GRIFOLS, S.A.
(formerly Probitas Pharma, S.A.)
AND SUBSIDIARIES

Consolidated Annual Accounts prepared in accordance with
International Financial Reporting Standards as adopted for use in
the European Union
and Consolidated Directors' Report

31 December 2005

(With the Auditors' Report Thereon)

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

Auditors' Report on the Consolidated Annual Accounts

(Fee translation from the original in Spanish)

To the Shareholders of
Grifols, S.A. (formerly Probitas Pharma, S.A.)

We have audited the consolidated annual accounts of Grifols, S.A. (hereinafter the Parent Company) and subsidiaries (hereinafter the Group), which comprise the consolidated balance sheet at 31 December 2005, the consolidated statements of income, cash flows and changes in equity for the year then ended and the 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 annual accounts taken as a whole, based on our audit 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 annual accounts and assessing the appropriateness of their presentation, of the accounting principles applied and of the estimates employed.

The accompanying consolidated annual accounts for 2005 are the Group's first annual accounts prepared in accordance with European Union-endorsed International Financial Reporting Standards (hereinafter EU-IFRS) which require comparative figures be included for the previous year. Therefore, and in accordance with prevailing Spanish legislation, the Board of Directors of the Parent Company have presented the comparative figures for 2004 in the consolidated balance sheet at 31 December 2005, consolidated statements of income, cash flow and changes in equity for the year then ended and the notes thereto, and which result from the application of EU-IFRS in force at 31 December 2005. Consequently, the figures for 2004 differ from those reported in the approved 2004 consolidated annual accounts prepared in accordance with accounting principles prevailing that year. The differences generated as a result of applying EU-IFRS on consolidated equity at 1 January and 31 December 2004 and on consolidated results for 2004 are detailed in note 36. We express our opinion solely on the consolidated annual accounts for 2005. On 5 May 2005 we issued our qualified audit report on the consolidated annual accounts for 2004, which were prepared in accordance with accounting principles prevailing that year.

As described in note 4, the Group has availed of the exception provided for in EU-IFRS 1, applying International Accounting Standards 32 and 39, which prescribe the accounting treatment for financial instruments, as of 1 January 2005 without being required to adapt the comparative figures for the prior year. This should be borne in mind when considering the comparability of the consolidated annual accounts for 2005 with 2004.

In our opinion, these consolidated annual accounts for 2005 present fairly, in all material respects, the consolidated equity and consolidated financial position of Grifols, S.A., and subsidiaries at 31 December 2005 and the consolidated results of its operations and the 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-IFRS which, except for the matter described in the preceding paragraph, have been applied on a basis consistent with that used in the preparation of the consolidated annual accounts for the preceding year which have been included in the 2005 consolidated annual accounts for comparative purposes.

The accompanying consolidated directors' report for 2005 contains such explanations as the Directors of the Parent Company consider relevant to the situation of the Group, 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 2005. 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.

(Signed)

David Ghosh Basu

31 March 2005

GRIFOLS, S.A. AND SUBSIDIARIES

Consolidated Balance Sheets
at 31 December 2005 and 2004
(In thousands of Euros)

(Free translation from the original in Spanish)

Assets	31/12/05	31/12/04
Non-current assets		
Intangible assets (note 6)		
Goodwill	117,115	103,313
Other assets	48,718	46,530
Total intangible assets	165,833	149,843
Property, plant and equipment (note 7)	186,621	176,817
Investments (note 8)		
Investments accounted for using the equity method	210	333
Other investments	803	1,977
Total investments	1,013	2,310
Deferred tax assets (note 29)	30,529	27,408
Financial assets available-for-sale (note 9)	1,393	0
Treasury shares (note 14 e)	0	870
Total non-current assets	385,389	357,248
Current assets		
Inventories (note 10)	249,545	245,976
Trade and other receivables (note 11)	155,046	186,935
Short-term investments (note 12)	661	367
Public entities (note 13)	8,186	10,069
Cash and cash equivalents	22,856	22,996
Total current assets	436,294	466,343
Total assets	**821,683**	**823,591**

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

GRIFOLS, S.A. AND SUBSIDIARIES

Consolidated Balance Sheets
at 31 December 2005 and 2004
(In thousands of Euros)

(Free translation from the original in Spanish)

Equity and liabilities	31/12/05	31/12/04
Equity (note 14)		
Share capital	70,169	105,841
Reserves	1,603	190,294
Profit for the year	25,556	26,402
Treasury shares	0	0
Translation differences	-41,502	-69,915
Total majority shareholders' equity	55,826	252,622
Minority interests (note 15)	121	110
Total equity	**55,947**	**252,732**
Liabilities		
Non-current liabilities		
Notes & other liabilities	5,323	0
Borrowings (note 17)	184,671	8,008
Other payables (note 18)	281,233	45,532
Deferred tax liabilities (note 29)	42,104	37,362
Total non-current liabilities	513,331	90,902
Current liabilities		
Notes and other liabilities (note 16)	0	5,157
Borrowings (note 19)	99,514	364,840
Derivatives (note 20)	3,049	0
Payables to related parties (note 21)	41	526
Trade payables (note 22)	74,708	62,429
Other payables (note 23)	51,981	30,365
Public entities (note 13)	23,112	16,640
Total current liabilities	252,405	479,957
Total liabilities	**765,736**	**570,859**
Total equity and liabilities	**821,683**	**823,591**

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

GRIFOLS, S.A. AND SUBSIDIARIES

Consolidated income statements
for the years ended 31 December 2005 and 2004

(In thousands of Euros)

(Free translation from the original in Spanish)

Profit and loss	31/12/05	31/12/04
Revenues		
Net sales (note 24)	523,727	455,375
Other operating income	550	1,116
Total operating income	524,277	456,491
Operating expenses		
Change in inventories of finished goods and work in progress and supply of raw materials (note 10)	-153,897	-128,952
Personnel expenses (note 25)	-154,887	-147,285
Amortisation and depreciation (notes 6 and 7)	-26,898	-25,521
Other operating expenses (note 26)	-114,071	-106,324
Total operating expenses	-449,753	-408,082
Other income/expense		
Other income	1,029	12,824
Other expense	-1,967	-4,913
Total other income/expense (note 27)	-938	7,911
Operating profit	**73,586**	**56,320**
Financial income/expense		
Financial income	3,549	2,885
Financial expense	-37,855	-29,132
Exchange gains/(losses)	1,550	-376
Net financing costs (note 28)	**-32,756**	**-26,623**
Interest in equity accounted companies (note 8)	-10	103
Profit before income tax	**40,820**	**29,800**
Income tax (note 29)	-15,315	-3,398
Profit after income tax	**25,505**	**26,402**
Minority interest (note 15)	-51	0
Profit attributable to the Group	**25,556**	**26,402**

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

GRIFOLS, S.A. AND SUBSIDIARIES

Consolidated cash flow statements
for the years ended 31 December 2005 and 2004

(In thousands of Euros)
(Free translation from the original in Spanish)

	31/12/05	31/12/04
Cash flows from operating activities		
Net profit	25,556	26,402
Profit / (loss) from equity accounted companies	10	-104
Amortisation and depreciation	26,898	25,521
Net provisions for fixed assets	-69	-6
Net provisions for liabilities and charges	114	63
Profit / (loss) on disposal of fixed assets	526	257
Minority interests	11	-5
Capital grants taken to income	-159	-64
Exchange gains	-10	1,417
Deferred tax assets / liabilities	109	-3,807
	52,986	49,674
Financial expense / income	34,306	26,314
Income tax expense	15,315	3,398
	49,621	29,712
Operating profit prior to changes	**102,607**	**79,386**
Changes in inventories	6,090	5,080
Changes in receivables	39,654	2,317
Changes in short-term investments	-219	166
Changes in current liabilities	6,638	-48,403
	52,163	-40,840
Cash generated from operations	**154,770**	**38,546**
Interest paid	-17,438	-26,367
Tax paid / recovered	-17,608	3,670
	-35,046	-22,697
Net cash from operating activities	**119,724**	**15,849**
Cash flows from operating activities		
Sale of non-current assets	323	1,396
Acquisition of non-current assets	-28,934	-35,616
Net cash used in investing activities	**-28,611**	**-34,220**
Cash flows from financing activities		
Purchase / sale of treasury	-303,149	0
Net capital increase	301,515	0
Additions / settlement of loans	-76,667	28,250
Lease payments	-8,111	-6,211
Payment of loan arrangement expenses	-3,862	-655
Dividends paid	-2,840	-3,215
Conversion differences	-638	101
Net cash used in financing activities	**-93,752**	**18,270**
Net increase in cash and cash equivalents	-2,639	-101
Cash and cash equivalents at beginning of the year	22,996	24,247
Effect of exchange rate fluctuations on cash held	2,499	-1,150
Cash and cash equivalents	**22,856**	**22,996**

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

GRIFOLS, S.A. AND SUBSIDIARIES

Consolidated statements of changes in equity
for the years ended 31 December 2005 and 2004
(In thousands of Euros)
(Free translation from the original in Spanish)

	Attributable to equity holders of the Parent					Recognised income and expense				
	Share capital	Legal reserves	Other reserves	Accumulated earnings for the year	Own shares	Conversion differences	Financial instrument reserve	Equity attributable to the parent	Minority interests	**Net equity**
Balance at 1 January 2004	105,841	6,131	166,052	21,434	0	-56,755	0	242,703	116	242,819
Changes in equity in 2004										
Reserves for foreign currency translation	--	--	--	--	--	-12,444	--	-12,444	-6	-12,450
Available for sale financial assets profit/(loss)recognised as equity	--	--	--	--	--	--	--	0	--	0
Revaluation of property, plant & equipment net increase/decrease in assets	--	--	--	--	--	-716	--	-716	--	-716
Other movements	--	--	-108	--	--	--	--	-108	--	-108
Net income/expense recognised directly in equity	0	0	-108	0	0	-13,160	0	-13,268	-6	-13,274
Profit / (loss) for the year	--	--	--	26,402	--	--	--	26,402	--	26,402
Total income and expense recognised directly during the year	0	0	-108	26,402	0	-13,160	0	13,134	-6	13,128
Application of 2003 profit										
Reserves	--	1,530	16,689	-18,219	--	--	--	0	--	0
Dividends	--	--	--	-3,215	--	--	--	-3,215	--	-3,215
Balance at 31 December 2004	105,841	7,661	182,633	26,402	0	-69,915	0	252,622	110	252,732
Effect of adoption of IAS 32 and 39	--	--	1,342	--	-870	--	198	670	--	670
Balance at 1 January 2005	105,841	7,661	183,975	26,402	-870	-69,915	198	253,292	110	253,402
Changes in equity during 2005										
Reserves for foreign currency translation	--	--	--	--	--	27,002	--	27,002	62	27,064
Financial assets available for sale profit/(loss) recognised as equity	--	--	--	--	--	--	-103	-103	--	-103
Revaluation of property, plant & equipment net increase/decrease in assets	--	--	--	--	--	1,411	--	1,411	--	1,411
Operations with treasury shares	--	-870	4,512	--	870	--	--	4,512	--	4,512
Net income / expense recognised directly in equity	0	-870	4,512	0	870	28,413	-103	32,822	62	32,884
Profit / (loss) for the year	--	--	--	25,556	--	--	--	25,556	-51	25,505
Total income and expense recognised during the year	0	-870	4,512	25,556	870	28,413	-103	58,378	11	58,389
Distribution of profits for 2004										
Reserves	--	760	22,802	-23,562	--	--	--	0	--	0
Dividends	--	--	--	-2,840	--	--	--	-2,840	--	-2,840
Capital increase with monetary contribution	11,226	--	48,774	--	--	--	--	60,000	--	60,000
Capital increase with a charge to share premium	7,017	--	-7,017	--	--	--	--	0	--	0
Capital increase expenses (with voting rights)	--	--	-2,253	--	--	--	--	-2,253	--	-2,253
Share capital decrease	-53,914	--	-256,837	--	--	--	--	-310,751	--	-310,751
Balance at 31 December 2005	70,169	7,551	-6,044	25,556	0	-41,502	95	55,826	121	55,947

(1) Nature, principal activities and subsidiaries

(a) Grifols, S.A. (formerly Probitas Pharma, S.A.)

Grifols, S.A. (hereinafter the Company) was incorporated with limited liability under Spanish law on 22 June 1987. On 27 June 2005 the Company changed its name from Probitas Pharma, S.A. to Grifols, S.A. Its registered offices are in Barcelona (Spain). The Company's statutory activity consists of providing administrative and management services to its subsidiaries.

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

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

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

(b) Subsidiaries

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

- **Industrial**

  The following companies are included:

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

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

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

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

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

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

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

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

- **Commercial area**

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

– **Movaco, S.A.** was incorporated with limited liability under Spanish law on 21 July 1987 and its registered offices are at Polígono Levante, calle Can Guasch, s/n, 08150 Parets del Vallés, Barcelona. Its principal activity is the distribution and sale of reagents, chemical products and other pharmaceutical specialities, and of medical-surgical materials, equipment and instruments for use in laboratories and healthcare centres.

– **Grifols International, S.A.,** with registered offices in Barcelona, Spain, was incorporated into the Group on 4 June 1997. This company directs and coordinates the marketing, sales and logistics for all the Group's commercial subsidiaries. Products are marketed through subsidiaries operating in different countries. These subsidiaries, their registered offices and date of incorporation into the Group, are listed below.

– **Grifols Portugal Productos Farmacéuticos e Hospitalares, Lda.,** was incorporated with limited liability under Portuguese law on 10 August 1988. Its registered offices are at Jorge Barradas, 30 –c R/C, 1500 Lisbon (Portugal) and it imports, exports and markets pharmaceutical and hospital equipment and products, particularly Grifols products. 99.975% of this company is owned directly by Movaco, S.A.

– **Grifols Chile, S.A.** was incorporated under limited liability in Chile on 2 July 1990. Its registered offices are at calle Avda. Americo Vespucio 2242, Comuna de Conchali, Santiago de Chile (Chile). Its authorised activity under its statutes comprises the development of pharmaceutical businesses, which can involve the import, production, marketing and export of related products.

– **Grifols 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 statutory activity consists of clinical and biological research, the preparation of reagents and therapeutic and diet products, the manufacture of other pharmaceutical specialities and the marketing thereof.

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

- **Grifols México, S.A. de C. V.** was incorporated with limited liability under Mexican law on 9 January 1970, with registered offices at calle Eugenio Cuzin nº 909, Parque Industrial Belenes Norte, 45150 Zapopan, Jalisco (Mexico). Its authorized activity under statutes comprises the manufacture and marketing of pharmaceutical products for human and veterinary use.

- **Grifols USA, Inc.** was incorporated in the state of Florida (USA) on 19 April 1990. Its registered offices are at 8880 N.W. 18 Terrace, Miami, Florida (USA) and its authorized activity under statutes is any activity permitted by US legislation. On 1 July 2004 this company merged with the companies Grifols America, Inc, and Grifols Quest, Inc. This company is directly owned by Grifols, Inc. (formerly Probitas Pharma, Inc.).

- **Grifols Italia S.p.A.** has its registered offices at Via Carducci 62 d, 56010 Ghezzano, Pisa (Italy) and its authorized activity under statutes comprises the purchase, sale and distribution of chemical-pharmaceutical products. 66.66% of this company was acquired on 9 June 1997 and the remaining 33.34% on 16 June 2000.

- **Grifols UK Ltd.,** the registered offices of which are at 72, St. Andrew’s Road, Cambridge CB4 1G (United Kingdom), is engaged in the distribution and sale of therapeutic and other pharmaceutical products, especially haemoderivatives. 66.66% of this company was acquired on 9 June 1997 and the remaining 33.34% on 16 June 2000.

- **Grifols Deutschland GmbH** was incorporated with limited liability under German law on 21 May 1997, with registered offices at Siemensstrasse 18, D-63225 Langen (Germany). Its authorized activity under statutes consists of the import, export, distribution and sale of reagents, chemical and pharmaceutical products, especially to laboratories and healthcare centres, and medical and surgical materials, equipment and instruments for laboratory use.

- **Grifols 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 authorized activity under statutes consists of the import and export, preparation, distribution and sale of pharmaceutical and chemical products for laboratory and hospital use, and medical-surgical equipment and instrumentation.

- **Grifols France, S.A.R.L.** was incorporated with limited liability under French law on 2 November 1999, with registered offices at Centre d’affaires auxiliares system, Bat. 10, Parc du Millenaire – 125, Rue Henri Becquerel, 34036, Montpellier (France). Its statutory activity is the marketing of chemical and healthcare products.

- **Alpha Therapeutic Europe, Ltd** was incorporated on 5 April 2000 and its registered offices are at 100 New Bridge Street, London. It renders technical, financial and marketing services to other Group companies.

- **Alpha Therapeutic UK, Ltd** was incorporated on 8 April 2000 and its registered offices are at 100 New Bridge Street, London. Its activity consists of the distribution and sale of therapeutic products, especially haemoderivatives. The company is wholly owned by Alpha Therapeutic Europe, Ltd.

- **Alpha Therapeutic Italia, S.p.A.** was incorporated on 3 July 2000, with registered offices at Piazza Meda 3, 20121 Milan (Italy), and engages in the distribution and sale of therapeutic products, especially haemoderivatives.

- **Grifols Asia Pacific Pte, Ltd (formerly Alpha Therapeutic Asia Pte, Ltd)** was incorporated on 10 September 1986 , with registered offices at 501 Orchard Road #20-01 Wheelock Place, Singapore, and its activity consists of the distribution and sale of medical and pharmaceutical products.

- **Grifols Malaysia Sdn Bhd** is partly owned (30%) by Grifols Asia Pacific Pte, Ltd. The registered offices of this company are in Selangor (Malaysia) and it engages in the distribution and sale of pharmaceutical products.

- **Grifols (Thailand) Ltd (formerly Alpha Therapeutic (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**

The following companies are included in this area:

- **Grifols, Inc. (formerly Probitas Pharma, Inc.)** was incorporated on 15 May 2003 with registered offices at 15 East North Street, Dover (Delaware, USA). Its principal activity is the holding of investments in companies. The company adopted its current name on 19 September 2005.

- **Grifols Viajes, S.A.**, with registered offices in Barcelona, Spain, was incorporated into the Group on 31 March 1995 and operates as a retail travel agency exclusively serving Group companies.

– **Squadron Reinsurance Ltd**., with registered offices in Dublin, Ireland, was incorporated into the Group on 25 April 2003 and engages in the reinsurance of Group companies' insurance policies.

(c) Associated companies

Associated companies are as follows:

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

(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 2005 have been prepared under EU-endorsed International Financial Reporting Standards (EU-IFRS) to present fairly the consolidated equity and consolidated financial position of Grifols, S.A. and subsidiaries at 31 December 2005, as well as the consolidated results from its operations, its consolidated cash flows and changes in consolidated equity (changes in recognised income and expenses) for the year then ended. The 2005 consolidated annual accounts are the first to be prepared by the Group under EU-IFRS and consequently, IFRS 1 First-time Adoption of International Financial Reporting Standards has been applied. The explanations and impact of conversion to EU-IFRS on consolidated equity and the consolidated financial position at 1 January 2004 and 31 December 2004 and the Group's consolidated results for the year ended 31 December 2004 are detailed in note 36.

(a) Bases of preparation of the consolidated annual accounts

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

- Financial instruments, which are stated at fair value through profit or loss, and available-for-sale financial assets, which have been recorded at fair value in 2005.

- The Group has availed of the exemption relating to fair value or revaluation as deemed cost, from IFRS 1 First-time Adoption of International Financial Reporting Standards, with regard to land and buildings. In accordance with this exemption, the Group's land and buildings were revalued on 1 January 2004 based on appraisals by independent experts (note 7).

(b) Comparison of information

The consolidated annual accounts include, for each caption of the consolidated balance sheet and consolidated statements of income, cash flow and changes in equity and the consolidated notes thereto for 2005, comparative data for 2004, which was obtained through consistent application of EU-IFRS, except for the criteria outlined in the following paragraphs. As a consequence, the 2004 figures differ from those contained in the consolidated annual accounts approved by the shareholders at their annual general meeting on 27 June 2005. These figures were prepared in accordance with generally accepted accounting principles prevailing that year, the Spanish General Chart of Accounts and Royal Decree 1815/1991 governing the preparation of consolidated annual accounts (hereinafter, previous accounting principles, or Spanish GAAP)). The impact of applying EU-IFRS on consolidated equity at 1 January 2004 and 31 December 2004 and to the profit for the year then ended is detailed in note 36.

The Group's accounting policies detailed in note 4 have been consistently applied to the years ended 31 December 2005 and 2004 and in the preparation of the transitional balance sheet at 1 January 2004, except for the criteria for recognition, measurement and disclosure of financial instruments and non-current assets available-for-sale, which have been applied as of 1 January 2005.

(i) *Financial instruments (IAS 32 and 39)*

As from 1 January 2005 the Group has applied the classification, valuation and disclosure requirements of IAS 32 "Financial Instruments: Prsentation and Disclosure" and IAS 39 "Financial Instruments: Recognition and Measurement". IAS 32 and IAS 39 establish that these standards may be applied retrospectively from the date these accounting principles came into force. Nevertheless, the Group has opted to use the exemption in IFRS 1 which does not require it to present comparative data under IAS 32 and 39. Consequently, the criteria of recognition, measurement and disclosure applied in 2004 will reflect Spanish GAAP.

Note 4 includes details of the main accounting principles applied for recognition of the transactions carried out in 2004.

A summary of the main adjustments arising from the application of IAS 32 and IAS 39 since 1 January 2005 is as follows:

		Thousands of Euros		
ASSETS	**Note**	**IFRS at 31/12/2004**	**Effect of adoption of IAS 32 & 39 at 01/01/2005**	**Re-expressed IFRS at 01/01/2005**
Intangible assets				
Goodwill		103,313		103,313
Other intangible assets		46,530		46,530
Total intangible assets		149,843	0	149,843
Property, plant & equipment		176,817		176,817
Investments				
Investments accounted for using the equity method		333		333
Other investments	**8**	1,977	(1,255)	722
Total investments		2,310	(1,255)	1,055
Deferred tax assets	**29**	27,408	716	28,124
Financial assets available for sale	**9**	0	1,559	1,559
Treasury shares	**14**	870	(870)	0
Total non-current assets		**357,248**	**150**	**357,398**
Inventories		245,976		245,976
Trade & other receivables		186,935		186,935
Short-term investments	**12**	367	2,772	3,139
Public entities		10,069		10,069
Cash & cash equivalents		22,996		22,996
Total current assets		**466,343**	**2,772**	**469,115**
TOTAL ASSETS		**823,591**	**2,922**	**826,513**

EQUITY AND LIABILITIES	Note	IFRS as 31/12/2004	Effect of adoption of IAS 32 & 39 at 01/01/2005	Re-expressed IFRS at 01/01/2005 reexpresado
		Thousands of Euros		
EQUITY				
Share capital		105,841		105,841
Reserves	**14**	190,294	1,541	191,835
Profit for the year		26,402		26,402
Treasury shares	**14 (d)**	0	(870)	(870)
Translation differences		(69,915)		(69,915)
Total majority equity		**252,622**	**671**	**253,293**
Minority interests		**110**		**110**
TOTAL EQUITY		**252,732**	**671**	**253,403**
LIABILITIES				
Notes & other liabilities		0		0
Borrowings		8,008		8,008
Other payables	**18**	45,532	(848)	44,684
Deferred tax liabilities	**29**	37,362	1,076	38,438
Total non-current liabilities		**90,902**	**228**	**91,130**
Notes & other liabilities		5,157		5,157
Borrowings		364,840		364,840
Derivatives	**20**	0	2,041	2,041
Associated companies		526		526
Trade payables		62,429		62,429
Other payables		30,365	(18)	30,347
Public entities		16,640		16,640
Total current liabilities		**479,957**	**2,023**	**481,980**
TOTAL LIABILITIES		**570,859**	**2,251**	**573,110**
TOTAL EQUITY & LIABILITIES		**823,591**	**2,922**	**826,513**

(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 notes 4 (f) and 4(g)).
- Measurement of assets and goodwill to determine any related impairment losses (see note 4(d)).
- Useful lives of property, plant and equipment and intangible assets (see notes 4(b) and 4(c)).

(d) Consolidation

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

	31/12/2005		31/12/2004	
	Percentage interest		Percentage interest	
	Direct	Indirect	Direct	Indirect
Parent company				
Grifols, S.A.	--	--	--	--
Companies fully consolidated				
Laboratorios Grifols,S.A.	99.998	0.002	99.998	0.002
Instituto Grifols,S.A.	99.998	0.002	99.998	0.002
Movaco,S.A.	99.999	0.001	99.999	0.001
Grifols Portugal Productos Farmacéuticos e Hospitalares,Lda.	0.015	99.985	0.015	99.985
Diagnostic Grifols,S.A.	99.998	0.002	99.998	0.002
Logister,S.A.	--	100.000	--	100.000
Grifols Chile,S.A.	99.000	--	99.000	--
Biomat,S.A.	99.900	0.100	99.900	0.100
Grifols Argentina,S.A.	100.000	--	100.000	--
Grifols,s.r.o.	100.000	--	100.000	--
Grifols México,S.A. de C.V.	100.000	--	100.000	--
Grifols Viajes,S.A.	99.900	0.100	99.900	0.100
Grifols USA, Inc.	--	100.000	--	100.000
Grifols International,S.A.	99.900	0.100	99.900	0.100
Grifols Italia,S.p.A.	100.000	--	100.000	--
Grifols UK,Ltd.	100.000	--	100.000	--
Grifols Deutschland,GmbH	100.000	--	100.000	--
Grifols Brasil,Ltda.	100.000	--	100.000	--
Grifols France,S.A.R.L.	99.000	1.000	99.000	1.000
Grifols Engineering, S.A.	99.950	0.050	99.950	0.050
Biomat USA, Inc.	--	100.000	--	100.000
Squadron Reinsurance Ltd.	100.000	--	100.000	--
Grifols, Inc.	100.000	--	100.000	--
Grifols Biologicals, Inc.	--	100.000	--	100.000
Alpha Therapeutic Europe, Ltd.	100.000	--	100.000	--
Alpha Therapeutic UK, Ltd.	--	100.000	--	100.000
Alpha Therapeutic Italia, S.p.A.	100.000	--	100.000	--
Grifols Asia Pacific Pte., Ltd.	100.000	--	100.000	--
Grifols Malaysia Sdn Bhd (1)	--	30.000	--	30.000
Grifols (Thailand) Ltd.	--	48.000	--	48.000
Grifols Polska Sp.z.o.o.	100.000	--	100.000	--
Companies accounted for using the equity method				
Quest International, Inc.	--	35.000	--	35.000

(1) At 31 December 2004, Grifols Malaysia Sdn Bhd was recorded at cost as it was not considered significant to the consolidation process.

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

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

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

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

The attached consolidated annual accounts include the assets and liabilities of Biomat USA, Inc. at 31 December, 2005 and its income and expenses for the period 1 December, 2004 to 31 December 2005, together with the comparative figures of Biomat USA, Inc.’s balance sheet as of 30 November, 2004 and its income and expenses for the period 1 December, 2003 to 30 November, 2004. Inter-group transactions between Biomat USA, Inc. and other group companies for the month of December, 2004 were duly considered for consolidation purposes.

(3) Distribution of Profits

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

The proposal for the distribution of results corresponding of the parent company for the fiscal year ended December 31, 2005, prepared by the Directors and pending approval by the Shareholders' Meetings, is as follows:

	Thousands of Euros
Legal reserves	1,296
Voluntary reserves	4,665
Dividends	7,000
	12,961

The distribution of results of the fiscal year does not include the amount of euros 10,257 thousand corresponding to the dividends to be received by the preference shares (see note 14(a)).

The distribution of the profit for the year ended 31 December 2004 is presented in the Consolidated Statement of Changes in Equity.

(4) Accounting and Valuation Principles applied

(a) Foreign currency transactions

(i) *Functional currency and presentation currency*

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

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

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

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

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

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

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

(iii) *Translation of foreign businesses*

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

- Assets and liabilities, including goodwill and adjustments to net assets deriving from the acquisition of businesses, including comparative balances, are translated at the year-end exchange rate at each balance sheet date.

- Income and expenses, including comparative balances, are translated at the exchange rates prevailing at each transaction date; and

- Translation differences arising from application of the above criteria are recognised as translation differences in equity.

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

(b) Property, plant and equipment

(i) *Initial recognition*

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

The Group has applied the exemption relating to the fair value or revaluation as attributed cost from IFRS 1 First-time Adoption of International Financial Reporting Standards (see note 36 "Transition to EU-IFRS").

(ii) *Depreciation*

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

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

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

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

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

(iii) *Subsequent recognition*

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

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

(iv) *Impairment*

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

(c) Intangible assets

(i) *Goodwill*

Goodwill arises from business combinations prior to the transition date (1 January 2004).

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

Internally generated goodwill is not recognised as an asset.

(ii) *Self-constructed assets*

Costs related with development activities are capitalised when:

- The Group has technical studies justifying the feasibility of the production process.

- The Group has a commitment to complete production of the asset whereby it is in condition for sale (or internal use).

- The asset will generate sufficient economic benefits.

- The Group has the necessary financial and technical resources to complete production of the asset and has developed budget and cost accounting control systems which allow budgeted costs, introduced changes and costs actually assigned to different projects to be monitored.

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

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

(iii) *Other intangible assets*

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

(iv) *Useful lives and amortisation rates*

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

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

Intangible assets with defined useful lives are amortised on a straight-line basis in accordance with the following criteria:

	Amortisation method	Rates
Development costs	Straight line	3 - 5
Software	Straight line	3 - 6

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

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

(v) *Impairment*

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

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

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

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

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

Losses arising from comparison of carrying amounts of assets with their recoverable amounts are expensed through the profit and loss account.

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

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

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

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

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

(e) Leases

(i) *Lease accounting*

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

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

- Finance leases:

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

- Operating leases

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

(ii) *Investment in leased properties*

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

(f) Financial instruments: criteria applied to transactions prior to 1 January 2005

The accounting policies applied by the Group to financial assets and liabilities prior to 1 January 2005 are summarised below:

(i) *Fixed or variable income securities*

Fixed or variable income securities are recorded at the lower of cost and market value. Market value is calculated for each category of investment as follows:

- The closing quotation is used for quoted securities.

- For unquoted securities, market value is taken as the underlying net book value of the security from the latest available annual accounts.

Interests in investment funds in monetary market assets were stated at cost. Income on these investments, determined by the difference between the market value at the date of disposal or year end and the book value, was recorded as financial income. Where a loss was incurred, this was recorded as a decrease in the value of the investment. Amounts deriving from the distribution of profits from an investment fund in monetary market assets were recorded as a decrease in the book value of the interest in that fund.

(ii) *Debtors and notes receivable*

Part of the Company’s sales are collected by means of accepted or unaccepted notes. Discounted notes pending maturity at 31 December 2004 are included in the accompanying consolidated balance sheet under trade debtors with an equivalent credit balance under short-term loans.

Discounting costs were expensed when incurred and not deferred over the discount period, as the effect of such deferral would be immaterial to operating results.

A significant part of accounts receivable from sales are sold, without recourse, to banks through factoring agreements. The bank assumes all risks related to collection. These accounts receivable are taken out of the consolidated balance sheet and all costs incurred in the factoring operation are expensed at the date of the sales.

The Company made provision for bad debts in respect of overdue balances and when circumstances indicated doubtful collection.

(iii) *Creditors*

Long and short-term trade and non-trade creditors are stated at redemption value. Implicit interest included in the nominal or redemption value of creditor balances is recorded under other current or non-current liabilities in accordance with debt repayment periods.

(iv) *Financial derivatives*

Valuation differences on financial derivative operations are recorded when the operations are settled or cancelled and taken to the consolidated income statement.

(v) *Classification of financial instruments*

The Group classified financial instruments based on their legal form.

(g) Financial instruments: criteria applied to balances and transactions subsequent to 1 January 2005

(i) *Classification of financial instruments*

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

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

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

As mentioned in note 2, the Group has adopted IAS 32 and IAS 39 at 1 January 2005. Consequently, financial assets and liabilities recognised under Spanish GAAP have been designated as financial assets or liabilities at fair value, with changes reflected through profit or loss, or as available-for-sale financial assets, at each balance sheet date.

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

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

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

- it is acquired or incurred mainly for sale or repurchase in the immediate future

- it forms part of a portfolio of identified financial instruments which are managed jointly and for which there is evidence of a recent pattern of short-term profits, or

- it is a derivative, except a derivative which has been designated as a hedging instrument and complies with conditions for effectiveness

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

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

b) Loans and receivables

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

(c) Available-for-sale financial assets

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

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

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

(d) Financial assets and liabilities measured at cost

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

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

(ii) *Offsetting principles*

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

(iii) *Fair value*

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

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

- If no market prices are available, prices of recent transactions are used, adapted to current conditions.

- Otherwise, the Group applies generally accepted measurement techniques using market data as far as possible and, to a lesser extent, specific Group data.

(iv) *Amortised cost*

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

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

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

(v) *Impairment and default of financial assets*

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

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

(vi) *Impairment of financial assets measured at amortised cost*

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

(vii) *Impairment of financial assets measured at cost*

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

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

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

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

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

(ix) *Financial liabilities*

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

(h) Parent Company (Treasury) shares

(i) *Transactions up to 31 December 2004*

Until 1 January 2005, treasury shares in the parent company acquired by subsidiaries or by the parent company were classified as a non-current asset in the consolidated balance sheet under “parent company shares”. The Company’s shares were recognised at the lowest of the cost of acquisition, market value or underlying net book value.

(ii) *Transactions from 1 January 2005*

Since 1 January 2005 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 recorded as a result of transactions carried out with own equity instruments.

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

- Distributions to holders of own equity instruments are charged to equity once any tax effect has been considered;

- Transaction costs related with own equity instruments, including the issue costs related with a business combination, are recorded as a reduction in equity, once any tax effect has been considered.

- Dividends relating to equity instruments are recognised as a reduction in equity when approved at the general meeting of shareholders.

(i) Inventories

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

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

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

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

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 selling costs.

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

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

(j) Cash and cash equivalents

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

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

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

(k) Government grants

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

(i) *Capital grants*

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

(ii) *Operating subsidies*

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

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

(iii) *Interest rate subsidies*

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

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(l) Employee benefits

(i) *Defined contribution plans*

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

(ii) *Termination benefits*

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

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

(iii) *Short-term employee benefits*

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

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

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

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

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

(n) Revenue recognition

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

(i) *Sale of goods*

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

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

(ii) *Rendering of services*

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

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

(iii) *Dividends*

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

(o) Income tax

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

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

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

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

(i) *Taxable temporary differences*

Taxable temporary differences are recognised in all cases except where:

- Arising from the initial recognition of goodwill or an asset or liability in a transaction which is not a business combination and at the time of the transaction, affects neither accounting profit nor taxable profit;

- Associated with investments in subsidiaries over which the Group is able to control the timing of the reversal of the temporary difference and it is probable that the timing difference will reverse in the foreseeable future.

(ii) *Deductible temporary differences*

Deductible timing differences are recognised provided that:

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

- the temporary differences are associated with investments in subsidiaries to the extent that the difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilised.

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

(iii) *Measurement*

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

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

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

(iv) *Classification and Offset*

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

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

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

(p) Segment reporting

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

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

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

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

- Assets are classified as current when they are expected to be realised, sold or traded in the Group's ordinary course of business within 12 months of the balance sheet date and when held essentially for trading. Cash and cash equivalents are also classified as current, except where they may not be exchanged or used to settle a liability, at least within the 12 months following the balance sheet date.

- Liabilities are classified as current when expected to be settled in the Group's ordinary course of business within 12 months of the balance sheet date and when essentially held for trading, or where the Group does not have an unconditional right to defer settlement of the liability for at least 12 months from the balance sheet date.

- Current liabilities such as trade creditors, personnel expenses and other operating costs are classified as current, even if maturing more than 12 months from the balance sheet date.

- Financial liabilities which must be settled within the 12 months following the balance sheet date are classified as current, even if the original maturity exceeded 12 months and a refinancing or restructuring agreement for long-term payments exists which has been finalised subsequent to the close and before the consolidated annual accounts have been prepared.

(r) Environment

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

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

(5) Financial Information by Segment

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

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

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

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

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

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

(a) Business segments

The business segments defined by the Group are as follows:

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

b) Geographical segments

Geographical segments are grouped into three areas:

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

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

(6) Intangible Assets

Details of intangible assets and movement during the years ended 31 December 2005 and 2004 are included in Appendix II, which forms an integral part of these notes to the consolidated annual accounts.

Goodwill

Details of goodwill and movement during the year ended 31 December 2004 are as follows:

	Thousands of Euros		
	Balances at 01/01/2004	Translation differences	**Balances at 31/12/04**
Net book value:			
Grifols UK,Ltd.	9,750	(4)	9,746
Grifols Italia,S.p.A.	6,118	0	6,118
Biomat USA, Inc.	94,310	(6,861)	87,449
	110,178	(6,865)	103,313

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

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

At 31 December 2005 the Group has recognised licenses and other intangible assets with indefinite useful lives for a carrying amount of Euros 16,850 thousand (Euros 14,768 thousand at 31 December 2004).

Impairment testing:

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

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

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

Growth rate: 3 – 4%
Discount rate: 15%

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

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

(7) Property, plant and equipment

Details of property, plant and equipment and movement in the consolidated balance sheet at 31 December 2005 and 2004 are included in Appendix III, which forms an integral part of these notes to these consolidated annual accounts.

Property, plant and development under construction at 31 December 2005 and 2004 mainly comprises investments made to extend the companies' installations and to increase their productive capacity.

a) Mortgaged property, plant and equipment

At 31 December 2005 certain land and buildings have been mortgaged for Euros 1,619 thousand (Euros 1,785 thousand at 31 December 2004) to secure payment of certain loans (see note 17).

b) Official capital grants received

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

c) Insurance

Group policy is to contract sufficient insurance coverage for the risk of damage to property, plant and equipment. At 31 December 2005 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 has opted to apply the exemption regarding fair value and revaluation as deemed cost as permitted by IFRS 1 First time Adoption of IFRS. In accordance with this exemption, the Group's land and buildings were revalued based on independent expert appraisals at 1 January 2004. Appraisals were carried out at market value. The gain on revaluation net of the corresponding deferred taxes was recorded with a debit to the revaluation reserve in equity (note 36 section 1(p)).

Details of the carrying amounts of land and buildings through application of the cost model are as follows:

	Thousands of Euros	
	Land	**Buildings**
Cost	5,473	17,320
Accumulated depreciation		(3,937)
Carrying amount at 31/12/2004	**5,473**	**13,383**
Cost	5,581	17,857
Accumulated depreciation		(4,764)
Carrying amount at 31/12/2005	**5,581**	**13,093**

The Group has contracted the following types of property, plant and equipment under finance leases at 31 December 2004:

	Thousands of Euros		
Asset	Cost	Accumulated depreciation	Carrying amount
Land and buildings	625	(103)	522
Plant and machinery	11,890	(1,695)	10,195
Other installations, equipment & furniture	3,159	(448)	2,711
Other fixed assets	6,152	(2,808)	3,344
	21,826	**(5,054)**	**16,772**

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

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

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

	Thousands of Euros			
	31/12/05		31/12/04	
	Current	Non current	Current	Non current
Minimum payments	4,969	2,971	6,225	5,123
Interest	(191)	(72)	(287)	(139)
Current value	4,778	2,899	5,938	4,984
	(note 19)	(note 17)	(note 19)	(note 17)

	Thousands of Euros					
	31/12/2005			31/12/2004		
	Minimum payments	Interest	Current value	Minimum payments	Interest	Current value
Maturity:						
Up to 1 year	4,969	191	4,778	6,225	287	5,938
1 to 5 years	2,971	72	2,899	5,123	139	4,984
More than 5 years	0	0	0	0	0	0
Total	7,940	263	7,677	11,348	426	10,922

(8) Investments

Details of investments and movement during the year ended 31 December 2004 are as follows:

	Thousands of Euros					
	Balances at 01/01/2004	Additions	Disposals / reversals	Transfers	Translation differences	**Balances at 31/12/2004**
Equity accounted interests:	262	103	0	0	(32)	333
Other investments:						
Long-term guarantee deposits	710	299	(249)	(20)	(22)	718
Investments quoted shares)	166	155	(68)	0	2	255
Fixed income securities	1,001	3	0	0	0	1,004
Other	0	0	0	0	0	0
Cost of other investments	1,877	457	(317)	(20)	(20)	1,977
Less, provsions for other investments	0	0	0	0	0	0
Carrying amount of other investments	1,877	457	(317)	(20)	(20)	1,977
TOTAL INVESTMENTS	**2,139**	**560**	**(317)**	**(20)**	**(52)**	**2,310**

At 31 December 2004 investments in quoted shares mainly reflect the Group's investment in Northfield Laboratorios, Inc (USA), which amounts to less than 1% of share capital. Fixed interest securities reflect a term deposit of approximately Euros 1 million held by the Group, which matures on 30 June 2013.

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

	Thousands of Euros						
	Balances at 31/12/2004	Effect of adoption of IAS 32 & 39	**Balances at 01/01/2005**	Additions	Disposals / Reversals	Translation differences	**Balances at 31/12/2005**
Equity accounted interests:	333	0	333	(10)	(110)	(3)	210
Other investments:							
Long-term guarantee deposits	718	0	718	105	(67)	43	799
Investments quoted shares)	255	(255)	0	0	0	0	0
Fixed income securities	1,004	(1,004)	0	0	0	0	0
Other	0	4	4	0	0	0	4
Cost of other investments	1,977	(1,255)	722	105	(67)	43	803
Less, provsions for other investments	0	0	0	0	0	0	0
Carrying amount of other investmen	1,977	(1,255)	722	105	(67)	43	803
TOTAL INVESTMENTS	**2,310**	**(1,255)**	**1,055**	**95**	**(177)**	**40**	**1,013**
		(note 2 (b))					

Investments accounted for using the equity method at 31 December 2005 and 2004 comprise the investment held by Diagnostic Grifols, S.A in the company Quest International, Inc. This company is located in Miami, Florida (USA) and its activity consists of the manufacture and commercialisation of reagents and clinical analysis instruments.

			Thousands of Euros				
2005	**Country**	**% interest**	**Assets**	**Liabil.**	**Equity**	**Sales**	**Profit/(loss)**
Quest International, Inc	U.S	35%	825	50	775	788	(29)
			825	50	775	788	(29)
2004							
Quest International, Inc	U.S	35%	1,225	96	1,129	649	297
			1,225	96	1,129	649	297

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

(9) Financial Assets Available-for-sale

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

	Thousands of Euros					
	Balances at 31/12/2004	Effect of adoption of IAS 32 & 39	**Balances at 01/01/2005**	Disposals / reversals	Effect of valuation	**Balances at 31/12/2005**
Investments quoted shares)	0	534	534	(9)	(175)	350
Fixed income securities	0	1,025	1,025	(4)	22	1,043
	0	1,559	1,559	(13)	(153)	1,393
		(note 2(b))				

At 31 December 2005 investments in quoted shares mainly reflect the Group's investment in Northfield Laboratorios, Inc (USA), which amounts to less than 1% of share capital.

At 31 December 2005 fixed interest securities reflect a term deposit of approximately Euros 1 million held by the Group, which matures on 30 June 2013.

(10) Inventories

Details of inventories at 31 December 2005 and 2004 are as follows:

	Thousands of Euros	
	31/12/05	31/12/04
Goods for resale	29,968	34,641
Raw materials and supplies	70,320	74,212
Work in progress & semi-finished goods	106,926	106,800
Finished goods	46,585	34,742
	253,799	250,395
Less, provision for obsolescence	(4,254)	(4,419)
	249,545	245,976

As mentioned in note 32 (b), at 31 December 2005, the caption Raw Materials and Consumed include 350 thousand litres of plasma which have been pledged to secure payment of US Dollars 27,500 thousand for the acquisition of Alpha Therapeutic Corporation, which falls due in July 2007.

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

	Thousands of Euros	
	31/12/05	31/12/04
Goods for resale		
Net purchases	36,906	27,717
Change in inventories	7,023	(1,634)
	43,929	26,083
Raw materials and supplies		
Net purchases	100,437	84,567
Change in inventories	5,156	14,125
	105,593	98,692
Other external expenses	8,566	9,572
Supplies of inventories	158,088	134,347
Change in inventories of finished goods & work in progress	(4,191)	(5,395)
Change in inventories of finished goods, work in progress & supply of inventories	153,897	128,952

Movement in goods for resale during 2005 and 2004 was as follows:

	Thousands of Euros	
	31/12/2005	31/12/2004
Opening goods for resale	34,641	33,534
Increase / (Decrease) of goods for resale	(7,023)	1,634
Translation difference	2,350	(527)
Closing goods for resale	29,968	34,641

Change in inventories of raw materials and materials consumed during 2005 and 2004 was as follows:

	Thousands of Euros	
	31/12/2005	31/12/2004
Opening raw materials	74,212	88,520
Increase / (reduction) in raw materials	(5,156)	(14,125)
Translation difference	1,264	(183)
Closing raw materials	70,320	74,212

Change in inventories of finished products and work in progress during 2005 and 2004 was as follows:

	Thousands of Euros	
	31/12/2005	31/12/2004
Opening inventories of finished goods and work in progress	141,542	139,306
Increase / (Decrease) in inventories of finished goods and work in progress	4,191	5,395
Translation difference	7,778	(3,159)
Closing inventories of finished goods and work in progress	153,511	141,542

Net sales include sales made in the following foreign currencies:

	Thousands of Euros	
	31/12/05	31/12/04
Currency		
US Dollar	87,637	62,540
Other currencies	962	3,157

Movement in the provision for obsolescence was as follows:

	Thousands of Euros	
	31/12/05	31/12/04
Opening balance	4,419	4,939
Net provisions for the year	(556)	(297)
Incorporations to consolidated group	0	0
Net applications for the year	(61)	0
Translation differences	452	(223)
Closing balance	4,254	4,419

(11) Trade and Other Receivables

Details of trade and other receivables at 31 December 2005 are as follows:

	Thousands of Euros	
	31/12/05	31/12/04
Trade receivables	133,543	167,704
Associated companies	0	487
Sundry receivables	16,995	13,386
Advances for fixed assets	15	70
Other advances	421	372
Prepayments	4,072	4,916
	155,046	186,935

Trade receivables net of the provision for bad debts include notes receivable discounted at banks at 31 December 2005, which amount to Euros 1,634 thousand (Euros 1,593 thousand at 31 December 2004) (see note 19).

Sundry debtors at 31 December 2005 mainly comprises Euros 11,215 thousand (Euros 11,603 thousand at 31 December 2004) reflecting interest receivable from social security-affiliated bodies.

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

In 2005 and 2004 certain Group companies have sold trade receivables from several public entities to Deutsche Bank, S.A.E. At 31 December 2005 Euros 2,236 thousand receivable from Deutsche Bank for balances receivable from public entities sold in December 2005 was recorded under sundry debtors. This balance will be collected by the Group once Deutsche Bank has collected the nominal amount of the receivables sold plus delay interest.

Total trade receivable balances receivable sold to Deutsche Bank, S.A.E amount to Euros 47.5 million (Euros 36.7 million in 2004).

The Company's directors consider that these contracts transfer all credit collection and financial risks to the purchaser. Consequently, balances of Euros 47,508 thousand have been treated as a sale and derecognised from the balance sheet, (Euros 36,760 thousand in 2004).

The financial cost of these operations for the Group totals approximately Euros 3,776 thousand which has been recognised under finance costs in the 2005 consolidated income statement (Euros 6,806 thousand in 2004) (see note 28). In 2005 the Group has also collected Euros 2,251 thousand from Deutsche Bank reflecting a cash collection bonus for receivables sold in 2004. This income was recorded on the 2005 consolidated income statement as a reduction in the finance expenses (see note 28).

Trade receivables include balances in the following foreign currencies:

	Thousands of Euros	
	31/12/05	31/12/04
Currency		
US dollar	16,831	18,070
Pound sterling	4,766	4,554
Czech Crown	2,952	2,514
Argentine peso	877	740
Chilean peso	4,891	3,435
Mexican peso	2,765	2,472
Other currencies	4,688	3,908

Movement in the provision for bad debts was as follows:

	Thousands	
	31/12/05	31/12/04
Opening balance	3,299	3,427
Net provisions for the year	91	544
Net applications for the year	(434)	(664)
Translation differences	109	(8)
Closing balance	3,065	3,299

(12) Short-term investments

Details of short-term investments and movement during the year ended 31 December 2004 are as follows:

	Thousands of Euros				
	Balances at 01/01/04	Additions	Disposals	Translation differences	**Balances at 31/12/04**
Investment portfolio	1	0	0	0	1
Guarantee deposits	283	341	(393)	(10)	221
Other loans	274	126	(241)	(14)	145
	558	467	(634)	(24)	367

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

	Thousands of Euros						
	Balances at 31/12/04	**Effect of IAS 32 & 39 adoption**	**Balances at 01/01/2005**	Additions	Disposals	Translation differences	**Balances at 31/12/05**
Investment portfolio	1	2,772	2,773	0	(2,772)	0	1
Guarantee deposits	221	0	221	406	(296)	83	414
Other loans	145	0	145	77	0	24	246
	367	2,772	3,139	483	(3,068)	107	661
		(note 2 (b))					

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

(13) Public entities

Accounts receivable from public entities are as follows:

	Thousands of Euros	
	31/12/05	31/12/04
Tax authorities		
VAT	2,843	2,973
Capital grants	511	513
Social security	134	99
Recoverable income tax:		
Current year (note 29)	3,268	4,535
Prior years	338	1,340
Other public entities	1,092	609
	8,186	10,069

Accounts payable to public entities are as follows:

	Thousands of Euros	
	31/12/05	31/12/04
Payable to tax authorities:		
VAT / Canary Island tax	4,221	5,369
Witholdings	1,907	3,422
Social security	2,300	2,077
Income tax payable to tax authorities:		
Current year (note 29)	3,098	5,256
Prior years	266	14
Deferred payment on account	7,067	--
Other public entities	4,253	502
	23,112	16,640

At 31 December 2005 the second and third instalment of income tax on account of 2005 of the Parent company is payable. In February 2006 the second payment on account for 2005 was made.

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

(14) Equity

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

(a) Share capital

At 31 December 2005 share capital in Grifols, S.A. comprises 140,598,299 shares of Euros 0.50 par value each. As mentioned in note 18 (a), 260,000 of these shares have been recorded under non-current payables. At 31 December 2004 share capital comprised 211,681,440 shares of Euros 0.50 par value each.

Details of the Company's shareholders at 31 December 2005 and 2004 are as follows:

	Percentage interest	
	31/12/05	31/12/04
Scranton Enterprises,B.V.	16.45%	10.91%
Gabriella Holding Netherland, B.V.	--	10.07%
Gabriella Luxembourg (non Erisa) Sarl	--	27.27%
Capital Riesgo Global, S.C.R., S.A.	--	11.62%
Thorthol Holdings, B.V.	10.59%	7.02%
Novosti, S.L.	11.79%	7.81%
Deria, S.A.	13.32%	8.79%
Morgan Stanley & Co. Inc.	20.99%	--
Others	26.86%	16.51%
	100.00%	100.00%

- **Share capital increase with a charge to the share premium**

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

The shareholders agreed to freely transfer their assignation rights to Morgan Stanley & Co, Inc.

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

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

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

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

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

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

- 10% during the first period

- 12.5% during the second period

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

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

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

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

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

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

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

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

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

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

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

8. Non-voting shares are freely transferable.

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

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

i. Merger of the Company, except in the event of absorption as described in Article 250 of the Spanish Companies' Act.

ii. Change of control of the Company. Change of control is defined as where one shareholder or group of shareholders acting jointly acquire, directly or indirectly, over 24% of the Company's share capital for the first time.

iii. If shareholders do not approve the redemption of the non-voting shares at an annual general meeting prior to 1 October 2012.

iv. If 30 days have elapsed subsequent to all or some ordinary shares having been admitted to trade in any organised national or international market, and the shareholders, at their annual general meeting have not agreed to redeem non-voting shares.

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

- Increase share capital by issuing 22,451,474 new voting shares with a par value of Euros 0.5 each, plus a share premium of Euros 48,775 thousand. The total share capital increase amounts to Euros 60,000 thousand The issue expenses incurred (Euros 2,252 thousand) were charged to distributable reserves (see consolidated statement of changes in equity).

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

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

(b) Other reserves

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

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

(c) Legal reserve

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

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

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

(d) Treasury shares

At 31 December 2004 the Company's treasury shares were recorded as non-current assets in the balance sheet, reflecting 1,740,892 shares of Euros 0.5 par value each. These shares were distributed to the Company in the share capital increase of 25 May 2001 after the Company's shareholders renounced their preferential subscription rights. These shares were to be distributed to Group employees and their distribution being dependant upon meeting certain conditions and previously established periods.

At 1 January 2005 after application of IAS 32 and 39, treasury shares are shown in equity on the accompanying consolidated balance sheet (see note 2(b)).

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

- On 25 July 2005 the Company acquired 1,048,509 treasury shares at Euros 3 each, this operation amounting to Euros 3,146 thousand in total.

- On 10 August 2005 the Company acquired 111,039,045 treasury shares for a total amount of Euros 320,000 thousand.

- On 10 August 2005 the Company amortised and cancelled 107,828,446 treasury shares for a total amount of Euros 310,751 thousand (see (a)).

- On 30 November 2005 the Company sold all its treasury shares for a total amount of Euros 19,997 thousand. This operation resulted in net movement in distributable reserves of Euros 4,512 thousand.

(15) Minority interests

Details of minority interests and movement during the year ended 31 December 2004 are as follows:

	Thousands of Euros			
	Balances at 01/01/04	Additions	Translation differences	**Balances at 31/12/04**
Grifols (Thailand) Pte Ltd	116	0	(6)	110
	116	0	(6)	110

The Group assumed 100% of the 2004 losses of Grifols (Thailand) Pte Ltd.

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

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

(16) Notes and Other Remunerated Liabilities

In 2005 a Group company issued bearer promissory notes of Euros 3,000 thousand par value each for a total amount of Euros 5,748 thousand being the maximum amount authorised by the Spanish Securities and Exchange Commission on 15 April 2005, which were earmarked for Group employees. At 31 December 2005 promissory notes of Euros 5,682 thousand par value have been subscribed (Euros 5,241 thousand at 31 December 2004 which were redeemed during the year). At 31 December 2005 unaccrued interest payable on these promissory notes in 2005 amounts to Euros 359 thousand which is shown deducted from the previous amount (Euros 84 thousand at 31 December 2004).

(17) Non-current Borrowings

Details of non-current borrowings are as follows:

	Thousands of Euros	
	31/12/05	31/12/04
Sindicated loan of Euros 225,000 thousand that falls due on 2 April 2008 bearing interest at EURIBOR plus a spread of between 0.85% and 1.60% according to fulfillment of certain conditions with Banco Bilbao Vizcaya Argentaria, S.A.as arranger	--	211,500
Sindicated loan of Euros 225,000 thousand that falls due on 21 June 2011 bearing interest of EURIBOR plus a spread of between 0.7% and 1.50% according to fulfillment of certain conditions with Banco Bilbao Vizcaya Argentaria, S.A.as arranger	192,500	--
Loans from the Institut Catalá de Finances that fall due on 29 November 2016 bearing interest at a rate of 4.054%	805	878
Euros 902 thousand mortgage loan that falls due on 16 May 2012 bearing interest at a rate of 5.25% (note 7)	536	610
Other loans with a total limit of Euros 1,801 thousand that falls due on 25 June 2005 bearing interest at rates of 4.37% and 4.6%	--	400
Euros 1,300 thousand mortgage loan that falls due on 30 July 2015 bearing interest at rate of 3.55% (note 7)	1,083	1,175
Euros 600 thousand loan that falls due on 12 March 2006 bearing interest at 3.125%	600	600
Loan for a maximum of Euros 514 thousand that falls due on 31 December 2007 bearing interest at EURIBOR plus a spread of 0.5%. An interest rate subsidy of Euros 10,290 has been awarded by the Ministry of science & technology	504	--
Loans from the Institut Catalá de Finances that fall due on 28 February 2010 bearing interest at EURIBOR plus 1.00%	5,310	--
	201,338	215,163
Less, current poriton (note 19)	(17,564)	(212,139)
Less, loan arrangement expenses	(2,002)	0
Finance lease instalments (note 7)	2,971	5,123
Less, non-current maturity of deferred financial expense for leasings (note 7)	(72)	(139)
	184,671	8,008

Details of maturity of non-current borrowings at 31 December 2005 and 2004 are as follows:

	Thousands of Euros	
	31/12/05	31/12/04
Maturity at:		
Two years	35,257	4,617
Three years	33,101	1,555
Four years	32,451	305
Five years	31,521	264
More than five years	54,415	1,406
	186,745	8,147
Less, loan arrangement expenses	-2,002	0
Less, non-current maturity of deferred financial expense for leasings	-72	-139
	184,671	8,008

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

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

This syndicated loan is mainly to refinance the outstanding balance payable on the previous Euros 225,000 thousand syndicated loan, which the Company was granted in April 2003 (note 19).

(18) Other Non-current Payables

Details are as follows:

	Thousands of Euros	
	31/12/05	31/12/04
Shareholders with no voting rights (a)	247,668	0
Notes payable	0	168
Mitsubishi Pharma Corporation	21,640	36,816
Priviledged loans from Ministry of Science & Technology	8,701	5,962
Other debts (b)	30,341	42,946
Provisions for pensions & similar	626	524
Other provisions	156	168
Provisions for liabilities & charges (c)	782	692
Capital grants	908	1,024
Capital grants for priviledged loans	1,534	0
Deferred income on treasury shares	0	870
Deferred income (d)	2,442	1,894
Other current payables	281,233	45,532

Non-voting share capital increase

As described in note 14, on 10 August 2005 the Company increased share capital by issuing 260,000 new non-voting shares of Euros 0.5 par value each plus a share premium of Euros 259,870 thousand. The share capital increase amounted to Euros 260,000 thousand in total. This operation also incurred net share capital increase expenses of Euros 15,018 thousand, which were deducted from the prior amount. In 2005 expenses recognised for this item amounted to Euros 2,686 thousand.

(b) Other payables

At 31 December 2005 Other debts include Euros 23,311 thousand reflecting the Euros equivalent of a long-term debt in US Dollars payable to Mitsubishi Pharma Corporation for the acquisition of certain assets from Alpha Therapeutic Corporation, (Euros 40,379 thousand at 31 December 2004) (notes 23 and 32 (b)). Deferred financial expenses resulting from the transaction amount to Euros 1,671 thousand (Euros 3,563 thousand at 31 December 2004), which were deducted from the aforesaid amounts.

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

		Thousands of Euros				
			31 December 2005		31 December 2004	
Company	Date awarded	Amount	Non-current	Current	Non-current	Current
Instituto Grifols S.A	22/02/2002	749	321	107	428	107
Instituto Grifols S.A	31/01/2001	637	364	91	455	91
Instituto Grifols S.A	13/02/2002	691	494	99	592	99
Instituto Grifols S.A	17/01/2003	1,200	1,029	171	1,200	--
Instituto Grifols S.A	13/11/2003	2,000	2,000	--	2,000	--
Instituto Grifols S.A	17/01/2005	2,680	2,680	--	--	--
Instituto Grifols S.A	29/12/2005	2,100	2,100	--	--	--
Laboratorios Grifols, S.A	20/03/2001	219	125	31	157	31
Laboratorios Grifols, S.A	29/01/2002	210	150	30	180	30
Laboratorios Grifols, S.A	15/01/2003	220	189	31	220	--
Laboratorios Grifols, S.A	26/09/2003	300	300	--	300	--
Laboratorios Grifols, S.A	22/10/2004	200	200	--	200	--
Laboratorios Grifols, S.A	20/12/2005	180	180	--	--	--
Diagnostic Grifols, S.A	23/05/2002	507	73	156	230	144
		11,893	10,205	716	5,962	502
Less, implicit interest rate subsidy (pref. loans)			-1,504	-26	0	0
			8,701	690	5,962	502
				(Note 23)		(Note 23)

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

Details of the maturity of other debts are as follows:

	Thousands of Euros	
	31/12/05	31/12/04
Maturity at:		
Two years	24,273	21,117
Three years	1,301	21,181
Four years	1,627	918
Five years	1,520	918
More than five years	4,795	2,375
	33,516	46,509
Less, deferred financial expenses (Mitsubishi Pharma Corporation)	(1,671)	(3,563)
Less, implicit subsidy of interest rates priviledged loans)	(1,504)	0
	30,341	42,946

(c) Provisions for Liabilities and Charges

At 31 December 2005 and 2004 this balance mainly comprises provision made by a foreign subsidiary in respect of labour commitments with certain employees.

(d) Deferred income

Details of capital grants are as follows:

	Thousands of Euros	
	31/12/05	31/12/04
Total amount of the grant:		
1992	182	182
1993	43	43
1994	105	105
1995	627	627
1996	54	54
1997	426	426
1998	65	65
1999	42	42
2000	179	181
2001	214	214
2002	626	626
Current year	45	--
	2,608	2,565
Less, recognised income:		
In prior years	(1,541)	(1,477)
During the year	(159)	(64)
	(1,700)	(1,541)
Carrying amount of capital grant	908	1,024

At 31 December 2005 the caption Privileged Loan Subsidies include Euros 1,534 thousand of implicit interest on loans extended by the Spanish Ministry of Science and Culture as these are interest free. Movement in 2005 was as follows:

	Thousands of Euros					
	Balances at 31/12/04	Effect of IAS 32 & 39 adoption at 01/01/2005	**Balances at 01/01/05**	Additions	Transfer to profit / (loss)	**Balances at 31/12/05**
Capital grants through preferential loans	0	1,232	1,232	651	(349)	1,534
		(note 2(b))			(note 28)	

At 1 January 2005 deferred income on treasury shares was recognised in equity, on application of IAS 32 and 39.

(19) Current Borrowings

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

	Interest rate (*) min - max	Thousands of Euros Drawn down 31/12/05	Drawn down 31/12/04	Limit 31/12/05	Limit 31/12/04
Loans in:					
US dollars	3,53% - 5,87%	8,594	3,072	9,885	3,177
Euros	2,18% - 7,64%	56,062	134,071	217,191	182,035
Other currencies	6,48% - 19%	9,090	7,453	11,098	8,086
		73,746	144,596	238,174	193,298
Discounted trade notes (note 11)	2,57% - 4,615%	1,634	1,593	--	--
Current interest on borrowings		2,516	2,356	--	--
Finance lease payables (note 7)		4,969	6,225	--	--
Current portion of non-current debt (note 17)		17,564	212,139	--	--
		100,429	366,909	238,174	193,298
Less, current portion of deferred financial expenses for leasing (note 7)		-191	-287		
Less, current portion of loan arrangement expenses		-724	-1,782		
		99,514	364,840		

(*) Loans accrue variable interest rates.

At 31 December 2004 current borrowings include Euros 184,500 thousand reflecting the long-term portion of a Euros 225,000 thousand syndicated loan extended in April 2003 and which matures in April 2008, subject to compliance with certain financial ratios. At 31 December 2004 two of these ratios have not been complied with (note 17).

(20) Derivatives

(a) Exchange rate hedges

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

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

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

The Group has no exchange rate hedging instruments contracted at 31 December 2005 or 2004. The steady increase in foreign currency cash inflows has resulted in an increasingly higher coverage.

(b) Interest rate hedges

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

Movement in this caption during 2005 was as follows:

	Thousands of Euros				
	Balances at 31/12/04	Effect of IAS 32 & 39 adoption	**Balances at 01/01/05**	Change in fair value	**Balances at 31/12/05**
Financial derivatives					
Interest rate swap	0	2,041	2,041	1,008	3,049
Fair value	0	2,041	2,041	1,008	3,049
		(note 2(b))			(note 32(e))

(21) Balances and Transactions with Related Parties

Details are as follows:

	Thousands of Euros	
	31/12/05	31/12/04
Payables to:		
Associates	41	526
Key management personnel	0	0
Members of the Board of Directors	0	0
	41	526

At 31 December 2004 balances with related parties mainly reflect the amount payable for the acquisition of an interest in Grifols Quest, Inc. There were no balances with these entities at the 2005 and the 2004 year ends.

At 31 December 2005 and 2004 there were no balances with members of the board of directors or with key management personnel.

(a) Group transactions with related parties

Group transactions with related parties during 2005 were as follows:

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

Group transactions with related parties during 2004 were as follows:

	Thousands of Euros		
	Associates	Key management personnel	Board of directors of the Company
Net purchases	(107)	--	--
Net sales	888	--	--
Other services	--	--	--
	781	0	0
Interests			
Dividends & other distributed profits	--	11	934
Dividends & other received profits	--	--	--
	0	11	934

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

The Members of the Board of Directors of Grifols, S.A. have not received any amounts in respect of their office.

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

	Thousands of Euros	
	31/12/2005	31/12/2004
Current remuneration	1,559	1,657
Total key management personnel	1,559	1,657

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

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

(22) Trade payables

Details are as follows:

	Thousands of Euros	
	31/12/05	31/12/04
Suppliers	65,502	56,068
Notes payable to suppliers	4,121	1,640
Trade provisions	1,245	1,591
Advances received	2,948	1,576
Accruals	892	1,554
	74,708	62,429

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

	Thousands of Euros	
	31/12/05	31/12/04
Currency		
US Dollar	22,291	16,766
Pound Sterling	815	350
Czech Crown	311	294
Mexican Peso	--	365
Other currency	157	197

Movement in trade provisions in 2004 was as follows:

	Thousands of Euros				
	Balances at 31/12/03	Provision	Reversal	Translation differences	**Balances at 31/12/04**
Trade provisions	595	1,084	(79)	(9)	1,591
	595	1,084	(79)	(9)	1,591

Movement in this provision in 2005 was as follows:

	Thousands of Euros				
	Balance at 31/12/04	Provision	Reversal	Translation differences	**Balance at 31/12/05**
Trade provisions	1,591	(350)	(53)	57	1,245
	1,591	(350)	(53)	57	1,245

(23) Other Payables

Details are as follows:

	Thousands of Euros	
	31/12/2005	31/12/2004
Dividend guaranteed to shareholders with no voting rights (notes 14 & 28)	10,258	0
Mitsubishi Pharma Corporation	22,800	10,944
Receivables from social security transferred to Deutsche Bank	4,300	6,306
Scranton Enterprises B.V.	0	3,567
Priviledged loans from the Ministry of Science & Technology (note 18)	690	502
Other	1,875	930
Other payables	39,923	22,249
Remuneration payable	12,020	8,098
Guarantee deposits received	38	18
	51,981	30,365

At 31 December 2005 other payables include Euros 23,311 thousand reflecting the Euros equivalent of the short-term balance payable in US Dollars to Mitsubishi Pharma Corporation for the acquisition of certain assets from Alpha Therapeutic Corporation (notes 18 (b) and 32 (b)). Deferred financial expenses resulting from the transaction amount to Euros 511 thousand and have been deducted from the above balance. At 31 December 2005 Other payables also includes Euros 4,300 thousand (Euros 6,306 thousand at 31 December 2004) which was collected directly from social security affiliated bodies, as the collection rights had been transferred from Deutsche Bank (see note 11). This balance with Deutsche Bank was settled in January 2006.

At 31 December 2004 this caption included Euros 11,012 thousand reflecting the Euros equivalent of the short-term balance payable in US Dollars to Mitsubishi Pharma Corporation for the acquisition of certain assets from Alpha Therapeutic Corporation. This balance, amounting to US Dollars 15 million, was due on 15 March 2005 (see notes 18 (b) and 32 (b)). It also included Euros 3,671 thousand payable to Scranton Enterprises B.V. for the acquisition of 33.33% of the share capital in Grifols UK Ltd. and Grifols Italia, S.p.A. with annual instalments payable each 30 June until 30 June 2005 (see note 32 (b)). This balance was repaid in 2005. The deferred finance costs resulting from these two transactions amount to Euros 68 and 104 thousand, respectively, and were deducted from the respective balances.

(24) Net sales

The distribution of consolidated net sales in 2005 and 2004, by segment, was as follows:

	%	
	31/12/05	31/12/04
Raw materials	5	7
Bioscience	70	66
Diagnostics	13	14
Hospital	11	12
Others	1	1
	100	100

The geographical distribution of consolidated net sales is as follows:

	%	
	31/12/05	31/12/04
Sales, European Union	60	68
Sales, U.S.A.	28	20
Sales, rest of the world	12	12
	100	100

Net sales include sales made in the following foreign currencies:

	Thousands of Euros	
	31/12/05	31/12/04
Currency		
US Dollar	158,805	103,801
Swiss Franc	1,388	1,678
Czech Crown	7,476	6,736
Pound Sterling	38,114	35,271
Mexican Peso	10,541	9,133
Chilean Peso	8,334	7,104
Argentine Peso	2,669	2,414
Brazilian Real	3,671	4,458
Singapoor Dollar	2,244	2,055

(25) Personnel Expenses

Details are as follows:

	Thousands of Euros	
	31/12/05	31/12/04
Wages and salaries	125,202	117,735
Pension plan contributions	812	909
Welfare benefits	28,873	28,641
	154,887	147,285

The average headcount in 2005, by department, was as follows:

	Average number	
	31/12/05	31/12/04
Manufacturing	2,348	2,361
Research & development - Technical area	201	237
Administration and others	319	323
General management	79	74
Marketing	71	73
Sales and distribution	425	441
	3,443	3,509

(26) Operating Expenses

Details are as follows:

	Thousands of Euros	
	31/12/05	31/12/04
Changes in trade provisions (notes 10, 11 & 22)	(815)	1,331
Amounts capitalised for Self-constructed assets	(10,795)	(14,092)
Professional services	20,829	18,276
Supplies and other material	15,479	16,321
Operating leases (note 31 a)	9,248	8,585
Other rentals	4,375	2,502
Transport	12,548	9,872
Repair & maintenance costs	10,827	12,209
Publicity	10,218	8,374
Insurance	9,695	8,220
Royalties & service charges	9,066	6,866
Travel expenses	8,185	8,232
External services	11,325	14,589
Other operating expenses	3,886	5,039
Operating expenses	114,071	106,324

(27) Other non – recurring Operating Income/Expenses

Details are as follows:

	Thousands of Euros	
	31/12/05	31/12/04
Profits on disposal of property, plant & equipment, intangible assets & treasury shares	22	346
Government grants taken to income statement	158	64
Preference loans taken to income statement (note 18 (d))	349	0
Interest from judicial rulings and in application of Law 3/2004 regarding defaulted payments	0	11,934
Other	500	480
Other operating income	1,029	12,824
Change in provisions for property, plant & equipment	(69)	69
Losses from property, plant & equipment, intangible assets & treasury shares	1,423	604
Floatation expenses	0	4,291
Other	613	(51)
Other operating expenses	1,967	4,913
Total other expenses / operating income	(938)	7,911

In 2004 the Euros 11,934 thousand balance under other operating income reflects both interest received as a result of firm judicial rulings and interest from application of Law 3/2004 of 30 December governing Default. Both of these balances were accrued prior to 1 January 2004.

At 31 December 2004 other operating expenses mainly comprised expenses incurred by Grifols, S.A in respect of the stock market floatation which was eventually postponed due to market conditions.

(28) Net Financing Costs

Details are as follows:

	Thousands of Euros	
	31/12/05	31/12/04
Interest from social security	3,041	2,702
SLS sale of purchase option (note 12)	124	0
Other financial income	384	183
Financial income	3,549	2,885
Syndicated loan (other financial expenses)	2,131	1,006
Syndicated loan (interest)	7,930	8,461
Financial expenses from sale of receivables (note 11)	1,525	6,806
Dividend guaranteed to shareholders with no voting rights (note 23)	10,258	0
Financial expenses on preference shares (note 18 (a))	2,686	0
Changes in provisions for financial investments (note 8)	0	(76)
Changes in fair value of financial derivatives (note 20)	1,008	0
Implicit interest on priviledged loans (note 18)	349	0
Other financial expenses	11,968	12,935
Financial expenses	37,855	29,132
Exchange gains	10,053	5,693
Exchange losses	8,503	6,069
Exchange differences	1,550	(376)
Net financing costs	(32,756)	(26,623)

(29) Income Tax

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

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

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

a) Reconciliation of accounting and taxable income

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

	Thousands of Euros	
	31/12/05	31/12/04
Profit / (loss) for the year before income tax	40,820	29,800
Tax at 35%	14,287	10,430
Permanent differences	1,725	(4,855)
Effect of different tax rates	1,397	3,152
Deductions for research and development	(2,904)	(4,355)
Other deductions	(612)	(960)
Tax credits not recognised in prior years	(2,927)	(629)
Expense for income tax in prior years	2,369	323
Other income tax expenses	1,980	292
Total income tax expense	15,315	3,398
Deferred tax expense	1,260	(645)
Current tax expense	14,055	4,043
Total income tax expense	15,315	3,398

(b) Deferred tax assets and liabilities

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

	Thousands of Euros		
	Tax effect		
	31/12/05	Effect of IAS 32 & 39 adoption	31/12/04
Assets			
Deductions	14,760	--	19,954
Tax credits in respect of loss carryforwards	2,430	--	--
Non-current assets & amortisation	2,817	--	991
Derivatives	1,067	716	--
Unrealised margin on inventories	5,987	--	3,498
Provision for bad debts	403	--	160
Inventories	860	--	275
Capital increase expenses	940	--	--
Other	1,265	--	2,530
	30,529	716	27,408
Liabilities			
Accelerated depreciation	(2,134)	--	(2,809)
Goodwill	(4,950)	--	(2,475)
Revaluation of non-current assets	(19,244)	--	(18,535)
Fixed assets	(3,654)	--	(3,339)
Finance leases	(2,586)	--	(2,149)
Inventories	(5,953)	--	(2,135)
Provision for treasury shares	(2,179)	--	(3,782)
Exchange differences	--	--	(889)
Other	(1,404)	(971)	(1,249)
	(42,104)	(971)	(37,362)
		(note 2 (b))	

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 of	
		IAS 32 & 39	
	31/12/05	adoption	31/12/04
Available for sale financial assets	(51)	(105)	--
	(51)	(105)	0

The remaining assets and liabilities recognised in 2005 were recorded by a credit/debit to the income statement. At 31 December 2004 this balance included deferred tax assets and liabilities recognised in equity, arising from the adjustments made as a result of first application of IFRS.

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

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

Year of origin	Thousands of Euros	Applicable through
2002	1,601	2017
2003	5,598	2018
2004	4,138	2019
2005 (estimated)	3,423	2020
	14,760	

At 31 December 2005 the Group carries a recorded a tax credit of Euros 14,760 thousand (Euros 19,954 thousand at 31 December 2004) from the deductions pending application, as its future recovery is reasonably assured.

At 31 December 2005 the Group has future tax deductions of Euros 40,006 thousand (Euros 42,480 thousand at 31 December 2004) pending application as a result of goodwill generated on the acquisition of Biomat USA, Inc. Euros 2,475 thousand will be deducted annually from the taxable profits until 2022, without being limited by the amount of tax payable in any one year. The Group has recognised a deferred tax liability of Euros 4,950 thousand in respect of this item at 31 December 2005 (Euros 2,475 thousand at 31 December 2004).

At 31 December 2005 the Group has recognised loss carryforwards of Euros 2,430 thousand (see note 13) corresponding to the North-American companies Biomat USA, Inc and Grifols USA, Inc.

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

(c) Years open to inspection

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

On 8 February 2005 the Group received notification from the tax authorities of an inspection of all applicable taxes from 2001 to 2003 (both inclusive) of the Spanish companies in the tax group (2000 to 2003 for income tax). On 30 January 2006 the Group signed agreements in respect of these taxes. Total tax expense, including delay interest and fines, amounts to Euros 2,743 thousand whereas total additional tax payable amounts to Euros 1,375 thousand (see note 13).

(30) Earnings per Share

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

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

	2005	2004
Equity for the year attributable to equity holders of the Parent (thousands of Euros)	25,556	26,402
Average weighted value of ordinary shares in circulation	182,361,067	209,940,548
Earnings per share (Euros per share)	0.14014	0.12576

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

	No. of shares	
	2005	**2004**
Ordinary shares in circulation at 1 January	211,681,440	211,681,440
Effect of treasury shares at 1 January	(1,740,892)	(1,740,892)
Effect of shares issued at 30/06/2005	7,074,589	0
Effect of treasury shares at 25/07/2005	(456,748)	0
Net effect of issue & amortisation of shares at 10/08/2005	(33,449,060)	0
Effect of treasury shares at 10/08/2005	(1,257,851)	0
Effect of sale of treasury shares at 30/11/2005	509,589	0
	182,361,067	209,940,548

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.

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

	2005	**2004**
Equity for the year attributable to equity holders of the Parent (thousands of Euros)	25,556	26,402
Average weighted value of ordinary diluted shares in circulation	180,616,156	209,940,548
Diluted earnings per share (Euros per share)	0.14149	0.12576

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

	No. of shares	
	2005	**2004**
Average weighted value of ordinary shares in circulation	182,361,067	209,940,548
- Effect of shares issued for employees (see 14 (d))	(1,740,892)	0
Effect of preferential shares issue (see notes 14 & 23)	(4,019)	0
Average weighted value of ordinary diluted shares in circulation	180,616,156	209,940,548

(31) Operating Leases

(a) Operating leases (as lessee)

At 31 December 2005 and 2004 the Group leases buildings from third parties under operating leases.

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

Operating lease instalments of Euros 9,248 thousand have been recognised as an expense for the year at 31 December 2005 (Euros 8,585 thousand at 31 December 2004). Of this amount Euros 9,183 thousand (Euros 8,484 thousand at 31 December 2004) corresponds to minimum lease payments and Euros 65 thousand (Euros 100 thousand at 31 December 2004) to contingent rent instalments.

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

	Thousands of Euros	
	31/12/2005	31/12/2004
Maturity:		
Up to 1 year	5,753	4,950
1 to 5 years	11,050	11,845
More than 5 years	1,324	1,387
Total future minimum payments	18,127	18,182

One Group company sublets a building which it leases to third parties. The amount recognised under income for the year in respect of this item at 31 December 2005 amounts to Euros 48 thousand (Euros 84 thousand at 31 December 2004). This contract expired in 2005.

(b) Operating leases (as lessor)

The Group has a building leased to third parties under an operating lease at 31 December 2005 and 2004:

	Thousands of Euros	
	31/12/2005	31/12/2004
Cost	931	931
Accumulated amortisation	(367)	(328)
Carrying amount, buildings	564	603

The Group leases out a building, for which it has signed a 2 year renewable contract. This contract does not include contingent rents or purchase options.

The amount recognised as income for the year in respect of this lease at 31 December 2005 is Euros 53 thousand (Euros 51 thousand at 31 December 2004).

The future minimum payments receivable on non-cancellable operating leases at 31 December 2005 and 2004 are as follows:

	Thousands of Euros	
	31/12/2005	31/12/2004
Maturity:		
Up to 1 year	23	48
1 to 5 years	--	21
More than 5 years	--	--
Total future minimum payments	23	69

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

(a) Guarantees extended and other deposits

In 2004 Instituto Grifols, S.A., Laboratorios Grifols, S.A., Movaco, S.A., Diagnostic Grifols, S.A. and Grifols Internacional, S.A. given pledged on balances in certain current accounts in banks as collateral to certain financial institutions. These companies also have given guarantees of Euros 1,024 thousand to banks. Instituto Grifols, S.A., Laboratorios Grifols, S.A. and Movaco, S.A. have given guarantees with banks amounting to Euros 400 thousand.

Instituto Grifols, S.A., Laboratorios Grifols, S.A., Movaco, S.A., Diagnostic Grifols, S.A., Biomat S.A., Grifols Biologicals, Inc. and Biomat USA, Inc. have given a joint guarantee at 31 December 2004 and 2005 on a syndicated loan of Euros 225,000 thousand (Euros 211,500 thousand at 31 December 2004).

At 31 December 2005 the Company together with Diagnostic Grifols, S.A., Laboratorios Grifols, S.A. and Movaco, S.A., has given guarantees of Euros 6,247 thousand to banks.

(b) Guarantees with third parties

The Company signed contracts on 22 December 1999 assuming certain obligations guaranteeing payment of the acquisition of shares in Grifols UK, Ltd and Grifols Italia, S.p.A by Scranton Enterprises, BV. These shares were subsequently sold to the Company in 2000 (see note 23). Under these agreements, the Company pledged its shares in Grifols UK, Ltd y Grifols Italia, S.p.A and guaranteed certain payments which Scranton Enterprises, B.V. was required to make in 2005. Details of these payments are as follows:

	Thousands of Dollars	
Maturity	31/12/2005	31/12/2004
30/06/05	-	5,000
	-	5,000
	(note 23)	

Details of payment commitments which exist at 31 December 2005 and 2004 arising from the acquisition of Alpha Therapeutic Corporation in 2003 are as follows:

	Thousands of Dollars	
Maturity	31/12/2005	31/12/2004
15/03/05	-	15,000
17/07/06	27,500	27,500
16/07/07	27,500	27,500
	55,000	70,000
	(notes 18 & 23)	

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

On 10 January 2006 the Group decided to bring forward the payment of an instalment from 17 July 2006 to 10 January 2006 for commercial reasons.

(c) Obligations with personnel

As described in note 4 (l) 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 383 thousand in 2005 (Euros 352 thousand at 31 December 2004).

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

Some foreign subsidiaries of the Group made contributions of Euros 429 thousand to complementary pension schemes (Euros 557 thousand at 31 December 2004).

At the annual general meeting held on 25 May 2001 the shareholders agreed to freely distribute 1,740,892 shares among the Group's employees (excluding directors and senior management) with a minimum of one year's service from the date of the agreement and using criteria based on employees' length of service. The directors will determine the date the shares are awarded, which will be subsequent to the Company's flotation on the stock market. The number of employees involved in the scheme totals 1,438. The maximum and minimum number of shares an employee may receive is 5,850 shares and 100 shares, respectively.

This commitment will only materialise if the Company is floated on the stock market. Due to the contingent nature of this obligation no provision has been made on the balance sheet.

(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 to this ruling is currently underway.

- 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.

  Proceedings are currently in an initial phase as the Company's alleged responsibility is yet to be established.

Grifols Biologicals, Inc.

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

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

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

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

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

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

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

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

Movaco, S.A.

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

  The claimant sought damages of Euros 4.5 thousand before the first instance court of Valencia. The Court has ruled that this claim falls under the jurisdiction of the courts of the Company's registered offices. Allegations are currently being made.

(e) Swaps

The Group has contracted the following unrecognised swaps at 31 December 2004:

	Thousands of Euros		
Swap	Par	31/12/2004	Maturity
Interest rate swap	60,000	-	26/04/2006
Interest rate swap	50,000	-	28/04/2008
	110,000	-	

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

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

(f) Materials supply contract with Mitsubishi Pharma Corporation

On 15 July 2003, one of the Group's companies in the USA signed a contract for the supply of raw materials with Mitsubishi Pharma Corporation, undertaking to purchase 270,000 litres of plasma at a fixed price and until no later than 31 December 2007. In 2005 this company has purchased 125,363 litres. At the date of preparation of these consolidated annual accounts, the Group has already acquired the litres of plasma which were pending purchase at 31 December 2005.

(g) Variable cost of acquisition of Grifols Quest, Inc.

In February 2003 the Group acquired the remaining 49% of the shares in Grifols Quest Inc. The contract stipulated that the cost of this acquisition would be equal to 49% of this company's sales in 2004, with a minimum of USD 0.7 million and a maximum of USD 1.6 million.

At 31 December 2004 the final price payable for this acquisition was established at Euros 629 thousand.

(h) Materials supply contract with DCI Management Group LLC

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

(i) Services contract with Baxter Healthcare Corporation

On 5 April 2004 the Group and Baxter Healthcare Corporation signed a new contract to resolve disagreements existing at 31 December 2003. As a consequence of the new agreement, Baxter undertook to pay the Group and the Group undertook to manufacture and supply a specific number of kilograms of a certain product.

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

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

(33) Environment

The most significant systems, equipment and fixtures for the protection and improvement of the environment at 31 December 2004 are as follows:

	Thousands of Euros		
Project	Cost	Accumulated amort. & deprec.	Carrying amount
Water treatment plant	156	(23)	133
TOC sewage gauge	125	(96)	29
Clean in Process	77	(47)	30
Joint effluent doors	75	(12)	63
Concentrating equipment & pumps	72	(7)	65
Homogenizing pool	47	(11)	36
Waste containers	42	(36)	6
Improvements in wells	39	(11)	28
HCL container	31	(13)	18
20m3 container	30	(2)	28
External plot conditioning	26	(1)	25
Alcohol transfer engineering	22	(3)	19
Concentrated effluent recovery	20	(10)	10
Construction of chemical product warehouse	19	0	19
Water recovery	14	(2)	12
Automisation of neutralising tank	9	(9)	0
Collection of 15% PEG generated	8	0	8
Drainage adequation	7	(5)	2
Other	17	(2)	15
	836	(290)	546

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

	Thousands of Euros		
Project	Cost	Accumulated amort. & deprec.	Carrying amount
External plot conditioning	19	(2)	17
Drainage adequation	9	(9)	0
Automisation of neutralising tank	42	(24)	18
Homogenizing pool	141	(109)	32
Clean in Process	484	(40)	444
Construction of chemical product warehouse	20	(12)	8
20m3 container	22	(8)	14
HCL container	26	(4)	22
Waste containers	30	(5)	25
Homogenisation of effluent	13	0	13
Alcohol transfer engineering	31	(16)	15
Installation of PEG concentration unit	77	(55)	22
TOC sewage gauge	72	(17)	55
Improvements in wells	39	(14)	25
Other	20	(3)	17
Water treatment plant	156	(39)	117
PEG collection	11	(1)	10
Water recovery	42	(40)	2
Recovery of concentrated effluent	15	(5)	10
Joint effluent doors	58	(17)	41
	1,327	(420)	907

Expenses incurred by the Group for protection and improvement of the environment in the year ended 31 December 2005 totalled approximately Euros 880 thousand (Euros 1,285 thousand at 31 December 2004).

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

The Group has received environmental grants for Euros 10,000 in the year ended 31 December 2005. No environmental grants were received in the year ended 31 December 2004.

(34) Other Information

(a) Audit fees:

KPMG Auditores, S.L. and other companies related to the auditors as defined in the fourteenth additional provision of legislation governing the reform of the financial system, have invoiced the Company and its subsidiaries fees and expenses for professional services during the years ended 31 December 2005 and 2004, as follows:

	Thousands of Euros	
	31/12/2005	31/12/2004
For annual audit services	185	144
For other audit services & related items	44	327
For other services	--	540
	229	1,011

Audit services detailed in the above table include the total fees for the 2005 and 2004 audit, irrespective of the date of invoice.

Other companies associated with KPMG International have also invoiced the Company and its subsidiaries fees in 2005 and 2004, as follows:

	Thousands of Euros	
	31/12/2005	31/12/2004
For annual audit services	519	470
For other audit services & related items	10	202
For other services	228	177
	757	849

(35) Subsequent Events

(a) New acquisitions:

On 1 February 2006 the Group signed a purchase contract for a North American company engaged in plasma collection. This company foresees the collection of 500,000 litres of plasma at its 14 centres in 2006 and this plasma will be sold to a third party. The Group expects to use the collected plasma from 2007. The transaction price is USD 55 million. The operation was completed on 3 March 2006.

The Group's North American subsidiary, Biomat USA, Inc., has also entered a sale and purchase contract for 9 plasma centres, which is expected to be completed in April 2006.

(36) Explanation of the transition to EU-IFRS

As explained in note 2, these are the first consolidated financial statements to be prepared by the Group based on International Financial Reporting Standards.

The financial statements for the year ended 31 December 2005, the comparative information for the year ended 31 December 2004, and the opening balance sheet under IFRS at 1 January 2004 (the Group's transition date) have been prepared on the basis of IFRS principles.

(1) Opening and closing balance under Spanish GAAP and IFRS

A comparison of the opening and closing balance sheets for 2004 under Spanish GAAP and IFRS is presented below:

		Thousands of Euros			Thousands of Euros		
		1 January 2004			**31 December 2004**		
ASSETS	**note**	**Spanish GAAP**	**Effect of transition**	**IFRS**	**Spanish GAAP**	**Effect of transition**	**IFRS**
Stablishment Costs	**a**	1,539	(1,539)	0	662	(662)	0
Intangible assets							
Goodwill	**b**	151,932	(41,754)	110,178	142,858	(39,545)	103,313
Other non-current assets	**c**	57,330	(11,933)	45,397	58,264	(11,734)	46,530
Total intangible assets		209,262	(53,687)	155,575	201,122	(51,279)	149,843
Property, plant & equip.	**d**	105,838	69,445	175,283	108,483	68,334	176,817
Investments							
Investments accounted for using the equity method		262	0	262	333	0	333
Other investments	**e**	16,104	(14,227)	1,877	18,890	(16,913)	1,977
Total investments		16,366	(14,227)	2,139	19,223	(16,913)	2,310
Deferred tax assets	**f**	0	27,371	27,371	0	27,408	27,408
Treasury shares		870	0	870	870	0	870
Deferred costs	**g**	9,909	(9,909)	0	5,838	(5,838)	0
Total non-current assets		**343,784**	**17,454**	**361,238**	**336,198**	**21,050**	**357,248**
Inventories	**h**	256,421	0	256,421	246,120	(144)	245,976
Trade & other receiv.	**i**	190,657	(786)	189,871	188,679	(1,744)	186,935
Short-term financial investments		558	0	558	367	0	367
Public entities	**f**	22,760	(12,142)	10,618	19,812	(9,743)	10,069
Cash & cash equivalents		24,247	0	24,247	22,996	0	22,996
Total current assets		**494,643**	**(12,928)**	**481,715**	**477,974**	**(11,631)**	**466,343**
TOTAL ASSETS		**838,427**	**4,526**	**842,953**	**814,172**	**9,419**	**823,591**

EQUITY & LIABILITIES		Thousands of Euros 1 january 2004 Spanish GAAP	Effect of transition	IFRS	Thousands of Euros 31 December 2004 Spanish GAAP	Effect of transition	IFRS
EQUITY							
Share capital		105,841	0	105,841	105,841	0	105,841
Share premium		45,119	0	45,119	45,119	0	45,119
Non-distributable reserves		6,131	0	6,131	7,661	0	7,661
Distributable reserves	**p**	77,952	42,981	120,933	94,640	42,874	137,514
Profit for the year		21,434	0	21,434	19,406	6,996	26,402
Translation differences	**o**	(14,491)	(42,264)	(56,755)	(20,386)	(49,529)	(69,915)
Equity attributable to the Parent		**241,986**	**717**	**242,703**	**252,281**	**341**	**252,622**
Minority interests		**116**	**0**	**116**	**110**	**0**	**110**
TOTAL EQUITY		**242,102**	**717**	**242,819**	**252,391**	**341**	**252,732**
LIABILITIES							
Notes and other liabilities	**g**	5,319	(322)	4,997	0	0	0
Borrowings	**j**	220,202	(211,669)	8,533	192,647	(184,639)	8,008
Other payables	**k**	77,594	(15,343)	62,251	59,229	(13,697)	45,532
Deferred tax liabilities	**l**	0	37,970	37,970	0	37,362	37,362
Total non-current liabilities		**303,115**	**(189,364)**	**113,751**	**251,876**	**(160,974)**	**90,902**
Notes and other liabilities	**i**	0	0	0	5,241	(84)	5,157
Borrowings	**m**	137,493	208,218	345,711	182,408	182,432	364,840
Associates		1,009	0	1,009	526	0	526
Trade payables		107,365	0	107,365	62,429	0	62,429
Other payables	**n**	23,224	(411)	22,813	30,537	(172)	30,365
Public entities	**l**	24,119	(14,634)	9,485	28,764	(12,124)	16,640
Total current liabilities		**293,210**	**193,173**	**486,383**	**309,905**	**170,052**	**479,957**
TOTAL LIABILITIES		**596,325**	**3,809**	**600,134**	**561,781**	**9,078**	**570,859**
TOTAL EQUITY & LIABILITIES		**838,427**	**4,526**	**842,953**	**814,172**	**9,419**	**823,591**

The balance sheet at 1 January 2004 has been converted to IFRS through application of IFRS 1 First-time Adoption of International Financial Reporting Standards.

The Company has availed of the following options as permitted by the abovementioned standard:

- Non-retrospective application of IFRS 3 Business Combinations to goodwill and other previously acquired assets and liabilities.

- Measurement of certain items of property, plant and equipment at fair value, using fair value as the deemed cost at that date. The rest of property, plant and equipment items are measured at their amortised cost of acquisition.

- Retrospective application of IAS 21 Effects of Changes in Foreign Exchange Rates to net balances of goodwill at the transition date.

- Exemption from restatement of comparative data with regard to IAS 32 and IAS 39. Consequently, the Group applies Spanish GAAP for derivatives, financial assets and financial liabilities in comparative information for 2004. The necessary adjustments between Spanish GAAP and IAS 32 and IAS 39 have been considered and recognised at 1 January 2005. The main differences in criteria between the Spanish GAAP applied to the comparative information for 2004, and IAS 32 and IAS 39, as well as the effects of transition thereon, are detailed in note 2 (b).

IFRS principles have been applied to all other balance sheet items. Fair value has been applied for financial debts as well as assets available-for-sale.

Intangible assets with indefinite useful lives have been tested for impairment.

Assets, liabilities and equity items have been reclassified in accordance with IFRS.

Translation differences prior to the date of transition to IFRS are presented as a separate item in equity.

Details of the adjustments to each balance sheet item are presented below:

(a) Establishment costs

This balance sheet item comprises start-up costs and share capital increases which have been recognised as a reduction in equity and net of their tax effect.

(b) Goodwill

As permitted by IFRS 1, the Group has not applied IFRS 3 Business Combinations retrospectively. It has also opted for retrospective application of IAS 21 Effects of Changes in Foreign Exchange Rates.

IAS 36 Impairment of Assets has been applied to the net balance of goodwill at the date of first application of IFRS.

Details of adjustments carried out are as follows:

	Thousands of Euros		Exchange rate applied		Thousands of Euros	
	Balance at 01/01/04 Spanish GAAP	Currency of acquired company	**D**ate of operation	01/01/04	**aplic. IAS 21**	**Balance at 01/01/04 IFRS**
Goodwill on consolidation						
Grifols UK, Ltd.	11,038	GBP	0.6225	0.7048	(1,288)	9,750
Grifols Italia,S.p.A.	6,118	EUR	1.0000	1.0000	0	6,118
Biomat USA, Inc.	128,442	USD	0.8651	1.2630	(40,466)	87,976
	145,598				(41,754)	103,844
Biomat USA, Inc. goodwill	6,334	USD	1.0000	1.0000	0	6,334
	6,334				0	6,334
	151,932				**(41,754)**	**110,178**

The adjustment of Euros (39,545) thousand at 31 December 2004 comprises Euros (41,754) thousand due to the effect of first application of IFRS, Euros 8,471 thousand due to the reinstatement of annual amortisation of the aforementioned goodwill, and Euros (6,262) thousand due to translation differences generated in 2004.
From 1 January 2004, goodwill is not amortised but tested annually for impairment.

(c) Other intangible assets

The adjustment of Euros (11,933) thousand at 1 January 2004 (Euros (11,734) thousand at 31 December 2004) comprises:

	Thousands of Euros	
	01/01/04	**31/12/04**
Reclassification to property, plant & equipment of rights over leased assets	(16,480)	(16,771)
Reclassification of advance to receivables **(see note (i))**	(51)	(51)
Disposal of concessions, patents, licences, brands and similar generated internally	(1,325)	(1,488)
Reinstatement of amortisation of intangible assets with indefinite life	5,923	6,576
	(11,933)	**(11,734)**

(d) Property, plant and equipment

The Group's decision, as permitted by IFRS 1, to measure certain items of property, plant and equipment at fair value has led to an adjustment of Euros 52,965 thousand at 1 January 2004. The Group has also updated the useful lives of these assets.

	Thousands of Euros	
	01/01/04	**31/12/04**
Reclassification of rights over leased assets **(see note (c))**	16,480	16,771
Reclassification of advance to receivables **(see note (i))**	0	(19)
Reclassifications	16,480	16,752
Revaluation of certain assets (NIIF 1):		
Land	24,097	23,491
Buildings	28,868	28,091
Adjustments	52,965	51,582
	69,445	**68,334**

(e) Other investments

The adjustment of Euros (14,227) thousand at 1 January 2004 (Euros (16,913) thousand at 31 December 2004) comprises the reclassification of tax credits and income tax deductions pending application at these dates (see note (f)).

(f) Deferred tax assets

The adjustment of Euros 27,371 thousand at 1 January 2004 (Euros 27,408 thousand at 31 December 2004) comprises:

	Thousands of Euros	
	01/01/04	**31/12/04**
Reclassification of tax credits **(see note (e))**	14,227	16,913
Reclassification of deferred tax assets	12,142	9,743
	26,369	26,656
Tax effect of the adjustment on:		
Establishment costs **(see note (a))**	538	231
Concessions, patents, licences, brands & similar generated internally **(see note (c))**	464	521
	1,002	752
	27,371	**27,408**

(g) Deferred expenses

Deferred expenses under Spanish GAAP have been reclassified under IFRS as follows:

	Thousands of Euros	
	01/01/04	**31/12/04**
Non-current borrowings **(see note (j))**	(3,161)	(1,921)
Issue of non-current marketable securities	(322)	0
Current borrowings **(see note (m))**	(289)	(286)
Other non-current payables **(see note (k))**	(6,137)	(3,564)
Other current receivables	0	(67)
	(9,909)	**(5,838)**

(h) Inventories

The adjustment of Euros (144) thousand at 31 December 2004 reflects the reclassification of an advance for inventories to receivables.

(i) Trade and other receivables and prepayments

The Euros (786) thousand adjustment at 1 January 2004 (Euros (1,744) thousand at 31 December 2004) is broken down as follows:

	Thousands of Euros	
	01/01/04	**31/12/04**
Reclassification of:		
Advances for intangible assets **(see note (c))**	51	51
Advances for property, plant & equipment **(see note (d))**	0	19
Advances for inventories **(see note (h))**	0	144
Reclassifications	51	214
Adjustments for:		
Unaccrued interest on promissory notes	0	(84)
Unaccrued interest on other payables	(411)	(105)
Receivables for future commitments **(see note (k))**	(426)	(1,769)
Adjustments	(837)	(1,958)
	(786)	**(1,744)**

(j) Non-current borrowings

The adjustment of Euros (211,669) thousand at 1 January 2004 (Euros (184,639) thousand at 31 December 2004) comprises the reclassification of arrangement costs and deferred interest on long-term borrowings for Euros (3,161) thousand (Euros (1,921) thousand at 31 December 2004) (see note (g)) and the reclassification of the balance drawn down on the long-term syndicated loan as a current liability for Euros (208,508) thousand (Euros (182,718) thousand at 31 December 2004) (see note (m)).

(k) Other non-current liabilities

The Euros (15,343) thousand adjustment at 1 January 2004 (Euros (13,697) thousand at 31 December 2004) comprises:

	Thousands of Euros	
	01/01/04	**31/12/04**
Reclassification of:		
Deferred interest payable **(see note (g))**	(6,137)	(3,564)
Reclassifications	(6,137)	(3,564)
Adjustments for:		
Deferred income on future services **(see note (i))**	(426)	(1,769)
Deferred income on tax deductions pending application	(6,760)	(5,760)
Unrealised exchange gains	(2,020)	(2,604)
Adjustments	(9,206)	(10,133)
	(15,343)	**(13,697)**

(l) Deferred tax liabilities

The adjustment of Euros 37,970 thousand at 1 January 2004 (Euros 37,362 thousand at 31 December 2004) comprises:

	Thousands of Euros	
	01/01/04	**31/12/04**
Reclassification of deferred income tax	14,634	12,124
Tax effect of the adjustment on:		
Revaluation of certain property, plant & equipment **(see note (d))**	19,057	18,535
Unrealised exchange gains **(see note (p))**	678	889
	19,735	19,424
Recognition of Biomat USA, Inc. Deferred tax on intangible assets from prior years	3,601	3,339
Recognition of deferred tax for Biomat USA, Inc. goodwill	0	2,475
	37,970	**37,362**

(m) Current borrowings

The adjustment of Euros 208,218 thousand at 1 January 2004 (Euros 182,432 thousand at 31 December 2004) reflects the reclassification of the arrangement costs and deferred interest on short-term borrowings for Euros (289) thousand (Euros (286) thousand at 31 December 2004) (see note (g)) and the reclassification of the balance drawn down on the long-term syndicated loan as a current liability for Euros 208,508 thousand (Euros 182,718 thousand at 31 December 2004) (see note (j)).

(n) Other receivables

The adjustment of Euros (411) thousand at 1 January 2004 (Euros (172) thousand at 31 December 2004) comprises the reclassification of deferred interest on other receivables.

(o) Translation differences

Details of the Euros (42,264) thousand adjustment at 1 January 2004 (Euros (49,529) thousand at 31 December 2004) are as follows:

	Thousands of Euros	
	01/01/04	**31/12/04**
Goodwill on first application of IFRS	(41,754)	(41,754)
Goodwill	0	(6,263)
Asset revaluation	0	(716)
Intangible assets	(510)	(796)
	(42,264)	(49,529)

The adjustment of Euros (41,754) thousand at 1 January 2004 reflects the application of IAS 21 to the net balance of goodwill at that date (see note (b)).

(p) Effect of abovementioned adjustments on distributable reserves

Details of adjustments to reserves at 1 January and 31 December 2004 are as follows:

		Thousands of Euros	
	note	**01/01/04**	**31/12/04**
Establishment costs	**a**	(1,000)	(1,018)
Concessions, patents, brands & similar generated internally	**c**	(861)	(861)
Reinstatement of amortisation of intangible assets	**c**	2,833	2,744
Revaluation of property, plant & equipment	**d**	33,907	33,907
Exchange gains	**k**	1,342	1,342
Tax deductions pending application	**f**	6,760	6,760
		42,981	**42,874**
Attributable to:			
Parent		42,981	42,874
Minority interests		0	0
		42,981	**42,874**

(2) Income statement under Spanish GAAP and IFRS

A comparison of the consolidated income statement for the year ended 31 December 2004 under Spanish GAAP and IFRS is presented below:

		Thousands of Euros		
		31 December 2004		
	note	Spanish GAAP	Effect of transition	IFRS
Operating revenues				
Net sales		455,375	0	455,375
Other operating income		1,116	0	1,116
TOTAL OPERATING INCOME		**456,491**	**0**	**456,491**
Operating expenses				
Change in inventories of finished goods, work in progress and supply of raw materials		(128,952)	0	(128,952)
Personnel expenses		(147,285)	0	(147,285)
Depreciation and amortisation	**a**	(28,008)	2,487	(25,521)
Other operating expenses	**a**	(105,951)	(373)	(106,324)
Total operating expenses		**(410,196)**	**2,114**	**(408,082)**
Other operating income / (expense)				
Other non-recurring operating income		12,824	0	12,824
Other non-recurring operating expense		(4,963)	50	(4,913)
Total operating income / (expense)		**7,861**	**50**	**7,911**
TOTAL OPERATING EXPENSES		**(402,335)**	**2,164**	**(400,171)**
OPERATING PROFIT / (LOSS)		**54,156**	**2,164**	**56,320**
Financial income / (expense)				
Financial income		2,885	0	2,885
Financial expense		(29,132)	0	(29,132)
Exchange rate translation differences	**b**	(960)	584	(376)
FINANCIAL INCOME / (EXPENSE)		**(27,207)**	**584**	**(26,623)**
Interest in equity accounted companies		**103**	**0**	**103**
Goodwill amortisation	**c**	(8,115)	8,115	0
PROFIT BEFORE INCOME TAX		**18,937**	**10,863**	**29,800**
Income tax	**d**	**469**	**(3,867)**	**(3,398)**
PROFIT AFTER INCOME TAX		**19,406**	**6,996**	**26,402**
PROFITS ATTRIBUTABLE TO:				
Parent		19,406	6,996	26,402
Minority interests		0	0	0
PROFIT FOR THE YEAR		**19,406**	**6,996**	**26,402**

(a) Depreciation charges and other operating expenses

The adjustment to the item of depreciation charges and other operating expenses reflects the application of IFRS whereby establishment costs and the costs of share capital increases, brands, patents and similar expenses generated internally by the Company are expensed in the year when they are incurred and cannot be capitalised.

The adjustment also includes the reinstatement of depreciation of property, plant and equipment with indefinite useful lives and the adjustment to depreciation due to the revaluation of certain assets.

(b) Exchange gains and losses

Unrealised exchange gains are taken to profit under IFRS but under Spanish GAAP they are taken to profit when they have been realised.

(c) Goodwill

Goodwill is not amortised under IFRS.

(d) Income tax

The tax effect of the above adjustments is follows:

	Thousands of Euro
	31/12/04
Establishment costs	(317)
Patents and brands	57
Asset revaluation	78
Exchange gains	(211)
Goodwill	(2,475)
Income tax deductions	(999)
	(3,867)

APPENDIX I

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

BUSINESS SEGMENTS
(in thousands of Euros)

(Free translation from the original in Spanish)

	Bioscience		Hospital		Diagnostics		Raw materials		Others / Unallocated		Consolidated	
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
Operating income from third parties	364,200	303,358	58,281	54,477	69,646	64,756	25,056	27,120	7,094	6,780	524,277	456,491
Total operating income	**364,200**	**303,358**	**58,281**	**54,477**	**69,646**	**64,756**	**25,056**	**27,120**	**7,094**	**6,780**	**524,277**	**456,491**
Profit/(Loss) for the segment	**97,731**	**77,577**	**7,493**	**5,680**	**15,454**	**13,188**	**4,709**	**-121**	7,094	6,780	**132,481**	**103,104**
Unallocated expense									-57,957	-54,695	-57,957	-54,695
Other unallocated (expense) income									-938	7,911	-938	7,911
Operating profit											**73,586**	**56,320**
Net financing cost											**-32,756**	**-26,623**
Interest in equity accounted companies	**0**	**0**	-	-	**-10**	**103**	-	-	-	-	**-10**	**103**
Income tax											-15,315	-3,398
Profit for the year											**25,505**	**26,402**
Segment assets	**548,459**	**531,280**	**42,362**	**42,319**	**45,153**	**42,649**	**2,858**	**7,648**	-	-	**638,832**	**623,896**
Equity accounted investments	-	-	-	-	**210**	**333**	-	-	-	-	**210**	**333**
Unallocated assets									182,641	199,362	182,641	199,362
Total assets											**821,683**	**823,591**
Segment liabilities	**94,112**	**89,526**	**1,771**	**1,820**	**5,092**	**3,940**	**0**	**0**	-	-	**100,975**	**95,286**
Unallocated liabilities									664,761	475,573	664,761	475,573
Total liabilities											**765,736**	**570,859**
Other information:												
Amortisation and depreciation	16,220	15,276	3,337	3,197	3,980	3,972	24	38	3,337	3,038	**26,898**	**25,521**
Expenses that do not require cash payments	-471	322	-6	-3	-34	28	-477	440	173	544	**-815**	**1,331**
Additions for the year of property, plant & equipment & intangible assets	12,611	19,766	2,214	2,147	2,334	2,770	6,246	3,088	5,470	7,531	**28,875**	**35,302**

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

APPENDIX I

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

GEOGRAPHICAL SEGMENTS
(in thousands of Euros)

(Free translation from the original in Spanish)

(Free translation from the original in Spanish)

	European Union		United States		Rest of the world		Non-assignable		Consolidated	
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
Operating income from third parties	**314,146**	**310,479**	**149,365**	**91,998**	**60,766**	**54,014**	**0**	**0**	**524,277**	**456,491**
Assets by segment	**454,872**	**523,825**	**338,367**	**274,155**	**28,444**	**25,611**	**0**	**0**	**821,683**	**823,591**
Other information:										
Additions for the year of property, plant & equipment & intangible assets	13,035	24,842	14,878	9,537	962	923	-	-	**28,875**	**35,302**

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

APPENDIX II
GRIFOLS, S.A. AND SUBSIDIARIES

Movement of intangible assets
for the year ended
31 December 2005
(in thousands of Euros)

(Free translation from the original in Spanish)

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

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

APPENDIX II

GRIFOLS, S.A. AND SUBSIDIARIES

Movement of intangible assets
for the year ended
31 December 2004
(in thousands of Euros)

(Free translation from the original in Spanish)

	Balance at 01/01/2004	Additions	Transfers	Disposals	Translation differences	**Balance at 31/12/2004**
Goodwill						
Goodwill	123,906	0	0	0	-7,613	116,293
Accumulated amortisation of goodwill	-13,728	0	0	0	748	-12,980
Provisions						0
Carrying amount of goodwill	*110,178*	*0*	*0*	*0*	*-6,865*	*103,313*
Other						
Development costs	21,658	6,886	-2	-91	-28	28,423
Concessions, patents, licenses brands and similar	31,360	22	2	-348	-1,566	29,470
Software	9,739	2,519	69	-708	-110	11,509
Total cost other	62,757	9,427	69	-1,147	-1,704	69,402
Accum. amort. of development costs	-6,422	-2,737	2	0	0	-9,157
Accum. Amort of concessions, patents, licenses, brands & similar	-5,630	-1,903	-2	0	165	-7,370
Accum. Amort. of software	-5,308	-1,763	0	691	35	-6,345
Total Accum. amort other	-17,360	-6,403	0	691	200	-22,872
Carrying amount of other intangible assets	*45,397*	*3,024*	*69*	*-456*	*-1,504*	*46,530*
TOTAL INTANGIBLE ASSETS	**155,575**	**3,024**	**69**	**-456**	**-8,369**	**149,843**
			(note 7)			

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

APPENDIX III

GRIFOLS, S.A. AND SUBSIDIARIES

Movement in property, plant and equipment
for the year ended
31 December 2005
(in thousands of Euros)

(Free translation from the original in Spanish)

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

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

APPENDIX III

GRIFOLS, S.A. AND SUBSIDIARIES

Movement in property, plant and equipment for the year ended 31 December 2004

(Free translation from the original in Spanish)

	Balance at 01/01/2004	Additions	Transfers	Disposals	Translation differences	**Balance at 31/12/04**
Cost:						
Land and buildings	90,197	114	-14,042	-460	-1,211	74,598
Plant and machinery	63,533	4,378	18,160	-121	-1,775	84,175
Other installations, equipment & furniture	60,406	5,682	-6	-1,397	-1,248	63,437
Other	18,838	3,495	1,347	-778	-169	22,733
Under construction	13,961	12,206	-5,528	-9	-850	19,780
	246,935	25,875	-69	-2,765	-5,253	264,723
Accumulated depreciation:						
Buildings	-4,532	-934	979	113	7	-4,367
Plant and machinery	-24,647	-8,916	-903	118	378	-33,970
Other installations, equipment & furniture	-29,875	-5,741	619	978	492	-33,527
Other	-12,598	-3,527	-695	628	219	-15,973
	-71,652	-19,118	0	1,837	1,096	-87,837
Provisions:						
Provisions	0	-69	0	0	0	-69
Carrying amount	175,283	6,688	-69	-928	-4,157	176,817
			(note 6)			

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

APPENDIX IV

GRIFOLS, S.A. AND SUBSIDIARIES

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

(Free translation from the original in Spanish)

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

This appendix forms an integral part of note 21 of the consolidated financial statements.

DIRECTORS' REPORT

GRIFOLS, S.A. AND SUBSIDIARIES

(Free translation from the original in Spanish)

To the Shareholders:

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

The consolidated net profit for 2005 fiscal year amounts to € 25.5 MM, which represents 4.9% of the turnover. This result is explained by a good sales performance in both the domestic and export markets, as well as manufacturing costs constraint.

In 2005 in order to generate a structure to guarantee the increasing international expansion of the group, especially in the North American market, significant capital investments were carried out in all business areas.

The Bioscience Division has focused on completing the first phase of our project to build a new building for sterile filling in our Los Angeles facility. Another project completed during 2005 has been the enlargement of the conditioning building and the automated 4º C warehouse, with trans-elevator and a capacity for 700 pallets. This facility will allow a higher flexibility, safety and ergonomics compared to the previous conventional chamber.

The Hospital Division has successfully completed the second phase of the construction of Murcia plant, started in 2004, with the new automatic warehouse for finished product and raw materials.

In Diagnostic area the investments in machinery and productive instruments have been made in the reagent factory as well as the laboratory equipment for R+D reagents laboratory.

Parallely, for the maintenance at our commercial branch offices and warehouses, the necessary investments have been made. It is important to mention the beginning of the project to relocate the South branch (Sevilla) to new facilities. This new project will take place in the first semester of next year.

Regarding Research and Development section, Grifols has focused on the improvement of the results accomplished in former years by means of using the existing structure.

The group’s policies in this area have been translated in patents of procedures and sanitary registers destined for the application of different products in patients.

Bioscience area has submitted the request of approval for registration of the new intravenous gammaglobuline to the Food and Drug Administration (FDA) to launch it in USA. The company foresees to start the procedures of registration in 2006 in the rest of countries where such product is marketed.

With regard to Hospital division, within the Parenteral Nutrition line, the formula and the manufacturing process of lipid emulsion Soyacal have been modified, to improve the stability of the product and the production segment.

In Third therapy, the license of the product Fleboflex® Glucosalina of AEMPS has been obtained, and the design of Fleboflex bag amended with the insertion of a semi rigid connector that makes these bags compatible with the actual line of production.

In Diagnostic division, special mention is made to the registry of new variations of the bag in blood bank, and to highlight the auto transfusion bag and the Leucored Top&Bottom family together with the development of a software of management (Mix Manager) that in combination with Grifill 3.0 system will allow to monitor up to 4 units.

Regarding the production, AEMPS (Spanish Agency for Drugs and Sanitary Products) has approved the parametric liberation of sterility in the products manufactured in the Parets del Valles Plant. This certification allows liberating the products without performing the Test of Sterility. In January 2006 the corresponding inspections are planned in the factory of Murcia to obtain the same certification for its manufactured products.

A new relocation of the production line for urologic irrigation solutions to Parets del Vallés (P9) Plant, is has being considered. It will take place in the first semester of 2006, with a view to increase the production of the said line to decrease its costs through the automation of the load and unload process of autoclaves and to use the capacity of autoclaves that we have got in Plant of P9.

Diagnostic area has increased the production of auto analysers for immunology and blood types and for cards for immune haematology types, following the high standards reached in the last years.

The turnover of 2005 – though affected by the price cutting resulting from the policy of the Spanish Ministry of Health for the contention of pharmaceutical expenses – reflects the remarkable growth experimented in the American order book

The Bioscience area highlights the launching in the market of our new Factor IX Grifols (indicated for the treatment of Haemophilia B) and, as with Hospital area, and in order to expand markets, to start the manufacturing of products for other companies within fluid therapy area.

In the Diagnostic area the consolidation of the exports to the American market, to Japan and Europe, as well as in China are worth mentioning.

The lines of Medical Products, Clinical Nutrition, Immunology and Hemostasis (haemostatic) have reached remarkable sales growth.

For the fiscal year of 2006, the aim is to keep the market share and promote the actual lines marketed at present as well as the introduction of new developments from our areas.

In the Hospital division, Laboratorios Grifols S.A. has planned the final launching of Grifill 3.0, unique and innovative system that automates the preparation of intravenous mixtures and particularly cytostatic preparations that will offer the Hospital Pharmacy a new offer in the fields of intravenous therapy and oncology.

Finally, the Diagnostic division has scheduled the launching of a new automatic instrument for coagulation Q, manufactured by Diagnostic Grifols S.A. that will be an important advance in our market share in the Haemostasis segment. Furthermore, our portfolio will be completed with new techniques, particularly in Microbiology and Immunology areas that together with the existing ones will give response to the important technological demand in this sector.

Considering all the above mentioned, one foresees an optimistic year with good results maintaining the Group's trajectory.

The Group could have its future results affected because of the course of events related to its own activity, such as the raw material supply for manufacturing products, new competitive products in the market or changes in the market regulations.

The Group, with the effective date of these Annual Accounts, has adopted measures aimed to alleviate the possible effects derived from the said events.

The transactions with the treasury stock during 2005 are described in note 14 of the accompanying consolidated annual accounts.

GRIFOLS, S.A. AND SUBSIDIARIES

(Free translation from the original in Spanish)

In accordance with the provisions of article 171, section 1, of the Spanish Limited Company Act currently in force, the Directors of Grifols, S.A. have prepared the annual accounts and Directors' Report of Grifols, S.A. corresponding to year 2005 all of which are drawn up and identified on sheets of paper bearing the official state seal, 8th class, numbered from OH5236025 to OH5236155.

Parets del Vallés, 31 March 2006

Signed:

V. Grifols R., R. Riera R., T. Daga G., J.I. Twose R., C.M.C. Purslow, Thortol Holdings B.V. (J.A. Grifols G.), Dalzell Janotta, T. E. Doster, J. Bolin, A. Land, R. Grifols R.