



Diagnósticos da América S.A.

Financial statements

December 31, 2004 and 2003

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



Diagnósticos da América S.A.

(Publicly-held company)

Financial statements

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Managements' report

Dear Shareholders,

We have great pleasure in presenting the Consolidated Financial Statements of Diagnósticos da América S.A. (DASA or the "Company"), for the year ended December 31, 2004. The year 2004 presented significant challenges and realizations for DASA. During the first semester of the year, an important purchase was made in São Paulo. DASA purchased, Elkis & Furlanetto, which was quickly integrated within our operations, and started to operate under the name Lavoisier - an important brand name recognized by the public that seeks practical, quality solutions on the diagnostic medicine market.

During the second semester of 2004, the Company started to negotiate its shares on the New Bovespa Market. DASA's going public represented for the Company and its employees far more than listing its shares on the stock exchange: this is an important step to enable us to grow, ensuring a greater number of individuals have access to quality diagnostic medicine, and thus enabling us to achieve our Vision and Mission.

In fact, for the sixth consecutive year, DASA has continued to grow, combining dynamic organic expansion with selective acquisitions. The four main pillars of our strategy - multi-products, multi-brands, multi-regions and multi-payers - continue to drive our actions, enabling us to achieve, in 2004, an historic record in revenue and adjusted EBITDA, despite the fact that the economic scenario is still not totally favorable, given the successive decreases in the worker's average salary.

Economic Scenario

During 2004, the signs of recovery of the Brazilian economy became more evident. The economic data indicated that activity levels were above those anticipated at the start of the year, with growth in Gross Domestic Product of approximately 5.4%. This strengthening in the level of activity was encouraged by the important expansion in the sectors of the economy involved in exporting goods and services, resulting in a notable performance for the balance of trade, which reached a record surplus. During the second semester of the year, this warming of the economy extended to other productive sectors and resulted in stimulation of the domestic market, with improved employment indices and higher average salaries being reported.

However, this improved growth was accompanied by only a slight increase in investments aimed to expand productive capacity, which has caused inflationary pressures. Given the pressure on the price indicators, the Central Bank started a new cycle of high interest rates during the second half of 2004, aimed to achieve the inflation goals established for the year. Despite the vitality from the warming up of the economy and the prospects of continued growth for 2005, this monetary pressure could have a negative impact on activity levels in the future.

General Vision

In line with the positive signs for business performance identified during 2004, DASA continued with its expansion course through organic growth and the acquisition of diagnostic medicine companies.

On the organic expansion front, new service units were inaugurated and the Company sought to invest in extending its diagnostic imaging services. Our network of service units increased from 131 units in December 2003, to 148 units in December 2004, including the inauguration of two mega-units in Rio de Janeiro and two new facilities for Club DA, our brand name for differentiated services. We also sought to repeat the concept of integrated diagnostic medicine in Rio de Janeiro, offering new diagnostic imaging services at the Bronstein and Lâmina units.

Furthermore, on May 14, of this year, DASA assumed the operations of one of the most traditional diagnostic medicine companies in Brazil: Laboratório Elkis & Furlanetto. Since then, significant effort has been made to adapt Elkis' operations to DASA's structure. Only 54 days after signing the purchase and sale agreement, the 13 recently incorporated units were operating under the joint Lavoisier flag, through the DASA service attendance system. Investments were made to adapt them to the attendance model adopted by Lavoisier, by implementing operational procedures and training employees. In addition, all of the procedure for examinations collected at these units is now performed by the São Paulo Central Laboratory, guaranteeing the highest standards of quality when performing these examinations.

Seeking to continue and intensify our expansion strategy and benefiting from the favorable macro economic situation, on November 19, 2004, the Company went public. Under the symbol DASA3, the shares of Diagnósticos da América S.A. were listed on the New Bovespa Market, whose premises are corporate governance and maximum transparency. Of the total 21.9 million shares negotiated, there was a first issue of 6.3 million new shares, which represented net funds for the company (after deducting the expenses from the public placing) of R\$ 111.2 million. The funds obtained on the market will be used in the reform, construction and opening of new service units and the purchase of diagnostic medicine companies on the markets where we operate or on new markets.

Comments on performance and investments

DASA's results for 2004, compared to the previous year, were marked by the expansion in the offer of diagnostic imaging services; by the significant growth in requests attended during the year; by growth in income from our premium brand name Club DA and by the decrease in the costs of services provided compared to gross operational income.

DASA's gross operational income reported for the year ended December 31, 2004, reached R\$ 491.4 million; R\$ 91.6 million or 23% greater than the gross income for the previous year. A total of 4.6 million requests were attended in 2004, which represented an increase in volume of 16% compared to 2003. The increase in the number of requests is due to the increase in the number of attendance units; from 131 in December 31, 2003 to 148 at the end of 2004 and also from growth of approximately 9% in average income per unit. Furthermore, the 13 units incorporated from the purchase of Laboratório Elkis & Furlanetto contributed, as from May 2004, reporting additional gross income of R\$ 17.3 in 2004.

In addition, growth of 6% in average income per request was reported. The increase in gross income per request reflects the increase in demand for diagnostic imaging exams, with income increasing by 34% during the period and also as a result of developing our premium brand name Club DA.

In 2004, a total of R\$ 65.1 million was invested, excluding the amount invested to purchase the laboratory Elkis & Furlanetto. Of this total (i) R\$ 24.6 million was invested in constructing new units and reforming and expanding existing ones - including the duplication of the Tatuapé unit (which now has an area of 8.000 m²), our first mega unit, inaugurated in 1996, but which had reached its occupation limit; (ii) R\$ 17.0 million was invested in purchasing new imaging equipment; (iii) R\$ 9.7 million was invested in developing new computer systems, hardware and software licenses; (iv) R\$ 3.8 million in pre-operational costs for the units inaugurated during 2004; as well as (v) R\$ 2.8 million in fixtures and accessories; (vi) R\$ 2.3 million in acquisitions; and (vii) R\$ 4.8 million in other investments. To finance this expansion Diagnósticos da América S.A. used its own funds, obtained financing from the manufacturers of diagnostic medicine equipment and also obtained bank loans.

When analyzing the results reported by DASA in 2004, one should take into account the increase during the first semester and subsequent reduction in the COFINS rate (contribution for social security financing), as a result of the changes in the tax laws implemented during the first half of 2004. These changes resulted in a reduction in the tax payments as from the third quarter of 2004, and should make a positive contribution to the results for 2005.

The results of our operations for the year ended December 31, 2004, compared to 2003, were characterized by an increase of 24% in the Adjusted EBITDA - which does not consider the expenses related to the acquisitions or the expenses from the Company going public - amounting to R\$ 123.1 million during the year. Our adjusted EBITDA margin of 27% of net operational income was consistent with the previous year, even after considering the increase in the structure of fixed costs and the additional costs incurred from integrating Elkis & Furlanetto's operations.

Thus, the year 2004, for DASA, was marked by an evolution in its results and consistency in the company's operational performance. However, a lot more will have to be done to exploit the Company's potential growth, in order to consolidate its position on the diagnostic medicine market in Latin America.

Net loss and Loss per share

In 2004, the net loss reached R\$ 18.8 million, compared to R\$ 8.5 million net loss for the previous year. This trend reflects the increase in financial expenses and the general and administrative expenses - reflecting the acquisition of Laboratório Elkis & Furlanetto and the expenses incurred from the Company going public. In addition, the loss was negatively affected by the amortization of goodwill during the year of R\$ 42.8 million. Excluding the amortization of goodwill and assuming an income tax and social contribution rate of 34%, we arrived at a pro-formal net profit of R\$ 16.4 million in 2004.

Based on the net loss of R\$ 18.8 million reported by DASA in 2004, the loss per share was R\$ 0.35. Considering a pro-formal net profit of R\$ 16.4 million in 2004, the profit per share would be R\$ 0.31.

Human Resources

At December 31, 2004, Diagnósticos da América S.A. had approximately 4,150 employees distributed between its operations in São Paulo, Rio de Janeiro and Curitiba. Approximately 40% of our work force is studying or has completed higher education. Approximately R\$ 830 thousand was invested during the year in training programs for our staff, with the main focus being on attending our patients, a critical differential factor for our Company.

Research and Development and New Products

Our investments in research and development did not include undertaking specific programs to develop new equipment or diagnostic methods. Our strategy focuses on constantly up dating our range of examinations, in order to provide the medical profession and its patients with the most up to date diagnostic medicine. For example, during 2004, the following examinations were introduced: electron-neuromiography, econendoscopy, ergoendoscopy, ergoespirometria, otoneurology, urodynamics, digestive endoscopy by endoscopic capsule and three new tests in the molecular biology area. In addition, we started to process internally fifteen esoteric tests, previously sent to international laboratories that we sub-contracted.

Environment and Employment Safety

We have implemented an environmental management system to ensure that our samples for examinations are collected, transported, handled, processed, stored and disposed off in accordance with the appropriate environmental laws and regulations, and in accordance with our internal policies. In general, our internal policies are more rigorous than the rules imposed by the laws and regulations in force. We ensure treatment of liquids with potential of contamination, in de-contamination tanks located at our facilities. We compress and sterilize solid residues before delivering them to firms specialized in treating hospital-medical residues located in São Paulo, Rio de Janeiro and Curitiba, and with which we have signed contracts. We also have a policy to recycle plastic and paper used during our operations.

In addition, we follow rigorous policies to guarantee the safety of our employees. We use practical procedures and controls, protection equipment and clothing, training, medical follow up, vaccinations and other measures necessary to minimize the risks of accidents. We also have programs to avoid work related illnesses, in accordance with Labor regulations and laws.

Initial public offer of shares

On November 19, 2004, Diagnósticos da América S.A. concluded the process for the Initial Placing of Shares (IPO), with the listing of its shares on the New Bovespa market, at the price of R\$ 20.00 per share.

Of the total 21.9 million ordinary shares offered, 29% represented the first issue and the rest of the offer consisted of the sale of shares held by the controlling shareholders. DASA's shares were offered in Brazil and abroad, with 39% of the offer allocated to Brazilian investors and the balance to qualified foreign investors. In addition, 10% of the offer was reserved for non institutional investors, in an effort to distribute the share base and make access to the capital market more democratic.

The total expenses incurred during the IPO process amounted to R\$ 13.5 million, allocated basically between remunerating the banks coordinating the offer and security brokers, paying legal fees, auditors' remuneration and advertising the public offer.

Information to Shareholders

After (i) splitting our shares in the proportion 1 to 10, increasing them from 4,730,112 to 47,301,120 on August 24, 2004; (ii) the capital increase of 5,484,187 shares agreed in the Board of Directors` Meeting of October 19, 2004; and (iii) the capital increase of 822,628 shares from exercising the Additional Shares Option agreed in the BDM of December 02, 2004, our capital is represented by 53,607,935 ordinary normative shares, registered with no par value, with the remaining balance for the authorized capital being 16,392,065 nominative shares, registered with no par value.

A proposal to pay dividends for the year ended December 31, 2004 is not presented, given the results obtained and our strategy to actively acquire laboratories.

Information for shareholders - The details of the process for going public is presented in note 2 (Corporate Aspects).

DASA's shares closed the year negotiated at the price of R\$ 23.90 per share (closing quotation on December 30, 2004), representing a valuation of 19.5% since the date of listing on the stock exchange (November 19, 2004). In comparison, the IBOVESPA index registered an increase of 8.5% during the same period. A total of 4,511 negotiations were registered during the period, involving approximately 9.5 million ordinary shares. The daily average negotiated on the Bovespa was R\$ 7.2 million. DASA's shares were negotiated on 100% of the Bovespa's trading floors.

Independent auditors

In accordance with CVM Instruction 381, we report that during 2004 Diagnósticos da América S.A. and its subsidiaries contracted services not related to the external audit amounting to R\$ 146 thousand, which referred to selecting and recruiting professionals. Diagnósticos da América S.A. during discussions with its independent auditors, concluded that the services provided did not affect the independence of these auditors. Diagnósticos da América S.A. is in compliance with the regulations that define the restrictions on the services of independent auditors.



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Independent auditors' report

To
The 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, 2004 and 2003 and the related statements of income, changes in shareholders' equity and changes in financial position for the years then ended, which are the responsibility of the Company's management. Our responsibility is to issue a report on these financial statements.
2. Our examinations were 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 and its subsidiaries; (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 the management of the Company and subsidiaries, as well as the presentation of the financial statements taken as a whole.
3. In our opinion, the aforementioned financial statements, presents fairly, in all material aspects, the financial position of Diagnósticos da América S.A. and the consolidated financial position of this Company and its subsidiaries at December 31, 2004 and 2003, the results of its operations, changes in shareholders' equity and changes in the financial position, for the years then ended, in accordance with accounting practices adopted in Brazil.
4. As reported in Notes 3, 11, 13 and 21 to the consolidated financial statements, the goodwill originating from the investments acquired, net of amortizations in the amount of R\$ 26,303 thousand, R\$ 13,866 thousand and R\$ 12,849 thousand classified to investments, to deferred assets and to shareholders' equity, respectively, 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.

February 22, 2005

KPMG Auditores Independentes
CRC 2SP014428/O-6

Lino Campion
Accountant CRC 1SP097189/O-0

Diagnósticos da América S.A.

(Publicly-held Company)

Balance sheets

December 31, 2004 and 2003

(In thousands of Reais)

	Parent company		Consolidated			Parent company		Consolidated	
	2004	2003	2004	2003		2004	2003	2004	2003
Assets					Liabilities				
Current assets					Current liabilities				
Cash na cash equivalents	2,630	3,414	2,903	3,460	Suppliers	20,829	18,075	20,829	18,266
Marketable securities	123,234	25,151	123,255	25,154	Loans and financing	25,811	31,874	27,978	31,874
Trade accounts receivable	103,916	72,239	104,109	72,821	Taxes and contributions payable	3,296	1,973	6,305	3,282
Inventories	15,125	14,413	15,125	14,413	Income tax and social contribution	883	-	883	-
Taxes recoverable	16,777	7,424	18,173	7,724	Salaries, social security charges and vacation payable	13,992	11,895	13,992	12,139
Other accounts receivable	5,861	2,654	9,913	2,726	Installment taxes	1,870	1,637	6,202	4,193
Prepaid expenses	901	343	901	387	Accounts payable from acquisition of subsidiaries	19,983	8,901	19,983	8,901
	<u>268,444</u>	<u>125,638</u>	<u>274,379</u>	<u>126,685</u>	Unsecured liabilities in subsidiaries	2,427	1,097	-	-
					Other accounts payable	11,374	8,666	15,186	9,323
Noncurrent assets						<u>100,465</u>	<u>84,118</u>	<u>111,358</u>	<u>87,978</u>
Marketable securities	7,824	4,997	7,824	4,997	Noncurrent liabilities				
Other accounts receivable	1,529	20	1,529	20	Loans and financing	105,207	70,278	105,207	70,346
Legal deposits	3,616	3,470	3,696	3,470	Installment taxes	12,348	13,076	18,448	13,212
Related parties	13,420	9,157	-	2,240	Accounts payable from acquisition of subsidiaries	19,657	20,188	19,657	20,188
	<u>26,389</u>	<u>17,644</u>	<u>13,049</u>	<u>10,727</u>	Provision for contingencies	29,067	27,050	32,669	28,406
						<u>166,279</u>	<u>130,592</u>	<u>175,981</u>	<u>132,152</u>
Permanent assets					Shareholders' equity				
Investments	2,933	2	26,324	8,732	Capital	216,136	27,327	216,136	27,327
Property, plant and equipment	170,280	141,530	174,885	144,086	Capital reserves	52,579	115,743	52,579	115,743
Deferred charges	42,960	64,484	42,964	64,488	Accumulated losses	(24,453)	(8,482)	(24,453)	(8,482)
	<u>216,173</u>	<u>206,016</u>	<u>244,173</u>	<u>217,306</u>		<u>244,262</u>	<u>134,588</u>	<u>244,262</u>	<u>134,588</u>
						<u>511,006</u>	<u>349,298</u>	<u>531,601</u>	<u>354,718</u>
	<u>511,006</u>	<u>349,298</u>	<u>531,601</u>	<u>354,718</u>					

See the accompanying notes to the financial statements.

Diagnósticos da América S.A.

(Publicly-held Company)

Statements of income

Years ended December 31, 2004 and 2003

(In thousands of Reais)

	<u>Parent company</u>		<u>Consolidation</u>	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
Gross service income	<u>479,379</u>	<u>398,197</u>	<u>491,394</u>	<u>399,825</u>
Deductions from gross income				
Taxes	(33,184)	(27,995)	(34,202)	(28,165)
Discounts and deductions	<u>(9,088)</u>	<u>(8,062)</u>	<u>(9,200)</u>	<u>(8,062)</u>
	<u>(42,272)</u>	<u>(36,057)</u>	<u>(43,402)</u>	<u>(36,227)</u>
Net income	<u>437,107</u>	<u>362,140</u>	<u>447,992</u>	<u>363,598</u>
Cost of services provided	<u>(302,911)</u>	<u>(256,033)</u>	<u>(306,469)</u>	<u>(256,896)</u>
Gross profit	<u>134,196</u>	<u>106,107</u>	<u>141,523</u>	<u>106,702</u>
Other operational income (expenses)				
Administrative and general	(79,371)	(49,896)	(88,827)	(50,687)
Net financial	(25,287)	(21,771)	(27,896)	(21,891)
Equity in income of subsidiaries	(3,246)	(1,063)	-	48
Amortization of goodwill	(42,765)	(43,218)	(42,765)	(43,218)
Other operational income	<u>581</u>	<u>3,354</u>	<u>1,101</u>	<u>3,354</u>
	<u>(150,088)</u>	<u>(112,594)</u>	<u>(158,387)</u>	<u>(112,394)</u>
Operational loss	(15,892)	(6,487)	(16,864)	(5,692)
Nonoperational results	<u>(2,084)</u>	<u>(1,995)</u>	<u>(1,112)</u>	<u>(2,790)</u>
Net loss for the year before taxes	(17,976)	(8,482)	(17,976)	(8,482)
Income tax and social contribution	<u>(883)</u>	-	<u>(883)</u>	-
Net loss for the year	<u>(18,859)</u>	<u>(8,482)</u>	<u>(18,859)</u>	<u>(8,482)</u>
Loss per share - R\$	<u>(0.35)</u>	<u>(1.79)</u>	<u>(0.35)</u>	<u>(1.79)</u>
Number of shares at the end of the year	<u>53,607,935</u>	<u>4,730,112</u>	<u>53,607,935</u>	<u>4,730,112</u>

See the accompanying notes to the financial statements.

Diagnósticos da América S.A.

(Publicly-held Company)

Statements of changes in shareholders' equity

Years ended December 31, 2004 and 2003

(In thousands of Reais)

	Capital	Capital reserves	Accumulated losses	Total
Balances at January 1, 2003	27,327	170,845	(78,430)	119,742
Capital increase from incorporation of reserves	78,430	(78,430)	-	-
Capital reduction from absorbing accumulated losses	(78,430)	-	78,430	-
Amortization of goodwill	-	23,328	-	23,328
Net loss for the year	<u>-</u>	<u>-</u>	<u>(8,482)</u>	<u>(8,482)</u>
Balances at December 31, 2003	27,327	115,743	(8,482)	134,588
Prior year adjustments	-	-	2,888	2,888
Capital increase from incorporation of reserves	82,672	(82,672)	-	-
Capital increase from subscription to new shares	126,137	-	-	126,137
Capital reduction from restitution to shareholders	(20,000)	-	-	(20,000)
Amortization of goodwill	-	19,508	-	19,508
Net loss for the year	<u>-</u>	<u>-</u>	<u>(18,859)</u>	<u>(18,859)</u>
Balances at December 31, 2004	<u>216,136</u>	<u>52,579</u>	<u>(24,453)</u>	<u>244,262</u>

See the accompanying notes to the financial statements.

Diagnósticos da América S.A.

(Publicly-held Company)

Statement of changes in financial position

Years ended December 31, 2004 and 2003

(In thousands of Reais)

	<u>Parent company</u>		<u>Consolidated</u>	
	2004	2003	2004	2003
Sources of funds				
Operations				
Net loss for the year	(18,859)	(8,482)	(18,859)	(8,482)
Items not affecting working capital				
Prior year adjustments	2,888	-	2,888	-
Depreciation and amortization	29,639	24,676	30,809	24,676
Amortization of goodwill on investments	4,584	19,890	4,584	19,890
Amortization of goodwill from shareholders' equity	19,508	23,328	19,508	23,328
Amortization of goodwill from deferred charges	18,670	-	18,670	-
Net charges from non current liabilities	2,403	1,847	3,098	1,847
Residual cost from permanent assets written off	9,369	925	10,467	925
	<u>68,202</u>	<u>62,184</u>	<u>71,165</u>	<u>62,184</u>
From shareholders				
Capital increase	126,137	-	126,137	-
From third parties				
Decrease in noncurrent assets	6,619	-	2,241	-
Increase in noncurrent liabilities	78,779	18,650	94,627	20,210
	<u>279,737</u>	<u>80,834</u>	<u>294,170</u>	<u>82,394</u>
Application of funds				
Investments	7,515	2,935	22,176	11,665
Property, plant and equipment	54,816	35,122	59,128	37,682
Increase in deferred charges	10,093	2,732	10,093	2,732
Increase in noncurrent assets	15,360	9,364	4,563	2,447
Decrease in noncurrent liabilities	45,494	30,347	53,896	30,347
Capital reduction	20,000	-	20,000	-
	<u>153,278</u>	<u>80,500</u>	<u>169,856</u>	<u>84,873</u>
Increase (decrease) in net working capital	<u>126,459</u>	<u>334</u>	<u>124,314</u>	<u>(2,479)</u>
Statements of changes in net working capital				
Current assets	142,806	15,801	147,694	16,848
Current liabilities	16,347	15,467	23,380	19,327
Increase (decrease) in net working capital	<u>126,459</u>	<u>334</u>	<u>124,314</u>	<u>(2,479)</u>

See the accompanying notes to the financial statements.

Diagnósticos da América S.A.

(Publicly-held company)

Notes to financial statements

Years ended December 31, 2004 and 2003

(In thousands of Reais)

1 Operations

The Company provides health assistance services to company employees covered by 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 the 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 and f) clinical trials. The Company can exploit other activities related to: a) import for own use, of medical equipment, equipment for diagnosis and related material in general; b) preparation, publication and distribution of newspapers, books, magazines, periodicals and other media, aimed at the scientific and medical communities that fall within the Company's activities; c) granting and managing franchise business, including advertising funds and publication, training and selection of labor, recommending 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 service units in São Paulo and Rio de Janeiro, and is extending its services to the City of Curitiba. The Company has adopted an aggressive approach to expanding the number of units, especially in São Paulo, including adopting the concept of mega units.

The Company closed 2004 with 148 operational units (131 in 2003), being 30 Delboni Auriemo units (25 in 2003), 49 Lavoisier units (39 in 2003), 37 Bronstein units (40 in 2003), 19 Lâmina units (20 in 2003), 8 Laboratório Santa Casa units (6 in 2003), 5 Delboni Paraná units (1 in 2003). The 4 CRL units purchased in 2003, were transferred to the Bronstein Unit. At December 31, 2004, there were 10 Club DA units, 9 of which were annexed to the Delboni Auriemo units and 1 annexed to the Lâmina unit.

Diagnósticos da América S.A.

(Publicly-held company)

Notes to financial statements

(In thousands of Reais)

2 Corporate aspects

General corporate aspects

At the Annual General Meeting held on April 29, 2004, the shareholders decided to increase the capital without issuing shares, through the partial incorporation of amounts available in Reserves in the balance sheet for the financial year 2003, totaling R\$ 82,672, thus increasing it from R\$ 27,328 to R\$ 110,000. At the same time, it was agreed to reduce capital by R\$ 20,000, without the cancellation of shares and in accordance with Articles 173 and 174 of Law 6404/76, reducing it from R\$ 110,000 to R\$ 90,000. The amount of R\$ 20,000 corresponding to the reduction in capital was returned to the shareholders in local currency, proportionately to each shareholder's participation in the capital of the Company.

On May 14, 2004, by Private Contract of sale and Transfer of Quotas and Other Matters signed by Diagnósticos da América S.A. and by the representatives of the quotaholders of the companies Elkis e Furlanetto - Centro de Diagnósticos e Análises Clínicas Ltda., Elkis e Furlanetto - Laboratório Médico S/C Ltda. e L.A.C. - Laboratório de Análises Clínicas S/C Ltda., the acquisition of the totality of the shares of these companies was formalized, based on the balance sheets as at April 30, 2004.

On July 1, 2004, during the Board of Directors' Meeting, the members authorized the conversion of the advances for future capital increase to capital amounting to R\$ 526, R\$ 439 and R\$ 4.879, undertaken by the Company in the companies Centro Radiológico da Lagoa Ltda., Elkis e Furlanetto - Laboratório Médico S/C Ltda. and Elkis e Furlanetto - Centro de Diagnósticos e Análises Clínicas Ltda., respectively.

On August 24, 2004, during the Board of Directors' Meeting, the members approved attributing the functions of Director of Investor Relations to the Financial Director, Mr. Marcelo Marques Moreira Filho, in order to comply with CVM regulation 202 of December 6, 1993, authorizing the Director of Investor Relations to undertake any and all acts necessary for obtaining registration of a public stock corporation, under the terms of CVM Instruction 202, and also authorized the Company directors to undertake all measures and practice all acts necessary to make the future public offer for distribution of shares on the primary and secondary markets.

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On August 24, 2004, in an Extraordinary General Meeting the shareholders decided on the conversion of the totality of preferential shares to ordinary nominative shares and on splitting the totality of shares into a 10 for 1 relationship, so that each previously existing share would now correspond to 10 new shares. As a result the number of shares increased from 4,730,112 to 47,301,120. In addition, each ordinary share has the right to one vote in decisions taken in General Meetings and all the Company's shares will be issued in the name of their holders and will be maintained in a deposit account in a financial institution authorized by the Federal Securities Commission.

On September 13, 2004 the Company requested registration in the Federal Securities Commission as a publicly traded corporation with the right to primary and secondary public offers of shares. The Company was included in the listings of the New Market segment with the São Paulo stock exchange (BOVESPA) on November 5, 2004.

On September 29, 2004, at a Meeting of the Board of Directors, the members approved the acquisition of 999 quotas of the capital of Refazenda Participações Ltda., for an amount of R\$ 999.00 (nine hundred and ninety nine Reais), and at the same time decided to approve the subscription to 4,444,353 quotas of the company for an amount of R\$ 4,444, and the consequent payment to the same by means of assignment of the Company's real estate properties. The Counselors approved the transfer by the Company to the shareholder Balu 460 Participações S.A., of 4,445,352 quotas of Refazenda Participações Ltda., for a total value of R\$ 4,445, as payment for the restitution of capital approved in the Ordinary and Extraordinary General Meetings of April 29, 2004.

On October 13, 2004, at an Extraordinary General Meeting, the shareholders decided to increase the limit of authorized capital to 22,698,880 ordinary shares, permitting the issue of new shares independently of any alteration to the statutes, provided the capital does not exceed 70,000,000 shares.

Public placing

On October 19, 2004, during the Board of Directors meeting, the members decided to authorize the directors to take the measures and undertake the acts necessary to make the capital increase within the limits of the authorized capital, through issuing ordinary shares, registered, with no par value, to be offered to the public through the first public distribution, to be made in Brazil and registered with the CVM, together with efforts to sell shares overseas and an offer of ADSs overseas.

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The aforementioned first public distribution was made concomitantly with the second public distribution of ordinary shares issued by the Company and belonging to its shareholders, with both distributions registered with the CVM on November 18, 2004.

They also decided to authorize the increase of the Company's capital within the authorized limits stated in Article 6 of its Statutes, through the issue for public subscription of up to 5,484,187 ordinary shares, all nominative with no par value.

They also approved the placing of shares object of the capital increase through a public offer in Brazil and overseas, in the form of ADSs ("American Depositary Shares").

The Brazilian offer was made on the unorganized Brazilian market, in accordance with the terms of CVM Instruction 400 of December 29, 2003, by means of the procedure described in the Notification to the Market published on November 18, 2004 by the Company with respect to the Brazilian offer, as well as through the preliminary prospectus and the offer documents, in accordance with Articles 33, § 3 and 24 of CVM Instruction 400, and submitted for registration with the aforementioned organ.

At the same time, during this meeting, it was defined that the placing of the ADSs and the efforts to sell ordinary shares overseas, as well as the ADS offer, would be undertaken supported by the exemptions provided in "Regulation S" of the "Securities Exchange Act" of 1934 in the United States of America, and also Rule 144A of the "Securities Act" of 1933. The placing of the shares would be undertaken by institutions led by Banco UBS S.A. in Brazil and the placing of the ADSs would be made by UBS Securities LLC overseas, both under the firm guarantee method for all of the shares object of the above authorized capital increase. Therefore, a partial distribution of the shares object of the capital increase would not occur.

They also approved the exclusion of the right of preference of the Company's shareholders, at this time, to subscribe to new shares, in accordance with the ruling in Article 172 of Law 6.404/76, and under the terms of Article 9 of the Company's statutes.

They approved granting the titleholders of the ordinary shares object of the present capital increase, as from the date of the issue, the same rights granted to the existing ordinary shares by the Company's statutes and by legislation in force, including attributing dividends and any other benefits that may be declared by the Company as from the date of the liquidation of the Global Offer.

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They approved contracting JPMorgan Chase Bank as the depositing financial institution for the ADSs representative of the shares issued by the Company.

They approved granted the option to Banco UBS S.A., to be exercised at its exclusive criterion, to distribute a supplementary lot of up to 15% of the ordinary shares distributed within the ambit of the Brazilian offer and to grant the option to UBS Securities LLC, to distribute a supplementary lot of up to 15% of the ordinary shares distributed within the ambit of the international offer in the form of ADSs. These options were aimed exclusively to meet any excess demand that may arise during the Global Offer and which could be exercised within a period of 30 days as from the date of the publication of the Announcement of the Start of the First and Second Public Distribution of Ordinary Shares Issued by the Company, under the same terms and price for ordinary shares and ADSs initially offered.

They authorized the Company directors to undertake any other acts necessary for the achieving the Global Offer and the listing and negotiation of the shares on BOVESPA, and to sign any contracts or documents necessary for such.

On December 2, 2004, during the Board of Directors Meeting, the directors approved an increase in the Company's capital, within the limits of its authorized capital, increasing it from R\$ 199,684 to R\$ 216,136. This increase of R\$ 16,452 occurred through the issue for public subscription of 822,628 ordinary, nominative shares, registered with no par value, from exercising the Option for Additional Shares by Banco UBS S.A., within the ambit of the first and second public distribution of ordinary shares of the issue by Diagnósticos da América S.A., as provided in the Private Instrument for Contract for Placing, Subscription and Placing of Shares in Diagnósticos da América S.A., agreed on November 18, 2004.

The shares issued were full paid up in cash at the time of subscription, issued excluding the right of preference of the Company's previous shareholders to their subscription, in accordance with the ruling in Article 172 of Law 6.404/76 and Article 9 of the Company's statutes.

The shares provide their shareholders with the same rights granted to the other ordinary shares issued by the Company, which were granted under legislation and by the Company's statutes, with the right to receive dividends and any other remuneration that may be declared by the Company as from the date of their issue.

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3 Presentation of the financial statements

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

Description of significant accounting practices

a. Income statement

Income and expenses are recognized on the accrual basis. Revenue from services rendered is recognized in the income statement in proportion to the stage of completion of the service.

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 estimated time periods for recovery and consequent amortization of the goodwill originating from the acquisition of investments and other deferred expenses, provision for doubtful accounts, provision for rejections to clarify, 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 for determining such. The Company reviews the estimates and assumptions quarterly.

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c. Foreign currency

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

d. Current and noncurrent 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 provision for rejections to clarify**

The provisions for doubtful accounts and rejections to clarify have been recorded at amounts considered sufficient by the Management to cover eventual losses from the realization of credits and take into consideration the economic scenario, past experience and the specific and global risks in the accounts receivable portfolio.

- **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 and for diagnostics by imaging.

- **Other current and noncurrent assets**

Presented at the net realization amount.

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e. Permanent assets

- **Investments**

Investments in subsidiary companies are valued using the equity method. 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 the target company, with profitability forecasts prepared by Management projected for 5 years.

- **Property, plant and equipment**

Property, plant and equipment are stated at acquisition, formation or construction cost. Depreciation is calculated using the straight-line method at rates described in Note 12 and which take into account the estimated useful life of the assets. Leasehold improvements are amortized over the lower of the remaining lease term or the useful life of the improvement.

- **Deferred charges**

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 is based on the future profitability of operations undertaken by these companies, according to profitability forecasts prepared by management projected over 5 years.

f. Current and noncurrent liabilities

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

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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 using the best estimates of the risk involved.

h. Goodwill from the merger of the parent company

The goodwill recorded previously by the controlling company, was classified after its merger against the capital reserve account in the shareholders' equity of the Company that resulted from the merger. Later, the amortization of goodwill, for a maximum of five years, has been credited to this capital reserve account, with the corresponding entry recorded to the income for the year. This procedure was supported by tax legislation, article 11 of Law 9718 of November 27, 1998, since the corporation law does not deal with this matter.

i. Current deferred corporate income tax and social contribution

Current income tax and social contribution are calculated based on the effective rates of income tax and social contribution on net profit and take into account the compensation of tax losses and the negative basis for social contribution, limited to 30% of net profit.

The Company has tax losses carryforwards, negative basis of social contributions and temporary differences at the balance sheet date. 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 profits being reported in recent years.

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4 Consolidated financial statements

The consolidated financial statements as at December 31, 2004, include the subsidiary companies Centro Radiológico da Lagoa Ltda. and Presmedi Rio Serviços Médicos Ltda. with a 99.99% investment interest purchased on November 13, 2003 and the subsidiary companies Elkis e Furlanetto Centro de Diagnósticos e Análises Clínicas Ltda., Elkis e Furlanetto Laboratório Médico S/C Ltda. and L.A.C. Laboratório de Análises Clínicas S/C Ltda., with a 100% investment interest purchased on May 14, 2004.

The financial statements at December 31, 2003, include the direct subsidiaries Centro Radiológico da Lagoa Ltda. and Presmedi Rio Serviços Médicos Ltda. with investment interests 99.99%.

Accounting policies were applied on a uniform basis in the consolidated company and are consistent with those adopted in the previous year.

The process for consolidating the assets and liabilities and the profit and loss account is by totaling the balances in the asset and liability accounts and the expense accounts according to their nature, with the following eliminations:

- Investment interests in the capital, reserves and accumulated results maintained between them, it should be noted that there are no reciprocal investment interests;
- Inter-company balances in the assets and liabilities and revenue accounts.

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Notes to financial statements

(In thousands of Reais)

5 Marketable securities

	<u>Parent company</u>		<u>Consolidated</u>	
	2004	2003	2004	2003
Marketable securities	131,058	30,148	131,079	30,151
Current portion included in current assets	<u>(123,234)</u>	<u>(25,151)</u>	<u>(123,255)</u>	<u>(25,154)</u>
Noncurrent assets:				
Restricted deposits	<u>7,824</u>	<u>4,997</u>	<u>7,824</u>	<u>4,997</u>

The marketable securities classified to current assets refer to variable income funds, earning an average rate of 99.7% as of December 31, 2004 (110.5% as of December 31, 2003) of the CDI. The objective of the funds in which the Company invests, is to provide the shareholders with profitability by investing their funds in investment fund quotas, whose investment policy includes the possibility of concentrating investments in public and private securities.

The long term financial investments comprise the following:

Unibanco S.A. - Bank Deposit Certificates - CDB - remunerated at the average rate of 99.7% and 100% of the CDI, guarantee, respectively, payment of the obligations assumed, from purchasing the total shares in the following companies, to the previous shareholders of Laboratório Bronstein S.A., Bronstein Administradora Laboratorial S.A., Elkis e Furlanetto - Centro de Diagnósticos e Análises Clínicas Ltda., Elkis e Furlanetto - Laboratório Médico S/C Ltda. and L.A.C. -Laboratório de Análises Clínicas S/C Ltda.

Pátria Hedge Funds Administração de Recursos Ltda. - Multi market fund called Pátria Hedge Funds, remunerated at the average rate of 100 % of CDI, guarantees payment of the obligations assumed to the previous shareholders of Laboratório Bronstein S.A. e Bronstein Administradora Laboratorial S.A.

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According to the deposit contracts dated December 12, 2000 (Unibanco), April 13, 2004 (Pátria) and May 14, 2004 (Unibanco), agreed between the parties involved and financial institutions, it was established that the amounts deposited would be invested until December 12, 2006, April 13, 2006 and May 14, 2010, respectively, in liquid, low risk, fixed income securities.

6 Trade accounts receivable

	<u>Parent company</u>		<u>Consolidated</u>	
	2004	2003	2004	2003
Current:				
Trade notes receivable - Health plans	107,786	69,583	108,987	70,165
Trade notes receivable - Individuals	1,611	676	1,611	676
Rejections to clarify	16,202	13,712	16,202	13,712
Checks in collection	1,062	1,684	1,062	1,684
Credit cards	680	378	680	378
Returned checks	<u>1,918</u>	<u>249</u>	<u>1,918</u>	<u>249</u>
	129,259	86,282	130,460	86,864
Less:				
Provision for rejections to clarify	(16,337)	(9,320)	(16,337)	(9,320)
Provision for losses from individuals	(305)	-	(305)	-
Provision for doubtful accounts	(6,783)	(4,474)	(7,791)	(4,474)
Provision for losses from returned checks	(<u>1,918</u>)	(<u>249</u>)	(<u>1,918</u>)	(<u>249</u>)
	<u>103,916</u>	<u>72,239</u>	<u>104,109</u>	<u>72,821</u>

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7 Inventories

	<u>Parent company</u>		<u>Consolidated</u>	
	2004	2003	2004	2003
Inventories:				
National direct material	4,135	6,316	4,135	6,316
Imported direct material	6,460	5,476	6,460	5,476
National secondary material	2,571	1,731	2,571	1,731
Consumption material	2,176	1,235	2,176	1,235
Inventories held by third parties	<u>271</u>	<u>98</u>	<u>271</u>	<u>98</u>
	15,613	14,856	15,613	14,856
Less:				
Provision for obsolescence	(488)	(443)	(488)	(443)
	<u>15,125</u>	<u>14,413</u>	<u>15,125</u>	<u>14,413</u>

8 Taxes recoverable

	<u>Parent company</u>		<u>Consolidated</u>	
	2004	2003	2004	2003
IRRF (withholding income tax) on revenue	3,878	3,004	4,481	3,304
IRRF recoverable on marketable securities	672	495	672	495
Income tax recoverable	2,806	2,216	2,970	2,216
Social contribution recoverable	4,879	707	5,082	707
COFINS tax withheld	3,625	-	3,970	-
PIS tax withheld	884	-	965	-
ISS tax withheld	18	737	18	737
INSS recoverable	<u>15</u>	<u>265</u>	<u>15</u>	<u>265</u>
	<u>16,777</u>	<u>7,424</u>	<u>18,173</u>	<u>7,724</u>

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9 Other accounts receivable

	<u>Parent company</u>		<u>Consolidated</u>	
	2004	2003	2004	2003
Credits with previous management:				
Bio-Ciência Lavoisier de Análises				
Clínicas S/C Ltda.	3,052	-	3,052	-
Elkis e Furlanetto C.D.A.C. Ltda.	98	-	98	-
Lâmina - Laboratório de Análises				
Médicas e Investigações Anátomo-				
Patológicas Ltda.	1,529	-	1,529	-
Various advances	1,715	1,811	1,715	1,811
Assets and rights from previous management	-	-	3,813	-
Others	<u>996</u>	<u>863</u>	<u>1,235</u>	<u>935</u>
	<u>7,390</u>	<u>2,674</u>	<u>11,442</u>	<u>2,746</u>
Amount classified to current assets	<u>(5,861)</u>	<u>(2,654)</u>	<u>(9,913)</u>	<u>(2,726)</u>
Noncurrent assets	<u>1,529</u>	<u>20</u>	<u>1,529</u>	<u>20</u>

The credits with previous management refer to payments made by Diagnósticos da América S.A. between 1999 and 2004 and refer to expenses incurred prior to purchasing these companies and represent obligations of the previous owners. These credits will be negotiated or compensated against balances payable to the previous management, as reported in Note 18 to the financial statements.

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10 Related parties

	<u>Parent company</u>		<u>Consolidated</u>	
	2004	2003	2004	2003
Subsidiary companies:				
Centro Radiológico da Lagoa Ltda.				
Current accounts with related companies (a)	6,456	5,630	-	-
Advance for future capital increase	-	1,075	-	-
Presmedi Rio Serviços Médicos Ltda.				
Current accounts with related companies	53	-	-	-
Advance for future capital increase	-	212	-	-
Elkis e Furlanetto Centro de Diagn. e Análises Clín. Ltda				
Current accounts with related companies (b)	1,485	-	-	-
Advance for future capital increase (c)	4,879	-	-	-
Elkis e Furlanetto Laborat. Médico S/C Ltda				
Current accounts with related companies	107	-	-	-
Advance for future capital increase	<u>440</u>	-	-	-
Parent companies:				
Balu 460 Participações S.A. - loan (d)	-	<u>2,240</u>	-	<u>2,240</u>
	<u>13,420</u>	<u>9,157</u>	=	<u>2,240</u>

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The most significant balances involving related parties are presented below:

Subsidiary companies

Centro Radiológico da Lagoa Ltda. - CRL

a. Current accounts with related companies

On April 26, 2004, through a Private Instrument for the Assignment and Transfer of Rights and Obligations agreed between the companies CIM - Centro de Estudos Médicos e Científicos e Diagnósticos por Imagem, the subsidiary Centro Radiológico da Lagoa Ltda. and Philips Medical Systems (Cleveland), Inc., given that the company CIM did not have the financial resources to settle the debt with the company Philips, it was agreed that the subsidiary CRL would assume the rights and obligations arising from the loan contract, replacing the company CIM as the debtor. As a result, of this agreement the Company assumed this debt on behalf of its subsidiary CRL, reported under the heading loans and financing (note 15d) and, as the corresponding entry, for purposes of recording this liability, a current account was constituted representing the operation between the Company and its subsidiary, for the sum of R\$ 5,155, with no interest or monetary correction being charged on this amount, and with no maturity date defined.

On May 19, 2004, through a Private Instrument for the Assignment and Transfer of Rights and Obligations agreed between the companies GE Medical Systems, CIM - Centro de Estudos Médicos and the Company, it was agreed that CIM would assign and transfer the rights and obligations arising from the financing contract to the subsidiary CRL, replacing the company CIM as the debtor. As a result of this agreement, the Company assumed the debt assumed by its subsidiary CRL, included in the heading loans and financing (note 15d), and as the corresponding entry, for purposes of recording this obligation, a current account was recorded representing the operation between the Company and its subsidiary, for the sum of R\$ 983, with no interest or monetary correction being charged on this amount, and with no maturity date defined.

At December 31, 2004, the total from these obligations amounted to R\$ 6,456 (R\$ 5,630 at December 31, 2003).

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Elkis e Furlanetto Centro de Diagnósticos e Análises Clínicas Ltda.

a. Current accounts with related companies

As from September 2004, the Company has assumed the obligations of its subsidiary for paying tax liabilities and creditors, and has recorded these amounts to the current account, with no maturity date specified. No interest or monetary correction is charged on this amount, and the balance at December 31, 2004 was R\$ 1,485.

b. Advance for future capital increase

The Company granted its subsidiary, Elkis e Furlanetto C.D.A.C. Ltda. advances for future capital increases, and during the Board of Directors' meeting held on July 01, 2004, an increase in the subsidiary's capital was authorized, not yet paid in, of R\$ 4,879.

Parent company

a. Loan

On May 29, 2002 and April 30, 2003, the Company granted loans to Balu 460 Participações S.A. for a total of R\$ 2,000. Both these loans bear interest of 10% per annum, and the original due dates were for one year subsequent to them being granted.

On September 30, 2004, as a result of the restitution of Capital, Balu 460 Participações S.A., paid off the loans granted by the Company, through a reciprocal compensation of credits, amounting to a net value of R\$ 2,332, after deduction of income tax (gross value of R\$ 2,414).

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(In thousands of Reais)

The amounts involving other operations with related parties have been summarized below, with the more significant amounts presented as follows:

	2004			2003	
	Expenses	Permanent assets	Prepaid expenses	Expenses	Permanent assets
Related parties:					
Terra Molhada Participações Ltda. (a)	5,252	-	-	2,631	-
Leandra Schwam Auriemo EPP	1,043	-	-	1,095	-
Parkbem Multiserviços S/C Ltda. (b)	5,917	19	-	3,752	28
Patrimônio Investimentos e Participações Ltda.	1,653	-	-	439	-
Refazenda Participações Ltda	21	-	-	-	-
RMA Construtora Ltda. (c)	1,335	4,459	-	462	3,167
Touch Tecnologia e Informática Ltda	6	1,421	-	38	1,391
D.A. Produções Artísticas Ltda	-	-	45	-	-
Total	<u>15,227</u>	<u>5,899</u>	<u>45</u>	<u>8,417</u>	<u>4,586</u>

Related parties

a. Terra Molhada Participações Ltda.

The Company rented three properties from Terra Molhada Participações Ltda., a company controlled by Dr. Caio Roberto Chimenti Auriemo, Director President and President of the Company's Board of Directors and controlling shareholder of Balu 460 Participações S.A., which controls DASA Participações S.A. the Company's parent company. As from September 2004, the monthly amount due to Terra Molhada in respect of rental of the building where the central laboratory is located, as well as the Company's headquarters in Alphaville, in the town of Barueri, State of São Paulo, is R\$ 164. For the building located on Avenida Brasil, in the City of São Paulo which is used as a service unit, the rental is R\$ 48, and for the building which is also used as a service unit at Rua Baluarte, in the City of São Paulo, the rent is R\$ 58. The rental contracts in respect of the three properties were renewed in May 2004 for an additional period of 10 years, against a payment of a bonus of R\$ 2,144. With regard to these rentals, R\$ 5,252 was incurred during the year ended December 31, 2004 (R\$ 2,631 at December 31, 2003).

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b. *Parkbem Multiserviços S/C Ltda.*

This company, controlled by José Auriemo Neto, nephew of Dr. Caio Auriemo, supplies cleaning, security and parking services to the service units. With regard to these services, a total of R\$ 5.936 was incurred for the year ended December 31, 2004, being R\$ 19 (R\$ 28 at December 31, 2003) for pre-operational costs recorded to permanent assets and R\$ 5,917 (R\$ 3,752 at December 31, 2003) recorded to the income statement.

c. *RMA Construtora Ltda.*

This construction company owned by Renato Magnanini Auriemo, son of Dr. Caio Auriemo, supplies civil engineering services for the construction and refurbishment of the service units. With regard to these services, a total of R\$ 5,974 was paid for the year ended December 31, 2004, of which R\$ 4,459 (R\$ 3,167 to December 31, 2003) was recorded to fixed assets and R\$ 1,335 (R\$ 462 to December 31, 2003) charged to the income statement.

11 Investments and unsecured liabilities in subsidiaries

	Parent company		Consolidated	
	2004	2003	2004	2003
Investments in subsidiary companies:				
Centro Radiológico da Lagoa Ltda.	(6,827)	(8,730)	-	-
Elkis e Furlanetto C.D.A.C. Ltda.	(18,472)	-	-	-
Elkis e Furlanetto LM S/C Ltda.	1,927	-	-	-
Goodwill on the purchase of subsidiaries:				
Centro Radiológico da Lagoa Ltda.	9,130	8,880	9,130	8,880
Elkis e Furlanetto C.D.A.C. Ltda.	21,130	-	21,130	-
Elkis e Furlanetto LM S/C Ltda.	777	-	777	-
Accumulated amortization:				
Centro Radiológico da Lagoa Ltda.	(1,978)	(150)	(1,978)	(150)
Elkis e Furlanetto C.D.A.C. Ltda.	(2,658)	-	(2,658)	-
Elkis e Furlanetto LM S/C Ltda.	(98)	-	(98)	-
Works of art	2	2	2	2
Investments in gold	-	-	19	-
	<u>2,933</u>	<u>2</u>	<u>26,324</u>	<u>8,732</u>

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The main information on the investments in the shareholders' equity of these investments is as follows:

	CRL	Presmedi	Elkis CDAC	Elkis LM	Elkis LAC	Total
Capital quotas	815,000	10,000	4,600,000	900,000	1,600	
Number of quotas held	814,998	9,999	4,600,000	900,000	1,600	
Investment interest	99.99%	99.99%	100.00%	100.00%	100.00%	
Shareholders' equity at December 31, 2004	(6,827)	(1,071)	(19,408)	1,927	(420)	
(Loss) profit in the investment for the period	(108)	(187)	(2,973)	22	—	
Balances for investments in subsidiaries classified as investments at December 31, 2004	(6,827)	—	(18,472)	1,927	—	(23,372)
Balances for investments in subsidiaries classified to current liabilities (unsecured liabilities) at December 31 2004	—	(1,071)	(936)	—	(420)	(2,427)
Equity in income of subsidiaries	(108)	(187)	(2,973)	22	—	(3,246)

The unsecured liabilities for the companies Presmedi Rio Serviços Médicos Ltda., Elkis e Furlanetto Centro de Diagnósticos e Análises Clínicas Ltda. and L.A.C. Laboratório de Análises Clínicas S/C Ltda. for the amounts of R\$ 1,071, R\$ 936 and R\$ 420, respectively, which amount to, R\$ 2,427 (R\$ 1,097 at December 31, 2003) are classified in the parent company's balance sheet as unsecured liabilities in subsidiaries.

The main movements on the investment accounts for the year are presented below:

	CRL	Presmedi	Elkis CDAC	Elkis LM	Elkis LAC	Total
Balance for investments at December 31, 2003	(8,730)	(1,097)	-	-	-	(9,827)
Purchase of investments during the year	-	-	(13,419)	2,702	(420)	(11,137)
Decrease in investment from reduction in shareholders' equity of investment company	-	-	(3,016)	(797)	-	(3,813)
Increase in shareholders' equity of investment from payment of advance for capital increase	2,011	213	-	-	-	2,224
Equity in income of subsidiary	(108)	(187)	(2,973)	22	—	(3,246)
Balance for investments in subsidiaries classified as investments at December 31, 2004.	(6,827)	—	(18,472)	1,927	—	(23,372)
Balance for investments in subsidiaries classified as current liabilities (unsecured liabilities) at December 31, 2004	—	(1,071)	(936)	—	(420)	(2,427)

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12 Property, plant and equipment

	Depreciation rate % p.a.	Parent company			
		2004			2003
		Cost	Depreciation	Net	Net
Buildings	4	-	-	-	190
Leasehold improvements	12	95,639	(37,822)	57,817	36,817
Machinery and equipment	10	108,953	(38,231)	70,722	64,636
Furniture and fixtures	10	14,916	(5,294)	9,622	8,463
Facilities	10	1,827	(1,067)	760	879
Hardware and software	20	27,496	(13,281)	14,215	12,392
Vehicles	20	142	(58)	84	115
Library	10	56	(25)	31	36
Land		-	-	-	810
Other fixed assets		86	-	86	79
Construction in process (a)		<u>16,943</u>	<u>-</u>	<u>16,943</u>	<u>17,113</u>
		<u>266,058</u>	<u>(95,778)</u>	<u>170,280</u>	<u>141,530</u>

	Depreciation rate % p.a.	Consolidated			
		2004			2003
		Cost	Depreciation	Net	Net
Buildings	4	-	-	-	190
Leasehold improvements	12	98,832	(40,086)	58,746	36,817
Machinery and equipment	10	116,244	(42,934)	73,310	66,833
Furniture and fixtures	10	15,855	(5,961)	9,894	8,546
Facilities	10	2,942	(1,794)	1,148	1,061
Hardware and software	20	28,917	(14,431)	14,486	12,423
Vehicles	20	247	(153)	94	115
Library	10	71	(38)	33	40
Land		-	-	-	810
Other fixed assets		88	-	88	79
Construction in process (a)		<u>17,086</u>	<u>-</u>	<u>17,086</u>	<u>17,172</u>
		<u>280,282</u>	<u>(105,397)</u>	<u>174,885</u>	<u>144,086</u>

(a) The construction in progress includes ICMS (VAT) on imports recognized by the Company, amounting to R\$ 6,439 at December 31, 2004 in the parent company and on consolidation (R\$ 7,931 at December 31, 2003) with the corresponding entry made to the provision for contingencies, classified at non current liabilities. This refers to the ICMS on the import of equipment that was not paid since the Company has legally questioned this payment. For further information on ICMS on imports see Note 20.

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13 Deferred charges

	End of Amortization	Amortization rate % a.a.	Parent company			
			2004			2003
			Cost	Amortizatio	Net	Net
Goodwill on merger of subsidiary :						
Cantalon S.A. (a)	out/04	20	27.968	(27.968)	-	5.593
Atacama S.A. (b)	dez/05	20	55.967	(43.818)	12.149	24.668
Laboratório de Patologia Clínica Curitiba S/C (c)	jan/08	20	2.785	(1.068)	1.717	2.274
Pre-operating expenses (d)			39.616	(10.522)	29.094	31.949
			126.336	(83.376)	42.960	64.484

	End of Amortization	Amortization rate % p.a.	Consolidated			
			2004			2003
			Cost	Amortizatio	Net	Net
Goodwill on merger of subsidiary:						
Cantalon S.A. (a)	out/04	20	27.968	(27.968)	-	5.593
Atacama S.A. (b)	dez/05	20	55.967	(43.818)	12.149	24.668
Laboratório de Patologia Clínica Curitiba S/C (c)	jan/08	20	2.785	(1.068)	1.717	2.274
Pre-operating expenses (d)			39.623	(10.525)	29.098	31.953
			126.343	(83.379)	42.964	64.488

(a) The goodwill recorded in the wholly owned subsidiary Cantalon S.A. arose when Cantalon acquired all the shares of Bio-Ciência Lavoisier Análises Clínicas S.A. On August 22, 2000, Cantalon S.A. was acquired by the Company, which recognized this goodwill in its deferred assets. The amortization of goodwill, which ended in October 2004, was made over the estimated period for the return of the investment of 5 years, based on studies and return forecast prepared by Management.

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- (b) The goodwill recorded in subsidiary Atacama Ltda. was generated when Atacama 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, the Company incorporated its investments, recognizing this goodwill as a deferred asset. The amortization of goodwill is being made over 5 years, the estimated period of return on the investments, based on studies and profitability forecasts prepared by Management, and it is estimated that it will terminate in December 2005.
- (c) The goodwill recorded in Laboratório de Patologia Clínica Curitiba S/C Ltda. was generated when the Company acquired the totally of quotas of this company. On May 2, 2003, the Company 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 managements, and it is estimated that it will terminate in January 2008.
- (d) Pre-operating expenses refer to the cost of expansion of the service units and are being amortized in periods which vary between 5 and 10 years. During the quarter, the Company transferred R\$ 9,712 thousand in pre-operating costs to fixed assets, of which R\$ 9,539 thousand went to “leasehold improvement” and R\$ 173 thousand to “construction in progress”.

14 Suppliers

	<u>Parent company</u>		<u>Consolidated</u>	
	2004	2003	2004	2003
Domestic suppliers	16,264	13,551	16,264	13,742
Foreign suppliers	<u>4,565</u>	<u>4,524</u>	<u>4,565</u>	<u>4,524</u>
	<u>20,829</u>	<u>18,075</u>	<u>20,829</u>	<u>18,266</u>

The balance for foreign suppliers of US\$ 1,720 (US\$ 1,566 at December 31, 2004) refers to the purchase of imported materials used in clinical exams.

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15 Loans and financing

	<u>Parent company</u>		<u>Consolidated</u>	
	2004	2003	2004	2003
Local currency:				
Loans guaranteed accounts (a)	553	14,129	2,720	14,129
Bank loans (b)	43,504	-	43,504	-
Foreign currency				
Bank loans (c)	29,248	27,825	29,248	27,893
Equipment suppliers (d)	<u>57,713</u>	<u>60,198</u>	<u>57,713</u>	<u>60,198</u>
	<u>131,018</u>	<u>102,152</u>	<u>133,185</u>	<u>102,220</u>
Short term installments to amortize classified as current liabilities	(<u>25,811</u>)	(<u>31,874</u>)	(<u>27,978</u>)	(<u>31,874</u>)
Noncurrent liabilities	<u>105,207</u>	<u>70,278</u>	<u>105,207</u>	<u>70,346</u>

(a) Loans guaranteed accounts

The financings in local currency refer to guaranteed current accounts, with interest varying between 107.0% and 111.0% of CDI. The resources are used for maintaining the Company's cash flow, with Platypus S.A. and Balú 460 Participações Ltda. providing the guarantees.

(b) Bank loans - Local currency

1. This loan was obtained in October 2004, from Banco Votorantim S.A. for the sum of R\$ 12,000 bearing interest of 110.0% of the CDI. At December 31, 2004, the debt was R\$ 12,487, with R\$ 487 classified to current liabilities and R\$ 12,000 to noncurrent liabilities, with the due date for a single payment forecast for 2006.

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The loan is guaranteed by the companies Platypus S.A. and Balu 460 Participações S.A.

2. This loan was obtained in November 2004 from Banco Votorantim S.A. for the sum of R\$ 15.000, bearing interest of 111.6% of CDI. At December 31, 2004, the debt was R\$ 15,450, with R\$ 450 classified to current liabilities and R\$ 15,000 to noncurrent liabilities, with payments falling due as follows:

Maturity date	
2006	3,750
2007	3,750
2008	3,750
2009	<u>3,750</u>
	<u>15,000</u>

The loan is guaranteed by the companies Platypus S.A. and Balu 460 Participações S.A.

3. This loan obtained in October 2004 from Banco Itaú - BBA for the sum of R\$ 15.000, bearing interest of 110.6% of CDI. At December 31, 2004, the debt was R\$ 15,567, with R\$ 2,234 classified to current liabilities and R\$ 13,333 to noncurrent liabilities, with payments falling due as follows:

Maturity date	
2006	3,333
2007	3,333
2008	3,333
2009	<u>3,334</u>
	<u>13,333</u>

The loan is guaranteed by the companies Platypus S.A. and Balu 460 Participações S.A.

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(c) Bank loans - foreign currency (US\$ 000)

1. The foreign currency loan was obtained in August 2002, from Banco Itaú - BBA for the sum of US\$ 10,000 fixed in U.S. dollars, valued at the PTAX on the payment date of each installment plus interest of 13.06% p.a. At December 31, 2004, the debt was US\$ 6,466, (US\$ 7,903 as of December 31, 2003), of which US\$ 1,466 (US\$ 1,474 as of December 31, 2003) is classified to current liabilities and US\$ 5,000 (US\$ 6,429 as of December 31, 2003) is classified to noncurrent liabilities, with payment dates as follows:

Maturity date

2006	1,429
2007	1,428
2008	1,428
2009	<u>715</u>
	<u>5,000</u>

The foreign currency loan is guaranteed by Platypus S.A. and Balu 460 Participações Ltda. and also by promissory notes of US\$ 12,000 issued by the Company. In order to protect itself 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, 2004, these derivative operations resulted in a loss of R\$ 6, 317 (R\$ 4,992 as of December 31, 2003), recognized to loans and financing.

2. The foreign currency loan was raised by the Company through ABN AMRO Real S.A. Bank in May 2004. The loan amounts to US\$ 2,000, valued at the PTAX rate on the date of payment of each installment plus interest of 5.21% p.a. As of December 31, 2004, the debt amounted to US\$ 1,820, of which US\$ 820 was classified as a current liability and US\$ 1,000 as a noncurrent liability, maturing as a single payment forecast for 2006.

The foreign currency loan has as guarantors the companies Platypus S.A. and Balu 460 Participações S.A., represented by promissory notes totaling US\$ 2,500 thousand, for which, in order to obtain protection against exchange variation, the Company contracted a “swap” operation with the same values and due dates as the loan installments. At December 31, 2004 these operations with derivatives resulted in a loss of R\$ 937, recorded as loans and financing.

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(d) Suppliers of equipment - foreign currency (US\$ 000)

The balance for suppliers of equipment was US\$ 17,793 (US\$ 19,018 at December 31, 2003), with US\$ 4,187 (US\$ 3,742 as at December 31, 2003) classified to current liabilities and US\$ 13,606 (US\$ 15,276 as at December 31, 2003) to noncurrent liabilities, arising from the import of machines and equipment. The interest due is calculated at a rate between 7.5% and 8.5% per annum.

The noncurrent installments are due for payment as follows:

Maturity date

2006	4,274
2007	4,126
2008	3,212
2009	1,318
2010	479
2011	<u>197</u>
	<u>13,606</u>

In order to avoid exposure to foreign exchange rates, the Company contracted derivative instruments, "swap", with the bank Votorantim S.A., amounting to R\$ 43,399, and the contracts will be settled by December 2010. At December 31, 2004, these derivative instruments resulted in a loss of R\$ 10,483 (R\$ 5,251 at December 31, 2003).

16 Salaries, social security charges and vacation payable

	<u>Parent company</u>		<u>Consolidated</u>	
	2004	2003	2004	2003
Salaries payable	2,385	2,209	2,385	2,272
Social security charges	2,579	2,152	2,579	2,190
Provision for vacation, and social security charges	8,681	7,213	8,681	7,332
Others	<u>347</u>	<u>321</u>	<u>347</u>	<u>345</u>
	<u>13,992</u>	<u>11,895</u>	<u>13,992</u>	<u>12,139</u>

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17 Installment taxes

	<u>Parent company</u>		<u>Consolidated</u>	
	2004	2003	2004	2003
Installment taxes - REFIS municipal (a)	5,124	5,420	5,124	5,420
Installment taxes - PAES program (b)	9,094	9,293	9,094	9,293
COFINS - Centro Radiológico da Lagoa Ltda.	-	-	968	-
INSS - Centro Radiológico da Lagoa Ltda.	-	-	1,446	1,940
PIS - Centro Radiológico da Lagoa Ltda.	-	-	378	-
INSS - Elkis e Furlanetto C.D.A.C. Ltda.	-	-	4,182	-
ISS - Elkis e Furlanetto C.D.A.C. Ltda.	-	-	1,234	-
INSS - Elkis e Furlanetto L.M. Ltda.	-	-	1,198	-
INSS - Presmedi Rio Serviços Médicos Ltda.	-	-	551	-
Other installments	-	-	<u>475</u>	<u>752</u>
	<u>14,218</u>	<u>14,713</u>	<u>24,650</u>	<u>17,405</u>
Installments due in the short term classified as current liabilities	(1,870)	(1,637)	(6,202)	(4,193)
Noncurrent liabilities	<u>12,348</u>	<u>13,076</u>	<u>18,448</u>	<u>13,212</u>

(a) Taxes payable by the Company in installments under the Municipal REFIS program totaling R\$ 5,124 as of December 31, 2004 (R\$ 5,420 thousand as of December 31, 2003) refer to taxes due to the Municipality of São Paulo. The tax debt was divided into 120 monthly installments, indexed by the TJLP and the installments extend until December 2010.

(b) On May 30, 2003, the government enacted Law 10.684 (PAES Program), allowing taxpayers to divide their tax debts with the Federal Revenue Department, the Attorney General of the National Revenue and the National Social Security Institute, into up to 180 monthly installments.

On July 29, 2003, the Company adhered to the PAES program (Law 10.684), declaring tax debts related to PIS and COFINS which were being discussed judicially. The consolidated amount of the debt as of July 29, 2003 was R\$ 9,329. On December 31, 2004 the total of the installments was R\$ 9,094 (R\$ 9,293 at December 31, 2003), which is divided into 120 monthly installments and updated by the long-term interest rate (TJLP). Payment of these installments extends to June 2013

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The other installment taxes due from the purchased companies amount to R\$ 10,432 (R\$ 2,692 at December 31, 2003), and will be amortized until 2009, with the installments distributed as follows:

	End of amortization	Current installments	Noncurrent installments	Total
Centro Radiológico da Lagoa Ltda.				
COFINS	2008	349	619	968
INSS	2009	521	925	1.446
PIS	2008	126	252	378
Elkis e Furlanetto C.D.A.C. Ltda.				
INSS	2008	1,799	2,383	4.182
ISS	2006	822	412	1.234
Elkis e Furlanetto L.M. Ltda				
INSS	2009	303	895	1.198
PRESMEDI Rio Serv.Médicos Ltda.				
INSS	2009	130	421	551
Other installment payments		<u>475</u>	<u>-</u>	<u>475</u>
		<u>4,525</u>	<u>5,907</u>	<u>10,432</u>

18 Accounts payable from acquisition of subsidiaries

	Parent company		Consolidated	
	2004	2003	2004	2003
Previous owners Bio-Ciência Lavoisier Anal. Clínicas S/C Ltda. (a)	13,099	10,060	13,099	10,060
Previous owners Laboratório Bronstein S.A. (b)	5,464	4,997	5,464	4,997
Previous owners Lâmina - Laboratório de Análises Médicas e Investigações Anátomo-Patológicas S.A. (c)	12,649	11,657	12,649	11,657
Previous owners Laboratório de Patologia C. Curitiba S/C Ltda. (d)	397	1,149	397	1,149
Previous owners Centro Radiológico da Lagoa e Presmedi Rio Serviços Médicos Ltda. (e)	763	1,226	763	1,226
Previous owners Elkis e Furlanetto C.D.A.C. Ltda. (f)	<u>7,268</u>	<u>-</u>	<u>7,268</u>	<u>-</u>
	<u>39,640</u>	<u>29,089</u>	<u>39,640</u>	<u>29,089</u>
Installments due in the short term classified as current liabilities	<u>(19,983)</u>	<u>(8,901)</u>	<u>(19,983)</u>	<u>(8,901)</u>
Noncurrent liabilities	<u>19,657</u>	<u>20,188</u>	<u>19,657</u>	<u>20,188</u>

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- (a) This balance represents an accounts payable to the previous owners of Bio-Ciência Lavoisier Análises Clínicas S.A. at the time of purchasing 100% of this company's capital, made through the intermediation of Solimões S.A. and Javari S.A. The debt balance is being monetarily corrected by the IGP-M inflation rate, plus interest of 10% per annum. The debt amortizations will be made until October 2005.
- (b) This balance represents an accounts payable to previous owners of the companies Laboratório Bronstein S.A. and Bronstein Administradora Laboratorial S.A., upon the acquisition of 100% of the capital of these companies, made through the intermediation of Pads do Brasil Ltda. This debt is updated using the same rates as the resources that are invested in funds administered by financial institutions, as mentioned in Note 5 to the financial statements, and will be settled in 2006.
- (c) This balance represents an accounts payable to the previous owners of Lâmina - Laboratório de Análises Médicas e Investigações Anátomo-Patológicas S.A., at the time of purchasing 100% of the capital of this company, made through the intermediation of Stantibus S.A. and Sinalagma S.A. The debt balance is being monetarily corrected by the IGP-M, plus interest of 12% per annum. The debt amortizations will be made until March 2007.
- (d) This balance represents an accounts payable to previous owners of Laboratório de Patologia Clínica Curitiba S/C (Laboratório Santa Casa), which are: 1) R\$ 397 thousand, (R\$ 704 at December 31, 2003) in respect of tax credits which must be transferred to the previous owners as and when the Company effectively realizes such credits in its accounting and tax records, and at December 31, 2003, R\$ 445 of the part that refers to payments in respect of the acquisition of 100% of the Capital of Laboratório de Patologia Clínica Curitiba S/C Ltda, for which payments may be postponed indefinitely with monthly correction based on the IGP- M index.
- (e) This balance represents an accounts payable to the previous owners of 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.
- (f) This balance represents an accounts payable to the previous owners of the companies Elkis e Furlanetto - Centro de Diagnósticos e Análises Clínicas Ltda., Elkis e Furlanetto - Laboratório Médico S/C Ltda. and L.A.C. - Laboratório de Análises Clínicas S/C Ltda. as of the acquisition of 100% of the Capital of these companies. Part of this debt is updated using the same rates as those at which the resources are invested in funds administered by a financial institution, as commented in Note 5, which will be paid in 2010.

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19 Other accounts payable

	<u>Parent company</u>		<u>Consolidated</u>	
	2004	2003	2004	2003
Rentals payable	1,794	1,312	1,794	1,400
Third-party services	2,941	2,261	2,941	2,261
Provisions for freelance professionals	3,113	2,777	3,113	2,777
Franchisee commission payable	1,053	1,197	1,053	1,197
Account receivable from previous owners (a)	-	-	3,813	-
Third party services - public placing	1,452	-	1,452	-
Other accounts payable	<u>1,021</u>	<u>1,119</u>	<u>1,020</u>	<u>1,688</u>
	<u>11,374</u>	<u>8,666</u>	<u>15,186</u>	<u>9,323</u>

(a) Account receivable from previous owners

According to the Private Contract of Sale and Transfer of Quotas and Others Matters signed on May 14, 2004 by the Company and the companies Elkis e Furlanetto C.D.A.C.Ltda. and Elkis e Furlanetto Laboratório Médico S/C Ltda, the tax credits and the land and buildings listed in the abovementioned contract will be returned to the previous management. This obligation is represented by an amount of R\$ 3,813 thousand which corresponds to R\$ 1,084 thousand in respect of the land and buildings those companies and R\$ 2,729 thousand is in respect of tax credits.

20 Provision for contingencies

	<u>Parent company</u>		<u>Consolidated</u>	
	2004	2003	2004	2003
ICMS on imports (a)	18,507	21,106	18,507	21,106
INSS - processes 1993 to 1999 (b)	1,822	1,733	1,822	1,733
Provision for labour contingencies (c)	3,080	183	3,450	183
Provision for civil contingencies (d)	2,219	810	2,219	810
Provision for tax contingencies (e)	576	490	3,716	1,846
Processes with legal deposits (f)	<u>2,863</u>	<u>2,728</u>	<u>2,955</u>	<u>2,728</u>
	<u>29,067</u>	<u>27,050</u>	<u>32,669</u>	<u>28,406</u>

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(a) ICMS on imports

The Company, based on the opinion of its legal advisors, has not paid ICMS on the import of goods and equipment since February 2000, since it is not a taxpayer for this tax, thus preventing it from being compensated, and thus not observed the principle of non accumulation.

(b) INSS freelance professionals - 1993 to 1999

Refers to the charges for contributions due to the National Institute for Social Security supposedly due on the payments made to freelance doctors at Bio-Ciência Lavoisier Análises Clínicas S.A., due to the non-characterization of these doctors as freelancers, prior to its acquisition by the Company during the period from August 1993 to September 1999. This suit has already been judged in a court of summary jurisdiction and the decision was against the Company. On December 11, 2003, the Company was informed of the decision, which, unanimously, judged the appeal and on merit rejected the petition, retaining the debt with the INSS. Thus, given that the matter will be discussed in the legal sphere, it is possible that a contingency will arise, consequently, the Company has made a provision for the amounts involved, plus a fine and interest.

(c) Provision for labor contingencies

The consolidated provision for labor contingencies totaling R\$ 3,450 at December 31, (R\$ 183 at December 31, 2003) was recorded based on information in respect of the labor cases, provided by the legal advisors. The Company adopts the criteria of recording provisions for all cases with a probability of loss and in addition, adopts a more conservative posture, making provisions of 50% for the cases with a possible risk, in accordance with the classification of risk provided by the legal advisors.

(d) Provision for civil contingencies

The consolidated provisions for civil contingencies totaling R\$ 2,219 at December 31, 2004 (R\$ 810 at December 31, 2003) refer basically to errors in diagnosis (R\$ 1,631), problems with customer service (R\$ 149) and others (R\$ 439). The Company adopts the criteria of recording provisions for all cases with probable risk of loss and in addition, adopting a more conservative posture, records provisions of 50% for possible risk of loss, according to the classification of risk provided by the legal advisors.

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(e) Provision for tax contingencies

Provisions for tax contingencies refer basically to the following:

	<u>Parent company</u>		<u>Consolidated</u>	
	2004	2003	2004	2003
Taxes and dues - Municipality of São Paulo	576	490	576	490
COFINS - increase in rate	-	-	2,123	-
INSS	-	-	60	-
Administrative proceedings - Federal Revenue Department	-	-	207	1,356
Lawyers' fees related to legal proceedings regarding tax	-	-	750	-
	<u>576</u>	<u>490</u>	<u>3,716</u>	<u>1,846</u>

(f) Processes with legal deposits

	<u>Parent company</u>		<u>Consolidated</u>	
	2004	2003	2004	2003
Labor processes	35	20	127	20
Tax processes	2,816	2,697	2,816	2,697
Civil processes	<u>12</u>	<u>11</u>	<u>12</u>	<u>11</u>
	<u>2,863</u>	<u>2,728</u>	<u>2,955</u>	<u>2,728</u>

At December 31, 2004, the Company was a party to various tax and administrative legal proceedings. The most significant of these proceedings are:

Deductibility of amounts recorded as goodwill and other operations costs and expenses (Process 10882.001031/2004-95)

On April 28, 2003, the Federal Tax Office for Osasco/SP issued a writ for a tax procedure against the Company, which culminated with an assessment being raised on May 27, 2004, where the tax authorities disallowed, amongst other operational costs and expenses, the amortization of goodwill recorded from the purchase of the investment interests in the capital of other companies since 1999. The total tax credit calculated in the assessment corresponded, at April 30, 2004, to R\$ 37,394, which, by type of adjustment to the net profit, is distributed as follows:

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Corporate income tax principal, interest to April 30, 2004 and fine:	
Operational costs and expenses	1,605
Amortization of improvements	726
Amortization of goodwill	<u>25,835</u>
	<u>28,166</u>
Social contribution - principal, interest to April 30, 2004 and fine:	
Operational costs and expenses	417
Amortization of improvements	58
Amortization of goodwill	<u>986</u>
	<u>1,461</u>
Social contribution impact 2000 to 2003 - principal, interest to April 30:	
Amortization of improvements	217
Amortization of goodwill	<u>7,550</u>
	<u>7,767</u>
Total	<u>37,394</u>

At June 28, 2004, the Company, through its external lawyers, prepared a request to the federal tax office for impugnation of the assessment.

On December 8, 2004, the Company was informed of the decision given in the lower courts by the Federal Tax Office, which accepted in part the tax authorities demand to exclude the sum of R\$ 916 from the income tax and social contribution calculation base for the period 1999, which referred to the depreciation charges on the group of facilities or equipment not individually stated (item 008 of the assessment).

On January 6, 2005, the Company, through its external lawyers, registered the voluntary appeal with the Federal Tax Office.

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At December 31, 2004, the total amount being discussed in these proceedings was approximately R\$ 40,900. Based on the understanding of its external lawyers, the chances of the Company receiving an unfavorable result from these proceedings is remote, and therefore, no provision has been recorded for this amount.

ICMS tax on imports (before Constitutional Amendment 33/01)

The Company believes that it was not obliged to pay ICMS, a state value-added tax, on imports of materials and equipment because it was not a taxpayer covered by the applicable law. The Company has filed a lawsuit for each import before Constitutional Amendment 33/01, and the State of São Paulo has initiated an administrative proceeding such that, at December 31, 2004, 133 legal proceedings were pending regarding this issue. At December 31, 2004, the total amount in question was approximately R\$ 9,300 but the company has not recorded provisions for these proceedings. Based on the advice of their external legal counsel, the chances of losing these proceedings are remote and, therefore, the company has not recorded provisions for these amounts.

ICMS tax on imports (after Constitutional Amendment 33/01)

For ICMS taxes on imports after the publication of Constitutional Amendment 33/01, the Company's external legal counsel believes that the chances of loss are possible. At December 31, 2004 there was only one administrative proceeding for approximately R\$ 3,500. However, there is one administrative proceeding filed against the customs agent that may have direct consequences on all the imports that the Company made through him. The total amount is approximately R\$ 18,507 at December 31, 2004 (R\$ 21,106 at December 31, 2003), and has been fully provisioned, as reported in Note 20 (a).

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ISSQN - Service tax

In 2001, the City of São Paulo tax authorities initiated administrative proceedings seeking payment of the ISS tax, a municipal tax on services, on certain clinical tests. The tax authorities asserted that the clinical tests are rendered in the municipalities where they collect blood and other samples for clinical tests and that the ISS tax is due on that service. The Company has consistently paid the ISS on their performance of clinical tests to the municipality of Barueri, where their Alphaville central laboratory is located and where their clinical tests effectively occur. There are 212 administrative proceedings pending on this matter since the tax is payable monthly and several separate proceedings are opened each month. At December 31, 2004, the total amount in question was approximately R\$ 25,600, but the Company has not recorded provisions for these proceedings. Based on the advice of their external legal counsel, it believes the chances of losing these proceedings are remote. Additionally, there is a proceeding pending against Elkis e Furlanetto in which the ISS charged by the municipality of Santo André is being challenged. At December 31, 2004, the total amount under discussion was R\$ 5,900 and, based on the advice of external counsel the chance of the companies receiving an unfavorable decision in these proceedings and processes is remote.

Approximately R\$ 17,800 in tax proceedings claimed against the Company relate to companies that have been acquired. The amounts claimed in those proceedings refer to events incurred whilst these companies were controlled by the previous shareholders. Future payments are due on the purchase of these companies, payable to the previous owners, which could be reduced to compensate these tax liabilities.

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21 Shareholders' equity

a. Capital

As at December 31 2004, totally subscribed and paid in capital amounts to R\$ 216,136, represented by 53,607,935 ordinary shares with no par value.

b. Special reserve for goodwill on incorporation

As reported in note 3h, the goodwill originating from the incorporation of the parent companies, classified under capital reserves accounts, has an amortization period of 5 years and as at December 31, 2004 consisted of the following:

	End of amortization	Amortization rate % p.a.	Consolidated			
			2004			2003
			Cost	Amortization	Residual	Residual
Origem Empreendimentos e Participações Ltda	jun/2004	20	17,532	(17,532)	-	1,754
Antuérpia Ltda	set/2004	20	41,322	(41,322)	-	6,198
Platypus Holdings Ltda	fev/2006	20	<u>50,023</u>	<u>(37,174)</u>	<u>12,849</u>	<u>24,405</u>
			<u>108,877</u>	<u>(96,028)</u>	<u>12,849</u>	<u>32,357</u>

c. Dividends

The statutes guarantee the shareholders the right to receive a minimum dividend of 25% of the net profit for the year, adjusted in accordance with art. 202 of Law 6.404/76.

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(In thousands of Reais)

22 Income tax and social contribution on profit

a. Income tax

	<u>Parent company</u>	
	2004	2003
Loss before income tax	(18,216)	(8,482)
Adjustments to the profit for the year :		
Permanent additions	4,020	1,199
Temporary additions	77,122	56,987
Permanent exclusions	(22)	(49)
Temporary exclusions	(59,091)	(50,704)
Taxable profit (loss) before compensation of tax loss	<u>3,813</u>	(<u>1,049</u>)
Compensation of tax loss (30%)	(1,144)	-
Taxable profit for the year	<u>2,669</u>	<u>-</u>
Income tax expense for the year	<u>643</u>	<u>-</u>

b. Social contribution

	<u>Parent company</u>	
	2004	2003
Book loss	(17,976)	(8,482)
Adjustments to the profit for the year		
Permanent additions	3,780	1,199
Temporary additions	77,122	56,987
Permanent exclusions	(22)	(49)
Temporary exclusions	(59,091)	(50,704)
Calculation base for CSL before compensation of tax loss	<u>3,813</u>	(<u>1,049</u>)
Compensation of tax loss (30%)	(1,144)	-
Calculation base for CSL for the year	<u>2,669</u>	<u>-</u>
Social contribution expense for the year	<u>240</u>	<u>-</u>

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23 Tax loss carry-forwards

At December 31, 2004, the Company had the following tax loss carry-forwards:

a. Income tax losses	34,821
b. Negative social contribution base	38,337

Compensation of the tax losses for income tax and the negative social contribution base is limited to 30% of annual taxable profits, with no limitation period.

24 Financial instruments

The Company has a policy of reducing market risks, avoiding positions which may be exposed to fluctuations in market values and operating only with derivative financial instruments which permit control over risks. The major part of contracts involving derivatives is with swap transactions involving pre-fixed rates. The Company does not expect to incur any losses with these transactions beyond those already recorded in the financial statements.

The market values were estimated at the balance sheet date based on relevant market information. Changes in the assumptions may significantly affect the estimates presented.

The management of these instruments is implemented 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 does not invest in derivatives or any other risk assets on a speculative basis.

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a. Composition of balances

In compliance with CVM Instruction 235/95, the accounting balances and the market values of the financial instruments included in the consolidated balance sheet at December 31, 2004 are presented below:

Description	Accounting		Market value	
	Parent company	Consolidated	Parent company	Consolidated
Cash and cash equivalents	2,630	2,903	2,630	2,903
Marketable securities	131,058	131,079	131,058	131,079
Taxes recoverable	16,777	18,173	16,777	18,173
Related parties	8,101	-	8,101	-
Advances for future capital increase	5,319	-	5,319	-
Investments valued using the equity method	<u>2,931</u>	<u>26,303</u>	<u>2,931</u>	<u>26,303</u>
Assets	<u>166,816</u>	<u>178,458</u>	<u>166,816</u>	<u>178,458</u>
Loans and financing				
In local currency	44,057	46,224	44,057	46,224
In foreign currency	69,224	69,224	65,015	65,015
Swap	<u>17,737</u>	<u>17,737</u>	<u>12,037</u>	<u>12,037</u>
Liabilities	<u>131,018</u>	<u>133,185</u>	<u>121,109</u>	<u>123,276</u>

b. Criteria, premises and limitations used to calculate the market value

Cash and cash equivalents and marketable securities

Current accounts held with banks have market values identical to the book values.

For marketable securities, the market value was calculated based on the market quotations of these securities.

Taxes recoverable

Taxes recoverable are presented at book values, since there is no information to determine their market value.

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Related parties and advances for future capital increases

Presented at book values, since there are no similar instruments on the market and they refer to operations with related parties.

Investments

The market values for interests in companies were calculated based on the book value. The market values for other investments are identical to the book values, since they have no market quotations.

Loans and financing

The market values of loans and financing were calculated based on their present value calculated based on the future cash flows and using interest rates applicable to instruments of a similar nature, with similar terms and risks, or based on the market quotations of these securities.

Derivatives

The Company operates only with derivative instruments, not for speculative purposes, aimed to protect against foreign exchange variations.

Limitations

The market values were estimated at the balance sheet date, based on “relevant market information”. Changes in the assumptions may significantly affect the estimates presented.

c. Exchange rate risk

The Company’s results and those of its subsidiaries are subject to significant variations, as their liabilities are linked to exchange rate fluctuations, especially the US dollar.

As a strategy for the prevention and reduction of the effects of fluctuations in the exchange rate, the indebtedness in foreign currency is protected by means of swap transactions with financial institutions.

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Liability	Parent company		Consolidated	
	2004	2003	2004	2003
Foreign currency loans and financing	86,961	88,023	86,961	88,091
Foreign suppliers	<u>4,565</u>	<u>4,524</u>	<u>4,565</u>	<u>4,524</u>
	<u>91,526</u>	<u>92,547</u>	<u>91,526</u>	<u>92,615</u>

25 Insurance coverage (unaudited)

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

Coverage	Value insured R\$
Fire	43.308
Wind/hurricane/falling aircraft	1.500
Electrical damage	1.500
Electronic equipment	1.000
Glass/illuminated ads	100
Theft	1.000
Business interruption	9.500
Installations in a new location	500
General civil responsibility	<u>600</u>
	<u>59.008</u>

26 Leasing

The Company has leasing arrangements for machineries and equipment and data processing equipment (hardware) with a purchase option, based on 16 leasing contracts in force as of December 31, 2004.

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The leasing expenses recorded for the period ended December 31, 2004 amounted to R\$ 1,872 (R\$ 1,414 at December 31, 2003).

The accounts payable position in respect to leasing contracts, is as follows, per year:

	Parent company
2005	2.255
2006	1.827
2007	<u>792</u>
	<u>4.874</u>

The average leasing period for machinery and equipment and data processing equipment (hardware) is 36 months and is linked to interest rates which vary between CDI + 1.59 % p.a. and CDI + 3.20 % p.a.

27 Guarantees and sureties

The Company granted sureties to its subsidiary Elkis e Furlanetto C.D.A.C. Ltda., with Banco Safra S.A. and Banco Bradesco S.A. for the sum of R\$ 4,500.

* * *

Dr. Caio Roberto Chimenti Auriemo
Managing Director

Marcelo Marques Moreira Filho
Financial Director and Director of
Investor Relations

Daniel Vendramini da Silva
TC CRC 1SP125812/O-1