

# **Grifols, S.A. and subsidiaries**

**Consolidated Annual Accounts**  
31 December 2012

**Consolidated Directors' Report**  
2012

(With Consolidated Auditors' Report Thereon)

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



KPMG Auditores, S.L.  
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### Auditors' Report on the Consolidated Annual Accounts

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

To the Shareholders of  
Grifols, S.A.

We have audited the consolidated annual accounts of Grifols, S.A. (the "Company") and subsidiaries (the "Group"), which comprise the consolidated balance sheet at 31 December 2012, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated statement of cash flows for the year then ended and the notes thereto. As specified in note 2, the Company's directors are responsible for the preparation of the consolidated annual accounts in accordance with International Financial Reporting Standards as adopted by the European Union, and other provisions of the financial information reporting framework applicable to the Group. 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 prevailing legislation regulating the audit of accounts in Spain, which requires examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated annual accounts and evaluating whether their overall presentation, the accounting principles and criteria used and the accounting estimates made comply with the applicable legislation governing financial information.

In our opinion, the accompanying consolidated annual accounts for 2012 present fairly, in all material respects, the consolidated equity and consolidated financial position of Grifols, S.A. and subsidiaries at 31 December 2012 and the consolidated results of their operations and consolidated cash flows for the year then ended, in accordance with International Financial Reporting Standards as adopted by the European Union, and other provisions of the applicable financial information reporting framework.

The accompanying consolidated directors' report for 2012 contains such explanations as the Directors of Grifols, S.A. consider relevant to the situation of the Group, the evolution of its business and other matters, and 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 2012. 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 on the original in Spanish)*

Bernardo Rücker-Embden

22 February 2013

# GRIFOLS, S.A. AND SUBSIDIARIES

## Consolidated Annual Accounts

31 December 2012 and 2011

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

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# **GRIFOLS, S.A. AND SUBSIDIARIES**

## **Consolidated Annual Accounts**

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# GRIFOLS, S.A. AND SUBSIDIARIES

## Consolidated Balance Sheets at 31 December 2012 and 2011 (Expressed in thousands of Euros)

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

Assets	31/12/12	31/12/11
<b>Non-current assets</b>		
Intangible assets		
Goodwill (note 7)	1,869,899	1,895,101
Other intangible assets (note 8)	969,095	1,008,307
Total intangible assets	2,838,994	2,903,408
Property, plant and equipment (note 9)	810,107	775,869
Investments in equity accounted investees (note 10)	2,566	1,001
Non-current financial assets (note 11)	16,526	12,401
Deferred tax assets (notes 2(a) and 29)	24,717	18,106
Total non-current assets	3,692,910	3,710,785
<b>Current assets</b>		
Inventories (note 12)	998,644	1,030,341
Trade and other receivables		
Trade receivables	366,022	408,263
Other receivables	43,833	108,616
Current income tax assets	37,318	15,110
Trade and other receivables (note 13)	447,173	531,989
Other current financial assets (note 14)	460	16,904
Other current assets (note 15)	14,960	9,395
Cash and cash equivalents (note 16)	473,327	340,586
Total current assets	1,934,564	1,929,215
<b>Total assets</b>	<b>5,627,474</b>	<b>5,640,000</b>

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

# GRIFOLS, S.A. AND SUBSIDIARIES

## Consolidated Balance Sheets at 31 December 2012 and 2011 (Expressed in thousands of Euros)

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

Equity and liabilities	31/12/12	31/12/11
<b>Equity</b>		
Share capital	117,882	117,882
Share premium	890,355	890,355
Reserves		
Accumulated gains	571,268	518,775
Other reserves	48,876	49,499
Total reserves	620,144	568,274
Treasury stock	(3,060)	(1,927)
Profit for the year attributable to the Parent	256,686	50,307
Total equity	1,882,007	1,624,891
Cash flow hedges	(33,036)	(21,184)
Translation differences	27,797	58,800
Other comprehensive income	(5,239)	37,616
<b>Equity attributable to the Parent (note 17)</b>	<b>1,876,768</b>	<b>1,662,507</b>
<b>Non-controlling interests (note 19)</b>	3,973	2,487
<b>Total equity</b>	<b>1,880,741</b>	<b>1,664,994</b>
<b>Liabilities</b>		
<b>Non-current liabilities</b>		
Grants (note 20)	5,855	1,366
Provisions (note 21)	3,348	11,052
Non-current financial liabilities		
Loans and borrowings, bonds and other marketable securities	2,585,988	2,809,225
Other financial liabilities	104,831	136,563
Total non-current financial liabilities (note 22)	2,690,819	2,945,788
Deferred tax liabilities (notes 2 (a) and 29)	453,846	370,723
Total non-current liabilities	3,153,868	3,328,929
<b>Current liabilities</b>		
Provisions (note 21)	55,139	81,112
Current financial liabilities		
Loans and borrowings, bonds and other marketable securities	189,335	147,789
Other financial liabilities	6,243	14,507
Total current financial liabilities (note 22)	195,578	162,296
Debts with associates (note 33)	2,668	2,435
Trade and other payables		
Suppliers	228,405	280,722
Other payables	27,357	27,335
Current income tax liabilities	5,679	4,691
Total trade and other payables (note 23)	261,441	312,748
Other current liabilities (note 24)	78,039	87,486
Total current liabilities	592,865	646,077
<b>Total liabilities</b>	<b>3,746,733</b>	<b>3,975,006</b>
<b>Total equity and liabilities</b>	<b>5,627,474</b>	<b>5,640,000</b>

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

# GRIFOLS, S.A. AND SUBSIDIARIES

## Consolidated Income Statements for the years ended 31 December 2012 and 2011

(Expressed in thousands of Euros)

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

	31/12/12	31/12/11 (restated) *
<b>Continuing Operations</b>		
Net revenue (note 25)	2,620,944	1,795,613
Cost of sales	(1,291,345)	(968,133)
<b>Gross Profit</b>	<b>1,329,599</b>	<b>827,480</b>
Research and Development	(124,443)	(89,360)
Selling, General and Administration expenses	(545,072)	(459,259)
<b>Operating Expenses</b>	<b>(669,515)</b>	<b>(548,619)</b>
<b>Operating Results</b>	<b>660,084</b>	<b>278,861</b>
Finance income	1,677	5,761
Finance costs	(284,117)	(200,562)
Change in fair value of financial instruments	13,013	1,279
Impairment and gains/(losses) on disposal of financial instruments	2,107	(805)
Exchange losses	(3,409)	(3,447)
<b>Finance cost</b> (note 28)	<b>(270,729)</b>	<b>(197,774)</b>
Share of losses of equity accounted investees (note 10)	(1,407)	(1,064)
<b>Profit before income tax from continuing operations</b>	<b>387,948</b>	<b>80,023</b>
Income tax expense (note 29)	(132,571)	(29,795)
<b>Profit after income tax from continuing operations</b>	<b>255,377</b>	<b>50,228</b>
<b>Consolidated profit for the year</b>	<b>255,377</b>	<b>50,228</b>
Profit attributable to the Parent	256,686	50,307
Loss attributable to non-controlling interest (note 19)	(1,309)	(79)
<b>Basic earnings per share (Euros) (see note 18)</b>	<b>0.75</b>	<b>0.16</b>
<b>Diluted earnings per share (Euros) (see note 18)</b>	<b>0.75</b>	<b>0.16</b>

\* See note 2

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

# GRIFOLS, S.A. AND SUBSIDIARIES

## Consolidated Statements of Comprehensive Income for the years ended 31 December 2012 and 2011

(Expressed in thousands of Euros)

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

	31/12/12	31/12/11
<b>Consolidated profit for the year</b>	255,377	50,228
<b>Income and expenses generated during the year</b>		
Cash flow hedges (note 17 (g) and 32)	(15,956)	(21,184)
Cash flow hedges	(25,140)	(33,871)
Tax effect	9,184	12,687
Translation differences	(31,016)	109,607
<b>Income and expenses generated during the year</b>	<b>(46,972)</b>	<b>88,423</b>
<b>Income and expense recognised in the income statement:</b>		
Cash flow hedges (note 17 (g) and 32)	4,104	1,751
Cash flow hedges	6,300	2,870
Tax effect	(2,196)	(1,119)
<b>Income and expense recognised in the income statement:</b>	<b>4,104</b>	<b>1,751</b>
<b>Total comprehensive income for the year</b>	<b>212,509</b>	<b>140,402</b>
Total comprehensive income attributable to the Parent	213,831	140,407
Total comprehensive expense attributable to non-controlling interests	(1,322)	(5)
<b>Total comprehensive income for the year</b>	<b>212,509</b>	<b>140,402</b>

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



# GRIFOLS, S.A. AND SUBSIDIARIES

## Consolidated Statements of Cash Flows for the years ended 31 December 2012 and 2011

(Expressed in thousands of Euros)

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

	31/12/12	31/12/11
<b><u>Cash flows from operating activities</u></b>		
Profit before tax	387,948	80,023
Adjustments for:	400,950	313,915
Amortisation and depreciation (note 27)	129,126	90,639
Other adjustments:	271,824	223,276
Profit on equity accounted investments (note 10)	1,407	1,064
Exchange gains	3,409	3,447
Impairment of assets and net provision charges	8,104	23,806
Profit on disposal of fixed assets	12,542	19,366
Government grants taken to income (note 20)	(930)	(1,304)
Finance costs / income	258,060	180,567
Other adjustments	(10,768)	(3,670)
<b>Change in operating assets and liabilities</b>	<b>(43,617)</b>	<b>(51,279)</b>
Change in inventories	14,509	6,909
Change in trade and other receivables	44,258	(54,142)
Change in current financial assets and other current assets	(5,645)	9,321
Change in current trade and other payables	(96,739)	(13,367)
<b>Other cash flows used in operating activities</b>	<b>(238,163)</b>	<b>(122,431)</b>
Interest paid	(180,539)	(139,883)
Interest recovered	2,923	3,582
Income tax received/(paid)	(60,547)	13,870
<b>Net cash from operating activities</b>	<b>507,118</b>	<b>220,228</b>
<b><u>Cash flows from investing activities</u></b>		
Payments for investments	(177,195)	(1,784,464)
Group companies and business units (notes 3 and 2 (c))	(11,067)	(1,624,869)
Property, plant and equipment and intangible assets	(166,128)	(159,899)
Property, plant and equipment	(146,028)	(137,200)
Intangible assets	(20,100)	(22,699)
Other financial assets	0	304
Proceeds from the sale of investments	112,760	165,738
Property, plant and equipment	79,896	160,266
Associates	1,883	5,472
Other financial assets	30,981	0
<b>Net cash used in investing activities</b>	<b>(64,435)</b>	<b>(1,618,726)</b>
<b><u>Cash flows from financing activities</u></b>		
Proceeds from and payments for equity instruments	(9)	(2,830)
Issue	0	(2,830)
Payments for treasury stock (note 17 (e))	(5,194)	0
Sales of treasury stock	5,185	0
Proceeds from and payments for financial liability instruments	(255,569)	1,762,550
Issue	25,727	2,994,741
Redemption and repayment	(281,296)	(1,232,191)
Dividends and interest on other equity instruments paid	0	0
Other cash flows used in financing activities	(49,752)	(284,748)
Financing costs included on the amortized costs of the debt	(43,752)	(285,088)
Other amounts paid /(received) from financing activities	(6,000)	340
<b>Net cash from/(used in) financing activities</b>	<b>(305,330)</b>	<b>1,474,972</b>
<b>Effect of exchange rate fluctuations on cash</b>	<b>(4,612)</b>	<b>24,463</b>
<b>Net increase in cash and cash equivalents</b>	<b>132,741</b>	<b>100,937</b>
<b>Cash and cash equivalents at beginning of the year</b>	<b>340,586</b>	<b>239,649</b>
<b>Cash and cash equivalents at end of year</b>	<b>473,327</b>	<b>340,586</b>

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

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

**Statement of Changes in Consolidated Equity  
for the years ended 31 December 2012 and 2011**

(Expressed in thousands of Euros)

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

	Attributable to equity holders of the Parent									
	Share capital	Share premium	Reserves	Profit attributable to Parent	Treasury stock	Other comprehensive income		Equity attributable to Parent	Non-controlling interests	Equity
Translation differences						Cash flow hedges				
<b>Balances at 31 December 2010</b>	106,532	121,802	403,604	115,513	(1,927)	(50,733)	(1,751)	693,040	14,350	707,390
Translation differences	--	--	--	--	--	109,533	--	109,533	74	109,607
Cash flow hedges	--	--	--	--	--	--	(19,433)	(19,433)	--	(19,433)
<b>Other comprehensive income/(expense) for the year</b>	0	0	0	0	0	109,533	(19,433)	90,100	74	90,174
Profit/(loss) for the year	--	--	--	50,307	--	--	--	50,307	(79)	50,228
<b>Total comprehensive income/(expense) for the year</b>	0	0	0	50,307	0	109,533	(19,433)	140,407	(5)	140,402
Capital increase June 2011	8,382	768,553	(2,514)	--	--	--	--	774,421	--	774,421
Capital increase December 2011	2,968	--	(3,325)	--	--	--	--	(357)	--	(357)
Other changes	--	--	52,828	--	--	--	--	52,828	(213)	52,615
Acquisition of Non-controlling interests	--	--	2,168	--	--	--	--	2,168	(11,645)	(9,477)
Distribution of 2010 profit										
Reserves	--	--	115,513	(115,513)	--	--	--	0	--	0
<b>Operations with equity holders or owners</b>	11,350	768,553	164,670	(115,513)	0	0	0	829,060	(11,858)	817,202
<b>Balance at 31 December 2011</b>	117,882	890,355	568,274	50,307	(1,927)	58,800	(21,184)	1,662,507	2,487	1,664,994
Translation differences	--	--	--	--	--	(31,003)	--	(31,003)	(13)	(31,016)
Cash flow hedges (note 17 (g))	--	--	--	--	--	--	(11,852)	(11,852)	--	(11,852)
<b>Other comprehensive income/(expense) for the year</b>	0	0	0	0	0	(31,003)	(11,852)	(42,855)	(13)	(42,868)
Profit/(loss) for the year	--	--	--	256,686	--	--	--	256,686	(1,309)	255,377
<b>Total comprehensive income/(expense) for the year</b>	0	0	0	256,686	0	(31,003)	(11,852)	213,831	(1,322)	212,509
Other movements	--	--	1,563	--	(1,133)	--	--	430	(59)	371
Acquisition of non-controlling interest (note 3(a))	--	--	--	--	--	--	--	0	2,867	2,867
Distribution of 2011 profit										
Reserves	--	--	50,307	(50,307)	--	--	--	0	0	0
<b>Operations with equity holders or owners</b>	0	0	51,870	(50,307)	(1,133)	0	0	430	2,808	3,238
<b>Balance at 31 December 2012</b>	117,882	890,355	620,144	256,686	(3,060)	27,797	(33,036)	1,876,768	3,973	1,880,741

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

# GRIFOLS, S.A. AND SUBSIDIARIES

## Notes to the Consolidated Annual Accounts

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

### (1) Nature, Principal Activities and Subsidiaries

#### (a) Grifols, S.A.

Grifols, S.A. (hereinafter the Company) was incorporated with limited liability under Spanish law on 22 June 1987. Its registered and tax offices are in Barcelona. The Company's statutory activity consists of providing corporate and business administrative, management and control services, as well as investing in assets and property. The Company's principal activity consists of rendering administrative, management and control services to its subsidiaries.

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

The Company's shares were floated on the Spanish stock exchange IBEX-35 index on 2 January 2008.

On 25 January 2011 and 2 December 2011, the shareholders of Grifols agreed to increase share capital by issuing 83,811,688 new shares without voting rights (Class B shares) to complete the acquisition of Talecris Biotherapeutics Holdings Corp. (see note 3 (c) and 17) and 29,687,658 new shares without voting rights to remunerate the shareholders (see note 17).

On 4 December 2012, the shareholders of Grifols approved a share capital increase through the issue of 16,328,212 new class B shares without voting rights and with a charge to voluntary reserves. This issue was raised in public deed on 4 January 2013 and the shares were traded on the four Spanish stock exchanges and the Spanish Automated Quotation System on 14 January 2013 (see note 36).

All of the Company's shares are listed on the Barcelona, Madrid, Valencia and Bilbao stock exchanges and on the electronic stock market. On 2 June 2011, Class B shares with no voting rights were listed on the NASDAQ (USA) and on the Spanish Automated Quotation System (SIBE/Continuous Market) (see note 17).

In November 2011 the Company registered its High-Yield Senior Unsecured Corporate Bonds at the Securities Exchange Commission (SEC) (see note 22).

Grifols, S.A. is the Parent of the subsidiaries listed in Appendix I of this note to the consolidated annual accounts.

Grifols, S.A. and subsidiaries (hereinafter the Group) act on an integrated basis and under common management and their principal activity is the procurement, manufacture, preparation and sale of therapeutic products, especially haemoderivatives.

The main factory locations of the Group's Spanish companies are in Barcelona, Parets del Vallès (Barcelona) and Torres de Cotilla (Murcia), while the US companies are located in Los Angeles, (California, USA), Clayton (North Carolina, USA) and Melville (New York, USA).

### (2) Basis of Presentation

The consolidated annual accounts have been prepared on the basis of the accounting records of Grifols, S.A. and of the Group companies. The consolidated annual accounts for 2012 have been prepared under International Financial Reporting Standards as adopted by the European Union (EU-IFRS) and other legislative provisions contained in the applicable legislation governing financial information to present fairly the consolidated equity and consolidated financial position of Grifols, S.A. and subsidiaries at 31 December 2012, as well as the consolidated results from their operations and consolidated cash flows for the year then ended.

# GRIFOLS, S.A. AND SUBSIDIARIES

## Notes to the Consolidated Annual Accounts

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

The Group adopted EU-IFRS for the first time on 1 January 2004.

The directors of the Company consider that the consolidated annual accounts for 2012 authorised for issue on 21 February 2013 will be approved with no changes.

### (a) Comparison of information

The consolidated annual accounts for 2012 present for comparative purposes for each individual caption in the consolidated balance sheet, consolidated income statement, consolidated statement of comprehensive income, consolidated statement of cash flows, consolidated statement of changes in equity and consolidated notes, comparative figures for the previous year, which have been obtained through consistent application of EU-IFRS.

#### Changes to the presentation of the consolidated income statement

In 2012 the Group has decided to change the presentation of the consolidated income statement to functions instead of by nature, as it considers that this will enable a better understanding of the profitability of the business. Consequently, comparative data for 2011 has also been modified.

#### Amendments to the comparative consolidated balance sheet

In 2011 Deferred Tax Assets and Deferred Tax Liabilities were not offset where the Group was legally entitled by the taxation authorities to do so. The Group considers that the effect was not material in the context of the consolidated annual accounts as a whole and has therefore reclassified these comparatives. Previously reported amounts for each line corrected are Euros 185,824 thousand for Deferred Tax Asset and Euros 538,441 thousand for Deferred Tax Liabilities.

#### Acquisition of Talecris Group in 2011

As explained in note 3 (c), on 2 June 2011 the Group acquired a 100% interest in the US company Talecris Biotherapeutics Holdings Corp. Therefore, the information for the year ended 31 December 2011 includes 7 months of activity of the Talecris companies.

### (b) Relevant accounting estimates, assumptions and judgements used when applying accounting principles

The preparation of the consolidated annual accounts in conformity with EU-IFRS requires management to make judgements, estimates and assumptions that affect the application of Group accounting policies. A summary of the items requiring a greater degree of judgement or complexity, or where the assumptions and estimates made are significant to the preparation of the consolidated annual accounts are as follows:

- The assumptions used for calculation of the fair value of financial instruments (see note 4 (k)).
- The assumptions used to test non-current assets and goodwill for impairment (see notes 4(i) and 7).
- Useful lives of property, plant and equipment and intangible assets (see notes 4(g) and 4(h)).
- Evaluation of the capitalisation of development costs (see note 4(h)).
- Evaluation of provisions and contingencies (see note 4(r)).
- Evaluation of the recoverability of receivables from public entities (see note 5 and 32).
- Evaluation of the effectiveness of hedging derivatives (see note 17 (g)).
- Evaluation of the nature of leases (operating or finance) (see note 4(j) and note 9(c)).

# GRIFOLS, S.A. AND SUBSIDIARIES

## Notes to the Consolidated Annual Accounts

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

- Assumptions used to determine the fair value of assets, liabilities and contingent liabilities related to the business combinations (see note 3).
- Evaluation of the recoverability of tax credits including tax loss carryforwards and rights for deductions (note 29)

### (c) Consolidation

Appendix I shows details of the percentages of direct or indirect ownership of subsidiaries by the Company at 31 December 2012 and 2011, as well as the consolidation method used in each case for preparation of the accompanying consolidated annual accounts.

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

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

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

On 9 March 2010 one of the Group companies acquired 51% of Nanotherapix, S.L., a technologically based company which engages in advisory services, training of researchers, design and development of technologies, services, know-how, molecules and products applied to biotechnology, biomedicine and pharmaceutical fields. The acquisition of Nanotherapix, S.L. has been treated as an equity-accounted joint venture, as the company's strategic and operational decisions require shareholder approval and Grifols does not avail of the majority of the members of the board of directors.

On 29 February 2012 and in relation to the strategic R&D priorities of the Group, Grifols acquired 51% of the capital of Araclón Biotech, S.L. for a total of Euros 8,259 thousand (see note 3 (a)).

During the first half of 2012, Grifols has incorporated a new company, under the name Gri-Cei, S/A Produtos para transfusão with the Brazilian company CEI Comercio Exportação e Importação de Materiais Médicos, Ltda in which Grifols owns 60% of shares and has the control of the company. Gri-Cei was established in order to manufacture bags for extraction, separation, conservation and transfusion of blood components in Brazil.

During the third quarter of 2012 all of the Australian companies have been wound up, with the exception of Grifols Australia Pty Ltd. The assets and liabilities of these companies have been integrated into Grifols Australia Pty. Ltd.

# GRIFOLS, S.A. AND SUBSIDIARIES

## Notes to the Consolidated Annual Accounts

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

On 6 July 2012, the companies of the Gri-Cel, S.A. Group, which is the affiliate that centralises the Company's investments in R&D companies and projects in fields of medicine other than its core business, acquired 40% of the capital of VCN Bioscience, S.L. for a total of Euros 1,500 thousand. This investment has been accounted for using the equity method. VCN Bioscience, S.L. is specialised in the research and development of new therapeutic approaches for tumours based on the use of oncologic viruses. Grifols has committed under certain conditions to finance VCN Bioscience, S.L.'s on-going projects for a minimum amount of Euros 5 million and it can result in Grifols' increasing its share in the capital of VCN Bioscience, S.L.

### (d) Amendments to EU-IFRS in 2012

The following standards came into effect in 2012 and have therefore been taken into account when drawing up the consolidated annual accounts:

- Amendment to IFRS 7 Financial Instruments: Disclosures – Transfers of Financial Assets (effective date for annual periods beginning on or after 1 July 2011).

The European Union has adopted the following standards which are mandatory for annual periods beginning on or after 1 July 2012 and which the Group will take into consideration as of 1 January 2013 or subsequently:

- Amendment to IAS 12 Deferred Tax: Recovery of Underlying Assets (effective date for annual periods beginning on or after 1 January 2013).
- Amendments to IAS 1 Presentation of Components of Other Comprehensive Income. Effective for annual periods beginning on or after 1 July 2012.
- IAS 19 Employee Benefits. Effective for annual periods beginning on or after 1 January 2013.
- IFRS 10 Consolidated Financial Statements. Effective for annual periods beginning on or after 1 January 2014.
- IFRS 11 Joint Arrangements. Effective for annual periods beginning on or after 1 January 2014.
- IFRS 12 Disclosures of Interests in Other Entities. Effective for annual periods beginning on or after 1 January 2014.
- IFRS 13 Fair Value Measurement. Effective for annual periods beginning on or after 1 January 2013.
- IAS 27 Consolidated and Separate Financial Statements. Effective for annual periods beginning on or after 1 January 2014.
- IAS 28 Investments in Associates and Joint Ventures. Effective for annual periods beginning on or after 1 January 2014.
- IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine. Effective for annual periods beginning on or after 1 January 2013.
- IFRS 7 Financial Instruments: Disclosures: Amendments to Disclosures on Offsetting Financial Assets and Financial Liabilities. Effective for annual periods beginning on or after 1 January 2013.
- IAS 32 Financial Instruments: Presentation: Amendments to Offsetting Financial Assets and Financial Liabilities. Effective for annual periods beginning on or after 1 January 2014.

# GRIFOLS, S.A. AND SUBSIDIARIES

## Notes to the Consolidated Annual Accounts

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

The Group has not applied any of the standards or interpretations issued and adopted by the EU prior to their effective date. The Company's directors do not expect that any of the above amendments will have a significant effect on the consolidated annual accounts.

The standards issued by the IASB and pending adoption by the European Union and which are mandatory for annual periods beginning on or after 1 January 2013 are as follows:

- Amendments to IFRS 1 Government Loans (effective date 1 January 2013).
- Improvements to IFRSs (2009-2011) issued on 17 May 2012 (effective on 1 January 2013).
- Consolidated financial statements, joint arrangements and disclosure of interests in other entities: Transition guidance (issued on 28 June 2012). Improvements to IFRSs 10, 11 and 12. Effective on 1 January 2013.
- Investment Entities. Amendments to IFRSs 10 and 12 and IAS 27 (issued on 31 October 2012). Effective on 1 January 2014.
- IFRS 9 Financial Instruments. Effective for annual periods beginning on or after 1 January 2015.

At the date of issue of these consolidated annual accounts it is not expected that the standards or interpretations published by the International Accounting Standards Board (IASB), pending adoption by the European Union, will have a significant effect on the Group's consolidated annual accounts.

### (3) Business Combinations

#### 2012

##### (a) Araclón Biotech, S.L.

On 29 February 2012 and in relation to the Group's strategic R&D priorities, Grifols acquired 51% of the capital of Araclón Biotech, S.L. for a total of Euros 8,259 thousand.

Araclón Biotech, S.L. was founded as a spin-off from the University of Zaragoza in 2004. Its main areas of research focus on the validation and marketing of a blood diagnosis kit for Alzheimer's and the development of an effective immunotherapy (vaccine) for this disease.

The operation was carried out by the investment vehicle, Gri-Cel, S.A., that centralizes the Group's investments in R&D projects in fields of medicine other than its core business, such as advanced therapies.

Grifols has committed under certain conditions to finance Araclon Biotech, S.L.'s on-going projects for the next five years. The total amount is expected not be higher than Euros 25 million and it will result in Grifols, S.A. increasing its share in the capital of Araclón Biotech, S.L.

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## Notes to the Consolidated Annual Accounts

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Details of the aggregate business combination cost, the fair value of the net assets acquired and goodwill at the acquisition date (or the amount by which the business combination cost exceeds the fair value of the net assets acquired) are provided below:

	Thousands of Euros
Payment in cash	8,259
Total business combination cost	8,259
Fair value of net assets acquired (Euros 4,448 thousand x 51%)	2,259
Goodwill (note 7)	6,000
Payment in cash	8,259
Cash and other liquid cash equivalents of the acquired company	(2,089)
Net cash flow paid for the acquisition	6,170

Goodwill generated in the acquisition is attributed to the workforce and other synergies related to the R&D activity and tax deductions and unrecognised tax losses. This goodwill is allocated to the Diagnostic segment.

Had the acquisition taken place at 1 January 2012, the Group's revenues and consolidated profit for the year ended 31 December 2012 would not have varied significantly.

At the date of acquisition the amounts of recognised assets, liabilities and contingent liabilities are as follows:

	Fair value Thousands of Euros	Carrying amount Thousands of Euros
Intangible assets (note 8)	12,525	1,365
Property, plant and equipment (note 9)	668	668
Non-current financial assets	600	600
Trade and other receivables	142	142
Cash and other liquid cash equivalents	2,089	2,089
Total assets	16,024	4,864
Non-current financial liabilities	3,932	3,932
Deferred tax liabilities (note 29)	138	138
Current financial liabilities	6,770	6,770
Trade and other payables	736	736
Total liabilities and contingent liabilities	11,576	11,576
Total net assets acquired	4,448	(6,712)



# GRIFOLS, S.A. AND SUBSIDIARIES

## Notes to the Consolidated Annual Accounts

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

### (b) Plasma centres

On 22 October 2012 the Group acquired three plasma donation centres from the Canadian biopharmaceutical company Cangene Corporation. These plasma centres are located in Frederick, MD, Altamonte Springs, FL and Van Nuys, CA. (USA).

Aggregate details of the combination cost, fair value of the net assets acquired and goodwill at the acquisition date (or surplus net assets acquired over the combination cost) are as follows:

	Thousands of Euros
Payment in cash	1,925
Total business combination cost	1,925
Fair value of net assets acquired	1,133
Goodwill (note 7)	792

The fair value of net asset acquired includes property, plant and equipment amounting to Euros 1,054 thousand (see note 9).

Goodwill is allocated to the Bioscience segment.

Had the acquisition taken place at 1 January 2012, the Group's revenue and consolidated profit for the year ended 31 December 2012 would not have varied significantly.

### 2011

#### (c) Talecris Biotherapeutics Holdings Corp. and subsidiaries

On 2 June 2011, the Group acquired 100% of the share capital of the US company Talecris Biotherapeutics Holdings Corp. (hereinafter Talecris), which also specialises in the production of plasma-derived biological medicines, for a total of Euros 2,593 million (US Dollars 3,737 million).

The operation was performed through a combined offer of cash and new Grifols shares with no voting rights (hereinafter Class B shares) (see note 17).

The offer was made in relation to all Talecris shares and the price offered per share amounts to US Dollars 19 in cash (total of US Dollars 2,541 million) and 0.641 Class B shares in Grifols for each share in circulation of Talecris LLC. and the directors of Talecris and 0.6485 Grifols shares with no voting rights for each share in circulation of Talecris (total of US Dollars 1,196 million).

On 2 May 2011, the Group signed a Consent Agreement with the staff of the Bureau of Competition of the US Federal Trade Commission (FTC) to establish the terms of the agreement for the merger between the two companies.

# GRIFOLS, S.A. AND SUBSIDIARIES

## Notes to the Consolidated Annual Accounts

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

In order to fulfil the terms of the Consent Agreement, the Group signed agreements for the sale of assets and entered into certain trade agreements for rentals and manufacture with the Italian company Kedrion for periods of up to seven years. These agreements have been implemented in 2011 and 2012.

The agreements refer to the following areas:

- Kedrion and Grifols enter into a manufacturing agreement to fractionate and purify Kedrion's plasma to deliver IVIG and Albumin under Kedrion's own brand name and Factor VIII under the trade name Koate, all of them for sale only in the US.
- Grifols undertakes to sell its Melville fractionation facility to Kedrion. Grifols will manage the facility during a three-year period under a long-term lease agreement with Kedrion, renewable for an additional year on Grifol's request.
- Grifols transfers the technology and sales agreements for Koate (Factor VIII) in the USA to Kedrion. Grifols will produce this product for Kedrion during a seven-year period.
- Grifols undertakes to sell to Kedrion two plasma collection centres. In addition, Grifols undertakes to sell to Kedrion 200,000 litres of plasma at a fixed price.
- Grifols authorises Kedrion to sell IVIG and Albumin produced by Grifols for Kedrion on the US market.

As required by the Consent Agreement, Grifols implemented the terms contained therein within a ten-day period following the acquisition date.

Details of the aggregate business combination cost, the fair value of the net assets acquired and goodwill at the acquisition date are provided below:

	Thousands of Euros	Thousands of US Dollars
Business combination cost (measurement of class B shares)	829,799	1,195,574
Payment in cash (US Dollars 19 per share)	1,763,601	2,540,997
Total business combination cost	2,593,400	3,736,571
Fair value of net assets acquired	1,052,163	1,515,957
Goodwill (excess business combination cost as percentage of fair value of net assets acquired) (see note 7)	1,541,237	2,220,614
Payment in cash	1,763,601	2,540,996
Cash and other liquid cash equivalent of the acquired company	(149,693)	(215,678)
Cash flow paid for the acquisition	1,613,908	2,325,318

# GRIFOLS, S.A. AND SUBSIDIARIES

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

At 2 June 2011 the Group did not have all the necessary information to determine the definitive fair value of intangible assets, liabilities and contingent liabilities acquired in the business combination. During the second quarter of 2012 the Group has obtained additional information on events and circumstances existing at the acquisition date which has enabled it to accurately finalise the allocation of assets and liabilities as detailed in the table above. The allocation of the purchase price is therefore definitive. Goodwill has increased by Euros 2,514 thousand (see note 7) due to a change in the valuation of inventories and the recognition of a current provision arising from an onerous contract, both of which are net of tax effect. Comparative data for 2011 has not been re-expressed, as changes are immaterial. Goodwill has been allocated to the Bioscience segment.

The fair value of Class B shares was determined by the average price of the first weeks of issue of the shares, as this period is considered to provide a reference for determining the fair value of the shares as they were first listed on 2 June 2011.

Total expenses incurred in the transaction amounted to Euros 61.3 million, of which a total of Euros 44.3 million related to expenses for 2011.

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

The acquisition of Talecris consolidated the Group's position as the third largest producer of plasma products in the world, significantly increasing its presence in the USA. The acquisition led to greater availability of products on the market due to increased plasma collection and fractionation capacity.

Had the acquisition taken place at 1 January 2011, the Group's revenue would have increased by Euros 507,039 thousand and consolidated profit for the year, excluding non-recurring expenses such as those related to the transaction and stock option cancellation costs derived from the change of control, would have increased by Euros 74,705 thousand. The revenue and profit of Talecris between the acquisition date and 31 December 2011 amounted to Euros 750,484 thousand and Euros 133,075 thousand, respectively.

# GRIFOLS, S.A. AND SUBSIDIARIES

## Notes to the Consolidated Annual Accounts

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

At the date of acquisition the amounts of recognised assets, liabilities and contingent liabilities are as follows:

	Fair value		Carrying amount	
	Thousands of Euros	Thousands of Dollars	Thousands of Euros	Thousands of Dollars
Intangible assets (note 8)	846,504	1,219,643	21,122	30,432
Property, plant and equipment (note 9)	466,674	672,384	306,401	441,462
Non-current financial assets	1,466	2,112	1,466	2,112
Deferred tax assets	-	-	40,860	58,871
Assets held for sale	8,200	11,814	2,254	3,247
Inventories	449,049	646,989	490,976	707,398
Trade and other receivables	188,067	270,969	188,068	270,968
Other assets	2,364	3,406	2,364	3,406
Cash and cash equivalents	149,693	215,678	149,693	215,678
<b>Total assets</b>	<b>2,112,017</b>	<b>3,042,995</b>	<b>1,203,204</b>	<b>1,733,574</b>
Non-current provisions (note 21)	9,250	13,327	9,250	13,327
Non-current financial liabilities	6,289	9,061	6,289	9,061
Current financial liabilities	473,085	681,621	473,085	681,621
Current provisions (note 21)	68,738	99,038	31,180	44,924
Trade and other payables	152,844	220,218	152,844	220,218
Other current liabilities	48,533	69,927	43,510	62,689
Deferred tax liabilities	301,115	433,846	-	-
<b>Total liabilities and contingent liabilities</b>	<b>1,059,854</b>	<b>1,527,038</b>	<b>716,158</b>	<b>1,031,840</b>
<b>Total net assets acquired</b>	<b>1,052,163</b>	<b>1,515,957</b>	<b>487,046</b>	<b>701,734</b>

Fair values were determined using the following methods:

- Intangible assets: the fair value of intangible assets (primarily the currently marketed products) has been calculated based on “excess earnings” (income approach), whereby the asset is measured after deducting charges or rentals that must be settled to enable use of the remaining assets required to operate the intangible asset being measured.
- Property, plant and equipment: the fair value of property, plant and equipment has been determined using the “cost approach”, whereby the value of an asset is measured at the cost of rebuilding or replacing that asset with other similar assets.
- Inventories: the fair value of inventories has been determined using the “market approach”, by analysing similar transactions.
- Contingent liabilities: the fair value of contingent liabilities has been determined using the “income approach” based on forecast payments and a probability scenario.

### (d) Australian-Swiss Group

In August 2011, the Group acquired the remaining 51% of the share capital of Woolloomooloo Holdings Pty Ltd, the holding company of the Australian-Swiss group Lateral-Medion, of which it had acquired 49% of the share capital and 100% of the voting rights on 3 March 2009 and over which it had exercised control since that date. The acquisition of the remaining 51% of the share capital amounted to AUS Dollars 12.5 million (Euros 9.5 million). The difference between the amount paid and the non-controlling interest was recorded as a Euros 2.2 million increase in reserves.

# GRIFOLS, S.A. AND SUBSIDIARIES

## Notes to the Consolidated Annual Accounts

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

### (4) Significant Accounting Principles

#### (a) Subsidiaries

Subsidiaries are entities, including special purpose entities (SPE), over which the Group exercises control, either directly or indirectly, through subsidiaries. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control potential voting rights held by the Group or other entities that are exercisable or convertible at the end of each reporting period are considered.

Information on subsidiaries forming the consolidated Group is included in Appendix I.

The income, expenses and cash flows of subsidiaries are included in the consolidated annual accounts from the date of acquisition, which is when the Group takes control until the date that control ceases.

Intercompany balances and transactions and unrealised gains or losses are eliminated on consolidation.

The accounting policies of subsidiaries have been adapted to those of the Group for transactions and other events in similar circumstances.

The financial statements of consolidated subsidiaries have been prepared as of the same date and for the same reporting period as the financial statements of the Company.

#### (b) Business combinations

On the date of transition to EU-IFRS, 1 January 2004, the Group applied the exception permitted under IFRS 1 “First-time adoption of International Financial Reporting Standards”, whereby only those business combinations performed as from 1 January 2004 have been recognised using the acquisition method. Entities acquired prior to that date were recognised in accordance with accounting prevailing at that time, taking into account the necessary corrections and adjustments at the transition date.

The Group applies the revised IFRS 3 “Business combinations” in transactions made subsequent to 1 January 2010.

The Group applies the acquisition method for business combinations.

The acquisition date is the date on which the Group obtains control of the acquiree.

#### *Business combinations made subsequent to 1 January 2010*

The consideration transferred in a business combination is determined at acquisition date and calculated as the sum of the fair values of the assets transferred, the liabilities incurred or assumed, the equity interests issued and any asset or liability contingent consideration depending on future events or the compliance of certain conditions in exchange for the control of the business acquired.

The consideration transferred excludes any payment that does not form part of the exchange for the acquired business. Acquisition-related costs are accounted for as expenses when incurred. Share increase costs are recognised as equity when the increase takes place and borrowing costs are deducted from the financial liability when it is recognised.

At the acquisition date the Group recognises at fair value the assets acquired and liabilities assumed. Liabilities assumed include contingent liabilities provided that they represent present obligations that arise from past events and their fair value can be measured reliably. The Group also recognises indemnification assets transferred by the seller at the same time and following the same measurement criteria as the item that is subject to indemnification from the acquired business taking into consideration, where applicable, the insolvency risk and any contractual limit on the indemnity amount.

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

This criterion does not include non-current assets or disposable groups of assets which are classified as held for sale, long-term defined benefit employee benefit liabilities, share-based payment transactions, deferred tax assets and liabilities and intangible assets arising from the acquisition of previously transferred rights.

Assets and liabilities assumed are classified and designated for subsequent measurement in accordance with the contractual terms, economic conditions, operating or accounting policies and other factors that exist at the acquisition date, except for leases and insurance contracts.

The excess between the consideration transferred and the value of net assets acquired and liabilities assumed, less the value assigned to non-controlling interests, is recognised as goodwill. Where applicable, any shortfall, after evaluating the consideration transferred, the value assigned to non-controlling interests and the identification and measurement of net assets acquired, is recognised in profit and loss.

During 2011 the Talecris business combination could only be determined provisionally.

In these cases, net identifiable assets have initially been recognised at their provisional value, and any adjustments made during the measurement period have been recorded as if they had been known at that date. Where applicable, comparative figures for the prior year have been restated. Adjustments to the provisional values only reflect information relating to events and circumstances existing at the acquisition date and which, had they been known, would have affected the amounts recognised at that date. Once this period has elapsed, adjustments are only made to initial values when errors must be corrected. Any potential benefits arising from tax losses and other deferred tax assets of the acquiree that have not been recorded as they did not qualify for recognition at the acquisition date, are accounted for as income tax revenue, provided the adjustments were not made during the measurement period.

The contingent consideration is classified in accordance with underlying contractual terms as a financial asset or financial liability, equity instrument or provision. Provided that subsequent changes to the fair value of a financial asset or financial liability do not relate to an adjustment of the measurement period, they are recognised in consolidated profit and loss or other comprehensive income. The contingent consideration classified, where applicable, as equity is not subject to subsequent change, with settlement being recognised in equity. The contingent consideration classified, where applicable, as a provision is recognised subsequently in accordance with the relevant measurement standard.

### ***Business combinations made prior to 1 January 2010***

The cost of the business combination is calculated as the sum of the acquisition-date fair values of the assets transferred, the liabilities incurred or assumed, and equity instruments issued by the Group, in exchange for control of the acquire, plus any costs directly attributable to the business combination. Any additional consideration contingent on future events or the fulfilment of certain conditions is included in the cost of the combination provided that it is probable that an outflow of resources embodying economic benefits will be required and the amount of the obligation can be reliably estimated. Subsequent recognition of contingent considerations or subsequent variations to contingent considerations is recognised as a prospective adjustment to the cost of the business combination.

Where the cost of the business combination exceeds the Group's interest in the fair value of the identifiable net assets of the entity acquired, the difference is recognised as goodwill, whilst the shortfall, once the costs of the business combination and the fair values of net assets acquired have been reconsidered, is recognised in profit and loss.

### **(c) Non-controlling interests**

Non-controlling interests in subsidiaries acquired after 1 January 2004 are recognised at the acquisition date at the proportional part of the fair value of the identifiable net assets. Non-controlling interests in subsidiaries acquired prior to the transition date were recognised at the proportional part of the equity of the subsidiaries at the date of first consolidation.

# GRIFOLS, S.A. AND SUBSIDIARIES

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

Non-controlling interests are disclosed in the consolidated balance sheet under equity separately from equity attributable to the Parent. Non-controlling interests' share in consolidated profit or loss for the year (and in consolidated comprehensive income for the year) is disclosed separately in the consolidated income statement (consolidated statement of comprehensive income).

The consolidated profit or loss for the year (consolidated comprehensive income) and changes in equity of the subsidiaries attributable to the Group and non-controlling interests after consolidation adjustments and eliminations, is determined in accordance with the percentage ownership at year end, without considering the possible exercise or conversion of potential voting rights. However, whether or not control exists is determined taking into account the possible exercise of potential voting rights and other derivative financial instruments which, in substance, currently allow access to the economic benefits associated with the interests held, such as entitlement to a share in future dividends and changes in the value of subsidiaries.

The excess of losses attributable to non-controlling interests generated before 1 January 2010, which cannot be attributed to the latter as such losses exceed their interest in the equity of the Parent, is recognised as a decrease in the equity of the Parent, except when the non-controlling interests are obliged to assume part or all of the losses and are in a position to make the necessary additional investment. Subsequent profits obtained by the Group are attributed to the Parent until the minority interest's share in prior years' losses is recovered.

Nevertheless, as of 1 January 2010, profit and loss and each component of other comprehensive income are assigned to equity attributable to shareholders of the Parent and to non-controlling interests in proportion to their interest, although this implies a balance receivable from non-controlling interests. Agreements signed between the Group and the non-controlling interests are recognised as a separate transaction.

The increase and reduction of non-controlling interests in a subsidiary in which control is retained is recognised as an equity instrument transaction. Consequently, no new acquisition cost arises on increases nor is a gain recorded on reductions; rather, the difference between the consideration transferred or received and the carrying amount of the non-controlling interests is recognised in the reserves of the investor, without prejudice to reclassifying consolidation reserves and reallocating other comprehensive income between the Group and the non-controlling interests. When a Group's interest in a subsidiary diminishes, non-controlling interests are recognised at their share of the net consolidated assets, including goodwill.

### **(d) Joint ventures**

Joint ventures are those in which there is a contractual agreement to share the control over an economic activity, in such a way that strategic financial and operating decisions relating to the activity require the unanimous consent of the Group and the remaining venturers.

Investments in joint ventures are accounted for using the equity method.

The acquisition cost of investments in joint ventures is determined consistently with that established for investments in associates.

### **(e) 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.

# GRIFOLS, S.A. AND SUBSIDIARIES

## Notes to the Consolidated Annual Accounts

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

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

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

Monetary assets and liabilities denominated in foreign currencies have been translated into thousands of Euros at the closing rate, while non-monetary assets and liabilities measured at historical cost have been translated at the exchange rate prevailing at the transaction date. Non-monetary assets measured at fair value have been translated into thousands of Euros at the exchange rate at the date that the fair value was determined.

In the consolidated statement of cash flows, cash flows from foreign currency transactions have been translated into thousands of Euros at the exchange rates prevailing at the dates the cash flows occur. The effect of exchange rate fluctuations on cash and cash equivalents denominated in foreign currencies is recognised separately in the statement of cash flows as "Effect of exchange rate fluctuations on cash and cash equivalents".

Exchange gains and losses arising on the settlement of foreign currency transactions and the translation into thousands of Euros of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

### (iii) *Translation of foreign operations*

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

- Assets and liabilities, including goodwill and net asset adjustments derived from the acquisition of the operations, including comparative amounts, are translated at the closing rate at each balance sheet date.
- Income and expenses, including comparative amounts, are translated using the previous month's exchange rate for all transactions performed during the current month. This method does not differ significantly from using the exchange rate at the date of the transaction;
- Translation differences resulting from application of the above criteria are recognised in other comprehensive income.

### (f) **Borrowing costs**

In accordance with IAS 23 "Borrowing Costs", since 1 January 2009 the Group recognises interest cost directly attributable to the purchase, construction or production of qualifying assets as an increase in the value of these assets. Qualifying assets are those which require a substantial period of time before they can be used or sold. To the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalisation is determined as the actual borrowing costs incurred, less any investment income on the temporary investment of those funds. Capitalised interest borrowing costs corresponding to general borrowing are calculated as the weighted average of the qualifying assets without considering specific funds. The amount of borrowing costs capitalised cannot exceed the amount of borrowing costs incurred during that period. The capitalised interest cost includes adjustments to the carrying amount of financial liabilities arising from the effective portion of hedges entered into by the Group.

The Group begins capitalising borrowing costs as part of the cost of a qualifying asset when it incurs expenditures for the asset, interest is accrued, and it undertakes activities that are necessary to prepare the asset for its intended use or sale, and ceases capitalising borrowing costs when all or substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete. Nevertheless, capitalisation of borrowing costs is suspended when active development is interrupted for extended periods.



# GRIFOLS, S.A. AND SUBSIDIARIES

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### (g) Property, plant and equipment

#### (i) Initial recognition

Property, plant and equipment are recognised at cost or deemed cost, less accumulated depreciation and any accumulated impairment losses. The cost of self-constructed assets is determined using the same principles as for an acquired asset, while also considering the criteria applicable to production costs of inventories. Capitalised production costs are recognised by allocating the costs attributable to the asset to Self-constructed non-current assets in the consolidated income statement.

At 1 January 2004 the Group opted to apply the exemption regarding fair value and revaluation as deemed cost as permitted by IFRS 1 First time Adoption of International Financial Reporting Standards.

#### (ii) Depreciation

Property, plant and equipment are depreciated by allocating the depreciable amount of an asset on a systematic basis over its useful life. The depreciable amount is the cost or deemed cost of an asset less its residual value. The Group determines the depreciation charge separately for each component of property, plant and equipment with a cost that is significant in relation to the total cost of the asset.

Property, plant and equipment are depreciated using the following criteria:

	Depreciation method	Rates
Buildings	Straight line	1%-3%
Other property, technical equipment and machinery	Straight line	10%
Other property, plant and equipment	Straight line	7% -33%

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

#### (iii) Subsequent recognition

Subsequent to initial recognition of the asset, only those costs incurred which will probably generate future profits and for which the amount may reliably be measured are capitalised. Costs of day-to-day servicing are recognised in profit and loss as incurred.

Replacements of property, plant and equipment which meet the requirements for capitalisation are recognised as a reduction in the carrying amount of the items replaced. Where the cost of the replaced items has not been depreciated independently and it is not possible 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 tests for impairment and reversals of impairment losses on property, plant and equipment based on the criteria set out in note 4(i) below.

# GRIFOLS, S.A. AND SUBSIDIARIES

## Notes to the Consolidated Annual Accounts

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

### (h) Intangible assets

#### (i) Goodwill

Goodwill is generated on the business combinations. Goodwill is calculated using the criteria described in the section on business combinations.

Goodwill is not amortised, but tested for impairment annually or more frequently if events indicate a potential impairment loss. Goodwill acquired in business combinations is allocated to the cash-generating units (CGUs) or groups of CGUs which are expected to benefit from the synergies of the business combination and the criteria described in note 7 are applied. After initial recognition, goodwill is measured at cost less any accumulated impairment losses.

#### (ii) Internally generated intangible assets

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

Costs related with development activities are capitalised when:

- The Group has technical studies justifying the feasibility of the production process.
- The Group has undertaken a commitment to complete production of the asset whereby it is in condition for sale or internal use.
- The asset will generate sufficient future economic benefits.
- The Group has sufficient financial and technical resources to complete development 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 internally generated assets is calculated using the same criteria established for determining production costs of inventories. The production cost is capitalised by allocating the costs attributable to the asset to self-constructed non-current 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 on intangible assets are generally recognised as an expense, except where they increase the future economic benefits expected to be generated by the assets.

#### (iii) Other intangible assets

Other intangible assets are carried at cost, or at fair value if they arise on business combinations, less accumulated amortisation and impairment losses.

#### (iv) Intangible assets acquired in business combinations

The cost of identifiable intangible assets acquired in the business combination of Talecris includes the fair value of the currently marketed products sold and which are classified in "Other intangible assets".

The cost of identifiable intangible assets acquired in the business combination of Araclón includes the fair value of research and development projects in progress.

# GRIFOLS, S.A. AND SUBSIDIARIES

## Notes to the Consolidated Annual Accounts

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

(v) *Useful life and amortisation rates*

The Group assesses whether the useful life of each intangible asset acquired is finite or indefinite. An intangible asset is regarded by the Group as having an indefinite useful life when there is no foreseeable limit to the period over which the asset will generate net cash inflows.

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

Intangible assets with finite useful lives are amortised by allocating the depreciable amount of an asset on a systematic basis over its useful life, by applying the following criteria:

	Amortisation method	Estimated years of useful life
Development expenses	Straight line	3 - 5
Concessions, patents, licences, trademarks and similar	Straight line	5 - 15
Computer software	Straight line	3 - 6
Currently marketed products	Straight line	30

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

The Group does not consider the residual value of its intangible assets material. The Group reviews the residual value, useful life and amortisation method for intangible assets at each financial year end. Changes to initially established criteria are accounted for as a change in accounting estimates.

(i) **Impairment of goodwill, other intangible assets and other 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 any indication of impairment, the Group tests for possible impairment of goodwill, intangible assets with indefinite useful lives, and intangible assets with finite useful lives not yet available for use, at least annually.

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

Negative differences arising from comparison of the carrying amounts of the assets with their recoverable amounts are recognised in the consolidated income statement.

# GRIFOLS, S.A. AND SUBSIDIARIES

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

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

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

At the end of each reporting period 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 in the estimates used to calculate the recoverable amount of the asset.

A reversal of an impairment loss is recognised in consolidated profit or loss. The increase in the carrying amount of an asset attributable to a reversal of an impairment loss may not exceed the carrying amount that would have been determined, net of depreciation or amortisation, had no impairment loss been recognised.

The reversal of an impairment loss for a CGU is allocated to its assets, except for goodwill, pro rata with the carrying amounts of those assets, with the limit per asset of the lower of its recoverable value and the carrying amount which would have been obtained, net of depreciation, had no impairment loss been recognised.

### (j) Leases

#### (i) *Lessee accounting records*

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

Leases in which the Group assumes substantially all the risks and rewards incidental to ownership are classified as finance leases, otherwise they are classified as operating leases.

- Finance leases

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

- Operating leases

Lease payments under an operating lease (excluding incentives) 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.

# GRIFOLS, S.A. AND SUBSIDIARIES

## Notes to the Consolidated Annual Accounts

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### (ii) Leasehold investments

Non-current investments in properties leased from third parties are classified using the same criteria as for property, plant and equipment. Investments are amortised over the lower of their useful lives and the term of the lease contract. The lease term is consistent with that established for recognition of the lease.

### (iii) Sale and leaseback transactions

Any profit on sale and leaseback transactions that meet the conditions of a finance lease is deferred over the term of the lease.

When the leaseback is classed as an operating lease:

- If the transaction is established at fair value, any profit or loss on the sale is recognised immediately in consolidated profit or loss for the year.
- If the sale price is below fair value, any profit or loss is recognised immediately. However, if the loss is compensated for by future lease payments at below market price, it is deferred in proportion to the lease payments over the period for which the asset is to be used.

## (k) Financial instruments

### (i) Classification of financial instruments

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

Financial instruments are classified into the following categories: financial assets and financial liabilities at fair value through profit and loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets and financial liabilities. The Group classifies financial instruments into different categories based on the nature of the instruments and management's intentions on initial recognition.

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

#### a) Financial assets at fair value through profit or loss

Financial assets and financial liabilities at fair value through profit or loss are those which are classified as held for trading or which the Group designated as such on initial recognition.

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

- it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term
- it forms part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent pattern of short-term profit-taking, or
- it is a derivative, except for a derivative which has been designated as a hedging instrument and complies with conditions for effectiveness or a derivative that is a financial guarantee contract.

Financial assets and financial liabilities at fair value through profit or loss are initially recognised at fair value. Transaction costs directly attributable to the acquisition or issue are recognised when incurred.

# GRIFOLS, S.A. AND SUBSIDIARIES

## Notes to the Consolidated Annual Accounts

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After initial recognition, they are recognised at fair value through profit or loss.

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

### b) Loans and receivables

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

### c) Available-for-sale financial assets

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

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

After initial recognition, financial assets classified in this category are measured at fair value and any gain or loss, except for impairment losses, is accounted for in other comprehensive income recognised in equity. On disposal of the financial assets amounts recognised in other comprehensive income or the impairment loss are reclassified to profit or loss.

### d) Financial assets and liabilities carried at cost

Investments in equity instruments whose fair value cannot be reliably measured and derivative instruments that are linked to these instruments and that must be settled by delivery of such unquoted equity instruments, are measured at cost. Nonetheless, if the financial assets or liabilities can subsequently be reliably measured on an ongoing basis, they are accounted for at fair value and any gain or loss is recognised in accordance with their classification.

### (ii) *Offsetting principles*

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

### (iii) *Fair value*

The fair value is the amount for which an asset can be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. The Group generally applies the following systematic hierarchy to determine the fair value of financial assets and financial liabilities:

- Firstly, the Group applies the quoted prices of the most advantageous active market to which the entity has immediate access, adjusted where appropriate to reflect any differences in counterparty credit risk between instruments traded in that market and the one being valued. The quoted market price for an asset held or liability to be issued is the current bid price and, for an asset to be acquired or liability held, the asking price. If the Group has assets and liabilities with offsetting market risks, it uses mid-market prices as a basis for establishing fair values for the offsetting risk positions and applies the bid or asking price to the net open position as appropriate.
- When current bid and asking prices are unavailable, the price of the most recent transactions is used, adjusted to reflect changes in economic circumstances.

# GRIFOLS, S.A. AND SUBSIDIARIES

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

(iv) *Amortised cost*

The amortised cost of a financial asset or liability is the amount at which the asset or liability was measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and maturity amount and minus any reduction for impairment or uncollectibility.

(v) *Impairment of financial assets carried at cost*

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

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

The amount of the impairment loss of financial 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 that have not been incurred) discounted at the financial asset's original effective interest rate. For variable income financial assets, the effective interest rate corresponding to the measurement date under the contractual conditions is used.

The Group recognises impairment losses and unrecoverable loans and receivables and debt instruments by recognising an allowance account for financial assets. When impairment and uncollectibility are considered irreversible, their carrying amount is eliminated against the allowance account.

The impairment loss is recognised in profit or loss and may be reversed in subsequent periods if the decrease can be objectively related to an event occurring after the impairment has been recognised. The loss can only be reversed to the limit of the amortised cost of the assets had the impairment loss not been recognised. The impairment loss is reversed against the allowance account.

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

When a decline in the fair value of an available-for-sale financial asset at fair value through profit or loss has been accounted for in other comprehensive income, the accumulative loss is reclassified from equity to profit or loss when there is objective evidence that the asset is impaired, even though the financial asset has not been derecognised. The impairment loss recognised in profit and loss is calculated as the difference between the acquisition cost, net of any reimbursements or repayment of the principal, and the present fair value, less any impairment loss previously recognised in profit and loss for the year.

Impairment losses relating to investments in equity instruments are not reversible and are therefore recognised directly against the value of the asset and not as an allowance account.

If the fair value of debt instruments increases and the increase can be objectively related to an event occurring after the impairment loss was recognised, the increase is recognised in profit and loss up to the amount of the previously recognised impairment loss and any excess is accounted for in other comprehensive income recognised in equity.

# GRIFOLS, S.A. AND SUBSIDIARIES

## Notes to the Consolidated Annual Accounts

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

### (viii) *Financial liabilities*

Financial liabilities, including trade and other payables, which are not classified at fair value through profit or loss, are initially recognised at fair value less any transaction costs that are directly attributable to the issue of the financial liability. After initial recognition, liabilities classified under this category are measured at amortised cost using the effective interest method.

### (ix) *Derecognition of financial assets*

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

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire or have been transferred and the Group has transferred substantially all the risks and rewards of ownership. Where the Group retains the contractual rights to receive cash flows, it only derecognises financial assets when it has assumed a contractual obligation to pay the cash flows to one or more recipients and if the following requirements are met:

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

If the Group neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, it determines whether it has retained control of the financial asset. In this case:

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

If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the consideration received is recognised in equity. Transaction costs are recognised in profit and loss using the effective interest method.

### (x) *Derecognition and modifications of financial liabilities*

A financial liability, or part of it, is derecognised when the Group either discharges the liability by paying the creditor, or is legally released from primary responsibility for the liability either by process of law or by the creditor.



# GRIFOLS, S.A. AND SUBSIDIARIES

## Notes to the Consolidated Annual Accounts

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

The exchange of debt instruments between the Group and the counterparty or substantial modifications of initially recognised liabilities are accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability, providing the instruments have substantially different terms.

The Group considers the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability.

If the exchange is accounted for as an extinguishment of the financial liability, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. If the exchange is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

The difference between the carrying amount of a financial liability, or part of a financial liability, extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

### (1) Hedge accounting

Hedging financial instruments are initially recognised using the same criteria as those described for financial assets and financial liabilities. Hedging financial instruments that do not meet the hedge accounting requirements are classified and measured as financial assets and financial liabilities at fair value through profit and loss. Derivative financial instruments which qualify for hedge accounting are initially measured at fair value.

At the inception of the hedge the Group formally designates and documents the hedging relationships and the objective and strategy for undertaking the hedges. Hedge accounting is only applicable when the hedge is expected to be highly effective at the inception of the hedge and in subsequent years in achieving offsetting changes in fair value or cash flows attributable to the hedged risk, throughout the period for which the hedge was designated (prospective analysis) and the actual effectiveness, which can be reliably measured, is within a range of 80%-125% (retrospective analysis).

#### *(i) Cash flow hedges*

The Group recognises the portion of the gain or loss on the measurement at fair value of a hedging instrument that is determined to be an effective hedge in other comprehensive income. The ineffective portion and the specific component of the gain or loss or cash flows on the hedging instrument, excluding the measurement of the hedge effectiveness, are recognised with a debit or credit to finance costs or finance income.

If a hedge of a forecast transaction subsequently results in the recognition of a financial asset or a financial liability, the associated gains or losses that were recognised in other comprehensive income are reclassified from equity to profit or loss in the same period or periods during which the asset acquired or liability assumed affects profit or loss and under the same caption of the consolidated income statement (consolidated statement of comprehensive income).

# GRIFOLS, S.A. AND SUBSIDIARIES

## Notes to the Consolidated Annual Accounts

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

### (m) Equity instruments

The Group's acquisition of equity instruments of the Parent is recognised separately at cost of acquisition in the consolidated balance sheet as a reduction in equity, regardless of the motive of the purchase. Any gains or losses on transactions with treasury equity instruments are not recognised in consolidated profit or loss.

The subsequent redemption of Parent shares, where applicable, leads to a reduction in share capital in an amount equivalent to the par value of such shares. Any positive or negative difference between the cost of acquisition and the par value of the shares is debited or credited to accumulated gains.

Transaction costs related with treasury equity instruments, including the issue costs related with a business combination, are accounted for as a deduction from equity, net of any tax effect.

### (n) Inventories

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

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

The cost of raw materials and other supplies, the cost of merchandise and costs of conversion are allocated to each inventory unit on a first-in, first-out (FIFO) basis.

The Group uses the same cost model for all inventories of the same nature and with a 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 conditions for discounts to be received will be met. Discounts for prompt payment are recognised as a reduction in the cost of the inventories acquired.

The cost of inventories is adjusted against profit and loss when cost exceeds the net realisable value. Net realisable value is considered as follows:

- Raw materials and other supplies: replacement cost. Nevertheless, raw materials are not written down below cost if the finished goods into which they will be incorporated are expected to be sold at or above cost of production.
- Goods for resale and finished goods: estimated selling cost, less costs to sell;
- Work in progress: the estimated selling price of related finished goods, less the estimated costs of completion and the estimated costs necessary to make the sale;

The previously recognised reduction in value is reversed against profit and loss when the circumstances that previously caused inventories to be written down no longer exist or when there is clear evidence of an increase in net realisable value because of changed economic circumstances. The reversal of the reduction in value is limited to the lower of the cost and revised net realisable value of the inventories. Write-downs may be reversed with a credit to "changes in inventories of finished goods and work in progress" and "supplies".

# GRIFOLS, S.A. AND SUBSIDIARIES

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

### (o) Cash and cash equivalents

Cash and cash equivalents include cash on hand and demand deposits in financial institutions. They also include other short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. An investment normally qualifies as a cash equivalent when it has a maturity of less than three months from the date of acquisition.

The Group classifies cash flows relating to interest received and paid as operating activities, and dividends received and distributed by the Company are classified under investing and financing activities, respectively.

### (p) 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 capital grants are initially recognised as deferred income in the consolidated balance sheet. Income from capital grants is recognised as other income in the consolidated income statement in line with the depreciation of the corresponding financed assets.

#### (ii) Operating grants

Operating grants received to offset expenses or losses already incurred, or to provide immediate financial support not related to future disbursements, are recognised as other income in the consolidated income statement.

#### (iii) Interest rate grants

Financial liabilities comprising implicit assistance in the form of below market interest rates are initially recognised at fair value. The difference between this value, adjusted where necessary for the emission costs of the financial liability and the amount received, is recognised as an official grant based on the nature of the grant awarded.

### (q) Employee benefits

#### (i) Defined contribution plans

The Group recognises the contributions payable to a defined contribution plan in exchange for a service in the period in which contributions are accrued. Accrued contributions are recognised as an employee benefit expense in the corresponding consolidated income statement in the year that the contribution was made.

#### (ii) Termination benefits

Termination benefits payable that do not relate to restructuring processes in progress are recognised when the Group is demonstrably committed to terminating the employment of current employees prior to 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.

# GRIFOLS, S.A. AND SUBSIDIARIES

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### *(iii) Short-term employee benefits*

The Group recognises the expected cost of short-term employee benefits in the form of accumulating compensated absences when the employees render service that increases their entitlement to future compensated absences. In the case of non-accumulating compensated absences, the expense is recognised when the absences occur.

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

### **(r) Provisions**

Provisions are recognised when the Group has a present obligation (legal or implicit) as a result of a past event; it is probable 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 amount recognised as a provision is the best estimate of the expenditure required to settle the present obligation at the end of the reporting period, taking into account all risks and uncertainties surrounding the amount to be recognised as a provision and, where the time value of money is material, the financial effect of discounting provided that the expenditure to be made each period can be reliably estimated. The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

The discount rate does not reflect risks for which future cash flow estimates have been adjusted. If it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision is reversed against the consolidated income statement item where the corresponding expense was recognised.

### **(s) Revenue recognition**

Revenue is measured at 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 recognised as a reduction in revenues if considered probable at the time of revenue recognition.

#### *(i) Sale of goods*

The Group recognises revenue from the sale of goods when:

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

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The Group participates in the government-managed Medicaid programmes in the United States, accounting for Medicaid rebates by recognising an accrual at the time a sale is recorded for an amount equal to the estimated claims for Medicaid rebates attributable to the sale. Medicaid rebates are estimated based on historical experience, legal interpretations of the applicable laws relating to the Medicaid programme and any new information regarding changes in the programme regulations and guidelines that would affect rebate amounts. Outstanding Medicaid claims, Medicaid payments and inventory levels are analysed for each distribution channel and the accrual is adjusted periodically to reflect actual experience. While rebate payments are generally made in the following or subsequent quarter, any adjustments for actual experience have not been material.

As is common practice in the sector, the purchase contracts signed by some customers with the Group entitle these customers to price discounts for a minimum purchase volume, volume discounts or prompt payment discounts. The Group recognises these discounts as a reduction in sales and receivables in the same month that the corresponding sales are invoiced based on the customer's actual purchase figures or on past experience when the customer's actual purchases will not be known until a later date.

In the USA, the Group enters into agreements with certain customers to establish contract pricing for the products, which these entities purchase from the authorised wholesaler or distributor (collectively, wholesalers) of their choice. Consequently, when the products are purchased from wholesalers by these entities at the contract price which is less than the price charged by the Group to the wholesaler, the Group provides the wholesaler with a credit referred to as a chargeback. The Group records the chargeback accrual at the time of the sale. The allowance for chargebacks is based on Group's estimate of the wholesaler inventory levels, and the expected sell-through of the products by the wholesalers at the contract price based on historical chargeback experience and other factors. The Group periodically monitors the factors that influence the provision for chargebacks, and makes adjustments when believes that actual chargebacks may differ from established allowances. These adjustments occur in a relatively short period of time. As these chargebacks are typically settled within 30 to 45 days of the sale, adjustments for actual experience have not been material.

### (ii) Rendering of services

Revenues associated with the rendering of service transactions are recognised by reference to the stage of completion at the consolidated balance sheet date when the outcome of the transaction can be estimated reliably. The outcome of a transaction can be estimated reliably when revenues, the stage of completion, the costs incurred and the costs to complete the transaction can be estimated reliably and it is probable that the economic benefits derived from the transaction will flow to the Group.

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) Revenue from interest

The Group has been recognising interest receivable from the different Social Security affiliated bodies, to which it provides goods or services, on an accrual basis, and only for those bodies to which historically claims have been made and from which interest has been collected. As a result of the terms imposed by the Spanish Government in 2012 regarding the waiver of late payment interest on overdue receivables, the Group has decided to modify its accounting policy regarding late payment interest. Since June 2012 the Group has been recognising late payment interest on receivables from Social Security affiliated bodies on the date on which delayed invoices are collected, as it is highly likely that they will be collected as of that date.

# GRIFOLS, S.A. AND SUBSIDIARIES

## Notes to the Consolidated Annual Accounts

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

### (t) Income taxes

The income tax expense and tax income for the year comprises current tax and deferred tax.

Current tax is the amount of income taxes payable or recoverable in respect of the consolidated taxable profit or consolidated tax loss for the year. Current tax assets or liabilities are measured at the amount expected to be paid to or recovered from the taxation authorities, using the tax rates and tax laws that have been enacted or substantially 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 are 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 a business combination.

#### (i) Taxable temporary differences

Taxable temporary differences are recognised in all cases except where:

- They arise 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 income;
- They are 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 not probable that the temporary difference will reverse in the foreseeable future.

#### (ii) Deductible temporary differences

Deductible temporary differences are recognised provided that:

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

# GRIFOLS, S.A. AND SUBSIDIARIES

## Notes to the Consolidated Annual Accounts

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

- The temporary differences are associated with investments in subsidiaries to the extent that the difference will reverse in the foreseeable future and sufficient taxable income is expected to be generated against which the temporary difference can be offset.

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 utilised.

### *(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. 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 are also reflected in the measurement of deferred tax assets and liabilities.

At year end the Group reviews the fair value of deferred tax assets to write down the balance if it is not probable that sufficient taxable income will be available to apply the tax asset.

Deferred tax assets which do not meet the above conditions are not recognised in the consolidated balance sheet. At year end the Group assesses whether deferred tax assets which were previously not recognised now meet the conditions for recognition.

### *(iv) Offset and recognition*

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

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

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

### **(u) Segment reporting**

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, whose operating results are regularly reviewed by the Group's chief operating decision maker to make decisions about resources to be allocated to the segment, assess its performance and, based on which, differentiated financial information is available.

# GRIFOLS, S.A. AND SUBSIDIARIES

## Notes to the Consolidated Annual Accounts

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

### (v) Classification of assets and liabilities as current and non-current

The Group classifies assets and liabilities in the consolidated balance sheet as current and non-current. Current assets and liabilities are determined as follows:

- Assets are classified as current when, at closing date, they are expected to be realised, or are intended for sale or consumption in the Group's normal operating cycle within twelve months after that date and they are held primarily for the purpose of 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 twelve months after the balance sheet date.
- Liabilities are classified as current when they are expected to be settled in the Group's normal operating cycle within 12 months after the balance sheet date and they are held primarily for the purpose of trading, or where the Group does not have an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.
- Financial liabilities are classified as current when they are due to be settled within twelve months after the reporting period, even if the original term was for a period longer than twelve months, and an agreement to refinance, or to reschedule payments, on a long-term basis is completed after the reporting period and before the consolidated annual accounts are authorised for issue.

### (w) Environmental issues

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

Property, plant and equipment acquired 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 using the measurement, presentation and disclosure criteria described in note 4(g).

## (5) Financial Risk Management Policy

### (a) General

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

- Credit risk
- Liquidity risk
- Market risk

This note provides information on the Group's exposure to each of these risks, the Group's objectives and procedures to measure and mitigate this risk, and the Group's capital management strategy. More exhaustive quantitative information is disclosed in note 32 to the consolidated annual accounts.

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



# GRIFOLS, S.A. AND SUBSIDIARIES

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

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

### **Credit risk**

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

#### *Trade receivables*

The Group does not predict any significant insolvency risks as a result of delays in receiving payment from some European countries due to their current economic situation. The main risk in these countries is that of delayed payments, which is mitigated through the possibility of claiming interest as foreseen by prevailing legislation. During 2012, as a result of the condition imposed by the Spanish Government to waive late payment interest on past due receivables, the Group has recognised a loss due to the waiving of interest owed by the Social Security (see note 13). No significant bad debt issues have been detected for sales to private entities.

The Group recognises impairment based on its best estimate of the losses incurred on trade and other receivables. The main impairment losses recognised are due to specific losses relating to individual risks identified as significant. At year end, these impairment losses are immaterial.

Details of exposure to credit risk are disclosed in note 32.

### **Liquidity risk**

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

The Group manages liquidity risk on a prudent basis, using cash and sufficient committed credit facilities, enabling the Group to implement its business plans and carry out operations using stable and secure sources of financing.

On 29 February 2012 the Group finished amending the terms and conditions of the senior debt agreement entered into in November 2010. In addition to the improved conditions and the elimination of certain bank covenants, the Group has repaid in advance approximately US Dollars 240 million from the non-current senior debt.

Subsequent to this re-financing, the Group has a non-current revolving credit facility of US Dollars 204 million at 31 December 2012 (unused at year end) and a non-current loan consisting of two tranches amounting to US Dollars 2,746 million. The Group also has US Dollars 1,100 million (Euros 834 million) of corporate bonds issued in January 2011. The average maturity of this non-current senior debt and corporate bond is 4.2 years.

# GRIFOLS, S.A. AND SUBSIDIARIES

## Notes to the Consolidated Annual Accounts

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

At 31 December 2012 the Group has total cash and cash equivalents of Euros 473 million. The Group also has more than Euros 347 million in unused credit facilities, including US Dollars 204 million on the revolving credit facility.

### Market risk

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

#### (i) Currency risk

The Group operates internationally and is therefore exposed to currency risks when operating with foreign currencies, especially with regard to the US Dollar. Currency risk is associated with future commercial transactions, recognised assets and liabilities, and net investments in foreign operations.

The Group holds several investments in foreign operations, the net assets of which are exposed to currency risk. Currency risk affecting net assets of the Group's foreign operations in US Dollars are mitigated primarily through borrowings in this foreign currency.

The Group's main exposure to currency risk is due to the US Dollar, which is used in a significant percentage of transactions in foreign currencies. Since revenues in US Dollars account for 110% (93% from June to December 2011) of purchases and expenses in US Dollars, the Group has a high natural hedge against US Dollar fluctuations and therefore the risks associated with such exchange-rate fluctuations are minimal.

Details of the Group's exposure to currency risk at 31 December 2012 and 2011 of the most significant financial instruments are shown in note 32.

#### (ii) Interest-rate risk

The Group's interest rate risks arise from current and non-current borrowings. Borrowings at variable interest rates expose the Group to cash flow interest rate risks.

The purpose of managing interest-rate risk is to balance the debt structure, maintaining part of borrowings at fixed rates and hedging part of variable rate debt.

The Group manages cash flow interest rate risks through variable to fixed interest rate swaps.

A significant part of the financing obtained during 2012 accrues interest at fixed rates. This fixed interest debt (corporate bond) amounts to US Dollars 1,100 million, which represents approximately 29% of the Group's total debt in US Dollars.

For the remaining senior debt in US Dollars, which totals US Dollars 2,222 million, the Group has partially contracted a variable to fixed interest rate swap. At 31 December 2012 the nominal part of this hedging instrument amounts to US Dollars 1,399 million. This nominal part will decrease over the term of the debt, based on the scheduled repayments of the principal. The purpose of these swaps is to convert borrowings at variable interest rates into fixed interest rate debt. Through these swaps the Group undertakes to exchange the difference between fixed interest and variable interest with other parties periodically. The difference is calculated based on the contracted notional amount (see notes 17 (g) and 32). The notional amount of the swap contracted by the Group hedges 63% (61% at 31 December 2011) of the senior variable interest rate debt denominated in US Dollars at 31 December 2012.

# GRIFOLS, S.A. AND SUBSIDIARIES

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

Senior debt in Euros represents approximately 14% of the Group's total debt at 31 December 2012 (15% at 31 December 2011). The total senior debt is at variable rates. In order to manage the cash flow interest rate risks a hedging operation has taken place by contracting derivative financial instruments consisting of variable to fixed interest rate swaps. The nominal part of this hedging instrument amounts to Euros 100 million, representing hedging of 25% (23% at 31 December 2011) of the senior variable interest rate debt denominated in Euros at 31 December 2012 (see notes 17 (g) and 32).

The fair value of interest rate swaps contracted to reduce the impact of rises in variable interest rates (Libor and Euribor) is accounted for on a monthly basis. These derivative financial instruments comply with hedge accounting requirements.

(iii) Market price risk

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

The Group has signed two unquoted futures contracts, the underlying asset of which is shares in Grifols, S.A. and it was therefore exposed to risk of value fluctuations. These contracts have been settled during 2012 (see note 32).

**(b) Capital management**

The directors' policy is to maintain a solid capital base in order to ensure investor, creditor and market confidence and sustain future business development. The board of directors defines and proposes the level of dividends paid to shareholders.

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

At 31 December 2012 and 2011 the Group holds treasury stock equivalent to 0.05% of its share capital. The Group does not have a formal plan for repurchasing shares.

In accordance with the senior unsecured debt contract, Grifols will not be able to distribute dividends while the leverage ratio (net financial debt/adjusted EBITDA) is higher than 4.5.

**(6) Segment Reporting**

In accordance with IFRS 8 "Operating Segments", financial information for operating segments is reported in the accompanying Appendix II, which forms an integral part of this note to the consolidated annual accounts.

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

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

- Balance sheet: cash and cash equivalents, other receivables, public entities, deferred tax assets and liabilities, loans and borrowings and certain payables.

# GRIFOLS, S.A. AND SUBSIDIARIES

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- Income statement: general administration expenses, finance income / expense and income tax.

There have been no significant inter-segment sales.

### (a) Operating segments

The operating segments defined by the steering committee are as follows:

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

Details of net sales by groups of products for 2012 and 2011 as a percentage of net sales are as follows:

	Thousands of Euros	
	2012	2011
Bioscience		
Haemoderivatives	2,324,237	1,530,063
Other haemoderivatives	851	1,137
Diagnostic		
Transfusional medicine	103,809	86,591
In vitro diagnosis	30,532	30,767
Hospital		
Fluid therapy and nutrition	53,556	52,693
Hospital supplies	42,315	42,671
Raw materials and others	65,644	51,691
Total	2,620,944	1,795,613

The Group has concluded that the haemoderivative products are sufficiently alike to be considered as a whole for the following reasons:

- All these products are human plasma derivatives and are manufactured in a similar way.
- The customers and methods used to distribute these products are similar.
- All these products are subject to the same regulations regarding production and the same regulatory environment.

# GRIFOLS, S.A. AND SUBSIDIARIES

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

### (b) Geographical information

Geographical information is grouped into three areas:

- United States of America and Canada
- Spain
- Rest of the European Union
- Rest of the world

For management purposes, the Group excludes the raw material segment from the geographical details as it relates to operations which do not form part of the Group's core business. Sales and assets of the Raw Material segment correspond mainly to the USA.

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

### (c) Main customer

Income from a Bioscience segment customer represents approximately 10.3% of the Group's total income (10.2% in 2011).

## (7) Goodwill

Details of and movement in this caption of the consolidated balance sheet at 31 December 2011 are as follows:

Net value	Segment	Thousands of Euros				Balances at 31/12/11
		Balances at 31/12/10	Business combinations	Impairment	Translation differences	
Grifols UK, Ltd.(UK)	Bioscience	7,982	-	-	243	8,225
Grifols Italia,S.p.A.(Italy)	Bioscience	6,118	-	-	-	6,118
Biomat USA, Inc.(USA)	Bioscience	113,052	-	-	3,696	116,748
Plasmacare, Inc.(USA)	Bioscience	38,464	-	-	1,258	39,722
Woolloomooloo Holdings Pty Ltd.(Australia)	Diagnostic	23,832	-	(13,000)	38	10,870
Talecris Biotherapeutics (USA)	Bioscience	-	1,538,723	-	174,695	1,713,418
		<u>189,448</u>	<u>1,538,723</u>	<u>(13,000)</u>	<u>179,930</u>	<u>1,895,101</u>
			(note 3 (c))			

Details of and movement in this caption of the consolidated balance sheet at 31 December 2012 are as follows:

Net value	Segment	Thousands of Euros				Balances at 31/12/12
		Balances at 31/12/11	Business combinations	Translation differences		
Grifols UK, Ltd. (UK)	Bioscience	8,225	-	195	8,420	
Grifols Italia, S.p.A. (Italy)	Bioscience	6,118	-	-	6,118	
Biomat USA, Inc. (USA)	Bioscience	116,748	792	(2,269)	115,271	
Plasmacare, Inc. (USA)	Bioscience	39,722	-	(768)	38,954	
Grifols Australia Pty Ltd. (Australia)	Diagnostic	10,870	-	25	10,895	
Talecris Biotherapeutics (USA)	Bioscience	1,713,418	2,514	(31,691)	1,684,241	
Araclón Biotech, S.L. (Spain)	Diagnostic	-	6,000	-	6,000	
		<u>1,895,101</u>	<u>9,306</u>	<u>(34,508)</u>	<u>1,869,899</u>	
			(note 3)			

# GRIFOLS, S.A. AND SUBSIDIARIES

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### Impairment testing:

As a result of the acquisition of Talecris in 2011, and for impairment testing purposes, the Group combines the CGUs allocated to the Bioscience segment, grouping them together at segment level, because substantial synergies are expected to arise on the acquisition of Talecris, and in light of the vertical integration of the business and the lack of an independent organised market for the products. Because the synergies benefit the Bioscience segment globally they cannot be allocated to individual CGUs. The Bioscience segment represents the lowest level to which goodwill is allocated and is subject to control by Group management for internal control purposes.

The recoverable amount of the CGUs was calculated based on their value in use, with the exception of Araclón Biotech, S.L, the recoverable amount of which has been determined on the basis of fair value less costs to sell due to the fact that the transaction is recent. This value in use calculations use cash flow projections for five years based on the financial budgets approved by management. Cash flows estimated as of the year in which stable growth in the CGU has been reached are extrapolated using the estimated growth rates indicated below.

The key assumptions used in calculating impairment of the CGUs for 2012 have been as follows:

	<u>Perpetual growth rate</u>	<u>Discount rate pre tax</u>
Bioscience	2%	11.33%
Diagnostic - Australia	2%	10.55%

The key assumptions used in calculating impairment of the CGUs for 2011 have been as follows:

	<u>Perpetual growth rate</u>	<u>Discount rate pre tax</u>
Bioscience	2%	11.70%
Diagnostic - Australia	2%	11.40%

Management determined budgeted gross margins based on past experience, investments in progress which would imply significant growth in production capacity and its forecast international market development. Perpetual growth rates are coherent with the forecasts included in industry reports. The discount rate used reflects specific risks related to the CGU.

As the recoverable amount of the Bioscience CGU is much higher than the carrying amount of the Bioscience segment's net assets, specific information from the impairment test sensitivity analysis is not included.

Based on the results of the impairment test performed on the CGU in Australia, the Group recognised impairment of Euros 13 million for goodwill in 2011. On the basis of the impairment test for 2012, a 15% reduction in the gross margin of projections would mean that the value in use of the business would be equal to the carrying amount of the CGU's assets.

At 31 December 2012 Grifols' stock market capitalisation totals Euros 7,784 million (Euros 3,723 million at 31 December 2011).

### (8) Other Intangible Assets

Details of other intangible assets and movement during the years ended 31 December 2012 and 2011 are included in Appendix III, which forms an integral part of these notes to the consolidated annual accounts.

Intangible assets mainly include currently marketed products. Identifiable intangible assets correspond to Gamunex and have been recognised at fair value at the acquisition date of Talecris and classified as currently marketed products (see note 3(c)).

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The cost and amortisation of the currently marketed products at 31 December 2011 is as follows:

	Thousands of Euros				<b>Balances at 31/12/11</b>
	<b>Balances at 31/12/10</b>	Business combinations	Additions	Translation differences	
Cost of currently marketed products –Gamunex	-	832,871	-	94,558	927,429
Accumulated amortisation of currently marketed products– Gamunex	-	-	(16,648)	(1,385)	(18,033)
Net value of currently marketed products-Gamunex	-	832,871	(16,648)	93,173	909,396

The cost and amortisation of currently marketed products at 31 December 2012 is as follows:

	Thousands of Euros				<b>Balances at 31/12/12</b>
	<b>Balances at 31/12/11</b>	Additions	Translation differences		
Cost of currently marketed products-Gamunex	927,429	-	(17,925)		909,504
Accumulated amortisation of currently marketed products –Gamunex	(18,033)	(31,125)	1,157		(48,001)
Net value of currently marketed products - Gamunex	909,396	(31,125)	(16,768)		861,503

Intangible assets recognised relate to products acquired from Talecris and comprise the rights on the Gamunex product, its commercialisation and distribution licence, trademark, as well as relations with hospitals. Each of these components are closely linked and fully complementary, are subject to similar risks and have a similar regulatory approval process.

The estimated useful life of the currently marketed products is considered limited, has been estimated at 30 years on the basis of the expected life cycle of the product (Gamunex) and is amortised on a straight-line basis.

At 31 December 2012 the residual useful life of currently marketed products is 28 years and 5 months (29 years and 5 months at 31 December 2011).

### (a) Fully-amortised assets

The cost of fully-amortised intangible assets in use at 31 December 2012 and 2011 is Euros 74,356 thousand and Euros 63,899 thousand, respectively.

### (b) Self – constructed intangible assets

The Group has recognised Euros 14,734 thousand (Euros 11,290 thousand at 31 December 2011) as self-constructed assets.

### (c) Purchase commitments

At 31 December 2012 the Group has property, plant and equipment purchase commitments amounting to Euros 764 thousand (Euros 452 thousand at 31 December 2011).

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### (d) Intangible assets with indefinite useful lives and development costs in progress

At 31 December 2012 the Group has licenses with indefinite useful lives under intangible assets for a carrying amount of Euros 24,921 thousand (Euros 25,283 thousand at 31 December 2011). The Group has also an amount of Euros 26,254 thousand as costs of development in progress (Euros 17,372 thousand at 31 December 2011).

### (e) Losses on disposal of intangible assets

Total losses incurred on disposals of intangible assets in 2012 amount to Euros 6.1 million (profit of Euros 1 million in 2011).

#### Impairment testing:

Indefinite-lived intangible assets have been allocated to the cash-generating unit (CGU) of the bioscience segment. These assets have been tested for impairment together with goodwill (see note 7).

## (9) Property, Plant and Equipment

Details of property, plant and equipment and movement in the consolidated balance sheet at 31 December 2012 and 2011 are included in Appendix IV, which forms an integral part of this note to the consolidated annual accounts.

Property, plant and development under construction at 31 December 2012 and 2011 mainly comprise investments made to extend the companies' equipments and to increase their productive capacity.

### a) Insurance

Group policy is to contract sufficient insurance coverage for the risk of damage to property, plant and equipment. At 31 December 2012 the Group has a combined insurance policy for all Group companies, which more than adequately covers the carrying amount of all the Group's assets.

### b) Profit on disposal of property, plant and equipment

In July 2012 the Group sold the Melville fractionation plant for US Dollars 22.7 million (Euros 18.3 million) to Kedrion, generating a profit of Euros 0.6 million. The Group has a lease contract for this plant.

Total losses incurred on disposals of property, plant and equipment for 2012 amount to Euros 7.7 million (Euros 23.9 million in 2011).

### c) Assets under finance lease

The Group had contracted the following types of property, plant and equipment under finance leases at 31 December 2011:

Asset	Thousands of Euros		
	Cost	Accumulated depreciation	Net value
Land and buildings	3,687	(1,175)	2,512
Plant and machinery	33,398	(5,744)	27,654
	<b>37,085</b>	<b>(6,919)</b>	<b>30,166</b>



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The Group has contracted the following types of property, plant and equipment under finance leases at 31 December 2012:

Asset	Thousands of Euros		
	Cost	Accumulated depreciation	Net value
Land and buildings	2,089	(540)	1,549
Plant and machinery	31,811	(8,988)	22,823
	<b>33,900</b>	<b>(9,528)</b>	<b>24,372</b>

Details of minimum lease payments and the present value of finance lease liabilities, disclosed by maturity date, are detailed in note 22 (a.1.3).

During 2011 the Group signed a number of contracts for the sale and leaseback of a production plant and the corresponding machinery and other equipment to third party companies California Biogrif 330, LP and LA 300 Biological Financing, LP, respectively. The Group also entered into a 99-year lease contract with the same lessor for the land on which the plant sold is built. The lease for the plant was considered as an operating lease while the lease for the machinery and other equipment was considered a finance lease, taking into account the terms of the related purchase option (see note 9g (ii)).

### d) Fully-depreciated assets

The cost of fully depreciated property, plant and equipment in use at 31 December 2012 and 2011 is Euros 122,360 thousand and Euros 113,567 thousand, respectively.

### e) Self – constructed non-current assets

At 31 December 2012 the Group has recognised Euros 36,877 thousand as work carried out for property, plant and equipment (Euros 23,258 thousand at 31 December 2011).

### f) Purchase commitments

At 31 December 2012 the Group has property, plant and equipment purchase commitments amounting to Euros 24,774 thousand (Euros 26,950 thousand at 31 December 2011).

### g) Sale and leaseback of buildings

#### (i) Sale and leaseback of Spanish properties

On 10 May 2011 the Group sold five properties located in Spain to Gridpan Invest, S.L., a wholly owned subsidiary of Scranton Enterprises, B.V., a shareholder of Grifols, S.A., for Euros 80.4 million (see note 33). These properties related to non-core assets such as offices, warehouses and factory premises. Two of the properties were sold together with their related mortgage loans for a total of Euros 53.5 million.

As a result of this operation, the Group incurred a net loss of Euros 7.4 million in 2011, which included Euros 2 million in brokerage fees paid to a related company (see note 33). The prices paid for the properties were established based on appraisals made by independent appraisers.

# GRIFOLS, S.A. AND SUBSIDIARIES

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At the same time, operating lease agreements for the aforementioned properties were entered into with Gridpan Invest, S.L., the key terms of which were as follows:

- Compulsory initial term of five years
- Initial rent established at market prices and subject to annual review, based on the percentage variation in the Spanish Consumer Price Index (CPI)
- Automatic extensions for five-year periods that can be terminated by either party by advance six months notice.
- Upon vacating the premises, Grifols will be compensated by the lessor for any on-site assets in which it has invested, insofar as these have a residual value and are not recoverable by Grifols.

Grifols also signed a purchase option on the shares of Gridpan Invest, S.L., which is exercisable between 10 May 2016 and 10 May 2017 and for which no consideration was required. The strike price will be calculated as the exercise date market value, as determined by independent appraisers.

The rental expense incurred by the Group in 2012 for these contracts amounted to Euros 8,020 thousand (Euros 4,909 thousand during 2011), coinciding fully with the minimum contractual payments.

(ii) Sale and leaseback of properties, machinery and other equipment in the USA

*Los Angeles, CA, USA*

On 9 June 2011 the Group signed various contracts for the sale and leaseback of a production plant located in Los Angeles, CA, USA with its machinery and other equipment to institutional investors California Biogrif 330, LP and LA 300 Biological Financing, LP, respectively. The Group also entered into a 99-year lease contract with the same lessor for the land on which the plant sold is built. An amount of US Dollars 35.4 million (Euros 24.6 million) was received for the sale of the plant, whilst an amount of US Dollars 23.8 million (Euros 16.5 million) was received for the sale of the machinery and other equipment.

The plant lease was considered an operating lease whilst the lease on the machinery and other equipment was considered a finance lease in accordance with the terms of the purchase option. As a result of the sale of the plant, the Group incurred a net loss of US Dollars 2.4 million in 2011 (Euros 1.3 million), mainly due to the expenses incurred by the Group during the operation.

The main terms of the plant operating lease contract are as follows:

- Compulsory initial term of 20 years
- Initial rent established at market prices and subject to an annual 3% increase. On the first day of the sixth year, the rent remaining up until the 20th year will be paid in advance.
- Option to extend the lease by a ten-year period at the discretion of the Grifols Group.
- Awarding of purchase options in the sixth and 20th years at a market price to be determined by independent appraisers.

The main terms of the finance lease contract for the machinery and other equipment are: a compulsory term of five years and sixty (60) monthly payments of US Dollars 529 thousand (Euros 369 thousand). The lease contract is non-extendable and anticipates the repurchase of the machinery and other equipment for the amount of US Dollars 1 on expiry of the lease term.

The rental expense incurred by the Group in 2012 for the operating lease contracts amounted to Euros 1,878 thousand (Euros 1,076 thousand in 2011), coinciding fully with the minimum contractual payments.

*North Carolina, NC, USA*

On 29 December 2011, the Group signed a number of contracts for the sale and leaseback of certain buildings and equipment under construction (jointly denominated “New Fractionation Facility” or “NFF”), located in Clayton, North Carolina (USA), with the related company Scranton Enterprises USA, Inc, (hereinafter “Scranton”) (see note 33).

# GRIFOLS, S.A. AND SUBSIDIARIES

## Notes to the Consolidated Annual Accounts

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

The sale price was US Dollars 199 million (Euros 152 million), which has been collected as follows:

- In December 2011 the Group received US Dollars 115 million (Euros 88 million).
- In June 2012 the Group received the whole outstanding amount for a total of US Dollars 84 million (Euros 67 million) (see note 13).

As a result of the transaction, the Group recognised a net loss of US Dollars 12.1 million (Euros 8,9 million) in 2011, primarily due to the brokerage fees paid to a related company, which amounted to US Dollars 10 million (see note 33).

The main terms of the operating lease contract for the building are as follows:

- Compulsory initial lease term: eight years
- The annual rent was established at a minimum of US Dollars 20.5 million, subject to annual increases in line with inflation.
- Option enabling Grifols to renew and extend the contract for a further five years.
- Automatic renewal for additional five-year periods unless one of the parties gives six months' notice to the contrary.
- Upon vacating the premises, Grifols will be compensated by the lessor for any on-site assets in which it has invested, insofar as these have a residual value and are not recoverable by Grifols.
- Scranton Enterprises USA Inc. has required Grifols to lodge a cash or bank guarantee of US Dollars 25 million.

The main terms of the lease contract for the land on which the NFF building is located are as follows:

- Initial lease period: 99 years
- The annual rent has been established at a minimum of US Dollars 1 per year.

The Group contracted a purchase option on the shares of Scranton Investments, B.V., a shareholder of Scranton Enterprises USA, Inc. This option, which has a cost of US Dollars 4 million (see note 11), can be exercised on the date on which the license is granted by the Food and Drug Administration (FDA), at five and ten years from that date, and on the expiry date of the lease contract. The purchase price will vary depending on the market value determined on the date the option is exercised.

The rental expense incurred by the Group in 2012 relating to operating lease contracts amounted to Euros 16,037 thousand, an amount which fully corresponded to the minimum contractual payments.

### (10) Equity Accounted Investments

Details of and movement in this caption in the consolidated balance sheet at 31 December 2011 are as follows:

	Thousands of Euros			
	Balances at 31/12/10	Share in profit/loss	Additions	Balances at 31/12/11
Equity accounted investments	598	(1,064)	1,467	1,001

# GRIFOLS, S.A. AND SUBSIDIARIES

## Notes to the Consolidated Annual Accounts

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

Details of and movement in this caption of the consolidated balance sheet at 31 December 2012 are as follows:

	Thousands of Euros			
	Balances at 31/12/11	Share in profit/loss	Additions	Balances at 31/12/12
Equity accounted investments	1,001	(1,407)	2,972	2,566

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

	Country	Percentage ownership	Thousands of Euros			
			Assets	Liabilities	Equity	Result
<b>31/12/2011</b>						
Nanotherapix, S.L.	Spain	51%	3,364	1,401	1,963	(672)
<b>31/12/2012</b>						
VCN Bioscience, S.L.	Spain	40%	752	427	325	(803)
Nanotherapix, S.L.	Spain	51%	3,579	860	2,719	(715)
			4,331	1,287	3,044	(1,518)

### (11) Non-Current Financial Assets

Details of this caption of the consolidated balance sheet at 31 December 2012 and 2011 are as follows:

	Thousands of Euros	
	31/12/12	31/12/11
Non-current guarantee deposits	3,203	3,555
Non-current derivatives (note 32)	4,502	3,091
Loans to third parties	5,420	5,755
Other non-current financial assets (note 9 (g) ii))	3,401	-
<b>Total non-current financial assets</b>	<b>16,526</b>	<b>12,401</b>

Loans to third parties primarily comprise three mortgage loans extended to the owners of several plasma centres. These loans have a term of 20 years, bear interest at fixed rates and have been secured with mortgage collateral and personal guarantees.

# GRIFOLS, S.A. AND SUBSIDIARIES

## Notes to the Consolidated Annual Accounts

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

### (12) Inventories

Details of inventories at 31 December are as follows:

	Thousands of Euros	
	2012	2011
Goods for resale	95,845	89,562
Raw materials and other supplies	342,536	360,977
Work in progress and semi-finished goods	372,520	390,813
Finished goods	232,484	224,531
	<u>1,043,385</u>	<u>1,065,883</u>
Less, inventory provision	<u>(44,741)</u>	<u>(35,542)</u>
	<u>998,644</u>	<u>1,030,341</u>

Net purchases include purchases made in the following non Euro functional foreign currencies:

	Thousands of Euros	
	2012	2011
US Dollar	467,840	320,535
Other currencies	7,086	8,273

Movement in the inventory provision was as follows:

	Thousands of Euros	
	2012	2011
Balance at 1 January	35,542	4,584
Net charge for the year	13,019	7,333
Business combinations	4,036	37,668
Net cancellations for the year	(8,567)	(17,315)
Translation differences	711	3,272
Balance at 31 December	<u>44,741</u>	<u>35,542</u>

# GRIFOLS, S.A. AND SUBSIDIARIES

## Notes to the Consolidated Annual Accounts

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

### (13) Trade and other receivables

Details at 31 December 2012 and 2011 are as follows:

	Thousands of Euros	
	31/12/12	31/12/11
<b>Trade receivables</b>	<b>366,022</b>	<b>408,263</b>
Sundry receivables	20,272	91,976
Associates (note 33)	26	17
Personnel	315	294
Advances for fixed assets	147	228
Other advances	5,506	5,843
Public entities, other receivables	17,567	10,258
<b>Other receivables</b>	<b>43,833</b>	<b>108,616</b>
<b>Current income tax assets</b>	<b>37,318</b>	<b>15,110</b>
	<u>447,173</u>	<u>531,989</u>

#### Trade receivables

Trade receivables, net of the provision for bad debts and provisions for discounts (see note 25), include notes receivable discounted at banks and pending maturity at 31 December 2012, which amount to Euros 1,129 thousand (Euros 1,153 thousand at 31 December 2011).

At the end of June 2012 the Group received an amount of Euros 157 million from the Spanish Government relating to receivables from the Social Security, of which Euros 109 million of which comprise receivables previously sold to a financial institution.

The Spanish Government imposed the condition that the interest owed by the Social Security authorities should be waived, in order to collect the principal of the receivables. The Group has recognised a loss of approximately Euros 11.6 million in its financial statements for the interest claimed from the Social Security authorities which has been waived and included under finance costs for 2012.

Trade receivables include balances in the following non Euro foreign functional currencies:

Functional currency	Thousands of Euros	
	31/12/12	31/12/11
US Dollar	158,182	149,059
Chilean Peso	23,050	12,574
Mexican Peso	6,124	11,982
Argentinean Peso	6,917	4,919
Brazilian Real	3,696	3,339
Czech Crown	2,141	2,658
Pound Sterling	3,524	3,017
Thai Baht	1,647	1,514
Polish Zloty	1,695	2,668
Australian Dollar	940	2,648
Other currencies	3,688	2,071

# GRIFOLS, S.A. AND SUBSIDIARIES

## Notes to the Consolidated Annual Accounts

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

### Other receivables

At 31 December 2011 other receivables included US Dollars 84 million (Euros 67 million) receivable from Scranton Enterprises USA, Inc in respect of the sale of the property included in the NFF transaction. This amount has been fully collected during the first half of 2012 (see note 9 g(ii)).

During 2012 and 2011 certain Spanish companies of the Grifols Group have sold receivables from several public entities, without recourse, to Deutsche Bank, S.A.E. Under these contracts, the Group receives an initial payment which usually amounts to approximately 90% of the nominal amount of the receivables sold less the associated transaction costs. The deferred collection (equivalent to the rest of the nominal amount) will be made by the Group once Deutsche Bank has collected the nominal amount of the receivables (or the interest, if the balances are received after more than 36 months, depending on the terms of each particular contract) and this amount is recognised in the balance sheet as a balance receivable from Deutsche Bank. The deferred amount (equivalent to the continuing involvement) represents an amount of Euros 6,132 thousand at 31 December 2012 (Euros 19,286 thousand at 31 December 2011), which does not differ significantly from its fair value and coincides with the amount with maximum exposure to losses. Deutsche Bank makes the initial payment when the sale is completed and therefore, the bad debt risk associated with this part of the nominal amount of the receivables is transferred. The Group has transferred the credit risk and control of the receivables to Deutsche Bank and has therefore derecognised the asset transferred, as the risks and rewards inherent to ownership have not been substantially retained.

Certain foreign Group companies and one Spanish company have also entered into a contract to sell receivables without recourse to various financial institutions.

Total balances receivable without recourse sold to financial institutions through the aforementioned contracts in 2012 amount to Euros 197 million (Euros 157 million in 2011).

The finance cost of these operations for the Group totals approximately Euros 7,406 thousand which has been recognised under finance costs in the consolidated income statement for 2012 (Euros 6,185 thousand in 2011) (see note 28).

Details of balances with related parties are shown in note 33.

Receivables from public administrative entities are as follows:

	Thousands of Euros	
	31/12/12	31/12/11
Taxation authorities, VAT	14,101	9,258
Social Security	89	82
Public entities, grants	2,683	-
Other public entities	694	918
Public entities, other receivables	17,567	10,258

# GRIFOLS, S.A. AND SUBSIDIARIES

## Notes to the Consolidated Annual Accounts

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

### Current Income tax assets

Current tax assets are as follows:

	Thousands of Euros	
	31/12/12	31/12/11
Recoverable income tax:		
Current year	29,884	9,528
Prior years	7,434	5,582
Current income tax assets	<u>37,318</u>	<u>15,110</u>

### (14) Other Current Financial Assets

Details of this caption of the consolidated balance sheet at 31 December 2012 and 2011 are as follows:

	Thousands of Euros	
	31/12/12	31/12/11
Current financial investments	-	10,608
Guarantee deposits	192	-
Current loans to third parties	268	2,677
Financial derivatives (note 32)	-	3,619
Total other current financial assets	<u>460</u>	<u>16,904</u>

“Current financial investments” included current guarantee deposits held in financial institutions.

### (15) Other Current Assets

Details of this caption of the consolidated balance sheet at 31 December 2012 and 2011 are as follows:

	Thousands of Euros	
	31/12/12	31/12/11
Prepaid expenses – professional services	5,436	2,188
Prepaid expenses – insurance	4,063	1,276
Prepaid expenses - leases	2,357	1,759
Other prepaid expenses	3,104	4,172
Total other current assets	<u>14,960</u>	<u>9,395</u>



# GRIFOLS, S.A. AND SUBSIDIARIES

## Notes to the Consolidated Annual Accounts

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

### (16) Cash and Cash Equivalents

Details of this caption of the consolidated balance sheet at 31 December 2012 and 2011 are as follows:

	Thousands of Euros	
	31/12/12	31/12/11
Current deposits	296,437	52,908
Cash and Banks	176,890	287,678
<b>Total cash and cash equivalents</b>	<b>473,327</b>	<b>340,586</b>

During 2011 the Group performed certain financing and/or investment operations that did not require the use of cash or cash equivalents:

- The Group sold properties in Spain and the US for an amount of Euros 214 million (excluding the outstanding balance of Euros 63 million). These properties had mortgages of Euros 53.5 million and the net cash inflow for these transactions amounted to Euros 160 million (see note 9 g). During 2012 the Group has collected the total amount receivable of Euros 67 million.
- Part of the payment for the acquisition of Talecris was made through the distribution of Class B shares (see note 3 (c)). The issue of Class B shares had no impact on cash.

Details of cash and cash equivalents at 31 December 2012 and 2011 by functional currency are as follows:

Functional currency	Thousands of Euros	
	31/12/12	31/12/11
Euro	115,682	105,308
US Dollar	345,055	225,053
Other currency	12,590	10,225
	<b>473,327</b>	<b>340,586</b>

### (17) Equity

Details of consolidated equity and changes are shown in the consolidated statement of changes in equity.

#### (a) Share capital

At the extraordinary general shareholders' meeting held on 25 January 2011, the shareholders of Grifols agreed to increase share capital by issuing 83,811,688 new shares without voting (Class B shares) rights to complete the acquisition of Talecris. The Class B non-voting shares were listed on the NASDAQ (USA) and the Spanish Automated Quotation System (SIBE/Continuous Market).

On 1 June 2011 the Company announced that the "Nota sobre Acciones" (Securities Note) requested for the flotation of Class B Shares was registered. Grifols requested the flotation of the Class B Shares on the Stock Exchanges of Madrid, Barcelona, Bilbao and Valencia, as well as on the Spanish Automated Quotation System ("mercado continuo") and, through the American Depositary Shares (ADSs), on the National Association of Securities Dealers Automated Quotation (NASDAQ). The trading of Class B Shares on the Spanish Automated Quotation System and the ADSs on the NASDAQ started on 2 June 2011.

# GRIFOLS, S.A. AND SUBSIDIARIES

## Notes to the Consolidated Annual Accounts

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

At the extraordinary general shareholders' meeting held on 2 December 2011, the shareholders of Grifols agreed to increase share capital by Euros 2,969 thousand with a charge to voluntary reserves by issuing 29,687,658 new shares without voting rights to remunerate the shareholders.

The total transaction costs incurred by the Group in relation to the aforementioned capital increases amounted to Euros 2,870 thousand at 2011.

At 31 December 2012, the Company's share capital amounts to Euros 117,882,384 and comprises:

- Class A shares: 213,064,899 ordinary shares of Euros 0.50 par value each, subscribed and fully paid and of the same class and series.
- Class B shares: 113,499,346 non-voting preference shares of 0.10 Euros par value each, of the same class and series, and with the preferential rights set forth in the Company's by-laws.

On 4 December 2012, the shareholders of Grifols approved a share capital increase through the issue of 16,328,212 new class B shares without voting rights and with a charge to voluntary reserves. This issue was raised in public deed on 4 January 2013 and the shares were traded on the four Spanish stock exchanges and the Spanish Automated Quotation System on 14 January 2013 (see note 36).

The fair value of the Class B shares issued in June 2011 was estimated based on their market value during the first few weeks of listing as they were first listed on 2 June 2011. The positive difference, totalling Euros 52,864 thousand, arose from the difference between their fair value assigned by deed (Euros 776,935 thousand) and their fair value (Euros 829,799 thousand), and was recognised in reserves.

The main characteristics of the Class B shares are as follows:

- Each Class B share entitles its holder to receive a minimum annual preferred dividend out of the distributable profits at the end of each year equal to Euros 0.01 per Class B share if the aggregate preferred dividend does not exceed the distributable profits for that year and provided that the distribution of dividends has been approved by the Company's shareholders. This preferred dividend is not cumulative if no sufficient distributable profits are obtained in the year.
- Each Class B share is entitled to receive, in addition to the preferred dividend referred to above, the same dividends and other distributions as one Grifols ordinary share.
- Each Class B share entitles the holder to its redemption under certain circumstances, if a tender offer for all or part of the shares in the Company has been made, except if holders of Class B shares have been entitled to participate in such an offer on the same terms as holders of Class A shares. The redemption terms and conditions reflected in the Company's by-laws limit the amount that may be redeemed, requiring that sufficient distributable reserves be available, and limit the percentage of shares to be redeemed in line with the ordinary shares to which the offer is addressed.
- In the event the Company were to be wound up and liquidated, each Class B share entitles the holder to receive, before any amounts are paid to holders of ordinary shares, an amount equal to the sum of (i) the par value of each Class B share, and (ii) the share premium paid for the Class B share when it was subscribed. Each holder is entitled to receive, in addition to the Class B liquidation preference amount, the same liquidation amount that is paid for each ordinary share.

These shares are freely transferable.

Since 23 July 2012 the ADSs (American Depositary Shares) representing Grifol's Class B shares (non-voting shares) have had an exchange ratio of 1:1 in relation to Class B shares, ie. 1 ADS represents 1 Class B share. The previous ratio was 2 ADSs per 1 Class B share.

# GRIFOLS, S.A. AND SUBSIDIARIES

## Notes to the Consolidated Annual Accounts

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

The Company only has information on the identity of its shareholders when this information is provided voluntarily or to comply with prevailing legislation. Based on the information available to the Company, its shareholders representing more than 10% of the Company's total capital at 31 December 2012 and 2011 are as follows:

	Percentage ownership	
	31/12/12	31/12/11
Capital Research and Management Company	9.98%	15.02%
Other	90.02%	84.98%
	<u>100.00%</u>	<u>100.00%</u>

### (b) Share premium

Movement in the share premium is described in the consolidated statement of changes in equity, which forms an integral part of this note to the consolidated annual accounts.

### (c) Accumulated gains

The drawdown of accumulated gains is subject to legislation applicable to each of the Group companies. At 31 December 2012, Euros 33,097 thousand equivalent to the carrying amount of development costs pending amortisation of certain Spanish companies (Euros 29,705 thousand at 31 December 2011) (see note 8) are, in accordance with applicable legislation, restricted reserves which cannot be distributed until these development costs have been amortised.

### (d) Other reserves

At 31 December 2012 and 2011 other reserves include the EU-IFRS first-time adoption revaluation reserves and legal reserve of certain Group companies.

#### 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.

At 31 December 2012 the legal reserve of the Company amounts to Euros 21,323 thousand (Euros 21,306 thousand at 31 December 2011).

Distribution of the legal reserves of Spanish companies is subject to the same restrictions as those of the Company and at 31 December 2012 and 2011 the balance of the legal reserve of other Spanish companies amounts to Euros 2,106 thousand.

Other foreign Group companies have a legal reserve amounting to Euros 587 thousand (Euros 687 thousand at 31 December 2011).

# GRIFOLS, S.A. AND SUBSIDIARIES

## Notes to the Consolidated Annual Accounts

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

### (e) Treasury stock

Movement in Class A treasury stock during 2011 is as follows:

	No. of Class A shares	Thousands of Euros
Balance at 1 January 2011	158,326	1,927
Acquisitions	-	-
Balance at 31 December 2011	158,326	1,927

The Company received 15,832 Class B shares from the share capital increase approved by the shareholders at the extraordinary general shareholders' meeting held on 2 December 2011 (see section (a) of this note).

Movement in Class A treasury stock during 2012 is as follows:

	No. of Class A shares	Thousands of Euros
Balance at 1 January 2012	158,326	1,927
Acquisitions Class A	210,257	5,192
Disposals Class A	(210,257)	(4,061)
Balance at 31 December 2012	158,326	3,058

Movement in Class B treasury stock during 2012 is as follows:

	No. of Class B shares	Thousands of Euros
Balance at 1 January 2012	15,832	-
Acquisitions Class B	250	2
Balance at 31 December 2012	16,082	2

The Parent holds Class A and B treasury stock equivalent to 0.05% of its capital at 31 December 2012 and 2011.

### (f) Distribution of profits

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

Grifols will not be able to distribute dividends while the leverage ratio (net financial debt/adjusted EBITDA) is higher than 4.5.

The board of directors will propose to the shareholders at their annual general meeting that the profit of the Parent Grifols, S.A. for the year ended 31 December 2012, amounting to Euros 52,369 thousand, be transferred to reserves (accumulated gains).

The distribution of the profit for the year ended 31 December 2011 is presented in the consolidated statement of changes in equity.

# GRIFOLS, S.A. AND SUBSIDIARIES

## Notes to the Consolidated Annual Accounts

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

### (g) Cash flow hedges

In June and October 2011 Grifols contracted variable to fixed interest-rate swaps for initial nominal amounts of US Dollars 1,550 million and Euros 100 million, respectively, to hedge interest-rate risk on its senior debt. The Group has recognised these financial derivatives as cash flow hedges (see notes 5 (a) and 32).

Ineffectiveness arising from cash flow hedges recognised as finance income and cost in the consolidated income statement (statement of comprehensive income) for 2012 totals Euros 226 thousand.

### (18) Earnings per Share

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

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

	<u>2012</u>	<u>2011</u>
Profit for the year attributable to equity instrument holders of the Parent (thousands of Euros)	256,686	50,307
Weighted average number of ordinary shares in circulation	<u>342,701,194</u>	<u>308,036,270</u>
Basic earnings per share (Euros per share)	<u>0.75</u>	<u>0.16</u>

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

	Number of shares	
	<u>2012</u>	<u>2011</u>
Issued ordinary shares at 1 January	342,709,051	258,897,363
Effect of shares issued	-	49,138,907
Effect of treasury stock	<u>(7,857)</u>	<u>-</u>
Average weighted number of ordinary shares issued at 31 December	<u>342,701,194</u>	<u>308,036,270</u>

Diluted earnings per share are calculated by dividing profit for the year attributable to shareholders of the Parent by the weighted average number of ordinary shares in circulation considering the diluting effects of potential ordinary shares. At 31 December 2012 and 2011 basic and diluted earnings per share are the same as no potential diluting effects exist.

During 2012 the number of shares has changed with no effect on the Company's resources. Ordinary and diluted basic earnings have been adjusted by the capital increase taking place subsequent to 2012 close and before the issue of these consolidated annual accounts. The number of shares has also been adjusted as though this change had occurred at the beginning of the aforementioned period, whereby 2011 figures have been re-expressed.

# GRIFOLS, S.A. AND SUBSIDIARIES

## Notes to the Consolidated Annual Accounts

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

### (19) Non-Controlling Interests

Details of non-controlling interests and movement at 31 December 2011 are as follows:

	Thousands of Euros					<b>Balances at 31/12/11</b>
	<b>Balances at 31/12/10</b>	Additions	Disposals	Acquisition of non-controlling interest	Translation differences	
Grifols (Thailand) Pte Ltd	1,717	197	(108)	-	(36)	1,770
Grifols Malaysia Sdn Bhd	681	38	-	-	(2)	717
Woolloomooloo Holdings Pty Ltd.	11,952	(314)	(105)	(11,645)	112	-
	<u>14,350</u>	<u>(79)</u>	<u>(213)</u>	<u>(11,645)</u>	<u>74</u>	<u>2,487</u>

Details of non-controlling interests and movement at 31 December 2012 are as follows:

	Thousands of Euros					<b>Balances at 31/12/12</b>
	<b>Balances at 31/12/11</b>	Additions	Business Combination /Addition to consolidated Group	Disposals	Translation differences	
Grifols (Thailand) Pte Ltd	1,770	22	-	(59)	28	1,761
Grifols Malaysia Sdn Bhd	717	(16)	-	-	12	713
Araclón Biotech, S.A.	-	(1,316)	2,188	-	-	872
Medion Grifols Diagnostic AG	-	23	-	-	5	28
GRI-CEI S/A	-	(22)	679	-	(58)	599
	<u>2,487</u>	<u>(1,309)</u>	<u>2,867</u>	<u>(59)</u>	<u>(13)</u>	<u>3,973</u>

### (20) Grants

Details are as follows:

	Thousands of Euros	
	31/12/12	31/12/11
Capital grants	4,826	1,158
Interest-rate grants (preference loans)	1,029	208
<b>Grants</b>	<u>5,855</u>	<u>1,366</u>

# GRIFOLS, S.A. AND SUBSIDIARIES

## Notes to the Consolidated Annual Accounts

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

Details of capital grants are as follows:

	Thousands of Euros	
	31/12/12	31/12/11
Total amount of capital grant:		
Prior years	6,144	5,797
Current period	4,207	347
	10,351	6,144
Less, revenues recognised:		
Prior years	(4,781)	(3,752)
Current year	(528)	(1,029)
	(5,309)	(4,781)
Translation differences	(216)	(205)
Net value of capital grants	4,826	1,158

Interest-rate grants (preference loans) reflect the implicit interest on loans extended by the Spanish Ministry of Science and Technology as these are interest free.

Movement for 2011 is as follows:

	Thousands of Euros			
	Balances at 31/12/10	Additions	Transfers to profit or loss	Balances at 31/12/11
Interest-rate grants (preference loans)	258	225	(275)	208

Movement for 2012 is as follows:

	Thousands of Euros			
	Balances at 31/12/11	Additions	Transfers to profit or loss	Balances at 31/12/12
Interest-rate grants (preference loans)	208	1,255	(434)	1,029

# GRIFOLS, S.A. AND SUBSIDIARIES

## Notes to the Consolidated Annual Accounts

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

### (21) Provisions

Details of provisions at 31 December 2012 and 2011 are as follows:

	Thousands of Euros	
	31/12/12	31/12/11
<b>Non-current provisions (a)</b>		
Provisions for pensions and similar obligations	2,049	8,554
Other provisions	1,299	2,498
Non-current provisions	<u>3,348</u>	<u>11,052</u>
	Thousands of Euros	
	31/12/12	31/12/11
<b>Current provisions (b)</b>		
Trade provisions	55,139	81,112
Current provisions	<u>55,139</u>	<u>81,112</u>

#### (a) Non-current provisions

At 31 December 2012 and 2011 provisions for pensions and similar obligations mainly comprise a provision made by certain foreign subsidiaries in respect of labour commitments with certain employees.

Movement in provisions during 2011 is as follows:

	Thousands of Euros					Balances at 31/12/11
	Balances at 31/12/10	Business Combination	Net charge	Cancellations	Translation differences	
Non-current provisions	<u>1,378</u>	<u>9,250</u> (note 3 (c))	<u>1,848</u>	<u>(2,254)</u>	<u>830</u>	<u>11,052</u>

Movement in provisions during 2012 is as follows:

	Thousands of Euros					Balances at 31/12/12
	Balances at 31/12/11	Net charges	Cancellation	Reclassifications	Translation differences	
Non-current provisions	<u>11,052</u>	<u>(695)</u>	<u>(470)</u>	<u>(6,641)</u>	<u>102</u>	<u>3,348</u>

Business combinations primarily comprise provisions for pensions and other similar items.



# GRIFOLS, S.A. AND SUBSIDIARIES

## Notes to the Consolidated Annual Accounts

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

### (b) Current provisions

Movement in trade provisions during 2011 is as follows:

	Thousands of Euros					<b>Balances at 31/12/11</b>
	<b>Balances at 31/12/10</b>	Business Combination	Net charge	Cancellations	Translation differences	
Trade provisions	<u>4,365</u>	<u>67,965</u> (note 3 (c))	<u>2,045</u>	<u>(1,117)</u>	<u>7,854</u>	<u>81,112</u>

Movement in trade provisions during 2012 is as follows:

	Thousands of Euros					<b>Balances at 31/12/12</b>	
	<b>Balances at 31/12/11</b>	Business Combination	Net charge	Cancellations	Reclassifications		Translation differences
Trade provisions	<u>81,112</u>	<u>773</u> (note 3 (c))	<u>(2,158)</u>	<u>(37,758)</u>	<u>12,601</u>	<u>569</u>	<u>55,139</u>

At 31 December 2011 trade provisions, arising from the Talecris business combination, included US Dollars 46.6 million (Euros 36 million) relating to litigation with Plasma Centers of America, LLC (PCA) and G&M Crandall Limited Family Partnership. During the third quarter of 2012, this litigation ended and the Group has paid a total of US Dollars 45 million (Euros 36.8 million). As a result of the reversal of the provision made prior to payment, the Group realised a net profit of US Dollars 3.2 million (Euros 2.6 million). This profit is included under selling, general and administration expenses in the income statement (see note 31 (e)).

# GRIFOLS, S.A. AND SUBSIDIARIES

## Notes to the Consolidated Annual Accounts

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

### (22) Financial liabilities

This note provides information on the contractual conditions of the loans obtained by the Group, which are measured at amortised cost, except the financial derivatives, which are measured at fair value. For further information on exposure to interest rate risk, currency risk and liquidity risk and the fair values of financial liabilities, please refer to note 32.

#### (a) Non-current financial liabilities

Details at 31 December 2012 and 2011 are as follows:

<u>Non-current financial liabilities</u>	Thousands of Euros	
	<u>31/12/12</u>	<u>31/12/11</u>
Non-current bonds (a.1.1)	727,608	736,523
Senior secured debt (a.1.2)	1,807,339	2,021,424
Other loans	33,449	26,661
Finance lease liabilities (a.1.3)	17,592	24,617
Loans and borrowings	<u>1,858,380</u>	<u>2,072,702</u>
Loans and borrowings and bonds or other non-current marketable securities (a.1)	2,585,988	2,809,225
Financial derivatives (note 32)	93,515	127,875
Other financial liabilities	<u>11,316</u>	<u>8,688</u>
Other non-current financial liabilities (a.2)	<u>104,831</u>	<u>136,563</u>
	<b><u>2,690,819</u></b>	<b><u>2,945,788</u></b>

#### (a.1) Loans and borrowings, bonds and other marketable securities

##### (a.1.1) Bonds

On 13 January 2011, the Group concluded its planned issue of High Yield Senior Unsecured corporate bonds for an amount of US Dollars 1,100 million, with a seven-year maturity period (2018) and an annual coupon of 8.25%. This issue, in conjunction with the already completed syndicated loan described in paragraphs below enabled the Group to obtain the necessary funds to finance the acquisition of Talecris (see note 3 (c)) on 2 June 2011. In November 2011 the Group registered its corporate bonds in the Securities Exchange Commission (SEC) using form F4.

On 2 June 2011 and in accordance with the requirements of the new credit agreement, the Group cancelled corporate bonds amounting to US Dollars 600 million and recognised all the transaction-related costs in profit and loss. The costs of cancelling the corporate bonds amounted to Euros 112 million. These costs were included as transaction costs as this was one of the necessary requirements for obtaining additional financing. These costs, together with other costs deriving from the debt issue (underwriting fees, ticking fees, closing fees etc.) were deferred as transaction costs and will be taken to profit or loss in accordance with the effective interest rate.

Unamortised financing costs of senior unsecured corporate bonds amounted to Euros 106 million at 31 December 2012 (Euros 134 million at 31 December 2011).

# GRIFOLS, S.A. AND SUBSIDIARIES

## Notes to the Consolidated Annual Accounts

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

Details of movement in the corporate bonds at 31 December 2011 are as follows:

	Thousands of Euros				
	Opening balance at 01/01/11	Issues	Buy back	Translation differences	Closing balance at 31/12/11
Corporate bonds issued in 2010	446,918	-	(415,270)	(31,648)	-
High yield senior unsecured corporate bonds (nominal amount)	-	761,088	-	89,055	850,143
<b>Total</b>	<b>446,918</b>	<b>761,088</b>	<b>(415,270)</b>	<b>57,407</b>	<b>850,143</b>

Details of movement in the corporate bonds at 31 December 2012 are as follows:

	Thousands of Euros				
	Opening balance at 01/01/12	Issues	Buy back	Translation differences	Closing balance at 31/12/12
High yield senior unsecured corporate bonds (nominal amount)	850,143	-	-	(16,431)	833,712
<b>Total</b>	<b>850,143</b>	<b>-</b>	<b>-</b>	<b>(16,431)</b>	<b>833,712</b>

### (a.1.2) Other non-current loans and borrowings

Appendix V provides details of the main characteristics of non-current loans and borrowings.

On 23 November 2010 the Company signed senior debt agreements of US Dollars 3,400 million for the purchase of Talecris. On 29 February 2012 the Company closed the negotiations to amend and improve the terms and conditions of the senior debt. The present value discounted from cash flows under the new agreement, including costs for fees paid and discounted using the original effective interest rate differs by less than 10% of the present value discounted from cash flows remaining in the original debt, whereby the new agreement is not substantially any different to the original agreement.

The costs of refinancing the senior debt have amounted to Euros 43.8 million. The modification of the terms in the embedded derivatives of the senior debt has formed part of the refinancing (see note 32) and the resulting change in the fair values amounting to Euros 65 million have reduced the financing cost. Based on an analysis of the quantitative and qualitative factors, the Group has concluded that the renegotiation of conditions of the senior debt does not trigger a derecognition of the liability. Therefore, the net amount of the financing cost has reduced the previous amount recognised and will form part of the amortised cost over the duration of the debt. Unamortised financing costs from the senior unsecured debt amount to Euros 190 million at 31 December 2012 (Euros 281 million at 31 December 2011).

The main amendments are basically as follows:

- Reduction of interest rates, retransferring (US Dollars 600 million from Tranche A to Tranche B) and modification of the embedded floor;
- Removal of covenants relating to limitations in fixed assets investments and the debt service coverage ratio;
- Amendment to the leverage ratio limiting the distribution of dividends, improving from the current 3.75 to the new ratio of 4.5, as well as relaxing certain conditions relating to certain contracts;

The Group has repaid in advance approximately US Dollars 240 million from the non-current senior debt during 2012.

# GRIFOLS, S.A. AND SUBSIDIARIES

## Notes to the Consolidated Annual Accounts

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

The new terms and conditions of the senior secured debt are as follows:

- **Non-current senior debt Tranche A:** loan repayable in five years and divided into two tranches: US Tranche A and Tranche A in Euros.
  - **US Tranche A:**
    - Initial principal totalling US Dollars 600 million.
    - Margin of 325 basis points (bp) linked to US Libor.
    - No US Libor floor.
  - **Tranche A in Euros:**
    - Initial principal totalling Euros 220 million.
    - Margin of 350 basis points (bp) linked to Euribor.
    - No Euribor floor.

Details of the Tranche A principal by maturity at 31 December 2012 are as follows:

Maturity	Tranche A in US Dollars			Tranche A in Euros	
	Currency	Amortisation in thousands of US Dollars	Amortisation in thousands of Euros	Currency	Amortisation in thousands of Euros
2013	US Dollars	63,750	48,317	Euros	23,375
2014	US Dollars	90,000	68,213	Euros	33,000
2015	US Dollars	292,500	221,692	Euros	107,250
2016	US Dollars	97,500	73,897	Euros	35,750
Total	US Dollars	543,750	412,119	Euros	199,375

- **Non-current senior debt Tranche B:** Six-year loan divided into two tranches: US Tranche B and Tranche B in Euros.
  - **US Tranche B:**
    - Initial principal of US Dollars 1,700 million.
    - Margin of 350 basis points (bp) linked to US Libor (325 bp if leverage ratio is less than 3.25x).
    - US Libor floor of 1%.
  - **Tranche B in Euros:**
    - Initial principal of Euros 200 million.
    - Margin of 350 basis points (bp) linked to Euribor (325 bp if the leverage ratio is less than 3.25x).
    - Euribor floor of 1%.

# GRIFOLS, S.A. AND SUBSIDIARIES

## Notes to the Consolidated Annual Accounts

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

Details of the Tranche B principal by maturity at 31 December 2012 are as follows:

Maturity	Tranche B in US Dollars			Tranche B in Euros	
	Currency	Amortisation in thousands of US Dollars	Amortisation in thousands of Euros	Currency	Amortisation in thousands of Euros
2013	US Dollars	22,000	16,674	Euros	2,000
2014	US Dollars	22,000	16,674	Euros	2,000
2015	US Dollars	22,000	16,674	Euros	2,000
2016	US Dollars	22,000	16,674	Euros	2,000
2017	US Dollars	1,590,000	1,205,093	Euros	190,000
Total	US Dollars	1,678,000	1,271,789	Euros	198,000

- **Senior revolving credit facility:** Maturing on 1 June 2016. At 31 December 2012 no amount has been drawn down on this facility.
  - **US revolving credit facility**
    - Amount committed: US Dollars 35 million
    - Margin of 325 basis points (bp) linked to US Libor
  - **US multicurrency revolving credit facility:**
    - Amount committed: US Dollars 140 million
    - Margin of 325 basis points (bp) linked to US Libor
  - **Revolving credit facility in Euros:**
    - Amount committed: Euros 21.7 million
    - Margin of 325 basis points (bp) linked to Euribor

The issue of senior unsecured corporate bonds and senior debt is subject to compliance with certain covenants: leverage ratio and interest coverage ratio. At 31 December 2012 the Group complies with these financial covenants.

In addition, the Company and Grifols Inc. have pledged their assets as collateral, and the shares of certain group companies have been pledged, to guarantee repayment of the senior debt.

Grifols will not be able to distribute dividends while the leverage ratio (net financial debt/adjusted EBITDA) is higher than 4.5.

Grifols, S.A., Grifols Inc. and other significant Group companies, act as guarantor for the corporate bonds (HYB). Significant Group companies are those companies that contribute 85% of earnings before interest, tax, depreciation and amortisation (EBITDA), 85% of the Group's consolidated assets and 85% of total revenues, and those companies that represent more than 3% of the above mentioned indicators.

The Club Deal and other loans amounting to Euros 297 million were cancelled on 2 June 2011. All deferred costs associated with this cancelled debt were recognised as finance costs in conjunction with the hedge derivative related to the issue of corporate bonds in September 2009. Total expenses incurred for these items amount to Euros 9.4 million.

# GRIFOLS, S.A. AND SUBSIDIARIES

## Notes to the Consolidated Annual Accounts

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

### (a.1.3) Finance lease liabilities

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

	Thousands of Euros			
	31/12/12		31/12/11	
	Current	Non-current	Current	Non-current
Minimum payments	9,119	20,394	9,886	29,925
Interest	(2,114)	(2,802)	(2,784)	(5,308)
Present value	7,005	17,592	7,102	24,617

	Thousands of Euros					
	31/12/12			31/12/11		
	Minimum payments	Interest	Present value	Minimum payments	Interest	Present value
Maturity at:						
Less than one year	9,119	2,114	7,005	9,886	2,784	7,102
Two years	8,492	1,524	6,968	8,921	2,251	6,670
Three years	6,815	838	5,977	8,185	1,573	6,612
Four years	3,250	269	2,981	6,780	929	5,851
Five years	957	120	837	3,614	341	3,273
More than five years	880	51	829	2,425	214	2,211
Total	29,513	4,916	24,597	39,811	8,092	31,719

### (a.1.4) Credit rating

On 9 July 2012 Moody's Investors Service upgraded the credit rating of Grifols to Ba3, the rating of its senior secured debt to Ba2 and the rating of its corporate bond to B2. All the ratings have a positive outlook.

On 1 August 2012 Standard & Poor's upgraded the global credit rating of Grifols from BB- to BB, with its senior secured debt being upgraded from BB to BB+ and its corporate bond being upgraded from B to B+. All the ratings have a stable outlook.

### (a.2) Other non-current financial liabilities

Other non-current financial liabilities mainly include financial derivatives of Euros 93,515 thousand and interest-free loans extended by the Spanish Ministry of Science and Technology.

# GRIFOLS, S.A. AND SUBSIDIARIES

## Notes to the Consolidated Annual Accounts

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

Details of preference loans extended to various Group companies are as follows:

Company	Date awarded	Thousands of Euros				
		Amount awarded	31/12/12		31/12/11	
			Non-current	Current	Non-current	Current
Instituto Grifols S.A	17/01/2003	1,200	-	-	-	165
Instituto Grifols S.A	13/11/2003	2,000	-	279	266	279
Instituto Grifols S.A	17/01/2005	2,680	359	375	702	375
Instituto Grifols S.A	29/12/2005	2,100	537	287	787	287
Instituto Grifols S.A	29/12/2006	1,700	638	234	831	234
Instituto Grifols S.A	27/12/2007	1,700	816	232	994	232
Instituto Grifols S.A	31/12/2008	1,419	871	195	1,026	195
Instituto Grifols S.A	16/01/2009	1,540	956	212	1,217	212
Instituto Grifols S.A	17/01/2011	700	547	-	529	-
Instituto Grifols S.A	29/02/2012	584	382	-	-	-
Instituto Grifols S.A	18/07/2012	2,443	1,644	-	-	-
Laboratorios Grifols, S.A	15/01/2003	220	-	-	-	30
Laboratorios Grifols, S.A	26/09/2003	300	-	41	39	41
Laboratorios Grifols, S.A	22/10/2004	200	27	28	52	28
Laboratorios Grifols, S.A	20/12/2005	180	46	25	67	25
Laboratorios Grifols, S.A	29/12/2006	400	148	54	191	54
Laboratorios Grifols, S.A	27/12/2007	360	149	42	181	42
Laboratorios Grifols, S.A	31/12/2008	600	347	78	409	78
Laboratorios Grifols, S.A	25/04/2012	225	154	-	-	-
Diagnostic Grifols, S.A	27/11/2008	857	124	129	243	129
Diagnostic Grifols, S.A	25/05/2010	203	59	31	88	31
Diagnostic Grifols, S.A	13/06/2011	278	80	42	119	42
Grifols Engineering, S.A.	21/04/2009	524	315	69	372	69
Grifols Engineering, S.A.	21/04/2009	203	122	27	144	27
Grifols Engineering, S.A.	28/01/2010	100	67	13	81	7
Araclón Biotech, S.L.	19/11/2007	691	353	78	-	-
Araclón Biotech, S.L.	28/06/2011	1,978	1,254	194	-	-
		<u>25,385</u>	<u>9,995</u>	<u>2,665</u>	<u>8,338</u>	<u>2,582</u>

During 2012 the implicit borrowing costs taken to profit and loss amount to Euros 604 thousand (Euros 517 thousand in 2011) (see note 28).

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

Maturity at:	Thousands of Euros	
	31/12/12	31/12/11
Two years	54,387	56,396
Three years	29,719	37,116
Four years	14,415	25,869
Five years	4,003	12,446
More than five years	2,307	4,736
	<u>104,831</u>	<u>136,563</u>

# GRIFOLS, S.A. AND SUBSIDIARIES

## Notes to the Consolidated Annual Accounts

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

### (b) Current financial liabilities

Details at 31 December 2012 and 2011 are as follows:

<u>Current financial liabilities</u>	Thousands of Euros	
	31/12/12	31/12/11
Current bonds (b.1.1)	42,968	18,523
Senior unsecured debt	83,659	63,697
Other loans	55,703	58,467
Finance lease liabilities (a.1.3)	7,005	7,102
Loans and borrowings (b.1.2)	146,367	129,266
<b>Loans and borrowings, bonds and other marketable securities (b.1)</b>	<b>189,335</b>	<b>147,789</b>
Other current financial liabilities (b.2)	6,243	14,507
	<b>195,578</b>	<b>162,296</b>

Current loans and borrowings include accrued interest amounting to Euros 338 thousand (Euros 424 thousand at 31 December 2011).

### (b.1) Loans and borrowings, bonds and other marketable securities

#### (b.1.1) Bonds

At 31 December 2012 and 2011 this caption includes the issue of bearer promissory notes to Group employees, as follows:

	31/12/11						
	Issue date	Maturity date	Nominal amount per note (Euros)	Interest rate	Promissory notes subscribed (Thousands of Euros)	Buy back (Thousands of Euros)	Interest pending accrual (Thousands of Euros)
Issue of bearer promissory notes	05/05/11	04/05/12	3,000	5.00%	9,990	(30)	(165)

	31/12/12						
	Issue date	Maturity date	Nominal amount per note (Euros)	Interest rate	Promissory notes subscribed (Thousands of Euros)	Buy back (Thousands of Euros)	Interest pending accrual (Thousands of Euros)
Issue of bearer promissory notes	04/05/12	04/05/13	3,000	5.00%	14,703	(156)	(238)



# GRIFOLS, S.A. AND SUBSIDIARIES

## Notes to the Consolidated Annual Accounts

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

### (b.1.2) Current loans and borrowings

Details of current loans and borrowings are as follows:

	Interest rate (*)	Thousands of Euros	
		Drawn down	
		31/12/12	31/12/11
Loans in:	Min – max		
	US LIBOR+ 3.25%-		
US Dollars	3.50% <sup>o</sup>	66,882	42,640
Euros	1.44%-6%	42,632	50,843
Other currencies	2.45%-12%	29,848	28,681
		139,362	122,164
Finance lease payables		7,005	7,102
		146,367	129,266

(\*) *Loans accrue variable interest rates.*

At 31 December 2012 the Group has current unused credit facilities of Euros 346,803 thousand (Euros 426,426 thousand at 31 December 2011).

### (b.2) Other current financial liabilities

At 31 December 2012 and 2011 other current financial liabilities also include approximately Euros 2,631 thousand and Euros 11,146 thousand, respectively, which have been collected directly from Social Security affiliated bodies and transferred to Deutsche Bank, S.A.E. (see note 13).

## (23) Trade and Other Payables

Details are as follows:

	Thousands of Euros	
	31/12/12	31/12/11
Suppliers	228,405	280,722
Other payables	27,357	27,335
Current income tax liabilities	5,679	4,691
	261,441	312,748

### Suppliers

Details of balances with related parties are shown in note 33.

# GRIFOLS, S.A. AND SUBSIDIARIES

## Notes to the Consolidated Annual Accounts

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

Balances with suppliers include the following payables in foreign functional currencies:

Functional currency	Thousands of Euros	
	31/12/12	31/12/11
US Dollar	125,620	167,519
Pound Sterling	411	715
Czech Crown	1,186	815
Chilean Peso	3,902	957
Brazilian Real	508	673
Swiss Franc	577	908
Other currencies	3,169	1,961

The Group's exposure to currency risk and liquidity risk associated with trade and other payables is described in note 32.

Late payments to suppliers in Spain. "Reporting Requirement" Third Additional Provision of Law 15/2010 of 5 July 2010.

	Payments made and payable at the balance sheet date			
	2012		2011	
	Thousands of Euros	%	Thousands of Euros	%
Within maximum legal term	128,423	40%	136,790	47%
Other	195,509	60%	153,027	53%
Total payments for the year	323,932	100%	289,817	100%
Average weighted payment period exceeded (days)	25	-	27	-
Late payments exceeding maximum legal term at balance sheet date (thousands of Euros)	8,728	-	12,135	-

### Other payables

Details are as follows:

	Thousands of Euros	
	31/12/12	31/12/11
Taxation authorities, VAT/Canary Islands Tax	5,518	4,981
Taxation authorities, withholdings	3,798	3,216
Social Security	3,745	3,356
Other public entities	14,296	15,782
Other payables	27,357	27,335

# GRIFOLS, S.A. AND SUBSIDIARIES

## Notes to the Consolidated Annual Accounts

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

### Current tax liabilities

Details are as follows:

	Thousands of Euros	
	31/12/12	31/12/11
Taxation authorities, income tax:		
Current year	2,684	3,521
Prior years	2,995	1,170
<b>Current tax liabilities</b>	<b>5,679</b>	<b>4,691</b>

### (24) Other Current Liabilities

Details at 31 December are as follows:

	Thousands of Euros	
	31/12/12	31/12/11
Salaries payable	75,122	72,037
Other payables	2,917	15,449
<b>Other current liabilities</b>	<b>78,039</b>	<b>87,486</b>

### (25) Revenues

Revenues are mainly generated by the sale of goods.

The distribution of net consolidated revenues for 2012 and 2011 by segment is as follows:

	Thousands of Euros	
	2012	2011
Bioscience	2,325,089	1,531,199
Diagnostic	134,341	117,358
Hospital	95,870	95,365
Raw materials and others	65,644	51,691
	<b>2,620,944</b>	<b>1,795,613</b>

# GRIFOLS, S.A. AND SUBSIDIARIES

## Notes to the Consolidated Annual Accounts

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

The geographical distribution of net consolidated revenues is as follows:

	Thousands of Euros	
	2012	2011
United States + Canada	1,658,548	948,730
Spain	212,983	230,871
European Union	346,345	295,754
Rest of the world	371,618	289,732
Subtotal	2,589,494	1,765,087
Raw materials	31,450	30,526
Consolidated	2,620,944	1,795,613

Details of discounts and other reductions to gross income are as follows:

	Thousands of Euros	
	31/12/12	31/12/11
Gross sales	2,741,405	1,901,171
Chargebacks	(34,102)	(38,248)
Cash discounts	(27,447)	(16,135)
Volume rebates	(29,391)	(25,079)
Medicare and Medicaid	(16,332)	(9,945)
Other discounts	(13,189)	(16,151)
Net sales	2,620,944	1,795,613

Movement in discounts and other reductions to gross income during 2011 were as follows:

	Thousands of Euros					
	Chargebacks	Cash discounts	Volume rebates	Medicare	Other discounts	Total
<b>Balance at 31 December 2010</b>	-	1,150	3,229	2,957	833	8,169
Business combinations	2,466	1,199	7,506	6,352	-	17,523
Current estimate related to sales made in current and prior period	38,248	16,135	25,079	9,945	16,151	105,558 (1)
(Actual returns or credits in current period related to sales made in current period)	(35,145)	(16,698)	(16,561)	(5,336)	(15,472)	(89,212) (2)
(Actual returns or credits in current period related to sales made in prior periods)	(2,032)	-	(10,822)	(5,210)	(833)	(18,897) (3)
<b>Balance at 31 December 2011</b>	<b>3,537</b>	<b>1,786</b>	<b>8,431</b>	<b>8,708</b>	<b>679</b>	<b>23,141</b>

# GRIFOLS, S.A. AND SUBSIDIARIES

## Notes to the Consolidated Annual Accounts

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

Movement in discounts and other reductions to gross income during 2012 were as follows:

	Thousands of Euros					Total
	Chargebacks	Cash discounts	Volume rebates	Medicare	Other discounts	
<b>Balance at 31 December 2011</b>	3,537	1,786	8,431	8,708	679	23,141
Current estimate related to sales made in current and prior period	34,102	27,447	29,391	16,332	13,189	120,461 (1)
Actual returns or credits in current period related to sales made in current period	(27,655)	(25,277)	(20,345)	(10,212)	(13,189)	(96,678) (2)
(Actual returns or credits in current period related to sales made in prior periods)	(3,663)	(1,645)	(9,841)	(8,495)	(679)	(24,323) (3)
Translation differences	(15)	(191)	2,683	451	(30)	2,898
<b>Balance at 31 December 2012</b>	<b>6,306</b>	<b>2,120</b>	<b>10,319</b>	<b>6,784</b>	<b>(30)</b>	<b>25,499</b>

- (1) Net impact on income statement: estimate for the current year plus prior years' adjustments. Adjustments made during the year corresponding to prior years' estimates have not been significant.
- (2) Amounts recognised against provisions for the year.
- (3) Amounts recognised against prior years' provisions.

Net consolidated revenues include net sales made in the following foreign functional currencies:

Functional currency	Thousands of Euros	
	2012	2011
US Dollar	1,874,044	1,097,667
Pound Sterling	39,599	35,653
Chilean Peso	34,950	26,328
Mexican Peso	28,256	24,992
Brazilian Real	22,089	21,241
Australian Dollar	7,565	28,654
Czech Crown	11,593	13,191
Argentinean Peso	17,731	13,981
Polish Zloty	11,382	13,099
Other currency	36,063	21,273

### (26) Personnel Expenses

Details of personnel expenses by function are as follows:

	Thousands of Euros	
	2012	2011
Cost of sales	410,382	310,550
Research and development	59,925	38,626
Selling, general & administrative expenses	193,631	139,465
	<b>663,938</b>	<b>488,641</b>

# GRIFOLS, S.A. AND SUBSIDIARIES

## Notes to the Consolidated Annual Accounts

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

Details by nature are as follows:

	Thousands of Euros	
	2012	2011
Wages and salaries	534,554	394,714
Contributions to pension plans (note 31)	10,637	8,785
Other social charges	13,803	10,202
Social Security	104,944	74,940
	<u>663,938</u>	<u>488,641</u>

The average headcount during 2012 and 2011, by department, was approximately as follows:

	Average headcount	
	2012	2011
Manufacturing	8,571	7,403
Research & development – technical area	693	315
Administration and others	777	562
General management	147	104
Marketing	133	106
Sales and distribution	787	609
	<u>11,108</u>	<u>9,099</u>

The headcount of the Group and the Company's board of directors at 31 December 2011, by gender, is as follows:

	Number at 31/12/11		Total number of employees
	Male	Female	
Directors	10	1	11
Manufacturing	3,966	4,772	8,738
Research & development – technical area	310	379	689
Administration and others	373	396	769
General management	81	67	148
Marketing	56	82	138
Sales and distribution	440	326	766
	<u>5,236</u>	<u>6,023</u>	<u>11,259</u>

# GRIFOLS, S.A. AND SUBSIDIARIES

## Notes to the Consolidated Annual Accounts

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

The headcount of the Group and the Company's board of directors at 31 December 2012, by gender, is as follows:

	Number at 31/12/12		Total number of employees
	Male	Female	
Directors	10	1	11
Manufacturing	3,991	4,801	8,792
Research & development – technical area	280	388	668
Administration and others	451	410	861
General management	76	80	156
Marketing	70	66	136
Sales and distribution	469	325	794
	<u>5,347</u>	<u>6,071</u>	<u>11,418</u>

### (27) Expenses by Nature

#### a) Amortisation and depreciation

Expenses for the amortisation and depreciation of intangible assets and property, plant and equipment, incurred during 2012 and 2011 classified by functions are as follows:

	Thousands of Euros	
	2012	2011
Cost of sales	66,200	49,297
Research and development	9,693	9,669
Selling, general & administrative expenses	<u>53,233</u>	<u>31,673</u>
	<u>129,126</u>	<u>90,639</u>

#### b) Other operating income and expenses

Other operating expenses and income incurred during 2012 and 2011 by function are as follows:

	Thousands of Euros	
	2012	2011
Cost of sales	210,817	186,665
Research and development	54,673	41,273
Selling, general & administrative expenses	<u>308,738</u>	<u>242,733</u>
	<u>574,228</u>	<u>470,671</u>

# GRIFOLS, S.A. AND SUBSIDIARIES

## Notes to the Consolidated Annual Accounts

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

Details by nature are as follows:

	Thousands of Euros	
	2012	2011
Change in trade provisions	9,135	3,809
Professional services	99,641	132,630
Commission	19,780	14,035
Supplies and auxiliary materials	80,461	70,282
Operating leases (nota 30a)	67,991	36,132
Freight	52,280	35,283
Repair and maintenance expenses	50,256	33,128
Advertising	43,429	40,236
Insurance	16,745	15,424
Royalties	5,824	6,163
Travel expenses	27,353	21,656
External services	49,222	20,487
Other	52,111	41,406
<b>Other operating expenses</b>	<b>574,228</b>	<b>470,671</b>

During 2011 costs of Euros 44.3 million arose from the acquisition of Talecris.

### (28) Finance Result

Details are as follows:

	Thousands of Euros	
	2012	2011
Finance income	1,677	5,761
Finance costs from senior unsecured corporate bonds (note 22)	(96,711)	(48,759)
Finance costs from senior debt -tranche A (note 22)	(58,731)	(50,561)
Finance costs from senior debt -tranche B (note 22)	(103,687)	(57,692)
Club Deal	-	(1,473)
Finance costs from sale of receivables (note 13)	(7,406)	(6,185)
Finance costs on corporate bonds in USA (USPP)	-	(20,847)
Implicit interest on preference loans (note 22 a.2)	(604)	(517)
Capitalised interest	7,344	7,612
Other finance costs	(24,322)	(22,140)
Finance costs	(284,117)	(200,562)
Change in fair value of financial derivatives (note 32)	13,013	1,279
Impairment and profit/(losses) on disposal of financial instruments	2,107	(805)
Exchange differences	(3,409)	(3,447)
Finance income and costs	(270,729)	(197,774)

During 2012 the Group has capitalised interest at a rate of between 4.7% and 6.5% based on the financing received (between 2.9% and 7.1% during 2011) (see note 4 (f)).



# GRIFOLS, S.A. AND SUBSIDIARIES

## Notes to the Consolidated Annual Accounts

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

### (29) Taxation

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., Grifols Engineering, S.A., Arrahona Optimus, S.L. and Gri-Cel, S.A. Grifols, S.A., in its capacity as Parent, is responsible for the presentation and payment of the consolidated tax return. Under prevailing tax law, the Spanish companies pay 30% tax, which may be reduced by certain deductions.

The North American company Grifols Inc. is also authorised to present consolidated tax returns in the USA with Grifols Biologicals Inc., Grifols USA, LLC., Biomat USA, Inc., Plasmacare, Inc, Grifols Therapeutics Inc, Talecris Plasma Resources, Inc. and Talecris Biotherapeutics Overseas Services. The profits of the companies domiciled in the USA, determined in accordance with prevailing tax legislation, are subject to tax of approximately 37.5% of taxable income, which may be reduced by certain credits.

#### a) Reconciliation of accounting and taxable income

Details of the income tax expense and income tax related to profit for the year are as follows:

	Thousands of Euros	
	2012	2011
Profit for the year before income tax	387,948	80,023
Tax at 30%	116,384	24,007
Permanent differences	3,965	11,111
Effect of different tax rates in US companies	24,291	6,665
Effect of different tax rates	3,172	(638)
Tax credits	(16,632)	(15,695)
Prior year income tax expense	(1,677)	(613)
Other income tax expenses/(income)	3,068	4,958
<b>Total income tax expense</b>	<b>132,571</b>	<b>29,795</b>
Deferred tax	97,018	(13,509)
Current tax	35,553	43,304
<b>Total income tax</b>	<b>132,571</b>	<b>29,795</b>

# GRIFOLS, S.A. AND SUBSIDIARIES

## Notes to the Consolidated Annual Accounts

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

### b) Deferred tax assets and liabilities

Details of deferred tax assets and liabilities are as follows:

	Thousands of Euros	
	Tax effect	
	31/12/12	31/12/11
		(*)
<b>Assets</b>		
Unrealised margin on inventories	19,993	14,704
Fixed assets and amortisation and depreciation	1,615	1,482
Inventories	878	800
Other provisions	1,416	977
Others	815	143
	<u>24,717</u>	<u>18,106</u>
<b>Liabilities</b>		
Goodwill	(38,809)	(35,611)
Revaluation of fixed assets	(11,258)	(11,501)
Fixed assets and amortisation and depreciation	(50,934)	(55,058)
Finance leases	(1,739)	(2,140)
Provision for investments	(2,798)	(558)
Fair value of fixed assets	(56,788)	(63,860)
Fair value of intangible assets	(324,787)	(342,842)
Debt cancellation costs	(72,584)	(27,826)
Others	-	(2,585)
	<u>(559,697)</u>	<u>(541,981)</u>
Total deferred tax liability	(559,697)	(541,981)
Tax credits (deductions from Spain)	8,980	11,940
Tax credits (deductions from USA)	4,505	22,775
Tax loss carryforwards in USA	7,886	18,797
Inventories	20,380	37,591
Cash flow hedging	20,188	13,658
Other provisions	18,607	21,248
Provisions for litigation	-	14,679
Derivatives	5,019	2,808
Fair value of provisions	15,144	15,442
Fair value of inventories	804	12,320
Others	4,338	-
	<u>105,851</u>	<u>171,258</u>
Deferred tax asset offset	105,851	171,258
	<u>(453,846)</u>	<u>(370,723)</u>
Net deferred tax liability	(453,846)	(370,723)
* See note 2 (a)		

# GRIFOLS, S.A. AND SUBSIDIARIES

## Notes to the Consolidated Annual Accounts

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

Movement in deferred tax assets and liabilities is as follows:

<b>Deferred tax assets and liabilities</b>	Thousands of Euros	
	2012	2011
Balance at 1 January	(352,617)	(44,252)
Movements during the year	(97,018)	13,509
Movements in equity during the year	9,184	12,687
Business combinations (note 3)	1,383	(302,636)
Translation differences	9,939	(31,925)
<b>Balance at 31 December</b>	<b>(429,129)</b>	<b>(352,617)</b>

The Spanish companies have opted to apply accelerated depreciation to certain additions to property, plant and equipment, which has resulted in the corresponding deferred tax liability.

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

	Thousands of Euros	
	Tax effect	
	31/12/12	31/12/11
Cash flow hedges (note 17 (g))	(9,184)	(12,687)

The remaining assets and liabilities recognised in 2012 were recognised on the income statement.

Estimated net deferred tax liabilities to be reversed in a period of less than 12 months amount to Euros 45,224 thousand at 31 December 2012.

The majority of the tax deductions pending application from other Spanish companies, relating mainly to research and development, mature in 15 years, whilst most tax deductions pending application from US companies mature in 20 years.

At 31 December 2012 the Group has recognised an amount of Euros 8,980 thousand from Spanish companies (Euros 11,940 thousand at 31 December 2011) and Euros 4,505 thousand from US companies (Euros 22,775 thousand at 31 December 2011) in respect of tax credits derived from deductions pending application, on considering their future recovery to be probable.

At 31 December 2012 the tax Group in Spain has future tax deductions of Euros 22,837 thousand (Euros 23,261 thousand at 31 December 2011) pending application as a result of goodwill generated on the acquisition of Biomat USA, Inc. This amount will be deducted annually from the taxable profits until 2025. The yearly amount that has been applied in 2012 at the tax rate of 30% has been Euros 424 thousand (Euros 424 thousand in 2011). The Group has recognised a deferred tax liability of Euros 15,696 thousand for the deductions applied for this item at 31 December 2012 (Euros 15,272 thousand at 31 December 2011).

At 31 December 2012 the tax Group in Spain has future tax deductions of Euros 9,471 thousand (Euros 9,599 thousand at 31 December 2011) pending application as a result of goodwill generated on the acquisition of Plasmacare, Inc. This amount will be deducted annually from the taxable profits until 2029. The yearly amount that has been applied in 2012 at the tax rate of 30% has been Euros 128 thousand (Euros 128 thousand in 2011). The Group has recognised a deferred tax liability of Euros 3,356 thousand for the deductions applied for this item at 31 December 2012 (Euros 3,228 thousand at 31 December 2011).

At 31 December 2012 the Group has recognised tax loss carryforwards generated in 2011 of Euros 7,886 thousand (Euros 18,797 thousand at 31 December 2011). These tax credits derive from the US companies and are available for 20 years from their date of origin.

# GRIFOLS, S.A. AND SUBSIDIARIES

## Notes to the Consolidated Annual Accounts

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

The Group has not recognised as deferred tax assets the tax effect of the tax loss carryforwards of Group companies, which amount to Euros 12,456 thousand (Euros 3,134 thousand at 31 December 2011)The rise for 2012 is mainly due to the Euros 7,233 thousand losses from Araclón.

### c) Years open to inspection

Under prevailing legislation, taxes cannot be considered to be definitively settled until the returns filed have been inspected by the taxation authorities, or the prescription period has elapsed.

The Group has the following tax inspections underway:

- Logística Grifols, S.A. de CV: Tax report on the financial statements for 2005 and 2006.
- Grifols Inc. and subsidiaries: notification of an inspection of federal income tax for the year ended 1 June 2011.
- Talecris Biotherapeutics Holdings Corp and subsidiaries: notification of an inspection of California franchise tax for 2009 and 2010.
- Talecris Plasma Resources, Inc.: notification of an inspection of Indiana income tax for 2009 to 2011.

Group management does not expect any significant liability to derive from these inspections.

No significant liabilities have arisen from completion of the tax inspection in 2012 of North Carolina income and franchise tax for 2006 to 2008 in Talecris Plasma Resources, Inc and Grifols Therapeutics Inc.

No significant liabilities have arisen from completion of the tax inspection in 2012 on tax on circulation of goods and services (ICMS) for 2006 to 2010 in Grifols Brasil, Lda.

## (30) Operating Leases

### (a) Operating leases (as lessee)

At 31 December 2012 and 2011 the Group leases buildings from third parties under operating leases.

In addition to the lease contracts described in note 9 g (i), 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 67,991 thousand have been recognised as an expense for the year at 31 December 2012 (Euros 36,095 thousand at 31 December 2011) and comprise minimum lease payments.

Future minimum payments on non-cancellable operating leases at 31 December 2012 and 2011 are as follows:

	Thousands of Euros	
	31/12/12	31/12/11
Maturity:		
Up to 1 year	54,080	53,054
Between 1 and 5 years	171,315	180,802
More than 5 years	67,864	72,744
Total future minimum payments	293,259	306,600

# GRIFOLS, S.A. AND SUBSIDIARIES

## Notes to the Consolidated Annual Accounts

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

### (b) Operating leases (as lessor)

The contract under which the Group leased a building to third parties expired on 31 March 2011, and consequently the Group has no minimum lease payments receivable at 31 December 2012 and 2011.

## (31) Other Commitments with Third Parties and Other Contingent Liabilities

### (a) Guarantees

The Group has not extended any security or bank guarantees to third parties.

### (b) Guarantees to third parties

The Group has no significant guarantees extended to third parties.

### (c) Obligations with personnel

The Group's annual contribution to defined contribution pension plans of Spanish Group companies for 2012 has amounted to Euros 558 thousand (Euros 522 thousand for 2011).

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

The Group has agreements with 93 employees/directors whereby they can unilaterally rescind their employment contracts with the Company and are entitled to termination benefits ranging from 2 to 5 years salary in the event that control is taken of the Company.

The Group has contracts with five directors entitling them to termination benefits ranging from one to two years of their salary due to various circumstances.

### Savings plan and profit-sharing plan

The Group has a defined contribution plan (savings plan), which qualifies as a deferred salary arrangement under Section 401 (k) of the Internal Revenue Code (IRC). Once eligible, employees may elect to contribute a portion of their salaries to the savings plan, subject to certain limitations. The Group matches 100% of the first 3% of employee contributions and 50% of the next 2%. Group and employee contributions are fully vested when contributed. The plan assets are held in trust and invested as directed by the plan participants. The total cost of matching contributions to the savings plan was US Dollars 11.3 million for 2012 (US Dollars 8.1 million for 2011). The recognition of the cost of these contributions is consistent with each participant's salary.

The cost of the Group's profit-sharing portion of the savings plan was US Dollars 2.4 million for the seven-month period ended 31 December 2011 and was recognised in line with each participant's salary. This plan was terminated at 31 December 2011 and the final payout took place in March 2012. At 31 December 2012 the Group has not recognised the cost of the profit-sharing portion in the savings plan.

### Supplemental savings plan

At 31 December 2011 the Group recognised non-current provisions of US Dollars 3.9 million in the consolidated balance sheet in relation to a supplemental savings plan. This plan was an unfunded non-qualified deferred compensation plan in which employees at certain executive levels were eligible to defer pre-tax earnings and make additional contributions subject to certain limitations. The contributions matched by the Group were similar to those made in the savings plan and were fully vested when contributed. The contributions matched for 2011 were not significant. As from 31 December 2011, no further contributions to this plan were permitted.

# GRIFOLS, S.A. AND SUBSIDIARIES

## Notes to the Consolidated Annual Accounts

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

### Other plans

The Group has a defined benefit pension plan for certain Talecris Biotherapeutics, GmbH employees in Germany as required by statutory law. The pension cost relating to this plan was not material for the periods presented.

### (d) Purchase commitments

Details of the Group's commitments mainly to purchase plasma at 31 December 2012 are as follows:

	Thousand of Euros
2013	67,836
2014	77,447
2015	76,080
2016	70,923
2017	39,698

### (e) Judicial procedures and arbitration

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

#### Instituto Grifols, S.A.

- The Company was notified in 2007 of a claim for maximum damages of Euros 12,960 thousand filed by a group of 100 Catalan haemophiliacs against all plasma fractionation companies. During 2008 this claim was rejected, and the ruling appealed. Notification was published on 21 January 2011 that on 18 January 2011 the Barcelona Provincial Court had rejected the haemophiliacs' claim. A new claim was filed by the counterparty in the Catalan High Court, which was rejected. The Group is currently awaiting the ruling on the appeal filed again by the group of haemophiliacs at the Spanish Supreme Court.

#### Grifols Biologicals Inc.

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

On 15 March 2012 the United States District Court in Los Angeles enacted an order signed on 12 March 2012, dismissing the Consent Decree on the Los Angeles fractionation plant. The Consent Decree was originally imposed on the plant in 1998 while under the ownership of Alpha Therapeutic Corporation.

#### Grifols Therapeutics Inc.

- **Foreign Corrupt Practices Act (FCPA)**

The Group is carrying out an internal investigation, already started prior to the acquisition, in relation to possible breaches of the Foreign Corrupt Practices Act (FCPA) of which Talecris was aware in the context of a review unrelated to this matter. This FCPA investigation is being carried out by an external legal advisor. In principle, the investigation has been focused on sales to certain Central and Eastern European countries, specifically Belarus, Russia and Iran, although trading practices in Brazil, China, Georgia and Turkey are also being investigated, in addition to other countries considered necessary.

In July 2009, the Talecris Group voluntarily contacted the U.S. Department of Justice (DOJ) to inform them of an internal investigation that the Group was carrying out regarding possible breaches of the FCPA in certain sales to certain central and East European countries and to offer the Group's collaboration in any investigation that the DOJ wanted to carry out. As a result of this investigation the Group suspended shipments to some of these countries. In certain cases, the Group had safeguards in place which led to terminating collaboration with consultants and suspending or terminating relations with distributors in those countries under investigation as circumstances warranted.

# GRIFOLS, S.A. AND SUBSIDIARIES

## Notes to the Consolidated Annual Accounts

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

As a consequence of the investigation, the agreement with Talecris' Turkish distributor was terminated and is currently subject to arbitration between the parties. It is not expected that any liabilities will arise for the Grifols Group from the outcome of this arbitration.

In November 2012, the Group was notified by the DOJ that the proceedings would be closed, without prejudice to the fact that they could be re-opened in the future should new information arise. The Group continues with the in-depth review of potential irregular practices. The review is expected to be concluded in 2013.

The legal advisors recommend limiting disclosure of the aforementioned information in these consolidated annual accounts, as they consider that disclosure of additional information could seriously jeopardise the Group's interests.

- **Plasma Centers of America, LLC y G&M Crandall Limited Family Partnership**

On 13 December 2010, a jury in the state court case rendered a verdict in the amount of US Dollar 37 million in favour of Plasma Centers of America, LLC (PCA) against Talecris Plasma Resources Inc. (TPR) in a breach of contract claim, which was confirmed by the court in post trial motions. The Talecris management filed an appeal to the North Carolina Court of Appeals to review the judgement entered in this case.

At 31 December 2011, the current provisions in the consolidated balance sheet related to the PCA judgment amounted to US Dollars 46.6 million (Euros 36 million).

During the third quarter of 2012, this litigation was finalised and the Group has paid a total amount of US Dollars 45 million (Euros 36.8 million) related to PCA litigation. As a result of the reversal of the provision made prior to payment, the Group has recognised income of US Dollars 3.2 million (Euros 2.6 million) included under selling, general and administration expenses for 2012.

### (32) Financial Instruments

#### Classification

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

	Thousands of Euros		
	31/12/11		
	Loans and receivables	Financial instruments held for trading	Debts and payables
Non-current financial assets	9,310	-	-
Other current financial assets	13,285	-	-
Financial derivatives	-	(121,165)	-
Trade and other receivables	506,621	-	-
Bank loans	-	-	(2,170,249)
Other financial liabilities	-	-	(23,195)
Bonds and other securities	-	-	(755,046)
Finance lease liabilities	-	-	(31,719)
Trade and other payables	-	-	(280,722)
Debts with associates	-	-	(2,435)
Other current liabilities	-	-	(15,449)
	529,216	(121,165)	(3,278,815)

# GRIFOLS, S.A. AND SUBSIDIARIES

## Notes to the Consolidated Annual Accounts

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

	Thousands of Euros		
	31/12/12		
	Loans and receivables	Financial instruments held for trading	Debts and payables
Non-current financial assets	12,024	-	-
Other current financial assets	460	-	-
Financial derivatives	-	(89,013)	-
Trade and other receivables	392,288	-	-
Bank loans	-	-	(1,980,150)
Other financial liabilities	-	-	(17,559)
Bonds and other securities	-	-	(770,576)
Finance lease liabilities	-	-	(24,597)
Trade and other payables	-	-	(228,405)
Debts with associates	-	-	(2,668)
Other current liabilities	-	-	(2,917)
	<b>404,772</b>	<b>(89,013)</b>	<b>(3,026,872)</b>

### Net losses and gains by financial instrument category

Details are as follows:

#### Financial assets

	Thousands of Euros			
	2011			
	Assets at fair value through profit or loss	Loans and receivables	Hedging derivatives	Total
Finance income at amortised cost	-	5,761	-	5,761
Change in fair value	13,211	-	-	13,211
Net gains/(losses) in profit and loss	<b>13,211</b>	<b>5,761</b>	<b>-</b>	<b>18,972</b>
Change in fair value	-	-	33,871	33,871
Net gains/(losses) in equity	-	-	33,871	33,871
<b>Total</b>	<b>13,211</b>	<b>5,761</b>	<b>33,871</b>	<b>52,843</b>



# GRIFOLS, S.A. AND SUBSIDIARIES

## Notes to the Consolidated Annual Accounts

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

	Thousands of Euros			
	2012			
	Assets at fair value through profit or loss	Loans and receivables	Hedging derivatives	Total
Finance income at amortised cost	-	1,677	-	1,677
Change in fair value	-	-	-	-
Gains on disposal	27,918	-	-	27,918
Impairment losses	-	(11,639)	-	(11,639)
Net gains/(losses) in profit and loss	27,918	(9,962)	-	17,956
Change in fair value	-	-	18,840	18,840
Net gains/(losses) in equity	-	-	18,840	18,840
<b>Total</b>	27,918	(9,962)	18,840	36,796

### Financial Liabilities

	Thousands of Euros			
	2011			
	Liabilities at fair value through profit or loss	Debts and payables	Hedging derivatives	Total
Finance costs at amortised cost	-	(200,562)	-	(200,562)
Change in fair value	(11,932)	-	-	(11,932)
Reclassification of equity to profit or loss	-	-	(2,870)	(2,870)
Net gains/(losses) in profit and loss	(11,932)	(200,562)	(2,870)	(215,364)
<b>Total</b>	(11,932)	(200,562)	(2,870)	(215,364)

	Thousands of Euros			
	2012			
	Liabilities at fair value through profit or loss	Debts and payables	Hedging derivatives	Total
Finance costs at amortised cost	-	(272,479)	-	(272,479)
Change in fair value	(14,905)	-	-	(14,905)
Net gains/(losses) in profit and loss	(14,905)	(272,479)	-	(287,384)
<b>Total</b>	(14,905)	(272,479)	-	(287,384)

# GRIFOLS, S.A. AND SUBSIDIARIES

## Notes to the Consolidated Annual Accounts

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

### Fair value

The fair value of High-Yield Senior Unsecured corporate bonds amounts to US Dollars 1,211 million (Euros 918 million) at 31 December 2012 (US Dollars 1,155 million and Euros 893 million at 31 December 2011).

Furthermore, Tranche A and B senior debt amounts to US Dollars 2,810 million (Euros 2,130 million) at 31 December 2012 (US Dollars 3,070 million and Euros 2,373 million at 31 December 2011). The valuation has been made based on observable market data.

The fair value of senior unsecured corporate bonds and tranche A and B senior debt amounts to Euros 3,048 million at 31 December 2012 (Euros 3,266 million at 31 December 2011). The valuation has been made on the basis of observable market data.

Financial derivatives have also been valued based on observable market data (level 2 of fair value hierarchy).

The fair value of financial assets and the remaining financial liabilities does not differ significantly from their carrying amount.

### Financial derivatives

At 31 December 2012 and 2011 the Group has recognised the following derivatives:

Derivatives	Currency	Notional amount at 31/12/2012	Notional amount at 31/12/2011	Thousands of Euros		Maturity
				Value at 31/12/12	Value at 31/12/11	
Interest rate swap (cash flow hedges)	USD	1,398,875,000	1,522,685,000	(50,900)	(34,999)	30/06/2016
Interest rate swap (cash flow hedges)	EUR	100,000,000	100,000,000	(5,704)	(2,762)	31/03/2016
Swap option	EUR	100,000,000	100,000,000	8	(135)	31/03/2016
Swap floor	USD	1,398,875,000	1,522,685,000	4,494	(801)	30/06/2016
Embedded floor of senior debt	EUR	198,000,000	438,900,000	(5,965)	(13,365)	01/06/2017
Embedded floor of senior debt	USD	1,678,000,000	2,493,500,000	(30,946)	(75,813)	01/06/2017
Unquoted future	N/A	-	1,000,000	-	1,389	28/09/2012
Unquoted future	N/A	-	2,200,000	-	2,230	28/09/2012
Call option (note 9 (g)(ii))	N/A	N/A	N/A	-	3,091	miscellaneous
<b>Total</b>				<b>(89,013)</b>	<b>(121,165)</b>	
Total Assets (notes 11 & 14)				4,502	6,710	
Total Liabilities (note 22)				(93,515)	(127,875)	

#### a) Derivative financial instruments at fair value through profit or loss

Derivative financial instruments that do not meet the hedge accounting requirements are classified and measured as financial assets or financial liabilities at fair value through profit and loss.

The floor included in the syndicated financing of Tranches A and B of the senior debt is in the money and an embedded derivative exists on these contracts, which was measured at fair value and recognised separately from the loans. As a result of the refinancing entered into on 29 February 2012 the embedded derivatives have been amended and improved. The embedded derivative included in Tranche A has been eliminated, whilst the embedded derivative included in Tranche B has decreased from 1.75% to 1%. Consequently, the nominal amounts of the embedded floors of the senior debt have been significantly reduced in Euros and US Dollars. The decrease in the value of embedded derivatives amounted to US Dollars 71.6 million (Euros 53.5 million) and Euros 12.2 million at 29 February 2012, which has reduced the refinanced senior debt.

# GRIFOLS, S.A. AND SUBSIDIARIES

## Notes to the Consolidated Annual Accounts

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

Futures contracts matured on 29 June 2012. On 29 June 2012 it was agreed to extend the futures contract to 28 September 2012, through a novation without liquidation under the same terms and conditions. During 2012 the Group has sold unquoted futures, obtaining cash income of Euros 31.5 million and finance income of Euros 27,9 million.

### b) Hedging derivative financial instruments

See explanation in note 17 (g).

In June 2011, the Group contracted two derivatives in order to comply with the compulsory hedging requirements stipulated in the credit agreement. These derivatives comprise a step-up interest rate swap and a floor swap, which had an initial nominal amount of US Dollars 1,550 million each. Hedging instruments, both the interest rate swap and the floor are amortised on quarterly basis in order to remain less than the amounts borrowed and avoid excess hedging. In December 2012 the nominal amount of the derivatives stands at US Dollars 1,399 million each (Euros 1,523 million at 31 December 2011). The interest rate swap complies with hedge accounting criteria.

Furthermore, in May 2012 the interest rate swap in Euros has been modified, reducing the fixed interest rate and extending the maturity date from September 2014 to March 2016. The modified interest rate swap complies with hedge accounting criteria.

### Credit risk

#### (a) Exposure to credit risk

The carrying amount of financial assets represents the maximum exposure to credit risk. At 31 December 2012 and 2011 the maximum level of exposure to credit risk is as follows:

Carrying amount	Note	Thousands of Euros	
		31/12/12	31/12/11
Non-current financial assets	11	12,024	9,310
Non-current financial derivatives	11	4,502	3,091
Other current financial assets	14	460	13,285
Current financial derivatives	14	-	3,619
Trade receivables	13	366,022	408,263
Other receivables	13	26,266	98,358
Cash and cash equivalents	16	473,327	340,586
		<u>882,601</u>	<u>876,512</u>

The maximum level of exposure to risk associated with receivables at 31 December 2012 and 2011, by geographical area, is as follows.

Carrying amount	Thousands of Euros	
	31/12/12	31/12/11
Domestic	104,676	158,382
EU countries	66,238	54,507
United States of America	139,073	189,688
Other European countries	4,427	28,496
Other regions	77,874	75,548
	<u>392,288</u>	<u>506,621</u>

# GRIFOLS, S.A. AND SUBSIDIARIES

## Notes to the Consolidated Annual Accounts

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

Details of balances receivable as per country such as Greece, Italy, Spain and Portugal at 31 December 2011 are as follows:

	Thousands of Euros						
	Balances with public entities			Balances with third parties			Net debt (1)+(2)+(3) +(4)
	Balance (1)	Balance past due	Provision for doubtful receivables (2)	Balance (3)	Balance past due	Provision for doubtful receivables (4)	
Greece							
Italy	10,750	4,947	-	17,156	6,715	(1,444)	26,462
Spain	118,361	89,394	-	12,199	6,352	(799)	129,761
Portugal	23,884	17,351	-	2,852	1,321	(875)	25,861
	<u>153,378</u>	<u>111,772</u>	<u>-</u>	<u>33,880</u>	<u>14,388</u>	<u>(3,118)</u>	<u>184,140</u>

Details of balances receivable as per country such as Greece, Italy, Spain and Portugal at 31 December 2012 are as follows:

	Thousands of Euros						
	Balances with public entities			Balances with third parties			Net debt (1)+(2)+(3) +(4)
	Balance (1)	Balance past due	Provision for doubtful receivables (2)	Balance (3)	Balance past due	Provision for doubtful receivables (4)	
Greece							
Italy	8,693	4,667	(557)	16,167	7,386	(1,193)	23,110
Spain	82,599	48,601	(175)	13,651	11,632	(172)	95,903
Portugal	21,028	15,615	(4,081)	629	520	(210)	17,366
	<u>112,637</u>	<u>69,156</u>	<u>(5,130)</u>	<u>32,473</u>	<u>19,737</u>	<u>(1,575)</u>	<u>138,405</u>

Provision has been made for balances receivable from Portuguese public entities on the basis of the best estimate of their expected collection in view of the current situation regarding negotiations. The Group does not currently have any reason to consider that the receivables from public entities in Italy and Spain will not be recoverable.

### (b) Impairment losses

Details of the maturity of trade receivables, net of impairment provisions are as follows:

	Thousands of Euros	
	31/12/12	31/12/11
Not matured	282,803	324,703
Less than 1 month	34,103	43,297
1 to 4 months	34,732	52,925
4 months to 1 year	29,246	50,345
More than a year	11,404	35,351
	<u>392,288</u>	<u>506,621</u>

Unimpaired receivables that are past due mainly relate to public entities.

# GRIFOLS, S.A. AND SUBSIDIARIES

## Notes to the Consolidated Annual Accounts

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

Movement in the provision for bad debts was as follows:

	Thousands of Euros	
	31/12/12	31/12/11
Opening balance	8,871	3,777
Business combination	-	2,251
Net provisions for the year	5,248	2,974
Net cancellations for the year	(1,248)	(323)
Translation differences	(72)	192
Closing balance	12,799	8,871

An analysis of the concentration of credit risk is provided in note 5 (a).

# GRIFOLS, S.A. AND SUBSIDIARIES

## Notes to the Consolidated Annual Accounts

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

### Liquidity risk

The management of the liquidity risk is explained in note 5.

Details of the contractual maturity dates of financial liabilities including committed interest calculated using interest rate forward curves are as follows:

		Thousands of Euros						
Carrying amount	Note	Carrying amount at 31/12/11	Contractual flows	6 months or less	6 - 12 months	1-2 years	2- 5 years	More than 5 years
<b>Financial liabilities</b>								
Bank loans	22	2,170,249	3,047,607	147,130	169,859	268,707	1,263,007	1,198,904
Other financial liabilities	22	23,195	27,458	13,904	2,725	3,112	5,591	2,126
Bonds and other securities	22	755,046	1,345,656	74,593	35,077	70,153	210,460	955,373
Finance lease liabilities	22	31,719	35,837	3,917	3,937	8,281	17,481	2,221
Debts with associates	33	2,435	2,435	2,435	-	-	-	-
Suppliers	23	280,722	280,722	280,711	11	-	-	-
Other current liabilities	24	15,449	15,449	5,026	10,423	-	-	-
Derivative financial liabilities	22	90,114	86,360	10,036	9,789	20,992	42,344	3,199
Hedging derivative financial liabilities	22	37,761	41,110	1,079	3,556	9,496	26,979	-
<b>Total</b>		<b>3,406,690</b>	<b>4,882,634</b>	<b>538,831</b>	<b>235,377</b>	<b>380,741</b>	<b>1,565,862</b>	<b>2,161,823</b>

		Thousands of Euros						
Carrying amount	Note	Carrying amount at 31/12/12	Contractual flows	6 months or less	6 - 12 months	1-2 years	2- 5 years	More than 5 years
<b>Financial liabilities</b>								
Bank loans	22	1,980,150	2,509,660	135,776	99,268	209,243	2,054,190	11,183
Other financial liabilities	22	17,559	19,636	4,496	1,824	3,508	6,699	3,109
Bonds and other securities	22	770,576	1,226,319	48,700	34,391	68,781	206,344	868,103
Finance lease liabilities	22	24,597	24,597	3,689	3,316	6,968	9,795	829
Debts with associates	33	2,668	2,668	2,668	-	-	-	-
Suppliers	23	228,405	228,405	228,286	119	-	-	-
Other current liabilities	24	2,917	2,917	2,843	74	-	-	-
Derivative financial liabilities	22	36,911	31,412	3,890	3,994	7,676	15,852	-
Hedging derivative financial liabilities	22	56,604	56,953	4,770	8,899	19,242	24,042	-
<b>Total</b>		<b>3,120,387</b>	<b>4,102,567</b>	<b>435,118</b>	<b>151,885</b>	<b>315,418</b>	<b>2,316,922</b>	<b>883,224</b>

# GRIFOLS, S.A. AND SUBSIDIARIES

## Notes to the Consolidated Annual Accounts

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

### Currency risk

The Group's exposure to currency risk is as follows:

	Thousands of Euros	
	31/12/11	
	EUR (*)	USD (**)
Trade receivables	4,226	4,700
Receivables from Group companies	63,449	77
Loans to Group companies	-	-
Cash and cash equivalents	9,544	3,069
Trade payables	(3,277)	(15,653)
Payables to Group companies	(18,564)	(8,708)
Loans to Group companies	(29,644)	-
<b>Balance sheet exposure</b>	<b>25,734</b>	<b>(16,515)</b>
<i>(*) Balances in Euros in subsidiaries with USD functional currency</i>		
<i>(**) Balances in USD in subsidiaries with Euro functional currency</i>		

	Thousands of Euros	
	31/12/12	
	EUR (*)	USD (**)
Trade receivables	68	3,107
Receivables from Group companies	-	45
Loans to Group companies	-	6
Cash and cash equivalents	858	24,977
Trade payables	(1,508)	(2,684)
Payables to Group companies	(7,357)	(56,405)
Loans to Group companies	(8,929)	-
<b>Balance sheet exposure</b>	<b>(16,868)</b>	<b>(30,954)</b>
<i>(*) balances in Euros in subsidiaries with USD functional currency</i>		
<i>(**) Balances in USD in subsidiaries with Euro functional currency</i>		

The most significant exchange rates applied at 2012 and 2011 year ends are as follows:

	Closing exchange rate	
	31/12/12	31/12/11
Euro		
USD	1.3194	1.2939

A sensitivity analysis for foreign exchange fluctuations is as follows:

Had the US Dollar strengthened by 10% against the Euro at 31 December 2012, equity would have increased by Euros 145,895 thousand (Euros 137,773 thousand at 31 December 2011) and profit would have decreased by Euros 4,782 thousand (at 31 December 2011 it would have increased by Euros 922 thousand). This analysis assumes that all other variables are held constant, especially that interest rates remain constant. This analysis has been performed using the same criteria as in 2011.

A 10% weakening of the US Dollar against the Euro at 31 December 2012 and 2011 would have had the opposite effect for the amounts shown above, all other variables being held constant.

# GRIFOLS, S.A. AND SUBSIDIARIES

## Notes to the Consolidated Annual Accounts

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

### Interest-rate risk

#### (a) Interest-rate profile

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

	Thousands of Euros	
	2012	2011
Fixed-interest financial instruments		
Financial assets	5,688	19,040
Financial liabilities	<u>(770,576)</u>	<u>(755,046)</u>
	(764,888)	(736,006)
Variable-interest financial instruments		
Financial liabilities	<u>(2,004,747)</u>	<u>(2,201,968)</u>
	<u>(2,769,635)</u>	<u>(2,937,974)</u>

### Sensitivity analysis

Had the interest rate at 31 December 2012 been 100 basis points higher, the interest expense would have increased by Euros 6.2 million, the finance cost due to changes in the value of derivatives would have been Euros 23.6 million lower and equity would have increased by Euros 27.8 million as a result of changes in derivatives to which hedge accounting is applied.

Had the interest rate at 31 December 2011 been 100 basis points higher, the interest expense would have increased by Euros 4.5 million, the finance cost due to changes in the value of derivatives would have been Euros 28 million lower and equity would have increased as a result of changes in derivatives to which hedge accounting is applied.

### (33) Balances and Transactions with Related Parties

Details of balances with related parties are as follows:

	Thousands of Euros	
	31/12/12	31/12/11
Receivables from associates	26	-
Receivables from other related parties	-	63,305
Debts with associates	(2,668)	(2,435)
Debts with key management personnel	(1,250)	(579)
Payables to members of the board of directors	(458)	(97)
Payables to other related parties	<u>(5,969)</u>	<u>(10,482)</u>
	<u>(10,319)</u>	<u>49,712</u>

Payables are included in suppliers and trade payables (see note 23).



# GRIFOLS, S.A. AND SUBSIDIARIES

## Notes to the Consolidated Annual Accounts

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

### a) Group transactions with related parties

Group transactions with related parties during 2011 were as follows:

	Thousands of Euros			
	Associates	Key management personnel	Other related parties	Board of directors of the Company
Net sales	102	-	-	-
Net purchases	(1,690)	-	-	-
Lease expenses (note 9)	-	-	(4,909)	-
Other service expenses	-	-	(30,671)	(180)
Sale of fixed assets (note 9)	-	-	233,629	-
Personnel expenses	-	(5,718)	-	(2,338)
	<u>(1,588)</u>	<u>(5,718)</u>	<u>198,049</u>	<u>(2,518)</u>

Group transactions with related parties during 2012 are as follows:

	Thousands of Euros			
	Associates	Key management personnel	Other related parties	Board of directors of the Company
Net sales	186	-	-	-
Net purchases	-	-	-	-
Operating lease expenses (note 9)	-	-	(24,057)	-
Other service expenses	-	-	(6,072)	(1,870)
Personnel expenses	-	(7,871)	-	(3,088)
	<u>186</u>	<u>(7,871)</u>	<u>(30,129)</u>	<u>(4,958)</u>

Every year the Group contributes 0.7% of its profits before tax to a non-profit organisation. Other service expenses include contributions to non-profit organisations totalling Euros 3,012 thousand in 2012 (Euros 653 thousand in 2011).

Other expenses for services in 2011 also included costs for professional services with related companies amounting to Euros 10,388 thousand. These costs correspond to those incurred in increasing share capital and the issue of debt carried out relating to the acquisition of Talecris. This item also included brokerage fees relating to sale and leaseback transactions in Spain and North Carolina amounting to Euros 9,309 thousand.

During 2011 one of the Company's directors signed a three-year consulting services contract. The director will receive annual fees of US Dollars 1 million for these services and an additional bonus of US Dollars 2 million for complying with certain conditions.

Directors representing shareholders interests have received remuneration of Euros 100 thousand during 2012 (no remuneration in 2011).

The Group has not extended any advances or loans to the members of the board of directors or key management personnel nor has it assumed any guarantee commitments on their behalf. It has also not assumed any pension or life insurance obligations on behalf of former or current members of the board of directors or key management personnel. In addition, certain Company directors and key management personnel have termination benefit commitments (see note 31 (c)).

# GRIFOLS, S.A. AND SUBSIDIARIES

## Notes to the Consolidated Annual Accounts

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

### (b) Investments and positions held by directors of the Parent in other companies and related parties

The directors and related parties do not hold any investments, nor do they hold positions or carry out functions or activities in companies with an identical, similar or complementary statutory activity to that of the Company.

### (34) Environment

The most significant systems, equipment and fixtures for the protection and improvement of the environment at 31 December 2011 are as follows:

Project	Thousands of Euros		
	Cost	Accumulated depreciation	Carrying amount
Waste water treatment	3,758	(657)	3,101
Waste management	1,165	(558)	607
Reduction of electricity consumption	4,491	(61)	4,430
Reduction of water consumption	5,356	(812)	4,544
	<u>14,770</u>	<u>(2,088)</u>	<u>12,682</u>

The most significant systems, equipment and fixtures for the protection and improvement of the environment at 31 December 2012 are as follows:

Project	Thousands of Euros		
	Cost	Accumulated depreciation	Carrying amount
Waste water treatment	4,215	(759)	3,456
Waste management	3,482	(850)	2,632
Reduction of electricity consumption	7,969	(456)	7,513
Reduction of water consumption	6,104	(1,161)	4,943
Energy	869	(1)	868
Others	118	-	118
	<u>22,757</u>	<u>(3,227)</u>	<u>19,530</u>

Expenses incurred by the Group for protection and improvement of the environment during 2012 totalled approximately Euros 1,240 thousand (Euros 1,181 thousand at 31 December 2011).

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

The Group has received environmental grants of Euros 1,062 thousand during 2012 (none in 2011).

# GRIFOLS, S.A. AND SUBSIDIARIES

## Notes to the Consolidated Annual Accounts

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

### (35) Other Information

#### Audit fees:

KPMG Auditores, S.L. has invoiced the following fees and expenses for professional services during 2012 and 2011:

	Thousands of Euros	
	2012	2011
Audit services	982	1,156
Other assurance services	432	744
Other services	38	-
	<u>1,452</u>	<u>1,900</u>

The services detailed in the above table include the total fees for the professional services rendered during 2012 and 2011, irrespective of the date of invoice.

Fees and expenses for professional services rendered by other firms of the KPMG Europe LLP Group for 2012 and 2011 are as follows:

	Thousands of Euros	
	2012	2011
Audit services	126	139
Other assurance services	45	53
Tax fees	11	-
Other services	-	10
	<u>182</u>	<u>202</u>

Other entities affiliated to KPMG International have invoiced the Group for the following fees and expenses for professional services during 2012 and 2011:

	Thousands of Euros	
	2012	2011
Audit services	1,302	1,721
Other assurance services	356	348
Tax fees	21	-
Other services	33	53
	<u>1,712</u>	<u>2,122</u>

# GRIFOLS, S.A. AND SUBSIDIARIES

## Notes to the Consolidated Annual Accounts

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

Other audit firms have invoiced the Group for the following fees and expenses for professional services during 2012 and 2011:

	Thousands of Euros	
	2012	2011
Audit services	23	22
Other assurance services	8	2
Tax fees	-	-
Other services	52	37
	<u>83</u>	<u>61</u>

### (36) Events after the Reporting Period

On 4 December 2012, the shareholders of Grifols approved a share capital increase through the issue of 16,328,212 new class B shares without voting rights of 0.10 par value each and with a charge to voluntary reserves to remunerate the shareholders. These shares were traded on the four Spanish stock exchanges and the Spanish Automated Quotation System on 14 January 2013. This capital increase became legally effective on 4 January 2013, the date it was registered by public deed.

**APPENDIX I**  
**GRIFOLS, S.A. AND SUBSIDIARIES**  
**Information on Group Companies, Associates and others for the years ended 31 December 2012 and 2011**

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

Name	Registered Offices	Acquisition / Incorporation date	Activity	Statutory Activity	31/12/2012		31/12/2011	
					% shares		% shares	
					Direct	Indirect	Direct	Indirect
<b>Fully Consolidated Companies</b>								
Diagnostic Grifols, S.A.	Spain	1987	Industrial	Development and manufacture of diagnostic equipment, instrumentation and reagents.	99.998%	0.002%	99.998%	0.002%
Instituto Grifols, S.A.	Spain	1987	Industrial	Plasma fractioning and the manufacture of haemoderivative pharmaceutical products.	99.998%	0.002%	99.998%	0.002%
Logister, S.A.	Spain	1987	Industrial	Manufacture, sale and purchase, marketing and distribution of all types of computer products and materials.	---	100.000%	---	100.000%
Laboratorios Grifols, S.A.	Spain	1989	Industrial	Production of glass- and plastic-packaged parenteral solutions, parenteral and enteral nutrition products and blood extraction equipment and bags.	99.998%	0.002%	99.998%	0.002%
Biomat, S.A.	Spain	1991	Industrial	Analysis and certification of the quality of plasma used by Instituto Grifols, S.A. It also provides transfusion centres with plasma virus inactivation services (I.P.T.H).	99.900%	0.100%	99.900%	0.100%
Grifols Engineering, S.A.	Spain	2000	Industrial	Design and development of the Group's manufacturing installations and part of the equipment and machinery used at these premises. The company also renders engineering services to external companies. The company also renders engineering services to external companies	99.950%	0.050%	99.950%	0.050%
Biomat USA, Inc.	United States	2002	Industrial	Procuring human plasma.	---	100.000%	---	100.000%
Grifols Biologicals, Inc.	United States	2003	Industrial	Plasma fractioning and the production of haemoderivatives.	---	100.000%	---	100.000%
PlasmaCare, Inc.	United States	2006	Industrial	Procuring human plasma.	---	100.000%	---	100.000%
Grifols Australia Pty Ltd.	Australia	2009	Industrial	Distribution of pharmaceutical products and the development and manufacture of reagents for diagnostics.	100.000%	---	---	100.000%
Medion Grifols Diagnostic AG	Switzerland	2009	Industrial	Plasma fractioning and the production of haemoderivatives.	80.000%	---	---	80.000%
Grifols Therapeutics, Inc.	United States	2011	Industrial	Plasma fractioning and the production of haemoderivatives.	---	100.000%	---	100.000%
Talecris Plasma Resources, Inc.	United States	2011	Industrial	Procuring human plasma.	---	100.000%	---	100.000%
GRI-CEI, S/A Produtos para transfusao	Brazil	2012	Industrial	Production of bags for the extraction, separation, conservation and transfusion of blood components.	60.000%	0.000%	---	---
Grifols Asia Pacific Pte, Ltd	Singapore	2003	Commercial	Distribution and sale of medical and pharmaceutical products.	100.000%	---	100.000%	---
Movaco, S.A.	Spain	1987	Commercial	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.	99.999%	0.001%	99.999%	0.001%
Grifols Portugal Produtos Farmacéuticos e Hospitalares, Lda.	Portugal	1988	Commercial	Import, export and marketing of pharmaceutical and hospital equipment and products, particularly Grifols products.	0.010%	99.990%	0.010%	99.990%
Grifols Chile, S.A.	Chile	1990	Commercial	Development of pharmaceutical businesses, which can involve the import, production, marketing and export of related products.	99.000%	---	99.000%	---
Grifols USA, LLC.	United States	1990	Commercial	Distribution and marketing of company products.	---	100.000%	---	100.000%
Grifols Argentina, S.A.	Argentina	1991	Commercial	Clinical and biological research, the preparation of reagents and therapeutic and diet products, the manufacture of other pharmaceutical specialities and the marketing thereof.	99.260%	0.740%	99.260%	0.740%
Grifols s.r.o.	Czech Republic	1992	Commercial	Purchase, sale and distribution of chemical-pharmaceutical products, including human plasma.	100.000%	---	100.000%	---
Grifols (Thailand) Ltd	Thailand	2003	Commercial	Import, export and distribution of pharmaceutical products.	---	48.000%	---	48.000%
Grifols Malaysia Sdn Bhd	Malaysia	2003	Commercial	Distribution and sale of pharmaceutical products.	---	30.000%	---	30.000%
Grifols International, S.A.	Spain	1997	Commercial	Coordination of the marketing, sales and logistics for all the Group's subsidiaries operating in different countries.	99.900%	0.100%	99.900%	0.100%
Grifols Italia S.p.A	Italy	1997	Commercial	Purchase, sale and distribution of chemical-pharmaceutical products.	100.000%	---	100.000%	---
Grifols UK Ltd.	United Kingdom	1997	Commercial	Distribution and sale of therapeutic and other pharmaceutical products, especially haemoderivatives.	100.000%	---	100.000%	---
Grifols Brasil, Ltda.	Brazil	1998	Commercial	Import and export, preparation, distribution and sale of pharmaceutical and chemical products for laboratory and hospital use, and medical-surgical equipment and instrumentation.	100.000%	---	100.000%	---
Grifols France, S.A.R.L.	France	1999	Commercial	Marketing of chemical and healthcare products.	99.000%	1.000%	99.000%	1.000%

**APPENDIX I**  
**GRIFOLS, S.A. AND SUBSIDIARIES**  
**Information on Group Companies, Associates and others for the years ended 31 December 2012 and 2011**

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

Name	Registered Offices	Acquisition / Incorporation date	Activity	Statutory Activity	31/12/2012		31/12/2011	
					% shares		% shares	
					Direct	Indirect	Direct	Indirect
Alpha Therapeutic Italia, S.p.A.(merged with Grifols Italia S.p.A. in 2012)	Italy	2000	Commercial	Distribution and sale of therapeutic products, especially haemoderivatives.	---	---	100.000%	---
Grifols Polska Sp.z.o.o.	Poland	2003	Commercial	Distribution and sale of pharmaceutical, cosmetic and other products.	100.000%	---	100.000%	---
Logística Grifols, S.A. de C.V.	Mexico	2008	Commercial	Manufacture and marketing of pharmaceutical products for human and veterinary use.	99.990%	0.010%	99.990%	0.010%
Grifols México, S.A. de C.V.	Mexico	1970	Commercial	Production, manufacture, adaptation, conditioning, sale and purchase, commissioning, representation and consignment of all kinds of pharmaceutical products and the acquisition of machinery, equipment, raw materials, tools, assets and property for the aforementioned purposes.	99.990%	0.010%	99.990%	0.010%
Medion Diagnostics GmbH	Germany	2009	Commercial	Distribution and sale of biotechnological and diagnostic products.	---	80.000%	---	80.000%
Grifols Nordic, AB	Sweden	2010	Commercial	Research and development, production and marketing of pharmaceutical products, medical devices and any other asset deriving from the aforementioned activities.	100.000%	---	100.000%	---
Grifols Colombia, Ltda	Colombia	2010	Commercial	Sale, commercialisation and distribution of medicines, pharmaceutical (including but not limited to haemoderivatives) and hospital products, medical devices, biomedical equipment, laboratory instruments and reagents for diagnosis and/or sanitary software.	99.000%	1.000%	99.000%	1.000%
Grifols Deutschland GmbH (merged with Talecris Biotherapeutics GmbH in 2011)	Germany	2011	Commercial	Obtaining of the official permits and necessary approval for the production, marketing and distribution of products deriving from blood plasma It also engages in the import, export, distribution and sale of reagents and chemical and pharmaceutical products, especially for laboratories and health centres and surgical medical material, apparatus and instruments.	100.000%	---	100.000%	---
Australian Corporate Number 073 272 830 Pty Ltd.	Australia	2009	Commercial	Distribution of pharmaceutical products and reagents for diagnostics.	---	---	---	100.000%
Grifols Canada, Ltd.	Canada	2011	Commercial	Provision of various services (marketing) to Grifols Therapeutics Inc.	---	100.000%	---	100.000%
Grifols Viajes, S.A.	Spain	1995	Services	Retail travel agency exclusively serving Group companies.	99.900%	0.100%	99.900%	0.100%
Squadron Reinsurance Ltd.	Ireland	2003	Services	Reinsurance of Group companies' insurance policies.	100.000%	---	100.000%	---
Arrahona Optimus, S.L.	Spain	2008	Services	Development and construction of offices and business premises.	99.995%	0.005%	99.995%	0.005%
Grifols, Inc. (merged with Talecris Biotherapeutics Holdings Corp in 2011)	United States	2011	Services	Acquisition, manufacture and sale of therapeutic products, especially haemoderivatives extracted by plasma fractioning through a network of donation centres owned by the Group in the USA.	100.000%	---	100.000%	---
Talecris Biotherapeutics Overseas Services, Corp.	United States	2011	Services	Provision of support services for the sale of biotherapeutic products outside the USA and participation in any other activity for which the companies may be organised in accordance with the General Corporation Law of Delaware.	---	100.000%	---	100.000%
Gri-Cel, S.A.	Spain	2009	Research	Research and development in the field of regenerative medicine, awarding of research grants, subscription to collaboration agreements with entities and participation in projects in the area of regenerative medicine.	0.001%	99.999%	0.001%	99.999%
Araclón Biotech, S.L.	Spain	2012	Research	Creation and marketing of a blood diagnosis kit for the detection of Alzheimer's and development of effective immunotherapy (vaccine) against this disease.	---	51.000%	---	---
Saturn Australia Pty Ltd.	Australia	2009	Investment	Its activity consists of holding shares and real estate investments.	---	---	---	100.000%
Saturn Investments AG	Switzerland	2009	Investment	Its activity consists of holding shares and real estate investments.	---	---	---	100.000%
Woolloomooloo Holdings Pty Ltd.	Australia	2009	Investment	Its activity consists of holding shares and real estate investments.	---	---	100.000%	---

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

**Information on Group Companies, Associates and others for the years ended 31 December 2012 and 2011**

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

<b>Name</b>	<b>Registered Offices</b>	<b>Acquisition / Incorporation date</b>	<b>Activity</b>	<b>Statutory Activity</b>	<b>31/12/2012</b>		<b>31/12/2011</b>	
					<b>% shares</b>	<b>% shares</b>	<b>% shares</b>	<b>% shares</b>
					<b>Direct</b>	<b>Indirect</b>	<b>Direct</b>	<b>Indirect</b>
<b>Equity accounted investees</b>								
Nanotherapix, S.L.	Spain	2010	Research	Development, validation and production of the technology required to implement the use of genetic and cellular therapy for the treatment of human and animal pathologies.	---	51.000%	---	51.000%
VCN Bioscience, S.L.	Spain	2012	Research	Research and development of therapeutic approaches for tumours for which there is currently no effective treatment.	---	40.000%	---	---

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

**Operating Segments for the years ended 31 December 2012 and 2011**

(Expressed in thousands of Euros)

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

	Bioscience		Hospital		Diagnostic		Raw materials		Others/Unallocated		Consolidated	
	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011 (*)	2012	2011 (*)
Income from external customers	2,325,088	1,531,199	95,870	95,365	134,341	117,358	31,450	30,526	34,195	21,165	2,620,944	1,795,613
<b>Total operating income</b>	<b>2,325,088</b>	<b>1,531,199</b>	<b>95,870</b>	<b>95,365</b>	<b>134,341</b>	<b>117,358</b>	<b>31,450</b>	<b>30,526</b>	<b>34,195</b>	<b>21,165</b>	<b>2,620,944</b>	<b>1,795,613</b>
<b>Profit/(Loss) for the segment</b>	<b>888,094</b>	<b>515,214</b>	<b>1,177</b>	<b>7,610</b>	<b>9,291</b>	<b>(14,551)</b>	<b>10,657</b>	<b>6,749</b>	33,881	17,355	<b>943,100</b>	<b>532,377</b>
Unallocated expenses									(283,016)	(253,516)	(283,016)	(253,516)
<b>Operating profit</b>											<b>660,084</b>	<b>278,861</b>
<b>Finance income/costs</b>											<b>(270,729)</b>	<b>(197,774)</b>
<b>Share of profit/(loss) of equity accounted investees</b>	-	-							(1,407)	(1,064)	(1,407)	(1,064)
Income tax expense											(132,571)	(29,795)
<b>Profit for the year after tax</b>											<b>255,377</b>	<b>50,228</b>
<b>Segment assets</b>	<b>4,581,022</b>	<b>4,722,315</b>	<b>79,947</b>	<b>120,458</b>	<b>144,833</b>	<b>107,689</b>	<b>15,792</b>	<b>1,305</b>			<b>4,821,594</b>	<b>4,951,767</b>
Equity accounted investments	-	-	-	-	-	-	-	-	2,566	1,001	<b>2,566</b>	1,001
Unallocated assets									803,314	687,232	<b>803,314</b>	<b>687,232</b>
<b>Total assets</b>											<b>5,627,474</b>	<b>5,640,000</b>
<b>Segment liabilities</b>	<b>264,160</b>	<b>337,960</b>	<b>397</b>	<b>12,932</b>	<b>12,040</b>	<b>12,511</b>					<b>276,597</b>	<b>363,403</b>
Unallocated liabilities									3,470,136	3,611,603	<b>3,470,136</b>	<b>3,611,603</b>
<b>Total liabilities</b>											<b>3,746,733</b>	<b>3,975,006</b>
<b>Other information:</b>												
Amortisation and depreciation	91,564	62,062	5,382	5,382	11,310	10,102	-	-	20,870	13,093	<b>129,126</b>	<b>90,639</b>
Expenses that do not require cash payments	11,683	4,497	248	(33)	247	4,826	-	-	4,946	907	<b>17,124</b>	<b>10,197</b>
Additions for the year of property, plant & equipment and intangible assets	140,880	127,789	6,435	15,097	12,003	12,218	-	-	14,154	12,395	<b>173,472</b>	<b>167,499</b>

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

(\*) See note 2



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

**Reporting by geographical area  
for the years ended 31 December 2012 and 2011**

(Expressed in thousands of Euros)

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

	Spain		Rest of European Union		USA + Canada		Rest of World		Subtotal		Raw material		Consolidated	
	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011
<b>Revenue</b>	<b>212,983</b>	<b>230,871</b>	<b>346,345</b>	<b>295,755</b>	<b>1,658,548</b>	<b>948,730</b>	<b>371,618</b>	<b>289,732</b>	<b>2,589,494</b>	<b>1,765,087</b>	<b>31,450</b>	<b>30,526</b>	<b>2,620,944</b>	<b>1,795,613</b>
<b>Assets by geographic area</b>	<b>759,670</b>	<b>740,275</b>	<b>126,041</b>	<b>130,651</b>	<b>4,573,400</b>	<b>4,632,222</b>	<b>152,571</b>	<b>135,546</b>	<b>5,611,682</b>	<b>5,638,695</b>	<b>15,792</b>	<b>1,305</b>	<b>5,627,474</b>	<b>5,640,000</b>
<b>Other information:</b>														
Additions for the year of property, plant & equipment and intangible assets	51,014	47,622	3,081	2,759	114,109	113,041	5,268	4,077	173,472	167,499	--	--	<b>173,472</b>	<b>167,499</b>

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

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

**Changes in Other Intangible Assets**  
**for the year ended**  
**31 December 2011**  
(Expressed in thousands of Euros)

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

	<b>Balances at 31/12/2010</b>	Additions	Business Combination	Transfers	Disposals	Translation differences	<b>Balances at 31/12/2011</b>
Development costs	62,071	7,775	0	0	(97)	34	69,783
Concessions, patents, licenses brands & similar	52,743	102	0	(905)	0	989	52,929
Computer software	34,702	14,374	13,633	643	(548)	5,163	67,967
Currently marketed products	0	0	832,871	0	0	94,558	927,429
Other intangible assets	2,345	448	0	145	(501)	39	2,476
<b>Total cost of intangible assets</b>	<b>151,861</b>	<b>22,699</b>	<b>846,504</b>	<b>(117)</b>	<b>(1,146)</b>	<b>100,783</b>	<b>1,120,584</b>
Accum. amort. of development costs	(33,195)	(6,785)	0	0	0	(98)	(40,078)
Accum. amort. of concessions, patents, licenses, brands & similar	(18,628)	(906)	0	844	0	(176)	(18,866)
Accum. amort. of computer software	(21,546)	(9,462)	0	(164)	52	(3,002)	(34,122)
Accum. amort. of currently marketed products	0	(16,648)	0	0	0	(1,385)	(18,033)
Accum. amort. Other intangible assets	(193)	(622)	0	(84)	0	(15)	(914)
<b>Total accum. amort intangible assets</b>	<b>(73,562)</b>	<b>(34,423)</b>	<b>0</b>	<b>596</b>	<b>52</b>	<b>(4,676)</b>	<b>(112,013)</b>
Impairment of other intangible assets	0	(264)	0	0	0	0	(264)
<b>Carrying amount of intangible assets</b>	<b>78,299</b>	<b>(11,988)</b>	<b>846,504</b>	<b>479</b>	<b>(1,094)</b>	<b>96,107</b>	<b>1,008,307</b>

(note 3)

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

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

**Changes in Other Intangible Assets**  
**for the year ended**  
**31 December 2012**  
(Expressed in thousands of Euros)

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

	<b>Balances at 31/12/2011</b>	Additions	Business combinations	Transfers	Disposals	Translation differences	<b>Balances at 31/12/2012</b>
Development costs	69,783	9,825	11,282	0	(3,969)	(18)	86,903
Concessions, patents, licenses brands & similar	52,929	80	1,575	(31)	0	(578)	53,975
Computer software	67,967	10,033	69	3,508	(7,338)	(6,549)	67,690
Currently marketed products	927,429	0	0	0	0	(17,925)	909,504
Other intangible assets	2,476	162	0	31	(314)	(38)	2,317
<b>Total cost of intangible assets</b>	<b>1,120,584</b>	<b>20,100</b>	<b>12,926</b>	<b>3,508</b>	<b>(11,621)</b>	<b>(25,108)</b>	<b>1,120,389</b>
Accum. amort. of development costs	(40,078)	(4,957)	(122)	0	1,724	18	(43,415)
Accum. amort. of concessions, patents, licenses, brands & similar	(18,866)	(1,012)	(246)	0	0	347	(19,777)
Accum. amort. of computer software	(34,122)	(11,779)	(33)	0	3,222	4,258	(38,454)
Accum. amort. of currently marketed products	(18,033)	(31,125)	0	0	0	1,157	(48,001)
Accum. amort. of other intangible assets	(914)	(630)	0	0	0	6	(1,538)
<b>Total accum. amort intangible assets</b>	<b>(112,013)</b>	<b>(49,503)</b>	<b>(401)</b>	<b>0</b>	<b>4,946</b>	<b>5,786</b>	<b>(151,185)</b>
Impairment of other intangible assets	(264)	155	0	0	0	0	(109)
<b>Carrying amount of intangible assets</b>	<b>1,008,307</b>	<b>(29,248)</b>	<b>12,525</b>	<b>3,508</b>	<b>(6,675)</b>	<b>(19,322)</b>	<b>969,095</b>

(note 3 (a))

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

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

**Changes in Property, Plant and Equipment  
for the year ended  
31 December 2011  
(Expressed in thousands of Euros)**

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

	<b>Balances at 31/12/2010</b>	Additions	Business combination	Transfers	Disposals	Translation differences	<b>Balances at 31/12/2011</b>
<b>Cost:</b>							
Land and buildings	184,742	7,452	52,342	12,932	(109,028)	8,428	156,868
Plant and machinery	405,269	42,471	280,823	30,898	(24,250)	38,004	773,215
Under construction	66,284	94,876	133,509	(44,725)	(146,707)	17,982	121,219
	<b>656,295</b>	<b>144,799</b>	<b>466,674</b>	<b>(895)</b>	<b>(279,985)</b>	<b>64,414</b>	<b>1,051,302</b>
<b>Accumulated depreciation:</b>							
Buildings	(11,547)	(6,946)	0	(48)	5,265	(2,158)	(15,434)
Plant and machinery	(209,968)	(49,270)	0	464	13,897	(7,910)	(252,787)
	<b>(221,515)</b>	<b>(56,216)</b>	<b>0</b>	<b>416</b>	<b>19,162</b>	<b>(10,068)</b>	<b>(268,221)</b>
<b>Impairment of other property, plant and equipment</b>	<b>(649)</b>	<b>(6,116)</b>	<b>0</b>	<b>0</b>	<b>17</b>	<b>(464)</b>	<b>(7,212)</b>
<b>Carrying amount</b>	<b>434,131</b>	<b>82,467</b>	<b>466,674</b>	<b>(479)</b>	<b>(260,806)</b>	<b>53,882</b>	<b>775,869</b>

(note 3 (c))

This appendix forms an integral part of note 9 to the consolidated annual accounts.

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

**Changes in Property, Plant and Equipment**  
**for the year ended**  
**31 December 2012**  
**(Expressed in thousands of Euros)**

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

	<b>Balances at</b>					Translation	<b>Balances at</b>
	<b>31/12/2011</b>	Additions	Business combination	Transfers	Disposals	differences	<b>31/12/2012</b>
<b>Cost:</b>							
Land and buildings	156,868	2,049	0	38,176	(9,006)	(5,877)	182,210
Plant and machinery	773,215	26,258	3,822	(17,947)	(26,346)	(11,346)	747,656
Under construction	121,219	125,065	0	(23,831)	(5,413)	(3,862)	213,178
	<u>1,051,302</u>	<u>153,372</u>	<u>3,822</u>	<u>(3,602)</u>	<u>(40,765)</u>	<u>(21,085)</u>	<u>1,143,044</u>
<b>Accumulated depreciation:</b>							
Buildings	(15,434)	(5,302)	0	2,335	1,398	1,921	(15,082)
Plant and machinery	(252,787)	(74,321)	(2,100)	(2,241)	11,006	7,727	(312,716)
	<u>(268,221)</u>	<u>(79,623)</u>	<u>(2,100)</u>	<u>94</u>	<u>12,404</u>	<u>9,648</u>	<u>(327,798)</u>
<b>Impairment of other property, plant and equipment</b>	(7,212)	(1,597)	0	0	3,954	(284)	(5,139)
<b>Carrying amount</b>	<b>775,869</b>	<b>72,152</b>	<b>1,722</b>	<b>(3,508)</b>	<b>(24,407)</b>	<b>(11,721)</b>	<b>810,107</b>

(note 3 (a) and (b))

This appendix forms an integral part of note 9 to the consolidated annual accounts.

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

**Breakdown of Non-Current Loans and Borrowings**  
**for the year ended**  
**31 December 2011**  
**(Expressed in thousands of Euros)**

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

Loan	Currency	Interest rate	Concession date	Maturity date	Thousands of Euros	
					Amount awarded	Carrying amount
Senior Debt - Tranche A	EUR	Euribor + 4%	23/11/2010	01/06/2016	220,000	199,375
Senior Debt - Tranche B	EUR	Euribor + 4,5%	23/11/2010	01/06/2017	220,000	216,700
Senior Debt - Tranche A	USD	Libor + 3,75%	23/11/2010	01/06/2016	927,428	840,482
Senior Debt - Tranche B	USD	Libor + 4,25%	23/11/2010	01/06/2017	1,004,714	989,644
<b>Total Senior Debt</b>					<b>2,372,142</b>	<b>2,246,201</b>
Revolving Credit	EUR	Euribor + 4%	23/11/2010	01/06/2016	38,643	0
Revolving Credit	USD	Libor + 3,75%	23/11/2010	01/06/2016	38,643	0
Revolving Credit	Multicurrency	Libor + 3,75%	23/11/2010	01/06/2016	154,571	0
<b>Total Revolving Credit</b>					<b>231,857</b>	<b>0</b>
Banco Santander	EUR	ICO + 1,89%	01/06/2009	30/06/2016	6,000	4,200
B. Guipuzcoano	EUR	Euribor + 1%	25/03/2010	25/03/2020	8,500	8,500
B.Sabadell	EUR	Euribor + 1%	08/06/2011	30/06/2013	843	813
SCH	EUR	1.75%	13/10/2010	13/10/2017	900	732
Caixa Catalunya	EUR	ICO + 1,99%	30/07/2009	25/08/2016	1,440	1,081
Caixa Galicia	EUR	Euribor + 1,5%	11/06/2010	25/06/2020	1,180	885
Ibercaja	EUR	Euribor + 1,99%	30/07/2009	31/07/2016	1,800	1,324
Banco Popular	EUR	ICO + 1,5%	28/11/2011	25/12/2018	2,000	2,000
Banco Popular	EUR	ICO + 1,5%	28/11/2011	25/12/2018	6,800	6,800
Banca Toscana	EUR	6 months Euribor +1%	08/05/2008	25/06/2013	3,000	326
Loan arrangement costs						(224,777)
					<b>2,636,463</b>	<b>2,048,085</b>
Non-current finance lease creditors (see note 22)					--	24,617
					<b>2,636,463</b>	<b>2,072,702</b>

This appendix forms an integral part of note 22 to the consolidated annual accounts.

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

**Breakdown of Non-Current Loans and Borrowings**  
**for the year ended**  
**31 December 2012**  
**(Expressed in thousands of Euros)**

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

Loan	Currency	Interest rate	Concession date	Maturity date	Thousands of Euros	
					Amount awarded	Carrying amount
Senior Debt - Tranche A	EUR	Euribor + 3,5%	(*) 23/11/2010	01/06/2016	220,000	176,000
Senior Debt - Tranche B	EUR	Euribor + 3,5%	(*) 23/11/2010	01/06/2017	220,000	196,000
Senior Debt - Tranche A	USD	Libor + 3,25%	(*) 23/11/2010	01/06/2016	454,752	363,802
Senior Debt - Tranche B	USD	Libor + 3,5%	(*) 23/11/2010	01/06/2017	1,288,464	1,255,116
<b>Total Senior Debt</b>					<b>2,183,217</b>	<b>1,990,918</b>
Revolving Credit	EUR	Euribor + 3,25%	(*) 23/11/2010	01/06/2016	21,700	0
Revolving Credit	USD	Libor + 3,25%	(*) 23/11/2010	01/06/2016	26,527	0
Revolving Credit	Multicurrency	Libor + 3,25%	(*) 23/11/2010	01/06/2016	106,109	0
<b>Total Revolving Credit</b>					<b>154,336</b>	<b>0</b>
B.Sabadell	EUR	Euribor	25/03/2010	25/03/2020	8,500	7,589
Bankinter	EUR	ICO+1,65	09/05/2012	10/06/2022	10,000	10,000
B.Sabadell	EUR	Euribor + 1%	16/03/2012	30/11/2014	362	348
B.Sabadell	EUR	Euribor + 1%	16/03/2012	31/12/2014	1,228	1,178
Caixa Catalunya	EUR	ICO+1,99	30/07/2009	25/08/2016	1,440	794
Caixa Galicia	EUR	Euribor + 1,5%	11/06/2010	25/06/2020	1,180	767
Ibercaja	EUR	Euribor + 1,99%	30/07/2009	31/07/2016	1,800	973
Banco Popular	EUR	ICO+1,5	28/11/2011	25/12/2018	2,000	2,000
Banco Popular	EUR	ICO+1,5	28/11/2011	25/12/2018	6,800	6,800
Banco Santander	EUR	ICO+1,89	01/06/2009	25/06/2016	6,000	3,000
Loan arrangement costs						(183,579)
					<b>2,376,863</b>	<b>1,840,788</b>
Non-current finance lease creditors (see note 22)					--	17,592
					<b>2,376,863</b>	<b>1,858,380</b>

(\*) Refinanced on 29 February 2012 (see note 22)

This appendix forms an integral part of note 22 to the consolidated annual accounts.

# GRIFOLS, S.A. AND SUBSIDIARIES

## Directors' Report

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

To the Shareholders:

2012 signalled a new era for Grifols. An era in which we assumed our leading position as the third-largest company in the world in the production of plasma-based pharmaceuticals, and in which we began building a new future under the operating synergies resulting from the acquisition and integration of Talecris in 2011.

Our financial results and the milestones achieved in terms of production and commercialisation of our products, R&D, Human Resources or the environment, are evidence of how Grifols was managed in 2012 and the added value generated by our Company throughout the year.

### Income statement: main indicators

- **Sales performance: revenues in excess of Euros 2,620 million**

Grifols closed 2012 with revenues of Euros 2,620.9 million, an increase of 46.0%<sup>2</sup> on the prior year. For comparison purposes, 2011 did not include Talecris sales from January to May, as the acquisition by Grifols took place in June 2011. Constant currency (cc) growth stood at 37.9%.

Total revenues obtained by Grifols in 2012 rose by 13.8% (7.6% cc) compared to the pro-forma<sup>1</sup> results for 2011. These were estimated based on the consolidated financial statements for both companies and were provided for guidance purposes last year.

The healthy sales performance across all divisions was driven by the growth in units sold, despite a general backdrop of austerity as a result of public expenditure cutbacks in certain countries. Grifols' organic growth during the year was a result of sales growth in geographical areas with better economic prospects, as described elsewhere in this report. Grifols's international expansion since the 1980's means the Company is able to tackle new challenges and weather the current economic climate.

By area of activity, Bioscience Division sales amounted to Euros 2,325.1 million, which in reported terms<sup>2</sup> represents growth of 51.8% (42.9% cc). This division accounted for 88.7% of total Grifols' turnover at the closing date. Diagnostic Division turnover increased by 14.5% (11.9% cc) to Euros 134.3 million, while the Hospital Division, the most affected by public health cuts in Spain, grew by only 0.5% (0.1% cc) to Euros 95.9 million. The contribution from both divisions to global turnover fell to 5.1% and 3.7%, respectively. Finally, the Raw Materials and Others Division, which accounts for approximately 2.5% of the total, increased sales to Euros 65.6 million. These include income from royalties which Talecris used to include in Bioscience, manufacturing agreements with Kedrion and work for third parties carried out by Grifols Engineering.

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*2 Reported figures do not include sales by Talecris from January to May 2011, as the purchase of Talecris took place in June 2011. Includes 7 months of consolidation for 2011.*

*3 Excluding costs associated with the purchase of Talecris and other non-recurring costs.*



# GRIFOLS, S.A. AND SUBSIDIARIES

## Directors' Report

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

Grifols' ongoing international expansion has positively impacted revenues, and reduced Spain's relative weight from 13% in reported terms<sup>2</sup> in 2011 to 8% in 2012. The Company's strategy this year has focused on promoting sales in regions less affected by cutbacks, with lower collection periods and better margins.

Foreign sales, which at over Euros 2,407 million now account for 92% of Company turnover, totalled Euros 1,658.5 million (excluding Raw Materials) in the United States and Canada, up 74.8% (61.9% cc) compared to 2011<sup>2</sup> and representing 63.3% of Grifols revenues. A key factor in achieving this was greater dynamism in the United States with a view to increasing market penetration of plasma protein treatments, aided by the reorganisation of the sales and marketing force following the acquisition of Talecris.

Sales volumes of the main plasma proteins performed well in the United States and Canada, with double-digit growth for albumin and increases near these levels in Grifols immunoglobulins and alpha1-antitrypsin. Factor VIII sales in the United States were affected by the sale of Koate<sup>®</sup> rights to Kedrion in this country.

The Diagnostic Division continued to expand in the American market, resulting in sales growth of 6.1% (cc) in the United States in 2012. Grifols has also reinforced the internal procedures necessary to speed up the regulatory processes for obtaining new licences and approvals from the American health authorities, the Food and Drug Administration (FDA), in order to boost the presence of the Diagnostic and Hospital Divisions in the United States.

Europe accounted for 21.3% of recurring sales (excluding Raw Materials), which were up 6.2% (5.8% cc) on 2011 in reported terms<sup>2</sup> to Euros 559.3 million. Excluding Spain, a country severely affected by budgetary constraints in the health sector, accumulated growth came to 17.1%. This percentage is significant taking into account that the shift in growth strategy towards countries less affected by austerity measures and with shorter collection periods, also involves controlling the Company's exposure to Spain and other countries in southern Europe.

Finally, sales in other geographic regions, including the Asian-Pacific region and Latin America, have continued to rise. They currently account for 14.2% of revenues, with growth of 28.3%<sup>2</sup> (22.3%cc) to Euros 371.6 million. Of note it is turnover in countries such as Brazil, thanks to new distribution agreements to supply bags for the extraction of blood components. Growth in China is also significant commercially, where sales have increased on the back of albumin marketing and the start up of Diagnostic Division activity.

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*3 Excluding costs associated with the purchase of Talecris and other non-recurring costs.*

# GRIFOLS, S.A. AND SUBSIDIARIES

## Directors' Report

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

- **Sound results: margins and profit continue to improve**

Policies to contain operating costs remained a constant throughout the year, particularly those related to administration and general services, which have fallen to 20.8% as a percentage of sales (25.4%<sup>1</sup> in 2011). Important synergies linked to the optimisation of raw material (plasma) and manufacturing costs also materialised, resulting in improvements in variables such as the price per litre of plasma and gross margin.

As regards the manufacture of plasma derivatives, major efforts were made in 2012 to optimise capacity utilization and the production process. In order to do this Grifols is striving to make the use of the intermediate products obtained during plasma fractionation more flexible. The aim is to be able to purify and fill the fractions (intermediate products) generated during the first stage of the manufacturing process at any of the three plants of the Group. This flexibility will enable the manufacturing processes to be optimised, and requires Grifols to hold FDA and EMA licenses, among others. To date, the company has obtained FDA approval to use Fraction II+III (intermediate product) obtained at the Los Angeles plant in the production (purification and filling) of IVIG at the Clayton plant (Gamunex<sup>®</sup>) and is awaiting authorization to use intermediate product from the Parets del Vallès plant (Barcelona-Spain).

Recent approval has been granted to use Fraction V obtained at the Clayton plant (North Carolina-USA) in the production of albumin at Los Angeles (California-USA), and to use Fraction IV-I obtained in Los Angeles in the production of alpha1-antitrypsin ((Prolastina<sup>®</sup>) with the Clayton purification method. It has also obtained approval to use cryoprecipitate (intermediate product) obtained at the Melville plant (New York-USA) to produce Koate<sup>®</sup> factor VIII in Clayton. Grifols is continuing in its efforts to obtain an FDA licence to use cryoprecipitate obtained at Clayton in the factor VIII purification plant in Los Angeles.

As a result, reported EBITDA for the year amounted to Euros 789.2 million, representing a sales margin of 30.1% and a rise of 950 basis points (bps) compared to the 20.6% sales margin in 2011<sup>2</sup>. Adjusted<sup>3</sup> EBITDA, which excludes the costs associated with the purchase of Talecris and other non-recurring costs, totalled Euros 836.1 million, a growth of 76.8%<sup>2</sup>. This represents a sales margin of 31.9%, an improvement of 560<sup>2</sup> bps compared to 2011.

Group net profit amounted to Euros 256.7 million at the 2012 closing date, 9.8% as a percentage of sales. Better financing conditions negotiated at the beginning of 2012 have contributed to this result and the impact will continue throughout 2013. Specifically, the new financing conditions have resulted in lower interest rates; the elimination of clauses related to investments in fixed assets and debt service coverage ratios; modification of the leverage ratio limiting the distribution of dividends (improved to 4.5 times Net Financial Debt/EBITDA); and the reduction of this debt through voluntary, early debt repayments of US Dollar 240 million.

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# GRIFOLS, S.A. AND SUBSIDIARIES

## Directors' Report

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

### Key balance sheet indicators

The increase in fixed assets is attributable to acquisitions and capital investments (CAPEX). In particular, property plant & equipment amounted to Euros 810.1 million as compared to the figure of Euros 775.9 million reported in December 2011. In addition, taking into account the latest modifications and exchange rate fluctuations, goodwill stood at Euros 1,869.9 million.

- **Reduction in inventory levels and average collection periods, leading to cash flow generation**

Improvements in inventory management and the efficiency of safety stock meant inventory levels were reduced as planned. Turnover days have also been reduced from 319 days in December 2011 to 281 days at the end of 2012.

The Group's cash positions have risen to Euros 473.3 million, after debt and interest repayments, confirming the healthy generation of cash and cash flows. The Supplier Payment Plan which came into force in Spain has affected the final cash balance and reduced balances receivable.

Management of working capital has improved as a consequence of the Group's greater exposure to countries with shorter collection periods and the reduction of sales to southern European economies (Spain, Italy, Portugal and Greece) that represent around 13% of total sales.

Grifols' average collection period fell by 13 days to 52 days in December 2012.

- **Debt reduction and improved credit ratings**

Grifols' net financial debt at December 2012 stood at Euros 2,396.1 million, a ratio of 2.87 times adjusted EBITDA<sup>3</sup>, and lower than the ratio of 4.3 recorded at December 2011.

Cash flow generation before interest payment exceeded 600 million euros. The Company has made debt repayments totalling a net of Euros 255.6 million over the year, which includes early repayments and confirms Grifols' forecast of returning to the debt levels prior to the purchase of Talecris, once the projected synergies have been achieved.

Gradual debt reduction coupled with sound results and healthy cash flows have all contributed to reinforcing the balance sheet. All of these factors played a major role in the decision of Standard and Poor's and Moody's to upgrade Grifols' latest credit rating. So much so that in August Standard & Poor's upgraded Grifols' Corporate Family Rating to BB, with a stable outlook, with senior secured debt rated BB+ and senior unsecured debt at B+.

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# GRIFOLS, S.A. AND SUBSIDIARIES

## Directors' Report

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

Moody's meanwhile upgraded Grifols' Corporate Family Rating to Ba3, with senior secured debt rated Ba2 and senior unsecured debt at B2, all with a positive outlook. One of the determining factors behind Moody's decision to improve its rating was the decision not to pay a dividend in 2012, as approved by the shareholders at their annual general meeting.

- **Equity**

Grifols equity increased to Euros 1,880.7 million in 2012, mainly as a result of the positive results during the period.

To December 2012, Grifols' share capital amounted to Euros 117.9 million, represented by 213,064,899 ordinary shares (Class A) and 113,499,346 shares without voting rights (Class B).

Grifols' ordinary shares (Class A) are listed on the Spanish stock exchange electronic trading system and form part of the Ibex-35 (GRF) index, while shares without voting rights (Class B) are also listed on the Spanish stock exchange electronic trading system (GRF.P) and on the US NASDAQ stock exchange (GRFS) through ADRs (*American Depositary Receipts*). After modification in 2012 of the exchange rate of ADRs listed on NASDAQ, 1 Grifols' ADR represents 1 Class B share.

At the extraordinary general meeting held on 4 December, the shareholders approved a scrip issue as an alternative remuneration formula to the payment of cash dividends, in the proportion of 1 new Class B share for every 20 former shares, regardless of whether they were Class A or Class B.

### Capital investment (CAPEX) and R&D

- **The majority of capital investments up to 2015 already made**

By 2012 Grifols had met most of its CAPEX targets up to 2015. During the year, the Company continued with its planned investments and earmarked a total of Euros 156.1 million to expand and improve its production facilities in both Spain and the United States. From 2012 to 2015, the Group will invest over Euros 400 million, of which approximately 30% will be destined for investments in Spain.

The Bioscience Division has absorbed a substantial proportion of the investment plan, which involves improving the structure of plasma procurement centres in the United States and gradually expanding production facilities.

The construction of the new plasma fractionation plant in Parets del Vallès, with a fractionation capacity of 2 million litres/year, has been completed and it will be operational by 2014. The expansion works at the Clayton plant, where initial plasma trials have commenced, continue, although the entire validation process will not be completed before 2015. Once operative, both plants will provide Grifols with an installed plasma fractionation capacity of 12.5 million litres/year.

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# GRIFOLS, S.A. AND SUBSIDIARIES

## Directors' Report

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

Investments related to plasma protein purification have also continued. In 2012, the validation of the factor VIII and IX coagulation plants were completed at Los Angeles, and both FDA and EMA approval have been obtained. Expansion works at the Clayton albumin plant have also concluded, while the conversion and adaptation process is still underway at the Los Angeles plant for manufacturing Gamunex® intravenous immunoglobulin (IVIG).

Grifols' main goal is to gradually expand its production plant capacities in Spain and the United States. In order to do so, it is simultaneously expanding facilities involved in plasma fractionation and protein purification to obtain the different types of plasma derivatives.

Part of the investments have also been devoted to areas such as expanding and relocating plasma donation centres; improving infrastructures related to the classification, preparation and storage of raw materials; logistics centres and analysis laboratories. Of particular note are the closure of the sample analysis laboratory in Raleigh (North Carolina-USA) and consolidation of the laboratories situated in Austin and San Marcos (Texas-USA). In the first half of 2012, the San Marcos laboratory was inaugurated, where a minimum of eight tests are conducted on each unit of plasma.

As regards the Diagnostic and Hospital Divisions, whose production facilities are mainly centralised in Spain, the expansion works on phase III of the Las Torres de Cotillas industrial complex (Murcia-Spain) have concluded, and the facilities have commenced operations. This complex produces intravenous saline solution in flexible packaging and bags for the extraction and conservation of blood components. The latest expansion involved an investment of approximately Euros 18 million and the two Grifols' complexes in Murcia occupy a total surface area of 13,000 m<sup>2</sup>. The Company also intends to invest an additional Euros 5 million for phase IV, in order to integrate the entire production process in a single complex.

Works have commenced on a new plant in Brazil for manufacturing bags for the extraction and conservation of blood components. This project has a budget of Euros 5 million and is being carried out by a new company called Gri-Cei, which is 60%/40% owned by Grifols and the Brazilian company Comércio Exportação e Importação de Materiais Médicos *Ltda* (CEI). Construction is expected to take two years. Once operative, it will enable Grifols to increase production capacity and strengthen its direct commercial presence in Latin America.

- **Extensive R&D Project portfolio**

Grifols' commitment to research and development continues to be illustrated by its profits for the year. Investments in R&D were higher than in 2011 and, following the acquisition of Talecris, the Company has the most extensive R&D portfolio of projects in progress ever.

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# GRIFOLS, S.A. AND SUBSIDIARIES

## Directors' Report

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

Grifols has invested a total of Euros 124.4 million in R&D during the year, representing 4.7% of sales and consolidating its leadership in research and development in alternative therapies that contribute to both scientific progress and society as a whole. In 2012 Grifols has 12 clinic trials underway for new products and treatments.

In fact, one of the key factors in Grifols' growth in recent decades has been its research activities, which have allowed it to launch new plasma proteins, new generations of existing proteins and new therapies onto the market.

Talecris' incorporation into the Group has led to Grifols establishing a common strategy for its research area, resulting in an integrated and flexible approach that has contributed to the creation of new projects in the medium and long term.

The Group's main lines of research are as follows:

- o Integral strategy in Alzheimer research

Grifols' Alzheimer research strategy addresses the degenerative disease from a global perspective, focusing on treatment with plasma derivatives, early diagnosis plus prevention and protection by means of vaccination.

2012 saw the launch of the AMBAR (Alzheimer Management by Albumin Replacement) study. This multicentre trial, which complements two previous trials, involves combining hemapheresis treatment with the administration of albumin and intravenous immunoglobulin (plasma-derived proteins), two of the main plasma derivatives, in different intervals and in varying doses. It includes approximately 350 patients from both Spain and the United States.

AMBAR was presented at the open forum of neurology experts at the annual congress of the Spanish Society of Neurology (SEN), held in November. In addition, the Company has signed an agreement with Fenwal to manufacture plasmapheresis machines and perishable material for the centres participating in the clinical trial.

Grifols is also pursuing its research activity through Araclon Biotech, a Grifols Group company dedicated to finding solutions that promote new diagnostic and therapeutic approaches to Alzheimer's disease. Araclon is working on the validation of an early diagnostic kit and the development of a vaccine to combat Alzheimer's disease in the asymptomatic/preclinical stage. The vaccine has passed the animal experimentation stage and is pending approval by the Spanish Medications Agency for the start of clinical trials in humans.

- o Albumin in hepatology

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# GRIFOLS, S.A. AND SUBSIDIARIES

## Directors' Report

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A clinical trial is currently underway to evaluate the effect of prolonged administering of human albumin on cardiovascular and renal functions in patients with advanced cirrhosis and ascites. Once the clinical results have been obtained and analysed, a major-scale phase IV trial will be considered.

- Anti-thrombin in cardiac surgery

A clinical study to demonstrate the clinical effectiveness of Antithrombin (AT) Anbinex® in patients who have undergone cardiac surgery. In 2012, the most recent advances resulting from this research were presented at the congress of the *European Association of Cardiothoracic Anaesthesiologists* (EACTA).

- Biological glue

Grifols has embarked upon a new area of research with its interdisciplinary R&D project on biosurgery. This research is focused on developing a biological glue with healing or sealing properties for vascular, parenchymal, and soft tissue surgery and new uses for plasma proteins beyond the traditional replacement therapies. Four clinical trials are currently underway, two in vascular surgery and two in non-vascular surgery (parenchymal and soft tissue surgery), in Europe, Canada and the United States. The clinical trial in Europe is focusing on vascular surgery and is scheduled for completion during the first quarter of 2014. Furthermore, in 2012 the Company obtained FDA authorisation to commence three clinical trials in the United States.

Research is underway to obtain data on the effectiveness of IVIG Flebogamma® 5% DIF on paediatric patients, which is scheduled for completion at the end of 2013. This research includes projects regarding the use of plasmin in cases of acute peripheral arterial occlusion, the start of phase II of the clinical trial to evaluate the safety and tolerance of treating cystic fibrosis with preparations such as an inhaled formulation of alpha 1-antitrypsin.

For another consecutive year, Grifols' R&D activity has been rated "Excellent" by the Spanish Profarma Plan. The Spanish Profarma Plan is a joint programme set up by the Ministry of Industry, Tourism and Commerce, the Ministry of Health and Social Policy and the Ministry of Science and Innovation aimed at promoting scientific research, development and technological innovation in the pharmaceutical industry.

### Growth through acquisitions

Grifols' commitment is expressed both through a sound investment policy and by the acquisition of shares in R&D companies and projects in fields of medicine other than Grifols' core activity, such as advanced therapies, with the aim of securing the funding required to provide continuity to such initiatives.

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# GRIFOLS, S.A. AND SUBSIDIARIES

## Directors' Report

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One of its most important investments in 2012 was the acquisition of 51% of the share capital of Araclon Biotech with the aim of ensuring the viability of its biotechnological research project, as well as the acquisition of 40% of VCN Bioscience.

- **51% of Araclon Biotech**

Araclon Biotech, S.L. was founded as a spin-off from the University of Zaragoza in 2004. Its main areas of research focus on the validation and marketing of a blood diagnosis kit for Alzheimer's and the development of an effective immunotherapy (vaccine) for this disease.

The operation was carried out by the investment vehicle, Gri-Cel, S.A., that centralises the Group's investments in R&D projects in fields of medicine other than its core business. Grifols is currently the main shareholder of Araclon Biotech with a 51% share, while the remaining 49% is held by other founding shareholders.

- **40% of VCN Bioscience**

In 2012 Grifols acquired 40% of the share capital of biotechnology firm VCN Bioscience, devoted to the investigation and development of new therapeutic approaches to tumours for which there is currently no effective treatment. The firm's most advanced project focuses on the treatment of pancreatic cancer and Grifols' stake in the firm's share capital will enable it to continue to develop this new therapeutic approach, currently at the preclinical phase and scheduled to enter the clinical phase in 2013.

### Performance by business area: division analysis

- **Bioscience Division: 88.7% of income**

The Bioscience Division has generated 88.7% of Grifols' turnover and sales totalled Euros 2,325.1 million. Over 95% of sales were concentrated in the international markets although major growth was reported in the United States market, where the sales teams have implemented various measures to establish a closer relationship with certain groups, such as doctors, healthcare group purchasing organisations (GPO) and hospital pharmacy services, to discover their needs and offer better solutions. Sales have also risen to countries such as China, where albumin sales are performing well.

*1 Pro-forma data are unaudited comparative figures to May 2011, provided for guidance purposes only, as the purchase of Talecris took place in June 2011.*

*2 Reported figures do not include sales by Talecris from January to May 2011, as the purchase of Talecris took place in June 2011. Includes 7 months of consolidation for 2011.*

*3 Excluding costs associated with the purchase of Talecris and other non-recurring costs.*



# GRIFOLS, S.A. AND SUBSIDIARIES

## Directors' Report

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

An analysis of sales by product shows that high sales volumes in the main plasma-derived proteins have been the principal driver of growth in addition to the strengthening of Alphanate® (FVIII) following the divestment of Koate® in the United States as a result of the agreements with the FTC. Other relevant factors include the introduction of new products in certain markets and the wider range of uses. Towards the end of 2012 Grifols started to market Prolastina® in Spain, which is an alpha1-antitrypsin manufactured following the method used at the Clayton plant. The FDA has classified this plasma protein as an orphan drug in the treatment of cystic fibrosis, enabling a clinical trial to be set up to develop a new inhaled formulation of this therapy.

The rise in sales will also be driven in the medium term by the awarding of new licences. The Company has also obtained FDA approval for a new anti-thrombin manufacturing plant in Clayton, from which the first batches have already been obtained. This product was still being manufactured under the contract with Bayer in Berkeley and is the only anti-thrombin approved by the FDA in the United States.

Sales to the Inactivation of Plasma for Hospital Transfusion (IPTH) Service, on the other hand, are down as a result of the drop in the number of requests from centres, with 58,130 units sold in 2012 compared to 78,224 in 2011.

Regarding raw materials, 5.8 million litres of plasma have been collected by Grifols in the USA in 2012 in line with its optimization strategy. Three new plasma donor centres have been purchased in the USA from the Canadian biopharmaceutical firm Cangene Corporation, a transaction which will enable Grifols to reinforce its worldwide leadership in the obtaining of raw materials and the vertical integration of its business. At the end of the reporting period Grifols thus owns 150 centres in the United States. Furthermore, with the start up of a second sample analysis laboratory in San Marcos, in addition to Grifols' laboratory in Austin, the Group has the necessary resources to analyse the samples required to guarantee the safety of its raw materials and to minimize the possible risks due to force majeure.

The security of processes and products is of paramount importance to Grifols. Some of the improvements implemented during the year are: the incorporation of an automatic module for the emptying and cutting of plasma bags (Plasma Bags Open (PBO)) at the Parets del Vallès fractionation plant; the validation of a new analysis platform to jointly diagnose parvovirus B19, hepatitis A (HAV NAT) and new serology kits for vial markers. It has also completed the construction of a Plasma Bottle Sampling System (PBSS) for Grifols donor centres in the US, This has already been transferred to the industrialization department, with the manufacture of a preliminary series of 4 units. Studies are ongoing on the application of radiofrequency technology (RFID) as a technique for identifying plasma bottles.

Finally, in the area of logistics, the process for qualifying and validating the land transport of European plasma has been completed and an inspection has been satisfactorily carried out by the AEM. Improvements have also been made to centres' IT systems to facilitate barcode readings and improve the logistics of unit handling and traceability.

*1 Pro-forma data are unaudited comparative figures to May 2011, provided for guidance purposes only, as the purchase of 10 Talecris took place in June 2011.*

*2 Reported figures do not include sales by Talecris from January to May 2011, as the purchase of Talecris took place in June 2011. Includes 7 months of consolidation for 2011.*

*3 Excluding costs associated with the purchase of Talecris and other non-recurring costs.*

# GRIFOLS, S.A. AND SUBSIDIARIES

## Directors' Report

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

- **Diagnostic and Hospital Divisions**

The Diagnostic and Hospital Divisions, representing approximately 5.1% and 3.7% of Grifols' business, respectively, have sustained their growth during the year.

The two main events affecting the future and international expansion of both divisions are as follows: FDA positive inspection of the facilities, quality procedures and systems at the Diagnostic plant in Parets del Vallès, which represents a step forward in the commercialisation of gel reagents in the US market, and approval of the fluid therapy line in the Hospital Division of the Parets del Vallès plant, which will enable the manufacture and control of injectable medication for the US market and boost manufacturing for third parties in this division

Another relevant milestone is the obtaining of ISO 13485:2003+AC:2009 in the United States, an international quality standard establishing voluntary points of reference for the design, manufacture and distribution of Grifols medical appliances produced in Spain.

Sales in the **Diagnostic Division** stood at Euros 134.3 million, almost 80% of which have been made outside Spain. DG Gel® cards to determine blood group continue to be the driving force behind the division's growth in 2012. The number of cards sold has increased in all the markets in which Grifols operates, especially in emerging countries such as Mexico, Turkey, China and Brazil. New formulations have been developed for the United States, a key strategic area for growth in the division. Therefore, as a preliminary step, the successful FDA pre-inspection of the facilities, the quality procedures and systems for gel reagents at the Parets del Vallès plant and the approval of the DG Gel® system by the Canadian authorities have all been very welcome news.

A new gel card filling line has been installed at the Parets del Vallès plant to raise production of gel reagents and meet strong market demand. In terms of instruments, two new software versions of the analyser Erytra® have been launched, version 3.0 of which offers additional features to improve the performance and safety and enhance the robustness of the analyser. Sales of this software have performed particularly well in Switzerland, Denmark, Sweden and Norway, while the first Erytra® analyser was installed in Mexico. Sales of the hemostatis Q® analyser have also continued to perform well in emerging markets such as Brazil and Turkey.

The Diagnostic Division has consolidated its expansion in other markets through its collaboration agreement with the Blood Bank of Shanghai, one of China's leading institutions in the area of blood transfusions, which will use Grifols' latest technology, the BLOODchip® genetic test, to verify blood compatibility. The Blood Bank of Shanghai renders services to over 20 million people each year and receives more than 300,000 donations annually.

*1 Pro-forma data are unaudited comparative figures to May 2011, provided for guidance purposes only, as the purchase of 11 Talecris took place in June 2011.*

*2 Reported figures do not include sales by Talecris from January to May 2011, as the purchase of Talecris took place in June 2011. Includes 7 months of consolidation for 2011.*

*3 Excluding costs associated with the purchase of Talecris and other non-recurring costs.*

# GRIFOLS, S.A. AND SUBSIDIARIES

## Directors' Report

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

Despite the current budget restrictions in Spain, the autonomous regions of Castilla-La Mancha and Aragon have chosen to invest in transfusion safety through platelets and plasma pathogen inactivation processes using products distributed by Grifols. A total of nine regions have now implemented these systems.

Within this division, the immunohematology unit has mainly focused its activities on obtaining FDA approval for its products. It has also worked on improving instrument software and hardware, specifically, the programming, verification and validation of new techniques for the automation of specific reagents in the WADiana® analyser and the DG® Reader

Immunology activities included maintenance of Triturus analysers and management of component obsolescence. Additionally, a special version has been developed for exclusive use by Araclon Biotech which will allow ABTests® kits for early Alzheimer diagnosis to be automated.

The Hemostasis line continued to expand its range of reagents, notably DG®-Clot PS, for determining PS activity through clotting and DG®-PT L Rec, a new liquid recombinant thromboplastin. Validation and industrialisation of DG®-Chrom PC, a proprietary chromogenic kit for Protein C, also continued, with the first commercial batch due to be manufactured in the first quarter of 2013. Finally, development of the DG®-TT L human reagent, Liquid Human Thrombin for Thrombin Time concluded, while DG® -Latex PS Free, a latex reagent for determining Free Protein S, remains under development.

**Hospital Division** activity remained stable, generating approximately 3.7% of total Grifols revenues in 2012. This division accounts for the majority of sales in the Spanish market, and certain products have thus been affected by health sector cutbacks. Nonetheless, the Group is reorganising its commercial structure in Spain, focusing on a more specialised, integrated model, both geographically and functionally, which will allow it to tackle the challenges posed by the new Spanish health sector panorama.

Grifols continues to foster international expansion of this division, mainly through the Logistics and Hospital area and trade and distribution agreements.

Distribution commenced of Actial Farmacéutica's probiotic food supplement VSL#3®, which helps maintain intestinal bacteria balance and boost the immune system. This product, suitable for both adults and children, is distributed in hospitals and pharmacies. This distribution agreement contributed to the 6.6% growth enjoyed by the Nutrition area.

The distribution agreement signed with CareFusion in 2011, has enabled this company to begin commercialising the BlisPack® system, designed and manufactured by Grifols, in Latin America, the Middle East and Asia. In 2012 version 1.2 of the product was launched, with greater processing capabilities. BlisPack® automates blister cutting and the electronic identification of medications for hospital use.

*1 Pro-forma data are unaudited comparative figures to May 2011, provided for guidance purposes only, as the purchase of 12 Talecris took place in June 2011.*

*2 Reported figures do not include sales by Talecris from January to May 2011, as the purchase of Talecris took place in June 2011. Includes 7 months of consolidation for 2011.*

*3 Excluding costs associated with the purchase of Talecris and other non-recurring costs.*

# GRIFOLS, S.A. AND SUBSIDIARIES

## Directors' Report

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

The strategy of manufacturing pre-diluted pharmaceuticals for third parties is contributing to the geographical diversification of the division and maximising use of the Parets del Vallès production facilities. This service is provided through Grifols Partnership and agreements signed in 2012 include that signed in the United States with Mylan Institutional, which will allow both companies to expand their position in the hospital market, and the agreement with Eurospital for the manufacture of intravenous glass bottle saline solution for this Italian company.

In 2012 the plant at Parets del Vallès plant was inspected by the FDA, one of the prerequisites to continue with the internationalisation of the division, which plans to obtain approval for the Barcelona plant and at a later stage for the Murcia plant from the US authorities.

The Murcia plant has a total production capacity of up to 40 million units of intravenous solutions (saline solution) in polypropylene bags. The plant has both FDA and EC accreditation for healthcare products, and Spanish Medications Agency (AEM) authorisation to manufacture medicines. Additionally, the Group has been granted authorisation from the Spanish Health Ministry to sell products manufactured in the expanded area of the Murcia plant (phase III), which will enable it to raise production of intravenous solutions in flexible packaging.

In the area of fluid therapy manufacturing for third parties, two formulations for the treatment of osteoporosis in the European, American and Australian markets have been approved, with commercialisation due to commence in 2013. For this to happen, it essential for the manufacturing and control facilities for injectable medicines at the Parets del Vallès plant to have satisfactorily passed the FDA pre-inspection, a prior step to obtaining definitive approval for selling these products in the United States. The AEM has also approved pre-diluted potassium solutions in different formats and five new developments have been embarked upon, including a painkiller and a saline solution for the American market. In Nutrition, industrialisation of a parenteral lipid solution has begun while two new enteral diets, one hyperprotein and the other diabetic, have been concluded.

### Environmental management

In the environmental area, 2012 results demonstrate the importance and effectiveness of the energy efficiency and emissions reduction measures adopted as key plans of action under the Corporate Plan for Strategic Energy Initiatives 2010-2012.

Worth highlighting is the progress made in the global implementation of the SAP SuPM (*Sustainability Performance Management*) tool, which will facilitate IT monitoring of all environmental indicators and provide better information on which to base new targets for improvement.

The increased production of plasma-derived products, the Group's core business area incorporated in the Bioscience Division, has not affected environmental issues such as the generation of waste products, thanks to the application of Grifols' environmental management policy and objectives.

*1 Pro-forma data are unaudited comparative figures to May 2011, provided for guidance purposes only, as the purchase of 13 Talecris took place in June 2011.*

*2 Reported figures do not include sales by Talecris from January to May 2011, as the purchase of Talecris took place in June 2011. Includes 7 months of consolidation for 2011.*

*3 Excluding costs associated with the purchase of Talecris and other non-recurring costs.*

# GRIFOLS, S.A. AND SUBSIDIARIES

## Directors' Report

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

Construction of the ethanol distillation tower at the Los Angeles plant is about to be completed. When it becomes operational it will recycle 1.4 million litres of this compound per year which is currently managed as waste.

More than 160 tons of empty plastic plasma bottles have been recycled at the Clayton plant and general waste has been reduced by more than 900 tons due to improvements in waste separation.

A new waste area has been built at the Parets del Vallès factory to centralise equipment and thus improve waste separation and recycling, although 100% of polyethylene glycol waste produced was recycled last year. The 4,000 tons were converted to a by-product to manufacture additives for the cement industry and biogas production, which has also prevented 2,300 tons of CO<sup>2</sup> from being released into the atmosphere.

The *Go Green Campaign*, aimed at encouraging recycling at the 150 plasma donation centres in USA, stands out among the initiatives introduced to create better environmental awareness. Grifols has once again taken part in the *Carbon Disclosure Project* (CDP), the aim of which is to recognise the steps taken by the various participating companies to cut gas emissions and mitigate the risks of climate change. In 2012 Grifols obtained 88 points out of a possible 100, placing it 14<sup>th</sup> in the ranking of the best valued companies among 125 major companies from Spain and Portugal, and the top company in the health sector.

### Human Resources

Two of the main human resources initiatives have been to maintain jobs and back the development of professionals working at Grifols to support the Company's growth.

Grifols' average accumulated headcount stood at 11,108 employees, in general terms similar to the previous year, although in Spain there was a 3.5% rise to a total of 2,474 employees.

In 2012 Grifols consolidated its benchmark position as a model employer, with average length of service at six years. It provides equal opportunities for male and female staff, with an almost equal distribution by gender (46% men and 54% women), and an average age of 38 years.

The number of courses, participants and total hours spent on training have all soared compared to 2011, while more emphasis has been placed on activities relating to technical and scientific training, as well as the development of personal and business skills.

*1 Pro-forma data are unaudited comparative figures to May 2011, provided for guidance purposes only, as the purchase of 14 Talecris took place in June 2011.*

*2 Reported figures do not include sales by Talecris from January to May 2011, as the purchase of Talecris took place in June 2011. Includes 7 months of consolidation for 2011.*

*3 Excluding costs associated with the purchase of Talecris and other non-recurring costs.*

# GRIFOLS, S.A. AND SUBSIDIARIES

## Directors' Report

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

At strategic level, the main focus has been on sustaining and consolidating work processes among all training areas of the organisation at corporate and international level, particularly in the United States. Various key projects are thus being developed, such as gradual implementation of the *SAP Training* module for the entire Group, improvement of the Campus Grifols (online training platform) and standardisation and gradual implementation of a global performance assessment system.

The Group's two academies, the Grifols Academy of Plasmapheresis in the United States and the Grifols Academy in Spain, also played a prominent role in 2012, their first complete year of operations, providing 254 courses, more than 40,000 hours' training and support to over 2,000 participants.

Finally, maintaining health and safety in the workplace also consumed a substantial amount of HR efforts. The most effective way to achieve this is to correctly identify all plant design risks in order to prevent them, and manage them adequately.

On an international level, standardisation of the health and safety in the workplace management system continued. This project was launched in 2010 and comprises three phases: determining the health and safety management measures in place at international subsidiaries, updating existing documentation for each of them, and setting up a standard system adapted to each subsidiary that meets with the safety certification standards in force in Spain.

In line with the plan, efforts in 2012 centred on consolidating the subsidiaries' management system, including monitoring targets and establishing key performance indicators (KPI's). Additionally, a health and safety manual has been drawn up for subsidiaries to aid close monitoring of the project. In order to verify the effectiveness of the management system implemented, regular audits will be conducted in 2013, the results of which will enable new initiatives and deadlines to be defined.

In the United States, a US Health and Safety Committee has been created, comprising the heads of the different Group companies based in this country. Subcommittees have also been set up to deal with specific issues and share good practices among the different companies that Grifols operates in the United States.

### Risk

The financial crisis, whose effects were already touched upon in the 2008 annual report, is still affecting the countries in which Grifols operates. It remains difficult to predict whether there will be any further changes in the public health systems that could affect the Company's activity.

*1 Pro-forma data are unaudited comparative figures to May 2011, provided for guidance purposes only, as the purchase of 15 Talecris took place in June 2011.*

*2 Reported figures do not include sales by Talecris from January to May 2011, as the purchase of Talecris took place in June 2011. Includes 7 months of consolidation for 2011.*

*3 Excluding costs associated with the purchase of Talecris and other non-recurring costs.*

# GRIFOLS, S.A. AND SUBSIDIARIES

## Directors' Report

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

The Group's future results could be influenced by events relating to its own activity, such as shortages of raw materials for the manufacture of its products, the introduction of competing products or changes in legislation regulating the markets in which it operates. However, at the date of preparation of these annual accounts, Grifols has adopted the measures it considers necessary to mitigate the possible effects of these events.

In 2012 the U.S. Department of Justice (DOJ) informed the Company that the proceedings in relation to the internal investigation being carried out in Talecris since July 2009 for possible breaches of the *Foreign Corrupt Practices Act* (FCPA), were being closed. This investigation commenced prior to Grifols' acquisition of Talecris and dates back to when Talecris belonged to the Bayer Group. The Group continues with the in-depth review of potential irregular practices. The review is expected to be concluded in 2013.

### Treasury stocks

Transactions with treasury stocks during 2012 are described in the notes to the consolidated accounts accompanying this report.

The Annual Corporate Governance Report, which is required from listed companies, is included as an appendix to this Directors' Report, of which it forms part.

### Events after the reporting period

After the reporting date, the share capital increase for a nominal amount of Euros 1.63 million was carried out through the issue of 16,328,212 new shares without voting rights (Class B) of Euros 0.10 par value each, with no share premium and a charge to voluntary reserves. These shares have been listed on the Spanish stock exchange since January 2013. As a result, Grifols' share capital since January 2013 has stood at Euros 119.5 million, and is represented by 213,064,899 ordinary shares (Class A) with a par value of Euros 0.50 each and Euros 129,827,558 shares without voting rights (Class B), with a par value of Euros 0.10 each.

*1 Pro-forma data are unaudited comparative figures to May 2011, provided for guidance purposes only, as the purchase of 16 Talecris took place in June 2011.*

*2 Reported figures do not include sales by Talecris from January to May 2011, as the purchase of Talecris took place in June 2011. Includes 7 months of consolidation for 2011.*

*3 Excluding costs associated with the purchase of Talecris and other non-recurring costs.*

GRIFOLS, S.A AND SUBSIDIARIES

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

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At their meeting held on 21 February 2013, pursuant to the legal requirements, the Directors of Grifols, S.A. authorised for issue the consolidated annual accounts and consolidated directors' report for the period from 1 January 2012 to 31 December 2012. The consolidated annual accounts comprise the documents that precede this certification.

Victor Grifols Roura (signed) Chairman	Ramón Riera Roca (signed) Board member	Juan Ignacio Twose Roura (signed) Board member
Tomás Dagà Gelabert (signed) Board member	Thortol Holding B.V. (J.A. Grifols G.) (signed) Board member	Thomas Glanzmann (signed) Board member
Edgar Dalzell Jannotta (signed) Board member	Anna Veiga Lluch (signed) Board member	Luis Isasi Fernández de Bobadilla (signed) Board member
Steven F. Mayer (signed) Board member	W. Brett Ingersoll (signed) Board member	Raimon Grifols Roura (signed) Secretary to the board



**ANNUAL CORPORATE GOVERNANCE REPORT**

**LISTED PUBLIC LIMITED COMPANIES**

**ISSUER'S IDENTIFICATION DETAILS**

DATE FINANCIAL YEAR ENDED: 12/31/2012

TAX NUMBER (C.I.F.): A-58389123

Company name: GRIFOLS, S.A.

**MODEL ANNUAL CORPORATE GOVERNANCE REPORT FOR  
PUBLIC LIMITED COMPANIES**

The instructions for filling this report in given at the end of this document should be read in order to understand the model better and then draw this up properly.

**A – OWNERSHIP STRUCTURE**

A.1 Complete the following table on the Company's share capital:

Date of last modification	Share capital (euros)	Number of shares	Number of voting rights
12/22/2011	117,882,384.10	326,564,245	213,064,899

State whether there are different types of shares with different associated rights:

YES

Class	Number of shares	Face value per share	Unitary number of voting rights	Different rights
A	213,064,899	0.50	213,064,899	Ordinary shares.
B	113,499,346	0.10	0	1) Separate vote at a general shareholders' meeting on extraordinary matters; 2) Preference dividend; 3) Right of redemption in the event of a takeover bid; and 4) Preferential liquidation right

A.2 Give details of the direct and indirect owners of significant shareholdings and of their size at the date of closing the financial year, excluding Directors:

Personal or corporate name of the shareholder	Number of direct voting rights	Number of indirect voting rights (*)	% of total voting rights
CAPITAL RESEARCH AND MANAGEMENT COMPANY	0	21,257,231	9.977
DERIA, S.A.	18,687,588	0	8.771
SCRANTON ENTERPRISES, B.V.	16,149,937	0	7.580
MR. VICTOR GRIFOLS LUCAS	0	13,112,187	6.154
BLACKROCK, INC.	0	6,571,022	3.084

Personal or corporate name of the indirect owner of the holding	Held through: Personal or corporate name of the direct owner of the holding	Number of direct voting rights	% of total voting rights
CAPITAL RESEARCH AND MANAGEMENT COMPANY	OTHER COLLECTIVE INVESTMENT INSTITUTIONS MANAGED	21,257,231	9.977
MR. VICTOR GRIFOLS LUCAS	RODELLAR AMSTERDAM B.V.	13,112,187	6.154
BLACKROCK, INC.	BLACKROCK INVESTMENT MANAGEMENT (UK) LTD	6,571,022	3.084

State the most significant changes in the shareholding structure during the financial year:

Personal or corporate name of the shareholder	Date of the operation	Description of the operation
CAPITAL RESEARCH MANAGEMENT COMPANY	06/19/2012	Dropped below 15% of the share capital
CAPITAL RESEARCH MANAGEMENT COMPANY	11/29/2012	Dropped below 10% of the share capital
AMERICAN FUNDS INSURANCE SERIES GROWTH FUND (VIG)	11/26/2012	Dropped below 3% of the share capital

BLACKROCK, INC.	03/01/2012	3% of the share capital was exceeded
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A.3 Complete the following tables on the members of the Company's Board of Directors with voting rights from Company shares:

Personal or corporate name of Director	Number of direct voting rights	Number of indirect voting rights (*)	% of total voting rights
MR. VICTOR GRIFOLS ROURA	440,450	0	0.207
MS. ANNA VEIGA LLUCH	100	0	0.000
MR. EDGAR DALZELL JANNOTTA	254,127	0	0.119
MR. JUAN IGNACIO TWOSE ROURA	119,274	0	0.056
MR. LUIS ISASI FERNÁNDEZ DE BOBADILLA	100	0	0.000
MR. RAMON RIERA ROCA	169,085	0	0.079
MR. THOMAS GLANZMANN	18,561	65,000	0.039
THORTHOL HOLDINGS, B.V.	15,042,766	0	7.060
MR. TOMAS DAGA GELABERT	51,898	0	0.024

Personal or corporate name of the indirect owner of the holding	Held through: Personal or corporate name of the direct owner of the holding	Number of direct voting rights	% of total voting rights
MR. THOMAS GLANZMANN	KOLHOLMEN INVESTMENT AB	53,000	0.025
MR. THOMAS GLANZMANN	GLANZMANN ENTERPRISES GMBH	12,000	0.006

<b>% total number of voting rights belonging to the Board of Directors</b>	<b>7.585</b>
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Complete the following tables on the members of the Company's Board of Directors holding rights over Company shares:

A.4 Describe, where applicable, any family, commercial, contractual or corporate relations that may exist between the owners of significant shareholdings, to the extent that these are known to the Company, unless they are not highly relevant or stem from ordinary business operations:

**Type of relationship:**

Family

**Short description:**

Mr. Víctor Grifols Lucas is the father of the partners of Deria, S.A. and uncle of the shareholders of Thorthol Holdings B.V.

Personal or corporate name connected
THORTHOL HOLDINGS, B.V.
MR. VICTOR GRIFOLS LUCAS
DERIA, S.A.

A.5 Describe, where applicable, any commercial, contractual or corporate relations existing between the owners of significant shareholdings and the Company and/or its Group, unless they are not highly relevant or stem from ordinary business operations:

**Type of relationship:**

Contractual

**Short description:**

Mr. Víctor Grifols Lucas is a partner of Marca Grifols, S.L., which is paid a fee for use of the Grifols trademark

Personal or corporate name connected
MR. VICTOR GRIFOLS LUCAS

**Type of relationship:**

Contractual

**Short description:**

The shareholders of Thorthol Holdings B.V. (Grifols Gras family) are partners of Marca Grifols, S.L which is paid a fee for use of the Grifols trademark

<b>Personal or corporate name connected</b>
THORTHOL HOLDINGS, B.V.

A.6 State whether the Company has been informed of any shareholders' agreements affecting this pursuant to art. 112 of the Spanish Securities Market Law (LMV). Where applicable, describe these briefly and list the shareholders bound by any such agreement:

NO

State whether the Company is aware of the existence of any concerted actions arranged by its shareholders. Where applicable, give a short description of these:

NO

In the event of there having been any amendments to or termination of said stipulations or agreements or concerted actions, expressly state this:

A.7 State whether there is any natural or legal person now exercising or who could exercise control over the Company pursuant to article 4 of the Spanish Securities Market Law. Where applicable, identify this person:

NO

A.8 Complete the following tables on the Company's treasury stock:

At the date of closing the financial year:

Number of direct shares	Number of indirect shares (*)	Total % of share capital
174,408	0	0.053

(\*) Through:

<b>Total</b>	0
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Give details of any significant variations taking place during the financial year, in accordance with what is laid down in Royal Decree 1362/2007:

<b>Capital gain/(loss) of the Company's treasury stock disposed of during the period (thousand euros)</b>	1,135,594
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A.9 Give details of the conditions and period of the current mandate given by the Meeting to the Board of Directors to acquire or transfer the Company's treasury stock.

At the Extraordinary General Meeting of 25th January 2011, among other points, it was agreed to authorize the Company's Board of Directors to acquire its own stock or subscription rights, by means of purchase, exchange, attribution account payment or any other form envisaged in the Law, either directly or through its subsidiaries, within the limits and with the requisites to be announced below:

(i) That, insofar as there are Class B Shares, the acquisition should be performed pro rata between Class A Shares and the Class B Shares, at the same price and under identical terms and conditions;

(ii) For the face value of the shares acquired, added to the ones already owned by the Company or its Subsidiary companies, not to exceed 10% of the Company's share capital at any time.

(iii) For the acquisition, including any shares that the Company, or person acting in their own name but on the Company's behalf, had previously acquired and had in its portfolio, not to make the net worth work out lower than the amount of the share capital plus the legally or statutorily non-disposable reserves.

(iv) For the shares acquired to be paid up in full.

(v) The maximum acquisition price will be the listed price for the Class A shares at the stock exchange session on the day the acquisition is made or, where applicable, the one authorized by the Spanish Stock Exchange Commission. The minimum price will be 100% of the face value of each Class A share.

(vi) This authorization is granted for at most five years.

(vii) The shares acquired may be intended to be given to the workers or managers of the Group, either directly or as a result of exercising any option rights to which they may be entitled.

It was also agreed to revoke and make invalid in all its terms the previous authorization for acquisition of the Company treasury stock granted by the General Shareholders' Meeting of 21st June 2010.

A.10 State, where applicable, any legal and statutory restrictions to exercising voting rights, as well as any legal restrictions on acquisition or transfer of holdings in the share capital. State whether there are any legal restrictions to exercising voting rights:

NO

<b>Maximum percentage of voting rights that a shareholder may exercise by legal restriction</b>	0
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State whether there are any statutory restrictions to exercising voting rights:

NO

<b>Maximum percentage of voting rights that a shareholder may exercise through statutory restriction</b>	0
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State whether there are any legal restrictions to the acquisition or transfer of holdings in the share capital:

NO

A.11 State whether the General Shareholders' Meeting has agreed to adopt any neutralization measures against a public takeover bid pursuant to the provisions of Law 6/2007.

NO

Where applicable, explain the approved measures and the terms under which the restrictions would become ineffective:

## **B – STRUCTURE OF THE COMPANY'S ADMINISTRATION**

### B.1 Board of Directors

B.1.1 Give details of the maximum and minimum number of Directors envisaged in the corporate articles:

<b>Maximum number of Directors</b>	15
<b>Minimum number of Directors</b>	3

B.1.2 Complete the following table with the members of the Board of Directors:



Personal or corporate name of Director	Representative	Post on the Board	Date 1st appointment	Date last appointment	Election procedure
MR. VICTOR GRIFOLS ROURA	--	CHAIRMAN AND CEO	07/08/1991	05/24/2012	VOTING AT SHAREHOLDERS' MEETING
MS. ANNA VEIGA LLUCH	--	DIRECTOR	12/09/2008	06/21/2010	VOTING AT SHAREHOLDERS' MEETING
MR. EDGAR DALZELL JANNOTTA	--	DIRECTOR	12/19/2006	06/21/2010	VOTING AT SHAREHOLDERS' MEETING
MR. JUAN IGNACIO TWOSE ROURA	--	DIRECTOR	04/13/2000	05/24/2012	VOTING AT SHAREHOLDERS' MEETING
MR. LUIS ISASI FERNÁNDEZ DE BOBADILLA	--	DIRECTOR	05/24/2011	05/24/2011	VOTING AT SHAREHOLDERS' MEETING
MR. RAMON RIERA ROCA	--	DIRECTOR	04/13/2000	05/24/2012	VOTING AT SHAREHOLDERS' MEETING
MR. STEVEN MAYER	--	DIRECTOR	01/25/2011	01/25/2011	VOTING AT SHAREHOLDERS' MEETING
MR. THOMAS GLANZMANN	--	DIRECTOR	04/05/2006	05/24/2011	VOTING AT SHAREHOLDERS' MEETING
THORTHOL HOLDINGS, B.V.	MR. JOSÉ ANTONIO GRIFOLS GRAS	DIRECTOR	01/20/2000	05/24/2012	VOTING AT SHAREHOLDERS' MEETING
MR. TOMAS DAGA GELABERT	--	DIRECTOR	04/13/2000	06/21/2010	VOTING AT SHAREHOLDERS' MEETING
MR. W. BRETT INGERSOLL	--	DIRECTOR	01/25/2011	01/25/2011	VOTING AT SHAREHOLDERS' MEETING

<b>Total number of Directors</b>	11
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State any members leaving the Board of Directors during the period:

B.1.3 Complete the following tables on the members of the Board and their different types:

**EXECUTIVE DIRECTORS**

<b>Personal or corporate name of the Director</b>	<b>Committee proposing their appointment</b>	<b>Post held on the Company's organization chart</b>
MR. VICTOR GRIFOLS ROURA	NOMINATING AND REMUNERATION COMMITTEE	CHAIRMAN AND CEO
MR. JUAN IGNACIO TWOSE ROURA	NOMINATING AND REMUNERATION COMMITTEE	VICE-PRESIDENT OF PRODUCTION
MR. RAMON RIERA ROCA	NOMINATING AND REMUNERATION COMMITTEE	VICE-PRESIDENT OF MARKETING AND SALES

<b>Total number of executive Directors</b>	3
<b>Total % of the Board</b>	27.273

**EXTERNAL PROPRIETARY DIRECTORS**

<b>Personal or corporate name of the Director</b>	<b>Committee proposing their appointment</b>	<b>Personal or corporate name of the significant shareholder whom they represent or who proposed their appointment</b>
THORTHOL HOLDINGS, B.V.	NOMINATING AND REMUNERATION COMMITTEE	THORTHOL HOLDINGS, B.V.

<b>Total number of proprietary Directors</b>	1
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<b>Total % of the Board</b>	9.091
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#### INDEPENDENT EXTERNAL DIRECTORS

##### **Personal or corporate name of the Director**

MS. ANNA VEIGA LLUCH

##### **Profile**

Graduate in Biology (1974-1979) and Ph. D in Biology (Cum Laude) at Barcelona Autonomous University (1991). She has been Director of the Biology Section of the Reproductive Medicine Service of the Dexeus University Institute (1982-2005). She is currently the Director of the Barcelona Stem Cell Bank at the Center of Regenerative Medicine, the Scientific Director of the Reproductive Medicine Service of the Dexeus University Institute and associate professor at the Department of Experimental and Health Sciences of University Pompeu Fabra in Barcelona. She specialized in clinical embryology, reproductive genetics, embryonic and pluripotent stem cells research and bioethics.

##### **Personal or corporate name of the Director**

MR. EDGAR DALZELL JANNOTTA

##### **Profile**

In March 2001 he was appointed Chairman of William Blair Company L.L.C. and President of that Company's Executive Committee. He joined William Blair, an international investment bank, in 1959, he was appointed partner in 1965, and was a managing partner from 1977 to 1995. Before being appointed managing partner, he worked in the corporate finance department, in investment banking transactions and private equity. He was President of the Securities Industry Association (1982) and a board member of New York Stock Exchange Inc. He is a board member of Aon Corporation, Commonwealth Edison Company, Molex Incorporated and Sloan Valve Company. He is a graduate from Princeton University and has an MBA from Harvard Business School.

##### **Personal or corporate name of the Director**

MR. LUIS ISASI FERNÁNDEZ DE BOBADILLA

##### **Profile**

He is a managing director of Morgan Stanley España, country head for Spain, and board member of Madrid Stock Exchange. Mr. Isasi joined Morgan Stanley, in London, in 1987. He had previously acted as executive director of First Chicago Ltd. in London and worked before that at the Latin American Department of Morgan Guaranty Trust Co. in New York. Mr. Isasi started his professional career at Abengoa, in Seville, in 1977.

Mr. Isasi is a graduate in Economic and Business Sciences from Seville University and in 1982 obtained a Master's Degree in Business Administration at the University of Columbia in New York

<b>Total number of independent Directors</b>	3
<b>Total % of the Board</b>	27.273

#### OTHER EXTERNAL DIRECTORS

Personal or corporate name of the Director	Committee proposing their appointment
MR. STEVEN MAYER	NOMINATING AND REMUNERATION COMMITTEE
MR. THOMAS GLANZMANN	NOMINATING AND REMUNERATION COMMITTEE
MR. TOMAS DAGA GELABERT	NOMINATING AND REMUNERATION COMMITTEE
MR. W. BRETT INGERSOLL	NOMINATING AND REMUNERATION COMMITTEE

<b>Total number of other external Directors</b>	4
<b>Total % of the Board</b>	36.364

Give the reasons why these cannot be considered proprietary or independent and their connections, either with the Company, its Directors, or its shareholders.

**Personal or corporate name of Director**

MR THOMAS GLANZMANN Company, Director or shareholder with whom there is a connection  
GRIFOLS, S.A.

**Grounds**

His relationship does not match the current definitions of executive Director, proprietary or independent Board member. He is the majority partner at Glanzmann Enterprises GmbH, a company which has been rendering advisory services to the Group since 2011.

**Personal or corporate name of Director**

MR. BRETT INGERSOLL

**Company, Director or shareholder with whom there is a connection**

GRIFOLS, S.A.

**Grounds**

On the occasion of the agreement for purchasing Talecris Biotherapeutics Holdings Corp., the majority partners of the Company agreed to vote in favor of the General Meeting agreements required to close the operation. One of these agreements covered the appointment of Mr. W. Brett Ingersoll and Mr. Steven Mayer, board members of Cerberus (majority shareholder of Talecris), although the agreement did not lay down any obligation as regards their remaining as members of the Board of Directors of the Company. In fact, under NASDAQ regulations, both board members have independent status.

**Personal or corporate name of Director**

MR. TOMAS DAGA GELABERT

**Company, Director or shareholder with whom there is a connection**

GRIFOLS, S.A.

**Grounds**

His relationship does not match the current definitions of executive Director, proprietary or independent Board Member. He is a partner of the Osborne Clarke practice, which renders legal and tax services to the Group.

**Personal or corporate name of Director**

MR. STEVEN MAYER

**Company, Director or shareholder with whom there is a connection**

GRIFOLS, S.A.

**Grounds**

On the occasion of the agreement for purchasing Talecris Biotherapeutics Holdings Corp., the majority partners of the Company agreed to vote in favor of the General Meeting agreements required to close the operation. One of these agreements covered the appointment of Mr. W. Brett Ingersoll and Mr. Steven Mayer, board members of Cerberus (majority shareholder of Talecris), although the agreement did not lay down any obligation as regards their remaining as members of the Board of Directors of the Company. In fact, under NASDAQ regulations, both board members have independent status.

Detail any changes which may, where applicable, have taken place in the classification of Directors during the period:

B.1.4 Explain, where applicable, the reasons why proprietary Directors have been appointed at the request of shareholders whose shareholding is under 5% of the capital.

State whether there has been any failure to address formal requests for representation on the Board made by shareholders whose stake is equal to or over that of others at whose request proprietary shareholders had been appointed. If applicable, explain the reasons why these requests were not accepted.

NO

B.1.5 State whether any Board member had left their post prior to the expiry of their term of office, whether such a person has explained their reasons to the Board and through what channels, and, in the event of having done so in writing to the whole Board, explain below at least the reasons which this person gave:

NO

B.1.6 State, where applicable, the powers that have been vested in the CEOs:

**Personal or corporate name of Director**

MR. VICTOR GRIFOLS ROURA

**Short description**

All legally and statutorily conferrable powers

B.1.7 Identify, where applicable, any Board members holding administrative or executive posts in other companies forming a part of the Group of the Company listed:

<b>Personal or corporate name of Director</b>	<b>Corporate name of the entity in the Group</b>	<b>Position</b>
MR. VICTOR GRIFOLS ROURA	ARRAHONA OPTIMUS. S.L	CHAIRMAN AND CEO
MR. VICTOR GRIFOLS ROURA	BIOMAT USA INC	DIRECTOR
MR. VICTOR GRIFOLS ROURA	BIOMAT. S.A.	MANAGER
MR. VICTOR GRIFOLS ROURA	DIAGNOSTIC GRIFOLS. S.A.	MANAGER
MR. VICTOR GRIFOLS ROURA	GRI-CEL. S.A.	MANAGER
MR. VICTOR GRIFOLS ROURA	GRIFOLS ENGINEERING. S.A.	MANAGER
MR. VICTOR GRIFOLS ROURA	GRIFOLS INC.	DIRECTOR
MR. VICTOR GRIFOLS ROURA	GRIFOLS INTERNATIONAL. S.A.	MANAGER
MR. VICTOR GRIFOLS ROURA	GRIFOLS VIAJES. S.A.	MANAGER
MR. VICTOR GRIFOLS ROURA	INSTITUTO GRIFOLS. S.A.	CHAIRMAN AND CEO
MR. VICTOR GRIFOLS ROURA	LABORATORIOS GRIFOLS. S.A.	MANAGER
MR. VICTOR GRIFOLS ROURA	LOGISTER. S.A.	MANAGER
MR. VICTOR GRIFOLS ROURA	MOVACO. S.A.	MANAGER
MR. VICTOR GRIFOLS ROURA	PLASMACARE INC.	DIRECTOR
MR. EDGAR DALZELL JANNOTTA	INSTITUTO GRIFOLS. S.A.	DIRECTOR
MR. JUAN IGNACIO TWOSE ROURA	ARRAHONA OPTIMUS. S.L	DIRECTOR
MR. JUAN IGNACIO TWOSE ROURA	BIOMAT USA INC	DIRECTOR
MR. JUAN IGNACIO TWOSE ROURA	GRIFOLS COLOMBIA. LTDA.	ALTERNATE BOARD MEMBER
MR. JUAN IGNACIO TWOSE ROURA	GRIFOLS INC.	DIRECTOR
MR. JUAN IGNACIO TWOSE ROURA	INSTITUTO GRIFOLS. S.A.	DIRECTOR
MR. JUAN IGNACIO TWOSE ROURA	PLASMACARE INC.	DIRECTOR
MR. RAMON RIERA ROCA	BIOMAT USA INC	DIRECTOR
MR. RAMON RIERA ROCA	GRIFOLS (THAILAND) LTD	DIRECTOR

<b>Personal or corporate name of Director</b>	<b>Corporate name of the entity in the Group</b>	<b>Position</b>
MR. RAMON RIERA ROCA	GRIFOLS ARGENTINA. S.A.	CHAIRMAN
MR. RAMON RIERA ROCA	GRIFOLS ASIA PACIFIC PTE LTD	DIRECTOR
MR. RAMON RIERA ROCA	GRIFOLS AUSTRALIA PTY LTD.	Director
MR. RAMON RIERA ROCA	GRIFOLS BRASIL LTDA	DIRECTOR
MR. RAMON RIERA ROCA	GRIFOLS CHILE. S.A.	DIRECTOR
MR. RAMON RIERA ROCA	GRIFOLS COLOMBIA LTDA.	DIRECTOR
MR. RAMON RIERA ROCA	GRIFOLS DEUTSCHLAND GMBH	DIRECTOR
MR. RAMON RIERA ROCA	GRIFOLS FRANCE S.A.R.L.	CO-MANAGER
MR. RAMON RIERA ROCA	GRIFOLS INC.	DIRECTOR
MR. RAMON RIERA ROCA	GRIFOLS INTERNATIONAL. S.A.	MANAGER
MR. RAMON RIERA ROCA	GRIFOLS ITALIA. S.P.A.	CHAIRMAN
MR. RAMON RIERA ROCA	GRIFOLS MALAYSIA SDN BHD	CHAIRMAN
MR. RAMON RIERA ROCA	GRIFOLS MEXICO S.A. DE C.V.	CHAIRMAN
MR. RAMON RIERA ROCA	GRIFOLS NORDIC AB	CHAIRMAN
MR. RAMON RIERA ROCA	GRIFOLS POLSKA S.P.Z.O.O.	CHAIRMAN
MR. RAMON RIERA ROCA	GRIFOLS PORTUGAL PRODUCTOS FARMACEUTICOS E HOSPITALARES LDA.	DIRECTOR
MR. RAMON RIERA ROCA	GRIFOLS S.R.O.	DIRECTOR
MR. RAMON RIERA ROCA	GRIFOLS UK. LTD.	DIRECTOR
MR. RAMON RIERA ROCA	INSTITUTO GRIFOLS. S.A.	DIRECTOR
MR. RAMON RIERA ROCA	LOGÍSTICA GRIFOLS. S.A. DE C.V.	CHAIRMAN
MR. RAMON RIERA ROCA	PLASMACARE INC.	DIRECTOR
MR. THOMAS GLANZMANN	GRIFOLS INC.	CHAIRMAN
MR. THOMAS GLANZMANN	INSTITUTO GRIFOLS. S.A.	DIRECTOR
MR. TOMAS DAGA GELABERT	ARRAHONA OPTIMUS. S.L	DIRECTOR

<b>Personal or corporate name of Director</b>	<b>Corporate name of the entity in the Group</b>	<b>Position</b>
MR. TOMAS DAGA GELABERT	BIOMAT USA INC	DIRECTOR
MR. TOMAS DAGA GELABERT	GRIFOLS INC.	DIRECTOR
MR. TOMAS DAGA GELABERT	MEDION GMBH	DIRECTOR
MR. TOMAS DAGA GELABERT	MEDION GRIFOLS AG	CHAIRMAN
MR. TOMAS DAGA GELABERT	PLASMACARE INC.	DIRECTOR

B.1.8 Detail, where applicable, the Directors of your Company who are also on the Board of Directors of other companies listed on official securities markets in Spain other than your Group, which have been made known to the Company:

B.1.9 State and where applicable explain whether the Company has established rules on the number of boards on which its own Directors may sit:

NO

B.1.10 As regards recommendation number 8 of the Unified Code, state the policies and general strategies of the Company that must be approved by plenary session of the Board of Directors:

<b>The investments and financing policy</b>	YES
<b>The definition of the structure of the Company Group</b>	YES
<b>The corporate governance policy</b>	YES
<b>The corporate social responsibility policy</b>	YES
<b>The strategic or business plan, as well as the management targets and annual budget</b>	YES
<b>The remuneration and performance assessment policy for senior management</b>	YES
<b>The risk control and management policy, as well as the regular monitoring of the internal information and control systems</b>	YES
<b>The Company's dividends and treasury stock policy and in particular its limits</b>	NO

B.1.11 Complete the following tables as regards the aggregate remuneration of the Directors accrued during the financial year:



a) In the Company covered by this report:

Remuneration type	Data in thousand euros
Fixed remuneration	2,647
Variable remuneration	1,041
Allowances	0
Statutory benefits	0
Stock options and/or other financial instruments	0
Others	0

<b>Total</b>	<b>3,688</b>
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Other benefits	Data in thousand euros
Advance payments	0
Loans granted	0
Pension funds and plans: Contributions	0
Pension funds and plans: Obligations acquired	0
Life insurance premiums	0
Guarantees created by the Company in favor of Directors	0

b) Payable through the Company's Directors belonging to other boards of Directors and/or to the senior management of companies in the Group:

Remuneration type	Data in thousand euros
Fixed remuneration	0
Variable remuneration	0
Allowances	0
Statutory benefits	0
Stock options and/or other financial instruments	0
Others	0

<b>Total</b>	0
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Other benefits	Data in thousand euros
Advance payments	0
Loans granted	0
Pension funds and plans: Contributions	0
Pension funds and plans: Obligations acquired	0
Life insurance premiums	0
Guarantees created by the Company in favor of Directors	0

c) Total remuneration by type of Director:

Type of Director	By Company	By Group
Executives	3,088	0
External, proprietary	100	0
External, independent	300	0
Other external	200	0

<b>Total</b>	3,688	0
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d) In respect of the profit assigned to the parent Company

<b>Total remuneration of Directors (in thousand euros)</b>	3,688
<b>Total remuneration of Directors/profit attributed to the parent society (stated as a %)</b>	1.4

B.1.12 Identify any members of senior management who are not at the same time executive Directors, and state the total remuneration payable to them over the financial year:

<b>Personal or corporate name</b>	<b>Position</b>
MR. DAVID BELL	VICE-PRESIDENT OF CORPORATE OPERATIONS AND DEVELOPMENT OF GRIFOLS INC. AND U.S. SUBSIDIARIES
MR. GREGORY GENE RICH	CHAIRMAN OF GRIFOLS INC AND U.S. SUBSIDIARIES
MR. JOEL ABELSON	CHAIRMAN OF NORTH AMERICA COMMERCIAL DIVISION -GRIFOLS INC.
MS. MARY KUHN	CHAIRMAN OF MANUFACTURING OPERATIONS - GRIFOLS INC.
MR. ALFREDO ARROYO GUERRA	VICE-PRESIDENT ADMINISTRATION AND FINANCE
MS. NURIA PASCUAL LAPEÑA	DIRECTOR OF SHAREHOLDER AND INVESTOR RELATIONS
MR. ALBERT GRIFOLS ROURA	CHIEF EXECUTIVE OFFICER OF LABORATORIOS GRIFOLS, S.A.
MR. JAVIER JORBA RIBES	CHIEF EXECUTIVE OFFICER OF INSTITUTO GRIFOLS, S.A.
MR. VICENTE BLANQUER TORRE	CHIEF TECHNOLOGY OFFICER

Personal or corporate name	Position
MS. EVA BASTIDA TUBAU	CHIEF SCIENTIFIC OFFICER
MR. ANTONIO VIÑES PARES	DIRECTOR OF PLANNING AND CONTROL
MR. MATEO BORRAS HUMBERT	DIRECTOR OF HUMAN RESOURCES
MR. CARLOS ROURA FERNANDEZ	DEPUTY INDUSTRIAL VICE-PRESIDENT
MS. MONTSERRAT LLOVERAS CALVO	CHIEF ADMINISTRATIVE OFFICER AND CONTROLLER
MR. SHINJI WADA	CHAIRMAN OF PLASMA CENTERS - GRIFOLS INC.

<b>Total remuneration of top management (in thousand euros)</b>	7,871
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B.1.13 Specify on aggregate if there are guarantee or “golden parachute” protection clauses for members of senior management, including executive Directors of the Company or its Group, in the event of dismissal or changes in control. State whether these contracts have to be made known to and/or approved by the corporate or Group governing bodies:

<b>Number of beneficiaries</b>	18
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	Board of Directors	General Meeting
<b>Body authorizing the clauses</b>	YES	NO

<b>Is the General Meeting informed about the clauses?</b>	NO
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B.1.14 Describe the process for establishing the compensation of the members of the Board of Directors and the relevant statutory provisions in the articles about this.

<b>Process for establishing the compensation of the members of the Board of Directors and statutory clauses</b>
Corporate Articles:

## Process for establishing the compensation of the members of the Board of Directors and statutory clauses

Article 20.- Composition and remuneration of the Board of Directors.- (...) The post of Director will be paid. For this purpose, the General Meeting will establish each year or for the financial years that the Meeting itself may decide, a set amount as remuneration for the Board of Directors, which will distribute this among its members, by means of an agreement, depending on their dedication to the Company's business.

Regardless of the above, the Directors shall be entitled to refunding for any expenses that they have to make as a result of performing their duties.

Regulations of the Board of Directors:

Chapter VIII Remuneration of the Director

Article 26. Remuneration of the Director

1. A Director shall be entitled to obtain the remuneration set by the Board of Directors in accordance with statutory provisions and in accordance with the guidance of the Nominating and Remuneration Committee.

2. The Board shall ensure that Directors' remuneration is moderate in accordance with market requirements.

3. The remuneration policy passed by the Board shall attempt to give guidelines on the following issues:

(a) The amount, by types of Directors, of the fixed components, breaking down, where applicable, the allowances for taking part on the Board and its Committees, and an estimation of the annual fixed remuneration to which this gives rise.

(b) Variable remuneration items, specifically including:

i. Types of Directors to whom this applies, as well as an explanation of the relative importance of variable remuneration items in respect of the fixed ones;

ii. Criteria for assessment of results used as the basis for any entitlement to remuneration by shares, stock options or any other variable component;

iii. Fundamental parameters and foundation of any annual bonus system or of other benefits not paid in cash; and

iv. An estimation of the absolute amount of variable remuneration which will be entailed by the proposed remuneration plan, in accordance with the degree of fulfillment of the hypotheses or objectives taken as a reference.

(c) Main characteristics of the welfare systems (e.g. complementary pensions, life insurance and similar items) with an estimation of their amount or equivalent annual cost.

(d) The conditions to apply to contracts of senior management such as executive Directors, these to include:

i. Duration;

ii. Advance notice periods; and

iii. Any other clauses as regards engagement bonuses, as well as compensation or "golden parachutes" for early

**Process for establishing the compensation of the members of the Board of Directors and statutory clauses**

cancellation or termination of the contractual relationship between the Company and the executive Director.

4. Any remuneration associated with the Company's results shall take into account any possible reservations made in the external auditor's report which reduce said results.

5. Variable remuneration policies shall incorporate the technical cautions required to ensure that such remuneration bears relation to the professional performance of their beneficiaries and do not simply stem from the general evolution of the markets or the Company's business sector or from other similar circumstances.

Article 27. Remuneration of the external Director

The Board of Directors, with the advice of the Nominating and Remuneration Committee, shall pass any measures in its power to ensure that the remuneration of external Directors is in accordance with the following directive:

(a) External Directors must be paid according to their dedication, qualification and effective responsibility;

(b) External Directors must be excluded from any remuneration systems based on giving shares of the Company or of Group companies, from stock options or financial instruments referenced to the value of the share, based on variable remuneration linked to the Company's performance or on benefits systems;

This directive shall not, nevertheless, affect giving shares, when this is conditional upon Directors keeping them until ceasing to be a Director;

(c) The amount of external Directors' remuneration must be calculated in such a way as to offer incentives for their dedication, but which does not constitute an obstacle for independence.

State whether the Board has kept for itself the passing of the following decisions at a plenary session.

<b>At the proposal of the Company's chief executive, the appointment and possible dismissal of senior management, as well as their compensation clauses</b>	YES
<b>The remuneration of Directors, and, in the case of executive Directors, any additional remuneration for their executive functions and other conditions that must be met in their contracts</b>	YES

B.1.15 State whether the Board of Directors approves a detailed remuneration policy and explain the matters covered in this:

YES

<b>Amount of fixed components, with a breakdown, where applicable, of any allowances for participation on the Board and its Committees and an estimation of the annual fixed</b>	YES
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<b>remuneration to which these give rise</b>	
<b>Variable remuneration items</b>	YES
<b>Main characteristics of the benefits system, with an estimation of their annual amount or equivalent cost</b>	YES
<b>Conditions that must be met by the contracts of persons performing senior management functions as executive Directors</b>	YES

B.1.16 State whether the Board submits a report on the remuneration policy of its Directors to the advisory vote of the General Shareholders' Meeting, as a separate item on the agenda. If so, explain any aspects of the report as regards the remuneration policy as approved by the Board for future years, the most significant changes in such policies compared to the one applied during the financial year and an overall summary of how the remuneration policy was applied over the financial year in question. Give details of the role played by the Remuneration Committee and, if external consultancy was made use of, the identity of the external consultants who provided this:

YES

<b>Issues covered in the remuneration policy</b>
<p>The remuneration policy for directors for fiscal year 2012 was prepared by the Nominating and Remuneration Committee and approved by the Board of Directors of the Company at the meeting held on 22 February 2012.</p> <p>It must be mentioned that, until fiscal year 2011, Grifols' remuneration policy established remunerations arising from the position as director only for the members of the Company's Board of Directors who were regarded to be external independent directors.</p> <p>As a consequence of the change in Grifols' remuneration policy for fiscal year 2012, from that year, external directors, except those directors who had provided paid professional services to the Company or the Group during such fiscal year, received fixed remuneration for their position as directors.</p> <p>It is also worth noting that those members of the Company's Board of Directors who were regarded to be executive directors received salary remuneration, which was composed of fixed and variable components, in consideration only for their exclusive employment relationship with the Company and not with other companies of the Group, as it was established in the remuneration policy for fiscal year 2011.</p> <p>Amount and type of the fixed components of remuneration:</p> <p>A. Remuneration arising from the office of director</p> <p>It is only received by those directors who are deemed to be external directors of the Company, except for those directors who had provided paid professional services to the Company or the Group during such fiscal year.</p> <p>As of the date of this report, there are six external directors who received annual fixed remuneration arising from their position as directors (3 external independent directors, 1 external propriety director and 2 other external directors).</p> <p>The annual fixed remuneration established by the Board of Directors for fiscal year 2012, which was submitted for approval to the Ordinary Meeting, amounted to EUR 100,000 for each director.</p>

### Issues covered in the remuneration policy

#### B. Remuneration arising from the employment relationship

It is only received by those directors who are deemed to be executive directors and, as such, they have an employment relationship with the Company.

As of the date of this report, there are three executive directors who received annual fixed remuneration arising from their employment relationship with the Company: (i) the Chairman and CEO; (ii) the Vice-President of Production and (iii) Vice-President of Marketing and Sales.

#### A. Amount and type of the variable components of remuneration:

There is none.

#### B. Remuneration arising from the employment relationship

It is only received by those directors who are deemed to be executive directors and, as such, have an employment relationship with the Company.

As of the date of this report, there are three external directors who received variable remuneration arising from their employment relationship with the Company: (i) the Chairman and CEO; (ii) the Vice-President of Production and (iii) the Vice-President of Marketing and Sales.

The variable salary remuneration for fiscal year 2012 consisted of a fixed amount between 30% and 75% of the fixed remuneration established for such fiscal year, linked to the fulfillment of the objectives related to the achievement of EBIT Holding.

### Role of the Remuneration Committee

Although, pursuant to the provisions of section 5 of article 61 ter of the Securities Market Law (LMV), the role of the Nominating and Remuneration Committee of listed companies in the preparation of the Annual Remuneration Report has not been determined yet by the Minister of Economy and Finance or the CNMV (the Spanish Stock Exchange Commission), it has been judged opportune to submit the Annual Remuneration Report to the Nominating and Remuneration Committee of Grifols for their approval.

Has external consultancy been used?

NO

### Identity of external consultants

B.1.17 State, where applicable, the identity of the Directors who are also members of the Board of Directors, managers or employees of companies that own significant shareholdings in the listed Company and/or in entities belonging to the business Group:



Give details, where applicable, of any relevant relations other than the ones covered in the previous point between members of the Board of Directors and significant shareholders and/or Group entities:

B.1.18 State whether any amendments were made to the Regulations of the Board during the financial year:

NO

B.1.19 State the procedures for the appointment, reappointment/re-election, assessment and removal of Directors. Give details of the competent bodies, the processes to be implemented and the criteria used in each of the procedures.

Regulations of the Board of Directors:

Article 18. Appointment of Directors

1. Directors shall be designated by the General Shareholders' Meeting or by the Board of Directors, in accordance with the provisions laid down in the Spanish Corporate Enterprises Act.

2. The proposals for appointment of Directors submitted by the Board of Directors for consideration by the General Meeting, and the decisions on appointments passed by this body pursuant to the co-optation powers that it is granted by law must be preceded by the relevant proposal of the Nominating and Remuneration Committee.

When the Board departs from the recommendations of the Nominating and Remuneration Committee, the reasons for acting this way must be given, and taken note of in the minutes.

Article 19. Appointment of external Directors

1. The Board of Directors and the Nominating and Remuneration Committee, within their spheres of competence, shall ensure that the choice of candidates involves persons of known reliability, competence and experience, having to take the greatest care as regards the persons invited to occupy the positions of independent Director as envisaged in article 6 of these Regulations.

2. The Board of Directors shall not be able to propose or appoint any persons who are connected with the Company's management or who are connected by family, professional or commercial bonds with the executive Directors or senior management of the Company to occupy a position of independent Director.

The following may specifically not be proposed as or appointed independent Directors:

(a) Any persons who have during the previous year had a significant direct or indirect working, commercial or contractual relationship with the Company, its management, proprietary Directors of companies in the Group whose shareholding interests are represented by them, credit institutions with a significant position in the Company's financing, or organizations receiving significant subsidies from the Company;

(b) Any persons who are Directors of another listed Company which has proprietary Directors in the Company;

(c) Any persons connected with executive Directors, proprietary Directors or members of the Company's management; for purposes of this Regulation, persons connected with the Directors shall be understood to mean those who are involved in any of the cases envisaged in article 231 of the Spanish Corporate Enterprises Act; and

(d) Any persons who have other relations with the Company which, in the opinion of Nominating and Remuneration Committee, might impair their independence.

Regulations of the Board of Directors:

#### Article 20. Reelection of Directors

Any proposals for reelection of Directors that the Board of Directors may decide to submit to the General Meeting shall have to go through a formal preparation process, which shall necessarily include a report issued by the Nominating and Remuneration Committee which shall assess the quality of the work and the dedication to the post of the Directors proposed during the preceding mandate.

Regulations of the Board of Directors:

#### Article 17 b. Regular assessment

Twice a year the Board shall meet in a plenary session, to assess:

(a) The quality and efficiency of the Board's operation;

(b) Starting from the report passed on to it by the Nominating Committee, the Chairman of the Board and the chief executive of the Company's performance of their functions;

(c) The performance of its Committees, starting from the reports supplied by these.

Regulations of the Board of Directors:

#### Article 21. Term of office

1. Directors shall hold their post for the period envisaged in the Corporate Articles, and they may be reelected.

2. Any Directors appointed by co-optation shall hold their post until the date of the first General Meeting.

3. When, after a report from the Nominating and Remuneration Committee, the Board of Directors were to understand that the Company's interests were endangered, any Director completing his or her term of office or for any other causes ceasing to perform his or her function shall not be able to render services in any other entity which may be considered a competitor of the Company for the period laid down by the Board of Directors, which shall under no circumstances be able to be over two (2) years.

In spite of the above, the Board of Directors shall, if it considers this appropriate, be able to release the leaving Director from this obligation.

#### Article 22. Dismissal of Directors

1. Directors shall leave their posts when the period for which they were appointed has elapsed and when this is decided by the General Meeting, making use of the powers that it is legally or statutorily conferred.

2. The Board of Directors shall refrain from proposing to the General Meeting the dismissal of external Directors (proprietary and independent) before the end of the statutory period for which they were appointed, unless there are any exceptional and justified causes, and after a report from the Nominating and Remuneration Committee.

3. Directors shall have to offer their resignation to the Board of Directors and go through with the relevant resignation, if the Board considers this fit, in the following cases:

(a) When they leave the executive positions with which their appointment as a Director was associated, except for express ratification by the Board of Directors, after a non-binding report from the Nominating and Remuneration Committee;

(b) When they are involved in any of the legally envisaged cases of incompatibility or prohibition;

(c) When charges are brought against them for a presumably criminal offense or when a judge's order for hearing to commence is issued for any of the offenses stated in article 213 of the Spanish Corporate Enterprises Act, or when they are involved in disciplinary proceedings for serious or very serious misconduct brought by supervisory authorities;

(d) When they are seriously admonished by the Auditing Committee for having failed to comply with their obligations as Directors;

(e) When their remaining on the Board may endanger the Company's interests or when the reasons for which they were appointed have disappeared; and

(f) In the case of a proprietary Director, when the shareholder whose shareholding interests they represent on the Board disposes of their holding in the Company or reduces this under the level reasonably justifying their appointment as such.

4. When a Director stands down from his or her post either through dismissal or for other reasons, the reasons for this shall be explained in a letter which will be sent to all the members of the Board by means of the Chairman or the Secretary.

#### B.1.20 State any cases in which Directors are obliged to resign.

Regulations of the Board of Directors:

##### Article 22. Dismissal of Directors

(... )

3. Directors shall have to offer their resignation to the Board of Directors and go through with the relevant resignation, if the Board considers this fit, in the following cases:

(a) When they leave the executive positions with which their appointment as a Director was associated, except for express ratification by the Board of Directors, after a non-binding report from the Nominating and Remuneration Committee;

(b) When they are involved in any of the legally envisaged cases of incompatibility or prohibition;

(c) When charges are brought against them for a presumably criminal offense or when a judge's order for hearing to commence is issued for any of the offenses stated in article 213 of the Spanish Corporate Enterprises Act, or when they are involved in disciplinary proceedings for serious or very serious misconduct brought by supervisory authorities;

(d) When they are seriously admonished by the Auditing Committee for having failed to comply with their obligations as Directors;

(e) When their remaining on the Board may endanger the Company's interests or when the reasons for which they were appointed have disappeared; and

(f) In the case of a proprietary Director, when the shareholder whose shareholding interests they represent on the Board disposes of their holding in the Company or reduces this under the level reasonably justifying their appointment as such.

B.1.21 Explain whether the function of chief executive of the Company falls upon the Chairman of the Board of Directors. If so, state the measures that have been taken to limit the risks involved with powers being concentrated in a single person:

YES

<b>Measures to limit risks</b>
Functions are decentralized through the existence of the Board's delegate Committees (the Auditing Committee and the Nominating and Remuneration Committee), which have their own spheres of competence.  Furthermore, in accordance with article 8.1 of the Regulations of the Board of Directors, when the Chairman of the Board holds the status of chief executive, this person will be delegated all the powers that can be delegated in accordance with the Law, the Articles and these Regulations, and will be in charge of effective management of the Company's business, always in accordance with the decisions and criteria set by the General Shareholders' Meeting and the Board of Directors, in their respective spheres of competence.  Also see the reference to article 8.4 of the Regulations in the following section

State and where applicable explain whether rules have been established empowering one of the independent Directors to request that a meeting of the Board should be convened, or for new items to be added to the agenda, the aim being to coordinate and reflect the concerns of the external Directors and oversee evaluation by the Board of Directors

YES

<b>Explanation of the rules</b>
Article 8.4 of the Regulations of the Board of Directors empowers an independent Director to coordinate and reflect the concerns of external Directors and to direct the Board's assessment of its Chairman in cases when the Chairman is in turn the chief executive.

B.1.22 Are reinforced majorities, other than legal ones, required for any type of resolution?:

NO

Describe how agreements are passed at the Board of Directors, stating at least the minimum quorum and the types of majorities required to adopt the resolutions:

**Description of the agreement:**

All the agreements

<b>Quorum</b>	<b>%</b>
Half plus one of the Directors	0

<b>Type of majority</b>	<b>%</b>
Absolute majority. In the event of a tie, the Chairman has the casting vote	0

B.1.23 Explain whether there are any specific requirements other than the ones regarding Directors, in order to be appointed chairman.

NO

B.1.24 State whether the chairman has the casting vote:

YES

<b>Questions in which there is a casting vote</b>
In all questions within the Board's competence.

B.1.25 State whether the Articles or the Regulations of the Board establish any limit to the age of Directors:

NO

<b>Maximum age of chairman</b>	<b>Maximum age of the chief executive office</b>	<b>Maximum age of Directors</b>
0	0	0

B.1.26 State whether the Articles or the Regulations of the Board establish any limit to the maximum term of office of independent Directors:

NO

<b>Maximum term of office</b>	0
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B.1.27 If there are few or no female Directors, explain the reasons for this and any measures taken in order to remedy the situation

<b>Explanation of the reasons and the measures</b>
The Board bases its proposals for appointment of Directors strictly on professional qualification criteria (skill, knowledge and experience).

In particular, state whether the Nominating and Remuneration Committee has established procedures to ensure that selection processes do not suffer from implicit biases hindering any selection of female Directors and whether female candidates who meet the required profile are deliberately sought:

NO

B.1.28 State whether there are any formal processes for granting proxies at the Board of Directors. If so, provide a brief description.

Article 28.2 of the Regulations of the Board of Directors establishes Directors' general obligation to attend the meetings of the bodies to which they belong and to take an active part in any discussions in order for their opinion to make an effective contribution to decision-making. Furthermore, in the event of their not being able to attend any sessions to which they were called, on justified grounds, this article provides that any absent Director must give instructions to the Director who has to represent him/her.

B.1.29 State the number of Board meetings held during the financial year. Where applicable, also state the number of times the Board met without the chairman attending this:

<b>Number of Board meetings</b>	7
<b>Number of Board meetings without the chairman's attendance</b>	0

State the number of meetings held by the different Board Committees during the financial year:

<b>Number of meetings of the Executive or Delegate Committee</b>	0
<b>Number of meetings of the Audit Committee</b>	5
<b>Number of meetings of the Nominating and Remuneration Committee</b>	1

<b>Number of meetings of the Nominating Committee</b>	0
<b>Number of meetings of the Remuneration Committee</b>	0

B.1.30 State the number of Board meetings held during the year without the attendance of all Board members. Any proxies granted without specific instructions for the meeting will be considered as being absences:

<b>Number of Directors' absences during the year</b>	0
<b>% of absences of the total votes cast during the year</b>	0,000

B.1.31 State whether the individual and consolidated annual accounts presented to the Board for approval are previously certified:

YES

Identify, where applicable, the persons who certified the Company's individual and consolidated accounts for approval by the Board:

<b>Name</b>	<b>Position</b>
MS. MONTSERRAT LLOVERAS CALVO	CHIEF ADMINISTRATIVE OFFICER AND CONTROLLER
MR. ALFREDO ARROYO GUERRA	VICE-PRESIDENT ADMINISTRATION AND FINANCE

B.1.32 Explain, if there were any, the mechanisms established by the Board of Directors to prevent the individual and consolidated accounts drawn up by it from being presented to the General Shareholders' Meeting with reservations in the audit report.

Article 42.4 of the Regulations of the Board is transcribed below:

Article 42. Relations with auditors

(...)

4.The Board of Directors shall attempt to draw up the final accounts in such a way that there are no reservations by the auditor, and in the event of there being any, their content and scope shall be explained to shareholders by both the Chairman of the Auditing Committee and by the external auditors.

B.1.33 Is the Secretary to the Board also a Director?

NO

B.1.34 Explain the procedures for the appointment and removal of the Secretary to the Board, stating whether he/she is proposed by the Nominating Committee and approved by a plenary session of the Board.

<b>Procedure for appointment and removal</b>
According to article 10 of the Regulations of the Board, the Secretary does not need to be a Director.
According to article 15.5 of the Regulations of the Board, it is the Nominating and Remuneration Committee's competence to inform about the appointment and removal of the Secretary and Vice-secretaries to the Board of Directors.

<b>Does the Nominating Committee inform about the appointment?</b>	YES
<b>Does the Nominating Committee inform about the dismissal?</b>	YES
<b>Does the Board approve the appointment?</b>	YES
<b>Does the Board approve the dismissal at a plenary session?</b>	YES

Does the secretary to the Board have special responsibility for ensuring that the recommendations on good governance are followed?

YES

B.1.35 State if applicable, the mechanisms established by the Company to preserve the independence of the auditor, financial analysts, and rating agencies.

Article 14 of the Regulations of the Board gives the Audit Committee the following competences as regards the external auditor:

- (i) To pass on to the Board any proposals for selection, nomination, contracting and replacement of the external auditor;
- (ii) To be directly in charge of the fees and supervision of the work done by the external auditor;
- (iii) To regularly receive information directly from the external auditor on the progress, incidents and execution of auditing, as well as on the auditing plan and the results of its implementation and to make sure that senior management is acting on its recommendations.



(iv) To ensure the independence of the external auditor, and for this purpose:

. For the Company to inform the CNMV (Spanish Stock Exchange Commission), as a relevant fact, of the change of auditor and to adjoint a declaration on the possible existence of disagreements with the outgoing auditor, and if there were any, of their content;

. For the Company and the auditor to ensure respect for current legislation on rendering services other than auditing, the limits to concentration of the auditor's business and in general the other rules laid down for ensuring auditors' independence;

. In the event of the external auditor resigning, to examine the circumstances which had given rise to this.

Article 42 of the Regulations of the Board furthermore establishes that the Board's relations with the Company's external auditors shall be channeled through the Audit Committee. The Board of Directors shall furthermore refrain from proposing to the Meeting the contracting of any auditing firms in which the fees intended to be paid to it for all items are over ten per cent (10%) of its total income during the last financial year. This article also provides that the Board of Directors shall publicly inform, every year, of the overall fees that the Company has paid to the auditing firm for services other than auditing.

B.1.36 State whether the Company changed its external auditor during the financial year. If so, identify the incoming and outgoing auditors:

NO

Outgoing auditor	Incoming auditor

In the event of any disagreements with the outgoing auditor, please provide details:

NO

B.1.37 State whether the audit firm carries out other work for the Company and/or its business Group apart from auditing, and if so, state the amount of the fees received for such work and the percentage that this represents of the fees invoiced to the Company and/or its business Group:

YES

	Company	Group	Total
Amount of other non-auditing work (thousand euros)	458	478	936
Amount of other non-auditing work/total work invoiced by the auditing firm (as a %)	40,390	16,550	23,270

B.1.38 State whether the audit report of the annual accounts for the previous financial year contains reservations or qualifications. If it does, detail the reasons given by the Chairman of the Audit Committee to explain the content and scope of such reservations or qualifications.

NO

B.1.39 State the number of consecutive years for which the present audit firm has been auditing the annual accounts of the Company and/or its business Group. Likewise, give the percentage represented by the number of years the current audit firm has been auditing the accounts in respect of the total number of years for which the annual accounts have been audited:

	Company	Group
<b>Number of consecutive years</b>	22	22
<b>No. of years audited by the current audit firm /No. of years that the Company has been audited (as a %)</b>	100.0	100.0

B.1.40 State any holdings of the members of the Company's Board of Directors in the capital of entities engaged in the same, similar or complementary type of business to the one stated as the corporate purpose of either the Company or its Group, insofar as these have been made known to the Company. Also state the positions or functions that they carry out at said companies:

B.1.41 State and give details in each case of whether there is a procedure for the Directors to seek external consultancy:

YES

Detail of the procedure
<p>This is established in article 25 of the Regulations of the Board:</p> <p>Article 25. Expert assistance</p> <p>1. In order to be assisted in the practice of their functions, external Directors may request legal, accounting, financial or other experts to be taken on, at the Company's expense.</p> <p>Any such commission must necessarily involve specific problems of some scale and complexity arising during performance of the function.</p> <p>2. The decision to contract must be made known to the Chairman of the Board, and may be turned down by the</p>

**Detail of the procedure**

Board of Directors if it is accredited that:

- (a) This is not required for proper performance of the functions entrusted to the external Directors;
- (b) Its cost is not reasonable in view of the importance of the problem and of the assets and earnings of the Company; or
- (c) The technical assistance being sought can be properly given by the Company's own experts and technical staff.

B.1.42 State and, where applicable, give details as to whether there is a procedure for the Directors to be able to obtain the information needed to prepare for meetings of the governing bodies sufficiently long in advance:

YES

**Detail of the procedure**

In accordance with article 16.2 of the Regulations of the Board, the call for ordinary sessions shall be made in accordance with the advance notice and the procedures stipulated in the Corporate Articles. The call shall always include the agenda of the session and shall adjoin all the relevant information, properly summed up and prepared, sent long enough in advance for proper preparation of the meeting. When, in the Chairman's opinion, this proves inadvisable for security reasons, the information shall not be adjoined and the Directors will be informed of the possibility of examining this at the corporate headquarters.

B.1.43 State and where applicable give details as to whether the Company has established rules that oblige Directors to report and where appropriate resign in cases in which the image and reputation of the Company may be harmed:

YES

**Explain the rules**

Article 28.2 of the Regulations of the Board lays down Directors' obligation to inform the Nominating and Remuneration Committee about any criminal proceedings in which they are charged, as well as the later stages of the proceedings.

Article 22.3 envisages Directors' obligation to offer their resignation to the Board and if the latter considers this appropriate, to go through with this resignation if, amongst other reasons:

- (i) When they resign from the executive positions with which they are associated, except if they are expressly ratified by the Board of Directors, subject to the prior issuance of a non-binding report by the Nominating and Remuneration Committee.
- (ii) When they are involved in any of the legally envisaged cases of incompatibility or prohibition;
- (iii) When charges are brought against them for a presumably criminal offense or when a judge's order for hearing to commence is issued for any of the offenses stated in article 213 of the Spanish Corporate Enterprises Act,

**Explain the rules**

or when they are involved in disciplinary proceedings for serious or very serious misconduct brought by supervisory authorities;

(iv) When they are seriously admonished by the Auditing Committee for having failed to comply with their obligations as Directors; and

(v) When their remaining on the Board may endanger the Company's interests.

(vi) In the case of a propriety director, when the shareholder whose shareholding interest he represents on the Board disposes of his shareholding in the Company or reduces it below the level which reasonably justified his appointment as such.

B.1.44 State whether any member of the Board of Directors has informed the Company that he/she has been sentenced or formally accused of any of the offenses stipulated in article 124 of the Spanish Public Limited Companies Law:

NO

State whether the Board of Directors has analyzed the case. If so, explain the decisions made regarding whether or not the Director should remain in his/her post, giving reasons.

NO

Decision taken	Grounded explanation

B.2 Committees of the Board of Directors

B.2.1 Give details of all the Committees of the Board of Directors and their members:

**AUDIT COMMITTEE**

Name	Position	Type
MR. LUIS ISASI FERNÁNDEZ DE BOBADILLA	CHAIRMAN	INDEPENDENT
MR. STEVEN MAYER	MEMBER	EXTERNAL
MR. W. BRETT INGERSOLL	MEMBER	EXTERNAL

**NOMINATING AND REMUNERATION COMMITTEE**

Name	Position	Type
MR. EDGAR DALZELL JANNOTTA	CHAIRMAN	INDEPENDENT
MS. ANNA VEIGA LLUCH	MEMBER	INDEPENDENT
MR. VICTOR GRIFOLS ROURA	MEMBER	EXECUTIVE

B.2.2 State whether the Audit Committee is endowed with the following functions.

Monitoring the preparation process and the integrity of the financial information on the Company and, where applicable, the Group, verifying compliance with legal requirements, proper delimitation of the scope of consolidation and the proper application of accounting criteria	YES
Regularly assessing the internal control and risk management systems, so that the main risks are appropriately identified, managed and made known	YES
Ensuring the independence and efficiency of the internal audit function; proposing the selection, appointment, reappointment and removal of the head of the internal audit service; proposing the budget for such service; receiving regular information on its activities; and checking that the senior management takes the conclusions and recommendations of its reports into account	YES
Establishing and overseeing a mechanism that enables employees to communicate – confidentially and where considered appropriate, anonymously – any possible irregularities that they may observe in the Company, particularly financial and accounting ones	YES
Presenting to the Board of Directors proposals for the selection, appointment, reappointment and replacement of the external auditor, as well as the conditions under which it is contracted	YES
Regularly receiving from the external auditor information on the audit plan and the results of its implementation, and checking that the senior management takes its recommendations into account	YES
Ensuring the independence of the external auditor	YES
In the case of groups, helping to ensure that the Group auditor also assumes responsibility for the audits of individual companies in the Group	YES

B.2.3 Describe the rules covering organization, operation and responsibilities of each of the Committees attached to the Board of Directors.

**Name of Committee**

NOMINATING AND REMUNERATION COMMITTEE

**Short description**

This is established in article 15 of the Regulations of the Board: Article 15. The Nominating and Remuneration Committee 1. The Nominating and Remuneration Committee shall assess the profile of the

most appropriate persons for forming part of the different Committees and pass the relevant proposals on to the Board. 2. The Nominating and Remuneration Committee shall be made up of a number of from three (3) to five (5) Directors appointed by the Board of Directors, taking into account the knowledge, skills and experience of the Directors and the purposes of the Committee. The Nominating and Remuneration Committee shall in any event be made up of a majority of external Directors. 3. The Board of Directors shall appoint the Chairman of the Nominating and Remuneration Committee. The post of Chairman shall necessarily be given to an external Director and, insofar as this is possible, to an independent one. 4. The Board of Directors shall appoint the Secretary of the Nominating and Remuneration Committee, who could be (a) one of the members of said Nominating and Remuneration Committee (being a Secretary member of the Nominating and Remuneration Committee in this case), (b) any other member of the Company's Board of Directors who were not a member of the Nominating and Remuneration Committee (being a Secretary non-member of the Nominating and Remuneration Committee in this case) or (c) the Secretary or a Vice-Secretary of the Company's Board of Directors (being a Secretary non-member of the Nominating and Remuneration Committee in this case). The Secretary shall make a written record of all the agreements passed at each session of the Committee, and shall inform the plenary session of the Board of Directors through its Chairman. In the event of a tie, the Chairman of the Committee shall have the casting vote. 5. With no prejudice to any other tasks assigned by the Board, the Nominating and Remuneration Committee shall have the following basic responsibilities: (a) to draw up and review the criteria that have to be implemented for the composition of the Board of Directors and the selection of candidates, taking into account the skills, knowledge and experience necessary on the Board; (b) to make the proposals of appointments of Directors prior to submitting these to the General Meeting, or where applicable, prior to their adoption by the Board making use of its co-optation powers, informing in any event on the nature of the Director proposed; (c) to make proposals to the Board in order for the succession of the Chairman and of the chief executive to take place in a properly planned and organized manner; (d) to inform on the appointment and removal of the Secretary and Vice-Secretaries of the Board of Directors; (e) to inform about any appointments and removals of senior management that the chief executive may propose to the Board; (f) to propose to the Board the members who are to form part of each of the Committees; (g) to propose to the Board of Directors the system and amount of the annual remuneration of Directors and senior management; (h) to regularly review the remuneration schemes of senior management, considering their fitness and performance; and (i) to inform about any transactions which involve or could involve conflicts of interests and, in general, about the issues considered in Chapter IX of the Regulations of the Board of Directors. 6. Any member of the management team or the staff of the Company whose presence were required by the Chairman would be obliged to attend the sessions of the Committee and to give cooperation and access to any information available. 7. For better performance of its tasks, the Committee could seek consultancy from external professionals, for which purpose what is laid down in article 25 of the Regulations of the Board of Directors shall be applicable. 8. The Committee shall have to consider the suggestions made to it by the Chairman, the members of the Board, the executives or shareholders of the Company. In particular, (a) the Committee shall consult the Chairman and chief executive of the Company on matters to do with executive Directors and (b) any member of the Board may request the Committee to take into consideration potential candidates to cover any Director vacancies in case it considers these appropriate. 9. The Nominating and Remuneration Committee shall meet whenever the Board of Directors of the Company or its Chairman asks for a report to be issued or proposals to be adopted and, in any event, whenever it proves useful for proper performance of its functions. In any case, it shall meet once a year to prepare the information on the remuneration of the Directors that the Board of Directors has to approve and include in its annual public documents. 10. At the first plenary session of the Board after its meetings, the Nominating and Remuneration Committee shall account for its work and answer for what has been done. All the members of the Board shall receive a copy of the minutes of the sessions of the Nominating and Remuneration Committee.

**Name of Committee**

AUDIT COMMITTEE

**Short description**

As established in article 14 of the Regulations of the Board: Article 14. The Audit Committee 1. The Audit Committee will be made up of a number of from three (3) to five (5) Directors appointed by the Board of Directors, taking into account the knowledge, skills and experience of the Directors as regards accounting, auditing and management or risks and the tasks of the Committee. 2. The Audit Committee shall, in any event, be made up of a majority of external Directors, with an appropriate presence of independent Directors. An attempt will also be made to ensure that all the members of the Audit Committee, including its President, have the independence, experience and any other requisite established by the Securities and Exchange Commission (SEC) and the National Association of Securities Dealers Automated Quotation (NASDAQ). 3. The Board of Directors shall appoint the Chairman of the Audit Committee, a post which shall necessarily have to be filled by an external Director, and, where possible, an independent Director. The Chairman of the Committee shall have to be replaced every four (4) years, being able to be reelected after a period of one (1) year from his/her dismissal has elapsed. 4. The Board of Directors will appoint the Secretary of the Audit Committee, who could be (a) one of the members of said Audit Committee (in this case, being a Secretary member of the Audit Committee), (b) any other member of the Company's Board of Directors not a member of the Audit Committee (in this case, being a Secretary non-member of the Audit Committee), or (c) the Secretary or a Vice-Secretary of the Company's Board of Directors (being a Secretary non-member of the Audit Committee in this case). The Secretary shall make a record of the agreements adopted at each session of the Committee and inform the plenary session of the Board of Directors through its Chairman. In the event of any tie in the voting, the Chairman of the Committee shall have the casting vote. 5. With no prejudice to what is established in the Law, the Corporate Articles, or other tasks assigned to it by the Board of Directors, the Audit Committee shall have the following basic responsibilities: (a) In respect of the General Shareholders' Meeting: (i) To inform the General Meeting of the matters brought up in this body on matters within its competence; (b) In respect of the Board of Directors: (i) To inform the Board beforehand on the regular financial information that the Company periodically has to publish, through its status as a listed organization; in this respect, the Committee shall ensure that the interim accounts are drawn up with the same accounting criteria as the annual ones and to this end shall consider the suitability of a limited review by the external auditor; (ii) To inform beforehand on the creation or acquisition of stock in concerns with a special purpose or registered in countries or territories considered to be tax havens, as well as any other transactions or operations of a similar nature whose complexity means that they might harm the Group's transparency; (iii) To inform beforehand on related party operations; and (iv) To inform on any matter which has or could have any material, financial or accounting impact; (c) In respect of internal control and reporting systems: (i) To supervise the preparation process and the integrity of the financial information on the Company and, where applicable, the Group, verifying compliance with legal requirements, proper delimitation of the scope of consolidation and the proper application of accounting criteria; (ii) To regularly assess the internal control and risk management systems, so that the main risks are appropriately identified, managed and made known; (iii) To ensure the independence and efficiency of the internal audit function; proposing the selection, appointment, reappointment and removal of the Head of the Internal Audit Department; proposing the budget for such Department; receiving regular information on its activities (including the annual work plan and the activities report for the year prepared by the Head of the Department); and checking that the senior management takes the conclusions and recommendations of its reports into account; (iv) o establish and supervise procedures for reception, retention and treatment of any complaints received by the Company in respect of accountancy, internal controls and auditing matters, as well as anonymous and confidential contributions made by employees on questionable auditing and accounting matters; (d) As regards the external auditor: (i) To have exclusive authority to propose the appointment, contracting and replacement of the external auditor to the Board of Directors, with no detriment to the competences granted by Spanish legislation to the General Meeting and the

Board itself as regards the approval of those decisions; (ii) To be directly responsible for the fees and supervision of the work done by the external auditor as regards the preparation or issue of auditing reports, or similar, on financial statements; (iii) To regularly receive information directly from the external auditor on the progress, incidents and execution of auditing, as well as on the auditing plan and the results of its implementation and to make sure that senior management is acting on its recommendations; (iv) To ensure the independence of the external auditor, and for this purpose: . For the Company to inform the CNMV (Spanish Stock Exchange Commission), as a relevant fact, of the change of auditor and to adjoin a declaration on the possible existence of disagreements with the outgoing auditor, and if there were any, of their content; . For the Company and the auditor to ensure respect for current legislation on rendering services other than auditing, the limits to concentration of the auditor's business and in general the other rules laid down for ensuring auditors' independence; . In the event of the external auditor resigning, to examine the circumstances which had given rise to this. (iv) To promote the Group auditor's assuming responsibility for the audits of the companies forming part of the Group; (e) As regards the external consultants: (i) In order to be assisted in the practice of their functions, request legal, accounting, financial or other experts to be taken on, at the Company's expense; (f) As regards internal rules of conduct: (i) To monitor compliance of the Internal Regulations on Conduct in issues connected with the Securities Markets, of these Regulations, of the norms of conduct laid down in the "Ethical Code for Grifols Group" and in the "Code of Conduct for Grifols' Employees" and, in general, of any other internal rules for governance of the Company, as well as making the proposals required for improving these. 6. The Audit Committee shall meet as often as necessary for performing its work properly. 7. Any member of the management team or the staff of the Company whose presence were required by the Chairman shall be obliged to attend the Committee sessions, and to give cooperation and access to any information available to them. The Chairman may require them to appear in the absence of any other Director. The Chairman of the Committee may require attendance of Auditors at its sessions. 8. To perform its functions better, the Audit Committee may seek consultancy from external professionals at the Company's expense. For the sake of avoiding any doubt, the requisites and limitations envisaged in article 25 of the Regulations of the Board of Directors will not apply. 9. The Company will provide the appropriate funding, in accordance with the indications of the Audit Committee, to pay the fees of external auditors and of any advisor contracted by the Audit Committee, as well as any ordinary administrative expense incurred by the Audit Committee in the performance of its functions; 10. At the first plenary session of the Board after its meetings, the Audit Committee shall report on its work and answer for the work done. All the members of the Board shall be given a copy of the minutes of the Audit Committee's sessions.

**B.2.4 State the powers of each of the Committees as regards advice, consultancy and where applicable, delegations available:**

**Name of Committee**

NOMINATING AND REMUNERATION COMMITTEE

**Short description**

See section B.2.3 above

**Name of Committee**

AUDIT COMMITTEE

**Short description**

See section B.2.3 above



B.2.5 State, where applicable, the existence of regulations governing the Board's Committees, the place where these are available for consultation, and any amendments that have been made during the financial year. It should also be stated whether any annual report on the work done by each Committee has voluntarily been drawn up.

**Name of Committee**

NOMINATING AND REMUNERATION COMMITTEE

**Short description**

The regulations of the Nominating and Remuneration Committee are contained in the Regulations of the Board of Directors, which may be consulted on the Company's web page ([www.grifols.com](http://www.grifols.com)).

**Name of Committee**

AUDIT COMMITTEE

**Short description**

The regulations of the Audit Committee are contained in the Regulations of the Board of Directors and in the Audit Committee by-laws, which may be consulted on the Company's web page ([www.grifols.com](http://www.grifols.com)).

B.2.6 State whether the composition of the Executive Committee reflects the participation on the Board of the different categories of Directors:

NO

<b>If not, explain the composition of your Executive Committee</b>
There is no Executive Committee

**C – RELATED-PARTY TRANSACTIONS**

C.1 State whether a plenary session of the Board has reserved for itself the function of approving transactions that the Company carries out with Directors, with significant shareholders or shareholders represented on the Board, or with related parties, following a favorable report from the Audit Committee or any other body entrusted with this task:

YES

C.2 Provide details of any relevant operations involving a transfer of assets or liabilities between the Company or Group entities and significant shareholders in the Company:

Personal or corporate name of the significant shareholder	Personal or corporate name of the Company or entity in its Group	Nature of the relation	Type of operation	Amount (thousand euros)
SCRANTON ENTERPRISES, B.V.	GRIFOLS THERAPEUTICS INC.	Scranton Enterprises USA Inc (lessor) is a company owned by Scran	leases	16,037
SCRANTON ENTERPRISES, B.V.	GRIFOLS, S.A.	Scranton Enterprises BV is the sole partner of Gripdan Invest, S.L. (lessor)	leases	8,020

C.3 Provide details of any relevant operations involving a transfer of assets or liabilities between the Company or Group entities and the Company's managers or Directors:

Personal or corporate name of the managers or Directors	Personal or corporate name of the Company or entity in its Group	Nature of the operation	Type of operation	Amount (thousand euros)
MR. THOMAS GLANZMANN	GRIFOLS, S.A.	Thomas Glanzmann is a director of Grifols, S.A.	Services rendered	1,270
THORTHOL HOLDINGS, B.V.	GRIFOLS, S.A.	CONTRACTUAL (amount received by Marca Grifols, S.L., a company owned [by Grifols, S.A.]	ID transfer and licence agreements	1,807

C.4 Give details of any relevant transactions carried out by the Company with other companies belonging to the same Group, provided they are not eliminated during the process of preparing the consolidated financial statements and do not form part of the normal business of the Company in terms of their subject and applicable terms and conditions:

C.5 State whether the members of the Board of Directors have found themselves involved in any conflict of interest during the financial year, in accordance with what is stipulated in article 127 three of the Spanish Public Limited Companies Law.

NO

C.6 Give details of any mechanisms set up to detect, determine and solve any possible conflicts of interest between the Company and/or its Group and its Directors, executives or significant shareholders.

One of the general obligations of any Director laid down in article 28.2 of the Regulations of the Board is that of clearly expressing their opposition, in particular concerning independent Directors and other Directors who are not affected by the potential *conflict* of interest, when this involves decisions which might harm the shareholders not represented on the Board.

Furthermore, article 30.2 of the Regulations of the Board establishes that a Director must consult the Nominating and Remuneration Committee before accepting any management position in another company or concern which might represent a conflict of interests or affect their dedication.

Finally, article 31 establishes the following: (i) the Director must refrain from attending and getting involved in discussions which affect matters in which he or she is personally, directly or indirectly, an interested party; and (ii) the Director shall not be able to carry out, directly or indirectly, any professional or commercial transactions with the Company unless the situation of conflict of interests is informed of in advance, and the Board approves the transaction, after receiving a report from the Nominating and Remuneration Committee.

C.7 Is more than one Company from the Group listed in Spain?

NO

Identify any subsidiaries that are listed:

## **D – RISK CONTROL SYSTEMS**

D.1 General description of the risk policy of the Company and/or its Group, detailing and evaluating the risks covered by the system, together with an explanation of why these systems are appropriate for each type of risk.

The Company's risk management policy focuses on identifying, evaluating, reducing and controlling the different risks that may prevent it from attaining its business goals. To this end, the Company has the organization and infrastructures able to carry out the functions required, by means of a continuous process.

Risk management is the responsibility of senior management, whose main functions in this respect are:

- The identification and evaluation of risks.
- The definition, application and regulatory development of corporate risk management policies.
- The implementation of the processes required to ensure proper management of risks, their follow-up and control.

The Audit Committee oversees the way the management monitors compliance with the Group's risk management policies and procedures, and reviews whether these policies and procedures are appropriate, considering the risks to which the Group is exposed.

The Board of Directors' meeting on 24th May 2011 approved an amendment of the Regulations, reinforcing the internal control and information mechanisms of the Audit Committee in article 14, establishing the following amongst its competences for this purpose:

- (i) To supervise the preparation process and the integrity of the financial information on the Company and, where applicable, the Group, verifying compliance with legal requirements, proper delimitation of the scope of consolidation and the proper application of accounting criteria;
- (ii) To regularly assess the internal control and risk management systems, so that the main risks are appropriately identified, managed and made known;
  - (iii) To ensure the independence and efficiency of the internal audit function; proposing the selection, appointment, reappointment and removal of the head of the internal audit service; proposing the budget for such service; receiving regular information on its activities (including the annual work plan and the activities report for the year prepared by the Head of the Department); and checking that the senior management takes the conclusions and recommendations of its reports into account;
  - (iv) To establish and monitor the receipt, retention and treatment of complaints regarding accounting, internal accounting controls or auditing matters and confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters.

The Audit Committee is assisted by the Internal Audit department in these functions.

Internal Audit performs regular reviews of the checks and risk management procedures and informs the Audit Committee of the results.

The main risk factors covered in the Management Report and the Consolidated Annual Report of Grifols for fiscal year 2012 are as follows:

- Effects of the financial crisis on the countries in which Grifols is operating
- Changes in the Public Health System that may affect the Company's activity
- Lack of raw material for product manufacturing
- Emergence of competitive products in the market
- Changes in the regulatory norms of the markets
- 
- Credit, liquidity and market risk
- 

The Group has the necessary departments and the backing of specialized external consultants to ensure compliance of laws and rules applicable to it. The healthcare legislation of different countries, the financial-accounting rules and anti-corruption legislation are prominent among these regulations.

The Group does not have any significant concentrations of commercial credit risk or predicts any significant insolvency risk. Despite the financial situation of some European countries, insolvency risk is low in these markets, given that most of the clients are public bodies. There is a risk of delayed payment, which is mitigated by the possibility of claiming legal interest. Apart from this, no significant insolvency problems have been detected on the markets on which the Group sells to private bodies.

As regards the credit risk with banks and financial institutions, the Group only works with institutions of known reputation and requires appropriate diversification of its investments.

The Group implements cautious management of the liquidity risk, based on the availability of cash and financing facilities by means of a sufficient amount of engaged credit facilities which enable the Group to carry out its business plan and operations with stable and ensured financing sources.

The objective of management of market risk is to administer and control the Group's exposure to changes in market prices (including changes in exchange and interest rates) within reasonable parameters and at the same time, to optimize profitability.

The Group's main exposure to exchange rate risk is concentrated in the United States dollar. Since earnings in dollars represent 110% of the purchases and expenses in dollars in financial year 2012, the Group has a natural coverage of dollar fluctuations, and for this reason the risks stemming from fluctuations in the exchange rate are minimal.

The liabilities issued at variable rates expose the Group to exchange rate risk as regards cash flows. Much of the funding obtained during fiscal year 2012 is at a fixed interest rate. Moreover, in order to manage the interest rate risk in cash flows, hedging operations are carried out by contracting derivative financial instruments consisting in floating to fixed interest rate swaps. The notional amount of the swap represents a hedge of 58% of the senior debt at variable rates as of 31 December 2012.

The risk of the price of raw materials is minimized by vertical integration of the hemoderivatives business, a sector with a high level of concentration.

Apart from this, in the Bioscience division, the positive evolution of the demand for products, which is higher than the supply, guarantees suitable sales prices.

Other prominent operating risks of the Group are:

- Product liability
- Environmental responsibility
- Incidents which may occur on its premises
- The continuity of the business in the event of unexpected situations

Grifols has a quality system designed in order to guarantee the quality of our products from when the raw material is obtained until the release of the finished product for marketing. The quality controls of raw materials, production processes and finished product have been set up in order to minimize the risk of releasing onto the market a product that could have its quality, effectiveness or safety impaired.

Grifols also has a system for control of claims and pharmacovigilance, designed for early detection of any possible quality, efficiency or safety problems potentially connected with our products, and the adoption of the necessary corrective measures. Combined with the systems for monitoring product traceability on the market, this system enables fast and effective withdrawal of any batch of product from the market at any time.

The Environmental Department plans the environmental management of all the divisions in accordance with Grifols' environmental policy, which has the following objectives, amongst others:

- To minimize the environmental impacts of new products and development.
- To guarantee the compliance of applicable legal requisites and other principles to which the organization subscribes.
- To implement techniques for contamination prevention in order to minimize the environmental risks of its activities.

The system is based on the following mainstays:

- Deployment of a uniform documentary system which covers both operational and management procedures.
- The organization of Environmental Committees in each of the companies to appraise their environmental management, evaluate and decide on priority environmental measures.
- All the departments take into account any possible environmental impacts when establishing their work processes.

As regards our employees' safety, Grifols' safety standards, stricter than legal requirements, are painstakingly documented and the workers receive constant training to guarantee their uniformity and compliance.

Both the product responsibilities and possible incidents on the premises are furthermore covered by means of risk management policies and overall insurance schemes in order to guarantee appropriate and uniform protection for all the companies in the Group.

As regards the continuity of the business in the event of unexpected situations which might break off the work of any of our critical factories, Grifols has alternative premises which would allow ongoing operations at an acceptable level during the contingency. As for information technology services, a number of measures have been implemented to face up to contingency situations. All the procedures which are considered critical are backed up by the most appropriate technology in each case. Apart from this, a replication system between the centers in Spain and the United States has been implemented for some services. For the others there is a crisis recovery plan enabling service to be given to the entire Group in contingencies.

D.2 State whether any of the different types of risk affecting the Company and/or its Group (operating, technological, financial, legal, image-related, tax, etc.) materialized during the financial year.

NO

If so, state the circumstances that led to them and whether the control system established worked.

D.3 State whether there is a Committee or other governing body responsible for establishing and supervising these control devices.

YES

If so please provide details of its functions

**Name of the Committee or body**

AUDIT COMMITTEE

**Description of its functions**

As regards information and internal control systems, article 14 of the Regulations of the Board gives the following competences to the Audit Committee:

- (i) To supervise the preparation process and the integrity of the financial information on the Company and, where applicable, the Group, verifying compliance with legal requirements, proper delimitation of the scope of consolidation and the proper application of accounting criteria;
- (ii) To regularly assess the internal control and risk management systems, so that the main risks are appropriately identified, managed and made known;
- (iii) To ensure the independence and efficiency of the internal audit function; proposing the selection, appointment, reappointment and removal of the head of the internal audit service; proposing the budget for such service; receiving regular information on its activities (including the annual work plan and the

activities report for the year prepared by the Head of the Department); and checking that the senior management takes the conclusions and recommendations of its reports into account;

(iv) To establish and supervise procedures for reception, retention and treatment of any complaints received by the Company in respect of accountancy, internal controls and auditing matters, as well as anonymous and confidential contributions made by employees on questionable auditing and accounting matters.

#### D.4 Identification and description of the processes for complying with the different regulations that affect the Company and/or its Group.

The Group has the departments required to guarantee compliance with the laws and rules affecting the Company's proper operation. The healthcare legislation of different countries, the financial-accounting rules and anti-corruption legislation are prominent among these regulations.

Grifols also has external consultants helping to ensure compliance of any regulations applicable to the Group.

### E – GENERAL SHAREHOLDERS' MEETING

E.1 State and where applicable provide details of whether there are any differences between the required quorum for the General Shareholders' Meeting and the quorum system laid down in the Spanish Public Limited Companies Act (LSA)

NO

	<b>% quorum different to the one established in art. 102 of the LSA for general matters</b>	<b>% quorum different to the one established in 103 LSA for special cases of art. 103</b>
<b>Quorum required at 1st call</b>	0	0
<b>Quorum required at 2nd call</b>	0	0

E.2 State and, where applicable, give details of any differences from the system envisaged in the Spanish Limited Companies Law (LSA) for the adoption of corporate resolutions.

NO

Describe how it is different from the system envisaged by the LSA.

E.3 List any rights held by shareholders as regards General Meetings, insofar as these are different to the ones established in the LSA.

Class B Shares have the following rights:

1) Separate vote at the General Shareholders' Meeting in respect of extraordinary matters. With no detriment to what is laid down in article 103 of the Spanish Corporate Enterprises Act and additionally, but also to protect the rights of Class B Shares, any Company agreements on the following matters shall require, apart from their approval in accordance with what is laid down in article 17 of the Corporate Articles, the approval of the majority of Class B Shares outstanding at that time:

(A) An agreement (i) authorizing the Company or any of its subsidiaries to repurchase or acquire any Class A Shares of the Company, except for pro rata repurchases which may be offered to the owners of Class B Shares on the same terms and at an offered price equal to the owners of Class A Shares or (ii) approving the redemption of Company shares and any capital reduction (through repurchasing, cancelling shares or in any other way) other than (a) any legally compulsory redemptions and (b) any redemptions similarly affecting Class A Shares and Class B Shares and in which each Class B Share is given the same treatment and granted the same terms as for each Class A Share;

(B) Any agreement approving the issue, granting or delivery of (or authorizing the Company's Board of Directors to issue, grant or deliver) (i) any shares in the Company; (ii) any voting rights or other securities which entitle the holder to purchase Company shares or which can be exchanged or converted into Company shares; or (iii) any options, warrants or other instruments granting their owner the right to acquire, convert, subscribe or receive any Company securities in any other way except, in cases (i), (ii) and (iii) above, if (a) each Class B Share is given the same treatment in the relevant issue, granting or delivery as a Class A Share, and thus has, if there are any, the same preference rights (of subscription, preferential award or of another kind) in the relevant issue, granting or delivery as a Class A Share; or (b) the issue is made according to what is established in section 6.1 of the Company's by-laws;

(C) Any agreement unconditionally approving or not (i) an operation subject to Act 3/2009 (including, with no limitations, a merger, split-off, change of address abroad or global assignment of assets and liabilities), except if each Class B Share is treated in the same way as Class A Share in all aspects in said operation; or (ii) the dissolution or liquidation of the Company, except when the agreement is legally compulsory;

(D) Any agreement passing the exclusion of any shares of the Company from listing or trading on any securities market or secondary market; and

(E) In general, any agreement and any modification of the Corporate Articles which directly or indirectly impairs or has any adverse effect on the rights, preferences or privileges of Class B Shares (including any agreement which impairs or has any adverse effect on Class B Shares in comparison with Class A Shares or which benefits or positively affects Class A Shares in comparison with Class B Shares, or which affects the provisions of these Articles in respect of Class B Shares).

The General Shareholders' Meeting is competent to decide on any matters which have been attributed to it either legally or by its articles and, in particular, for expository purposes, it shall be the only company body or organism competent to decide on the subjects considered to be "Extraordinary Matters" according to this section of these Articles.

2) Preference dividend. Each Class B Share entitles its holder to receive a minimum annual preference dividend debited to the distributable profit in each business year at the end of which the Class B Share continues to be issued equal to 0.01 euros per Class B Share.



3) Right of redemption. Each Class B Share entitles its holder to obtain its redemption in the event of a takeover bid for the full or partial amount of the company shares being made and liquidated (fully or partly) except if the owners of Class B Shares had been entitled to participate in that offer and their shares had been acquired in that offer in the same way and in the same terms as the owners of Class A Shares (including, with no limitations, for the same consideration).

4) Preferential liquidation right. Each Class B Share entitles its holder to receive, in the event of the Company's dissolution and liquidation, a sum equal to the sum of (i) the face value of the Class B Share and (ii) the issue premium paid up for issuing that Class B Share.

E.4 State, where applicable, any measures adopted to encourage participation by shareholders at General Meetings.

The General Meeting Regulations govern the following aspects:

- (i) The shareholder's right to information over the web page and the request for information beforehand (art. 9);
- (ii) Attendance by proxy (art. 11);
- (iii) Shareholders' involvement in the Meeting (art. 16);
- (iv) Split voting is allowed, in order for financial intermediaries legitimated as shareholders but acting on behalf of different clients to be able to cast their votes in accordance with the latter's wishes (art. 19);
- (v) The procedures for remote voting (art. 20); and
- (vi) Publishing the agreements adopted on the Company's web page (art. 23).

Additionally, pursuant to the provisions of article 528.2 of the Spanish Corporate Enterprises Act, the company opens an electronic forum of shareholders each time the General Shareholders' Meeting is called.

E.5 State whether the Chairman of the General Shareholders' Meeting coincides with the position of Chairman of the Board of Directors. Give details, where applicable, of any measures that may have been adopted in order to guarantee the independence and proper operation of the General Meeting:

YES

<b>Details of the measures</b>
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Article 13 of the General Meeting Regulations establishes that the Committee for the General Meeting shall be made up of the members of the Board of Directors attending the General Meeting, being presided over by the Chairman and in the presence of the Secretary of the Meeting. The General Meeting shall be presided over by the Chairman of the Board of Directors or by the Director properly standing in for this person in accordance with what is laid down in the Regulations of the Board of Directors. Failing this, it shall be presided over by the attending shareholder designated for this purpose by the shareholders. In the event of being judicially called, the post of Chairman shall be determined by the competent judge. The party acting as Secretary of the General Meeting shall be the Secretary of the Board of Directors or the Vice-secretary validly standing in for this person in accordance with what is laid down in the Regulations of the Board of Directors. Failing this, the Secretary shall be the attending shareholder who is appointed for this purpose by the shareholders. If the Chairman or the Secretary were to be absent from the meeting for any reason they shall be replaced in their functions by the persons indicated above.

Moreover, article 22 of the Regulations of the Board establishes that the Secretary to the Meeting shall record the minutes of the session, which will have to be signed by the Secretary and approved by the Chairman, and subsequently incorporated into the Book of Minutes. The minutes can be approved by the General Shareholders' Meeting after the session or, otherwise, within fifteen (15) days, by the Chairman of the Shareholders' Meeting and two (2) inspectors, one representing the majority and the other representing the minority. The Board of Directors may require the presence of a Notary to draw up the minutes of the Meeting, being obliged to do so whenever this is requested by shareholders representing at least one per cent (1%) of the share capital, five (5) days prior to the date on which the Meeting is intended to be held.

E.6 State, where applicable, any changes made during the financial year to the Regulations of the General Shareholders' Meeting.

There have not been any modifications.

E.7 Give details of attendance at General Meetings held during the financial year covered by this report:

Details of attendance					
Date of General Meeting	% of attendance in person	% as proxy	% remote voting		Total
			Electronic voting	Others	
05/24/2012	3.250	80.128	0.000	0.858	84.236
12/04/2012	2.488	57.982	0.001	15.831	76.302

E.8 Briefly describe the resolutions adopted at the General Shareholders' Meetings held in the financial year covered by this report and the percentage of votes with which each resolution was adopted.

At the Ordinary General Shareholders' Meeting of 24th May 2012 each and all of the following resolutions were adopted:

One.- Examination and approval, where applicable, of the annual accounts, the individual management report and the proposal for application of the result for the Company year closing as of 31st December 2011

Vote

In favor: 99.9903%

Abstentions: 0.0045%

Against: 0.0052%

Two.- Examination and approval, where applicable, of the consolidated annual accounts and management report for the Company year closing as of 31st December 2011

Vote

In favor: 99.9750%

Abstentions: 0.0045%

Against: 0.0205%

Three.- Examination and approval, where applicable, of the work done by the Board of Directors during the financial year closing as of 31st December 2011

Vote

In favor: 99.7473%

Abstentions: 0.1725%

Against: 0.802%

Four.- Reappointment of individual accounts auditors

Vote

In favor: 99.8677%

Abstentions: 0.0473%

Against: 0.0850%

Five.- Reappointment of consolidated accounts auditors

Vote

In favor: 99.8677%

Abstentions: 0.0471%

Against: 0.0852%

Six.- Reappointment of directors

6.1.-Reappointment of Victor Grifols Roura

Vote

In favor: 79.6435%

Abstentions: 0.7850%

Against: 19.5715%

6.2.- Reappointment of Juan Ignacio Twose Roura

Vote

In favor: 81.9113%

Abstentions: 0.0201%

Against: 18.0686%

6.3.- Reappointment of Ramón Riera Roca

Vote

In favor: 81.9245%

Abstentions: 0.0201%

Against: 18.0554%

6.4.- Reappointment of Thortol Holding BV

Vote

In favor: 81.8041%

Abstentions: 0.0201%

Against: 18.1758%

Seven.- Approval of the remuneration of directors

Vote

In favor: 99.6274%

Abstentions: 0.0079%

Against: 0.3647%

Eight.- Consultative voting regarding the Annual Remuneration Report

Vote

In favor: 79.9041%

Abstentions: 0.2721%

Against: 19.8238%

Nine.- Delegation of powers for formalization and execution of the agreements passed by the Meeting

Vote

In favor: 99.9955%

Abstentions: 0.0043%

Against: 0.0002%

At the Extraordinary General Shareholders' Meeting of 4th December 2012 each and all of the following resolutions were adopted:

One.- Increasing the share capital by a nominal sum of 1,632,821.20 euros, by issuing and putting into circulation 16,328,212 new Class B Shares without voting rights of 0.10 euros face value each, with no issue premium, debited to voluntary reserves, in the proportion of 1 new Class B Share for each 20 old Class A or Class B Shares, envisaging the possibility of incomplete allocation. Modification of article 6 of the Corporate Articles (Capital Social). Approval of the balance sheet which provides the basis for the capital increase. Delegation of powers to the Board of Directors. Application to the competent national and foreign bodies for admitting the new shares for trading on the Stock

Exchanges of Madrid, Barcelona, Bilbao and Valencia, as well as on the Stock Exchange Interconnection System (Continuous Market) and on the NASDAQ

Vote

In favor: 99.7898%

Abstentions: 0.0077%

Against: 0.2025%

Two.-Split of the Company's Class A and Class B shares in the proportion of two new shares (whether they are Class A or Class B shares) for each one of the old shares (whether they are Class A or Class B shares), as the case may be, by means of reducing their nominal value and, subsequently, increasing the number of Class A and Class B shares of the Company, which will be doubled, being the total nominal amount of the share capital unchanged. Modification of article 6 of the Corporate Articles (Capital Social). Delegation of powers to the Board of Directors for one year. Application to the competent national and foreign bodies for admitting the new shares for trading on the Stock Exchanges of Madrid, Barcelona, Bilbao and Valencia, as well as on the Stock Exchange Interconnection System (Continuous Market) and on the NASDAQ.

Vote

In favor: 99.9587%

Abstentions: 0.0038%

Against: 0.0375%

Three .- To confer to the Board of Directors, with the express authority to delegate this to any of its members, the power to increase the Company's share capital, as laid down in article 297.1.b) of the Spanish Corporate Enterprises Act up to the maximum amount corresponding to 50% of the share capital at the time of this authorization, said increase to be able to be executed in one or several stages. Conferring to the Board of Directors, with express authority to delegate this power to any of its members, the power to exclude the preferential subscription right in the relevant capital increases, in accordance with article 506 of the Spanish Corporate Enterprises Act. Withdraw the powers conferred upon the Board of Directors on 2 December 2011 to increase the Company's share capital.

Vote

In favor: 53.7821%

Abstentions: 0.0062%

Against: 46.2117%

Four.- Conferring to the Board of Directors, with express authority to delegate this power to any of its members, the power to apply for the admission of Class A ordinary shares of the Company for trading on the NASDAQ.

Vote

In favor: 99.4099%

Abstentions: 0.0068%

Against: 0.5923%

Five.- Delegation of powers for formalization and execution of the agreements passed by the General Meeting

Vote

In favor: 99.9566%

Abstentions: 0.0064%

Against: 0.0370%

E.9 State whether there is any statutory restriction in the articles establishing a minimum number of shares needed to attend the General Shareholders' Meeting.

NO

<b>Number of shares necessary for attending the General Meeting</b>	
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E.10 State and explain the policies implemented by the Company with regard to granting proxies at General Shareholders' Meetings.

Right of representation (art. 11 General Meeting Regulations):

1. Any shareholder entitled to attend according to what is laid down in article 10 of the General Meeting Regulations may be represented by someone else, even though this person were not a shareholder. In the event of representation being conferred to a legal person, the latter shall in turn have to designate a natural person to represent it, as laid down in the Law.

2. The proxy must be granted specifically for each Meeting, either in writing or by remote communication channels, on condition that the identity of the principal and the proxy is properly identified, as well as the content of the proxy being granted. The Company's web page shall include the procedures and requisites for granting remote representation.

3. Any natural shareholders who are not in full possession of their civil rights, as well as shareholders who are legal persons, shall be able to be represented by those holding legal powers of attorney, which shall have to be duly accredited.

4. The proxy shall always be revocable. Personal attendance of the shareholder represented at the Meeting shall entail automatic revocation of the proxy.

Public request for representation (art. 12 General Meeting Regulations):

1. Public requests for representation shall be governed by what is laid down in article 186 of the Spanish Corporate Enterprises Act. In the event of the Company being listed on a secondary official market, the limitations established in article 114 of the Securities Market Law as regards exercising voting rights by the proxy shall be respected.

2. In any event, the document in which the power of attorney is given must contain or have adjoined to it the agenda, as well as the request for instructions for exercising voting rights and a statement of how the proxy is to vote in the event of instructions not being given.

3. As an exception, the representative may vote differently when circumstances arise which were not known at the time of sending the instructions, entailing running a risk of harming the principal's interests. In the event of a vote not being cast as specified in the instructions, the proxy must immediately inform the principal by means of a letter explaining the reasons for the vote.

4. There will be understood to have been a public request for representation when the same person is representing over three (3) shareholders.

Remote voting (art. 20 General Meeting Regulations):

1. In accordance with what is laid down in the Corporate Articles, any shareholders entitled to attend may vote remotely, as regards the proposals included in the agenda, through the following media:

(a) by postal vote, by sending in the duly signed attendance card, proxy and/or remote vote with a statement of how they are voting;

(b) by electronic correspondence or other remote communication channels, in accordance with the instructions given on the Company's web page, on condition that the security of electronic communications is duly guaranteed and that the electronic document pursuant to which the voting right is being practiced incorporates a recognized electronic signature, as laid down in the Electronic Signature Law, or which, without meeting the requisites of the recognized electronic signature, is accepted as being sufficient by the Board of Directors through displaying suitable guarantees of authenticity and identification of the shareholder exercising his/her voting right.

2. The announcement calling the General Meeting shall contain the procedure, requisites and deadline for exercising remote voting rights.

3. A remote vote will not be valid if it is not received by the Company at least five (5) days prior to the date on which the General Meeting is intended to be held.

4. Any shareholders issuing their remote vote as stipulated in this article shall be considered to be present for purposes of constituting the Meeting. Any delegations previously issued shall consequently be understood to be revoked and any granted thereafter shall be taken as unmade.

5. In spite of the above, any vote issued remotely as referred to in this article shall be invalidated by the personal attendance of the shareholder at the meeting.

E.11 State whether the Company is aware of the institutional investor policy regarding their participation in the Company's decision-making process:

NO

E.12 State the address and means of accessing corporate governance content on the Company's website.

The address of the Company's webpage is [www.grifols.com](http://www.grifols.com). Information on corporate governance can be accessed through the link Investors Relations on the main page, or directly at [http://inversores.grifols.com/portal/grifols/home\\_page\\_investors](http://inversores.grifols.com/portal/grifols/home_page_investors).

**F – DEGREE TO WHICH CORPORATE GOVERNANCE RECOMMENDATIONS ARE FOLLOWED**

State the extent to which the Company follows the recommendations of the Unified Good Governance Code. If any of these are not complied with, explain the recommendations, regulations, practices or criteria that the Company applies.

1. The Corporate Articles of listed companies should not place any upper limit on the number of votes that can be cast by a single shareholder, or impose other restrictions hindering the takeover of the Company by means of purchasing its shares on the market.

*See sections: A.9, B.1.22, B.1.23 and E.1, E.2*

Complied with

2. When a dominant and a subsidiary Company are stock market-listed, both should publicly disclose in detail:

a) The respective areas of work engaged in and possible business dealings between them, as well as those of the subsidiary Company listed with other Group companies;

b) Any mechanisms set up to settle any possible conflicts of interest that might arise.

*See sections: C.4 and C.7*

Not applicable

3. Even when not expressly required under Commercial Law, any decisions involving a structural corporate change should be submitted to the General Shareholders' Meeting, for approval or ratification, specifically the following ones:

a) Turning the listed companies into holding companies by means of "subsidiarization" or assigning core activities that were previously carried out by the Company itself to subsidiaries, even when the former keeps full ownership over the latter;

b) The acquisition or disposal of key operating assets that would effectively alter the Company's corporate purpose;

c) Operations that effectively amount to the liquidation of the Company.

Complied with

4. Detailed proposals of the resolutions to be adopted at the General Shareholders' Meeting, including the information stated in recommendation 28, should be made known at the same time as publication of the announcement convening the Meeting.

Complied with

5. Separate votes should be held at the General Meeting on materially separate items, in order for shareholders to express their voting preferences separately in each case. This rule should be applied particularly:

a) To the appointment or ratification of Directors, who should be individually voted;

b) In cases of amendments to the Articles, for each article or Group of articles which are materially independent.

*See section: E.8*

Complied with

6. Companies should allow split votes, so that financial intermediaries acting as nominees on behalf of different clients can issue their votes according to their clients' instructions.

*See section: E.4*

Complied with



7. The Board of Directors should perform its duties with unity of purpose and independent judgment, giving the same treatment to all shareholders. It should at all times be guided by the Company's interest, understood as maximizing its economic value in a sustained fashion.

It should also ensure that the Company abides by laws and regulations in its dealings with stakeholders, fulfils its obligations and contracts in good faith, respects the customs and good practices of the sectors and territories where it does business and upholds any additional social responsibility principles to which it has voluntarily subscribed.

Complied with

8. The Board should understand the core of its mission as being to approve the Company's strategy and the organization required to put this into practice, as well as to ensure and oversee that the Management complies with the goals set, while pursuing the Company's interests and corporate purpose. To this end, a plenary session of the Board should reserve the power to approve:

a) The Company's general policies and strategies, and in particular:

- i) The strategic or business plan, as well as the management targets and annual budget;
- ii) The investments and financing policy;
- iii) The definition of the structure of the Company Group;
- iv) The corporate governance policy;
- v) The corporate social responsibility policy;
- vi) The remuneration and performance assessment policy for senior management;
- vii) The risk control and management policy, as well as the regular monitoring of the internal information and control systems;
- viii) The Company's dividends and treasury stock policy and in particular its limits.

*See sections: B.1.10, B.1.13, B.1.14 and D.3*

b) The following decisions:

- i) At the proposal of the Company's chief executive, the appointment and possible dismissal of senior management, as well as their compensation clauses

*See section: B.1.14*

- ii) The remuneration of Directors, and, in the case of executive Directors, any additional remuneration for their executive functions and other conditions that must be met in their contracts

*See section: B.1.14*

iii) Any financial information that the Company must regularly disclose through its status as listed.

iv) Investments or operations of all kinds whose large amount or special characteristics mean that these have strategic importance, unless the General Meeting has to approve these;

v) The creation or acquisition of stock in concerns with special purposes or registered in countries or territories considered to be tax havens, as well as any other transactions or operations of a similar nature whose complexity means that they might harm the Group's transparency.

c) Operations carried out by the Company with Directors, significant shareholders or those represented on the Board or other persons linked with them ("related-party transactions").

This authorization of the Board shall not nevertheless be understood as being required in any related-party operations that simultaneously meet the following three conditions:

1. Ones carried out pursuant to contracts with standard conditions and applied on a large scale to a large number of clients;
2. Performed at prices or rates established on general terms by those supplying the goods or services in question;
3. Of an amount not exceeding 1% of the Company's annual income.

It is advisable for the Board to approve related-party operations only after a favorable report is issued by the Audit Committee or, where applicable, by any other to which the same function had been entrusted, and for the Directors involved, apart from not exercising nor delegating their voting right, to leave the meeting room while the Board discusses and votes on this.

It is recommendable for the powers attributed to the Board herein not to be delegated, except for the ones stated in points b) and c), which could be passed by the Delegate Committee for urgent cases, with later ratification by the plenary session of the Board.

*See sections: C.1 and C.6*

Partially complied with

Article 5 of the Regulations of the Board of Directors does not include either the dividends' policy or the Company's treasury stock and, in particular, its limits, in the Company's general policies and strategies. However, although the general policies and strategies are not included, they are actually approved by the Board of Directors. This is why it has not been judged necessary to amend article 5 of the Regulations of the Board of Directors.

9. The Board should have the right size to ensure effective operation and participation, which makes it advisable for this to comprise no fewer than five and no more than fifteen members.

*See section: B.1.1*

Complied with

10. The proprietary and independent external Directors should constitute a broad majority of the Board, while the number of executive Directors should be the minimum required, taking into account the complexity of the corporate Group and the percentage of ownership interests in the Company capital that the executive Directors control.

*See sections: A.2, A.3, B.1.3 and B.1.14*

Explain

The Company is examining the possibility of incorporating further independent directors. Therefore, the Board of Directors, subject to a prior favourable report from the Nominating and Remuneration Committee, envisages submitting for approval the appointment of a new independent director of the Company at the Ordinary General Shareholders' Meeting of 2013. In the event that such appointment is approved, the Board of Directors of the Company will consist of 9 external directors (out of which 4 are independent directors, 1 is a proprietary director and 4 are other external directors) and 3 executive directors.

However, new directors does not necessarily have to be elected at the Ordinary General Shareholders' Meeting and, therefore, new directors may be incorporated if the Company finds the right persons.

11. In the event of there being any external Director who can neither be considered proprietary nor independent, the Company should explain this circumstance and this person's links with the Company or its senior management, or with its shareholders.

*See section: B.1.3*

Complied with

12. Among the external Directors, the ratio of proprietary and independent Directors should reflect the proportion between the capital of the Company represented by the proprietary Directors and the remainder of the capital.

This strict proportional criterion could be relaxed so that the weight of the proprietary Directors is greater than would actually correspond to the total percentage of capital that they represent:

1. In companies with high capitalization in which few or no equity holdings are legally considered significant, but where there are shareholders with stakes of a high absolute value.
2. When these are companies in which there is a plurality of shareholders represented on the Board but with no links between them.

*See sections: B.1.3, A.2 and A.3*

Explain

The Company has only one proprietary director and three independent directors (although, as it is explained in section F.10, the Company is examining the possibility of increasing the number of directors to four). Since the Company has only three executive directors, it is considered that the Company ensures an adequate representation of independent directors; however, the possibility of further directors being elected is not excluded. Additionally, Mr. Brett Ingersoll and Mr. Steven Mayer (other external directors) would nevertheless be independent in accordance with the NASDAQ regulations.

13. The number of independent Directors should represent at least one third of the total number of Directors.

*See section: B.1.3*

Explain

As it is explained in section F.10 above, the Board of Directors, subject to a prior favourable report from the Nominating and Remuneration Committee, envisages submitting for approval the appointment of a new independent director of the Company at the Ordinary General Shareholders' Meeting of 2013. In the event that such appointment is approved, the Board of Directors of the Company will be made up of 4 independent directors out of 12 directors (1/3 of the total number of directors). Moreover, Mr. Steven Mayer and Mr. W. Brett Ingersoll would nevertheless be independent in accordance with the NASDAQ regulations.

14. The status of each Director should be explained by the Board at the General Shareholders' Meeting that is to make or ratify their appointment, and annually be confirmed or where applicable reviewed in the Annual Corporate Governance Report, after being verified by the Nominating Committee. Said report should also explain the reasons why proprietary Directors have been appointed at the request of shareholders whose stake is under 5% of the capital. It should state the reasons why, where applicable, they had not entertained formal requests for presence on the Board from shareholders whose stake is equal to or over that of others at whose request proprietary Directors had been appointed.

*See sections: B.1.3 and B.1.4*

Complied with

15. When the number of female Directors is low or non-existent, the Board should explain the reasons and initiatives adopted to correct this situation, and specifically the Nominating Committee should take measures, when new vacancies arise, to ensure that:

- a) the selection procedures do not involve any implicit bias hindering the selection of female candidates;
- b) the Company is making a conscious effort to seek women meeting the professional profile being sought and includes these among potential candidates.

*See sections: B.1.2, B.1.27 and B.2.3*

Partially complied with

The Board bases its proposals for appointment of Directors strictly on professional qualification criteria (skill, knowledge and experience).

16. The Chairman, as person in charge of proper operation of the Board, shall ensure that Directors are previously given sufficient information, stimulate discussion and active participation of the Directors during Board meetings, safeguarding their right to freely take a stance and express their opinion, and to organize and coordinate with the chairmen of the relevant Commissions the regular evaluation of the Board, as well as, where applicable, that of the CEO or chief executive.

*See section: B.1.42*

Complied with

17. When the Chairman of the Board is also the Company's chief executive, one of the independent Directors should be empowered to request calling Board meetings or including new items on the agenda; to coordinate and reflect the concerns of external Directors, and to lead the Board's appraisal of its Chairman.

*See section: B.1.21*

Complied with

18. The Secretary of the Board should take care to ensure that the Board's actions:

- a) Adhere to the spirit and letter of the Laws and their regulations, including the ones issued by regulatory agencies;
- b) Comply with the Corporate Articles and with the regulations of the General Shareholders' Meeting, the Board of Directors and any others;
- c) Take into account the recommendations on good governance given in this Unified Code which the Company had accepted.

In order to safeguard the independence, impartiality and professionalism of the Secretary, his or her appointment and removal should be proposed by the Nominating Committee and approved by the Board in a plenary session; the relevant appointment and removal procedure should be stated in the Regulations of the Board.

*See section: B.1.34*

Complied with

19. The Board should meet with the frequency required to properly perform its functions, in line with the schedule of dates and agendas set at the beginning of the year, each Director being able to propose further points on the agenda not previously arranged.

*See section: B.1.29*

Complied with

20. Absences of Directors should be kept down to unavoidable cases and be quantified in the Annual Corporate Governance Report. If their vote needs to be delegated, this should be done with instructions.

*See sections: B.1.28 and B.1.30*

Complied with

21. When Directors or the Secretary express concerns about some proposal or, in the case of Directors, about the Company's performance, and such concerns are not resolved at the Board meeting, a record of these should be made in the minutes at the request of the person expressing these.

Complied with

22. The Plenary session of the Board should assess once a year:

- a) The quality and efficiency of the Board's operation;
- b) Starting from a report submitted by the Nominating Committee, the performance of the Chairman of the Board and chief executive of the Company;
- c) The performance of its Committees, starting from the reports supplied by these.

*See section: B.1.19*

Complied with

23. All the Directors should be able to exercise the right to obtain any further information that they may deem fit on matters within the Board's competence. Unless the Corporate Articles or the Regulations of the Board provide otherwise, any such requests should be addressed to the Chairman or the Secretary of the Board.

*See section: B.1.42*

Complied with

24. All the Directors should be entitled to obtain advice required for performance of their functions from the Company. The Company should provide suitable channels for exercising this right, which may in special circumstances include external advice at the Company's expense.

*See section: B.1.41*

Complied with

25. Companies should set up a guidance program to provide new Directors with fast and sufficient knowledge of the Company, as well as its corporate governance rules. Companies should also provide Directors with schemes for updating knowledge when circumstances make this advisable.

Complied with

26. Companies should require their Directors to devote the necessary time and effort to their function to perform this effectively and consequently:

- a) The Directors should inform the Nominating Committee of any other professional obligations they may have in case these might interfere with the dedication required;
- b) Companies should lay down rules on the number of boards which they Directors may sit on.

*See sections: B.1.8, B.1.9 and B.1.17*

Partially complied with

The Company does not establish any rules concerning the number of boards the directors may be part of because the Nominating and Remuneration Committee and the Board of Directors have already taken into account the director's abilities and availability to perform their obligations effectively at the time of proposing a new appointment or reelection.

27. The proposal for the appointment or reappointment of Directors which the Board submits to the General Shareholders' Meeting, as well as any provisional appointments by the co-optation method should be approved by the Board as follows:

- a) At the proposal of the Nominating Committee, in the case of independent Directors.
- b) Subject to a report from the Nominating Committee in all other cases.

*See section: B.1.2*

Complied with

28. Companies should publish the following details about their Directors on their web page, and keep this information updated:

- a) Professional and biographical profile;
- b) Other Boards of Directors to which they belong, whether these are of listed companies or not;
- c) A statement of the Director's classification and, in the case of proprietary Directors, stating the shareholder that they represent or with whom they have links.

- d) Date of their first and any subsequent appointments as a Company Director, and
- e) Shares held in the Company and any options over these belonging to them.

Complied with

29. Independent Directors should not continue to have this status for a continuous period of more than 12 years.

*See section: B.1.2*

Complied with

30. Proprietary Directors should resign when the shareholders that they represent sell their entire ownership interest. They should also do so, in the proportional amount, when any such shareholder reduces their stake to a level which requires a reduction in the number of their proprietary Directors.

*See sections: A.2, A.3 and B.1.2*

Complied with

31. The Board of Directors should not propose the removal of independent Directors before the expiry of the term of office for which they were statutorily appointed, except when the Board considers there is just cause for this after a report has been issued by the Nominating Committee. There will specifically be presumed to be just grounds when the Director had breached the duties imposed by his or her post or comes under any of the circumstances described in point 5 of section III of the definitions in this Code.

The removal of independent Directors may also be proposed as a result of a takeover bid, merger or similar corporate operation entailing a change in the Company's capital structure, when any such changes in the structure of the Board are brought about by the proportionality criterion stated in recommendation 12.

*See sections: B.1.2, B.1.5 and B.1.26*

Complied with

32. Companies should establish rules obliging Directors to inform the Board and, where applicable, resign in any cases which may threaten the creditworthiness and reputation of the Company and specifically be obliged to inform the Board of any criminal cases in which they are charged as well as the progress of any later hearings.

Should a Director have charges brought against him or her or when a judge's order for hearing to commence is issued for any of the offenses listed in article 124 of the Spanish Limited Companies Law, the Board shall examine the case as soon as possible and, in view of the specific circumstances, decide whether it is appropriate or not for the Director to continue serving in his or her post. The Board shall describe all these circumstances with proper reasoning in the Annual Corporate Governance Report.

*See sections: B.1.43 and B.1.44*

Complied with

33. All the Directors should clearly express their opposition when they consider that a proposal submitted for the Board's approval may go against corporate interests. This should also be done, particularly by independent and other Directors who are not affected by the conflict of interest, when these are decisions which might harm the shareholders not represented on the Board.

When the Board adopts significant or repeated resolutions on which the Director had expressed serious reservations, the latter should come to the relevant conclusions and, if he or she opted for resigning, should explain the reasons in the letter referred to in the next recommendation.

This recommendation also covers the Secretary of the Board, whether or not this person is a Director.

Complied with

34. When a Director gives up his/her post prior to the end of his/her term of office, either through resignation or for other reasons, the reasons for this should be explained in a letter sent to all the members of the Board. The grounds for the removal should be stated in the Annual Corporate Governance Report, irrespective of whether such removal is classified as a significant event.

*See section: B.1.5*

Not applicable

35. The remuneration policy approved by the Board should specify at least the following points:

- a) The amount of the fixed components, itemized where necessary, of the attendance fees for the Board and its Committees and an estimation of the annual fixed remuneration to which this gives rise;
- b) Any variable remuneration components, including in particular:
  - i) Types of Directors to whom this applies, as well as an explanation of the relative importance of variable remuneration items in respect of the fixed ones.
  - ii) Criteria for assessment of results used as the basis for any entitlement to remuneration in shares, stock options or any other variable component;
- iii) The main parameters and basis of any annual bonus system or other benefits not paid in cash; and
  - iv) An estimation of the sum total of the variable remuneration to which the remuneration scheme proposed would give rise, according to the degree of compliance with the hypotheses or targets taken as a reference.
- c) The main characteristics of benefit schemes (for example, supplementary pensions, life insurance and similar arrangements) with an estimation of the amount involved or equivalent annual cost.
- d) The conditions to apply to contracts of senior management such as executive Directors, these to include:
  - i) Duration;
  - ii) Advance notice periods; and
  - iii) Any other clauses as regards engagement bonuses, as well as compensation or "golden parachutes" for early cancellation or termination of the contractual relationship between the Company and the executive Director.

*See section: B.1.15*

Complied with

36. Remuneration involving the delivery of shares in the Company or Group companies, stock options or other share-based instruments, variable remuneration linked to the Company's performance or benefit schemes should be restricted to executive Directors.

The delivery of shares shall not be covered by this limitation, when Directors are obliged to keep these until the end of their term of office.

*See sections: A.3 and B.1.3*

Complied with

37. External Directors' remuneration should be as required to compensate them for the dedication, skills and responsibilities entailed by the post, but not so high as to compromise their independence.

Complied with

38. Any remuneration linked with the Company's earnings should be subject to deductions calculated for any qualifications stated in the external auditors' report.

Complied with

39. In the case of variable remuneration, the remuneration policies should include technical safeguards required to ensure that these reflect the professional performance of their beneficiaries and not stem simply from the general development of the markets or of the Company's sector or other similar circumstances.

Complied with

40. The Board should submit a report on the Directors' remuneration policy to a vote of the General Shareholders' Meeting, as a separate point on the agenda. This report should be made available to the shareholders, either separately or in any other way that the Company may consider appropriate.

This report shall in particular focus on the remuneration policy that the Board has approved for the current year as well as, where applicable, the one planned for future years. It will address all the points referred to in recommendation 35, except the ones which might entail the disclosure of commercially sensitive information. It should stress the most significant changes in said policies with respect to the one applied the previous year referred to at the General Meeting. It shall also include an overall summary of how the remuneration policy was applied over said previous year.

The role played by the Remuneration Committee in preparing the remuneration policy should be reported at the Board meeting, as well as the identity of any external consultants if any external advice had been sought.

*See section: B.1.16*

Complied with

41. The Report (accompanying notes) should give details of the individual remuneration of the Directors during the financial year and include:

- a) A breakdown of the remuneration of each individual Director, to include where applicable:
  - i) Attendance fees and other fixed remuneration as a Director;
  - ii) Any additional remuneration as a chairman or member of one of the Board's Committees;
  - iii) Any payments made pursuant to profit-sharing or bonus schemes, and the grounds for paying these;
  - iv) Contributions made on the Director's behalf to defined benefit pension schemes, or any increase in the Director's vested rights in the case of contributions to defined benefit schemes;
  - v) Any compensation that may be agreed or paid as severance pay;
  - vi) Any remuneration collected as a Director of other companies in the Group;
  - vii) The remuneration that executive Directors receive for performance of senior management functions;
  - viii) Any kind of compensation other than the ones listed above, whatever its nature and the Group entity paying this may be, especially when it may be considered to be a related-party transaction or when its omission would distort the true image of the total remuneration received by the Director.
- b) An individual breakdown of any possible deliveries to Directors of shares, stock options or other share-based instruments, detailing:
  - i) The number of shares or options awarded in the year and the conditions set for exercising these;
  - ii) Number of options exercised during the year, stating the number of shares involved and the exercise price;
  - iii) Number of options not yet exercised at the year end, stating their price, date and other exercising requisites;
  - iv) Any modification during the year in the terms for exercising any options already granted.



- c) Information on the ratio in the previous year between the remuneration obtained by executive Directors and the results or other means of assessing the Company's performance.

Partially complied with

The Company considers that it partially complies with the wording of this section. Although the director's individual remuneration for year 2012 has not been included in the Annual Report, the fact remains that, pursuant to the provisions of article 61 ter of the Spanish Securities Market Law (LMV), the Board of Directors approved, and consulted with the Ordinary General Meeting on a non-binding basis, the Annual Report concerning the directors' remuneration, stating therein the individual remuneration received by the directors during fiscal year 2012. This report will be sent to the CNMV (the Spanish Stock Exchange Commission) and be at the shareholders' and investors' disposal through the Company's website,

42. When there is a Delegate or Executive Committee (hereinafter known as "Delegate Committee"), the participation structure of the different types of Directors should be similar to that of the Board itself and its secretary should be the Secretary of the Board.

*See sections: B.2.1 and B.2.6*

Not applicable

43. The Board should be kept fully informed of the business done and the decisions taken by the Delegate Committee and all the members of the Board should receive a copy of the minutes of the Delegate Committee's sessions.

Not applicable

44. As well as the Audit Committee required pursuant to the Securities Market Law, the Board of Directors should form from its members a Committee or two separate Committees for Nominations and Remunerations.

The rules governing the composition and operation of the Audit Committee and the Nominating and Remunerations Committee or Committees should be stated in the Regulations of the Board, and include the following:

- a) The Board should appoint the members of these Committees with regard to the knowledge, skills and experience of the Directors and the purpose of each Committee; it should discuss their proposals and reports and be responsible for answering for their activity and the work done at the first plenary session of the Board following their meetings;
- b) These Committees should be formed exclusively of external Directors, with a minimum of three. The above is understood not to affect the attendance of executive Directors or senior management, when this is expressly agreed by the members of the Committee.
- c) The Chairpersons of such Committees should be independent Directors.
- d) They may seek external advice when this is felt to be necessary for performance of their duties.
- e) Minutes of each meeting should be drawn up, a copy of which should be sent to all members of the Board.

*See sections: B.2.1 and B.2.3*

Partially complied with

Article 15 of the Regulations of the Board of Directors of the Company provides that the Nominating and Remuneration Committee shall be mostly made up of external directors. This provision is in line with the contents of the Additional Provision number 18 of the Spanish Securities Market Law regarding the composition of the Audit Committee, although the Unified Code recommends that these delegate committees be exclusively composed of external directors. In this sense, the Company is partially complying with the wording of this section because it considers that an executive director provides greater knowledge of the market, working conditions, remuneration, etc. when assessing the appointments and the remuneration policy.

45. Supervision of compliance with internal codes of conduct and corporate governance rules should be performed by the Audit Committee, the Nominating Committee or, as the case may be, separate Compliance or Corporate Governance Committees.

Complied with

46. Members of the Audit Committee, and in particular its chairman, should be appointed with regard to their knowledge and experience in accounting, auditing and risk management.

Complied with

47. Listed companies have an internal audit function, under the supervision of the Audit Committee, to ensure proper operation of the information and internal control systems.

Complied with

48. The person in charge of the internal audit function should submit an annual work program to the Audit Committee, report to it directly on any incidents arising during its implementation, and submit an activities report at the end of each year.

Complied with

49. Control and risk management policy should specify at least:

- a) The different types of risk (operational, technological, financial, legal, reputation...) which the Company is exposed to, including contingent liabilities and other off-balance sheet risks among the financial or economic risks;
- b) Determination of the risk level that the Company sees as acceptable;
- c) Measures intended to mitigate the impact of risks identified, should these materialize;
- d) The internal information and control systems to be used to control and manage the above risks, including contingent liabilities and off-balance sheet risks.

*See sections: D*

Complied with

50. The Audit Committee's functions should be:

1. In respect of internal control and reporting systems:

- a) To supervise the preparation process and monitor the integrity of the financial information on the Company and, where applicable, the Group, and to verify compliance of regulatory requirements, appropriate limitation of the consolidation perimeter and proper application of accounting principles.
- b) Regularly reviewing the internal monitoring and management of risks, so that the main risks can be identified, handled and properly made known.
- c) Ensuring the independence and efficiency of the internal audit function; proposing the selection, appointment, reappointment and removal of the head of the internal audit service; proposing the budget for such service; receiving regular information on its activities; and checking that the senior management takes the conclusions and recommendations of its reports into account.
- d) To establish and oversee a mechanism that enables employees to communicate – confidentially and where considered appropriate, anonymously – any possible important irregularities that they may observe in the Company, particularly those of financial and accounting nature.

2. As regards the external auditor:

- a) To submit to the Board any proposals for selection, appointment, reappointment and replacement of the external auditor, and the terms of its engagement.
- b) To regularly receive information from the external auditor on the auditing plan and the results of its implementation and to make sure that the senior management is acting on its recommendations.
- c) To ensure the independence of the external auditor, and for this purpose:
  - i) For the Company to inform the CNMV (Spanish Stock Exchange Commission), as a relevant fact, of the change of auditor and to adjoin a declaration on the possible existence of disagreements with the outgoing auditor, and if there were any, of their content.
  - ii) The Committee should ensure that the Company and the auditor adhere to current regulations on rendering services other than auditing, the limits to concentration of the auditor's business and in general any other requirements in force to ensure the auditors' independence;
  - iii) In the event of the external auditor resigning, to examine the circumstances which had given rise to this.
- d) In the case of groups, helping to ensure that the Group auditor also assumes responsibility for the audits of individual companies in the Group.

*See sections: B.1.35, B.2.2, B.2.3 and D.3*

Complied with

51. The Audit Committee may order any employee or Director of the Company to appear before them and even do so without the presence of any other Director.

Complied with

52. The Audit Committee shall inform the Board, prior to the latter's adopting the relevant decisions, on the following matters indicated in recommendation 8:

- a) Any financial information that the Company must regularly disclose through its status as listed. The Committee must ensure that the interim accounts are drawn up with the same accounting criteria as the annual statements and may ask the external auditor to perform a limited review for this purpose.
- b) The creation or acquisition of stock in concerns with special purposes or registered in countries or territories considered to be tax havens, as well as any other transactions or operations of a similar nature whose complexity means that they might harm the Group's transparency.
- c) Related-party operations, unless this preliminary reporting function had been assigned to another supervision and control Committee.

*See sections: B.2.2 and B.2.3*

Complied with

53. The Board of Directors should attempt to submit the annual accounts to the General Shareholders' Meeting with no reservations or qualifications in the auditing report and in exceptional cases of any of these existing, both the Chairman of the Audit Committee and the auditors should clearly explain to the shareholders the content and scope of said reservations or qualifications.

*See section: B.1.38*

Complied with

54. Most of the Nominating Committee, or Nominating and Remuneration Committee if these were a single body, should be independent Directors.

See section: B.2.1

Complied with

55. The Nominating Committee should have the following functions in addition to the ones stated in earlier recommendations:

- a) Evaluating the skills, knowledge and experience necessary on the Board and defining the functions and abilities necessary for the candidates to fill each vacancy, and assess the time and dedication required for them to perform their duties properly.
- b) Examining or organizing, as it may deem appropriate, the succession of the Chairman and chief executive, making recommendations to the Board so the succession takes place in a well-organized and orderly manner.
- c) Reporting on the appointments and removals of senior management that the chief executive proposes to the Board.
- d) Reporting to the Board on any gender diversity issues as indicated in recommendation 14 of this Code.

See section: B.2.3

Partially complied with

As per paragraph d) above, the Board bases its proposals for appointment of Directors strictly on professional qualification criteria (skill, knowledge and experience).

56. The Nominating Committee should consult with the Chairman and the chief executive of the Company, especially on matters concerning executive Directors.

Any Director may ask the Nominating Committee to take into consideration potential candidates to fill directorship vacancies, in case it considers these appropriate.

Complied with

57. The Remuneration Committee should have the following functions apart from the ones indicated in the previous recommendations:

- a) Proposing to the Board of Directors:
  - i) The remuneration policy for Directors and senior management.
  - ii) The individual remuneration and other contractual conditions of executive Directors.
  - iii) The standard conditions for senior management employment contracts.
- b) Monitoring compliance with the remuneration policy established by the Company.

See sections: B.1.14 and B.2.3

Complied with

58. The Remuneration Committee should consult with the Chairman and chief executive, especially on matters connected with executive Directors and senior management.

Complied with

## **G – OTHER INFORMATION OF INTEREST**

If you consider that there is any relevant principle or aspect connected with the corporate governance practices applied by your Company which has not been covered by this Report, please mention and explain this below.

Include in this section any other information, explanation or qualification connected with the previous sections of the report, insofar as these are relevant and not reiterative.

Specifically state whether the Company is subject to any legislation other than Spanish law as regards its corporate government and, where applicable, include the information that you are obliged to supply other than what is required herein.

Binding definition of independent Director:

State whether any of the independent Directors has or has had any relation with the Company, its significant shareholders or its Directors, which, had this been sufficiently significant or important, would have meant that the Director could not be considered as being independent in accordance with the definition given in section 5 of the Unified Good Governance Code:

NO

Date and signature:

This corporate annual governance report has been approved by the Company's Board of Directors, at its session held on

02/21/2013

State whether there were any Directors who had voted against or abstained as regards the approval of this Report.

NO

**FURTHER ACGR INFORMATION, IN ACCORDANCE WITH THE CNMV'S NOTIFICATION OF 28TH DECEMBER 2011 ("MODEL LETTER FOR LISTED PUBLIC LIMITED COMPANIES (SHARES)")**

- 1. Any securities not traded on a regulated community market, indicating, as the case may be, the different classes of shares and the rights and duties conferred, for each class of shares.**

Not applicable.

- 2. Any restriction on the transferability of securities and any restrictions on voting rights.**

There are no restrictions on the transfer of shares.

Class B Shares are not allowed voting rights, except in any extraordinary matters stipulated in the Corporate Articles, to wit:

Separate voting at a General Shareholders' Meeting in respect of Extraordinary Matters. With no detriment to what is laid down in article 103 of the Spanish Corporate Enterprises Act and additionally, but also to protect the rights of Class B Shares, any Company agreements on the following matters (the "**Extraordinary Matters**") shall require, apart from their approval in accordance with what is laid down in article 17 of these Articles, the approval of the majority of Class B Shares outstanding:

- An agreement (i) authorizing the Company or any of its subsidiaries to repurchase or acquire any Class A Shares of the Company, except for pro rata repurchases which may be offered to the owners of Class B Shares on the same terms and at an offered price equal to the owners of Class A Shares or (ii) approving the redemption of Company shares and any capital reduction (through repurchasing, cancelling shares or in any other way) other than (a) any legally compulsory redemptions and (b) any redemptions similarly affecting Class A Shares and Class B Shares and in which each Class B Share is given the same treatment and granted the same terms as for each Class A Share;
- Any agreement approving the issue, granting or delivery of (or authorizing the Company's Board of Directors to issue, grant or deliver) (i) any shares in the Company; (ii) any voting rights or other securities which entitle the holder to purchase Company shares or which can be exchanged or converted into Company shares; or (iii) any options, warrants or other instruments granting their owner the right to acquire, convert, subscribe or receive any Company securities in any other way except, in cases (i), (ii) and (iii) above, if (a) each Class B Share is given the same treatment in the relevant issue, granting or delivery as a Class A Share, and thus has, if there are any, the same preference rights (of subscription, preferential award or of another kind) in the relevant issue, granting or delivery as a Class A Share; or (b) the issue is made according to what is established in section 6.1 above;

- Any agreement unconditionally approving or not (i) an operation subject to Act 3/2009 (including, with no limitations, a merger, split-off, change of address abroad or global assignment of assets and liabilities), except if each Class B Share is treated in the same way as Class A Share in all aspects in said operation; or (ii) the dissolution or liquidation of the Company, except when the agreement is legally compulsory;
- Any agreement passing the exclusion of any shares of the Company from listing or trading on any securities market or secondary market; and
- In general, any agreement and any modification of the Corporate Articles which directly or indirectly impairs or has any adverse effect on the rights, preferences or privileges of Class B Shares (including any agreement which impairs or has any adverse effect on Class B Shares in comparison with Class A Shares or which benefits or positively affects Class A Shares in comparison with Class B Shares, or which affects the provisions of these Articles in respect of Class B Shares).

The General Shareholders' Meeting is competent to decide on any matters which have been attributed to it either legally or by its articles and, in particular, for expository purposes, it shall be the only company body or organism competent to decide on the subjects considered to be "Extraordinary Matters" according to this section of these Articles.

### **3. Regulations applicable to modification of the Corporate Articles.**

With no detriment to what is laid down in article 17 of the Corporate Articles (the agreements shall be adopted by an absolute majority of the capital present and/or represented), any modification of the Corporate Articles which directly or indirectly impairs or has an adverse effect on the rights, preferences or privileges of Class B Shares (including any agreement which impairs or has any adverse effect on Class B Shares in comparison with Class A Shares or which benefits or has a positive effect on Class A Shares in comparison with Class B Shares, or which affects the provisions of these Articles regarding Class B Shares) shall require the approval of the majority of the Class B Shares (at the time outstanding).

### **4. Significant agreements which have been entered into by the Company and which come into force, are modified or concluded in the event of a change in control of the Company through a public offering, and their effects.**

#### Operation for sale and later leasing of Spanish properties

In May 2011, the Group sold properties to Gripdan Invest, S.L. (a subsidiary whose sole owner is Scranton Enterprises BV) for a total sum of 37.6 million EUR. The properties were leased to the Company later on.

In connection with this operation, the Company signed the following agreements subject to clauses on change of control of the Company: (i) Purchase Option

Contract in the Company's favor over 100% of the corporate holdings of Gripdan Invest, S.L., and (ii) leasehold contracts by the Company for the properties sold to Gripdan Invest, S.L.

#### Operation of selling the fractionation factory in North Carolina and later leasing

In December 2011, Grifols Inc. sold this to Scranton Enterprises USA Inc. (a company whose sole owner is Scranton Investments BV, which in turn is wholly owned by Scranton Enterprises BV).

In connection with that transaction, the following contracts were signed, subject to clauses on change in control at the Company: (i) Purchase Option Contract in the Company's favor over 100% of the shares in Scranton Investments BV (owner of 100% of the shares in Scranton Enterprises USA Inc.), and (ii) Agreement for Leasing the factory to Grifols Inc.ds

#### **5. Agreements between the Company and its administration and management or employees entitled to compensation when they resign or are unfairly dismissed or if the employment relationship reaches an end through a public offering for purchase.**

With no detriment to what is laid down in section B.1.13 of the Annual Corporate Governance Report (ACGR) about the clauses for guarantee and "golden parachutes" for cases of dismissal or changes in control in favor of members of top management (including executive directors) as of the date of this report, the Company has signed agreements with 93 administrators/employees, pursuant to which they may unilaterally cancel their employment contracts with the company and be entitled to compensation ranging from 2 to 5 years, in cases of a change of control in the Company.

#### **6. A description of the main features of the internal control and risk management systems in connection with the process of Internal Control over Financial Reporting (ICFR).**

*Describe the mechanisms forming the systems for control and management of risks in relation with the process of Internal Control over Financial Reporting (ICFR) of your company*

##### **6.1. Company's control system**

State, including their main characteristics, at least:

##### **6.1.1. Which bodies and/or roles are responsible for: (i) the existence and maintenance of a suitable and effective ICFR; (ii) its implementation; and (iii) its supervision.**

##### Board of Directors:

The Company's Board of Directors is ultimately responsible for the existence, maintenance and supervision of an appropriate and effective ICFR. In accordance with its Regulations, the Board of Directors has delegated this



responsibility to the Audit Committee.

#### Audit Committee:

The Regulations of the Company's Board of Directors, in article 14, section 5 (c), specify the basic responsibilities of the Audit Committee as regards the systems for information and internal control, which include, amongst others, the following:

- To supervise the preparation process and the integrity of the financial information on the Company and, where applicable, the Group, verifying compliance with legal requirements, proper delimitation of the scope of consolidation and the proper application of accounting criteria;
- To regularly assess the internal control and risk management systems, so that the main risks are appropriately identified, managed and made known;
- To ensure the independence and efficiency of the internal audit function; to propose the selection, appointment, reappointment and removal of the Head of the Internal Audit Department; to receive regular information on its activities; and to check that the senior management takes the conclusions and recommendations of its reports into account; and
- To establish and monitor the receipt, retention and treatment of complaints regarding accounting, internal accounting controls or auditing matters and confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters.

The members of the Audit Committee are appointed in view of their knowledge, skills and experience as regards accountancy, auditing and risk management.

The Audit Committee has an Internal Audit function which, under its supervision, reviews the reliability, integrity and consistency of financial-accounting information, appraising its risks and the controls implemented to mitigate these, and regularly informs of the results of the work done and the measures proposed for its correction.

#### Finance / Accounting Policies and Internal Control

The Finance department has an Accounting Policies & Internal Control function which is responsible for developing and implementing policies, procedures and controls on financial information and for supervising their compliance. This function informs of the approval of policies and internal control procedures on financial information to the Group companies and keeps the documents on procedures and controls on financial information updated.

The system for internal control of the Company's financial information is evaluated internally each year by staff members who are independent of financial functions.

6.1.2. *Whether there are, especially as regards the process of preparing financial information, the following items:*

*Departments and/or mechanisms with the task of:*

- *Designing and reviewing the organizational structure;*
- *Clearly defining the lines of responsibility and authority, with an appropriate distribution of tasks and functions; and*
- *Ensuring there are sufficient procedures for their proper dissemination at the organization.*

The design and review of the organizational structure and the definition of the lines of responsibility and authority is handled by the Board of Directors through the Chief Executive Officer.

The distribution of the tasks and functions is implemented with the aim of guaranteeing the efficiency and effectiveness of the operations, ensuring an appropriate segregation of functions.

The detailed organization chart of the Group functions is available to all the employees of the Group on the Company's Intranet.

*Code of conduct, approval body, degree of dissemination and instruction, principles and values included (stating whether there are specific mentions of the recording of operations and preparation of financial information), body playing the role of analyzing non-compliances and proposing corrective measures and penalties.*

#### Code of Conduct:

The Code of Conduct of the Group establishes the rules of conduct applicable to all the employees and members of the Board of Directors and other governing bodies of all the Group companies, both as regards their own colleagues and in respect of third parties.

Section 9 of the Code of Conduct is on the "Reliability of information and dissemination". In this respect it establishes that:

- The Company's financial statements, books, records and accounts must reflect operations reliably and in accordance with legal requisites and accounting principles. The dissemination of dishonest information, either internally or externally, is absolutely forbidden;
- In its relationship with markets the Company is committed to transparency. The public financial statements, the information for regulatory bodies and, in general, the information published in any medium must be accurate and complete in all senses.

The Code of Conduct is published as an internal regulation on the Group Intranet, available to all its employees, and on the Company's website (www.grifols.com).

Section 12 of the Code of Conduct stipulates that "Any failure to comply with the Code of Conduct by any employee or manager of the Company shall be considered a breach of their duties to the Company and in very serious cases could even be grounds for dismissal and demanding the relevant accountability".

#### Ethical Code for Executives:

The Board of Directors passed the Ethical Code for Executives in 1998 and modified this in 2008.

This Code should be considered as a general framework of basic principles for governing the conduct of employees' and others working for the Group, inspired in the ethical values by which the Company has always been governed, its main priority being the utmost safety and efficiency of its products.

The management of all the companies in the Group must annually read and accept the contents of the Ethical Code.

Failure to comply with any of the ethical principles of the Company shall be grounds for dismissal.

Any possible breaches of both the Code of Conduct and the Ethical Code shall be made known to the Audit Committee for this to analyze them and where applicable apply corrective measures or penalties.

*Channel for reporting allegations, to enable informing the Audit Committee of any financial and accounting irregularities, as well as any possible breaches of the code of conduct and irregular activities in the organization, informing where applicable if this is of confidential nature.*

The Company has two channels for reporting allegations which enable ethical concerns to be brought up, reporting any conduct going against the Code of Conduct, the policies or procedures of the Company or the law, confidentially and anonymously. These are currently available in Spain and the United States, in English and Spanish, and it is intended to implement them in the short term in the other countries in which the Company is present. For the other countries in which the Company has offices, there is an internal communication channel to report any behavior breaching the Code of Conduct.

The channels for allegations are managed by different external suppliers who classify such allegations in accordance with their nature. Internal Audit Management regularly reports to the Audit Committee to inform of the reception of allegations and of the results of any investigations and measures adopted.

*Training and regular updating programs for staff involved in preparing and reviewing financial information, as well as in the evaluation of the ICFR,*

*covering at least accounting rules, audits, internal control and risk management.*

It is the responsibility of Finance Management and of the Corporate Accounting and Reporting function, which reports to the former, to ensure that all the staff involved in preparing the Group's financial statements are properly trained and given annual refresher courses in International Financial Reporting Standards and on principles of internal control of financial information. In 2012 this staff attended the annual updating seminar in the aforementioned subjects, given by an external supplier, and it regularly receives different publications to which the Company subscribes, giving updated information on the development of the business and regulation setting for the activities carried out by the Group and on the International Financial Reporting Standards and internal control.

## *6.2. Evaluation of financial information risks*

*State at least:*

### *6.2.1. What the main features of the risk identification process are, including those of error or fraud, as to:*

*Whether the process exists and is documented.*

The Company is subject to compliance with the United States "Sarbanes-Oxley" Act.

The process for identification of the risks of financial information is documented in the methodological guide for compliance of the United States "Sarbanes-Oxley" Act (the Company – SOX Methodology). The document details, amongst other information, the approach applied with regard to the following aspects:

- Identification of the risks and definition of the scope;
- Management controls (also known as Entity Level Controls);
- General controls on the information systems;
- Documentation of the processes; and
- Strategy of the tests on controls.

*Whether the process covers all the objectives for financial information (existence and occurrence; integrity; valuation, presentation, itemization and comparability and rights and obligations), whether this is updated and how often.*

Financial information risks can be classified into five categories: integrity, existence and occurrence, valuation, presentation and itemization, and rights and obligations. The aim of the first three is to make sure that the accounts contain accurately booked entries regarding real transactions. The last two are intended to ensure that rights and duties are presented and described properly in financial statements.

In 2012, Internal Control identified the risks of financial information with the

data on the annual closure for the previous year, updating the analysis twice during the year, the last time with data referring to 31st December 2012.

*The existence of a process for identifying the consolidation perimeter, taking into account, amongst others, the possible existence of complex company structures, instrumental entities or ones with special purposes.*

The Company has a corporate register covering all the Group's direct and indirect holdings, as well as any entity in which the Group has the ability to exercise control regardless of the legal form through which such control is implemented.

The Company's consolidation perimeter is determined monthly by the management of Corporate Accounting and Reporting / Consolidation and Reporting, which report to Finance, in accordance with the information from the company register and in accordance with International Accounting Standards.

The supervision of the proper demarcation of the consolidation perimeter is the responsibility of the Audit Committee.

*Whether the process takes into account the effects of other types of risks (operative, technological, financial, legal, reputational, environmental, etc.) insofar as these affect financial statements.*

The process for identification of the Company's risks stems from the evaluation of the business that may affect the ledger accounts of the financial statements and their breakdown in the consolidated annual accounts.

A ledger account is considered to be significant when there is a reasonable possibility of it containing any error which, individually or on accumulation with others, has a material effect on financial statements.

To determine whether an account is significant, the Company considers both quantitative factors (size and composition of the account and volume of transactions performed) and qualitative ones (uniformity and centralization of the transactions, complexity and inherent risk). The operative, technological, financial, legal, reputational, environmental risks, etc., are considered in the qualitative valuation insofar as they affect financial statements.

*What governing body of the firm supervises the process.*

The process for identifying financial information risks is supervised by the Audit Committee as part of its functions as regards information and internal control systems, as detailed in section F1.1. of this report.

### 6.3. Control activities

*State, describing its main characteristics, whether there are at least:*

#### 6.3.1. Procedures for review and authorization of financial information and the

*description of the ICFR to be published on stock markets, stating the persons responsible for these, as well as the documents describing the flows of activities and controls (including any as regards the risk of fraud) of the different types of transactions which could materially affect the financial statements, including the procedure for accounting closure and specific review of judgments, estimations, valuations and relevant projections.*

The Company supplies financial information to the stock market quarterly. The information is drawn up and reviewed by the different units forming the Company's Finance department and requires approval by the Corporate Chief Financial Officer.

The Audit Committee supervises the financial information issued for the market. The Audit Committee finally informs the Board of Directors of its conclusions on financial information, and the latter approves their publication.

The internal control system for the Company's financial information was implemented with the aim of complying with section 404 of the United States "Sarbanes-Oxley" Act.

The starting point of the system are the management controls, also known as Entity Level Controls (hereinafter ELC). These controls operate transversally and are designed to supervise the effectiveness of internal control as a whole.

The Company classifies the ELC identified in accordance with the COSO control framework, which considers the following components:

- Control environment;
- Risk assessment;
- Control activities;
- Information and communication; and
- Monitoring.

The business processes which have to be documented are identified based on the analysis of the most important transactions. The Company has identified the following business processes grouping all the business of the Group:

- Closure of financial statements;
- Purchases and accounts payable;
- Sales and accounts receivable;
- R&D;
- Treasury;
- Inventory;
- Fixed assets;
- Human resources; and
- Tax.

The 9 main business processes are divided into sub-processes, adapting to the particular features of the business operations in each country or region.

The following basic components have been identified for each process/sub-process:

- Control objectives: Control requirements which have to be met in each activity in the process. They are intended to ensure the reliability of the financial information covering the premises of integrity, existence and occurrence, valuation, presentation and itemization, and rights and obligations.
- Risks: The possibility of an event or action affecting the Group's capacity to achieve the aims of its financial information, including the risk of fraud.
- Control: Policies and procedures and other resources established to make sure that the control objectives are achieved in such a way as to enable preventing or detecting any material error in the financial statements and/or any fraudulent activities. Process controls are incorporated in the operations for these.

Internal Audit has carried out tests to verify the proper operative state of the controls. Any deficiencies identified, where applicable, have been validated with the person in charge of the process, agreeing on the action plans which have been considered necessary.

Those in charge of the processes have confirmed that the controls documented are effective for mitigating the risk and were operating as of 31st December 2012.

6.3.2. *Policies and procedures for internal control over the information systems (amongst others, over secure access, control of changes, operation of these, operative continuity and segregation of functions) which support the concern's relevant processes as regards the preparation and publication of financial information.*

The Company's global division of Information Technology (IT) is responsible for the information systems of all the companies in the Group in the different areas in which they operate. Part of its functions is the definition and follow-up of security policies and procedures for applications and infrastructures.

The internal control system of the Company identifies the applications and infrastructures supporting the relevant processes with regard to the preparation and publication of the financial information and evaluates the reliability of its general controls.

In the evaluation of the general IT controls, the system covers the following processes:

- Environmental control and physical access to the data processing centers;
- Management of identities and access authorizations;

- Development and implementation of new projects;
- Evolutionary and corrective changes;
- Operation and monitoring of systems and applications;
- Secure configuration of infrastructures according to the best practices established by manufacturers;
- Safeguarding of information, recovery and continuity plans.

Any weaknesses detected, when compensatory controls mitigating these are not identified, are rectified by means of specific remedial plans.

For information security the Company has a number of policies and procedures which establish and define, amongst others, the following operating principles:

- Development methodology: covering everything from elicitation of requirements to testing and acceptance by the business unit, with the main aim of ensuring that the systems act as they were defined;
- Review flows and approval of specifications and documentation of the design of applications, changes to programs and systems as well as the assignation of the accesses to information;
- Monitoring the availability of systems and applications as well as the integrity of the data exchanged between the relevant applications;
- Segregation of the functions based on an incompatibility matrix, supervised by those in charge of the different business processes;
- Recovery plan for the relevant systems at a secondary location; and
- Policy for usage of the information policies.

Management of the security of information and associated technological assets, as well as the responsibility in the field of IT processes for compliance with rules and keeping the privacy of data on customers, employees and donors pertains to the following bodies:

- IT security committee: Regularly analyzes the different reports on risks, incidents and changes in regulations and puts forward the action plans that it considers fit to protect the information assets and to attain and maintain the required security level-; and.
- IT Risk Management function: Reporting directly to the IT director, with the main mission of analyzing the risks in the different processes, systems and applications and keeping these at levels accepted by the Company, developing and coordinating the implementation of controls, where necessary.



6.3.3. *Internal control policies and procedures intended to supervise the management of activities subcontracted to third parties, as well as of any aspects of evaluation, calculation or valuation handled by independent experts, which might materially affect financial statements.*

The Company requires the suppliers of main services to issue an independent report on their internal control structure in accordance with SSAE16 of the Public Company Accounting Oversight Board (PCAOB) and/or carries out tests on this directly to check the proper operation of controls, particularly the ones that affect the Company's own internal control.

When the Company uses the services of an independent expert it makes sure of its competence and technical and legal qualification. Qualified staff from the Company review these reports to validate the reasonability of their conclusions.

6.4. *Information and communication*

*State, pointing out its main features, whether there is at least:*

6.4.1. *A specific function with the role of defining and keeping accounting policies updated (accounting policies area or department) and solving any doubts or conflicts stemming from its interpretation, keeping smooth communication with the heads of operations in the organization as well as an updated accounting policies manual made known to the units through which the concern works.*

As part of the Finance department there is a unit known as Accounting Policies & Internal Control whose functions are, amongst others, as follows:

- Defining and keeping the Group's accounting policies updated;
- Analyzing any particular transactions performed or envisaged to determine its proper accounting treatment;
- Analyzing the impact of changes in accounting regulations on the Group's financial statements; and
- Settling any inquiry about the application of the Group's accounting policies.

The Group's accounting policies, based on International Financial Reporting Standards, are described in a manual ("Finance Manual"), which is kept constantly updated and available for all employees through the Company's Intranet.

6.4.2. *Mechanisms for collecting and drawing up financial information with uniform formats, for application and use by all the units of the concern or group, which support the main financial statements and the notes, as well as any information detailed on the ICFR.*

All the companies on the Group report their individual financial statements and

the notes or breakdowns required for preparing the consolidated annual accounts to the Consolidation and Reporting unit, forming part of the Finance department.

The information is collected in uniform formats in a computer tool (BI) which uses a single accounts plan. The information in this centralized tool is automatically loaded from the SAP-FI of the Company (transactional implemented at most of the subsidiaries) or manually loaded for companies at which the system is not implemented.

The ICFR is supported on a single IT system administered by Accounting Policies & Internal Control and accessible to all the persons in charge of documented business processes.

6.5. *Supervision of how the system works*

*State, indicating its main characteristics, at least:*

6.5.1. *The work for supervising the ICFR performed by the Audit Committee, as well as if the concern has an Internal Audit function whose competences include providing support for the committee in its task of supervising the internal control system, including the ICFR. Information should also be given on the scope of the evaluation of the ICFR performed in the year and the procedure by means of which the party in charge of executing the evaluation informs of its results, whether the concern has an action plan detailing any possible corrective measures and whether its impact on the financial information has been considered.*

The Audit Committee is regularly informed on the internal evaluation of the ICFR, described in section F3.1. of this report. More specifically, Internal Audit reports on the scope of the evaluation, the degree of progress, and where applicable, of any deficiencies detected, on their impact on the financial information and on the action plans established. This similarly identifies and reports, should there be any, any fraud involving managers or employees.

As of 31st December 2012 no material weaknesses have been identified in the review made on the internal control system.

In accordance with the foregoing, the Company management understands that the internal control model for financial information as of 31st December 2012 is effective.

6.5.2. *Whether it has a discussion procedure by means of which the auditor (in accordance with what is established in the Technical Auditing Standards or TAS), the Internal Audit function and other experts can inform the organization's top management and the audit committee or administrators of any significant weaknesses in internal control identified during the processes for review of annual accounts or any others which they have been assigned. Also state if there is an action plan attempting to correct or mitigate any weaknesses observed.*

The Internal Audit function informs top management and the Audit Committee of any significant deficiencies in internal control identified in its reviews as well as the action plans established for mitigating these.

The Group's auditor has direct access to top management and the Audit Committee, holding regular meetings intended both to obtain the information required for doing its work and to inform of any weaknesses of internal control detected.

In turn, the auditor annually submits a report to the Audit Committee in which it details any significant internal control deficiencies detected during its work.

#### *6.6. External auditor's report*

*State:*

##### *6.6.1. Whether the information of the ICFR sent to the markets has been submitted for review by the external auditor, in which case the concern should include the relevant report as an Appendix. If this is not done, the grounds for this should be given.*

The Company has not requested the external auditor for a review report on the information of the ICFR described in this report since, through being subject to the Sarbanes-Oxley Act, the external auditor will issue the corresponding report on the effectiveness of the internal control system for the financial information, which will be deposited along with the annual financial information at the SEC and published on the corporate web page of the Company.