

GRIFOLS, S.A. and Subsidiaries

Consolidated Annual Accounts prepared under EU-endorsed
International Financial Reporting Standards
and Consolidated Directors' Report

31 December 2008

(With Auditors' Report thereon)

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



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

Auditors' Report on the 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 2008, 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 2008. On 14 February 2008 we issued our unqualified audit report on the consolidated annual accounts for 2007.

In our opinion, these consolidated annual accounts for 2008 present fairly, in all material respects, the consolidated shareholders' equity and consolidated financial position of Grifols, S.A. and subsidiaries at 31 December 2008, 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 2008 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 2008. 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)

23 February 2009

GRIFOLS, S.A. AND SUBSIDIARIES

Consolidated Annual Accounts

31 December 2008 and 2007

SUMMARY

(Free translation from the original in Spanish.

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

- **Consolidated financial statements**
 - Balance Sheets
 - Income Statements
 - Statement of Cash Flows
 - Statement of Changes in Equity

- **Notes**
 - (1) Nature, Principal Activities and Subsidiaries
 - (2) Basis of preparation
 - (3) Accounting and Valuation Principles Applied
 - (4) Financial Risk Management
 - (5) Segment Reporting
 - (6) Goodwill
 - (7) Other Intangible Assets
 - (8) Property, Plant and Equipment
 - (9) Other Financial Assets
 - (10) Deferred Tax Assets and Liabilities
 - (11) Inventories
 - (12) Trade and Other Receivables
 - (13) Public Entities
 - (14) Equity
 - (15) Earnings per Share
 - (16) Minority Interests
 - (17) Provisions
 - (18) Financial Liabilities
 - (19) Other Liabilities
 - (20) Trade and Other Payables
 - (21) Revenues
 - (22) Personnel Expenses
 - (23) Other Operating Income and Expenses
 - (24) Finance Income and Expense
 - (25) Income Tax
 - (26) Operating Leases
 - (27) Other Commitments with Third Parties and Other Contingent Liabilities and Assets
 - (28) Financial Instruments
 - (29) Balances and Transactions with Related Parties
 - (30) Environment
 - (31) Other Information
 - (32) Subsequent Events

GRIFOLS, S.A. AND SUBSIDIARIES

Consolidated Annual Accounts

31 December 2008 and 2007

SUMMARY

(Free translation from the original in Spanish.

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

- **Appendices**

- Appendix I Business Segments
- Appendix II Changes in Goodwill and Other Intangible Assets
- Appendix III Changes in Property, Plant and Equipment
- Appendix IV Non-current loans and borrowings
- Appendix V Members of the Board of Directors with Posts in companies with identical, similar or complementary activities

GRIFOLS, S.A. AND SUBSIDIARIES

Consolidated balance sheets

31 December 2008 and 2007

(In thousands of Euros)

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

| Assets | 31/12/08 | 31/12/07 |
|--|------------------|----------------|
| Non-current assets | | |
| Goodwill (note 6) | 158,567 | 150,243 |
| Other intangible assets (note 7) | 57,756 | 57,223 |
| Property, plant and equipment (note 8) | 301,009 | 201,332 |
| Investments in equity accounted investees (note 9) | 374 | 243 |
| Non-current financial assets (note 9) | 1,636 | 891 |
| Deferred tax assets (note 10) | 34,297 | 34,110 |
| Total non-current assets | 553,639 | 444,042 |
| Current assets | | |
| Inventories (note 11) | 373,098 | 270,659 |
| Trade and other receivables (note 12) | 212,592 | 205,256 |
| Other current financial assets (note 9) | 6,680 | 7,600 |
| Current tax assets (note 13) | 5,428 | 2,402 |
| Other receivables from public entities (note 13) | 22,434 | 3,920 |
| Cash and cash equivalents | 6,368 | 5,690 |
| Total current assets | 626,600 | 495,527 |
| Total assets | 1,180,239 | 939,569 |

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

GRIFOLS, S.A. AND SUBSIDIARIES

Consolidated balance sheets 31 December 2008 and 2007 (In thousands of Euros)

| Equity and liabilities | 31/12/08 | 31/12/07 |
|---|------------------|----------------|
| Equity | | |
| Share capital | 106.532 | 106.532 |
| Share premium | 121.802 | 131.832 |
| Reserves | 247.669 | 184.608 |
| Treasury shares | (33.087) | (28.893) |
| Profit for the year attributable to the Parent | 121.728 | 87.774 |
| | <hr/> | <hr/> |
| Total equity (note 14) | 564.644 | 481.853 |
| Available-for-sale financial assets | (158) | (152) |
| Translation differences | (84.457) | (98.516) |
| Total adjustments due to changes in value (note 14) | (84.615) | (98.668) |
| | <hr/> | <hr/> |
| Equity attributable to the Parent | 480.029 | 383.185 |
| Minority interest (note 16) | 1.250 | 981 |
| | <hr/> | <hr/> |
| Total equity | 481.279 | 384.166 |
| Liabilities | | |
| Non-current liabilities | | |
| Provisions (note 17) | 3.045 | 999 |
| Non-current financial liabilities (note 18) | | |
| Loans and borrowings, bonds and other marketable securities | 311.513 | 178.425 |
| Other financial liabilities | 12.542 | 11.064 |
| | <hr/> | <hr/> |
| Total non-current financial liabilities | 324.055 | 189.489 |
| Deferred tax liabilities (note 10) | 51.969 | 43.794 |
| Other non-current liabilities (note 19) | 2.353 | 4.545 |
| | <hr/> | <hr/> |
| Total non-current liabilities | 381.422 | 238.827 |
| Current liabilities | | |
| Provisions (note 17) | 3.830 | 3.957 |
| Current financial liabilities (note 18) | | |
| Loans and borrowings, bonds and other marketable securities | 147.547 | 177.540 |
| Other financial liabilities | 9.685 | 9.555 |
| | <hr/> | <hr/> |
| Total current financial liabilities | 157.232 | 187.095 |
| Trade and other payables (note 20) | 107.613 | 90.790 |
| Other current liabilities (note 19) | 23.433 | 19.568 |
| Current tax liabilities (note 13) | 16.362 | 3.770 |
| Other payables to public entities (note 13) | 9.068 | 11.396 |
| | <hr/> | <hr/> |
| Total current liabilities | 317.538 | 316.576 |
| | <hr/> | <hr/> |
| Total liabilities | 698.960 | 555.403 |
| | <hr/> | <hr/> |
| Total equity and liabilities | 1.180.239 | 939.569 |

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

GRIFOLS, S.A. AND SUBSIDIARIES

Consolidated Income Statements for the years ended 31 December 2008 and 2007

(Expressed in thousands of Euros)

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

| Profit and loss | 31/12/08 | 31/12/07 |
|--|-----------------|-----------------|
| Net sales and services rendered (note 21) | 814,311 | 703,291 |
| Purchases and changes in inventories (note 11) | (175,680) | (179,426) |
| Supplies | (206,738) | (196,308) |
| Change in inventories of finished goods and work in progress | 31,058 | 16,882 |
| Personnel expenses (note 22) | (238,159) | (209,049) |
| Amortisation and depreciation (notes 7 & 8) | (33,256) | (31,528) |
| Other operating expenses/income | (164,255) | (136,934) |
| Other operating income (note 23) | 3,683 | 2,322 |
| Other operating expenses (note 23) | (194,682) | (158,273) |
| Work performed by the Group and capitalised | 25,794 | 19,860 |
| Government grants for non-financial assets and others | 2,941 | 282 |
| Impairment and losses on disposal of fixed assets | (1,991) | (1,125) |
| Results from operating activities | 202,961 | 146,354 |
| Finance income | 2,682 | 4,526 |
| Finance expenses | (29,305) | (23,523) |
| Change in fair value of financial instruments | (1,268) | 829 |
| Exchange losses | (2,825) | (4,618) |
| Net finance expense (note 24) | (30,716) | (22,786) |
| Share of profit of equity accounted investments (note 9) | 24 | 19 |
| Profit before income tax | 172,269 | 123,587 |
| Income tax expense (note 25) | (50,153) | (35,239) |
| Profit after income tax | 122,116 | 88,348 |
| Profit attributable to equity holders of the Parent | 121,728 | 87,774 |
| Profit attributable to minority interest (note 16) | 388 | 574 |
| Consolidated profit for the year | 122,116 | 88,348 |
| Basic earnings per share (euros) | 0.578 | 0.414 |
| Diluted earnings per share (euros) | 0.578 | 0.414 |

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

GRIFOLS, S.A. AND SUBSIDIARIES

Consolidated Statement of Cash Flows for the years ended 31 December 2008 and 2007

(Expressed in thousands of Euros)

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

| | 31/12/08 | 31/12/07 |
|---|------------------|-----------------|
| <u>Cash flows from operating activities</u> | | |
| Net profit | 122,116 | 88,348 |
| Profit / (losses) on equity accounted investments | (24) | (19) |
| Amortisation and depreciation | 33,256 | 31,528 |
| Exchange differences | 2,825 | -- |
| Net provisions for liabilities and charges | 1,994 | 156 |
| Profit / (loss) on disposal of fixed assets | 2,001 | 1,073 |
| Government grants taken to income | (2,943) | (283) |
| Deferred tax assets / liabilities | 6,987 | 6,485 |
| Finance expense / income | 27,891 | 18,168 |
| Income tax expense | 43,166 | 28,754 |
| Operating profit prior to changes | 237,269 | 174,210 |
| Change in inventories | (98,520) | (45,516) |
| Change in receivables | (7,951) | (11,819) |
| Change in current investments | 405 | (880) |
| Change in current payables | 19,516 | 17,833 |
| | (86,550) | (40,382) |
| Cash generated from operations | 150,719 | 133,828 |
| Interest paid | (23,759) | (16,649) |
| Income tax paid / recovered | (53,551) | (28,535) |
| | (77,310) | (45,184) |
| Net cash from operating activities | 73,409 | 88,644 |
| <u>Cash flows from investing activities</u> | | |
| Sale of assets | 157 | 894 |
| Business combinations | (632) | (17,077) |
| Acquisition of assets | (130,291) | (54,531) |
| Net cash used in investing activities | (130,766) | (70,714) |
| <u>Cash flows from financing activities</u> | | |
| Purchase / sale of treasury shares | (4,211) | (28,893) |
| Additions / settlement of loans / debts | 96,348 | (552) |
| Dividends paid | (34,792) | (12,805) |
| Translation differences | 1,034 | 4,122 |
| Net cash used in financing activities | 58,379 | (38,128) |
| Net increase in cash and cash equivalents | 1,022 | (20,198) |
| Cash and cash equivalents at beginning of the year | 5,690 | 26,883 |
| Effect of exchange rate changes on cash held | (344) | (995) |
| Cash and cash equivalents at close of year | 6,368 | 5,690 |

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

**Consolidated Statement of Changes in Equity
for the years ended 31 December 2008 and 2007**

(Expressed in thousands of Euros)

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

| | Attributable to equity holders of the Parent | | | | | | | Equity | | |
|---|--|---------------|----------------|-------------------------------|-----------------|-------------------------|-------------------------------------|----------|-------------------------------|--------------------|
| | Share capital | Share premium | Other reserves | Profit attributable to Parent | Treasury Shares | Translation differences | Available-for-sale financial assets | | Equity attributable to Parent | Minority Interests |
| Balances at 31 December 2006 | 106,532 | 131,832 | 152,260 | 45,394 | 0 | (68,022) | (52) | 367,944 | 408 | 368,352 |
| <i>Changes in equity in 2007</i> | | | | | | | | | | |
| Foreign currency translation differences | -- | -- | -- | -- | -- | (30,494) | -- | (30,494) | 8 | (30,486) |
| Available-for-sale financial assets Gains/(losses) recognised in equity | -- | -- | -- | -- | -- | -- | (100) | (100) | -- | (100) |
| Net income and expenses recognised directly in equity | 0 | 0 | 0 | 0 | 0 | (30,494) | (100) | (30,594) | 8 | (30,586) |
| Profit/(loss) for the year | -- | -- | -- | 87,774 | -- | -- | -- | 87,774 | 574 | 88,348 |
| Total income and expense recognised directly in the year | 0 | 0 | 0 | 87,774 | 0 | (30,494) | (100) | 57,180 | 582 | 57,762 |
| Operations with treasury shares | -- | -- | -- | -- | (28,893) | -- | -- | (28,893) | -- | (28,893) |
| Other changes | -- | -- | (241) | -- | -- | -- | -- | (241) | (9) | (250) |
| Distribution of 2006 profit | -- | -- | 32,589 | (32,589) | -- | -- | -- | 0 | -- | 0 |
| Reserves | -- | -- | -- | (12,805) | -- | -- | -- | (12,805) | -- | (12,805) |
| Dividends | -- | -- | -- | -- | -- | -- | -- | -- | -- | -- |
| Balances at 31 December 2007 | 106,532 | 131,832 | 184,608 | 87,774 | (28,893) | (98,516) | (182) | 383,185 | 981 | 384,166 |
| <i>Changes in equity 2008</i> | | | | | | | | | | |
| Foreign currency translation differences | -- | -- | -- | -- | -- | 14,059 | -- | 14,059 | (104) | 13,955 |
| Available-for-sale financial assets Gains/(losses) recognised in equity | -- | -- | -- | -- | -- | -- | (6) | (6) | -- | (6) |
| Net income and expenses recognised directly in equity | 0 | 0 | 0 | 0 | 0 | 14,059 | (6) | 14,053 | (104) | 13,949 |
| Profit/(loss) for the year | -- | -- | -- | 121,728 | -- | -- | -- | 121,728 | 388 | 122,116 |
| Total income and expense recognised directly in the year | 0 | 0 | 0 | 121,728 | 0 | 14,059 | (6) | 135,781 | 284 | 136,065 |
| Operations with treasury shares | -- | -- | 24 | -- | (4,194) | -- | -- | (4,170) | -- | (4,170) |
| Other changes | -- | -- | -- | -- | -- | -- | -- | 0 | (15) | (15) |
| Distribution of 2007 profit | -- | -- | 63,037 | (63,037) | -- | -- | -- | 0 | -- | 0 |
| Reserves | -- | -- | -- | (24,737) | -- | -- | -- | (24,737) | -- | (24,737) |
| Dividends | -- | (10,030) | -- | -- | -- | -- | -- | -- | -- | -- |
| Balances at 31 December 2008 | 106,532 | 121,802 | 247,669 | 121,728 | (33,087) | (84,457) | (158) | 480,029 | 1,250 | 481,279 |

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

GRIFOLS, S.A. AND SUBSIDIARIES

Notes to the Consolidated Annual Accounts

(Free translation from the original in Spanish.

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

(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. Its registered and tax offices are in Barcelona (Spain). The Company's authorised activity under its by-laws consists of providing administrative, management and control 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 business locations are in Barcelona, Parets del Vallès (Barcelona) and Torres de Cotilla (Murcia), while the American companies' are located in Los Angeles.

(b) Subsidiaries

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

- Industrial area

The following companies are included:

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

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 pharmaceutically registered haemoderivative products.

GRIFOLS, S.A. AND SUBSIDIARIES

Notes to the Consolidated Annual Accounts

(Free translation from the original in Spanish.

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

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 pouches and equipment. 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 services to hospital transfusion centres for plasma virus inactivation (I.P.T.H.).

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 premises. 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 Vallès, 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 owned directly by Movaco, S.A.

Biomat USA, Inc. with registered offices in 1209, Orange Street, Wilmington, New Castle (Delaware Corporation) (USA), was incorporated into the Group on 1 March 2002 and carries out its activities in the area of bioscience, procuring human plasma. Since 1 November 2007, this company's share capital is held by Instituto Grifols, S.A. and Grifols, Inc.

Grifols Biologicals, Inc., with registered offices in 15 East North Street, Dover, (Delaware) (USA), 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.

Plasmacare, Inc., with registered offices at 1209 Orange Street, County of New Castle, Wilmington, Delaware 19801 (USA). This company joined the Group on 3 March 2006 and its activity, in the bioscience area, consists of obtaining human plasma. Since 1 November 2007, part of this company's share capital is owned by Instituto Grifols, S.A. and Grifols Inc. It was 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.

GRIFOLS, S.A. AND SUBSIDIARIES

Notes to the Consolidated Annual Accounts

(Free translation from the original in Spanish.

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

Plasma Collection Centers, Inc with registered offices at 1209 Orange Street, County of New Castle, Wilmington, Delaware 19801 (USA) was incorporated on 2 March 2007. Its activity, in the bioscience area, consists of obtaining human plasma. 100% of this company's share capital is held directly by Biomat USA Inc, (see note 1 d.2).

- Commercial area

The companies responsible for the marketing and distribution of, mainly, products manufactured by the industrial companies are all grouped in this area.

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 Vallès, 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 manages 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, principally 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 by-laws comprises the development of pharmaceutical businesses, which can involve the import, production, marketing and export of related products.

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 by-laws 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.A. AND SUBSIDIARIES

Notes to the Consolidated Annual Accounts

(Free translation from the original in Spanish.

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

Grifols s.r.o. was incorporated with limited liability under Czech Republic law on 15 December 1992. Its registered offices are at Zitná 2, Praga (Czech Republic) and its authorised activity under its by-laws consists of the purchase, sale and distribution of chemical-pharmaceutical products, including human plasma.

Logística Grifols, S.A. de C.V (formerly **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 by-laws comprises the manufacture and marketing of pharmaceutical products for human and veterinary use. On 6 May 2008 Grifols Mexico S.A. de C.V. was spun off into two companies and its name was changed to Logística Grifols S.A. de C.V.

Grifols México, S.A. de C. V. was incorporated with limited liability under Mexican law on 6 May 2008, as a result of the spin off of an activity of the former company Grifols Mexico S.A. de C.V. Its registered offices are at calle Eugenio Cuzin nº 909, Parque Industrial Belenes Norte, 45150 Zapopan, Jalisco (Mexico). Its authorised activity under its by-laws comprises the production, manufacture, adaptation, conditioning, sale and purchase, commissioning, representation and consignment of all kinds of pharmaceutical products and the acquisition of machinery, equipment, raw materials, tools, assets and property for the aforementioned purposes.

Grifols USA, LLC. 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 by-laws is any activity permitted by US legislation. This company is directly owned by Grifols Biologicals, 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 by-laws 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, S.A. AND SUBSIDIARIES

Notes to the Consolidated Annual Accounts

(Free translation from the original in Spanish.

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

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 by-laws 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 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 by-laws consists of the import and export, preparation, distribution and sale of pharmaceutical and chemical products for laboratory and of 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 authorised activity under its by-laws is the distribution 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 rendered technical, financial and marketing services to other Group companies. This company was wound up at 31 December 2007.

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 was directly owned by Alpha Therapeutic Europe, Ltd. This company was wound up at 31 December 2007.

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 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, S.A. AND SUBSIDIARIES

Notes to the Consolidated Annual Accounts

(Free translation from the original in Spanish.

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

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.

- Services area

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.

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.

Arrahona Optimus, S.L., with registered offices in Gràcia 33, 08201 Sabadell was incorporated into the Group on 28 August 2008. Its authorised activity under its by-laws involves the development and construction of offices and business premises. Its sole asset is the office complex under construction which is located in the municipality of Sant Cugat del Vallés.

(c) Associates

Associates 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. This company is accounted for under the equity method.

GRIFOLS, S.A. AND SUBSIDIARIES

Notes to the Consolidated Annual Accounts

(Free translation from the original in Spanish.

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

(d) Business combinations

d.1 Acquisition of plasma centres

On 1 April 2008 the Group acquired through Biomat Usa, Inc. one plasma centre in the USA from AmeriHealth Plasma LLC.

The business combination cost includes a contingent price of Euros 1,328 thousand which depends on the number of litres of certain products obtained during the following three years. The contingent price has been determined based on the present value of the estimated payments during the aforementioned period.

Details of the aggregate 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) at the acquisition date are as follows:

| | Thousands of Euros |
|---|--------------------|
| Cost of combination | |
| Cash paid | 632 |
| Fair value of deferred payment | 1,743 |
| Total cost of combination | 2,375 |
| Fair value of net assets acquired | 3 |
| Goodwill (excess of net assets acquired over cost of acquisition) | 2,372 |
| | (see note 6) |

Goodwill generated in the acquisition is attributed to the synergies and other expected benefits from the business combination with the assets and activities of the Group.

Had the acquisition taken place at 1 January 2008, the Group's revenue and consolidated profit for the year would not have varied significantly.

GRIFOLS, S.A. AND SUBSIDIARIES

Notes to the Consolidated Annual Accounts

(Free translation from the original in Spanish.

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

d.2 Acquisition of Plasma Collection Centers, Inc.

On 2 March 2007 the US company Plasma Collection Centers, Inc. (hereinafter PCCI) was incorporated for the purpose of acquiring four plasma collection centres from a company called Biomedics, Inc. Biomat USA Inc., a Grifols, S.A. Group company, 100% owned by the Group, subscribed at par value, all the class A shares issued by PCCI. Class A shares confer all voting rights in PCCI according to its articles of association. For this reason, Biomat USA, Inc. has control over PCCI. Biomedics Inc. contributed four plasma collection centres in exchange for all the preferential class B shares (without voting rights) of PCCI. Class A and B shares of PCCI have the same number and same par value per share. Biomat USA Inc. and the sellers established the purchase price of PCCI's class B shares at US\$ 21,700 thousand (equivalent to approximately Euros 17,077 thousand). The payment of this amount was structured, with the consent of Biomedics Inc., through a third party which guaranteed the success of the transaction by pledging class B shares in favour of Biomat USA Inc. From the purchase price agreed, US\$ 5,000 thousand (Euros 3,397 thousand at 31 December 2007) was payable at 31 December 2007, subject to the fulfilment of certain health authorisations of minor importance relating to the transaction. This amount has been settled in June 2008 (see note 18). Since 2007 the Group reflects this transaction as the acquisition of the plasma collection business and consolidates PCCI fully consolidated with no minority interest to reflect the economic substance of the transaction.

On 3 December 2008 all the rights of the class B shares have been transferred to Biomat USA, Inc. Therefore, at 31 December 2008 Biomat USA holds 100% of the share capital of PCCI (class A and B shares).

Plasma Collection Centers Inc. has registered offices at 1209 Orange Street, County of New Castle, Wilmington, Delaware 19801 (USA) and its principal activity consists of collecting human plasma. The business acquired incurred a consolidated loss of Euros 63 thousand for the Group during the period between the acquisition date and the 2007 year end.

GRIFOLS, S.A. AND SUBSIDIARIES

Notes to the Consolidated Annual Accounts

(Free translation from the original in Spanish.

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

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

| | Thousands of Euros |
|--|--------------------|
| Cost of combination | |
| Fair value of instruments issued | 17,077 |
| Total cost of combination | 17,077 |
| Fair value of net assets acquired | 971 |
| Goodwill (excess of net assets acquired over cost of acquisition) | 16,106 |
| | (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 2008 have been prepared under International Financial Reporting Standards as adopted by the European Union (EU-IFRS) to present fairly the consolidated equity and consolidated financial position of Grifols, S.A. and subsidiaries at 31 December 2008, as well as the consolidated results from their operations, their consolidated cash flows and changes in consolidated equity for the year then ended.

The Group adopted EU-IFRS for the first time on 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:

- Derivative financial instruments, which are carried at fair value through profit or loss, and available-for-sale financial assets, which have been recognised at fair value.

GRIFOLS, S.A. AND SUBSIDIARIES

Notes to the Consolidated Annual Accounts

(Free translation from the original in Spanish.

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

(b) Comparison of information

The consolidated annual accounts comprise the consolidated balance sheet and consolidated statements of income, cash flow and changes in equity and the consolidated notes thereto for 2008 and include comparative data for 2007, which was obtained through consistent application of EU-IFRS. The balance sheet and income statement figures for 2007 have been reclassified to adapt their presentation to the format prescribed by the Spanish National Securities Market Commission (CNMV).

The Group's accounting policies detailed in note 3 have been consistently applied to the years ended 31 December 2008 and 2007.

(c) Relevant accounting estimates, assumptions and judgements

Preparation of the consolidated annual accounts under EU-IFRS 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 3 (f)).
- Measurement of assets and goodwill to determine any related impairment losses (see note 3(d)).
- Useful lives of property, plant and equipment and intangible assets (see notes 3(b) and 3(c)).
- Evaluation of the capitalisation of development costs (see note 3 (c)).
- Evaluation of provisions and contingencies (see note 3(l)).

(d) Basis of consolidation

The percentages of direct or indirect ownership of subsidiaries by the Parent at 31 December 2008 and 2007, 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

(Free translation from the original in Spanish.

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

| | 31/12/08 | | 31/12/07 | |
|--|---------------------|----------|---------------------|----------|
| | 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 | -- |
| Logistica Mexico S.A de C.V | 100.000 | -- | 100.000 | -- |
| Grifols México,S.A. de C.V. | 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 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 | -- | 100.000 |
| Plasma Collection Centers, Inc. | -- | 100.000 | -- | 50.000 |
| Arrahona Optimus SL | 100.000 | -- | -- | -- |

GRIFOLS, S.A. AND SUBSIDIARIES

Notes to the Consolidated Annual Accounts

(Free translation from the original in Spanish.

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

| | 31/12/08 | | 31/12/07 | |
|--|---------------------|----------|---------------------|----------|
| | Percentage interest | | Percentage interest | |
| | Direct | Indirect | Direct | Indirect |
| Companies accounted for using the equity method | | | | |
| Quest International, Inc. | -- | 35.000 | -- | 35.000 |

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.

Although the Group holds 30% of the shares with voting rights of Grifols Malaysia Sdn Bhd, it controls the majority of the political and voting rights of Grifols Malaysia Sdn Bhd through a contract with the other shareholder and a pledge on its shares.

Grifols (Thailand) Ltd. has two classes of shares and it grants the majority of voting rights to the class of shares held by the Group.

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 based on the closing exchange rate. Accordingly, all assets, rights and liabilities are converted to Euros using the prevailing year-end exchange rate. Respective income statement items are translated to Euros at the average exchange rate for the period. The difference between equity, including the profit and loss balances of each period, translated at the historical exchange rate, and the net equity 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 financial statements of subsidiaries refer to the same period as those of Grifols, S.A. and have been prepared using the same accounting policies.

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

GRIFOLS, S.A. AND SUBSIDIARIES

Notes to the Consolidated Annual Accounts

(Free translation from the original in Spanish.

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

(e) Changes to EU-IFRS in 2008

The following financial reporting standards (IFRS) and interpretations (IFRIC) have come into force in the accounting period starting 1 January 2008 but are not relevant to the Group:

- IFRIC 11 IFRS 2 – Group and treasury share transactions.
- IFRIC 12 – Service concession arrangements (pending adoption by the EU).
- IFRIC 14 IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction (pending adoption by the EU).

New financial reporting standards (IFRS) and interpretations (IFRIC) have been issued, which are expected to come into force for accounting years starting 1 January 2009, or thereafter.

- IFRS 8 – Operating segments.
- Changes to IAS 23 – Borrowing costs.
- Changes to IAS 1 – Presentation of financial statements (pending adoption by the EU).
- IFRIC 13 – Customer loyalty programmes.

There also exist certain standards and interpretations which have not been adopted by the EU which entered into force in 2008 or thereafter and which have not been adopted by the Group.

- IAS 27 “Consolidated and separate financial statements”.
- IAS 32 and IAS 1 “Puttable instruments and obligations arising on liquidation”.
- Amendments in IAS 27 and IFRS 1 “Cost of an investment in a subsidiary, jointly controlled entity or associate”.
- Amendments in IFRS 2 “Vesting conditions and cancellations”.
- IFRS 3 revised: “Business combinations”.
- IFRIC 15 “Agreements for the construction of real estate”
- IFRIC 16 “Hedges of a net investment in a foreign operation”

The Company’s directors do not expect that the impact of applying where applicable these standards and interpretations in the preparation of future consolidated annual accounts will be significant.

GRIFOLS, S.A. AND SUBSIDIARIES

Notes to the Consolidated Annual Accounts

(Free translation from the original in Spanish.

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

(3) 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.

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

Foreign currency transactions are converted into the functional currency using the previous month's exchange rate for all transactions during the current month. This method does not differ significantly from applying the exchange rate at the date of the transaction.

Monetary assets and liabilities expressed in foreign currencies have been translated into Euros at the closing rate, whereas non-monetary assets and liabilities measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets that are measured at fair value in a foreign currency are translated to Euros using the exchange rates at the date when the fair value was determined.

Cash flows arising from transactions in a foreign currency are translated into Euros in the consolidated cash flow statement at the exchange rate prevailing at the transaction date. The effect of exchange rate changes on cash and cash equivalents held in a foreign currency is reported separately in the statement of cash flows as "Effect of exchange rate changes on cash held".

Exchange differences on settlement of transactions in foreign currency or on converting monetary items expressed in foreign currency to Euros are recognised in profit and loss. However, exchange differences arising on a monetary item which forms part of the net investment in a foreign business, the functional currency of which is that of the country in which the registered offices are located, are recognised as translation differences in equity.

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

GRIFOLS, S.A. AND SUBSIDIARIES

Notes to the Consolidated Annual Accounts

(Free translation from the original in Spanish.

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

(iii) *Translation of foreign operations*

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

- Assets and liabilities, including goodwill and adjustments to net assets arising on the acquisition of foreign operations, including comparatives, are translated at the closing rate at each balance sheet date.
- Income and expenses, including comparatives, are translated at the average exchange rates of the previous month for all income and expenses in the current month. This method does not differ significantly from applying the exchange rate at the date of the transaction.
- All resulting exchange differences are recognised as translation differences in equity.

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

(b) **Property, plant and equipment**

(i) *Initial recognition*

Property, plant and equipment is measured at cost or deemed 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 corresponding credit to the caption "self-constructed assets" in the consolidated income statement.

At 1 January 2004 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.

GRIFOLS, S.A. AND SUBSIDIARIES

Notes to the Consolidated Annual Accounts

(Free translation from the original in Spanish.

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

(ii) Depreciation

Depreciation of items of property, plant and equipment is calculated using a systematic over their estimated useful lives. The depreciable amount of items of property, plant and equipment is the cost of acquisition or deemed 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 reviews residual values, useful lives and depreciation methods at each financial year-end. Changes to the initially established criteria are accounted for as a change in estimate.

(iii) Subsequent recognition

After initial recognition of the asset, only those costs incurred which will probably generate future economic benefits and for which the amount may be measured reliably are capitalised. Maintenance costs are expensed as they are incurred.

Replacements of property, plant and equipment which meet the requirements for capitalisation are recognised with a reduction in the carrying amount of the items replaced. Where the cost of the replaced items has not been depreciated separately and it has not been practicable to determine the carrying amount of the replaced items, the cost of the replacement is used as an indication of what the cost of items was at the time they were acquired or constructed.

(iv) Impairment

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

GRIFOLS, S.A. AND SUBSIDIARIES

Notes to the Consolidated Annual Accounts

(Free translation from the original in Spanish.

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

(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 EU-IFRS, have been recognised using the acquisition method. Acquisitions of entities prior to that date have been recognised in accordance with Spanish GAAP then prevailing, after considering any corrections and adjustments required at the transition date.

Goodwill is not amortised, but tested for impairment annually or more frequently if events indicate a potential impairment loss. Goodwill acquired in 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. After initial recognition, goodwill is carried at cost less any accumulated impairment losses.

(ii) Internally generated intangible assets

Any research and development expenditure incurred during the research phase of projects is recognised as an expense when incurred.

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 future 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, modifications thereto and costs actually assigned to different projects to be monitored.

GRIFOLS, S.A. AND SUBSIDIARIES

Notes to the Consolidated Annual Accounts

(Free translation from the original in Spanish.

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

The cost of internally generated 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 "work performed by the Group for own non-current assets" and capitalised 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 carried at cost, less accumulated amortisation and impairment losses.

(iv) *Useful life and amortisation rates*

The Group evaluates whether the useful life of each intangible asset acquired is finite 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 is expected to generate net cash inflows.

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

Intangible assets with finite useful lives are amortised on a systematic basis in accordance with the following criteria:

| | Amortisation method | Years of useful life |
|--|---------------------|----------------------|
| Development costs | Straight line | 3 - 5 |
| Concessions, patents, licences, trademarks & similar | Straight line | 5 |
| Software | Straight line | 3 - 6 |

The depreciable amount of an intangible asset is the cost or deemed cost less its residual value.

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

GRIFOLS, S.A. AND SUBSIDIARIES

Notes to the Consolidated Annual Accounts

(Free translation from the original in Spanish.

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

(v) Impairment

The Group tests for impairment and reversals of impairment losses on intangible assets based on the criteria set out in note 7.

(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.

Apart from the existence of any indication of impairment, the Group tests for possible impairment of goodwill, intangible assets with indefinite useful lives, and intangible assets not yet available for use, at least annually.

The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. An asset's value in use is calculated based on an estimate of the future cash flows expected to derive from the use of the asset, expectations about 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 deriving from the asset.

Negative differences arising from comparing carrying amounts of assets with their recoverable amounts are recognised in consolidated profit or loss.

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

Impairment losses recognised for cash-generating units are first allocated to reduce, where applicable, the carrying amount of goodwill allocated to the CGU and then to the other assets of the CGU pro rata on the basis of the carrying amount of each asset. The carrying amount of each asset may not be reduced below the higher of the following values: its fair value less costs to sell, its value in use, and zero.

The Group assesses at the end of each reporting period 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 in the estimates used to determine the asset's recoverable amount.

GRIFOLS, S.A. AND SUBSIDIARIES

Notes to the Consolidated Annual Accounts

(Free translation from the original in Spanish.

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

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 recognised.

The reversal of an impairment loss for a CGU is allocated to its assets, except for goodwill, pro rata with the carrying amounts of those 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 recognised.

(e) Leases

(i) *Lease accounting*

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

Leases in which all the risks and rewards incidental to ownership of an asset are transferred to the Group are classified as finance leases, otherwise they are classified as operating leases.

- 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 amount recognised as an 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 rents are charged as expenses in the years in which they are incurred.

- Operating leases

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

GRIFOLS, S.A. AND SUBSIDIARIES

Notes to the Consolidated Annual Accounts

(Free translation from the original in Spanish.

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

(ii) *Investment properties*

Non-current investments in properties leased from third parties are recognised based on the same criteria for property, plant and equipment. Investments are amortised over a time period computed as lower of their useful lives and the term of the lease contract. The lease term for this purpose, is consistent with that established for recognition 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 arrangement and the definitions of a financial liability, a financial asset and an equity instrument as set out in IAS 32 Financial Instruments: Presentation.

For the purpose of measurement, financial instruments are also classified as financial assets and liabilities at fair value through profit or loss, initially distinguishing between those held for trading, 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.

Conventional purchases and sales of financial assets are recognised at trade date, when the Group undertakes to purchase or sell the asset.

a) Financial assets at fair value through profit or loss

Financial assets and financial liabilities at fair value through profit or loss are those which are classified as held for trading or which the Group designated as such at 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 near term
- it forms part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent pattern of short-term profit-taking, or
- it is a derivative, except a derivative which has been designated as a hedging instrument and complies with conditions for effectiveness or a derivative that is a financial guarantee contract.

GRIFOLS, S.A. AND SUBSIDIARIES

Notes to the Consolidated Annual Accounts

(Free translation from the original in Spanish.

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

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 acquisition or issue are recognised 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 recognised 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 other than those classified in other financial asset categories. Loans and receivables are initially recognised at fair value, including transaction costs incurred and are subsequently measured 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.

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

After initial recognition, financial assets classified in this category are measured at fair value, recognising the gain or loss in the section of recognized gains and losses in equity. Amounts recognised in equity are taken to the consolidated income statement when the financial assets are derecognised, and where applicable, for the impairment loss.

d) Financial assets and liabilities measured at cost

Investments in equity instruments for which the fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments are measured at cost.

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.

GRIFOLS, S.A. AND SUBSIDIARIES

Notes to the Consolidated Annual Accounts

(Free translation from the original in Spanish.

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

(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 and 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 system to calculate the fair value of assets and liabilities:

- Firstly, the Group applies the quoted prices 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 the one being valued. The bid price is used for an asset held or liability to be issued and the asking price is used for an asset to be acquired or liability held. When the Group has assets and liabilities with offsetting market risks, it may use mid-market prices for the offsetting risk positions and apply the appropriate bid or asking price to the net open position
- If market prices are unavailable, the price of recent transactions are used, adapted to current conditions.
- Otherwise, the Group applies generally accepted measurement techniques using market data as much 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 measured at initial recognition, less principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount and maturity amount, less any reduction for impairment or uncollectability.

GRIFOLS, S.A. AND SUBSIDIARIES

Notes to the Consolidated Annual Accounts

(Free translation from the original in Spanish.

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

(v) *Impairment and uncollectibility of financial assets*

A financial asset or group of financial assets is impaired and impairment losses are incurred if there is objective evidence of impairment as a result of one event or more events that occurred after the initial recognition of the asset, and that loss event or events have an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

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

(vi) *Impairment of financial assets carried 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 loan losses not incurred, discounted at the financial asset's original effective interest rate. The amount of the impairment loss is recognised in profit or loss 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 recognised.

(vii) *Impairment of financial assets carried 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 recognised 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 profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and current fair value, less any impairment loss on that financial asset previously recognised in profit or loss.

GRIFOLS, S.A. AND SUBSIDIARIES

Notes to the Consolidated Annual Accounts

(Free translation from the original in Spanish.

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

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

The increase in the fair value of debt instruments, which could be objectively related to an event occurring after the impairment loss was recognised, is recognised in profit or loss up to the amount of the previously recognised impairment loss and the excess, where applicable, is recognised in equity.

(ix) *Financial liabilities*

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

(x) *Derecognition a financial asset*

The Group applies the criteria for derecognition of financial assets to a part of a financial asset or a part of a group of similar financial assets or a financial asset or a group of similar financial assets.

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire or have been transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial asset. In addition, derecognition of financial assets in those circumstances where the Group retains the contractual rights to receive the cash flows only takes place when a contractual obligation to pay the cash flows to one or more recipients is assumed in an arrangement that meets the following conditions:

- Payment of cash flows is dependent on prior collection;
- The Group cannot sell or pledge the financial asset; and
- Cash flows collected on behalf of the eventual recipients are remitted without material delay and the Group is not entitled to reinvest such cash flows, except for investments in cash or cash equivalents made by the Group during the settlement period from the collection date to the date of required remittance to the eventual recipients, provided that interest earned on such investments is passed to the eventual recipients.

GRIFOLS, S.A. AND SUBSIDIARIES

Notes to the Consolidated Annual Accounts

(Free translation from the original in Spanish.

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

The criteria for recognising the disposal of financial assets in arrangements under which the Group neither transfers nor retains substantially all the risks and rewards of ownership are based on an assessment of whether it has retained control of the transferred asset. In this case:

- If the Group has not retained control, it derecognises the financial assets and recognises separately as assets and liabilities any rights and obligations created or retained in the transfer.
- If the Group has retained control, it continues to recognise the financial asset to the extent of its continuing involvement in the financial asset and recognises an associated liability. The extent of the Group's continuing involvement in the transferred asset is the extent to which it is exposed to changes in the value of the transferred asset. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained. The associated liability is measured in such a way that the net carrying amount of the transferred asset and the associated liability is the amortised cost of the rights and obligations retained by the Group, if the transferred asset is measured at amortised cost, or at the fair value of the rights and obligations retained by the Group if the transferred asset is measured at fair value. The Group shall continue to recognise any income arising on the transferred asset to the extent of its continuing involvement and shall recognise any expense incurred on the associated liability. Recognised changes in the fair value of the transferred asset and the associated liability are accounted for consistently with each other in profit and loss or in equity, in accordance with the general recognition criteria described above, and shall not be offset.

Arrangements under which the Group retains substantially all the risks and rewards of ownership of the financial assets are recorded by recognising the proceeds received as a liability. Transaction costs are recognised in profit and loss using the effective interest rate method.

(g) Parent treasury shares

Equity instruments acquired by the Group have been 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 recognised in the Group's income statement as a result of transactions carried out with own equity instruments.

GRIFOLS, S.A. AND SUBSIDIARIES

Notes to the Consolidated Annual Accounts

(Free translation from the original in Spanish.

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

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

- Transaction costs related with own equity instruments, including the issue costs related with a business combination, are accounted for as a deduction from equity, net of any tax effect.
- Dividends relating to equity instruments are accounted for as a deduction from equity when approved at the general meeting of shareholders.

(h) Inventories

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

The costs of conversion of inventories include costs directly related to the units of production and a systematic allocation of fixed and variable production overheads that are incurred in converting. Fixed production overheads are allocated based on the higher of normal production capacity or actual level of production.

The cost of materials and other supplies and merchandise and conversion costs are assigned to the different inventory units based on the first-in, first-out (FIFO) method.

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

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 product: estimated sale price, less costs to sell.

GRIFOLS, S.A. AND SUBSIDIARIES

Notes to the Consolidated Annual Accounts

(Free translation from the original in Spanish.

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

- Work in progress: the estimated sale price for corresponding finished products, less the estimated costs for completion of their production and costs to sell.

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 items changes in inventories of finished products and work in progress and consumption of materials and other supplies. Write-downs may be reversed with a credit to inventories of finished goods and work in progress and raw materials.

(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 from the date of acquisition, providing these are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

The Group classifies interest received and paid under “Cash flows from operating activities”, and dividends received and distributed by the Company are classified under “Investing and Financing activities”, respectively, in the Cash Flow Statement.

(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 attaching to them.

(i) *Capital grants*

Outright capital grants are initially recognised 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 financed assets.

(ii) Operating subsidies

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.

GRIFOLS, S.A. AND SUBSIDIARIES

Notes to the Consolidated Annual Accounts

(Free translation from the original in Spanish.

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

(iii) Interest rate subsidies

Financial liabilities with implicit 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 recognised as a government grant based on the nature of the grant.

(k) Employee benefits

(i) Defined contribution plans

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

(ii) Termination benefits

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

The Group recognises expenses for termination 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 realistic possibility of withdrawing or changing the decisions made as the affected employees have been notified.

(iii) Short-term employee benefits

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 absences occur.

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.

GRIFOLS, S.A. AND SUBSIDIARIES

Notes to the Consolidated Annual Accounts

(Free translation from the original in Spanish.

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

(l) 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.

The amounts recognised as a provision are the best estimate of the expenditure 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 expenditures 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 the specific risks for which future cash flow estimates have been adjusted.

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 item where the corresponding expense was recognised, and any excess is recognised as other income.

(m) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable for the sale of goods and services, net of Value Added Taxes 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 recognised as a reduction in revenues if considered probable at the time of revenue recognition.

(i) *Sale of goods*

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

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods.
- 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 can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and

GRIFOLS, S.A. AND SUBSIDIARIES

Notes to the Consolidated Annual Accounts

(Free translation from the original in Spanish.

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

- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

(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

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

(iv) Revenue from interest

The Group recognises interest receivable from the different social security affiliated bodies on an accruals basis, and only follows prudent criteria for those bodies to which historically claims have been made and from which interest has been collected.

(n) Income taxes

Income tax or benefits on the profit or loss for the year comprises current and deferred tax assets and liabilities.

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 at the amount expected to be paid to or recovered from the taxation authorities, using the tax rates that have been enacted or substantively enacted by the end of the reporting period.

GRIFOLS, S.A. AND SUBSIDIARIES

Notes to the Consolidated Annual Accounts

(Free translation from the original in Spanish.

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

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.

(i) Taxable temporary differences

Taxable temporary differences are recognised in all cases except when:

- 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 temporary difference will reverse in the foreseeable future.

(ii) *Deductible temporary differences*

Deductible temporary 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.

GRIFOLS, S.A. AND SUBSIDIARIES

Notes to the Consolidated Annual Accounts

(Free translation from the original in Spanish.

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

(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 the end of each reporting period 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.

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) *Offset and recognition*

The Group only offsets current tax assets and current tax 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 deferred tax assets and liabilities where it has a legally enforceable right, where these relate to income taxes levied by the same taxation authority and where the taxation authority permits the entity 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 settled or recovered.

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 distinguishable component of the Group that is engaged in providing an individual product or service that are subject to risks and returns that are different from those of other business 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.

GRIFOLS, S.A. AND SUBSIDIARIES

Notes to the Consolidated Annual Accounts

(Free translation from the original in Spanish.

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

A geographical segment is a distinguishable 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.

(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 in, or are intended for sale or consumption in, the Group's normal operating cycle, to be settled, within 12 months after the balance sheet date and when held primarily for the purpose of being traded. 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 12 months after the balance sheet date.
- Liabilities are classified as current when expected to be settled in the Group's normal operating cycle, to be settled within 12 months after the balance sheet date and when held primarily for the purpose of being traded, or where the Group does not have an unconditional right to defer settlement of the liability for at least 12 months after 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 30.

GRIFOLS, S.A. AND SUBSIDIARIES

Notes to the Consolidated Annual Accounts

(Free translation from the original in Spanish.

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

(4) Financial Risk Management

(a) General

The Group is exposed to the following risks associated with the use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

This note provides information on the Group's exposure to each of these risks, the Group's objectives and procedures to measure and mitigate these risks, and the Group's capital management strategy. More exhaustive quantitative information is disclosed in note 28 to the consolidated annual accounts.

The Group's risk management policies are established in order to identify and analyse the risks to which the Group is exposed, establish suitable risk limits and controls, and control risks and compliance with limits. Risk management procedures and policies are regularly reviewed to ensure they take into account changes in market conditions and in the Group's activities. The Group's management procedures and rules are designed to create a strict and constructive control environment in which all employees understand their duties and obligations.

The Group's Audit Committee supervises how management controls compliance with the Group's risk management procedures and policies and reviews whether the risk management policy is suitable, considering the risks to which the Group is exposed. This committee is assisted by Internal Audit which acts as supervisor. Internal Audit performs regular and ad hoc reviews of the risk management controls and procedures and reports its findings to the Audit Committee.

Credit risk

Credit risk is the risk to which the Group is exposed in the event that a customer or a counterparty to a financial instrument fails to discharge a contractual obligation, and mainly results from trade receivables and the Group's investments in securities.

GRIFOLS, S.A. AND SUBSIDIARIES

Notes to the Consolidated Annual Accounts

(Free translation from the original in Spanish.

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

The Group is not exposed to significant credit risk because of the type of customers with which it operates, most of which are public entities which do not have insolvency risks. Furthermore, no significant bad debt issues have been detected in the markets in which it sells to private entities. The only risk to which receivables from public bodies are exposed is a risk of delays in payment. Group companies mitigate this risk by exercising their right to receive legal interest.

The Group recognises valuation adjustments for impairment equivalent to its best estimate of the losses incurred in relation to trade and other receivables. The main valuation adjustments made are based on specific losses related with identified risks that are individually significant, while the bad debt risk in the Group is low because a significant proportion of receivables are due from public entities.

Liquidity risk

Liquidity risk is the risk that the Group cannot meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure where possible, that it always has sufficient liquidity to settle its obligations at the maturity date, both in normal conditions and in times of tension, to avoid incurring unacceptable losses or tarnishing the Group's reputation.

The Group prudently manages liquidity risk by the availability of financing through a sufficient amount of committed credit facilities, and the ability to liquidate market positions when required.

At the year end, the Group has loans available for drawdown of Euros 313 million, equivalent to 42% of the total credit limit. In the balance sheet at 31 December 2007 50% of the debt was current and 50% non-current, while at the December 2008 close, 32% is current and 68% non-current. This financing structure enables the Group to finance non-current investments and meet working capital requirements.

Market risk

Market risk comprises the risk of changes in market prices, for example, exchange rates, interest rates, or the prices of equity instruments affecting the Group's revenues or the value of financial instruments it holds. The objective of managing market risk is to manage and control the Group's exposure to this risk within reasonable parameters at the same time as optimising returns.

GRIFOLS, S.A. AND SUBSIDIARIES

Notes to the Consolidated Annual Accounts

(Free translation from the original in Spanish.

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

(i) Foreign exchange risk

The Group operates internationally and is therefore exposed to foreign exchange risk when operating with foreign currencies, especially the US Dollar. Foreign exchange risk affects future commercial transactions, recognised assets and liabilities and net investments in foreign companies.

The Group has various investments in foreign businesses, the net assets of which are exposed to foreign exchange risk. Foreign exchange risk affecting the Group's net assets of foreign operations in US Dollars is mainly managed through external financing in the corresponding foreign currencies.

The Group's main exposure to foreign exchange risk is due to the US Dollar, which is used in a very high percentage of transactions in foreign currencies. Since purchases and costs in US Dollars account for 82% of revenues in US Dollars in 2008, the Group has a natural hedge against US Dollar fluctuations and therefore the risks associated with such exchange-rate fluctuations are minimal.

Exposure of the Group's most significant financial instruments to foreign exchange risk at 31 December 2008 and 2007 is described in note 28.

(ii) Interest rate risk

The interest rate risk affecting the Group results from external current and non-current external resources. External resources issued at floating rates expose the Group to interest rate risk affecting cash flows. The Group's policy is to hold external resources with floating interest rates. Nonetheless, the Group has a floating to fixed interest-rate swap for an amount of Euros 50,000 thousand (see note 27(e)).

(iii) Market price risk

The Group is not exposed to price risk affecting equity instruments designated as available-for-sale or at fair value through profit or loss.

Price risk affecting raw materials is mitigated by the vertical integration of the haemoderivatives business in a sector which is highly concentrated.

Furthermore, demand for the finished products of the Biociencia Division outstrips supply, which ensures prices vary favourably.

GRIFOLS, S.A. AND SUBSIDIARIES

Notes to the Consolidated Annual Accounts

(Free translation from the original in Spanish.

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

(b) Capital management

The Directors' policy is to maintain a solid capital base in order to ensure investor, creditor and market confidence and sustain future business development. The Directors control capital performance using rates of returns on equity (ROE) and returns on invested capital (ROIC). The Board of directors also controls the level of dividends paid to shareholders.

In 2008, the ROE stood at 25.3% (22.9% in 2007) and the ROIC at 15.3% (14.1% in 2007). The ROE is calculated by dividing profit attributable to the Parent by equity. The ROIC is calculated by dividing operating profit after income tax by invested capital, which is equal to total assets less cash, less other current financial assets and less current and non-current financial liabilities excluding (current and non-current) borrowings.

Compared with these rates, the weighted average financial expense for interest-bearing liabilities (excluding liabilities with implicit interest) has been 5.2% (5.6% in 2007).

The Group has no share-based payment schemes for employees.

At 31 December 2008 the Group holds treasury shares equivalent to 1.13% of its share capital. The Group does not have a formal plan for repurchasing shares.

The Group's capital management policies have not changed during the period.

(5) Segment reporting

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 divided into three areas: companies from the industrial area, companies from the commercial area and companies from 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.

GRIFOLS, S.A. AND SUBSIDIARIES

Notes to the Consolidated Annual Accounts

(Free translation from the original in Spanish.

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

Assets, liabilities, income and expenses for segments include directly and reliably attributable items. Items which are not attributed to segments by the Group are:

- Balance sheet: cash and cash equivalents, receivables, public entities, deferred tax assets and liabilities, loans and borrowings and payables.
- Income statement: general administration expenses, other operating income / expenses, finance income / expense and income tax.

No sales have been made between segments.

(a) Business segments

The business segments defined by the Group are as follows:

- Bioscience: including 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: including 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 party companies.

(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) Goodwill

Details of intangible assets and movement during the years ended 31 December 2008 and 2007 are included in Appendix II, which forms an integral part of these notes to the consolidated annual accounts.

GRIFOLS, S.A. AND SUBSIDIARIES

Notes to the Consolidated Annual Accounts

(Free translation from the original in Spanish.

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

Details of and movement in goodwill in the consolidated balance sheet at 31 December 2007 are as follows:

| | Thousands of Euros | | | |
|---------------------------------|-------------------------|--------------------------|----------------------------|-------------------------|
| | Balances at 31/12/06 | Business combinations | Translation differences | Balances at 31/12/07 |
| Net carrying amount | | | | |
| Grifols UK,Ltd. | 10,233 | -- | (864) | 9,369 |
| Grifols Italia,S.p.A. | 6,118 | -- | | 6,118 |
| Biomat USA, Inc. | 95,446 | -- | (10,056) | 85,390 |
| Plasmacare, Inc. | 39,023 | -- | (4,111) | 34,912 |
| Plasma Collection Centers, Inc. | -- | 16,106 | (1,652) | 14,454 |
| | 150,820 | 16,106 | (16,683) | 150,243 |
| | (note 1 (d)) | | | |

Details of and movement in goodwill in the consolidated balance sheet at 31 December 2008 are as follows:

| | Thousands of Euros | | | |
|---------------------------------|-------------------------|--------------------------|----------------------------|-------------------------|
| | Balances at 31/12/07 | Business combinations | Translation differences | Balances at 31/12/08 |
| Net carrying amount | | | | |
| Grifols UK,Ltd. | 9,369 | -- | (2,156) | 7,213 |
| Grifols Italia,S.p.A. | 6,118 | -- | -- | 6,118 |
| Biomat USA, Inc. | 85,390 | 2,372 | 5,256 | 93,018 |
| Plasmacare, Inc. | 34,912 | -- | 2,017 | 36,929 |
| Plasma Collection Centers, Inc. | 14,454 | -- | 835 | 15,289 |
| | 150,243 | 2,372 | 5,952 | 158,567 |
| | (note 1 (d)) | | | |

Impairment testing:

Goodwill has 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. For the purpose of testing impairment, Plasma Collection Centers Inc. is integrated into the management of Biomat Usa, Inc.

GRIFOLS, S.A. AND SUBSIDIARIES

Notes to the Consolidated Annual Accounts

(Free translation from the original in Spanish.

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

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: | 8% |

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 after tax and reflect the specific risks of the relevant segments.

(7) Other intangible assets

Details of other intangible assets and movement during the years ended 31 December 2008 and 2007 are included in Appendix II, which forms an integral part of these notes to the consolidated annual accounts.

Fully amortised intangible assets still in use at 31 December 2008 and 2007 amount to Euros 37,463 thousand and Euros 27,307 thousand, respectively.

The Group has recognised internal work on intangible assets performed and capitalised amounting to Euros 7,644 thousand (Euros 6,847 thousand at 31 December 2007).

At 31 December 2008 the Group has licenses and other intangible assets with indefinite useful lives for a carrying amount of Euros 23,968 thousand (Euros 23,019 thousand at 31 December 2007). The Group has also Euros 13,797 thousand as costs development in progress (Euros 13,183 thousand at 31 December 2007).

Impairment testing:

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.

GRIFOLS, S.A. AND SUBSIDIARIES

Notes to the Consolidated Annual Accounts

(Free translation from the original in Spanish.

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

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: | 8% |

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 after tax and reflect the specific risks of the relevant segments.

(8) Property, plant and equipment

Details of property, plant and equipment and movement in the consolidated balance sheet at 31 December 2008 and 2007 are included in Appendix III, which forms an integral part of these notes to these consolidated annual accounts.

The main investments during the period ended 31 December 2008 have been as follows:

- Purchase of land and buildings in Parets del Vallès, Barcelona with a value of Euros 19.4 million, financed through a mortgage loan from Caixa Catalunya (see note 18).
- Purchase of land and buildings under construction in San Cugat del Vallès, Barcelona through the acquisition of the real estate company Arrahona Optimus, S.L. for Euros 33 million at 31 December 2008, financed through a mortgage loan from BBVA (see note 18).

Property, plant and development under construction at 31 December 2008 and 2007 mainly comprises investments made to extend the companies' installations and to increase their productive capacity.

a) Mortgaged property, plant and equipment

At 31 December 2008 certain land and buildings have been mortgaged for Euros 43,813 thousand (Euros 383 thousand at 31 December 2007) to secure payment of certain loans (see note 18).

GRIFOLS, S.A. AND SUBSIDIARIES

Notes to the Consolidated Annual Accounts

(Free translation from the original in Spanish.

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

b) Official capital grants received

During 2008, the Group has received capital grants totalling Euros 124 thousand (Euros 33 thousand at 31 December 2007) (see note 19).

c) Insurance

Group policy is to contract sufficient insurance coverage for the risk of damage to property, plant and equipment. At 31 December 2008 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.

e) Assets contracted under finance leases

The Group had contracted the following types of property, plant and equipment under finance leases at 31 December 2007:

| Asset | Thousands of Euros | | |
|---------------------|--------------------|--------------------------|-----------------|
| | Cost | Accumulated depreciation | Carrying amount |
| Land and buildings | 625 | (124) | 501 |
| Plant and machinery | 14,644 | (3,249) | 11,395 |
| | 15,269 | (3,373) | 11,896 |

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

(Free translation from the original in Spanish.

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

The Group has contracted the following types of property, plant and equipment under finance leases as at 31 December 2008:

| | Thousands of Euros | | |
|---------------------|--------------------|--------------------------|-----------------|
| | Cost | Accumulated depreciation | Carrying amount |
| Asset | | | |
| Plant and machinery | 18,766 | (4,245) | 14,521 |
| | 18,766 | (4,245) | 14,521 |

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

| | Thousands of Euros | | | |
|------------------|--------------------|-------------|-----------|-------------|
| | 31/12/08 | | 31/12/07 | |
| | Current | Non-current | Current | Non-current |
| Minimum payments | 5,491 | 7,667 | 4,564 | 5,823 |
| Interest | (551) | (543) | (498) | (336) |
| Current value | 4,940 | 7,124 | 4,066 | 5,487 |
| | (note 18) | | (note 18) | |

| | Thousands of Euros | | | | | |
|-------------------|--------------------|----------|---------------|------------------|----------|---------------|
| | 31/12/08 | | | 31/12/07 | | |
| | Minimum payments | Interest | Present value | Minimum payments | Interest | Present value |
| Maturity: | | | | | | |
| Up to 1 year | 5,491 | 551 | 4,940 | 4,564 | 498 | 4,066 |
| Up to 2 years | 4,050 | 302 | 3,748 | 3,317 | 224 | 3,093 |
| Up to 3 years | 2,099 | 129 | 1,970 | 1,984 | 96 | 1,888 |
| Up to 4 years | 580 | 63 | 517 | 522 | 16 | 506 |
| Up to 5 years | 536 | 34 | 502 | 0 | 0 | 0 |
| More than 5 years | 402 | 15 | 387 | 0 | 0 | 0 |
| Total | 13,158 | 1,094 | 12,064 | 10,387 | 834 | 9,553 |

GRIFOLS, S.A. AND SUBSIDIARIES

Notes to the Consolidated Annual Accounts

(Free translation from the original in Spanish.

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

f) Fully depreciated property, plant and equipment

Fully depreciated property, plant and equipment still in use at 31 December 2008 and 2007 amount to Euros 69,500 thousand and Euros 60,328 thousand, respectively.

g) Work performed internally and capitalised

The Group has recognised work performed internally for construction of assets and capitalised amounting to Euros 18,150 thousand (Euros 13,013 thousand at 31 December 2007).

(9) Other financial assets

Equity accounted investments

At 31 December 2008 and 2007 equity accounted investments 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.

This company has been accounted for using the equity method, as the Group exerts significant influence.

Details of and movement in this caption in the consolidated balance sheets at 31 December 2007 are as follows:

| | Thousands of Euros | | | |
|-------------------------------|-------------------------|-----------|----------------------------|-------------------------|
| | Balances at 31/12/06 | Additions | Translation differences | Balances at 31/12/07 |
| Equity accounted investments: | 253 | 19 | (29) | 243 |

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

(Free translation from the original in Spanish.

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

Details of and movement in this caption in the consolidated balance sheets at 31 December 2008 are as follows:

| | Thousands of Euros | | | |
|-------------------------------|-------------------------|-----------|----------------------------|-------------------------|
| | Balances at 31/12/07 | Additions | Translation differences | Balances at 31/12/08 |
| Equity accounted investments: | 243 | 24 | 107 | 374 |

Summarised financial information on the equity accounted investment is as follows:

| 2007 | Country | % interest | Thousands of Euros | | | |
|--------------------------|---------|------------|--------------------|-------------|--------|---------------|
| | | | Assets | Liabilities | Equity | Profit/(Loss) |
| Quest International, Inc | US | 35% | 1,348 | 493 | 855 | 54 |
| | | | 1,348 | 493 | 855 | 54 |
| 2008 | | | | | | |
| Quest International, Inc | US | 35% | 1,736 | 667 | 1,069 | 69 |
| | | | 1,736 | 667 | 1,069 | 69 |

Non-current financial assets

Details of this caption of the consolidated balance sheet at 31 December 2008 and 2007 are as follows:

| | Thousands of Euros | |
|---|--------------------|------------|
| | 31/12/08 | 31/12/07 |
| Long-term guarantee deposits | 1,113 | 868 |
| Available-for-sale assets | 523 | 23 |
| Total non-current financial assets | 1,636 | 891 |

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

(Free translation from the original in Spanish.

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

In 2007, available-for-sale assets mainly reflect the Group's investment in Northfield Laboratorios, Inc (USA), which amounts to less than 1% of share capital.

During December 2008, Grifols, S.A. has acquired less than 2% of the capital of the biotechnology company Cardio 3 Bioscience (Belgium), the activity of which involves research into and the development of biological therapies using stem cells for the treatment of cardiovascular diseases.

Current financial assets

Details of this caption of the consolidated balance sheet at 31 December 2008 and 2007 are as follows:

| | Thousands of Euros | |
|---------------------------------------|--------------------|--------------|
| | 31/12/08 | 31/12/07 |
| Current financial investments | 6,657 | 7,080 |
| Guarantee deposits | 23 | 8 |
| Financial derivatives | 0 | 512 |
| Total current financial assets | 6,680 | 7,600 |

Current financial investments comprise short-term guarantee deposits extended by a group company.

Financial derivatives comprise interest-rate swaps in 2007:

a) Interest rate swaps

The Group is exposed to variations in interest rates as practically all of its debt with financial entities accrues interest at variable rates.

At 31 December 2008 the Group has contracted a floating-to-fixed interest rate swap for a par value of Euros 50,000, which matures on 26 July 2011. The negative fair value of this swap amounts to approximately Euros 796 thousand (see note 18) (positive fair value of Euros 512 thousand in 2007).

The derivative financial instrument (swap) does not meet hedge accounting criteria and is therefore, classified and measured as a financial asset or financial liability at fair value through profit and loss.

Exposure of the Group's other financial instruments to interest rate risk and the fair values of financial assets is described in note 28.

GRIFOLS, S.A. AND SUBSIDIARIES

Notes to the Consolidated Annual Accounts

(Free translation from the original in Spanish.

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

(10) 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 2007 the Spanish companies' deferred tax assets and liabilities were recalculated in accordance with the new criteria. The effect of this adjustment has been a profit of Euros 523 thousand at 31 December 2007 (recognised as other income tax recoverable (see note 25 (a)) and an increase in reserves of Euros 100 thousand (see note 14(c)). The net effect of this adjustment due to the change in tax rates in deferred tax assets and liabilities has been Euros 623 thousand at 31 December 2007.

Details of deferred tax assets and liabilities are as follows:

| | Thousands of Euros | |
|--|--------------------|---------------|
| | Tax effect | |
| | 31/12/08 | 31/12/07 |
| Assets | | |
| Deductions | 13,215 | 19,667 |
| Tax credits in respect of loss carryforwards | 163 | 181 |
| Non-current assets & amortisation | 299 | 651 |
| Unrealised margins on inventories | 17,222 | 6,613 |
| Provision for bad debts | 281 | 332 |
| Inventories | 1,004 | 985 |
| Share issue costs | 0 | 2,760 |
| Others | 2,113 | 2,921 |
| | 34,297 | 34,110 |
| Liabilities | | |
| Goodwill | 12,423 | 9,661 |
| Revaluation of non-current assets | 15,345 | 15,302 |
| Non-current assets & amortisation | 14,028 | 13,537 |
| Finance leases | 3,647 | 2,917 |
| Inventories | 2,041 | 0 |
| Provision for investment losses | 2,322 | 2,322 |
| Others | 2,163 | 55 |
| | 51,969 | 43,794 |

GRIFOLS, S.A. AND SUBSIDIARIES

Notes to the Consolidated Annual Accounts

(Free translation from the original in Spanish.

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

Movement in deferred tax assets and liabilities is as follows:

| Deferred tax assets | Thousands of Euros | |
|---|--------------------|---------|
| | 2008 | 2007 |
| Balance at 1 January | 34,110 | 41,451 |
| Movements during the year | 687 | (7,068) |
| Adjustments for changes in tax rate through profit and loss | (514) | 87 |
| Adjustments for changes in tax rate through equity | 0 | 101 |
| Translation differences | 14 | (461) |
| Balance at 31 December | 34,297 | 34,110 |

| Deferred tax liabilities | Thousands of Euros | |
|---|--------------------|---------|
| | 2008 | 2007 |
| Balance at 1 January | 43,794 | 45,862 |
| Movements during the year | 6,721 | (438) |
| Adjustments for changes in tax rate through profit and loss | 439 | (129) |
| Translation differences | 1,015 | (1,501) |
| Balance at 31 December | 51,969 | 43,794 |

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.

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 | |
| | 31/12/08 | 31/12/07 |
| Available-for-sale financial assets | 0 | 7 |
| | 0 | 7 |

GRIFOLS, S.A. AND SUBSIDIARIES

Notes to the Consolidated Annual Accounts

(Free translation from the original in Spanish.

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

The remaining assets and liabilities recognised in 2008 were recognised on 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 at 31 December 2008 mainly in respect of research and development, which are detailed below:

| Year of origin | Thousands of Euros | Applicable through |
|------------------|--------------------|--------------------|
| 2005 | 113 | 2020 |
| 2006 | 2,345 | 2021 |
| 2007 | 4,792 | 2022 |
| 2008 (estimated) | 5,965 | 2023 |
| | 13,215 | |

At 31 December 2008 the Group recognised a tax credit of Euros 13,215 thousand (Euros 19,667 thousand at 31 December 2007) from the deductions pending application, as its future recovery was reasonably assured.

At 31 December 2008 the Group has future tax deductions of Euros 27,927 thousand (Euros 30,048 thousand at 31 December 2007) 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 2008 at the rate of 30% will be Euros 2,121 thousand. The Group has recognised a deferred tax liability of Euros 10,606 thousand in respect of this item at 31 December 2008 (Euros 8,485 thousand at 31 December 2007).

At 31 December 2008 the Group has future tax deductions of Euros 11,010 thousand (Euros 11,651 thousand at 31 December 2007) pending application as a result of goodwill generated on the acquisition of Plasmacare, Inc. This amount will be deducted annually from the taxable profits until 2026, without being limited by the amount of tax payable in any one year. The amount deducted in 2008 at the rate of 30% has been Euros 641 thousand. The Group has recognised a deferred tax liability of Euros 1,817 thousand in respect of this item at 31 December 2008 (Euros 1,176 thousand at 31 December 2007).

GRIFOLS, S.A. AND SUBSIDIARIES

Notes to the Consolidated Annual Accounts

(Free translation from the original in Spanish.

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

At 31 December 2008 the Group has recognised loss carryforwards of Euros 163 thousand (Euros 181 thousand at 31 December 2007) corresponding to the North-American companies Biomat Usa, Inc and Grifols Usa, LLC.

The Group has not recognised loss carryforwards of Euros 635 thousand (Euros 696 thousand at 31 December 2007) from Grifols Portugal as deferred tax assets. The remaining companies do not have significant loss carryforwards which have not been recognised.

(11) Inventories

Details of inventories at 31 December are as follows:

| | Thousands of Euros | |
|--|--------------------|----------|
| | 31/12/08 | 31/12/07 |
| Goods for resale | 54,509 | 37,138 |
| Raw materials and supplies | 142,209 | 96,044 |
| Work in progress and semi-finished goods | 112,345 | 95,770 |
| Finished goods | 64,594 | 42,456 |
| | 373,657 | 271,408 |
| Less, provision for obsolescence | (559) | (749) |
| | 373,098 | 270,659 |

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

(Free translation from the original in Spanish.

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

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

| | Thousands of Euros | |
|--|--------------------|----------|
| | 31/12/08 | 31/12/07 |
| Goods for resale | | |
| Net purchases | 79,902 | 34,542 |
| Changes in inventories | (22,700) | (4,098) |
| | 57,202 | 30,444 |
| Raw materials and supplies | | |
| Net purchases | 178,149 | 178,262 |
| Changes in inventories | (41,131) | (24,045) |
| | 137,018 | 154,217 |
| Other external expenses | 12,518 | 11,647 |
| Supplies of inventories | 206,738 | 196,308 |
| Changes in inventories of finished goods and work in progress | (31,058) | (16,882) |
| Changes in inventories of finished goods and work in progress and supply of inventories | 175,680 | 179,426 |
| * Expenses / (Income) | | |

Movement in goods for resale during 2008 and 2007 has been as follows:

| | Thousands of Euros | |
|---|--------------------|----------|
| | 31/12/08 | 31/12/07 |
| Opening goods for resale | 37,138 | 33,850 |
| Increase / (Decrease) in goods for resale | 22,700 | 4,098 |
| Translation differences | (5,329) | (810) |
| Closing goods for resale | 54,509 | 37,138 |

GRIFOLS, S.A. AND SUBSIDIARIES

Notes to the Consolidated Annual Accounts

(Free translation from the original in Spanish.

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

Change in inventories of raw materials and materials consumed during 2008 and 2007 has been as follows:

| | Thousands of Euros | |
|--|--------------------|----------|
| | 31/12/08 | 31/12/07 |
| Opening raw materials | 96,044 | 77,214 |
| Increase / (decrease) in raw materials | 41,131 | 24,045 |
| Translation differences | 5,034 | (5,215) |
| Closing raw materials | 142,209 | 96,044 |

Change in inventories of finished products and work in progress during 2008 and 2007 has been as follows:

| | Thousands of Euros | |
|--|--------------------|----------|
| | 31/12/08 | 31/12/07 |
| Opening finished goods and work in progress | 138,226 | 127,340 |
| Increase / (decrease) in finished goods and work in progress | 31,058 | 16,882 |
| Translation differences | 7,655 | (5,996) |
| Closing finished goods and work in progress | 176,939 | 138,226 |

Net sales include sales made in the following foreign currencies:

| Currency | Thousands of Euros | |
|------------------|--------------------|----------|
| | 31/12/08 | 31/12/07 |
| US Dollars | 168,037 | 139,240 |
| Other currencies | 7,315 | 6,540 |

GRIFOLS, S.A. AND SUBSIDIARIES

Notes to the Consolidated Annual Accounts

(Free translation from the original in Spanish.

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

Movement in the provision for obsolescence was as follows:

| | Thousands of Euros | |
|-------------------------------|--------------------|----------|
| | 31/12/08 | 31/12/07 |
| Opening balance | 749 | 2,929 |
| Net provision for the year | 341 | (2,096) |
| Net applications for the year | (515) | (7) |
| Translation differences | (16) | (77) |
| Closing balance | 559 | 749 |

(12) Trade and other receivables

Details at 31 December are as follows:

| | Thousands of Euros | |
|---------------------------|--------------------|----------|
| | 31/12/08 | 31/12/07 |
| Trade receivables | 186,324 | 174,351 |
| Sundry receivables | 17,322 | 18,937 |
| Personnel | 298 | 862 |
| Advances for fixed assets | 1,429 | 2,468 |
| Other advances | 1,960 | 2,437 |
| Prepayments | 5,259 | 6,201 |
| | 212,592 | 205,256 |

Trade receivables, net of the provision for bad debts, include notes receivable discounted at banks at 31 December 2008, which amount to Euros 2,117 thousand (Euros 1,620 thousand at 31 December 2007) (see note 18).

At 31 December 2007 advances for fixed assets included an amount of Euros 2,200 thousand corresponding to the purchase option extended for the acquisition of industrial facilities in Parets del Vallès (Barcelona) (see note 8).

Sundry receivables at 31 December 2008 mainly comprises Euros 6,990 thousand (Euros 9,790 thousand at 31 December 2007) reflecting interest receivable from social security-affiliated bodies.

GRIFOLS, S.A. AND SUBSIDIARIES

Notes to the Consolidated Annual Accounts

(Free translation from the original in Spanish.

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

On 31 January 2007 one of the Group companies signed an agreement to cancel the plasma supply contract signed by the Group on 31 August 2005. The Group received compensation of US Dollars 10 million, US Dollars 5 million of which was recognised under sundry receivables at 31 December 2007. This amount has been collected at 31 December 2008.

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. During 2008 Euros 2,325 thousand (Euros 2,184 thousand in 2007) has been accrued and recognised as an expense under other operating expenses. At 31 December 2008 and subsequent to the payment of Euros 1,622 thousand in 2008, the balance of the advance of Euros 703 thousand (Euros 1,406 thousand at 31 December 2007) has been included under sundry receivables.

In 2008 and 2007 certain Grifols Group companies have sold trade receivables without recourse from several public entities to Deutsche Bank, S.A.E. According to these contacts, the Group receives an initial payment which usually amounts to approximately 90% of the nominal amount of the trade receivables. Payment of the deferred price (rest of the nominal amount) will be collected by the Group once Deutsche Bank has collected from public entities the nominal amount of the receivables and this amount is recognised in the balance sheet as the amount of the outstanding loan. Because the receivables are with public entities there is no credit risk. At 31 December 2008 Euros 9,434 thousand is receivable for this deferred price (Euros 4,860 thousand at 31 December 2007).

Initial payment is made when the sale is completed and therefore, the bad debt risk associated with this part of the nominal amount of the receivables is transferred. The Group has transferred control of the receivables to Deutsche Bank and therefore, the Group has derecognised the total initial payment on its balance sheet, since all risks and rewards have been transferred.

Certain foreign group companies have also entered into a contract to sell receivables without recourse to a financial institution.

Total balances receivable sold without recourse to financial institutions through the aforementioned contracts amount to Euros 82.9 million in 2008 (Euros 41.6 million in 2007).

The finance cost of these operations for the Group totals approximately Euros 2,134 thousand which has been recognised under finance costs in the 2008 consolidated income statement (Euros 1,235 thousand in 2007) (see note 24).

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

(Free translation from the original in Spanish.

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

Trade receivables include balances in the following foreign currencies:

| Currency | Thousands of Euros | |
|------------------|--------------------|----------|
| | 31/12/08 | 31/12/07 |
| US Dollars | 38,171 | 22,071 |
| Pounds Sterling | 2,543 | 4,269 |
| Czech Crown | 3,214 | 3,284 |
| Argentine Peso | 2,412 | 1,400 |
| Chilean Peso | 6,968 | 6,490 |
| Mexican Peso | 5,335 | 4,964 |
| Brazilian Real | 1,596 | 2,329 |
| Thai Baht | 1,569 | 1,921 |
| Other currencies | 1,050 | 994 |

(13) Public entities

Receivables from public entities are as follows:

| | Thousands of Euros | |
|---------------------------------------|--------------------|----------|
| | 31/12/08 | 31/12/07 |
| Recoverable income tax: | | |
| Current year | 3,746 | 2,402 |
| Prior years | 1,682 | 0 |
| Current tax assets | 5,428 | 2,402 |
| Receivable from taxation authorities: | | |
| VAT | 21,062 | 3,128 |
| Capital grants | 173 | 0 |
| Social security | 118 | 121 |
| Other public entities | 1,081 | 671 |
| Other receivables from public | 22,434 | 3,920 |

GRIFOLS, S.A. AND SUBSIDIARIES

Notes to the Consolidated Annual Accounts

(Free translation from the original in Spanish.

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

Payables to public entities are as follows:

| | Thousands of Euros | |
|---|--------------------|----------|
| | 31/12/08 | 31/12/07 |
| Income tax payable to taxation authorities: | | |
| Current year | 16,073 | 3,649 |
| Prior years | 289 | 121 |
| Current tax liabilities | 16,362 | 3,770 |
| Payable to taxation authorities: | | |
| VAT/Canary Island tax | 3,718 | 5,787 |
| Withholdings | 2,537 | 2,700 |
| Social security | 2,742 | 2,431 |
| Other public entities | 71 | 478 |
| Other payables to public entities | 9,068 | 11,396 |

(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.

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

On 2 January 2008 the Company's shares were listed on the IBEX-35 index on the Spanish stock market.

Details of consolidated net equity and changes 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 2008 and 2007 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.

GRIFOLS, S.A. AND SUBSIDIARIES

Notes to the Consolidated Annual Accounts

(Free translation from the original in Spanish.

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

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 2008 and 2007 are as follows:

| | Percentage interest | |
|----------------------------|---------------------|----------|
| | 31/12/08 | 31/12/07 |
| Scranton Enterprises, B.V. | 10.65% | 10.65% |
| Others | 89.35% | 89.35% |
| | 100.00% | 100.00% |

There have been no movements in share capital during 2007 and 2008.

(b) Share premium

In June 2008, the Company agreed to distribute a dividend with a charge to results for 2007 and a share premium of Euros 0.165 per share, which results in a total gross dividend of Euros 34.8 million. The share premium has fallen by Euros 10,030 thousand as a result of this distribution (see consolidated statement of changes in equity).

(c) Other reserves

There have been no significant movements during 2008.

During 2007, other reserves were reduced by Euros 241 thousand basically due to the effect of the change in tax rates on deferred tax assets and deferred tax liabilities and to the winding-up of two group companies (see note 10).

The availability of other reserves is subject to legislation applicable to each of the Group companies. At 31 December 2008 Euros 33,087 thousand relating to the treasury reserve (Euros 28,893 thousand at 31 December 2007), (see note 14(e)), and Euros 23,421 thousand of research and development costs (Euros 24,225 thousand at 31 December 2007) are not freely available.

GRIFOLS, S.A. AND SUBSIDIARIES

Notes to the Consolidated Annual Accounts

(Free translation from the original in Spanish.

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

(d) 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.

(e) Treasury shares

During the year ended 31 December 2008 the Company carried out the following operations with treasury shares:

| | Nº of shares | Thousands of Euros |
|-----------------------------|--------------|--------------------|
| Balance at 1 January 2008 | 2,100,463 | 28,893 |
| Acquisitions | 361,159 | 4,880 |
| Disposals | (50,000) | (686) |
| Balance at 31 December 2008 | 2,411,622 | 33,087 |

As a result, the Company holds treasury shares equivalent to 1.13 % of its capital at 31 December 2008.

At 31 December 2008 and 2007 the Company has set aside the corresponding reserve for total treasury shares at that date (see note 14 (c)).

During the year ended 31 December 2007 the Company carried out the following operations with treasury shares:

GRIFOLS, S.A. AND SUBSIDIARIES

Notes to the Consolidated Annual Accounts

(Free translation from the original in Spanish.

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

In their annual ordinary general meeting on 20 June 2007 the shareholders approved the acquisition of a maximum of treasury shares equivalent to 5% of the Company's share capital. This approval was granted for a maximum period of 18 months as from the date of the agreement. Movements in treasury shares during 2007 were as follows:

| | N° of shares | Thousands of Euros |
|-----------------------------|--------------|--------------------|
| Balance at 1 January 2007 | -- | -- |
| Acquisitions | 2,100,463 | 28,893 |
| Balance at 31 December 2007 | 2,100,463 | 28,893 |

As a result, the Company held treasury shares equivalent to 0.99% of its capital at 31 December 2007.

(f) Distribution of profits

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

The board of directors will propose to the shareholders at their annual general meeting that the Parent's profit for the year ended 31 December 2008 be distributed as follows.

| | Thousands of Euros |
|--------------------|--------------------|
| Legal reserves | 6,496 |
| Voluntary reserves | 9,776 |
| Dividends | 48,691 |
| | 64,963 |

The distribution of the profit for the year ended 31 December 2007 is presented in the consolidated statement of changes in equity.

GRIFOLS, S.A. AND SUBSIDIARIES

Notes to the Consolidated Annual Accounts

(Free translation from the original in Spanish.

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

(15) 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 divided by the 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:

| | 2008 | 2007 |
|---|-------------|-------------|
| Profit for the year attributable to equity holders of the Parent (thousands of Euros) | 121,728 | 87,774 |
| Average weighted number of ordinary shares in circulation | 210,707,597 | 212,106,273 |
| Diluted earnings per share (Euros per share) | 0.57771 | 0.41382 |

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

| | Number of shares | |
|---|------------------|-------------|
| | 2008 | 2007 |
| Ordinary shares in circulation at 1 January | 210,964,436 | 213,064,899 |
| Effect of treasury shares issued | 0 | 0 |
| Effect of treasury shares | (256,839) | (958,626) |
| | 210,707,597 | 212,106,273 |

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. At 31 December 2008 and 2007 basic and diluted earnings per share are the same as no potential diluting effects exist.

GRIFOLS, S.A. AND SUBSIDIARIES

Notes to the Consolidated Annual Accounts

(Free translation from the original in Spanish.

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

(16) Minority interests

Details of minority interests and movement during the year 31 December 2007 are as follows:

| Thousands of Euros | | | | | |
|----------------------------|-------------------------|-----------|-----------|----------------------------|-------------------------|
| | Balances at 31/12/06 | Additions | Disposals | Translation differences | Balances at 31/12/07 |
| Grifols (Thailand) Pte Ltd | 253 | 502 | (9) | 18 | 764 |
| Grifols Malaysia Sdn Bhd | 155 | 72 | 0 | (10) | 217 |
| | 408 | 574 | (9) | 8 | 981 |

Details of minority interests and movement during the year 31 December 2008 are as follows:

| Thousands of Euros | | | | | |
|----------------------------|-------------------------|-----------|-----------|----------------------------|-------------------------|
| | Balances at 31/12/07 | Additions | Disposals | Translation differences | Balances at 31/12/08 |
| Grifols (Thailand) Pte Ltd | 764 | 334 | (15) | (106) | 977 |
| Grifols Malaysia Sdn Bhd | 217 | 54 | 0 | 2 | 273 |
| | 981 | 388 | (15) | (104) | 1,250 |

GRIFOLS, S.A. AND SUBSIDIARIES

Notes to the Consolidated Annual Accounts

(Free translation from the original in Spanish.

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

(17) Provisions

Details of provisions at 31 December are as follows:

| | Thousands of Euros | |
|---|--------------------|--------------|
| | 31/12/08 | 31/12/07 |
| Non-current provisions | | |
| Provisions for pensions and similar obligations | 951 | 793 |
| Other provisions | 2,094 | 206 |
| Non-current provisions | 3,045 | 999 |
| | | |
| | Thousands of Euros | |
| | 31/12/08 | 31/12/07 |
| Current provisions | | |
| Trade provisions | 3,830 | 3,957 |
| Current provisions | 3,830 | 3,957 |

Non-current provisions

At 31 December 2008 and 2007 provisions for pensions and similar obligations mainly comprise a provision made by certain foreign subsidiaries in respect of labour commitments with certain employees.

Current provisions

Movement in trade provisions in 2007 was as follows:

| | Thousands of Euros | | | |
|------------------|-------------------------|-----------|--------------|-------------------------|
| | Balances at 31/12/06 | Provision | Cancellation | Balances at 31/12/07 |
| Trade provisions | 3,890 | 956 | (889) | 3,957 |
| | 3,890 | 956 | (889) | 3,957 |

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

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

Movement in trade provisions in 2008 was as follows:

| | Thousands of Euros | | | Balances at 31/12/08 |
|------------------|-------------------------|-----------|--------------|-------------------------|
| | Balances at 31/12/07 | Provision | Cancellation | |
| Trade provisions | 3,957 | (97) | (30) | 3,830 |
| | 3,957 | (97) | (30) | 3,830 |

(18) Financial liabilities

This note provides information on the contractual conditions of the Group's financial liabilities, which are measured at amortised cost, except for the financial derivative which is measured at fair value. For further information on exposure to interest rate risk, foreign exchange risk and liquidity risk, and fair values of financial liabilities, please refer to note 28.

Non-current financial liabilities

Details at 31 December are as follows:

| Non-current financial liabilities | Thousands of Euros | |
|--|--------------------|----------------|
| | 31/12/08 | 31/12/07 |
| Club Deal / Syndicated loan | 225,320 | 138,211 |
| Other loans | 79,069 | 34,727 |
| Finance lease payables (note 8) | 7,124 | 5,487 |
| Borrowings | 311,513 | 178,425 |
| Preferential loans from Ministry of Science and Technology | 10,685 | 9,670 |
| Debt from acquisition of a plasma centre | 1,098 | -- |
| Debt with Novartis | 759 | 1,394 |
| Other non-current financial liabilities | 12,542 | 11,064 |
| | 324,055 | 189,489 |

GRIFOLS, S.A. AND SUBSIDIARIES

Notes to the Consolidated Annual Accounts

(Free translation from the original in Spanish.

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

Non-current loans and borrowings, net of loan arrangement expenses, are as follows:

| Loan arrangement expenses | Thousands of Euros | |
|-----------------------------|--------------------|--------------|
| | 31/12/08 | 31/12/07 |
| Club Deal / Syndicated loan | 1,237 | 172 |
| Other loans | 1,008 | 851 |
| | 2,245 | 1,023 |

Non-current loans and borrowings

Details of the terms and conditions of non-current borrowings at 31 December 2008 and 2007 are included in Appendix IV, which forms an integral part of these notes to these consolidated annual accounts.

At 26 May 2008 a Club Deal refinancing agreement was signed with 24 financial entities for Euros 350 million (including the option to draw down a tranche of the loan in US Dollars), in order to refinance the non-current syndicated loan existing at 31 December 2007. This loan provides the Group with a significant margin for leverage to carry out planned investment programmes.

This syndicated loan, which matures on 26 May 2013, 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 2008 Euros 30 million of the Club Deal loan has been drawn down in US Dollars.

At 31 December 2008 the Company fulfils the ratios established in the syndicated loan contract.

GRIFOLS, S.A. AND SUBSIDIARIES

Notes to the Consolidated Annual Accounts

(Free translation from the original in Spanish.

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

Details of maturity of non-current borrowings at 31 December 2008 and 2007 are as follows:

| | Thousands of Euros | |
|----------------------|--------------------|----------|
| | 31/12/08 | 31/12/07 |
| Maturity at: | | |
| Two years | 46,231 | 41,911 |
| Three years | 77,586 | 36,881 |
| Four years | 76,261 | 81,639 |
| Five years | 69,382 | 4,022 |
| More than five years | 42,053 | 13,972 |
| | <hr/> | <hr/> |
| | 311,513 | 178,425 |
| | <hr/> | <hr/> |

Other non-current financial liabilities

At 31 December 2008 this caption includes Euros 826 thousand (Euros 1,562 thousand at 31 December 2007) comprising the non-current 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 67 thousand (Euros 168 thousand at 31 December 2007) and have been deducted from the aforementioned amount. Other current financial liabilities includes the current portion of this debt which amounts to Euros 806 thousand (Euros 762 thousand at 31 December 2007).

At 31 December 2008 this caption also includes Euros 1,330 thousand comprising the Euros equivalent of the debt in US Dollars payable in the long term to Amerihealth Plasma, LLC for the plasma centre acquired in the USA (note 1 (d.1)). Deferred financial expenses resulting from this transaction amount to Euros 232 thousand and have been deducted from the aforementioned amount. Other non-current financial liabilities includes the current portion of this debt which amounts to Euros 883 thousand.

GRIFOLS, S.A. AND SUBSIDIARIES

Notes to the Consolidated Annual Accounts

(Free translation from the original in Spanish.

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

Details of the preference loans extended by the Spanish Ministry of Science and Technology, which are interest free, to various group companies are as follows:

| Company | Date awarded | Amount awarded | Thousands of Euros | | | |
|---------------------------|--------------|----------------|--------------------|---------|-------------|---------|
| | | | 31/12/08 | | 31/12/07 | |
| | | | Non-current | Current | Non-current | Current |
| Instituto Grifols S.A | 22/02/2002 | 749 | -- | 106 | 101 | 106 |
| Instituto Grifols S.A | 31/01/2001 | 637 | 81 | 86 | 158 | 86 |
| Instituto Grifols S.A | 13/02/2002 | 691 | 173 | 94 | 253 | 94 |
| Instituto Grifols S.A | 17/01/2003 | 1,200 | 451 | 165 | 587 | 165 |
| Instituto Grifols S.A | 13/11/2003 | 2,000 | 993 | 279 | 1,212 | 279 |
| Instituto Grifols S.A | 17/01/2005 | 2,680 | 1,646 | 375 | 1,934 | 375 |
| Instituto Grifols S.A | 29/12/2005 | 2,100 | 1,471 | 287 | 1,679 | -- |
| Instituto Grifols S.A | 29/12/2006 | 1,700 | 1,357 | -- | 1,293 | -- |
| Instituto Grifols S.A | 27/12/2007 | 1,700 | 1,256 | -- | 1,191 | -- |
| Instituto Grifols S.A | 31/12/2008 | 1,419 | 1,089 | -- | -- | -- |
| Laboratorios Grifols, S.A | 20/03/2001 | 219 | 28 | 30 | 55 | 30 |
| Laboratorios Grifols, S.A | 29/01/2002 | 210 | 53 | 29 | 77 | 29 |
| Laboratorios Grifols, S.A | 15/01/2003 | 220 | 83 | 30 | 108 | 30 |
| Laboratorios Grifols, S.A | 26/09/2003 | 300 | 144 | 41 | 178 | 40 |
| Laboratorios Grifols, S.A | 22/10/2004 | 200 | 123 | 28 | 144 | 28 |
| Laboratorios Grifols, S.A | 20/12/2005 | 180 | 126 | 25 | 144 | -- |
| Laboratorios Grifols, S.A | 29/12/2006 | 400 | 312 | -- | 304 | -- |
| Laboratorios Grifols, S.A | 27/12/2007 | 360 | 266 | -- | 252 | -- |
| Laboratorios Grifols, S.A | 31/12/2008 | 600 | 460 | -- | -- | -- |
| Diagnostic Grifols, S.A | 27/11/2008 | 858 | 573 | 129 | -- | -- |
| | | 18,423 | 10,685 | 1,704 | 9,670 | 1,262 |

In 2008 the implicit borrowing costs taken to profit and loss amount to Euros 516 thousand (Euros 477 thousand in 2007) (see note 24).

GRIFOLS, S.A. AND SUBSIDIARIES

Notes to the Consolidated Annual Accounts

(Free translation from the original in Spanish.

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

Details of the maturity of other non-current financial liabilities are as follows:

| | Thousands of Euros | |
|----------------------|--------------------|---------------|
| | 31/12/08 | 31/12/07 |
| Maturity at: | | |
| Two years | 3,393 | 2,177 |
| Three years | 2,127 | 2,315 |
| Four years | 1,923 | 1,666 |
| Five years | 1,676 | 1,490 |
| More than five years | 3,423 | 3,416 |
| | <u>12,542</u> | <u>11,064</u> |

Current financial liabilities

Details at 31 December are as follows:

| Current financial liabilities | Thousands of Euros | |
|---|--------------------|----------------|
| | 31/12/08 | 31/12/07 |
| Bonds | 5,580 | 5,521 |
| Syndicated loan | (200) | 30,701 |
| Other loans | 137,227 | 137,252 |
| Finance lease payables (note 8) | 4,940 | 4,066 |
| Loans and borrowings, bonds and other marketable securities | <u>147,547</u> | <u>177,540</u> |
| Financial derivatives (note 9) | 796 | -- |
| Preferential loans from Ministry of Science and Technology | 1,704 | 1,262 |
| Receivables from Social Security affiliated bodies transferred to Deutsche Bank | 5,274 | 4,057 |
| Debt for acquisition of a plasma centre | 883 | 0 |
| Debt with Novartis | 806 | 762 |
| Debt for acquisition of Plasma Collection Centres, Inc. | -- | 3,397 |
| Guarantee deposits received | 56 | 77 |
| Other current financial payables | 166 | -- |
| Other current financial liabilities | <u>9,685</u> | <u>9,555</u> |
| | <u>157,232</u> | <u>187,095</u> |

GRIFOLS, S.A. AND SUBSIDIARIES

Notes to the Consolidated Annual Accounts

(Free translation from the original in Spanish.

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

Current borrowings, net of loan arrangement expenses and interest, are as follows:

| Loan arrangement expenses | Thousands of Euros | |
|---------------------------|--------------------|------------|
| | 31/12/08 | 31/12/07 |
| Syndicated loan | 440 | 499 |
| Other loans | 141 | 189 |
| | 581 | 688 |

| Interest | Thousands of Euros | |
|-----------------|--------------------|--------------|
| | 31/12/08 | 31/12/07 |
| Syndicated loan | 240 | 262 |
| Other loans | 1,004 | 1,651 |
| | 1,244 | 1,913 |

Bonds

During 2008 a Group company has issued bearer promissory notes at one year of Euros 3,000 thousand nominal amount each for a total amount of Euros 6,000 thousand and an interest rate of 5.25%, which were earmarked for Group employees. At 31 December 2008 promissory notes at a nominal amount of Euros 5,679 thousand have been subscribed. At 31 December 2008 unaccrued interest payable on these promissory notes amounts to Euros 99 thousand at 31 December 2008 which has been deducted from the previous amount.

During 2007 a Group company issued bearer promissory notes at one year of Euros 3,000 thousand nominal amount each for a total amount of Euros 6,000 thousand, which were earmarked for Group employees. At 31 December 2007 promissory notes at a par value of Euros 5,616 thousand were subscribed. At 31 December 2007 unaccrued interest payable on these promissory notes amounts to Euros 95 thousand which has been deducted from the previous amount.

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

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

Current loans and borrowings

Details of current loans and borrowings are as follows:

| | Interest rate (*) Min - max | Thousands of Euros | |
|--|-----------------------------------|--------------------|----------|
| | | Drawn down | |
| | | 31/12/08 | 31/12/07 |
| Loans in: | | | |
| US Dollars | 3.188-5.78% | 64,207 | 48,631 |
| Euros | 2.60-6.25 % | 58,870 | 111,759 |
| Other currencies | TIE+2.55% -13% | 11,170 | 4,718 |
| | | 134,247 | 165,108 |
| Discounted trade notes (note 12) | 3.62-6.8 % | 2,117 | 1,620 |
| Current interest on borrowings | | 1,244 | 1,913 |
| Finance lease payables (note 8) | | 5,491 | 4,564 |
| | | 143,099 | 173,205 |
| Less, current portion of deferred financial expenses for leasing (note 8) | | (551) | (498) |
| Less, current portion of loan arrangement expenses | | (581) | (688) |
| | | 141,967 | 172,019 |
| (*) Loans accrue variable interest rates. | | | |

At 31 December 2008 the Group has a drawable borrowing limit of Euros 741,245 thousand (Euros 505,569 thousand at 31 December 2007).

GRIFOLS, S.A. AND SUBSIDIARIES

Notes to the Consolidated Annual Accounts

(Free translation from the original in Spanish.

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

Other current financial liabilities

The balance payable for the acquisition of Plasma Collection Centers, Inc. has been settled during 2008.

At 31 December 2008 and 2007 current financial liabilities also include approximately Euros 5,274 thousand and Euros 4,057 thousand, respectively, which has been collected directly from social security affiliated bodies, as the receivables had been transferred from Deutsche Bank (see note 12).

(19) Other liabilities

Other non-current liabilities

Details at 31 December are as follows:

| | Thousands of Euros | |
|---|--------------------|--------------|
| | 31/12/08 | 31/12/07 |
| Capital grants | 2,015 | 2,082 |
| Capital grants through privileged loans | 338 | 2,463 |
| Deferred income | 2,353 | 4,545 |
| Other non-current payables | 2,353 | 4,545 |

Other current liabilities

Details at 31 December are as follows:

| | Thousands of Euros | |
|-------------------------------|--------------------|---------------|
| | 31/12/08 | 31/12/07 |
| Remunerations payable | 21,987 | 19,159 |
| Other payables | 1,446 | 409 |
| Other current payables | 23,433 | 19,568 |

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

(Free translation from the original in Spanish.

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

Capital grants and interest-rate grants

Details of capital grants are as follows:

| | Thousands of Euros | |
|--------------------------------|--------------------|----------|
| | 31/12/08 | 31/12/07 |
| Total amount of capital grant: | | |
| Prior to 1995 | 330 | 330 |
| 1995 | 627 | 627 |
| 1996 | 54 | 54 |
| 1997 | 426 | 426 |
| 1998 | 65 | 65 |
| 1999 | 42 | 42 |
| 2000 | 181 | 179 |
| 2001 | 214 | 214 |
| 2002 | 626 | 626 |
| 2004 | 1,940 | 1,940 |
| 2005 | 35 | 37 |
| 2006 | 35 | 35 |
| 2007 | 33 | 33 |
| Current period | 124 | |
| | 4,732 | 4,608 |
| Less, revenues recognised: | | |
| Prior years | (2,189) | (1,907) |
| Current year | (255) | (282) |
| | (2,444) | (2,189) |
| Translation differences | (273) | (337) |
| | 2,015 | 2,082 |
| Net value of capital grants | 2,015 | 2,082 |

At 31 December 2008 interest-rate grants (preference loans) include Euros 338 thousand of implicit interest on loans extended by the Spanish Ministry of Science and Technology as these are interest free (Euros 2,463 thousand at 31 December 2007).

GRIFOLS, S.A. AND SUBSIDIARIES

Notes to the Consolidated Annual Accounts

(Free translation from the original in Spanish.

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

Movement during 2007 is as follows:

| | Balances at 31/12/06 | Additions | Transfer to profit/(loss) | Balances at 31/12/07 |
|---|-------------------------|-----------|------------------------------|-------------------------|
| Capital grants through privileged loans | 2,326 | 614 | (477) | 2,463 |

Movement during 2008 is as follows:

| | Balances at 31/12/07 | Additions | Transfer to profit/(loss) | Balances at 31/12/08 |
|---|-------------------------|-----------|------------------------------|-------------------------|
| Capital grants through privileged loans | 2,463 | 561 | (2,686) | 338 |

(20) Trade and other payables

Details are as follows:

| | Thousands of Euros | |
|------------------------------|--------------------|----------|
| | 31/12/08 | 31/12/07 |
| Suppliers and trade payables | 99,215 | 76,934 |
| Notes payable to suppliers | 770 | 1,031 |
| Advances received | 7,599 | 11,571 |
| Accruals | 29 | 1,254 |
| | 107,613 | 90,790 |

Details of balances with related parties are provided in note 29.

GRIFOLS, S.A. AND SUBSIDIARIES

Notes to the Consolidated Annual Accounts

(Free translation from the original in Spanish.

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

Balances with suppliers include the following payables in foreign currencies:

| Currency | Thousands of Euros | |
|-------------------|--------------------|----------|
| | 31/12/08 | 31/12/07 |
| US Dollars | 30,010 | 19,423 |
| Pounds Sterling | 359 | 844 |
| Japanese Yen | 1,300 | 623 |
| Czech Crowns | 403 | 480 |
| Chilean Pesos | 285 | 661 |
| Brazilian Real | 536 | 354 |
| Singapore Dollars | 0 | 226 |
| Other currencies | 211 | 176 |

The Group's exposure to foreign exchange risk and liquidity risk associated with trade and other payables is described in note 28.

(21) Revenues

The distribution of consolidated revenues in 2008 and 2007, by segment, was as follows:

| | % | |
|---------------|----------|----------|
| | 31/12/08 | 31/12/07 |
| Bioscience | 74 | 70 |
| Diagnostics | 10 | 11 |
| Hospital | 11 | 11 |
| Raw materials | 4 | 7 |
| Others | 1 | 1 |
| | 100 | 100 |

GRIFOLS, S.A. AND SUBSIDIARIES

Notes to the Consolidated Annual Accounts

(Free translation from the original in Spanish.

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

The geographical distribution of consolidated revenues is as follows:

| | % | |
|--------------------------|----------|----------|
| | 31/12/08 | 31/12/07 |
| Sales, European Union | 50% | 54% |
| Sales, USA | 36% | 34% |
| Sales, rest of the world | 14% | 13% |
| | 100% | 100% |

Revenues include net sales made in the following foreign currencies:

| Currency | Thousands of Euros | |
|--------------------|--------------------|----------|
| | 31/12/08 | 31/12/07 |
| US Dollars | 304,445 | 252,410 |
| Pounds Sterling | 36,668 | 39,709 |
| Mexican Pesos | 29,182 | 22,990 |
| Chilean Pesos | 16,047 | 12,242 |
| Czech Crowns | 12,568 | 13,184 |
| Brazilian Reals | 15,916 | 6,828 |
| Thai Bahts | 6,302 | 5,545 |
| Argentine Pesos | 9,145 | 5,395 |
| Singapore Dollars | 4,272 | 3,809 |
| Malaysian Ringgits | 2,488 | 1,909 |
| Slovak Koruna | 0 | 28 |

GRIFOLS, S.A. AND SUBSIDIARIES

Notes to the Consolidated Annual Accounts

(Free translation from the original in Spanish.

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

(22) Personnel expenses

Details are as follows:

| | Thousands of Euros | |
|--------------------------------------|--------------------|----------------|
| | 31/12/08 | 31/12/07 |
| Wages and salaries | 191,644 | 173,927 |
| Pension plan contributions (note 27) | 1,365 | 1,619 |
| Welfare benefits | 45,150 | 33,503 |
| | <u>238,159</u> | <u>209,049</u> |

The average headcount in 2008 and 2007, by department, was approximately as follows:

| | Average number | |
|---|----------------|--------------|
| | 2008 | 2007 |
| Manufacturing | 4,201 | 3,576 |
| Research & development – technical area | 239 | 215 |
| Administration and others | 431 | 359 |
| General management | 86 | 85 |
| Marketing | 83 | 75 |
| Sales and distribution | 465 | 439 |
| | <u>5,505</u> | <u>4,749</u> |

GRIFOLS, S.A. AND SUBSIDIARIES

Notes to the Consolidated Annual Accounts

(Free translation from the original in Spanish.

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

The average headcount of the Group and the Company's Board of directors at 31 December 2007, by gender, was as follows:

| | Number at 31/12/07 | | Total number of employees |
|---|--------------------|--------------|---------------------------|
| | Male | Female | |
| Board of Directors | 9 | 0 | 9 |
| Manufacturing | 1,781 | 2,087 | 3,868 |
| Research & development – technical area | 82 | 140 | 222 |
| Administration and others | 192 | 186 | 378 |
| General management | 40 | 44 | 84 |
| Marketing | 39 | 40 | 79 |
| Sales and distribution | 239 | 207 | 446 |
| | <u>2,382</u> | <u>2,704</u> | <u>5,086</u> |

The headcount of the Group and the Company's Board of directors at 31 December 2008, by gender, is as follows:

| | Number at 31/12/08 | | Total number of employees |
|---|--------------------|--------------|---------------------------|
| | Male | Female | |
| Board of Directors | 8 | 1 | 9 |
| Manufacturing | 2,160 | 2,350 | 4,510 |
| Research & development – technical area | 109 | 149 | 258 |
| Administration and others | 228 | 225 | 453 |
| General management | 42 | 42 | 84 |
| Marketing | 42 | 45 | 87 |
| Sales and distribution | 291 | 192 | 483 |
| | <u>2,880</u> | <u>3,004</u> | <u>5,884</u> |

GRIFOLS, S.A. AND SUBSIDIARIES

Notes to the Consolidated Annual Accounts

(Free translation from the original in Spanish.

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

(23) Other Operating Income and Expenses

Operating expenses

Details are as follows:

| | Thousands of Euros | |
|--|--------------------|----------------|
| | 31/12/08 | 31/12/07 |
| Changes in trade provisions (notes 11, 28 (b) and 17) | 561 | (1,253) |
| Professional services | 29,949 | 25,022 |
| Supplies and other material | 29,268 | 22,274 |
| Operating leases (note 26 a) | 11,792 | 11,142 |
| Finance leases and other leases | 4,791 | 5,234 |
| Transport | 19,485 | 15,707 |
| Repairs and maintenance costs | 17,642 | 12,978 |
| Publicity | 16,872 | 13,830 |
| Insurance | 10,367 | 10,787 |
| Royalties and service charges | 8,760 | 5,236 |
| Travel expenses | 14,210 | 11,962 |
| External services | 21,891 | 18,465 |
| Others | 9,094 | 6,889 |
| Other operating expenses | 194,682 | 158,273 |
| * Expense / (Income) | | |

On 13 April 2007 one of the Group companies signed an agreement cancelling the contract it had regarding the payment of royalties with effect from May 2005, resulting in the reversal of the provision for the accrual of these expenses which the Group had recognised until the date of the agreement. Approximately Euros 3 million was reversed.

GRIFOLS, S.A. AND SUBSIDIARIES

Notes to the Consolidated Annual Accounts

(Free translation from the original in Spanish.

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

Operating income

Details are as follows:

| | Thousands of Euros | |
|--------------------------------|--------------------|--------------|
| | 31/12/08 | 31/12/07 |
| Income from insurance claims | 584 | 780 |
| Capital grants | 497 | 908 |
| Income from the sale of energy | 2,394 | 0 |
| Other income | 208 | 634 |
| Other operating income | 3,683 | 2,322 |

(24) Finance income and expense costs

Details are as follows:

| | Thousands of Euros | |
|--|--------------------|-----------------|
| | 31/12/08 | 31/12/07 |
| Interest from Social Security | 2,212 | 2,847 |
| Other financial income | 470 | 1,679 |
| Finance income | 2,682 | 4,526 |
| Syndicated loan (other financial expenses) | 1,849 | 694 |
| Syndicated loan (interest) | 12,152 | 9,042 |
| Finance expenses from sale of receivables (note 12) | 2,128 | 786 |
| Implicit interest on preference loans (note 18) | 516 | 477 |
| Other finance expenses | 12,660 | 12,524 |
| Finance expenses | 29,305 | 23,523 |
| Change in fair value of financial derivatives (note 9) | (1,268) | 829 |
| Exchange differences | (2,825) | (4,618) |
| Net financing costs | (30,716) | (22,786) |

GRIFOLS, S.A. AND SUBSIDIARIES

Notes to the Consolidated Annual Accounts

(Free translation from the original in Spanish.)

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

(25) Income tax

Companies present annual income tax returns. The standard rate of tax is 30%, 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, is responsible for the presentation and payment of the consolidated tax return.

The North-American company Grifols, Inc. is also permitted to present consolidated tax returns in the USA with Grifols Biologicals, Inc. and Grifols USA, LLC. Since November 2007 Biomat USA, Inc, Plasmacare, Inc and Plasma Collection Centers, Inc. have also been included in this tax consolidation.

a) Reconciliation of accounting and taxable income

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

| | Thousands of Euros | |
|--|--------------------|----------|
| | 31/12/08 | 31/12/07 |
| Profit/(loss) for the year before income tax | 172,269 | 123,587 |
| Tax at 30% / 32.5% | 51,680 | 40,166 |
| Permanent differences | 2,678 | 104 |
| Effect of different tax rates | 4,366 | 769 |
| Deductions for research and development | (5,403) | (4,728) |
| Other deductions | (4,199) | (837) |
| Expense for income tax in prior years | (3) | 21 |
| Other income tax expenses/(recoverable) | 1,034 | (256) |
| Total income tax expense | 50,153 | 35,239 |
| Deferred tax expenses | 6,987 | 6,414 |
| Current tax expenses | 43,166 | 28,825 |
| Total | 50,153 | 35,239 |

GRIFOLS, S.A. AND SUBSIDIARIES

Notes to the Consolidated Annual Accounts

(Free translation from the original in Spanish.

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

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.

Due to, among other reasons, the treatment permitted by fiscal legislation of certain transactions, additional tax contingencies could arise in the event of inspection. In any event, the Parent's directors do not consider that any such contingencies that could arise would significantly affect the consolidated annual accounts.

At 31 December 2008 the following events have arisen in relation to the tax inspections performed in Group companies:

- Notification of the favourable completion of the inspection of Grifols Deutschland, , except for a Euros 150 thousand which has been taken to profit and loss in 2008.
- Notification of the favourable completion of the inspection of Grifols, Inc., Grifols Biologicals, Inc., Grifols USA, Inc. and Plasmacare, Inc.
- At 31 December 2008 Biomat Usa, Inc. is being inspected by the pertinent tax authorities. The Group's management does not expect any significant additional assessments to arise as a result of this inspection.

(26) Operating leases

(a) Operating leases (as lessee)

At 31 December 2008 and 2007 the Group leases buildings to 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.

GRIFOLS, S.A. AND SUBSIDIARIES

Notes to the Consolidated Annual Accounts

(Free translation from the original in Spanish.

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

Operating lease instalments of Euros 11,792 thousand have been recognised as an expense for the year at 31 December 2008 (Euros 11,142 thousand at 31 December 2007). Of this amount Euros 11,787 thousand (Euros 11,128 thousand at 31 December 2007) corresponds to minimum lease payments and Euros 5 thousand (Euros 14 thousand at 31 December 2007) to contingent rent instalments.

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

| | Thousands of Euros | |
|-------------------------------|--------------------|----------|
| | 31/12/08 | 31/12/07 |
| Maturity: | | |
| Up to 1 year | 9,575 | 7,597 |
| Between 1 and 5 years | 24,919 | 21,864 |
| More than 5 years | 7,192 | 5,472 |
| Total future minimum payments | 41,686 | 34,933 |

(b) Operating leases (as lessor)

The Group has a building leased to third parties under an operating lease at 31 December 2008 and 2007:

| | Thousands of Euros | |
|-------------------------------|--------------------|----------|
| | 31/12/08 | 31/12/07 |
| Maturity: | | |
| Up to 1 year | 69 | 74 |
| Between 1 and 5 years | 50 | 109 |
| More than 5 years | -- | -- |
| Total future minimum payments | 119 | 183 |

This contract does not include contingent rent or purchase options. Income of Euros 70 thousand has been recognised in 2008 (Euros 75 thousand in 2007).

GRIFOLS, S.A. AND SUBSIDIARIES

Notes to the Consolidated Annual Accounts

(Free translation from the original in Spanish.

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

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

(a) Guarantees extended and other deposits

The Group has not extended any guarantees to third parties.

(b) Guarantees with third parties

The Group has not received any guarantees from third parties.

(c) Obligations with personnel

As described in note 3 (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 377 thousand in 2008 (Euros 351 thousand at 31 December 2007).

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

Some foreign subsidiaries of the Group have made contributions of Euros 988 thousand to complementary pension schemes (Euros 1,268 thousand at 31 December 2007).

(d) Judicial procedures and arbitration

Details of legal proceeding 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 was filed, which was rejected by the Cádiz Provincial Court in April 2007, thereby confirming the company's line of defence. A further appeal has been filed with the Supreme Court by the other party.

GRIFOLS, S.A. AND SUBSIDIARIES

Notes to the Consolidated Annual Accounts

(Free translation from the original in Spanish.

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

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

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.

- The Company was notified in 2007 of a claim for maximum damages of Euros 12,960 thousand filed by a group of 100 Catalan haemophiliacs against all plasma fractionation companies. During 2008 this claim has been rejected and an appeal has been filed.

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 being made 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.

GRIFOLS, S.A. AND SUBSIDIARIES

Notes to the Consolidated Annual Accounts

(Free translation from the original in Spanish.

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

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 by product civil liability amounts to approximately Euros 2,942 thousand.

(e) Interest rate swaps

The Group has recognised the following swaps at 31 December 2007:

| Swap | Thousands of Euros | | Maturity |
|--------------------|--------------------|----------------------------|----------|
| | Par | Positive value at 31/12/07 | |
| Interest rate swap | 50,000 | 512 | 26/07/11 |
| | 50,000 | 512 | |
| | (note 9) | | |

The Group recognised the following swaps at 31 December 2008:

| Swap | Thousands of Euros | | Maturity |
|--------------------|--------------------|----------------------------|----------|
| | Par | Negative value at 31/12/08 | |
| Interest rate swap | 50,000 | (796) | 26/07/11 |
| | 50,000 | (796) | |
| | (note 18) | | |

(f) Long-term materials supply contract

One of the Group's companies in the USA signed a contract for the supply of raw materials, undertaking to purchase a yearly maximum of 250,000 litres of plasma at a fixed price and until no later than 2013.

GRIFOLS, S.A. AND SUBSIDIARIES

Notes to the Consolidated Annual Accounts

(Free translation from the original in Spanish.

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

(g) Services contract with Baxter Healthcare Corporation

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

(28) Financial Instruments

Classification

Disclosure of financial instruments by nature and category is as follows:

| | Thousands of Euros | | | |
|-----------------------------|---|--------------------------|---|------------------|
| | 31/12/07 | | | |
| | Available- for-sale financial assets | Loans and receivables | Financial assets held for trading | Payables |
| Financial assets | 7,979 | -- | -- | -- |
| Interest rate swap | -- | -- | 512 | -- |
| Receivables | -- | 205,256 | -- | -- |
| Current tax assets | -- | 2,402 | -- | -- |
| Public entities, other | -- | 3,920 | -- | -- |
| Bank loans | -- | -- | -- | (340,891) |
| Other financial liabilities | -- | -- | -- | (20,619) |
| Bonds and other securities | -- | -- | -- | (5,521) |
| Finance lease liabilities | -- | -- | -- | (9,553) |
| Trade and other payables | -- | -- | -- | (89,536) |
| Other payables | -- | -- | -- | (409) |
| | <u>7,979</u> | <u>211,578</u> | <u>512</u> | <u>(466,529)</u> |

GRIFOLS, S.A. AND SUBSIDIARIES

Notes to the Consolidated Annual Accounts

(Free translation from the original in Spanish.

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

| | Thousands of Euros | | | |
|-----------------------------|-------------------------------------|-----------------------|-----------------------------------|-----------|
| | 31/12/08 | | | |
| | Available-for-sale financial assets | Loans and receivables | Financial assets held for trading | Payables |
| Financial assets | 8,316 | -- | -- | -- |
| Interest rate swap | -- | -- | (796) | -- |
| Receivables | -- | 212,592 | -- | -- |
| Current tax assets | -- | 5,428 | -- | -- |
| Public entities, other | -- | 22,434 | -- | -- |
| Bank loans | -- | -- | -- | (441,416) |
| Other financial liabilities | -- | -- | -- | (21,431) |
| Bonds and other securities | -- | -- | -- | (5,580) |
| Finance lease liabilities | -- | -- | -- | (12,064) |
| Trade and other payables | -- | -- | -- | (107,584) |
| Other payables | -- | -- | -- | (1,446) |
| | 8,316 | 240,454 | (796) | (589,521) |

Fair value

Details of the fair value of financial assets and financial liabilities, including their carrying amounts, are as follows:

| | Thousands of Euros | | | |
|---------------------------------|--------------------|------------|-----------------|------------|
| | 31/12/08 | | 31/12/07 | |
| | Carrying amount | Fair value | Carrying amount | Fair value |
| Financial assets | 8,316 | 8,316 | 7,979 | 7,979 |
| Interest-rate swap | (796) | (796) | 512 | 512 |
| Receivables | 212,592 | 212,592 | 205,256 | 205,256 |
| Cash and cash equivalents | 6,368 | 6,368 | 5,690 | 5,690 |
| Bank loans | (441,416) | (441,416) | (340,891) | (340,891) |
| Other financial liabilities | (21,431) | (21,431) | (20,619) | (20,619) |
| Debentures and other securities | (5,580) | (5,580) | (5,521) | (5,521) |
| Finance lease payables | (12,064) | (12,064) | (9,553) | (9,553) |
| Trade and other payables | (107,584) | (107,584) | (89,536) | (89,536) |
| Other non-trade payables | (1,446) | (1,446) | (409) | (409) |
| | (363,041) | (363,041) | (247,092) | (247,092) |

GRIFOLS, S.A. AND SUBSIDIARIES

Notes to the Consolidated Annual Accounts

(Free translation from the original in Spanish.

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

Credit risk

a) Exposure to credit risk

The carrying amount of financial assets represents the maximum exposure to credit risk. At 31 December 2008 and 2007 the maximum level of exposure to credit risk is as follows:

| Carrying amount | Note | Thousands of Euros | |
|--|------|--------------------|----------------|
| | | 2008 | 2007 |
| Financial assets | 9 | 8,316 | 7,979 |
| Interest-rate swaps | 9 | -- | 512 |
| Trade and other receivables | 12 | 203,646 | 193,288 |
| Current tax assets | 13 | 5,428 | 2,402 |
| Other receivables from public entities | 13 | 22,434 | 3,920 |
| Cash and cash equivalents | | 6,368 | 5,690 |
| | | <u>246,192</u> | <u>213,791</u> |

The maximum level of exposure to risk associated with receivables at 31 December 2008 and 2007, by geographical area, is as follows.

| Carrying amount | Thousands of Euros | |
|--------------------------|--------------------|----------------|
| | 2008 | 2007 |
| Domestic | 88,704 | 89,449 |
| EU states | 51,139 | 52,402 |
| United States of America | 31,016 | 23,221 |
| United Kingdom | 2,615 | 4,194 |
| Other European countries | 1,880 | 1,666 |
| Other regions | 28,292 | 22,356 |
| | <u>203,646</u> | <u>193,288</u> |

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

(Free translation from the original in Spanish.

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

b) Impairment losses

Details of receivables by age are as follows:

| | Thousands of Euros | |
|--------------------|--------------------|---------|
| | 2008 | 2007 |
| Not matured | 135,757 | 120,084 |
| Less than 1 month | 23,047 | 20,114 |
| 1 to 4 months | 22,840 | 24,505 |
| 4 months to a year | 17,539 | 21,120 |
| More than a year | 4,463 | 7,465 |
| | 203,646 | 193,288 |

Movement in the provision for bad debts was as follows:

| | Thousands of Euros | |
|-----------------------------|--------------------|----------|
| | 31/12/08 | 31/12/07 |
| Opening balance | 3,285 | 3,448 |
| Net provisions for the year | 317 | (113) |
| Net reversals for the year | (249) | (48) |
| Translation differences | (181) | (2) |
| Closing balance | 3,172 | 3,285 |

An analysis of the concentration of credit risk is provided in note 4.

GRIFOLS, S.A. AND SUBSIDIARIES

Notes to the Consolidated Annual Accounts

(Free translation from the original in Spanish.

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

Liquidity risk

Details of the contracted maturity date of financial liabilities, including borrowing costs and excluding the effects of offsetting agreements, are as follows:

| Carrying amount | Note | Carrying amount at 31/12/07 | Contractual flows | 6 months or less | 6 - 12 months | 1-2 years | 2- 5 years | More than 5 years |
|---|------|-----------------------------|-------------------|------------------|----------------|---------------|----------------|-------------------|
| Non-derivative financial liabilities | | | | | | | | |
| Bank loans | 18 | 340,891 | 378,504 | 8,948 | 176,901 | 46,600 | 131,454 | 14,600 |
| Other financial liabilities | 18 | 20,619 | 23,021 | 9,912 | 1,307 | 2,404 | 6,046 | 3,352 |
| Obligations and other securities | 18 | 5,521 | 5,659 | 5,659 | 0 | 0 | 0 | 0 |
| Finance lease payables | 18 | 9,553 | 10,879 | 571 | 4,163 | 3,477 | 2,633 | 306 |
| Trade and other payables | 20 | 89,536 | 89,536 | 87,816 | 1,694 | 26 | 0 | 0 |
| Other non-trade payables | 19 | 409 | 409 | 91 | 32 | 0 | 286 | 0 |
| Current tax liabilities | 13 | 3,770 | 3,770 | 3,770 | 0 | 0 | 0 | 0 |
| Other payables to public entities | 13 | 11,396 | 11,396 | 11,396 | 0 | 0 | 0 | 0 |
| Derivative financial liabilities | | | | | | | | |
| Interest-rate swaps | 18 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Total | | 481,695 | 523,174 | 128,163 | 184,097 | 52,507 | 140,419 | 17,980 |

GRIFOLS, S.A. AND SUBSIDIARIES

Notes to the Consolidated Annual Accounts

(Free translation from the original in Spanish.

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

| Carrying amount | Note | Carrying amount at 31/12/08 | Contractual flows | 6 months or less | 6 - 12 months | 1-2 years | 2- 5 years | More than 5 years |
|---|------|-----------------------------|-------------------|------------------|----------------|---------------|----------------|-------------------|
| Non-derivative financial liabilities | | | | | | | | |
| Bank loans | 18 | 441,416 | 490,446 | 7,945 | 144,973 | 51,615 | 237,001 | 48,911 |
| Other financial liabilities | 18 | 21,431 | 23,830 | 6,781 | 2,909 | 3,392 | 6,925 | 3,821 |
| Obligations and other securities | 18 | 5,580 | 5,702 | 5,702 | 0 | 0 | 0 | 0 |
| Finance lease payables | 18 | 12,064 | 13,452 | 532 | 5,071 | 4,140 | 3,301 | 401 |
| Trade and other payables | 20 | 107,584 | 107,584 | 105,502 | 2,080 | 0 | 2 | 0 |
| Other non-trade payables | 19 | 1,446 | 1,446 | 328 | 799 | 0 | 0 | 319 |
| Current tax liabilities | 13 | 16,362 | 16,362 | 16,362 | 0 | 0 | 0 | 0 |
| Other payables to public entities | 13 | 9,068 | 9,068 | 9,068 | 0 | 0 | 0 | 0 |
| Derivative financial liabilities | | | | | | | | |
| Interest-rate swaps | 18 | 796 | 796 | 796 | 0 | 0 | 0 | 0 |
| Total | | 615,747 | 668,686 | 153,016 | 155,832 | 59,147 | 247,229 | 53,461 |

Foreign exchange risk

The Group's exposure to foreign exchange risk is as follows:

| Carrying amount | Note | 2007 | EUR | USD | Others |
|-------------------------------------|------|------------------|------------------|-----------------|---------------|
| Trade receivables | 12 | 174,351 | 126,629 | 22,071 | 25,651 |
| Bank loans | 18 | (340,891) | (287,542) | (48,631) | (4,718) |
| Trade and other payables | 20 | (90,790) | (68,003) | (19,423) | (3,364) |
| Gross balance sheet exposure | | (257,330) | (228,916) | (45,983) | 17,569 |

GRIFOLS, S.A. AND SUBSIDIARIES

Notes to the Consolidated Annual Accounts

(Free translation from the original in Spanish.

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

| Carrying amount | Note | 2008 | EUR | USD | Others |
|-------------------------------------|------|------------------|------------------|-----------------|-----------------|
| Trade receivables | 12 | 186,324 | 123,466 | 38,171 | 24,687 |
| Bank loans | 18 | (441,416) | (345,719) | (84,527) | (11,170) |
| Trade and other payables | 20 | (107,613) | (74,509) | (30,010) | (3,094) |
| Gross balance sheet exposure | | (362,705) | (296,762) | (76,366) | (10,423) |

The most significant exchange rates applied during the period are as follows:

| | Average interest rate | | Closing interest rate | |
|------|-----------------------|------|-----------------------|----------|
| | 2008 | 2007 | 31/12/08 | 31/12/07 |
| Euro | | | | |
| USD | 1.49 | 1.37 | 1.39 | 1.47 |

A sensitivity analysis for foreign exchange fluctuations is as follows:

Had the US Dollar strengthened by 10% against the Euro at 31 December 2008, equity would have increased by Euros 33,055 thousand (Euros 20,760 thousand at 31 December 2007) and profit would have fallen by Euros 7,637 thousand (Euros 4,598 thousand at 31 December 2007). This analysis assumes that all other variables are held constant, especially that interest rates remain constant. This analysis has been performed using the same criteria as in 2007.

A 10% weakening of the US Dollar against the Euro at 31 December would have had the opposite effect for the amounts shown above, all other variables being held constant.

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

(Free translation from the original in Spanish.

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

Interest-rate risk

Interest-rate profile

To date, the profile of interest on interest-bearing financial instruments is as follows:

| | Thousands of Euros | |
|---|--------------------|-----------|
| | 2008 | 2007 |
| Fixed-interest financial instruments | | |
| Financial assets | 8,316 | 7,979 |
| Financial liabilities | (5,580) | (5,521) |
| | 2,736 | 2,458 |
| Variable-interest financial instruments | | |
| Financial liabilities | (453,480) | (350,444) |
| | (453,480) | (350,444) |
| | (450,744) | (347,986) |

Sensitivity analysis

A 100 basis point variation in interest rates at the presentation date of 31 December 2008 would have increased (decreased) equity and consolidated profit after income tax by Euros 3,704 thousand. This analysis assumes that all other variables are held constant, especially that exchange rates remain constant.

A 100 basis point variation in interest rates at 31 December 2007 would have increased (decreased) equity and profit by Euros 2,816 thousand.

GRIFOLS, S.A. AND SUBSIDIARIES

Notes to the Consolidated Annual Accounts

(Free translation from the original in Spanish.

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

(29) Payables to Related Parties

Details are as follows:

| | Thousands of Euros | |
|---|--------------------|------------|
| | 31/12/08 | 31/12/07 |
| Payables to associates | 52 | 24 |
| Payables to key management personnel | 0 | 0 |
| Payables to members of the board of directors | 90 | 60 |
| Payables to other related parties | 2,226 | 481 |
| | <u>2,368</u> | <u>565</u> |

These balances are included in suppliers and trade payables (see note 20).

GRIFOLS, S.A. AND SUBSIDIARIES

Notes to the Consolidated Annual Accounts

(Free translation from the original in Spanish.

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

Group transactions with related parties

Transactions with related parties have been performed as part of the group's ordinary trade and have been performed at arm's length.

Group transactions with related parties during 2007 were as follows:

| | Thousands of Euros | | | |
|---|--------------------|--------------------------|-----------------------|-----------------------------------|
| | Associates | Key management personnel | Other related parties | Board of directors of the Company |
| Net purchases | 105 | -- | -- | -- |
| Net sales | -- | -- | -- | -- |
| Other service expenses | -- | -- | 2,337 | -- |
| | 105 | 0 | 2,337 | 0 |
| Interest | -- | -- | -- | -- |
| Dividends and other distributed profits | -- | -- | -- | 948 |
| Dividends and other received profits | -- | -- | -- | -- |
| | 0 | 0 | 0 | 948 |

Group transactions with related parties during 2008 were as follows:

| | Thousands of Euros | | | |
|---|--------------------|--------------------------|-----------------------|-----------------------------------|
| | Associates | Key management personnel | Other related parties | Board of directors of the Company |
| Net purchases | 125 | -- | -- | -- |
| Net sales | -- | -- | -- | -- |
| Other service expenses | -- | -- | 4,981 | -- |
| | 125 | 0 | 4,981 | 0 |
| Interest | -- | -- | -- | -- |
| Dividends and other distributed profits | -- | -- | -- | 2,600 |
| Dividends and other received profits | -- | -- | -- | -- |
| | 0 | 0 | 0 | 2,600 |

GRIFOLS, S.A. AND SUBSIDIARIES

Notes to the Consolidated Annual Accounts

(Free translation from the original in Spanish.

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

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

During 2008 the members of the board of directors of Grifols, S.A. have received Euros 180,000 in respect of their office (Euros 120,000 during 2007).

Details of remuneration of members of the board of directors which have a labour relationship with Group companies and remuneration received by key management personnel are as follows:

| | Thousands of Euros | |
|----------------------|--------------------|----------|
| | 31/12/08 | 31/12/07 |
| Current remuneration | 6,248 | 5,774 |
| Total | 6,248 | 5,774 |

The Company has not extended any advances or loans to the members of the board of directors nor has it assumed any guarantee commitments on their behalf. It has also not assumed any pension or life insurance obligations on behalf of former or current members of the board of directors

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

The directors do not hold any investments in companies with an identical, similar or complementary authorised activity under its by-laws to that of the Parent. Details of activities and duties carried out by directors of the Company in these companies are provided in Appendix V, which forms an integral part of these consolidated notes.

GRIFOLS, S.A. AND SUBSIDIARIES

Notes to the Consolidated Annual Accounts

(Free translation from the original in Spanish.

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

(30) Environment

The most significant systems, equipment and fixtures for the protection and improvement of the environment at 31 December 2007 are as follows:

| Project | Thousands of Euros | | |
|---|--------------------|-------------------------------|--------------------|
| | Cost | Accumulated amort. & depr. | Carrying amount |
| Cips (clean in process) | 484 | (137) | 347 |
| Water recovery | 184 | (65) | 119 |
| Equalisation pools | 163 | (131) | 32 |
| Water treatment plant | 156 | (70) | 86 |
| Installation of PEG collector | 77 | (71) | 6 |
| Automation of regenerant neutralisation | 73 | (53) | 20 |
| TOC meter for waste water | 72 | (35) | 37 |
| Alcohol pumping system | 72 | 0 | 72 |
| Joint effluent doors | 57 | (27) | 30 |
| Well improvements | 39 | (22) | 17 |
| Alcohol transfer engineering | 31 | (22) | 9 |
| HCL deposit for dosifying neutralisation pool | 26 | (12) | 14 |
| PEG stock deposit | 23 | 0 | 23 |
| LG 20m3 deposit in p9 | 22 | (16) | 6 |
| Chemical product storage deposit | 20 | (16) | 4 |
| Preparation of external areas | 19 | (6) | 13 |
| HCl deposit for water area | 16 | (5) | 11 |
| NaOH deposit for water area | 14 | (5) | 9 |
| Concentrated effluent recovery | 14 | (6) | 8 |
| Equalisation of effluents | 13 | (3) | 10 |
| Drainage adequation | 9 | (9) | 0 |
| Collection 15% PEG ALPHA1Pi generated | 8 | (3) | 5 |
| PEG deposit | 6 | (1) | 5 |
| Automation of neutralisation tank | 6 | (6) | 0 |
| Series of 220m condensers | 5 | (2) | 3 |
| Other | 22 | (6) | 16 |
| | 1,631 | (729) | 902 |

GRIFOLS, S.A. AND SUBSIDIARIES

Notes to the Consolidated Annual Accounts

(Free translation from the original in Spanish.

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

The most significant systems, equipment and fixtures for the protection and improvement of the environment at 31 December 2008 are as follows:

| Project | Thousands of Euros | | |
|---|--------------------|-------------------------------|--------------------|
| | Cost | Accumulated amort. & depr. | Carrying amount |
| Cips (clean in process) | 759 | (193) | 566 |
| Water recovery | 184 | (79) | 105 |
| Equalisation pools | 163 | (135) | 28 |
| Installation of PEG collector | 77 | (77) | 0 |
| Automation of regenerant neutralisation | 73 | (60) | 13 |
| TOC meter for waste water | 72 | (44) | 28 |
| Alcohol pumping system | 72 | (7) | 65 |
| Joint effluent doors | 57 | (33) | 24 |
| Well improvements | 39 | (26) | 13 |
| Alcohol transfer engineering | 31 | (25) | 6 |
| HCL deposit for dosifying neutralisation pool | 26 | (16) | 10 |
| PEG stock deposit | 23 | (7) | 16 |
| LG 20m3 deposit in p9 | 22 | (17) | 5 |
| Chemical product storage deposit | 20 | (18) | 2 |
| Preparation of external areas | 19 | (8) | 11 |
| HCl deposit for water area | 16 | (8) | 8 |
| NaOH deposit for water area | 14 | (7) | 7 |
| Concentrated effluent recovery | 14 | (8) | 6 |
| Equalisation of effluents | 13 | (4) | 9 |
| Drainage adequation | 9 | (9) | 0 |
| Collection 15% PEG ALPHA1Pi generated | 8 | (3) | 5 |
| PEG deposit | 6 | (2) | 4 |
| Automation of neutralisation tank | 6 | (6) | 0 |
| Series of 220m condensers | 5 | (3) | 2 |
| Membrane bioreactor | 528 | (32) | 496 |
| Distiller waste water recovery system | 5 | (1) | 4 |
| Automated water chlorination system | 13 | (1) | 12 |
| Others | 22 | (8) | 14 |
| | 2,296 | (837) | 1,459 |

Expenses incurred by the Group for protection and improvement of the environment in the year ended 31 December 2008 totalled approximately Euros 1,302 thousand (Euros 1,330 thousand at 31 December 2007).

GRIFOLS, S.A. AND SUBSIDIARIES

Notes to the Consolidated Annual Accounts

(Free translation from the original in Spanish.

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

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 years ended 31 December 2008 and 2007.

(31) 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 2008 and 2007, as follows:

| | Thousands of Euros | |
|--|--------------------|------------|
| | 31/12/08 | 31/12/07 |
| For annual audit services | 273 | 260 |
| For other audit services & related items | 26 | 50 |
| | <u>299</u> | <u>310</u> |

Audit services detailed in the above table include the total fees for the 2008 and 2007 audit, irrespective of the date of invoice.

Other companies associated with KPMG International have also invoiced the Company and its subsidiaries fees in 2008 and 2007, as follows:

| | Thousands of Euros | |
|--|--------------------|------------|
| | 31/12/08 | 31/12/07 |
| For annual audit services | 485 | 572 |
| For other audit services & related items | 52 | 79 |
| For other services | 113 | 111 |
| | <u>650</u> | <u>762</u> |

GRIFOLS, S.A. AND SUBSIDIARIES

Notes to the Consolidated Annual Accounts

(Free translation from the original in Spanish.

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

(b) Other significant events:

The following events were disclosed in the general shareholders' meeting held on 13 June 2008:

- Incorporation of a Foundation in the United States to encourage plasma donors.
- Incorporation of a non-governmental organisation in Spain to contribute to improving healthcare resources in needy regions of the world.

At 31 December 2008 a total of Euros 1.3 million in contributions have been made to these entities during the period.

(32) Subsequent Events

On 28 January 2009, Grifols, S.A. was notified by the Barcelona Tax Authorities of the start of an inspection of income tax (2004 to 2007) and Value Added tax and Withholdings (2005 to 2007).

The Group is in advanced negotiations to make an investment of Euros 25 million in a Swiss-Australian Group which manufactures and distributes in-vitro diagnosis products and commercialises haemoderivatives.

GRIFOLS,S.A. AND SUBSIDIARIES
Segment Reporting

BUSINESS SEGMENTS
(expressed in thousands of Euros)

| | Bioscience | | Hospital | | Diagnostics | | Raw materials | | Others/Unallocated | | Consolidated | |
|---|----------------|----------------|---------------|---------------|---------------|---------------|---------------|---------------|--------------------|--------------|------------------|-----------------|
| | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 |
| Operating income | 606,249 | 493,100 | 82,566 | 74,683 | 85,705 | 79,709 | 34,463 | 50,651 | 5,328 | 5,148 | 814,311 | 703,291 |
| Total operating income | 606,249 | 493,100 | 82,566 | 74,683 | 85,705 | 79,709 | 34,463 | 50,651 | 5,328 | 5,148 | 814,311 | 703,291 |
| Profit/(Loss) for the segment | 233,018 | 169,955 | 13,023 | 10,730 | 17,131 | 17,006 | 11,371 | 12,954 | 5,328 | 5,148 | 279,871 | 215,793 |
| Unallocated expense | | | | | | | | | | | | |
| Other unallocated (expense) income | | | | | | | | | (76,910) | (69,439) | (76,910) | (69,439) |
| Operating profit | | | | | | | | | 0 | 0 | 0 | 0 |
| Financial income/expenses | | | | | | | | | | | 202,961 | 146,354 |
| Investment in equity accounted investees | | | | | | | | | | | (30,716) | (22,786) |
| Income tax | | | | | | | | | | | | |
| Profit for the year | 0 | 0 | 0 | 0 | 24 | 19 | 0 | 0 | 0 | 0 | 24 | 19 |
| | | | | | | | | | | | (50,153) | (35,239) |
| | | | | | | | | | | | 122,116 | 88,348 |
| Segment assets | 798,843 | 620,301 | 63,660 | 48,766 | 67,087 | 54,721 | 4,379 | 5,296 | - | - | 933,969 | 729,084 |
| Equity accounted investments | | | | | | | | | | | 374 | 243 |
| Unallocated assets | | | | | 374 | 243 | | | 245,896 | 210,242 | 245,896 | 210,242 |
| Total assets | | | | | | | | | | | 1,180,239 | 939,569 |
| Segment liabilities | 75,203 | 68,165 | 13,697 | 2,306 | 8,937 | 7,255 | 0 | 0 | - | - | 97,837 | 77,726 |
| Unallocated liabilities | | | | | | | | | 601,123 | 477,677 | 601,123 | 477,677 |
| Total liabilities | | | | | | | | | | | 698,960 | 555,403 |
| Other information: | | | | | | | | | | | | |
| Amortisation and depreciation | 21,644 | 20,588 | 3,725 | 3,491 | 5,000 | 4,762 | 67 | 31 | 2,820 | 2,656 | 33,256 | 31,528 |
| Expenses that do not require cash payments | (1,744) | (1,500) | 32 | (4) | 15 | 59 | (7) | (81) | (275) | 272 | (1,979) | (1,254) |
| Additions for the year of property, plant & equipment and intangible assets | 65,954 | 35,098 | 9,266 | 3,452 | 14,078 | 4,954 | 516 | 0 | 39,879 | 11,991 | 129,693 | 55,495 |

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

GRIFOLS,S.A. AND SUBSIDIARIES
Segment Reporting

GEOGRAPHICAL SEGMENTS
 (expressed in thousands of Euros)

| | European Union | | United States | | Rest of the world | | Unallocated | | Consolidated | |
|--------------------------|----------------|---------|---------------|---------|-------------------|--------|-------------|------|--------------|---------|
| | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 | 2008 | 2007 |
| Revenues | 404,099 | 376,905 | 290,666 | 235,929 | 119,546 | 90,457 | 0 | 0 | 814,311 | 703,291 |
| Assets by segment | 629,237 | 531,238 | 502,797 | 373,225 | 48,205 | 35,106 | 0 | 0 | 1,180,239 | 939,569 |

Other information:

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

| | | | | | | | | | | |
|--|--------|--------|--------|--------|-------|-------|---|---|---------|--------|
| | 94,004 | 30,882 | 33,475 | 23,183 | 2,214 | 1,430 | - | - | 129,693 | 55,495 |
|--|--------|--------|--------|--------|-------|-------|---|---|---------|--------|

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

APPENDIX II
GRIFOLS, S.A. AND SUBSIDIARIES

Changes in Goodwill and Other Intangible Assets
for the year ended

31-Dec-08

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

| | Balances at 31/12/2007 | Additions | Business combinations | Transfers | Disposals | Translation differences | Balances at 31/12/2008 |
|-----------------|---------------------------|-----------|--------------------------|-----------|-----------|----------------------------|---------------------------|
| Goodwill | 150,243 | 0 | 2,372 | 0 | 0 | 5,952 | 158,567 |

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

Intangible assets

| | | | | | | | |
|---|---------------|------------|----------|----------|----------------|--------------|---------------|
| Development costs | 43,141 | 5,255 | 0 | 0 | (1,146) | 49 | 47,299 |
| Concessions, patents, licenses brands and similar | 40,790 | 0 | 0 | 0 | (1,618) | 1,289 | 40,461 |
| Software | 17,704 | 4,489 | 0 | (59) | (8) | 146 | 22,272 |
| Total cost of intangible assets | 101,635 | 9,744 | 0 | (59) | (2,772) | 1,484 | 110,032 |
| Accum. amort. of development costs | (18,916) | (4,634) | 0 | (287) | 0 | (41) | (23,878) |
| Accum. Amort of concessions, patents, licenses, brands & similar | (14,110) | (2,322) | 0 | 287 | 1,616 | (352) | (14,881) |
| Accum. Amort. of software | (11,386) | (2,124) | 0 | 59 | 10 | (76) | (13,517) |
| Total Accum. amort intangible assets | (44,412) | (9,080) | 0 | 59 | 1,626 | (469) | (52,276) |
| Carrying amount of intangible assets | 57,223 | 664 | 0 | 0 | (1,146) | 1,015 | 57,756 |

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

APPENDIX II
GRIFOLS, S.A. AND SUBSIDIARIES

Changes in Goodwill and Other Intangible Assets
for the year ended

31-Dec-07

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

| | Balances at 31/12/2006 | Additions | Business combinations | Transfers | Disposals | Translation differences | Balances at 31/12/2007 |
|---|---------------------------|----------------|--------------------------|-----------|--------------|----------------------------|---------------------------|
| Goodwill | 150,820 | 0 | 16,106 | 0 | 0 | (16,683) | 150,243 |
| Intangible assets | | | | | | | |
| Development costs | 37,710 | 5,532 | 0 | 0 | 0 | (101) | 43,141 |
| Concessions, patents, licenses brands and similar | 43,960 | 0 | 0 | 0 | (519) | (2,651) | 40,790 |
| Software | 15,409 | 2,778 | 0 | 5 | (298) | (190) | 17,704 |
| Total cost intangible assets | 97,079 | 8,310 | 0 | 5 | (817) | (2,942) | 101,635 |
| Accum. amort. of development costs | (14,306) | (4,610) | 0 | 0 | 0 | 0 | (18,916) |
| Accum. Amort of concessions, patents, licenses, brands & similar | (12,008) | (3,156) | 0 | 0 | 412 | 642 | (14,110) |
| Accum. Amort. of software | (9,915) | (1,875) | 0 | (5) | 239 | 170 | (11,386) |
| Total Accum. amort intangible assets | (36,229) | (9,641) | 0 | (5) | 651 | 812 | (44,412) |
| Carrying amount of intangible assets | 60,850 | (1,331) | 0 | 0 | (166) | (2,130) | 57,223 |

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

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

APPENDIX III
GRIFOLS, S.A. AND SUBSIDIARIES

Changes in Property, Plant and Equipment
for the year ended
31 December 2008
(Expressed in thousands of Euros)

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

| | Balances at 31/12/2007 | Additions | Business combinations | Transfers | Disposals | Translation differences | Balances at 31/12/2008 |
|----------------------------------|---------------------------|-----------------|--------------------------|--------------|----------------|----------------------------|---------------------------|
| Cost: | | | | | | | |
| Land and buildings | 79,845 | 29,142 | 0 | 641 | 0 | 1,439 | 111,067 |
| Plant and machinery | 233,812 | 35,408 | 3 | 22,423 | (5,939) | 2,054 | 287,761 |
| Under construction | 30,079 | 55,399 | 0 | (23,948) | (128) | 2,218 | 63,620 |
| | <u>343,736</u> | <u>119,949</u> | <u>3</u> | <u>(884)</u> | <u>(6,067)</u> | <u>5,711</u> | <u>462,448</u> |
| Accumulated depreciation: | | | | | | | |
| Buildings | (6,735) | (1,234) | 0 | (39) | 29 | (70) | (8,049) |
| Plant and machinery | (135,669) | (22,942) | 0 | 923 | 5,027 | (729) | (153,390) |
| | <u>(142,404)</u> | <u>(24,176)</u> | <u>0</u> | <u>884</u> | <u>5,056</u> | <u>(799)</u> | <u>(161,439)</u> |
| Carrying amount | <u>201,332</u> | <u>95,773</u> | <u>3</u> | <u>0</u> | <u>(1,011)</u> | <u>4,912</u> | <u>301,009</u> |

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

APPENDIX III
GRIFOLS, S.A. AND SUBSIDIARIES

Changes in Property, Plant and Equipment
for the year ended
31 December 2007
(Expressed in thousands of Euros)

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

| | Balances at 31/12/2006 | Additions | Business combinations | Transfers | Disposals | Translation differences | Balances at 31/12/2007 |
|----------------------------------|-----------------------------------|------------------|----------------------------------|------------------|------------------|------------------------------------|-----------------------------------|
| Cost: | | | | | | | |
| Land and buildings | 80,669 | 2,482 | 0 | (777) | 0 | (2,529) | 79,845 |
| Plant and machinery | 224,088 | 18,570 | 971 | 3,995 | (5,661) | (8,151) | 233,812 |
| Under construction | 8,352 | 26,133 | 0 | (3,223) | (127) | (1,056) | 30,079 |
| | <u>313,109</u> | <u>47,185</u> | <u>971</u> | <u>(5)</u> | <u>(5,788)</u> | <u>(11,736)</u> | <u>343,736</u> |
| Accumulated depreciation: | | | | | | | |
| Buildings | (6,336) | (713) | 0 | 205 | 0 | 109 | (6,735) |
| Plant and machinery | (121,780) | (21,174) | 0 | (200) | 3,988 | 3,497 | (135,669) |
| | <u>(128,116)</u> | <u>(21,887)</u> | <u>0</u> | <u>5</u> | <u>3,988</u> | <u>3,606</u> | <u>(142,404)</u> |
| Carrying amount | <u>184,993</u> | <u>25,298</u> | <u>971</u> | <u>0</u> | <u>(1,800)</u> | <u>(8,130)</u> | <u>201,332</u> |

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

APPENDIX IV
GRIFOLS, S.A. AND SUBSIDIARIES

Non-current Loans and Borrowings
for the year ended
31 December 2008

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

| Thousands of Euros | | | | | | | | | | | |
|--|-----------|----------------|-----------------|---------------|----------------|------------------------|-----------------|---------|---------|--|--|
| Loan | Currency | Interest rate | Concession date | Maturity date | Amount awarded | Loan arrangement costs | Carrying amount | | | | |
| Syndicated loan - Club deal | EUR / USD | Euribor + 0,8% | 01/05/2008 | 26/05/2013 | 350,000 | (1,984) | 225,320 | | | | |
| Institut Català de Finances | EUR | 5,70% | 27/01/2005 | 26/02/2010 | 6,247 | (62) | 312 | | | | |
| Instituto de Crédito Oficial | EUR | 4,94% | 01/06/2006 | 26/05/2016 | 30,000 | (210) | 25,907 | | | | |
| Caixa Catalunya - Mortgage loan | EUR | 5,25% | 01/02/2008 | 01/02/2018 | 14,000 | (294) | 13,350 | | | | |
| BBVA - Mortgage loan | EUR | 6,50% | 21/10/2008 | 31/12/2024 | 45,000 | (676) | 30,463 | | | | |
| Banca Toscana | EUR | 5,33% | 08/05/2008 | 30/06/2013 | 3,000 | -- | 2,163 | | | | |
| Cofides | EUR | 5,61% | 01/08/2008 | 20/08/2017 | 6,854 | -- | 6,854 | | | | |
| | | | | | 448,247 | (3,226) | 304,389 | | | | |
| Non-current finance lease creditors (see note 8) | | | | | | | | 7,124 | | | |
| | | | | | | | 448,247 | (3,226) | 311,513 | | |

The amounts are shown net of loan arrangement costs, which amount to Euros 2,245 thousand in 2008.

This appendix forms an integral part of note 18 to the consolidated annual accounts.

APPENDIX IV
GRIFOLS, S.A. AND SUBSIDIARIES

Non-current Loans and Borrowings
for the year ended
31 December 2007

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

| | | Thousands of Euros | | | | | |
|--|----------|--------------------|-----------------|---------------|----------------|------------------------|-----------------|
| Loan | Currency | Interest rate | Concession date | Maturity date | Amount awarded | Loan arrangement costs | Carrying amount |
| Syndicated loan | EUR | Euribor + 0,7% | 01/07/2005 | 21/06/2011 | 225,000 | (2,925) | 138,211 |
| Bancaja (nota 7) | EUR | 5.50% | 01/05/2000 | 01/05/2012 | 902 | (9) | 304 |
| Institut Català de Finances | EUR | 5.70% | 27/01/2005 | 28/02/2010 | 6,247 | (62) | 1,548 |
| Instituto de Crédito Oficial | EUR | 4.94% | 01/06/2006 | 26/05/2016 | 30,000 | (210) | 29,876 |
| BBVA | EUR | 5.37% | 27/02/2006 | 24/02/2009 | 15,000 | (60) | 2,999 |
| | | | | | 277,149 | (3,266) | 172,938 |
| | | | | | | | |
| Non-current finance lease creditors (see note 8) | | | | | | | |
| | | | | | 277,149 | (3,266) | 178,425 |

The amounts are shown net of loan arrangement costs, which amount to Euros 1,023 thousand in 2007.

This appendix forms an integral part of note 18 to the consolidated annual accounts.

APPENDIX V
GRIFOLS, S.A. AND SUBSIDIARIES

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

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

| Director | Company in which position is held | Position |
|--------------------|---|------------------|
| Daga Gelabert, T. | Grifols, Inc. | Board member |
| Daga Gelabert, T. | Blomat USA, Inc. | Board member |
| Daga Gelabert, T. | PlasmaCare, Inc. | Board member |
| Daga Gelabert, T. | Plasma Collection Centers Inc. | Board member |
| Glanzmann, T. | Arahona Optimus, S.L. | Board member |
| Glanzmann, T. | Instituto Grifols, S.A. | Board member |
| Glanzmann, T. | Gambro AB | CEO and Chairman |
| Jannotta, I.E.D. | Instituto Grifols, S.A. | Board member |
| Grifols Gras, J.A. | Instituto Grifols, S.A. | Board member |
| Grifols Roura, V. | Blomat, S.A. | Director |
| Grifols Roura, V. | Diagnostik 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. | Director |
| Grifols Roura, V. | Legistar, S.A. | Director |
| Grifols Roura, V. | Marbach, S.A. | Director |
| Grifols Roura, V. | Grifols Deutschland, GmbH | Director |
| Grifols Roura, V. | Grifols, Inc. | Director |
| Grifols Roura, V. | Blomat USA, Inc. | Board member |
| Grifols Roura, V. | Grifols, s.r.o. | Board member |
| Grifols Roura, V. | Grifols UK, Ltd. | Director |
| Grifols Roura, V. | Grifols Portugal Produtos Farmaceuticos e Hospitais,Lda. | Director |
| Grifols Roura, V. | Grifols France S.A.R.L. | Co-manager |
| Grifols Roura, V. | Grifols Chile, S.A. | Board member |
| Grifols Roura, V. | Grifols Italia S.p.A. | Chairman |
| Grifols Roura, V. | PlasmaCare, Inc. | Chairman |
| Grifols Roura, V. | Arahona Optimus, S.L. | Chairman |
| Grifols Roura, V. | Logistica Grifols, S.A. de CV (entonces Grifols México, S.A. de CV) | Chairman |
| Grifols Roura, V. | Grifols México, S.A. de CV | Chairman |
| Purslow, C.M.C. | Instituto Grifols, S.A. | Board member |
| Riera Roca, R. | Instituto Grifols, S.A. | Director |
| Riera Roca, R. | Instituto Grifols, S.A. | Board member |
| Riera Roca, R. | Blomat USA, Inc. | Board member |
| Riera Roca, R. | Grifols France S.A.R.L. | Board member |
| Riera Roca, R. | Grifols Chile, S.A. | Co-manager |
| Riera Roca, R. | Grifols Italia S.p.A. | Board member |
| Riera Roca, R. | Grifols Argentina, S.A. | Board member |
| Riera Roca, R. | PlasmaCare, Inc. | Chairman |
| Riera Roca, R. | Grifols Polska Sp.z.o.o | Chairman |
| Riera Roca, R. | Alpha Therapeutic Italia, S.p.A. | Chairman |
| Riera Roca, R. | Grifols México, S.A. de CV | Board member |
| Riera Roca, R. | Grifols Asia Pacific Pte Ltd | Board member |
| Riera Roca, R. | Grifols Malaysia Sdn Bhd | Board member |
| Riera Roca, R. | Grifols Thailand Ltd | Board member |
| Riera Roca, R. | Logistica Grifols, S.A. de CV (entonces Grifols México, S.A. de CV) | Board member |
| Riera Roca, R. | Instituto Grifols, S.A. | Board member |
| Twesse Roura, J.I. | Grifols, Inc. | Board member |
| Twesse Roura, J.I. | Blomat USA, Inc. | Board member |
| Twesse Roura, J.I. | PlasmaCare, Inc. | Board member |
| Twesse Roura, J.I. | Grifols Engineering, S.A. | Board member |
| Twesse Roura, J.I. | Arahona Optimus, S.L. | Director |

This appendix forms an integral part of note 29 to the consolidated financial statements.

APPENDIX V
GRIFOLS, S.A. AND SUBSIDIARIES

Members of the Board of Directors with positions in companies with identical, similar or complementary statutory activities
31 December 2007
(Free translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails.)

| Director | Company in which position is held | Position |
|-------------------|--|---|
| Dagá Gelibert, T. | Grifols, Inc. | Board member |
| Dagá Gelibert, T. | Biomat USA, Inc. | Board member |
| Dagá Gelibert, T. | PlasmaCare, Inc. | Board member |
| Doster, T. E. | Plasma Collection Centers Inc. | Board member |
| Glanzmann, T. | Instituto Grifols, S.A. | Board member |
| Jannotta, E.D. | Instituto Grifols, S.A. | CEO and Chairman |
| Grifols Roura, V. | Gambro AB | Board member |
| Grifols Roura, V. | Instituto Grifols, S.A. | Board member |
| Grifols Roura, V. | Blomat 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. | Grifols Portugal Produtos Farmacéuticos e Hospitalares, Lda. | Director |
| Grifols Roura, V. | Grifols France S.A.R.L. | Co-manager |
| Grifols Roura, V. | Grifols Chile, S.A. | Board member |
| Grifols Roura, V. | Grifols Italia S.p.A. | Chairman |
| Grifols Roura, V. | PlasmaCare, Inc. | Chairman |
| Purslow, C.M.C. | Grifols México, S.A. de CV | Board member |
| Riera Roca, R. | Instituto Grifols, S.A. | Director |
| Riera Roca, R. | Grifols International, S.A. | Board member |
| 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 France S.A.R.L. | Board member |
| Riera Roca, R. | Grifols Italia S.p.A. | Co-gerente |
| Riera Roca, R. | Grifols Argentina, S.A. | Chairman |
| Riera Roca, R. | PlasmaCare, Inc. | Chairman |
| Riera Roca, R. | Grifols Polska Sp.z.o.o | Board member |
| Riera Roca, R. | Alpha Therapeutic Italia, S.p.A. | Chairman |
| Riera Roca, R. | Grifols México, S.A. de CV | Board member |
| Riera Roca, R. | Grifols Asia Pacific Pte Ltd | Board member |
| Riera Roca, R. | Grifols Malaysia Sdn Bhd | Board member |
| Riera Roca, R. | Grifols Thailand Ltd | Board member |
| Riera Roca, R. | Grifols México, S.A. de CV | Board member |
| 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 |
| Twose Roura, J.I. | PlasmaCare, Inc. | Board member |
| Doster, T. E. | Grifols Engineering, S.A. | Director |
| | Instituto Grifols, S.A. | Board member |

This appendix forms an integral part of note 29 to the consolidated financial statements.

DIRECTORS' REPORT

(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 company operating in the pharmaceutical and healthcare sector in over 90 countries. The Company's and its subsidiaries' activities are focused on research, development, manufacture and marketing of plasma derivatives, fluid therapy products, enteral nutrition, reagents, clinical analysis instruments and medical equipment.

It is currently the European leader in the haemoderivatives sector and is the fourth producer worldwide. In coming years, the Company will reinforce its leadership in the industry as a vertically integrated company as a result of investments already made and those planned for the period 2008-2012, amounting to Euros 400 million.

Since May 2006, Grifols has been listed on the Spanish official stock market and since 2 January 2008 it has been listed on the IBEX 35, an index which comprises the top 35 listed companies in terms of liquidity and capitalisation, on the Spanish stock market.

Revenues for the year total Euros 814.3 million, reflecting growth of 15.8% compared with 2007. Excluding the effect deriving from exchange rate fluctuations, the increase would amount to 19.9%, although Grifols' natural hedge against currency risk allows it to offset the negative effects of sales in dollars by purchasing plasma, the main raw material, in the same currency.

Until March 2008, turnover reflected a 10.9% increase compared with the prior year, with growth of 16.8% between April and June, 16.1% between July and September, and 19.5% in the last quarter of the year. The global economic slowdown in the last quarter of the year had no impact on Company sales, with annual turnover reflecting the growth experienced in all of its divisions. The turnover of the Diagnostic division totalled Euros 85.7 million, reflecting an increase of 7.5%. The Hospital division reported a turnover of Euros 82.5 million, up 10.6% compared with 2007.

Sales of the Bioscience division, which represent 74.4% of Grifols' total turnover, grew by almost 23% to Euros 606.2 million, with both the volume and price of the main haemoderivatives marketed by the Company reflecting positive trends.

For many years the Company's business strategy has been to rely on raw material from its own plasmapheresis centres. This strategy meets the twofold objective of controlling costs and guaranteeing the supply of a raw material which meets high levels of guaranteed safety and quality standards. The volume of plasma that Grifols obtains from its own centres covers practically all its fractioning needs.

In terms of raw material, the Group has a guaranteed supply of plasma from 80 plasmapheresis centres in the United States. The increase in the volume of plasma acquired and the opening of new centres has enabled Grifols to obtain 2.7 million litres of plasma. As regards Grifols' fractioning capacity, its production facilities in Barcelona (Spain) and Los Angeles (USA) enable it to meet growing market demand.

According to the analytical income statement, the gross margin reflects a significant improvement, rising from 44.9% of sales in 2007 to 48.9% in 2008. Operating expenses amount to Euros 195.2 million and represent 23.9% of sales.

Operating profit plus depreciation and amortisation (EBITDA) for the year reached Euros 236.2 million, representing 29% of sales and reflects an increase of 32.8% compared with the prior year. Net profit totalled Euros 121.7 million, up 38.7% on 2007 figures.

Finance expenses have evolved favourably despite the rise in interest rates during the first nine months of the year. The progressive moderation of interest rates during the last quarter of the year will have a positive impact in 2009. The net financial debt at 2008 year end amounted to Euros 446 million, representing a ratio of 1.9 times EBITDA, the same ratio as in 2007. As regards the financial strength of the balance sheet, the debt to equity ratio fell to 0.86 in 2008, compared with 0.89 in 2007.

Two thirds of Grifols' total debt is non-current, of which up to Euros 350 million relates to the syndicated financing contracted in May 2008 for a period of 5 years. This operation has enabled the Group to repay the outstanding balance of the Euros 225 million syndicated loan signed in 2005, in addition to refinancing the current credit facilities drawn down in dollars, and partially financing the investment plan.

The Company has also obtained a Euros 6.8 million loan from Compañía Española de Financiación del Desarrollo (COFIDES), with a maturity of 9 years and a two-year grace period. This loan has been earmarked to partially finance the expansion of the plasma business in the United States.

Grifols also acquired an office complex in Sant Cugat del Vallés (Barcelona). These installations will become the new corporate headquarters and will enable the Company to centralise the common areas of the Group. This operation was financed through a non-current mortgage loan (15 years) of Euros 45 million, which was contracted in the last quarter of 2008.

The Bioscience division is engaged in the manufacture of pharmaceutical specialities sourced from human plasma. This activity is carried out at the plants in Barcelona (Spain) and California (USA). This division reported a turnover of Euros 606.2 million in 2008, reflecting an increase of 22.9% compared with 2007, and accounts for 74.4% of total Group revenues. IVIG, Albumin and Factor VIII, the main haemoderivatives marketed by the Group, have increased in both volume and price during 2008. The division's results confirm the progressive upward trend in demand in the sector, in which Grifols has significant competitive advantages due to its capacity for collecting and fractioning plasma.

The Hospital division is mainly engaged in the manufacture and sale of pharmaceutical specialities, single-use sanitary products and diets for enteral nutrition. The manufacturing activity is carried out at the Spanish centres in Parets del Valles (Barcelona) and Las Torres de Cotillas (Murcia).

Hospital division sales increased by 10.6% compared with the prior year, amounting to Euros 82.5 million in 2008. This line of business currently contributes 10.1% of total revenues. All the areas of this division experienced growth, although the Hospital Logistics projects particularly stand out, with revenues of Euros 18.1 million (+12.3%). The implementation of these logistics and control systems has positioned the Group as a point of reference in specific solutions for improving the efficiency and quality of hospital pharmacy services in both private and public hospitals in Spain, Portugal and Latin America.

The parenteral nutrition and Cubitainers lines of the Hospital division were started up at the Parets plant in the second half of 2008. The new laboratories and warehouse for raw materials also commenced activity during the same period. Meanwhile, the Murcia plant has finished adapting the Fleboflex production lines in the manufacture the Flebobag.

The Diagnostic division is primarily engaged in the development, manufacture and marketing of reagents and equipment for clinical in-vitro diagnostics, as well as medical devices and instrumentation. This division contributed sales revenues of Euros 85.7 million in 2008, growing by 7.5% compared with 2007, and currently represents 10.5% of total Group revenues. The division's growth is partly due to its entry into the French market in 2008, with the marketing of the Wadiana® auto-analyser, and its progressive penetration into the Chinese and Mexican markets. Furthermore, in forthcoming years, the division will be favourably impacted by the foreseeable increase in sales of reagents for in-vitro diagnostics (DG Gel®), which are used with the Wadiana®. Sales of reagents reflected sustained growth in 2008. This year the first cards have been sold in France, following the expiry of the European patent which prevented their sale in certain European markets.

As a summary of the key Diagnostic division production figures, in 2008 this division manufactured 70 auto-analysers for immunology, 386 blood group auto-analysers, 19 automated coagulation timers, almost one thousand incubators and 475 centrifuges, maintaining the significant production levels achieved in recent years.

In the reagents area card production exceeded 8.5 million units, representing an increase of over 20% compared with 2007.

The Raw Materials and Others division is engaged in the control and analysis of plasma both for use in transfusions and for supply to the Group companies which manufacture medicine for human use deriving from human plasma. Turnover has fallen to Euros 39.7 million, as foreseen by the Company. This division encompasses sales of intermediate products and raw material (plasma) to third parties.

The volume of plasma obtained by the Grifols centres in the United States amounted to 2.6 million litres. Of the total volume, 1.8 million litres were processed at the centre in Spain and the rest in the United States. The volume of litres processed is up by 21.8 % compared with the prior year.

The Inactivation of Plasma for Transfusion in the Hospital Service (IPTH) reported a turnover of almost Euros 2 million, having inactivated 81,173 units.

In forthcoming years Grifols will continue to implement its expansion plans, enabling it to increase its market share in the different areas of activity. In order to guarantee growth in the long term, the Group has designed a five-year investment plan totalling Euros 400 million. The investments, begun in 2008, are aimed at boosting plasma fractioning and protein purifying capacity and increasing plasma supply.

The investments carried out in the Bioscience division in 2008 relate to projects aimed at increasing the production capacity of Grifols' installations to satisfy growing market demand.

Construction began on the fibrin glue production plant in 2008. This product combines two plasma proteins, fibrinogen and thrombin, which act as a biological glue when mixed together.

As regards new products, the Spanish and Italian health authorities granted Grifols the licence required to market its Niuliva 250 U.I./ml perfusion solution. Niuliva is a human Antihepatitis B immunoglobulin, which is presented as an intravenous perfusion solution intended for the treatment of patients who have received a liver transplant after suffering from hepatitis B. Having received the approval needed to market this haemoderivative, Grifols plans to commence its manufacture in the coming year and subsequently begin distribution in the Spanish and Italian markets.

During 2009 Grifols expects to receive the approval of the US FDA for the marketing of Flebogamma DIF (IGIV) at a concentration of 10%, double the current level. This new formulation will reduce the time needed to administer the drug, minimising inconvenience and discomfort for the patient and reducing the health care cost incurred by the centre. Grifols foresees that on reaching the manufacturing stage it will be able to produce this new haemoderivative on an industrial scale using the most advanced technologies.

The new area for the sterile dosage of coagulation factors at the California plant entered into service during the second half of the year after obtaining the licence from the FDA in just four months. This area is located in new purpose-built facilities and has been designed to ensure maximum safety in the dosage, sterile filling and lyophilisation processes of the coagulation factors Factor VIII, Factor IX and Profilnine. The same building will also house a specific production line for the sterile dosage of albumin. These facilities are currently in the second stage of project execution and the Company hopes to obtain approval from the FDA at the beginning of 2009.

Building has commenced on the future Flebogamma DIF plant in the United States. This new centre, similar to the facilities in Barcelona, could become operational in 2012, thereby providing Grifols two state-of-the-art production plants for intravenous immunoglobulin (IVIG). The growth in the United States, Europe and other international markets will be further complimented by the Grifols' entry into the Australian haemoderivatives market, as in 2008 it obtained the licence to commercialise Flebogamma[®] DIF in Australia.

In the Hospital division, the Parets plant has been expanded with the installation of two new production lines: one for parenteral nutrition products enabling the production of lipids and amino acids and for the latter to be packaged in polypropylene bags or glass bottles; and a second line of Cubitainers for aqueous solutions in large volumes of 10 and 20 litres.

The raw material warehouse and new control and R&D laboratories have been installed in a new building near the Parets plant and have entailed a modernisation of the installations.

In 2008, the majority of the Diagnostic division investment has been focused on preparing a new gel card production area in which a new machine supplied by Grifols Engineering has been installed and will increase gel card production by 5.5 million cards, working a double shift. Further space and machines will be made available for the production of gel cards in the future and based on demand.

Work to increase the production capacity of liquid solutions such as buffers and dilutives has been completed, with the installation of a 2000 litre tank and other areas and rooms dedicated to the production of reagents.

Renovation of the old production area in order to meet the specific needs of haematies reagent production has started, and a machine for the automatic dispensing, threading and labelling of vials has already been installed.

A good part of the specific installations and solutions required by Grifols is provided by Grifols Engineering, a pharmaceutical engineering company which manages the investments of the different divisions. In addition to the projects undertaken for third parties, services for Group companies have been directed towards the pharmaceutical project area. Among these projects is the expansion of 5 reactors for the new generation of IGIV, the installation of a fourth albumin dosification line and the installations related to the new Soyacal plant.

In the applied engineering area the main projects undertaken relate to the machinery required for the new albumin dosification area and the bottle top cleansing line. The fifth line of gel card dosification, started in the prior year, has also been completed in the Diagnostic division in addition to the automatic haematie labeller.

Distribution of modular cleanroom systems for hospitals is being carried out through marketing companies of Grifols. In 2008, various projects have been invoiced: 6 in Spain, 1 in Portugal and 1 in Mexico.

For 2009 and subsequent years, most of the Group companies' investment plan is expected to be managed on-track until 2012, with expansions, new buildings and specific machinery for the new installations.

In the Raw Materials division, efficiency studies have been performed on virus inactivation of new fluorescents which will be used in the plasma IPTH inactivation process. A Vortex VX-2500 multitube agitator has also been installed which simultaneously shakes the tubes by row instead of individually, optimising the process and ergonomics of the job position.

In the plasma fractioning area automatic box sealer has been added to each plasma classification workstation to improve the ergonomics of the job position.

The implementation of radiofrequency identification tags (RFID) is currently in a test stage in two plasma centres in the United States, the analysis laboratory in Austin, the central plasma warehouse in Los Angeles and Biomat. It has been confirmed that these tags are also applicable to bottles of plasma and they have been tested successfully on vials of albumin.

In order to carry out the project to optimise the serum bank and improve management of tubes holding serum mixture (pools), Grifols is evaluating the DIVA system, which uses segments to store samples identified by bar code. This would allow a reduction in the volume of samples generated each year and would optimise space.

Approximately 98% of the plasma obtained by Grifols is used by Group companies. They also obtain quantities of specific types of plasma which are sold to third parties. In recent years, consolidation in the plasma industry has increased, as the total volume of plasma has continued to grow at the same time.

As complimentary activities which affect different areas of Grifols' activity, the development and maintenance of hospital software continues to be consolidated through installation and software agreements for hospital pharmacies and blood banks.

The Company is currently studying the possibility of sending shipments of plasma at temperatures below -25°C by air using Silverpod containers as an alternative to maritime transport in emergency situations. To this end, Grifols is validating the systems and the logistics required for transportation between Los Angeles and Barcelona.

At the beginning of 2008 Grifols acquired an industrial complex in Parets del Vallés, adjacent to Biomat, S.A.'s facilities. The total surface area is 31,000 m² and the Company intends to use it to construct a new fractioning centre as part of the investment plan designed for the coming years. The facilities acquired included an automated silo warehouse with a capacity for 8,200 palettes.

Grifols continues to give priority to research and development activities aimed at obtaining product registrations and patents for procedures. In general, the Group has strengthened the workforce dedicated to R&D and associated net costs have increased compared with the prior year.

The research and development activities of the Bioscience division have achieved satisfactory results: throughout 2008 different projects have been successfully undertaken with the aim of obtaining the corresponding authorisation to market the new formulations (Niuliva). New registers and patent requests have also been presented to the different health authorities of each country. Grifols has also channelled part of its resources to the completion or development of projects in the clinical studies stage.

The Company has therefore continued to establish new collaborative agreements with national and international research centres to enable the different stages of strategic R&D projects to go ahead. In addition to the human resources necessary to carry out these tasks, in 2009 new offices and laboratories will be available for the division's research and development activities, which will facilitate the co-ordination of work in the different stages of the projects.

Significant advances have been made in research and development in the Hospital division, one of the most significant being the study of stabilities of various ready-to-use combinations of dobutamine, ranitidine, gentamicin and metronidazole in polypropylene packaging for the fluid therapy area. This project aims to extend the range of combinations to be used in a hospital environment. In this area in general, new products are in the design stage which will lead to improvements in both safety and performance in the preparation and administration of intravenous medication.

Also in this area, manufacturing for third parties has increased. Bristol Myers Squibb recently presented a product developed at the Parets facilities, paracetamol in bags, to the French medicines agency. Furthermore, an agreement has been signed with Hospira for the development and production of the antibiotic Levofloxacin in 50 and 100ml bags for the European market.

In the clinical nutrition area, two different formulations of three-chamber bags, containing lipids, amino acids and glucose, have been registered. These projects complete the current line of parenteral nutrition, which comprises bottles of amino acids and lipids.

With regard to research and development activities in the Diagnostic division, 2008 saw an increase in the number of employees engaged in the instrumentation area and the creation of a new specific software testing and validation department.

One of the most important R&D activities has been the development of a future new-generation automatic analyser for processing blood type cards (Erytra). A prototype was presented at the world transfusion congress held in China in July. Another significant development was the launch of the Q automated coagulation timer on the Chilean market. In 2009 the Group will begin developing a new coagulation timer with greater processing capacity in order to offer a full range of haemostasis instruments.

R&D work was initiated during 2008 to develop a successor to the automatic Elisa Triturus analyser, aiming for a launch date in 2011.

In the reagents area, a number of coagulation products were recently launched onto the market, including the Plasma Control Normal, Reference Plasma and a heparin testing kit using chromogenic substrates which complements the antithrombin III kit launched in prior years. Furthermore, the EC mark has been obtained for a number of blood type cards prepared with different antisera to those used until now.

Within blood bank projects, two clinical studies have been initiated in the Murcia Centre for Blood Donation to test the introduction of a breakable part in the blood donation tube.

Research and innovation activities in the pharmaceutical engineering area have focused on projects to review and improve the GSF (Grifols Sterile Filling) system, for which grants were obtained from the Centre for Innovation and Business Development (CIDEM) and Centre for the Development of Industrial Technology (CDTI) in 2007 and 2008. These projects aim to implement this system in current and future dosage equipment and processes. Another project which is expected to gain funding from the CIDEM and CDTI is the design of a new line of DG Gel cards with greater benefits than the previous versions.

A project to develop the system for sampling plasma bottles has also been initiated, aiming for possible application in all Grifols donation centres in the United States. Finally, the new Blispack hospital logistics system has been presented to the public. The first marketable units are expected to be produced during the first half of 2009.

Yet another year, Grifols has received the highest classification of Excellence for its research and development activities in the 2007 Profarma Plan, a joint program enacted by the Ministry of Industry, Tourism and Commerce and of the Ministry of Health and Consumption. The Profarma Plan aims to promote scientific research, development and innovation in the pharmaceutical sector.

Grifols' sales and distribution activities outside Spain are managed by Grifols International, which is also responsible for strategic and operative marketing for the different lines of business. In aggregate terms, in 2008 the Group continued to progressively consolidate its position in South America, the area with greatest growth in relative terms during the year.

At year end 2008, Grifols' turnover in international markets (excluding Spain and Portugal) represented 72.8% of its total turnover. International sales rose by 18.2% and reached Euros 593.2 million.

With regard to growth by geographical area, Euros 290.7 million of revenues were generated in the United States, where turnover was 23.2% up on 2007. Spain and Portugal contributed Euros 221.1 million to Grifols' total revenue (+9.7%) and Euros 33.9 million were generated in Asia (+20.9%). Latin America contributed Euros 75.8 million (+49.5%) due to the dynamism of Hospital Logistics sales (Hospital division) and the combination of the rise in price and volume of business reported by Bioscience products in this region.

In 2008, 35.6% of the Group's revenues was generated in the United States and 49.6% in Europe. Latin America now represents 9.2% and Asia 4.1%. The balanced growth in revenues between the United States and Europe in 2008 is in line with the Company's strategic plan and the Group's geographical diversification plays an increasingly central role, laying the foundations for future growth in new markets.

At sales level, significant revenues were obtained by exports of instruments to the United States, Japan, Australia, Europe and China in the Diagnostic division. Furthermore, the Group has continued to export the new immunohaematology card to India, Pakistan, Malaysia and Thailand, consolidating exports to Brazil, Egypt, Russia, Mexico, Turkey, the Czech Republic and China.

Among the agreements reached at the shareholders' annual general meeting held in 2008 was the approval of the distribution of gross dividends of Euros 0.165 per share, representing a total payment of Euros 34.8 million, which places Grifols' payout at around 40% of net profits compared to 28% in the prior year.

Grifols also agreed to earmark 0.7% of its profits before tax for social and humanitarian projects. This measure is aimed at contributing towards improving health services in regions where resources and knowledge of the field are scarce.

At year end 2008 Grifols' global headcount totals 5,878, a 15% increase on the figure for 2007. All departments have grown due to the encouraging performance of the Group's business. Of the departments, increases are particularly notable in research and development, in line with Grifols' strategy of boosting its research and development activities, and production areas.

This investment in human resources is evident in, among other initiatives, the launch of an important training project, the 'Grifols Academy of Plasmapheresis', which, although it was set up in 2008, was opened officially in 2009. This initiative shows Grifols' firm commitment to its employees' training and to standardising knowledge, which will boost innovation on the basis of human resources, a determining factor in striving for excellence. Grifols' strategy is therefore to press forward, promoting initiatives which meet the degree of specialisation required by the haemoderivatives industry. One long-term objective for the Academy training programme is therefore the possibility of obtaining to a recognised training qualification.

With regard to investment in the environment, one significant development in 2008 was the installation of a new 6.1 MW cogeneration facility at the haemoderivatives plant in Barcelona which, as well as quadrupling the electricity production capacity to guarantee the supply of electricity at these facilities, will reduce emissions by over 5,000 tonnes of CO₂ per year.

The procurement, storage, identification and distribution of plasma is subject to strict regulations and licensing by the US FDA and the EMEA (European Medicines Agency). Centres are therefore inspected regularly by the various agencies. One of Grifols' priorities is the continued compliance with prevailing legislation, as failure to do so could affect the business's global performance.

Demand for haemoderivatives remains high despite the global economic situation. As a result of investments aimed at increasing production capacity, Grifols will be able to increase its offered range of products during 2009.

However, the effects the current financial crisis could have on some of our distributors are still unknown.

Unlike the other divisions of Grifols, in the Diagnostic division the future performance of the US Dollar exchange rate could affect the profitability of exports to Asia and Latin America and some exports to the United States.

Treasury share operations during 2008 are described in notes 14(e) of the accompanying consolidated annual accounts.

The Company's future results could be affected by events related with its own activity, such as the launch of products by competitors or changes in the legislation regulating the markets in which it operates. Nevertheless, at the date of preparation of these annual accounts, Grifols has adopted the measures it considers necessary to offset any possible effects derived from these events.

This Directors' Report includes the Annual Corporate Governance Report which is a requisite for all listed companies and which is included as an addendum thereto.

ADDITIONAL INFORMATION TO BE INCLUDED IN THE DIRECTORS' REPORT IN ACCORDANCE WITH ARTICLE 116.b OF THE SPANISH SECURITY MARKETS LAW

1. **The capital structure, including any securities that are not negotiated on official European Union markets, indicating where necessary, the different classes of shares and for each class of share, the rights and obligations they confer and the percentage of share capital they represent.**

The share capital of Grifols, S.A. (the Company) amounts to Euros 106,521,449.5, represented by 213,064,899 ordinary shares of Euros 0.50 par value each, which are subscribed and fully paid, are of the same class and series, and are represented by book entries.

2. **Any restrictions on the transfer of shares**

The Company's shares are freely transferable by any means permitted by Law in accordance with Article 10 of the Company's Articles of Association.

3. **Significant direct or indirect share capital holdings**

At 31 December 2008 the Company holds the following information on its significant shareholders:

| <i>Name of shareholder</i> | <i>% direct ownership</i> | <i>% indirect ownership</i> | <i>% total ownership</i> |
|---------------------------------|---------------------------|-----------------------------|--------------------------|
| Board members | | | |
| Daga Gelabert, Tomás | 0.021% | 0.000% | 0.021% |
| Glanzmann, Thomas | 0.003% | * 0.015% | 0.018% |
| Grifols Roura, Víctor | 0.204% | 0.000% | 0.204% |
| Jannotta, Edgard Dalzell | 0.119% | 0.000% | 0.119% |
| Purslow, Christian M.C. | 0.000% | 0.000% | 0.000% |
| Riera Roca, Ramón | 0.079% | * 0.004% | 0.083% |
| Thorthol Holdings, B.V. | 6.952% | 0.000% | 6.952% |
| Twose Roura, Juan Ignacio | 0.056% | 0.000% | 0.056% |
| Significant shareholders | | | |
| Deria, S.A. | 8.771% | 0.000% | 8.771% |
| Fidelity International, Ltd | 0.000% | * 3.832% | 3.832% |
| FMR Llc | 0.000% | * 5.002% | 5.002% |
| Grifols Lucas, Víctor | 5.567% | * 0.587% | 6.154% |
| Novosti, S.L. | 7.763% | 0.000% | 7.763% |
| Scranton Enterprises, B.V. | 10.653% | 0.000% | 10.653% |

(*) Through:

- Thomas Glanzmann:

| <i>Name of direct shareholder</i> | <i>Voting rights as percentage of total</i> |
|-----------------------------------|---|
| Kolholmen Investments AB | 0.015% |
| TOTAL | 0.015% |

GRIFOLS, S.A. AND SUBSIDIARIES

- Ramón Riera Roca:

| <i>Name of direct shareholder</i> | <i>Voting rights as percentage of total</i> |
|-----------------------------------|---|
| Laura Riera Santos | 0.004% |
| TOTAL | 0.004% |

- Fidelity International Ltd.:

| <i>Name of direct shareholder</i> | <i>Voting rights as percentage of total</i> |
|-----------------------------------|---|
| ACCIDENT REHAB & CMP-GLB EX-US | 0.049% |
| ASIAN DEVELOPMENT BANK | 0.007% |
| FMT_GL ROW | 0.015% |
| BRITISH ENERGY GEN GRP – ROW | 0.048% |
| CHURCH COMM FOR ENGLAND – ROW | 0.037% |
| CHEVRON TEXACO UK PNS PL-ROW | 0.018% |
| CO-OPERATIVE GRP PENS –RW | 0.020% |
| EAST SUSSEX CITY COUNCIL-ROW | 0.049% |
| RIJ IT EURO SMLLR COS OPN MTHR | 0.007% |
| FID INSTL SELECT EUROPE EQ FD | 0.040% |
| FIDELITY EUROPEAN FUND | 1.791% |
| FIDELITY EUROPEAN VALUES PLC | 0.273% |
| FID FDS - EURO BLUE CHIP POOL | 0.837% |
| FID FDS - EURO MID CAP POOL | 0.077% |
| FID FDS - EURO SML COS POOL 3 | 0.014% |
| FID FDS - EURO SMALLER CO POOL | 0.108% |
| FID FDS - GL HEALTH CARE PL | 0.030% |
| FID AUS EUROPE FUND | 0.002% |
| FID AUS SELECT GL SMALL CAP FD | 0.003% |
| FIDELITY SELECT GLOBAL EQ FUND | 0.001% |
| FID POC EUROPEAN (AW) PLT FD | 0.000% |
| FIDELITY DEUTSCHLAND SELECT FD | 0.003% |
| FERP – HEALTHCARE PILOT FUND | 0.000% |
| FID FERP EUROPEAN TECHNIC PLT | 0.000% |
| FID POC EURO CONCENT PLT FD(FM | 0.000% |
| AUSTRALIA – FUNDS SA | 0.015% |
| FOUR RE FIDELITY | 0.032% |
| FIJ IT SEL GLB EX JPN T55453 | 0.001% |
| FIDELITY TRILOGIE SUB MID | 0.002% |
| IBM DENM SELECT-GLOBAL EX-US | 0.009% |
| FID KOREA EUROPE EQTY IT MTHR | 0.003% |
| K ZUSATZVERSORGUNGSKASSE | 0.002% |
| MERRILL LYNCH CLB SEL PORT PLC | 0.000% |
| NPC TRUST – ACTIVE 1 – ROW | 0.072% |
| STC INTL EQUITY FUND - ROW | 0.031% |
| NORTH YORKSHIRE COUNTY COUNCIL | 0.038% |

GRIFOLS, S.A. AND SUBSIDIARIES

| | |
|---------------------------------|---------------|
| BRAUNSCHWEIG INSURANCE RW | 0.007% |
| FIDELITY INTL FD – PEP EUROPE | 0.017% |
| SGE MM ROW | 0.026% |
| FID SELECT GLB EX-JP EQ T55415 | 0.006% |
| SPH-SELECT EUROPE | 0.075% |
| SPMS-SELECT EUROPE | 0.041% |
| UNILEVER (SUPERANN) IRELAND-ROW | 0.017%% |
| VGH HANNOVER RW | 0.007% |
| TOTAL | 3.832% |

- FMR Llc:

| <i>Name of direct shareholder</i> | <i>Voting rights as percentage of total</i> |
|-----------------------------------|---|
| BAY CARE HEALTH SYSTEM T50651 | N/A |
| BANK OF MENTREAL S INTL T55349 | N/A |
| CALPERS SELCT INTL PORT T55434 | N/A |
| CHEVRON TEXACO EUROPE T55004 | N/A |
| CIBC IMP OS EQ PL EUR (T55339) | N/A |
| CATERPILLAR INC 401K SI T50578 | N/A |
| DALLAS POLICE & FIRE T50092 | N/A |
| FA CAPITAL DEVELOPMENT FND | N/A |
| PYRAMIS EUR EQ COMM PL (T1054) | N/A |
| EXELON CSH BL SLCT INTL T55403 | N/A |
| FA MID CAP II FD | N/A |
| PYRAMIS INTL GROWTH WUE T2332 | N/A |
| FID GLOBAL DIVIDENT EQUITY SUB | N/A |
| FID GLOBAL HEALTH CARE FUND | N/A |
| PYRAMIS SLCT INTL EQ TR T55106 | N/A |
| PYRAMIS CON INT SM CAP T55105 | N/A |
| PYRAMIS SEL GLB WLD SUB T55281 | N/A |
| FID DIVERSIFIED INTRANTNL SUB A | N/A |
| PYRAMIS INST INTL GR-EUR T2310 | N/A |
| STATE BRD ADM OF FL-EUR T55114 | N/A |
| PYRAMIS SELECT INTL EQ CM T319 | N/A |
| WORLDWIDE NON-US EQUITY SUB | N/A |
| GM VEBA SELCT INTL ACT T55189 | N/A |
| GENERAL MOTORS SEL INTL T55193 | N/A |
| IBM CANADA SELECT INT'L T2286 | N/A |
| FID INTL DISCOVERY FUND | N/A |
| FA INT EURO MID EAST ASIA SUB | N/A |
| FID TOTAL INTL EQ DEV GRW SUB | N/A |
| FIDELITY INTERNATIONAL GROWTH | N/A |
| PYRAMIS SEL INT SM CAP (T1056) | N/A |
| JC PENNEY CORP EUR SUB T55296 | N/A |

GRIFOLS, S.A. AND SUBSIDIARIES

| | |
|--------------------------------|---------------|
| KENTUCKY INS EUROPE T2347 | N/A |
| KENTUCKY PENSION EUROPE T2341 | N/A |
| FID MID CAP GROWTH | N/A |
| MINNESOTA SBI SEL INTL T55303 | N/A |
| OH PF ACWI X-US EUROPE T50410 | N/A |
| OREGON INV COUNCIL CSF T55433 | N/A |
| PENN TOBACCO STL INV (T51638) | N/A |
| SELECT PHARMACEUTICALS | N/A |
| PRIT SELECT INTL PORT T51513 | N/A |
| KERN CNTY SEL INT SM CP T51631 | N/A |
| PY SLCT GLBL EQUITY CP T51438 | N/A |
| PYR SELECT INTL EQ LLC T51488 | N/A |
| SAN DIEGO REIREMENT (T2193) | N/A |
| ST BOA FL SLCT INTL SM T50818 | N/A |
| FIDELITY SMALL CAP GROWTH FD | N/A |
| SHELL OIL SELECT INTL T55322 | N/A |
| ILLINOIS SURS-SEL INTL T50448 | N/A |
| VIP III MID CAP PORTFOLIO | N/A |
| WORLD BANK SELECT INTL T55274 | N/A |
| WASHINGTON SIB EUR T55177 | N/A |
| TOTAL | 5.002% |

- Mr. Víctor Grifols Lucas:

| <i>Name of direct shareholder</i> | <i>Voting rights as percentage of total</i> |
|-----------------------------------|---|
| Rodellar Amsterdam B.V. | 0.587% |
| TOTAL | 0.587% |

4. Restrictions on voting rights

No statutory restrictions or restrictions in the Board of Directors Regulation exist over voting rights.

5. Associative arrangements

The Company is not aware of the existence of any associative arrangements.

6. Regulations applicable to the appointment and replacement of the members of the Board of Directors and modifications to the Company's articles of association

6.1. Appointment and replacement of the members of the Board of Directors

The system for the appointment and replacement of the members of the Board of Directors is regulated by the Company's Articles of Association and the Board of Directors Regulation.

(a) Statutory rules

Article 20.- Composition and remuneration of the Board of Directors.- The legal management and representation of the Company will be the responsibility of a

Board of Directors comprising a minimum of three (3) and a maximum of fifteen (15) board members.

Board members will be freely appointed and removed by the shareholders in a general meeting and will perform their duties for a period of five (5) years, without prejudice to their indefinite re-appointment for such periods.

- (b) Rules regulating the Board of Directors

Article 18. Appointment of board members

1. *Board members will be appointed by the shareholders in a general meeting or by the Board of Directors in accordance with the rules stipulated in the Spanish Companies Act.*
2. *Any proposals to appoint board members presented by the Board of Directors for consideration by the shareholders in general meetings and any appointment decisions made by the shareholders via the cooption powers with which they have been legally vested must be preceded by the corresponding proposal from the Appointments and Remunerations Committee.*

When the Board of Directors do not follow the recommendations of the Appointments and Remunerations Committee, they must present their reasons for their action, which must be documented in minutes.

Article 19. Appointment of external board members

1. *The Board of Directors and the Appointments and Remunerations Committee will, within the scope of their competence, endeavour to ensure that the potential candidates have recognised solvency, ability and experience, and will exercise due rigour when assessing candidates for the position of independent board member, as stipulated in Article 6 of this Regulation.*
2. *The Board of Directors cannot propose or appoint as independent board member any persons who are related to the management of the Company or have family, professional or business links with the executive board members or the Company's senior management.*

In particular, the following persons cannot be proposed or appointed as independent board members:

- (a) *persons who have had a significant direct or indirect working, business or contractual relationship with the Company, its directors, board members representing shareholders or representing the interests of group companies, credit institutions which have a notable credit position with the Company, or entities that receive significant grants from the Company;*
- (b) *persons who are board members of another listed company which has board members representing shareholders in the Company;*

- (c) *persons related to executive board members, board members representing shareholders or members of the Company's management; for the purpose of the current Regulation, persons related to board members are considered to be those who were affected by the circumstances established in Article 127.3.5 of the Spanish Companies Act; and*
- (d) *persons with other relations with the Company which the Appointments and Remunerations Committee consider could affect their independence.*

Article 20. Re-appointment of board members

Any proposals to re-appoint board members which the Board of Directors decides to present in general shareholders meetings must be formally prepared and must include a report issued by the Appointments and Remunerations Committee evaluating the quality of work and dedication to the post of the board members proposed during the preceding mandate.

Article 21. Term of appointment

1. *Board members will occupy their posts during the term established in the Company's Articles of Association and can be re-appointed.*
2. *Board members appointed through co-opting will occupy their posts until the first general shareholders' meeting.*
3. *When the Board of Directors receives a report from the Appointments and Remunerations Committee informing them that the Company's interests are at risk, any board member who completes the term of their appointment or leave their posts for any other reason will not be able to render services to another entity which is a competitor of the Company for the period established by the Board of Directors, which cannot, in any event, exceed two (2) years.*

Despite the above, if it considers it necessary, the Board of Directors can waive the board member leaving the Company of this obligation.

Article 22. Resignation or dismissal of board members

1. *Board members must resign from their posts when the term of their appointment expires and when the shareholders so decide in accordance with the legal or statutory powers vested.*
2. *The Board of Directors will abstain from proposing the dismissal of external board members (board members representing shareholders or independent board members) to the shareholders in the general meeting prior to completion of the statutory period for which they were appointed, unless exception or justified circumstances prevail and a report has been received from the Appointments and Remunerations Committee.*
3. *Board members must offer their resignation to the Board of Directors and formalise, where necessary, their resignation in the following circumstances:*

- (a) *When they resign from the executive positions with which they were associated on being appointed as board members, unless expressly ratified by the Board of Directors subsequent to obtaining a non-binding report from Appointments and Remunerations Committee.*
 - (b) *when they are found to be in a position which is incompatible or prohibited by law;*
 - (c) *when they have been accused of an alleged crime or receive a committal for trial order for any of the crimes listed in Article 124 of the Spanish Companies Act, or face disciplinary proceedings for a serious or very serious infraction conducted by the supervisory authorities;*
 - (d) *When they receive serious warning from the Audit Committee for having breached their obligations as board members.*
 - (e) *when their position on the Board of Directors could put the Company's interests at risk or when the reasons why they were appointed no longer prevail; and*
 - (f) *in the case of a board members representing shareholders, when the shareholder whose interests are represented on the Board of Directors sells its investment in the Company or reduces its investment to a level below which its representation on the Board of Directors is no longer justified.*
4. *When a board member leaves the post as a result of resignation or any other reason, an explanation for the reasons must be given in a letter to all the board members through the Chairman or the Secretary to the Board of Directors.*

6.2. Modification to the Articles of Association

Modification to the Articles of Association must fulfil the general prerequisites established in Articles 103 and 144 of the Spanish Companies Act.

7. **Board members' powers, especially those relating to the possibility of issuing or repurchasing shares**

7.1. Powers of the members of the Board of Directors

In accordance with Article 20 of the Company's Articles of Association, the Board of Directors is responsible for managing and representing the Company.

7.2. Powers regarding the issue or repurchase of shares

In the general meeting held on 13 June 2008, the shareholders authorised the Board of Directors to acquire through sale and purchase transactions, share swaps, awards in settlement or any other method established by law, treasury shares in the Company or subscription rights either directly or through its subsidiaries, within the limits and prerequisites established below:

- (i) The par value of the shares acquired, plus those already held by the Company or its subsidiaries, cannot exceed 5% of the Company's share capital at any time.

(ii) The acquisition must enable the Company to establish the reserve prescribed in norm 3 of Article 79 of the Spanish Companies Act, without reducing share capital or restricted legal or statutory reserves.

(iii) The shares acquired must be fully paid.

(iv) The maximum acquisition price must be the price listed on the stock market on the day the acquisition takes place, or the price authorised by the Spanish National Securities Market Commission. The minimum price must be 100% of the par value of each share.

(v) The present authorisation is granted for a maximum of 18 months.

(vi) Shares acquired can be issued to workers or directors of the Group either directly or as a result of the exercising of share options held by these individuals.

8. Any significant agreements signed by the Company which enter into force, are modified or expire as a result of a change in control in the Company deriving from a public takeover bid and the effects thereof, except when their distribution would severely prejudice the Company. This exception will not be applicable when the Company is legally bound to publish this information.

No significant agreements are in force that could be modified or expire as a result of changes in the control of the Company.

9. Agreements between the Company and its board members and directors or employees which establish the payment of indemnities in the event that these individuals resign or are unfairly dismissed or if the labour relationship is extinguished due to a public takeover bid

Six of the Group's senior management (who are not board members) have indemnity clauses which are applicable if they are unfairly dismissed or there is a change in management. These indemnities amount to two years' salary, including fixed and variable remuneration.

The employment contracts for the rest of the executive board members and senior management do not include indemnity clauses other than those established by prevailing labour legislation.

* * *

GRIFOLS, S.A. AND SUBSIDIARIES

At a meeting held on 20 February 2009 and in compliance with the requirements established in article 171.2 of the Revised Text of the Spanish Companies Act and article 37 of the Spanish Commercial Code, the members of the board of directors of Grifols, S.A. have prepared the consolidated annual accounts and consolidated directors' report for the period from 1 January 2008 to 31 December 2008. The annual accounts comprise the attached documents preceding this statement, all of which are drawn up and identified on sheets of paper bearing the official State seal, 8th class, numbered from _____ to _____.

Grifols Roura, Víctor
Chairman
(signed)

Riera Roca, Ramón
Board member
(signed)

Twose Roura, Juan Ignacio
Board member
(signed)

Dagà Gelabert, Tomás
Board member
(signed)

Thortol Holding B.V.
(J.A. Grifols G.)
Board member
(signed)

Glanzmann, Thomas
Board member
(signed)

Jannotta, Edgar Dalzell
Board member
(signed)

Purslow, Christian M.C.
Board member
(signed)

Veiga Lluch, Anna
Board member
(signed)

Grifols Roura, Raimon
Secretary
(signed)