002	210	100	29	122	29
Laboratorios Grifols, S.A	15/01/2003	220	132	30	154	30
Laboratorios Grifols, S.A	26/09/2003	300	216	42	247	--
Laboratorios Grifols, S.A	22/10/2004	200	165	--	158	--
Laboratorios Grifols, S.A	20/12/2005	180	137	--	180	--
Laboratorios Grifols, S.A	29/12/2006	400	290	--	--	--
Diagnostic Grifols, S.A	23/05/2002	507	--	77	71	149
		13,993	9,060	938	8,701	690

In application of IAS 32 and 39 at 1 January 2005 Euros 1,210 thousand has been recognised as implicit interest on this grant. In 2006 the implicit interest expense taken to profit and loss amounted to Euros 419 thousand (Euros 349 thousand in 2005) (see note 28).

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Details of the maturity of other debts are as follows:

	<u>Thousands of Euros</u>	
	<u>31/12/06</u>	<u>31/12/05</u>
Maturity a :		
Two years	3,053	22,530
Three years	2,219	1,147
Four years	2,360	1,093
Five years	1,377	956
More than five years	3,637	4,615
	<hr/>	<hr/>
	12,646	30,341
	<hr/>	<hr/>

(c) Provisions for Liabilities and Charges

At 31 December 2006 and 2005 this balance mainly comprises provision made by a foreign subsidiary in respect of labour commitments with certain employees.

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(d) Deferred income

Details of capital grants are as follows:

	Thousands of Euros	
	31/12/06	31/12/05
Total amount of the grant:		
1992	182	182
1993	43	43
1994	105	105
1995	627	627
1996	54	54
1997	426	426
1998	65	65
1999	42	42
2000	179	179
2001	214	214
2002	626	626
2005	37	45
Current year	35	0
	2,635	2,608
Less, recognised income:		
In prior years	(1,700)	(1,541)
During the year	(105)	(159)
	(1,805)	(1,700)
Carrying amount of capital grant	830	908

At 31 December 2006 the privileged loan subsidies caption includes Euros 2,326 thousand of implicit interest on loans extended by the Spanish Ministry of Science and Culture as these are interest free (Euros 1,534 thousand at 31 December 2005).

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Movement during 2005 is as follows:

	Balances at 01/01/05	Additions	Transfer to profit / (loss)	Balances at 31/12/05
Capital grants through privileged loans	1,232	651	(349)	1,534

(Note 27)

Movement during 2006 is as follows:

Thousands of Euros				
	Balances at 31/12/05	Additions	Transfer to profit / (loss)	Balances at 31/12/06
Capital grants through privileged loans	1,534	1,211	(419)	2,326

(Note 27)

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(19) Current Borrowings

Details of current borrowings are as follows:

	Interest rate (*) Min - max	Thousands of Euros			
		Drawn down		Limit	
		31/12/06	31/12/05	31/12/06	31/12/05
Loans in:					
US Dollars	8.25% - 7.35%	8,360	8,594	30,372	9,885
Euros	2.33% - 7.75%	113,792	73,626	258,389	217,191
Other currencies	TIE +1.75 - 19%	5,132	9,090	9,750	11,098
		127,284	91,310	298,511	238,174
Discounted trade notes (Note 11)	3.07% - 5.275%	1,350	1,634		
Current interest on borrowings		1,387	2,516		
Finance lease payables (Note 7)		3,704	4,969		
		133,725	100,429	298,511	238,174
Less, current portion of deferred financial expenses for leasing (Note 7)		(266)	(191)		
Less, current portion of loan arrangement expenses		(711)	(724)		
		132,748	99,514		

(*) Loans accrue variable interest rates.

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(20) Derivatives

(a) Exchange rate hedges

The Group on occasions uses hedges to cover its foreign currency operations and cash flows. The instruments used mainly comprise term exchange rate insurance for the currencies of the main markets in which the Group operates.

Exchange rate risks assumed by the Group mainly related to the following operations:

- Foreign currency debt contracted by Group companies
- Results from activities carried out in countries outside the Euro zone which are referenced to the evolution of the respective currencies.
- Investments made to acquire shareholdings in foreign companies.

At 31 December 2006 the Group has an exchange rate hedging instrument contracted, the value of which is negative by Euros 37 thousand. At 31 December 2005 the Group had no exchange rate hedging instruments contracted. The steady increase in foreign currency cash inflows has resulted in an increasingly higher coverage.

(b) Interest rate hedges

The Group is exposed to variations in interest rates as practically all of its debt with financial entities accrues interest at variable rates. Consequently, at 31 December 2005 the Group had contracted financial interest rate swaps of Euros 10,000 thousand and Euros 50,000 thousand par value, which mature on 26 April 2006 and 26 July 2011, respectively. The fair value of these contracts at 31 December 2005 was negative in amounts of approximately Euros 39 thousand and Euros 3,010 thousand, respectively. The fair value of the contract in force at 31 December 2006 is negative by Euros 611 thousand.

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Movement in this caption at 31 December 2005 was as follows:

	Thousands of Euros		
	Balances at 01/01/05	Changes in fair value	Balances at 31/12/05
Financial derivatives:			
Interest rate swap	2,041	1,008	3,049
Fair value	2,041	1,008	3,049
		(Note 28)	(Note 32(e))

Movement in this caption at 31 December 2006 has been as follows:

	Thousands of Euros			
	Balances at 31/12/05	Additions / Disposals	Changes in fair value	Balances at 31/12/06
Financial derivatives:				
Interest rate swaps	3,049	(644)	(1,794)	611
Exchange rate hedge	0	(277)	314	37
Fair value	3,049	(921)	(1,480)	648
			(Note 28)	(Note 32(e))

(21) Balances and Transactions with Related Parties

Details are as follows:

	Thousands of Euros	
	31/12/06	31/12/05
Payables to:		
Associates	39	41
Key management personnel	0	0
Members of the Board of Directors	0	0
	39	41

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At 31 December 2006 and 2005 there were no balances with members of the board of directors or with key management personnel.

(a) Group transactions with related parties

Group transactions with related parties during 2006 were as follows:

	Thousands of Euros		
	Associates	Key management personnel	Board of Directors of the Company
Net purchases	(131)	--	--
Net sales	--	--	--
Other services	(8,373)	--	(1,905)
	(8,504)	0	(1,905)
Interest	--	--	--
Dividends & other distributed profits	--	38	1,534
Dividends & other received profits	--	--	--
	0	38	1,534

Group transactions with related parties during 2005 were as follows:

	Thousands of Euros		
	Associates	Key management personnel	Board of directors of the Company
Net purchases	(120)	--	--
Net sales	--	--	--
Other services	--	--	--
	(120)	0	0
Interests			
Dividends & other distributed profits	--	10	826
Dividends & other received profits	113	--	--
	113	10	826

b) Information on the Board of Directors of the Parent company and key Group personnel

During 2006 the Members of the Board of Directors of Grifols, S.A. have received Euros 60,000 in respect of their office (Euros 0 during 2005).

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Details of remuneration of Members of the Board of Directors who have an employment relationship with Group companies and remuneration received by key management personnel are as follows:

	Thousands of Euros	
	31/12/2006	31/12/2005
Current remuneration	1,771	1,559
Total key management personnel	1,771	1,559

c) Investments and positions held by Directors of the Parent company in other companies

The directors of the Company do not hold any investments in companies with a statutory activity which is identical, similar or complementary to that of the Company. The positions, functions and activities developed and/or performed by the members of the Board of Directors of Grifols S.A., in the group's companies and/or companies whose statutory business is identical, similar or complementary to those developed by the company, are detailed in the attached Appendix IV, which forms an integral part of these consolidated notes.

(22) Trade payables

Details are as follows:

	Thousands of Euros	
	31/12/06	31/12/05
Suppliers	66,478	65,502
Notes payable to suppliers	758	4,121
Trade provisions	3,890	1,245
Advances received	11,019	2,948
Accruals	126	892
	82,271	74,708

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Balances with suppliers include the following accounts payable in foreign currencies:

Currency	Thousands of Euros	
	31/12/06	31/12/05
US Dollars	18,538	22,291
Pounds Sterling	1,632	815
Japanese Yen	560	0
Czech Crowns	355	311
Other currencies	933	157

Movement in trade provisions in 2005 was as follows:

	Thousands of Euros				Balance at 31/12/05
	Balance at 31/12/04	Provision	Reversal	Translation differences	
Trade provisions	1.591	(350)	(53)	57	1.245
	1.591	(350)	(53)	57	1.245

Movement in this provision in 2006 was as follows:

	Thousands of Euros				Balances at 31/12/06
	Balances at 31/12/05	Charge	Reversal	Translation differences	
Trade provisions	1,245	2,611	46	(12)	3,890
	1,245	2,611	46	(12)	3,890

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(23) Other Payables

Details are as follows:

	Thousands of Euros	
	31/12/2006	31/12/2005
Dividend guaranteed to shareholders with no voting rights (Notes 14 and 28)	0	10,258
Mitsubishi Pharma Corporation	20,343	22,800
Receivables from social security transferred to		
Deutsche Bank	5,366	4,300
Biolife Plasma Services LP (Note 18 (b))	2,410	0
Novartis (Note 18 (b))	852	0
Privileged loans from Ministry of Science & Technology (Note 18 (b))	938	690
Others	956	1,875
Other payables	30,865	39,923
Remunerations payable	14,140	12,020
Guarantee deposits received	70	38
	45,075	51,981

At 31 December 2006 other payables include Euros 20,881 thousand (Euros 23,311 thousand in 2005) reflecting the Euros equivalent of the short-term balance payable in US Dollars to Mitsubishi Pharma Corporation for the acquisition of certain assets from Alpha Therapeutic Corporation (notes 18 (b) and 32 (b)). Deferred financial expenses resulting from the transaction amount to Euros 538 thousand (Euros 511 thousand at 31 December 2005) and have been deducted from the above balance.

At 31 December 2006 and 2005 other payables also include approximately Euros 5,366 thousand and Euros 4,300 thousand, respectively, which was collected directly from social security affiliated bodies, as the receivables had been transferred from Deutsche Bank (see note 11). The 2005 balance with Deutsche Bank was settled in January 2006.

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(24) Net Sales

The distribution of consolidated net sales in 2006 and 2005, by segment, was as follows:

	%	
	31/12/06	31/12/05
Bioscience	68	70
Diagnostics	11	13
Hospital	10	11
Raw materials	10	5
Others	1	1
	100	100

The geographical distribution of consolidated net sales is as follows:

	%	
	31/12/06	31/12/05
Sales, European Union	52%	60%
Sales, USA	37%	28%
Sales, rest of the world	11%	12%
	100%	100%

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Net sales include sales made in the following foreign currencies:

Currency	Thousands of Euros	
	31/12/06	31/12/05
US Dollars	258,643	158,805
Pounds Sterling	40,295	38,114
Mexican Pesos	13,451	10,541
Chilean Pesos	9,834	8,334
Czech Crowns	7,779	7,476
Brazilian Reals	4,240	3,671
Thai Bahts	2,806	2,885
Argentine Pesos	3,512	2,669
Singapore Dollars	2,377	2,244

(25) Personnel Expenses

Details are as follows:

	Thousands of Euros	
	31/12/06	31/12/05
Wages and salaries	148,472	125,202
Pension plan contributions	1,814	812
Welfare benefits	34,444	28,873
	184,730	154,887

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The average headcount in 2006, by department, was as follows:

	Average number	
	31/12/06	31/12/05
Manufacturing	3,065	2,348
Research & development – technical area	209	201
Administration and others	349	319
General management	80	79
Marketing	68	71
Sales and distribution	428	425
	<u>4,199</u>	<u>3,443</u>

(26) Operating Expenses

Details are as follows:

	Thousands of Euros	
	31/12/06	31/12/05
Changes in trade provisions (notes 10, 11 and 22)	2,304	(815)
Amounts capitalised for self-constructed assets	(12,472)	(10,795)
Professional services	24,200	20,829
Supplies and other material	17,775	15,479
Operating leases (note 31 a)	11,237	9,248
Lease financing and other leases	4,288	4,375
Transport	13,133	12,548
Repairs and maintenance costs	12,196	10,827
Publicity	10,563	10,218
Insurance	10,791	9,695
Royalties and service charges	10,790	9,066
Travel expenses	10,244	8,185
External services	13,101	11,325
Others	4,739	3,886
Other operating expenses	<u>132,889</u>	<u>114,071</u>

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(27) Other non – recurring Operating Income/Expenses

Details are as follows:

	Thousands of Euros	
	31/12/06	31/12/05
Profit on disposal of property, plant & equipment, intangible assets and treasury shares	37	22
Government grants taken to income	112	158
Privileged loans taken to income (note 18 (d))	419	349
Others	2,231	500
Other non-recurring operating income	2,799	1,029
Changes in provisions for property, plant & equipment (Note 7)	0	(69)
Losses from property, plant & equipment, intangible assets and treasury shares	611	1,423
Others	347	613
Other non-recurring operating expenses	958	1,967
Total non-recurring operating expenses/ income	1,841	(938)

In 2006 other non-recurring operating income basically comprises compensation received from insurance claims.

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(28) Net Financing Costs

Details are as follows:

	Thousands of Euros	
	31/12/06	31/12/05
Interest from Social Security	4,014	3,041
SLS sale and purchase option (Note 12)	0	124
Change in fair value of financial derivatives (Note 20)	2,440	0
Other financial income	653	384
Financial income	7,107	3,549
Syndicated loan (other financial expenses)	801	2,131
Syndicated loan (interest)	7,657	7,930
Financial expenses from sale of receivables (Note 11)	(395)	1,525
Dividend guaranteed to shareholders with no voting rights (Note 23)	9,545	10,258
Financial expenses on preference shares (Note 18 (a))	12,332	2,686
Changes in provisions for financial investments (Note 20)	960	1,008
Implicit interest on privileged loans (Note 18 (b))	419	349
Other financial expenses	11,781	11,968
Financial expenses	43,100	37,855
Exchange gains	6,688	10,053
Exchange losses	7,752	8,503
Exchange differences	(1,064)	1,550
Net financing costs	(37,057)	(32,756)

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(29) Income Tax

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

Grifols, S.A. is authorised to present a consolidated tax return with Diagnostic Grifols, S.A., Movaco, S.A., Laboratorios Grifols, S.A., Instituto Grifols, S.A., Logister, S.A., Biomat, S.A., Grifols Viajes, S.A., Grifols International, S.A. and Grifols Engineering, S.A. Grifols, S.A., in its capacity as Parent company, is responsible for the presentation and payment of the consolidated tax return.

The North-American company Grifols, Inc. is permitted to present consolidated tax returns with Grifols Biologicals, Inc. and Grifols USA, Inc.

a) Reconciliation of accounting and taxable income

Details of the income tax expense/(income) are as follows:

	Thousands of Euros	
	31/12/06	31/12/05
Profit/(loss) for the year before income tax	63,509	40,820
Tax at 35%	22,228	14,287
Permanent differences	3,361	1,725
Effect of different tax rates	(69)	1,397
Deductions for research and development	(3,654)	(2,904)
Other deductions	(145)	(612)
Tax credits not recognised in prior years	0	(2,927)
Expense for income tax in prior years	240	2,369
Other income tax expenses/(recoverable)	(4,137)	1,980
Total income tax expense	17,824	15,315
Deferred tax expenses	(7,924)	1,260
Current tax expenses	25,748	14,055
Total	17,824	15,315

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b) Deferred tax assets and liabilities

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 Spanish companies' deferred tax assets and liabilities have been recalculated in accordance with the new criteria. The effect of this adjustment has been a profit of Euros 4,056 thousand (recorded as other income tax recoverable (see note 29(a)) and a reduction in reserves of Euros 642 thousand (see note 14(b)). The net effect of this adjustment in deferred tax assets and liabilities has been Euros 3,414 thousand.

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Details of deferred tax assets and liabilities, by type, are as follows:

	Thousands of Euros			
	Tax effect			
	With	Adjustment	Without	
	rate change	to tax	rate change	
	31/12/06	rate	31/12/06	31/12/05
Assets				
Deductions	18,737	0	18,737	14,760
Tax credits in respect of loss carryforwards	7,534	(517)	8,051	2,430
Non-current assets & amortisation	1,117	(31)	1,148	2,817
Derivatives	143	(24)	167	1,067
Unrealised margins on inventories	5,349	(226)	5,575	5,987
Provision for bad debts	478	0	478	403
Inventories	707	0	707	860
Share issue costs	4,969	(638)	5,607	940
Others	2,418	(44)	2,462	1,265
	41,452	(1,480)	42,932	30,529
Liabilities				
Goodwill	(6,895)	1,150	(8,045)	(4,950)
Revaluation of non-current assets	(16,379)	1,782	(18,161)	(19,244)
Non-current assets & amortisation	(14,911)	993	(15,904)	(5,788)
Finance leases	(2,573)	426	(2,999)	(2,586)
Inventories	(872)	0	(872)	(5,953)
Provision for treasury shares	(3,235)	539	(3,774)	(2,179)
Others	(997)	4	(1,001)	(1,404)
	(45,862)	4,894	(50,756)	(42,104)

As permitted by Royal Decree – Law 3/1993 governing urgent tax and financial measures and Royal Decrees – Law 7/1994 and Law 2/1995 governing accelerated depreciation of property, plant and equipment for investments which generate employment, the Spanish companies have opted to apply accelerated depreciation to certain additions to property, plant and equipment, which has resulted in the corresponding deferred tax liability.

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Details of deferred tax assets and liabilities on items directly debited and credited to equity during the year are as follows:

	Thousands of Euros			
	Tax effect			
	With	Adjustment	Without	
	rate change	to tax	rate change	
	31/12/06	rate	31/12/06	31/12/06
Available for sale financial assets	(21)	3	(24)	(51)
	(21)	3	(24)	(51)

The remaining assets and liabilities recognised in 2006 have been credited/debited to the income statement.

No other significant temporary differences which have generated deferred tax liabilities have arisen from investments in subsidiaries or associates.

The Spanish consolidated companies have deductions pending application mainly in respect of research and development, which are detailed below:

Year of origin	Thousands of Euros	Applicable through
2002	1,695	2017
2003	5,598	2018
2004	4,138	2019
2005	3,423	2020
2006 (estimated)	3,883	2021
	18,737	

At 31 December 2006 the Group has recorded a tax credit of Euros 18,737 thousand (Euros 14,760 thousand at 31 December 2005) from the deductions pending application, as its future recovery is reasonably assured.

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At 31 December 2006 the Group has future tax deductions of Euros 32,346 thousand (Euros 40,006 thousand at 31 December 2005) pending application as a result of goodwill generated on the acquisition of Biomat USA, Inc. This amount will be deducted annually from the taxable profits until 2022, without being limited by the amount of tax payable in any one year. The amount that will be deducted in 2007 at the rate of 32.5% will be Euros 2,298 thousand, whilst in prior years an amount of Euros 2,121 thousand will be deducted at a rate of 30%. The Group has recognised a deferred tax liability of Euros 6,364 thousand in respect of this item at 31 December 2006 (Euros 4,950 thousand at 31 December 2005).

At 31 December 2006 the Group has a future tax deduction of Euros 12,346 thousand pending application as a result of the goodwill generated on the acquisition of PlasmaCare, Inc. This amount will be deducted annually from the taxable profits until 2026. The annual amount applicable in 2007 at the rate of 32.5% is Euros 695 thousand, whilst Euros 641 thousand will be applied in subsequent years at the rate of 30%. The Group has recognised a deferred tax liability for this item amounting to Euros 531 thousand at 31 December 2006.

At 31 December 2006 the Group has recognised tax assets for loss carryforwards amounting to Euros 7,534 thousand. Euros 6,722 thousand of this amount has been generated by Spanish companies in 2006 and these tax losses can be offset until 2021. The remaining amount has been generated by the North American companies Biomat Usa, Inc and Grifols Usa, Inc. At 31 December 2006 these two North American companies have loss carryforwards amounting to Euros 2,430 thousand.

The Group has not recognised loss carryforwards of Euros 1,311 thousand (Euros 1,049 thousand at 31 December 2005) from Grifols Portugal as deferred tax assets. The remaining companies do not have significant loss carryforwards which have not been recognised.

(c) Years open to inspection

In accordance with current legislation, taxes cannot be considered definitive until they have been inspected and agreed by the tax authorities or before the prescribed inspection period has elapsed.

On 8 February 2005 the Group received notification from the tax authorities of an inspection of all applicable taxes from 2001 to 2003 (both inclusive) of the Spanish companies in the tax group (2000 to 2003 for income tax). On 30 January 2006 the Group signed agreements in respect of these taxes. The total tax expense for 2005, including delay interest and fines, amounts to Euros 2,743 thousand whereas total additional tax payable amounts to Euros 1,375 thousand.

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(30) Earnings per Share

The calculation of basic earnings per share is based on the profit for the year attributable to the shareholders of the Parent and a weighted average number of ordinary shares in circulation throughout the year, excluding treasury shares.

Details of the calculation of basic earnings per share are as follows:

	2006	2005
Profit for the year attributable to equity holders of the Parent company (thousands of Euros)	45,394	25,556
Average weighted value of ordinary shares in circulation	185,966,769	182,361,067
Earnings per share (Euros per share)	0.24410	0.14014

The weighted average number of ordinary shares issued is determined as follows:

	2006	2005
Ordinary shares in circulation at 1 January	140,338,299	211,681,440
Effect of own shares	0	(1,740,892)
Effect of own shares issued	45,822,416	7,074,589
Net effect of issue and & redemption of shares	0	(33,449,060)
Effect of treasury shares	(193,947)	(1,714,599)
Effect of sale of treasury shares	0	509,589
	185,966,769	182,361,067

Diluted earnings per share are calculated by dividing profit attributable to shareholders of the Parent by the weighted average number of ordinary shares in circulation considering the diluting effects of potential ordinary shares.

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Details of the diluted earnings per share calculation are as follows:

	<u>2006</u>	<u>2005</u>
Profit for the year attributable to equity holders of the Parent Company (thousands of Euros)	45,394	25,556
Average weighted value of ordinary shares in circulation	184,240,169	180,616,156
Earnings per share (Euros per share)	<u>0.24638</u>	<u>0.14149</u>

Weighted average number of ordinary shares issued is determined as follows:

Average weighted value of ordinary shares in circulation	185,966,769	182,361,067
- Effect of shares issued for employees (see Note 14 (d))	(1,726,600)	(1,740,892)
- Effect of preferential shares issue (see Notes 14 and 23)	0	(4,019)
Average weighted value of ordinary diluted shares in circulation	<u>184,240,169</u>	<u>180,616,156</u>

(31) Operating Leases

(a) Operating leases (as lessee)

At 31 December 2006 and 2005 the Group leases buildings from third parties under operating leases.

The Group has warehouses and buildings contracted under operating lease. The duration of these lease contracts ranges from between 1 to 30 years. Contracts may be renewed on termination. Lease instalments are adjusted periodically in accordance with the price index established in each contract. One Group company has entered into lease contracts which include contingent rents. These contingent rents have been based on production capacity, surface area used and the real estate market and are expensed on a straight line basis.

Operating lease instalments of Euros 11,237 thousand have been recognised as an expense for the year at 31 December 2006 (Euros 9,248 thousand at 31 December 2005). Of this amount Euros 11,218 thousand (Euros 9,183 thousand at 31 December 2005) corresponds to minimum lease payments and Euros 19 thousand (Euros 65 thousand at 31 December 2005) to contingent rent instalments.

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Future minimum payments on non-cancellable operating leases at 31 December are as follows:

	Thousands of Euros	
	31/12/2006	31/12/2005
Maturity:		
Up to 1 year	7,236	5,753
Between 1 and 5 years	13,817	11,050
More than 5 years	977	1,324
Total future minimum payments	22,030	18,127

One Group company sublets a building which it leases to third parties. The amount recognised under income for the year in respect of this item at 31 December 2005 amounted to Euros 48 thousand. This contract expired in 2005.

(b) Operating leases (as lessor)

At 31 December 2006 the Group does not have any buildings leased to third parties under operating leases.

At 31 December 2005 the Group had a building leased to third parties under an operating lease:

	Thousands of Euros
	31/12/2005
Cost	931
Accumulated amortisation	(367)
Carrying amount, buildings	564

(32) Other Commitments with Third Parties and Other Contingent Liabilities and Assets

(a) Guarantees extended and other deposits

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 given a joint guarantee at 31 December 2006 and 2005 on a syndicated loan of Euros 209,531 thousand and 225,000 thousand, respectively.

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At 31 December 2006 the Parent company has given guarantees of Euros 158,840 thousand to banks on behalf of group companies (Euros 142,078 thousand at 31 December 2005).

At 31 December 2006 the Company together with Diagnostic Grifols, S.A., Laboratorios Grifols, S.A., Biomat S.A. and Movaco, S.A., has given guarantees of Euros 19,061 thousand to banks (Euros 6,247 thousand at 31 December 2005).

At 31 December 2006 Biomat, S.A. in conjunction with Laboratorios Grifols, S.A., Diagnostic Grifols, S.A., Movaco, S.A., Instituto Grifols, S.A., Grifols Deutschland GmbH, Grifols Italia S.p.A. and Grifols UK Ltd has given guarantees to banks amounting to Euros 30,000 thousand.

At 31 December 2006 Instituto Grifols, S.A. together with Laboratorios Grifols, S.A., Movaco, S.A., Diagnostic Grifols, S.A. and Grifols Internacional, S.A. have given guarantees of Euros 731 thousand to banks on behalf of Grifols, S.A. (Euros 1,024 thousand at 31 December 2005).

(b) Guarantees with third parties

Details of payment commitments which exist at 31 December 2006 and 2005 arising from the acquisition of Alpha Therapeutic Corporation in 2003 are as follows:

<u>Maturity</u>	<u>Thousands of US Dollars</u>	
	<u>31/12/2006</u>	<u>31/12/2005</u>
17/07/06 (early payment)	-	27,500
16/07/07	27,500	27,500
	<u>27,500</u>	<u>55,000</u>

(Notes 18 & 23)

The Group has constituted a floating pledge over 350 thousand litres of blood plasma to guarantee the US Dollars 27,500 thousand payable to Mitsubishi Pharma Corporation which falls due on 16 July 2007.

(c) Obligations with personnel

As described in note 4 (k) section (i), Spanish companies of the Group are obliged to contribute to a defined contribution pension plan. Contributions made by the Group amounted to Euros 344 thousand in 2006 (Euros 383 thousand at 31 December 2005).

In successive years this contribution will be defined through labour negotiations.

Some foreign subsidiaries of the Group made contributions of Euros 1,470 thousand to complementary pension schemes (Euros 429 thousand at 31 December 2005).

At the annual general meeting held on 25 May 2001 the shareholders agreed to freely distribute 1,740,892 shares among the Group's employees (excluding directors and senior management) with a minimum of one year's service from the date of the agreement and using criteria based on employees' length of service. The directors will determine the date the shares are awarded, which will be subsequent to the Company's flotation on the stock market.

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

(d) Judicial procedures and arbitration

Details of legal proceedings in which the Company or Group companies are involved are as follows:

Instituto Grifols, S.A.

- Litigation was initiated in February 2000. Proceedings have been brought jointly against the Company and another plasma fractioning company.

The claimant (an individual) claimed Euros 542 thousand in damages due to the alleged contraction of HIV and Hepatitis C.

The first instance court in Cadiz fully rejected the claim against Instituto Grifols, S.A on 25 November 2005. An appeal to this ruling is currently underway.

- A claim brought against the Health Board of Castilla y León in February 2005.

GRIFOLS, S.A. AND SUBSIDIARIES

Notes to the Consolidated Annual Accounts

The defendant (an individual) claimed Euros 180 thousand in damages due to the alleged contraction of Hepatitis C. The health authorities requested that this claim be extended to include the Company.

A court ruling is pending since this company has contested the claim.

Grifols Biologicals, Inc.

- Legal proceedings (consent decree) which were brought against the plasma fractioning centre in Los Angeles.

The blood plasma fractioning centre in Los Angeles is managed through consent decree which was applied for in January 1998 to the Courts by the FDA and US Department of Justice as a result of an infringement of FDA regulations committed by the former owner of the centre (Alpha Therapeutic Corporation). As a result of this consent decree, the Los Angeles centre is subject to strict FDA audits and may only sell products manufactured in the centre subsequent to prior authorisation.

The Company cannot guarantee if or when the consent decree will be lifted. These proceedings could result in the temporary closure of the centre.

The Company considers that the investments planned for the centre (including the construction of a new sterile purification dosage area) and the previous good record with the FDA should help the centre to return to normal activity. Furthermore, as a result of improvements to the centre made by the Group, the FDA awarded several free sales certificates for the former ATC products manufactured in this centre in March 2004.

Recently, the FDA carried out an inspection of the centre which was concluded without any significant matters arising.

Some previous litigation was not quantified as this was not possible while proceedings were underway. At the date on which the events took place, the Group still had not implemented its self-insurance policy (through its reinsurance subsidiary Squadron Reinsurance, Ltd) and consequently, insurance companies will cover all risks.

The amount claimed for product liability amounts to approximately Euros 2,942 thousand.

No accounting provision has been made for this litigation as in each case the Company considers that the risks are adequately covered by insurance.

GRIFOLS, S.A. AND SUBSIDIARIES

Notes to the Consolidated Annual Accounts

Movaco, S.A.

- Legal proceedings initiated in March 2005. The claim was made against the Company in its capacity as importer in Spain of a product, which, according to the claimant, was defective.

The claimant sought damages of Euros 4,500 before the first instance court of Valencia since Court ruled that this claim fell under the jurisdiction of the courts of the Company's registered offices. This case has been provisionally filed.

(e) Swaps

As a result of the application of IAS 32 and IAS 39 dated 1 January 2005, the Company recognised the following swaps at 31 December 2005:

Swap	Thousands of Euros		Maturity
	Par	31/12/2005	
Interest rate swap	10,000	(39)	26/04/2006
Interest rate swap	50,000	(3,010)	26/11/2011
	60,000	(3,049)	
	(Note 20)		

The Company has recognised the following swaps at 31 December 2006:

Swap	Thousands of Euros		Maturity
	Par	31/12/2006	
Interest rate swap	10,000	0	26/04/2006
Interest rate swap	50,000	611	26/07/2011
	60,000	611	
	(Note 20)		

(f) Materials supply contract with Mitsubishi Pharma Corporation

On 15 July 2003, one of the Group's companies in the USA signed a contract for the supply of raw materials with Mitsubishi Pharma Corporation, undertaking to purchase 270,000 litres of plasma at a fixed price and until no later than 31 December 2007. During 2005 and 2006 the Group has acquired the agreed number of litres of plasma.

GRIFOLS, S.A. AND SUBSIDIARIES

Notes to the Consolidated Annual Accounts

(g) Materials supply contract with DCI Management Group LLC

On 9 January 2006, one of the Group's companies in the USA entered a contract for the supply of raw materials with DCI Management Group LLC, undertaking to purchase between 150,000 and 250,000 litres of plasma every year at a fixed price and until 2010.

(h) Services contract with Baxter Healthcare Corporation

On 5 April 2004 the Group and Baxter Healthcare Corporation signed a new contract to resolve disagreements existing at 31 December 2003. As a consequence of the new agreement, the parties signed a new manufacturing and supply contract.

At the same date, both parties signed a raw materials supply contract for the period from 1 July 2004 to 30 June 2005 inclusive.

On 2 January 2006, the Group and Baxter Healthcare Corporation entered another contract whereby the Group will manufacture finished products for Baxter until December 2008. This contract has no impact on any other contracts previously signed by the parties.

GRIFOLS, S.A. AND SUBSIDIARIES

Notes to the Consolidated Annual Accounts

(33) Environment

The most significant systems, equipment and fixtures for the protection and improvement of the environment at 31 December 2005 are as follows:

	Thousands of Euros		
Project	Cost	Accumulated amort. & deprec.	Carrying amount
Clean in Process	484	(40)	444
Water treatment plant	156	(39)	117
Equalisation pool	141	(109)	32
Installation of PEG collector	77	(55)	22
TOC meter for waste water	72	(17)	55
Joint effluent doors	58	(17)	41
Neutralisation tank automation	42	(24)	18
Water recovery	42	(40)	2
Well improvements	39	(14)	25
Alcohol transfer engineering	31	(16)	15
Water containers	30	(5)	25
HCL deposit for water area	26	(4)	22
20m3 deposit	22	(8)	14
Chemical product storage deposit	20	(12)	8
Others	20	(3)	17
Preparation of external areas	19	(2)	17
Concentrated effluent recovery	15	(5)	10
Equalisation of effluents	13	0	13
PEG collection	11	(1)	10
Drainage adequation	9	(9)	0
	1,327	(420)	907

GRIFOLS, S.A. AND SUBSIDIARIES

Notes to the Consolidated Annual Accounts

The most significant systems, equipment and fixtures for the protection and improvement of the environment at 31 December 2006 are as follows:

Project	Thousands of Euros		
	Cost	Accumulated amort. & deprec.	Carrying amount
Cips (clean in process)	484	(89)	395
Water treatment plant	156	(156)	0
Equalisation pools	141	(123)	18
Installation of PEG collector	77	(63)	14
TOC meter for waste water	72	(8)	64
Joint effluent doors	58	(21)	37
Water recovery	42	(42)	0
Well improvements	39	(18)	21
Automation of regenerant neutralisation	36	(23)	13
Series of 220m condensers	36	(1)	35
Alcohol transfer engineering	31	(19)	12
HCL deposit for dosifying neutralisation pool	26	(8)	18
LG 20m3 deposit in p9	22	(12)	10
Chemical product storage deposit	20	(14)	6
Preparation of external areas	19	(4)	15
HCl deposit for water area	16	(4)	12
NaOH deposit for water area	14	(4)	10
Concentrated effluent recovery	14	(5)	9
Equalisation of effluents	13	(1)	12
Drainage adequation	9	(9)	0
Others	32	(13)	19
	1,357	(637)	720

Expenses incurred by the Group for protection and improvement of the environment in the year ended 31 December 2006 totalled approximately Euros 968 thousand (Euros 880 thousand at 31 December 2005).

The Group considers that the environmental risks are adequately controlled by the procedures currently in place.

The Group has not received any environmental grants during the year ended 31 December 2006 (Euros 10,000 at 31 December 2005).

GRIFOLS, S.A. AND SUBSIDIARIES

Notes to the Consolidated Annual Accounts

(34) Other Information

(a) Audit fees:

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 Company and its subsidiaries fees and expenses for professional services during the years ended 31 December 2006 and 2005, as follows:

	Thousands of Euros	
	31/12/2006	31/12/2005
For annual audit services	262	185
For other audit services & related items	696	44
For other services	--	--
	<u>958</u>	<u>229</u>

Audit services detailed in the above table include the total fees for the 2006 and 2005 audits, irrespective of the date of invoice.

Other companies associated with KPMG International have also invoiced the Company and its subsidiaries fees in 2006 and 2005, as follows:

	Thousands of Euros	
	31/12/2006	31/12/2005
For annual audit services	667	519
For other audit services & related items	94	10
For other services	144	228
	<u>905</u>	<u>757</u>

(35) Subsequent Events

On 2 February 2007 the Company acquired 700,000 treasury shares on the electronic stock market at a price of Euros 10 per share.

(36) Changes in IFRS-EU in 2006

These consolidated annual accounts do not include any significant changes in accounting policies compared to those issued at 31 December 2005.

The Group has not applied in advance standards and interpretations which will be applicable in the future and which are not expected to have a material effect.

APPENDIX I

GRIFOLS, S.A. AND SUBSIDIARIES

Financial information by segments

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

BUSINESS SEGMENTS

(expressed in thousands of Euros)

	Bioscience		Hospital		Diagnostics		Raw materials		Others/Unallocated		Consolidated	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
Revenues from third parties	440,335	364,200	62,900	58,281	74,566	69,646	66,019	25,056	4,977	7,094	648,797	524,277
Total revenues	440,335	364,200	62,900	58,281	74,566	69,646	66,019	25,056	4,977	7,094	648,797	524,277
Profit/(Loss) for the segment	120,190	97,731	6,507	7,493	17,448	15,454	17,066	4,709	4,977	7,094	166,189	132,481
Unallocated expense									(67,540)	(57,957)	(67,540)	(57,957)
Other unallocated (expense) income									1,841	(938)	1,841	(938)
Operating profit											100,490	73,586
Net financing cost											(37,057)	(32,756)
Interest in equity accounted companies	0	0	-	-	76	(10)	-	-	-	-	76	(10)
Income tax											(17,824)	(15,315)
Profit for the year											45,685	25,505

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Segment assets	579,141	548,459	45,201	42,362	52,132	45,153	6,068	2,858	-	-	682,542	638,832
Equity accounted investments					253	210	-	-	-	-	253	210
Unallocated assets	-	-	-	-	-	-	-	-	230,879	182,641	230,879	182,641
Total assets											913,674	821,683
Segment liabilities	83,688	94,112	2,093	1,771	5,900	5,092	0	0	-	-	91,681	100,975
Unallocated liabilities									453,641	664,761	453,641	664,761
Total liabilities											545,322	765,736
Other information:												
Amortisation and depreciation	18,759	16,220	3,327	3,337	4,143	3,980	18	24	3,110	3,337	29,357	26,898
Expenses that do not require cash payments	(1,373)	(471)	48	(6)	25	(34)	691	(477)	2,913	173	2,304	(815)
Additions for the year of property, plant & equipment & intangible assets	30,715	12,611	2,836	2,214	5,768	2,334	0	6,246	7,419	5,470	46,738	28,875

This Appendix forms an integral part of note 5 to the consolidated annual accounts.

APPENDIX I

GRIFOLS, S.A. AND SUBSIDIARIES
Financial information by segment

GEORAPHICAL SEGMENTS
(Expressed in thousands of Euros)

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

	European Union		United States		Rest of the world		Non-assignable		Consolidated	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
Ordinary revenues	335,492	314,146	242,978	149,365	70,327	60,766	0	0	648,797	524,277
Operating income from third parties	537,197	454,872	349,310	338,367	27,167	28,444	0	0	913,674	821,683
Assets by segment										

Other information:

Additions for the year of property, plant & equipment & intangible assets

	22,689	13,035	22,720	14,878	1,329	962	-	-	46,738	28,875
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APPENDIX II
GRIFOLS, S.A. AND SUBSIDIARIES

Movement of intangible assets
for the year ended
31 December 2006
(Expressed in thousand of Euros)
(Free translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails.)

	Balance at 31/12/2005	Additions	Business combinations	Transfers	Disposals	Translation differences	Balance at 31/12/2006
Goodwill							
Goodwill	131,628	0	47,876	0	0	(15,272)	164,232
Accumulated amortisation of goodwill	(14,513)	0	0	0	0	1,101	(13,412)
Provisions	0	0	0	0	0	0	0
<i>Carrying amount of goodwill</i>	<i>117,115</i>	<i>0</i>	<i>47,876</i>	<i>0</i>	<i>0</i>	<i>(14,171)</i>	<i>150,820</i>
Other							
Development costs	33,032	4,854	0	0	(69)	(107)	37,710
Concessions, patents, licenses brands and similar	32,628	4,030	9,938	0	(4)	(2,632)	43,960
Software	12,770	2,740	133	0	(26)	(208)	15,409
<i>Total cost other</i>	<i>78,430</i>	<i>11,624</i>	<i>10,071</i>	<i>0</i>	<i>(99)</i>	<i>(2,947)</i>	<i>97,079</i>
Accurn. amort. of development costs	(11,764)	(2,542)	0	0	0	0	(14,306)
Accurn. Amort of concessions, patents, licenses, brands & similar	(9,873)	(2,690)	0	0	4	551	(12,008)
Accurn. Amort. of software	(8,075)	(1,884)	(115)	0	26	133	(9,915)
<i>Total Accurn. amort other</i>	<i>(29,712)</i>	<i>(7,116)</i>	<i>(115)</i>	<i>0</i>	<i>30</i>	<i>684</i>	<i>(36,229)</i>
<i>Carrying amount of other intangible assets</i>	<i>48,718</i>	<i>4,508</i>	<i>9,956</i>	<i>0</i>	<i>(69)</i>	<i>(2,263)</i>	<i>60,850</i>
TOTAL INTANGIBLE ASSETS	165,833	4,508	57,832	0	(69)	(16,434)	211,670

(note 7)

This appendix forms an integral part of note 6 of the consolidated annual accounts.

APPENDIX II
GRIFOLS, S.A. AND SUBSIDIARIES

Movement of intangible assets
for the year ended
31 December 2005
(Expressed in thousands of Euros)
(Free translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails.)

	Balance at 31/12/2004	Additions	Transfers	Disposals	Translation differences	Balance at 31/12/2005
Goodwill						
Goodwill	116,293	0	0	0	15,335	131,628
Accumulated amortisation of goodwill	(12,980)	0	0	0	(1,533)	(14,513)
Provisions						0
<i>Carrying amount of goodwill</i>	<i>103,313</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>13,802</i>	<i>117,115</i>
Other						
Development costs	28,423	5,103	0	(573)	79	33,032
Concessions, patents, licenses brands and similar	29,470	0	0	0	3,158	32,628
Software	11,509	1,115	151	(240)	235	12,770
Total cost other	69,402	6,218	151	(813)	3,472	78,430
Accum. amort. of development costs	(9,157)	(2,809)	0	202	0	(11,764)
Accum. Amort of concessions, patents, licenses, brands & similar	(7,370)	(1,895)	0	0	(608)	(9,873)
Accum. Amort. of software	(6,345)	(1,866)	0	238	(102)	(8,075)
Total Accum. amort other	(22,872)	(6,570)	0	440	(710)	(29,712)
<i>Carrying amount of other intangible assets</i>	<i>46,530</i>	<i>(352)</i>	<i>151</i>	<i>(373)</i>	<i>2,762</i>	<i>48,718</i>
TOTAL INTANGIBLE ASSETS	149,843	(352)	151	(373)	16,564	165,833

This appendix forms an integral part of note 6 of the consolidated annual accounts.

APPENDIX III
GRIFOLS, S.A. AND SUBSIDIARIES

Movement in property, plant and equipment
for the year ended
31 December 2006
(Expressed in thousands of Euros)

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

	Balances at 31/12/05		Business combinations				Transfers		Disposals		Translation differences		Balances at 31/12/06
Cost:													
Land and buildings	77,527	22	960	4,537	(29)	(2,349)						80,669	
Plant and machinery	95,657	1,489	2,699	12,859	(1,244)	(3,056)						108,404	
Other installations, equipment & furniture	75,418	7,901	2,842	4,053	(1,776)	(2,866)						85,572	
Other	27,084	4,873	2	129	(985)	(991)						30,112	
Under construction	20,768	10,839	5	(21,802)	(72)	(1,386)						8,352	
	<u>296,454</u>	<u>25,124</u>	<u>6,508</u>	<u>(224)</u>	<u>(4,105)</u>	<u>(10,648)</u>						<u>313,109</u>	
Accumulated depreciation:													
Buildings	(5,460)	(1,043)	(215)	224	28	130						(6,336)	
Plant and machinery	(44,197)	(9,661)	(1,996)	0	1,198	1,355						(53,301)	
Other installations, equipment & furniture	(40,061)	(7,373)	(676)	0	1,327	1,081						(45,702)	
Other	(20,115)	(4,164)	(1)	0	857	646						(22,777)	
	<u>(109,833)</u>	<u>(22,241)</u>	<u>(2,888)</u>	<u>224</u>	<u>3,410</u>	<u>3,212</u>						<u>(128,116)</u>	
Provisions:													
Provisions	0	0	0	0	0	0						0	
Carrying amount	186,621	2,883	3,620	0	(695)	(7,436)						184,993	
				(nota 6)									

This appendix forms an integral part of note 7 of the consolidated annual accounts.

APPENDIX III
GRIFOLS, S.A. AND SUBSIDIARIES

Movement in property, plant and equipment
for the year ended
31 December 2005
(Expressed in thousands of Euros)
(Free translation from the original in Spanish. In the event of discrepancy, the Spanish language version prevails.)

	Balances at 31/12/04	Additions	Transfers	Disposals	Translation differences	Balances at 31/12/05
Cost:						
Land and buildings	74,598	0	52	(60)	2,937	77,527
Plant and machinery	84,175	900	7,667	(258)	3,173	95,657
Other installations, equipment & furniture	63,437	3,192	7,617	(1,665)	2,837	75,418
Other	22,733	3,548	23	(485)	1,265	27,084
Under construction	19,780	15,017	(15,510)	(25)	1,506	20,768
	<u>264,723</u>	<u>22,657</u>	<u>(151)</u>	<u>(2,493)</u>	<u>11,718</u>	<u>296,454</u>
Accumulated depreciation:						
Buildings	(4,367)	(1,003)	0	0	(90)	(5,460)
Plant and machinery	(33,970)	(9,387)	0	191	(1,031)	(44,197)
Other installations, equipment & furniture	(33,527)	(6,292)	0	963	(1,205)	(40,061)
Other	(15,973)	(3,646)	0	393	(889)	(20,115)
	<u>(87,837)</u>	<u>(20,328)</u>	<u>0</u>	<u>1,547</u>	<u>(3,215)</u>	<u>(109,833)</u>
Provisions:						
Provisions	(69)	69	0	0	0	0
Carrying amount	<u>176,817</u>	<u>2,398</u>	<u>(151)</u>	<u>(946)</u>	<u>8,503</u>	<u>186,621</u>
			(nota 6)			

This appendix forms an integral part of note 7 of the consolidated annual accounts.

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

**Members of the Board of Directors with positions in companies with identical, similar or complementary statutory activities
31 December 2006**

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

Director	Company in which position held	Position
Dagà Gelabert, T.	Grifols, Inc.	Board member
Dagà Gelabert, T.	Biomat USA, Inc.	Board member
Dagà Gelabert, T.	PlasmaCare, Inc.	Board member
Duster, T. E.	Instituto Grifols, S.A.	Board member
Glanzmann, T.	Instituto Grifols, S.A.	Board member
Grifols Gras, J.A.	Instituto Grifols, S.A.	Board member
Grifols Roura, V.	Biomat, S.A.	Director
Grifols Roura, V.	Diagnostic Grifols, S.A.	Director
Grifols Roura, V.	Grifols Engineering, S.A.	Director
Grifols Roura, V.	Grifols International, S.A.	Director
Grifols Roura, V.	Grifols Viajes, S.A.	Director
Grifols Roura, V.	Instituto Grifols, S.A.	Director
Grifols Roura, V.	Laboratorios Grifols, S.A.	Chairman / Director / Managing director
Grifols Roura, V.	Logister, S.A.	Director
Grifols Roura, V.	Movaco, S.A.	Director
Grifols Roura, V.	Grifols Deutschland, GmbH	Director
Grifols Roura, V.	Grifols, Inc.	Board member
Grifols Roura, V.	Biomat USA, Inc.	Board member
Grifols Roura, V.	Grifols, s.r.o.	Director
Grifols Roura, V.	Grifols UK, Ltd.	Director
Grifols Roura, V.	Alpha Therapeutic UK, Ltd.	Director
Grifols Roura, V.	Alpha Therapeutic Europe, Ltd.	Director
Grifols Roura, V.	Grifols Portugal Produtos Farmacéuticos e Hospitalares, Lda.	Director
Grifols Roura, V.	Grifols France S.A.R.L.	Director
Grifols Roura, V.	Grifols Chile, S.A.	Co-manager
Grifols Roura, V.	Grifols Italia S.p.A.	Owner
Grifols Roura, V.	PlasmaCare, Inc.	Chairman
Purslow, C.M.C.	Instituto Grifols, S.A.	Chairman
Riera Roca, R.	Instituto Grifols, S.A.	Board member
Riera Roca, R.	Grifols International, S.A.	Board member
Riera Roca, R.	Grifols, Inc.	Director
Riera Roca, R.	Biomat USA, Inc.	Board member
Riera Roca, R.	Grifols Argentina, S.A.	Board member
Riera Roca, R.	Grifols Polska Sp.z.o.o.	Board member
Riera Roca, R.	Grifols France S.A.R.L.	Presidente
Riera Roca, R.	Grifols Chile, S.A.	Co-manager
Riera Roca, R.	Alpha Therapeutic Italia, S.p.A.	Owner
Riera Roca, R.	PlasmaCare, Inc.	Chairman
Twose Roura, J.I.	Grifols Engineering, S.A.	Board member
Twose Roura, J.I.	Instituto Grifols, S.A.	Director
Twose Roura, J.I.	Grifols, Inc.	Board member
Twose Roura, J.I.	Biomat USA, Inc.	Board member
Twose Roura, J.I.	PlasmaCare, Inc.	Board member

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

**Members of the Board of Directors with positions in companies with identical, similar or complementary statutory activities
31 December 2005**

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

Director	Company in which position held	Position
Bolin, J.	Instituto Grifols, S.A.	Board member
Daga Gelabert, T.	Grifols, Inc.	Board member
Daga Gelabert, T.	Biomat USA, Inc.	Board member
Duster, T. E.	Instituto Grifols, S.A.	Board member
Grifols Gras, J.A.	Instituto Grifols, S.A.	Board member
Grifols Roura, V.	Biomat, S.A.	Director
Grifols Roura, V.	Diagnostic Grifols, S.A.	Director
Grifols Roura, V.	Grifols Engineering, S.A.	Director
Grifols Roura, V.	Grifols International, S.A.	Director
Grifols Roura, V.	Grifols Viajes, S.A.	Director
Grifols Roura, V.	Instituto Grifols, S.A.	Chairman / Director / Managing director
Grifols Roura, V.	Laboratorios Grifols, S.A.	Director
Grifols Roura, V.	Logister, S.A.	Director
Grifols Roura, V.	Movaco, S.A.	Director
Grifols Roura, V.	Grifols Deutschland, GmbH	Director
Grifols Roura, V.	Grifols, Inc.	Board member
Grifols Roura, V.	Biomat USA, Inc.	Board member
Grifols Roura, V.	Grifols, s.r.o.	Director
Grifols Roura, V.	Grifols UK, Ltd.	Director
Grifols Roura, V.	Alpha Therapeutic UK, Ltd.	Director
Grifols Roura, V.	Alpha Therapeutic Europe, Ltd.	Director
Grifols Roura, V.	Grifols Portugal Produtos Farmaceuticos e Hospitalares, Lda.	Director
Grifols Roura, V.	Grifols France S.A.R.L.	Co-manager
Grifols Roura, V.	Grifols Chile, S.A.	Owner
Grifols Roura, V.	Grifols Italia S.p.A.	Chairman
Land, A.	Instituto Grifols, S.A.	Board member
Plost, B.	Instituto Grifols, S.A.	Board member
Purslow, C.M.C.	Instituto Grifols, S.A.	Board member
Riera Roca, R.	Grifols International, S.A.	Director
Riera Roca, R.	Instituto Grifols, S.A.	Board member
Riera Roca, R.	Grifols, Inc.	Board member
Riera Roca, R.	Biomat USA, Inc.	Board member
Riera Roca, R.	Grifols Argentina, S.A.	Chairman
Riera Roca, R.	Grifols Poliska Sp.z.o.o.	Chairman
Riera Roca, R.	Grifols France S.A.R.L.	Co-manager
Riera Roca, R.	Grifols Chile, S.A.	Owner
Riera Roca, R.	Alpha Therapeutic Italia, S.p.A.	Chairman
Twose Roura, J.I.	Grifols Engineering, S.A.	Director
Twose Roura, J.I.	Instituto Grifols, S.A.	Board member
Twose Roura, J.I.	Grifols, Inc.	Board member
Twose Roura, J.I.	Biomat USA, Inc.	Board member

DIRECTORS' REPORT

GRIFOLS, S.A. AND SUBSIDIARIES

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

To the Shareholders:

Grifols, S.A. is a Spanish holding and parent company of the Grifols Group operating in the pharmaceutical and healthcare field. Its activities are focused on research, development, manufacture and marketing of plasma derivatives, fluid therapy products, enteral nutrition, reagents, clinical analysis instruments and medical equipment.

At 2006 year end, Grifols' operating income amounted to Euros 648.8 million, marking a 23.7% increase on the prior year; while the 62.7% growth in sales in the USA is particularly noteworthy.

The consolidated operating profit for the year totals Euros 100.5 million, 36.6% up on the prior year's figure.

The Group has recorded a net consolidated profit of Euros 45.6 million, representing an increase of 79.1% compared to 2005.

On 2 March 2006, in line with its growth policy, the Group acquired PlasmaCare, an American company specialised in obtaining human plasma. Subsequently, on 1 April 2006, the Group purchased eight plasma centres from a Baxter subsidiary. These investments in vertical integration ensure a supply of raw materials to the Group which, together with its fractioning capacity, will enable it to continue expanding.

The Group has also continued to invest in manufacturing plants in both the Spanish and American markets, with a view to automating certain processes and increasing output.

Meanwhile, the necessary investments have been made for maintenance of our commercial branch offices and warehouses. During the first half of the year, relocation to the South branch (Seville) took place. This project had been initiated in the prior year.

In Research and Development, Grifols has continued to focus on improving activity in this field, giving priority to activities that enable new processing methods while incorporating the latest technology.

The Group's policies in this area have enabled it to obtain procedure patents and sanitary registers, enabling the different products to be used by patients.

On 22 December 2006, the US Food and Drug Administration (FDA) granted a licence to the Bioscience division for the marketing in the United States of a new generation of intravenous immunoglobulin (IVIG), known as Flebogamma DIF. This drug will be manufactured at the Group's new IVIG production plant in Parets del Vallés

GRIFOLS, S.A. AND SUBSIDIARIES

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(Barcelona), which was constructed in 2004 specifically for this purpose and which has also been approved by the FDA.

At the end of January 2007, the Group received FDA approval to market its hemo-derivative, Alphanate (factor VIII), for treatment of the Von Willebrand disease. Alphanate is the first and only high-purity, factor VIII and Von Willebrand factor complex concentrate, with a double inactivation stage during the production process, to be awarded an FDA licence for the treatment of the Von Willebrand disease.

This division plans to increase the number of clinical studies with a view to registering new products and obtaining new usage indications for certain products already registered.

In Hospital division R&D activities, development and validation of the third generation Grifill has concluded. The Grifill is a machine designed to facilitate sterile intravenous mixing in hospital pharmacy and is commercialised in the Spanish and US markets.

During 2007, there are plans to file registers for new lipid emulsions and “All in One” nutrition bags for parenteral nutrition.

Furthermore, in the Diagnostic division work has continued on the new auto analyser, designed to perform immunohematological tests on gel cards. The significant working capacity and level of autonomy of this instrument should be highlighted.

At a commercial level, Bioscience division sales are up 21% on 2005 while Raw Material division sales figures have risen by 263%. The increase in the Bioscience division is due to greater unit sales coupled with higher selling prices. The rise recorded in the Raw Materials division reflects the incorporation into the Group of PlasmaCare, with third-party sales of Euros 31 million.

Market share is expected to be maintained in 2007 and we will promote our currently marketed lines as well as new launches from the various divisions.

In the Hospital division, Laboratorios Grifols, S.A. has planned the final launch of Grifill 3.0, a unique and innovative system that automates the preparation of intravenous mixtures and, particularly, cytostatic preparations. This system will enable us to provide hospital pharmacy with a new range of products in the intravenous therapy and oncology fields.

Finally, the Diagnostic division has scheduled the launch of a new automatic instrument for Q-coagulation, manufactured by Diagnostic Grifols, S.A., which should enable us to gain considerable ground in terms of market share in the Haemostasis segment. We will also add new techniques to our portfolio, particularly in the Microbiology and Immunology areas. Alongside existing techniques, these will serve to meet the notable technological demand in this sector.

GRIFOLS, S.A. AND SUBSIDIARIES

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All of the above enables us to forecast an optimistic and profitable year, thus upholding the Group's customary performance.

The Group'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 Group has taken the necessary measures to mitigate any possible effects arising from the aforementioned events.

Details of transactions with treasury shares during 2006 are provided in notes 14 and 32 (c) to the accompanying consolidated annual accounts.

GRIFOLS, S.A. AND SUBSIDIARIES

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

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 OI0377624 to OI0377746.

Parets del Vallés, 16 February 2007

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)