



Diagnósticos da América S.A.

Financial statements

December 31, 2003 and 2002

(A translation of the original report in Portuguese containing financial statements prepared in accordance with accounting practices adopted in Brazil)



Diagnósticos da América S.A.

Financial statements

December 31, 2003 and 2002

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Independent auditors' report

To
The Board of Directors and Shareholders
Diagnósticos da América S.A.
Barueri - SP

1. We have examined the balance sheets of Diagnósticos da América S.A. and the consolidated balance sheets of the Company and its subsidiaries as of December 31, 2003 and the related statement of income, changes in shareholders' equity and changes in financial position for the year then ended, which are the responsibility of its management. Our responsibility is to express an opinion on these financial statements.
2. Our examination was conducted in accordance with auditing standards generally accepted in Brazil and included: (a) planning of the audit work, considering the materiality of the balances, the volume of transactions and the accounting systems and internal accounting controls of the Company; (b) verification, on a test basis, of the evidence and records which support the amounts and accounting information disclosed; and (c) evaluation of the most significant accounting policies and estimates adopted by Company management, as well as the presentation of the financial statements taken as a whole.
3. In our opinion, the aforementioned financial statements present fairly, in all material respects, the financial position of Diagnósticos da América S.A. and the consolidated financial position of the Company and its subsidiaries as of December 31, 2003, and the result of its operations, changes in its shareholders' equity and changes in its financial position for the year then ended, in conformity with accounting practices adopted in Brazil.
4. As described in notes 2, 9 and 11 to the financial statements, the goodwill originating from the investments acquired, net of amortizations of R\$ 8,732 thousand classified to investments, R\$ 32,536 thousand classified to deferred assets and R\$ 32,357 thousand classified to shareholders' equity, are being amortized over a period of 5 years, based on plans and expected returns on investments prepared and revised annually by Management. Recovery of the goodwill values depends on generating future profits that produce returns on the investments made.





5. The individual financial statements of Diagnósticos da América S.A. for the year ended December 31, 2002 were examined by us, and we issued an unqualified audit report on these statements, dated March 07, 2003.

April 19, 2004

KPMG Auditores Independentes
CRC 2SP014428/O-6

Lino Campion
Accountant CRC 1SP097189/O-0

Diagnósticos da América S.A.

Balance sheets

December 31, 2003 and 2002

(In thousands of Reais)

	Parent company		Consolidated		Parent company		Consolidated
	2003	2002	2003		2003	2002	2003
Assets				Liabilities			
Current assets				Current liabilities			
Cash and cash equivalents	3,414	1,008	3,460	Accounts payable to suppliers	18,075	13,377	18,266
Marketable securities	25,151	33,941	25,154	Loans and financing	31,874	29,058	31,874
Trade accounts receivable	72,239	53,787	72,821	Taxes and contributions payable	1,973	1,640	3,282
Inventories	14,413	9,644	14,413	Salaries, social charges and vacation pay	11,895	9,316	12,139
Recoverable taxes	7,424	6,237	7,724	Payment of tax in installment:	1,637	1,390	4,193
Other receivables	2,654	4,969	2,726	Accounts payable from acquisition of subsidiaries	8,901	7,841	8,901
Prepaid expenses	343	251	387	Provision for negative equity in subsidiary	1,097	-	-
	<u>125,638</u>	<u>109,837</u>	<u>126,685</u>	Other accounts payable	<u>8,666</u>	<u>6,029</u>	<u>9,323</u>
					<u>84,118</u>	<u>68,651</u>	<u>87,978</u>
Noncurrent assets				Noncurrent liabilities			
Marketable securities	4,997	4,441	4,997	Loans and financing	70,278	87,278	70,346
Judicial deposits	3,470	2,738	3,470	Payment of tax in installment:	13,076	6,017	13,212
Current account	9,177	1,101	2,260	Provision for contingencies	27,050	28,791	28,406
	<u>17,644</u>	<u>8,280</u>	<u>10,727</u>	Accounts payable from acquisition of subsidiaries	<u>20,188</u>	<u>18,358</u>	<u>20,188</u>
					<u>130,592</u>	<u>140,444</u>	<u>132,152</u>
Permanent assets				Shareholders' equity			
Investments	2	-	8,732	Capital	27,327	27,327	27,327
Property, plant and equipment	141,530	126,367	144,086	Capital reserve	115,743	170,845	115,743
Deferred charges	64,484	84,353	64,488	Accumulated losses	(8,482)	(78,430)	(8,482)
	<u>206,016</u>	<u>210,720</u>	<u>217,306</u>		<u>134,588</u>	<u>119,742</u>	<u>134,588</u>
					<u>349,298</u>	<u>328,837</u>	<u>354,718</u>
	<u>349,298</u>	<u>328,837</u>	<u>354,718</u>				

See the accompanying notes to the financial statements.

Diagnósticos da América S.A.

Statements of income

Years ended December 31, 2003 and 2002

(In thousands of Reais)

	<u>Parent company</u>		<u>Consolidated</u>
	2003	2002	2003
Gross revenues			
Sale of services	398,197	323,756	399,825
Deductions			
Sale taxes	(27,995)	(19,809)	(28,165)
Discounts	<u>(8,062)</u>	<u>(6,748)</u>	<u>(8,062)</u>
	(36,057)	(26,557)	(36,227)
Net revenues	362,140	297,199	363,598
Cost of services rendered	<u>(256,033)</u>	<u>(201,059)</u>	<u>(256,896)</u>
Gross profit	106,107	96,140	106,702
(Expenses) other operating income			
Administratives and generals	(49,896)	(47,786)	(50,687)
Net financial	(21,771)	(40,464)	(21,891)
Equity in income of subsidiaries	(1,063)	-	48
Amortization of goodwill	(43,218)	(42,560)	(43,218)
Other operating income	<u>3,354</u>	<u>715</u>	<u>3,354</u>
	<u>(112,594)</u>	<u>(130,095)</u>	<u>(112,394)</u>
Operating loss	(6,487)	(33,955)	(5,692)
Nonoperating income	<u>(1,995)</u>	<u>(974)</u>	<u>(2,790)</u>
Loss for the year	<u>(8,482)</u>	<u>(34,929)</u>	<u>(8,482)</u>
Loss per share - R\$	<u>(1.79)</u>	<u>(7.38)</u>	<u>(1.79)</u>
Number of shares at year-end	<u>4,730,112</u>	<u>4,730,112</u>	<u>4,730,112</u>

See the accompanying notes to the financial statements.

Diagnósticos da América S.A.

Statements of changes in shareholders' equity

Years ended December 31, 2003 and 2002

(In thousands of Reais)

	Capital	Capital reserves	Accumulated losses	Total
Balances at January 1, 2002	27,327	147,517	(43,501)	131,343
Amortization of goodwill	-	23,328	-	23,328
Loss for the year	<u>-</u>	<u>-</u>	<u>(34,929)</u>	<u>(34,929)</u>
Balances at December 31, 2002	27,327	170,845	(78,430)	119,742
Capital increase - Absorption of capital reserves	78,430	(78,430)	-	-
Capital decrease - Absorption of accumulated losses	(78,430)	-	78,430	-
Amortization of goodwill	-	23,328	-	23,328
Loss for the year	<u>-</u>	<u>-</u>	<u>(8,482)</u>	<u>(8,482)</u>
Balances at December 31, 2003	<u>27,327</u>	<u>115,743</u>	<u>(8,482)</u>	<u>134,588</u>

See the accompanying notes to the financial statements.

Diagnósticos da América S.A.

Statements of changes in financial position

Years ended December 31, 2003 and 2002

(In thousands of Reais)

	<u>Parent Company</u>		<u>Consolidated</u>
	2003	2002	2003
Sources of funds			
From operations			
Loss for the year	(8,482)	(34,929)	(8,482)
Items not affecting working capital			
Depreciation and amortization	24,676	15,922	24,676
Amortization of goodwill	19,890	19,232	19,890
Amortization of goodwill on shareholders' equity	23,328	23,328	23,328
Monetary variation of noncurrent items	1,847	30,001	1,847
Residual cost on disposal of fixed assets	925	1,005	925
Resources from operations	62,184	54,559	62,184
From third parties			
Increase in noncurrent liabilities	18,650	41,163	20,210
	<u>80,834</u>	<u>95,722</u>	<u>82,394</u>
Applications of funds			
Property, plant and equipment	35,122	47,917	35,122
Increase in property, plant and equipment from acquisition of subsidiary	-	-	2,560
Investments	2,935	-	11,665
Increase in deferred charges	2,732	21,722	2,732
Increase in noncurrent assets	9,364	-	2,447
Decrease in noncurrent liabilities	30,347	1,726	30,347
	<u>80,500</u>	<u>71,365</u>	<u>84,873</u>
Increase (decrease) in working capital	<u>334</u>	<u>24,357</u>	<u>(2,479)</u>
Changes in working capital			
Current assets	15,801	30,128	16,848
Current liabilities	15,467	5,771	19,327
Increase (decrease) in working capital	<u>334</u>	<u>24,357</u>	<u>(2,479)</u>

See the accompanying notes to the financial statements.

Diagnósticos da América S.A.

Notes to the financial statements

Years ended December 31, 2003 and 2002

(In thousands of Reais)

1 Operations

The Company provides health assistance services to patients included in health insurance plans, insurance companies, medical-hospital assistance companies, other corporate entities and individuals in the following areas: (i) clinical analysis, directly, or as a supplementary nature, through intermediary of contracted laboratories; and (ii) diagnostic medicine, exclusively through third parties and specialized clinics, in the following areas, as well as others that medical development determines in the future: a) clinical pathology; b) cytology and pathological anatomy; c) diagnosis by images and graphic methods; d) immunization, rehabilitation and ophthalmology; e) nuclear medicine; f) clinical trials. The Company can explore other activities related to: a) import for own use, of medical-hospital equipment, equipment for diagnosis and related material in general; b) preparation, publication and distribution of newspapers, books, magazines, periodicals and other vehicles of written communication, aimed at scientific publication or activities that fall within the Company's activities; c) granting and managing franchise business, including advertising fund and publication, training and selection of labor, recommendation of suppliers of equipment and research material, and others. The Company can invest in other companies, business or non-business, as a partner, quotaholder or shareholder.

The Company has attendance units in the cities of São Paulo, Rio de Janeiro, and is extending its attendance in the city of Curitiba. The Company has adopted an aggressive attitude in expanding the number of units, mainly in São Paulo, including the mega unit concept. By December 2003, the Company was running 129 units (113 in 2002), with 26 Delboni Auriemo units (25 in 2002), 38 Lavoisier units (37 in 2002), 37 Bronstein units (34 in 2002), 18 Lâmina units (17 in 2002), 6 Laboratório Santa Casa units and 4 CRL units (units acquired in 2003). The five Club DA units, reported at the end of 2003 are included in the figures for the Delboni Auriemo units.

2 Corporate aspects

On May 27, 2003, by means of a Private Instrument for the Promise to Sell Quotas and Other Agreements, Diagnósticos da América S.A. and the quotaholders representatives of the companies Centro Radiológico da Lagoa Ltda. (CRL) and Presmedi Rio Serviços Médicos Ltda., agreed on the transaction terms for the purchase of all of the quotas in these companies. By means of the Term of Conclusion, dated November 13, 2003, the acquisition was made official of all of the quotas in the companies Centro Radiológico da Lagoa Ltda. and Presmedi Rio Serviços Médicos Ltda., based on the balance sheet prepared at October 31, 2003.

Diagnósticos da América S.A.

Notes to the financial statements

(In thousands of Reais)

3 Presentation of the financial statements

The financial statements were prepared in accordance with the accounting practices derived from the Brazilian Corporation Law.

Description of significant accounting practices

a. Income statement

Income and expenses are recognized on an accrual basis.

Revenue from services rendered is recognized in the income statement in proportion to the stage of completion of the service. Revenue is not recognized if there are significant uncertainties as to its realization.

b. Accounting estimates

The accounting estimates were established considering objective and subjective factors, based on management's opinion of the appropriate amount to be recorded in the financial statements. Significant items subject to these estimates and assumptions include allowance for doubtful accounts, provision for inventories, provision for contingencies and valuation of derivative instruments. The settlement of transactions involving these estimates may result in different amounts due to the lack of precision inherent to the process of their determination. The Company reviews the estimates and assumptions quarterly (once a year for provision for contingencies).

c. Foreign currency

Monetary assets and liabilities denominated in foreign currencies were translated into Reais at the foreign exchange rate ruling at the balance sheet date. Foreign exchange differences arising on translation are recognized in the income statement.

Diagnósticos da América S.A.

Notes to the financial statements

(In thousands of Reais)

d. Current and non-current assets

- **Cash and cash equivalents**

Cash and cash equivalents comprise cash balances and call deposits. Overdrafts are presented as liabilities as “Loans and financing”.

- **Marketable securities**

Marketable securities are recorded at cost plus income accrued to the balance sheet date.

- **Provision for doubtful accounts and rejections to clarify**

The provision for doubtful accounts is calculated at an amount considered adequate to cover any losses arising on collection of accounts receivable.

- **Inventories**

Inventories are stated at the lower of average cost or market value. Inventories are used entirely in the performance of clinical and imaging exams.

- **Other current and noncurrent assets**

Presented at the net realization amount.

e. Permanent assets

- **Investments**

The investments in subsidiaries are valued using the equity method. The goodwill, calculated at the time of purchasing an investment in a company with negative shareholders' equity, was recorded by the company, adopting the accounting criteria established in item 17.1.9 of Official Circular/CVM/SNC/SEP 01/2004. The goodwill is based on future profitability from operations undertaken by this company, with profitability forecasts prepared by management projected for 5 years.

Diagnósticos da América S.A.

Notes to the financial statements

(In thousands of Reais)

- **Property, plant and equipment**

Property, plant and equipment is stated at acquisition, formation or construction cost. Depreciation is calculated using the straight-line method at rates described in Note 10 and which take into account the estimated useful life of the assets. Leasehold improvements are amortized over the lesser of the remaining lease term or the life of the improvement, whichever is the lower.

- **Deferred charges**

The pre-operating expenses are related to expenses for expansion of the patient service centers and are amortized using the straight-line method over a period between 5 and 10 years. The goodwill calculated from the mergers of investments are based on the future profitability of operations undertaken by these companies, according to profitability forecasts prepared by Management for a period of 5 years.

f. Current and noncurrent liabilities

Stated at the amounts acknowledged or estimated, plus, when applicable, the corresponding charges, monetary and exchange variations incurred up to the balance sheet date.

g. Provisions

A provision is recognized in the balance sheet when the Company has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are recorded considering the best estimates of the risk related to the liability.

h. Goodwill from the merger of the parent company

The goodwill recorded previously by the controlling company Platypus Holdings Ltda. was classified after its merger, in the capital reserve account in the Shareholders' equity of Diagnósticos da América S.A. Later, the amortization of the goodwill, for the maximum of five years, is being credited in this capital reserve account, having as balancing item the income of the year. This procedure was supported by the tax legislation, article 11 of Law 9718 of November 27, 1998, since the corporation law does not deal with this matter.

Diagnósticos da América S.A.

Notes to the financial statements

(In thousands of Reais)

i. Deferred income and social contribution taxes

The Company has tax losses carryforwards, negative basis of social contributions and temporary differences at the year-end date. The management decision regarding the non recognition of the deferred tax assets effects resulting from the aforementioned fiscal benefits is in accordance with CVM Instruction 371 of June 27, 2002, and considered the non existence of a history of profitability.

4 Consolidated financial statements

The accounting policies have been consistently applied by the consolidating enterprises.

The consolidated financial statements include the subsidiaries Centro Radiológico da Lagoa Ltda. and Presmedi Rio Serviços Médicos Ltda. with an investment interest of 99.99%, acquired on November 13, 2003.

The main consolidation procedures refer to elimination of intercompany asset and liability balances and elimination of investments in capital and accumulated losses of the subsidiary companies.

5 Marketable securities

	<u>Parent Company</u>		<u>Consolidated</u>
	2003	2002	2003
Marketable securities	30,148	38,382	30,151
Current portion included in current asset	(25,151)	(33,941)	(25,154)
Noncurrent assets	<u>4,997</u>	<u>4,441</u>	<u>4,997</u>

The marketable securities classified to current assets refer to variable income funds, earned at an average rate of 110.5% of the CDI. The objective of the fund is to provide the quotaholders with profitability by investing their funds in investment fund quotas, whose investment policy includes the possibility of concentrating investments in public and private securities.

Diagnósticos da América S.A.

Notes to the financial statements

(In thousands of Reais)

The noncurrent marketable securities are comprised of two fixed income contracts, remunerated at the rate of 99.7% of CDI, that guarantee the payment of obligations assumed by the wholly owned subsidiary Atacama Ltda. with the previous shareholders of Laboratório Bronstein S.A. and Bronstein Administradora Laboratorial S.A. at the time it purchased all of the shares in these companies. According to the contracts dated December 12, 2000, between the parties involved and a financial institution, it was agreed that the amounts deposited would be invested until December 12, 2006, in fixed income securities, with immediate liquidity.

6 Trade accounts receivable

	<u>Parent Company</u>		<u>Consolidated</u>
Current:	2003	2002	2003
Trade notes receivable - Service agreements with health plans	69,583	52,279	70,165
Trade notes receivable - Individuals	676	707	676
Rejections to clarify	13,712	6,732	13,712
Checks in collection	1,684	264	1,684
Credit cards	378	286	378
Returned checks	<u>249</u>	<u>139</u>	<u>249</u>
	<u>86,282</u>	<u>60,407</u>	<u>86,864</u>
Less:			
Provision for rejections to clarify	(9,320)	(2,095)	(9,320)
Provision for doubtful accounts	(4,474)	(4,386)	(4,474)
Provision for loss from returned checks	(<u>249</u>)	(<u>139</u>)	(<u>249</u>)
	<u>72,239</u>	<u>53,787</u>	<u>72,821</u>

Diagnósticos da América S.A.

Notes to the financial statements

(In thousands of Reais)

7 Inventories

	<u>Parent Company</u>		<u>Consolidated</u>
	2003	2002	2003
Domestic direct material	6,316	4,278	6,316
Imported direct material	5,476	2,195	5,476
Domestic secondary material	1,731	2,496	1,731
Consumption material	1,235	1,044	1,235
Inventories with third parties	<u>98</u>	<u>106</u>	<u>98</u>
	14,856	10,119	14,856
Less:			
Provision for obsolescence	(<u>443</u>)	(<u>475</u>)	(<u>443</u>)
	<u>14,413</u>	<u>9,644</u>	<u>14,413</u>

8 Recoverable taxes

	<u>Parent Company</u>		<u>Consolidated</u>
	2003	2002	2003
IRRF (withholding income tax) on revenue	3,004	2,336	3,304
IRRF on interest bearing bank deposits	495	1,040	495
Income tax paid in advance	2,216	1,387	2,216
Social Contribution on net income paid in advance	707	502	707
ISS paid in advance	737	598	737
Other recoverable taxes	<u>265</u>	<u>374</u>	<u>265</u>
	<u>7,424</u>	<u>6,237</u>	<u>7,724</u>

Diagnósticos da América S.A.

Notes to the financial statements

(In thousands of Reais)

9 Investments

	<u>Parent Company</u>		<u>Consolidated</u>
	2003	2002	2003
Goodwill on acquisition of subsidiary - Centro Radiológico da Lagoa Ltda. - CRL	8,880	-	8,880
Less: amortization of goodwill	(148)	-	(148)
Equity accounting			
Centro Radiológico da Lagoa Ltda. - CRL	(8,730)	---	---
	<u> 2</u>	<u> -</u>	<u>8,732</u>

The changes in the investments by the controlling company are demonstrated as follows:

	CRL
Equity at October 31, 2003 (negative equity)	(7,655)
Equity in income of subsidiary	(1,075)
Goodwill on acquisition	8,880
Amortization of goodwill	(148)
Balance at December 31, 2003	<u> 2</u>

The main information on the investments in the subsidiary is presented below:

	CRL
Quotas of capital of the subsidiary	815,000
Quantity of quotas held	814,998
Percentage of interest	99.99%
Net equity at December 31, 2003	(8,730)
Loss for two months period	(1,075)
Equity in income of subsidiary	(8,730)

Diagnósticos da América S.A.

Notes to the financial statements

(In thousands of Reais)

As reported in note 2 to the financial statements, on November 13, 2003, the Company acquired, based on the accounting positions reported at October 31, 2003, 99,99% of the shareholders' equity in the companies Centro Radiológico da Lagoa Ltda. (CRL) and Presmedi Rio Serviços Médicos Ltda. which reported negative shareholders' equity of R\$ 7,655 thousand and R\$ 1,061 thousand, respectively. Management, based on guidelines included in item 17.1.9 of Official Circular/CVM/SNC/SEP 01/2004 recorded the difference between the acquisition value of the investment and the negative shareholders' equity as a goodwill. The goodwill is based on plans and expected return on investments prepared by Management forecast for 5 years.

The unsecured liability on the purchase of Presmedi has been classified to current liabilities, with the corresponding entry recorded to the results for the year, given the lack of any prospects of future profitability for this company. The main information on the interest in the shareholders' equity of this investment is as follows:

	Presmedi
Quotas of capital of the subsidiary	10,000
Quantity of quotas held	9,998
Percentage of interest	99.98%
Net equity at December 31, 2003	<u>(1,097)</u>
Amount recognized as a provision for unsecured liability in the subsidiary classified to current liabilities	<u>(1,097)</u>

Diagnósticos da América S.A.

Notes to the financial statements

(In thousands of Reais)

10 Property, plant and equipment

	Depreciation rate (p.a.%)	Parent Company				Consolidated		
		2003	2002	2003	2002	2003	2002	2003
		Cost	Depreciation	Net	Net	Cost	Depreciation	Net
Buildings	4	241	(51)	190	200	241	(51)	190
Leasehold improvements	12	62,304	(25,487)	36,817	26,766	62,304	(25,487)	36,817
Machinery and equipment	10	93,633	(28,997)	64,636	65,485	98,112	(31,279)	66,833
Furniture and fixtures	10	12,649	(4,150)	8,499	6,835	12,834	(4,252)	8,582
Facilities	10	1,935	(1,056)	879	354	2,378	(1,317)	1,061
Hardware and Software	20	21,717	(9,325)	12,392	11,056	21,851	(9,428)	12,423
Vehicles	20	173	(58)	115	150	182	(67)	115
Library	10	-	-	-	-	15	(11)	4
Land		810	-	810	170	810	-	810
Trademarks and patents		79	-	79	76	79	-	79
Import VAT tax (ICMS)		7,931	-	7,931	7,732	7,931	-	7,931
Construction in process		<u>9,182</u>	<u>-</u>	<u>9,182</u>	<u>7,543</u>	<u>9,241</u>	<u>-</u>	<u>9,241</u>
		<u>210,654</u>	<u>(69,124)</u>	<u>141,530</u>	<u>126,367</u>	<u>215,978</u>	<u>(71,892)</u>	<u>144,086</u>

VAT (ICMS) on imports recognized by the Company, with the corresponding entry being the provision for contingencies classified to non current liabilities, refers to the VAT (ICMS) on imports of equipment that was not paid since the company is questioning payment due.

11 Deferred charges

	Parent Company		Consolidated
	2003	2002	2003
(a) Goodwill on the merger of the subsidiary - Cantalon S.A.	27,968	27,968	27,968
(b) Goodwill on the merger of the subsidiary - Atacama Ltda.	55,967	55,967	55,967
(c) Goodwill on the merger of the subsidiary - Lab. Patologia Clínica Curitiba S/C	2,785	-	2,785
(d) Pre-operating expenses	<u>41,178</u>	<u>38,682</u>	<u>41,185</u>
	127,898	122,617	127,905
Accumulated amortization of goodwill	(54,184)	(34,442)	(54,184)
Accumulated amortization of pre-operating expenses	<u>(9,230)</u>	<u>(3,822)</u>	<u>(9,233)</u>
	<u>64,484</u>	<u>84,353</u>	<u>64,488</u>

Diagnósticos da América S.A.

Notes to the financial statements

(In thousands of Reais)

The goodwill from the merger with the subsidiary represents:

- a. The goodwill recorded in the wholly owned subsidiary Cantalon S.A. arose when this company acquired all the shares of Bio-Ciência Lavoisier Análises Clínicas S.A. On August 22, 2000, Cantalon S.A. was merged by Diagnósticos da América S.A., which recognized this goodwill in its deferred assets. The amortization is being made over 5 years, in line with the estimated period of return on the investment.
- b. The goodwill recorded in Atacama Ltda., was generated when this company acquired all the shares of Laboratório Bronstein S.A., Bronstein Administradora Laboratorial S.A. and Lâmina - Laboratório de Análises Médicas e Investigações Anátoma Patológicas S.A. On July 2, 2001, Diagnósticos da América S.A. merged its investees, recognizing this goodwill as a deferred asset. The amortization is being made over 5 years, the estimated period of return on the investments.
- c. On January 23, 2003, Diagnósticos da América S.A. acquired 100% of Laboratório de Patologia Clínica Curitiba S/C, for the sum of R\$ 3,339 thousand, generating a goodwill on acquisition of R\$ 2,785 thousand. On May 02, 2003, Diagnósticos da América S.A. incorporated this investment, recognizing this goodwill to deferred charges. The goodwill arising from the purchase is being amortized over a period of 5 years, according to profitability forecasts prepared by management.
- d. The pre-operating expenses are related to the expenses for expansion of the patient service centers and are amortized over an average period of 8 years.

12 Accounts payable to suppliers

	<u>Parent Company</u>		<u>Consolidated</u>
	2003	2002	2003
Domestic suppliers	13,551	11,701	13,742
Foreign suppliers	<u>4,524</u>	<u>1,676</u>	<u>4,524</u>
	<u>18,075</u>	<u>13,377</u>	<u>18,266</u>

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Notes to the financial statements

(In thousands of Reais)

The balance for foreign suppliers, of US\$ 1,565 thousand (US\$ 474 thousand in 2002), refers to the purchase of imported materials used in clinical analysis.

13 Loans and financing

	Parent Company		Consolidated
	2003	2002	2003
Local currency:			
(a) Bank Loans - Interest of 107% a 111% of CDI.	14,129	14,008	14,129
Foreign currency:			
(b) Bank Loans - Interest of 13.06% p.a.	27,825	33,000	27,893
(c) Suppliers of equipment - Interest of 8.0% to 8.5% p.a.	<u>60,198</u>	<u>69,328</u>	<u>60,198</u>
	102,152	116,336	102,220
Short term instalments to amortize classified as current liabilities	<u>(31,874)</u>	<u>(29,058)</u>	<u>(31,874)</u>
Noncurrent liabilities	<u>70,278</u>	<u>87,278</u>	<u>70,346</u>

(a) The financings in local currency are related to Bank overdrafts and compror contracts, whose resources are used for maintenance of Company's cashflow, with the companies Platypus S.A. and Balú 460 Participações Ltda. providing the guarantees.

(b) The foreign currency loan was obtained in August 2002, with Banco Itaú - BBA acting as intermediary. The value of the loan is US\$ 10,000 thousand fixed in North American dollars, valued at the PTAX on the payment date of each installment plus interest of 13.06% p.a. At December 31, 2003, the debt was US\$ 7,903 thousand, (US\$ 9,339 in 2002), being US\$ 1,474 thousand (US\$ 1,482 in 2002) classified to current liabilities and US\$ 6,429 thousand (US\$ 7,857 thousand in 2002) classified to noncurrent liabilities.

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(In thousands of Reais)

The noncurrent installments are due for payment as follows (data in dollars):

Year	2003	2002
2004	-	1,428
2005	1,429	1,429
2006	1,428	1,428
2007	1,429	1,429
2008	1,428	1,428
2009	<u>715</u>	<u>715</u>
	<u>6,429</u>	<u>7,857</u>

The foreign currency loan is guaranteed by the companies Platypus S.A. and Balu 460 Participações Ltda. and also by promissory notes of US\$ 12,000 thousand. In order to protect against foreign currency variations, the Company has contracted Swap operations for the same value and with the same maturity terms as the loan. At December 31, 2003, these derivative operations resulted in a loss of R\$ 4,992 thousand, recognized to the heading bank loans, with R\$ 1,310 thousand classified to current liabilities and R\$ 3,682 thousand classified to non current liabilities (gain of R\$ 2,963 thousand in the previous year, recorded to the heading other accounts receivable).

- (c) The balance for suppliers of equipment was US\$ 20,859 thousand (US\$ 19,622 thousand in 2002), with US\$ 4,237 thousand classified to current liabilities and US\$ 16,622 thousand to noncurrent liabilities, arising from the import of machines and equipment. The interest due is calculated at the rate of between 8.0% and 8.5% per annum.

The noncurrent installments are due for payment as follows (data in dollars):

Year	2003	2002
2004	-	2,981
2005	4,223	3,167
2006	4,445	3,392
2007	4,061	3,475
2008	2,849	2,831
2009 up to 2010	<u>1,044</u>	<u>998</u>
	<u>16,622</u>	<u>16,844</u>

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(In thousands of Reais)

In order to avoid assuming positions exposed to fluctuations in foreign exchange rates, the Company contracted derivative instruments, swaps, with the banks Alfa S.A and Votorantim S.A., amounting to R\$ 13,900 thousand and R\$ 49,618 thousand, respectively, and the contracts will be settled between January 2004 and December 2010. At December 31, 2003, these derivative instruments resulted in a loss of R\$ 665 thousand and R\$ 5,251 thousand respectively. The loss from the swap contracts with Banco Alfa S.A., of R\$ 665 thousand, was recorded to the heading other accounts payable and the sum of R\$ 5,251 thousand classified to the heading loans and financing.

14 Salaries and vacation pay

	<u>Parent Company</u>		<u>Consolidated</u>
	2003	2002	2003
Salaries payable	2,209	1,679	2,272
Social charges	2,152	1,716	2,190
Accrued vacation pay	7,213	5,649	7,332
Other benefits	<u>321</u>	<u>272</u>	<u>345</u>
	<u>11,895</u>	<u>9,316</u>	<u>12,139</u>

15 Refinanced taxes payable

	<u>Parent Company</u>		<u>Consolidated</u>
	2003	2002	2003
Refis - Municipal (Service TAX)	5,420	5,535	5,420
Refis - Federal	-	1,872	-
PAES - Special instalments	9,293	-	9,293
INSS	-	-	1,940
Other installments	<u>-</u>	<u>-</u>	<u>752</u>
	14,713	7,407	17,405
Instalments due in the short term classified as current liabilities	(1,637)	(1,390)	(4,193)
Noncurrent liabilities	<u>13,076</u>	<u>6,017</u>	<u>13,212</u>

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(In thousands of Reais)

The Tax Recovery Program (REFIS Federal), introduced under Law 9964, of April 10, 2000, aims to regulate Federal Government credits, from taxes and contributions due from legal entities, administered by the Federal Tax Office - SRF and the National Institute for Social Security (INSS).

On July 29, 2003, Diagnósticos da América S.A. opted to settle in full the tax debts declared on the REFIS (Law 9.964), with the company making a payment of R\$ 1,494 thousand.

On May 30, 2003, the Federal Government introduced law 10.684 (PAES Program), granting tax payers the right to make installment payments of tax debts with the Federal Tax Office, General Attorney for the National Treasury and National Institute for Social Security, in up to 180 monthly payments.

On July 29, 2003, the Company adhered to the PAES Program (Law 10.684), declaring its PIS and Cofins tax debts, which it was legally disputing. The consolidated value of the debt at July 29, 2003 was R\$ 9,329 thousand (R\$ 9,293 thousand at December 31, 2003), with the debt being repaid in 120 monthly installments and updated by the variation of the long-term interest rate (TJLP). The payments will be due until June 2013.

The installment taxes (Municipal Refis), of R\$ 5.420 thousand at December 31, 2003 (R\$ 5,535 thousand in 2002), refer to tax debts with the Municipal Local Authority for São Paulo. The debt is due in 120 monthly installments, corrected by the TJLP and the payments will be made until December 2010.

INSS - Refers to the process to obtain installment payments which is being disputed by the Company, and amounts to R\$ 1,940 thousand, with the amortization period estimated to be 60 months, with liquidation forecast for 2008.

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Notes to the financial statements

(In thousands of Reais)

16 Accounts payable for acquisition of subsidiaries

	<u>Parent Company</u>		<u>Consolidated</u>
	2003	2002	2003
(a) Bio-Ciência Lavoisier quotaholders	10,060	8,757	10,060
(b) Bronstein quotaholders	4,997	4,442	4,997
(c) Lâmina quotaholders	11,657	13,000	11,657
(d) Santa Casa quotaholders	1,149	-	1,149
(e) CRL e PRESMEDEI quotaholders	<u>1,226</u>	<u>-</u>	<u>1,226</u>
	29,089	26,199	29,089
Instalments due in the short term classified as current liabilities	<u>(8,901)</u>	<u>(7,841)</u>	<u>(8,901)</u>
Noncurrent liabilities	<u>20,188</u>	<u>18,358</u>	<u>20,188</u>

(a) Accounts payable to the previous owners of the company Bio-Ciência Lavoisier Análises Clínicas S.A., at the time of purchasing 100% of this company's capital, made through intermediary of the companies Solimões S.A. and Javari S.A. The debt balance is being monetary corrected by the IGP-M/FGV inflation rate, plus interest of 10% per annum. The debt amortizations will be made until October 2005, although some installments have been retained as guarantee for possible contingencies.

(b) Accounts payable to the previous owners of the companies Laboratório Bronstein S.A. and Bronstein Administradora Laboratorial S.A., at the time of purchasing 100% of the capital in these companies, made through intermediary of the company Pads do Brasil Ltda. The debt amortizations will be made until 2006, using the funds from investment funds managed by a financial institution, as reported in note 5 to the financial statements.

Diagnósticos da América S.A.

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(In thousands of Reais)

- (c) Accounts payable to the previous owners of the company Lâmina - Laboratório de Análises Médicas e Investigações Anátomo-Patológicas S.A., at the time of purchasing 100% of the capital in this company, made through intermediary of the companies Stantibus S.A. and Sinalagma S.A. The debt balance is being monetary corrected by the IGP-M, plus interest of 12% per annum. The debt amortizations will be made until March 2007.
- (d) Accounts payable to the previous quotaholders of Laboratório de Patologia Clínica Curitiba S/C (Laboratório Santa Casa), at the time of purchasing 100% of the capital in this company. The debt amortizations will be made until July 2004, with the debt balance being corrected monthly by the variation in the IGP-M.
- (e) Accounts payable to the previous owners of the companies Centro Radiológico da Lagoa Ltda. and PRESMEDI Rio Serviços Médicos Ltda., at the time of purchasing 99.99% of the capital in these companies. The debt amortizations will be made until 2005, and the debt balance is being corrected monthly by the variation in the IGP-M.

The noncurrent installments are due for payment as follows:

Year	2003	2002
2004	-	1,342
2005	9,465	7,880
2006	6,633	5,782
2007	<u>4,090</u>	<u>3,354</u>
	<u>20,188</u>	<u>18,358</u>

Diagnósticos da América S.A.

Notes to the financial statements

(In thousands of Reais)

17 Other accounts payable

	<u>Parent Company</u>		<u>Consolidated</u>
	2003	2002	2003
Rentals	1,312	1,113	1,400
Third-party services	2,261	1,827	2,261
Freelancer doctors	2,777	1,731	2,777
Franchisee commission payable	1,197	593	1,197
Accounts payable - SWAP operation	665	-	665
Other accounts payable	<u>454</u>	<u>765</u>	<u>1,023</u>
	<u>8,666</u>	<u>6,029</u>	<u>9,323</u>

18 Provision for contingencies

	<u>Parent Company</u>		<u>Consolidated</u>
	2003	2002	2003
VAT Tax (ICMS) - Import	21,106	12,926	21,106
Tax Contingency - PIS	-	5,959	-
Tax Contingency - COFINS	-	3,046	-
National Institute of Social Security INSS - from 1993 to 1999	1,733	1,639	1,733
Others	<u>4,211</u>	<u>5,221</u>	<u>5,567</u>
	<u>27,050</u>	<u>28,791</u>	<u>28,406</u>

a. VAT tax (ICMS) on import

The Company has not been paying the VAT tax (ICMS) on the import of goods and equipment since February 2000, taking into account that the Company is not a taxpayer of such tax, denying consequently ICMS compensation, which is not in accordance with the non-accumulation principle.

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As informed by its external lawyers, the Company has a probable likelihood of winning the ICMS tax suit related to the period before Constitutional Amendment no. 33/2001, amounting R\$ 10,579 thousand, considering the favourable jurisprudence in the Supreme Court.

With regards to the period after Constitutional Amendment n° 33/2001, the external lawyers informed that the Company has a reasonably possible likelihood of winning due to the lack of jurisprudence in the Supreme Court. The total contingent exposure regarding the period after Constitutional Amendment no. 33/2001 amounted at the year end to R\$ 10,527 thousand.

Despite the fact that the external lawyers considered the likelihood of winning this tax suit as probable and reasonably possible respectively, management decided to adopt a conservative position, recording a provision for the total ICMS levy on the import of equipment and goods.

b. Tax contingency - PIS

Refers to PIS (Employees' Profit Participation Program) levy on the gross and financial revenue, which had not been paid from February 1999 to January 2003 due to the fact that the Company had a legal injunction suspending such payment considering the writ of mandamus number 1999.61.00.021634-0. The PIS not paid during this period was updated by the SELIC variation, until July 2003, when, as reported in note 15 to the financial statements, the Company opted to pay the debt in installments, adhering the PAES Program, in accordance with Law 10.684.

c. Tax contingency - COFINS

Refers to COFINS (Tax for Social Security Financing) levy on the financial revenue, which had not been paid from February 1999 to January 2003, with the amounts increased by a 20% fine and monetary correction (SELIC). Also, the Tax Rate increase had not been paid, and the related amount has been updated by the SELIC variation until July 2003, when, as reported in note 15 to the financial statements, the Company opted to pay the debt in installments, adhering the PAES Program, in accordance with Law 10.684

Diagnósticos da América S.A.

Notes to the financial statements

(In thousands of Reais)

d. National Institute of Social Security INSS - From 1993 to 1999

Refers to the changes in the contributions paid to the National Institute for Social Security on the payments made to freelance doctors to Bio-Ciência Lavoisier Análises Clínicas S.A., due to the non-characterization of these doctors as freelance, previous to its acquisition by Diagnósticos da América S.A., during the period from August 1993 to September 1999. This suit was already judged in a court of summary jurisdiction and decision was against the Company. Therefore, the debt amount plus penalties and interest are fully provisioned.

e. Others

The Company has filed lawsuits questioning the legality of certain taxes, civil and labour claims. Management, based on information provided by its legal advisors and analyses of the pending legal demands, has recorded a provision for an amount considered sufficient to cover potential losses from claims in progress. Of the various contingencies, R\$ 2,699 thousand in 2003 (R\$ 2,118 thousand in 2002) is supported by legal deposits, classified to non current liabilities.

19 Capital

The authorized, fully subscribed and paid-in capital is comprised of 3,427,618 nominal ordinary shares and 1,302,494 nominal preferred shares with no par value, distributed as follows:

	Ordinary	Preferred	Total
Balu 460 Participações Ltda.	1,748,080	-	1,748,080
Platypus S.A.	1,679,529	1,302,494	2,982,023
Minority stockholders	<u>9</u>	<u>-</u>	<u>9</u>
	<u>3,427,618</u>	<u>1,302,494</u>	<u>4,730,112</u>

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20 Financial instruments

The Company has a policy of eliminating market risks and avoids assuming positions exposed to market value fluctuations, operating only with instruments which permit controlling these risks. Most of the derivative contracts correspond to swap operations and involve prefixed rates. The Company does not expect to have losses from these operations, besides those already disclosed in the financial statements.

The market values were estimated at the balance sheet date, based on “relevant market information”. Any changes in premises could significantly affect the estimates reported.

The management of these instruments is done through operating strategies, aimed at liquidity, profitability and security. The control policy consists of permanent follow-up of the rates engaged versus those in force in the market. The Company and its subsidiaries do not invest in derivatives or any other risk assets on a speculative basis.

21 Insurance coverage

On December 31, 2003, the Company had insurance taken out with the major insurance companies in Brazil, which were determined in accordance with the guidelines of experts, and considering the nature and the level of risk involved. The main insurance coverage is against fire, theft and various risks for the fixed assets and inventories, at values considered sufficient to cover possible losses.

22 Tax loss carry-forwards

On December 31, 2003, the Company had the following tax loss carry-forwards:

a. Income tax losses calculated up to 2003 and	35,964
b. Negative basis for social contribution tax	39,481

From 1995 onwards the offset of income tax loss carry-forwards and the negative basis for the social contribution tax is limited to an amount equal to 30% of annual income. There is no legal time limit for the use of these credits.

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23 Leasing

The Company leases various machines, equipment and data processing equipment with the option to purchase them, through operating lease agreements. At December 31, 2003, the position on these lease contracts represented a total liability of R\$ 1,414 thousand, to be paid until May 2006.

* * *

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