



Diagnósticos da América S.A.

**Consolidated financial statements
December 31, 2004 and 2003**



Diagnósticos da América S.A.

(Publicly-held company)

Consolidated financial statements

December 31, 2004 and 2003

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Independent auditors' report

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

We have audited the accompanying consolidated balance sheets of Diagnósticos da América S.A. as of December 31, 2004 and 2003, and the related consolidated statements of operations, changes in shareholders' equity and changes in financial position for each of the years in the two-year period ended December 31, 2004. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the auditing standards generally accepted in the United States of America. Auditing standards generally accepted in the United States of America require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes consideration of internal controls over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Diagnósticos da América S.A. and subsidiaries as of December 31, 2004 and 2003, and the results of their operations, changes in shareholders' equity and changes in the financial position, for each of the years in the two-year period then ended, in accordance with accounting practices adopted in Brazil.

Accounting practices adopted in Brazil vary in certain significant respects from accounting principles generally accepted in the United States of America. Information relating to the nature and effect of such differences is presented in Note 25.

May 5, 2005

KPMG Auditores Independentes
CRC 28P014428/O-6


Lino Campion
Accountant CRC 1SP097189/O-0

Diagnósticos da América S.A.

(Publicly-held Company)

Consolidated balance sheets

December 31, 2004 and 2003

(In thousands of Reais)

| Assets | 2004 | 2003 | Liabilities | 2004 | 2003 |
|---|----------------|----------------|--|----------------|----------------|
| Current assets | | | Current liabilities | | |
| Cash and cash equivalents | 126,158 | 28,614 | Suppliers | 20,829 | 18,266 |
| Trade accounts receivable, net | 104,109 | 72,821 | Loans and financing | 27,978 | 31,874 |
| Inventories | 15,125 | 14,413 | Taxes and contributions payable | 6,305 | 3,282 |
| Taxes recoverable | 18,173 | 7,724 | Income tax and social contribution | 883 | - |
| Prepaid expenses | 901 | 387 | Salaries, social security charges and vacation payable | 13,992 | 12,139 |
| Other accounts receivable | 9,913 | 2,726 | Installment taxes | 6,202 | 4,193 |
| | <u>274,379</u> | <u>126,685</u> | Accounts payable from acquisition of subsidiaries | 19,983 | 8,901 |
| | | | Other accounts payable | 15,186 | 9,323 |
| | | | | <u>111,358</u> | <u>87,978</u> |
| Noncurrent assets | | | Long-term liabilities | | |
| Marketable securities - restricted cash | 7,824 | 4,997 | Loans and financing | 105,207 | 70,346 |
| Other accounts receivable | 1,529 | 20 | Installment taxes | 18,448 | 13,212 |
| Legal deposits | 3,696 | 3,470 | Accounts payable from acquisition of subsidiaries | 19,657 | 20,188 |
| Related parties | - | 2,240 | Provision for contingencies | 32,669 | 28,406 |
| | <u>13,049</u> | <u>10,727</u> | | <u>175,981</u> | <u>132,152</u> |
| Permanent assets | | | Shareholders' equity | | |
| Investments | 26,324 | 8,732 | Capital | 216,136 | 27,327 |
| Property, plant and equipment, net | 174,885 | 144,086 | Capital reserves | 52,579 | 115,743 |
| Deferred charges | 42,964 | 64,488 | Accumulated losses | (24,453) | (8,482) |
| | <u>244,173</u> | <u>217,306</u> | | <u>244,262</u> | <u>134,588</u> |
| | <u>531,601</u> | <u>354,718</u> | | <u>531,601</u> | <u>354,718</u> |

See the accompanying notes to the consolidated financial statements.

Diagnósticos da América S.A.

(Publicly-held Company)

Consolidated statements of operations

Years ended December 31, 2004 and 2003

(In thousands of Reais)

| | 2004 | 2003 |
|--|-------------------|------------------|
| Gross revenue | <u>491,394</u> | <u>399,825</u> |
| Deductions from gross revenue | | |
| Taxes | (34,202) | (28,165) |
| Discounts and deductions | <u>(9,200)</u> | <u>(8,062)</u> |
| | <u>(43,402)</u> | <u>(36,227)</u> |
| Net revenues | <u>447,992</u> | <u>363,598</u> |
| Cost of services | <u>(306,469)</u> | <u>(256,896)</u> |
| Gross profit | <u>141,523</u> | <u>106,702</u> |
| Other operating income (expenses) | | |
| Administrative and general | (88,827) | (50,687) |
| Net financial expense | (27,896) | (21,891) |
| Equity in income of subsidiaries | - | 48 |
| Amortization of goodwill | (42,765) | (43,218) |
| Other operating income | <u>1,101</u> | <u>3,354</u> |
| | <u>(158,387)</u> | <u>(112,394)</u> |
| Operating loss | (16,864) | (5,692) |
| Non-operating expenses | <u>(1,112)</u> | <u>(2,790)</u> |
| Loss for the year before taxes | (17,976) | (8,482) |
| Income tax and social contribution expense | <u>(883)</u> | - |
| Net loss for the year | <u>(18,859)</u> | <u>(8,482)</u> |
| Net loss per share - R\$ | <u>(0.35)</u> | <u>(1.79)</u> |
| Number of shares at the end of the year-end outstanding | <u>53,607,935</u> | <u>4,730,112</u> |

See the accompanying notes to the consolidated financial statements.

Diagnósticos da América S.A.

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Consolidated 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 internally generated goodwill (Note 3.g) | - | 23,328 | - | 23,328 |
| Net loss for the year | - | - | (8,482) | (8,482) |
| 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 (Note 2) | 82,672 | (82,672) | - | - |
| Capital increase from issuance of new shares (Note 2) | 126,137 | - | - | 126,137 |
| Capital reduction from distribution to shareholders (Note 2) | (20,000) | - | - | (20,000) |
| Amortization of internally generated goodwill (Note 3.g) | - | 19,508 | - | 19,508 |
| Net loss for the year | - | - | (18,859) | (18,859) |
| 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 consolidated financial statements.

Diagnósticos da América S.A.

(Publicly-held Company)

Consolidated statements of changes in financial position

Years ended December 31, 2004 and 2003

(In thousands of Reais)

| | 2004 | 2003 |
|---|----------------|----------------|
| Sources of funds | | |
| Operations | | |
| Net loss for the year | (18,859) | (8,482) |
| Items not affecting working capital | | |
| Prior year adjustments | 2,888 | - |
| Depreciation and amortization | 30,809 | 24,676 |
| Amortization of goodwill on investments | 4,584 | 19,890 |
| Amortization of internally goodwill in shareholders' equity | 19,508 | 23,328 |
| Amortization of goodwill from deferred charges | 18,670 | - |
| Net charges from non current liabilities | 3,098 | 1,847 |
| Residual cost from permanent assets written off | 10,467 | 925 |
| | <u>71,165</u> | <u>62,184</u> |
| From shareholders | | |
| Capital increase | 126,137 | - |
| From third parties | | |
| Decrease in noncurrent assets | 2,241 | - |
| Increase in noncurrent liabilities | 94,627 | 20,210 |
| | <u>294,170</u> | <u>82,394</u> |
| Application of funds | | |
| Investments | 22,176 | 11,665 |
| Property, plant and equipment | 59,128 | 37,682 |
| Increase in deferred charges | 10,093 | 2,732 |
| Increase in noncurrent assets | 4,563 | 2,447 |
| Decrease in noncurrent liabilities | 53,896 | 30,347 |
| Capital reduction | 20,000 | - |
| | <u>169,856</u> | <u>84,873</u> |
| Increase (decrease) in net working capital | <u>124,314</u> | <u>(2,479)</u> |
| Statements of changes in net working capital | | |
| Increase in current assets | 147,694 | 16,848 |
| Increase in current liabilities | 23,380 | 19,327 |
| Increase (decrease) in net working capital | <u>124,314</u> | <u>(2,479)</u> |

See the accompanying notes to the consolidated financial statements.

Diagnósticos da América S.A.

(Publicly-held company)

Notes to consolidated financial statements

Years ended December 31, 2004 and 2003

(In thousands of Reais, except share data)

1 Operations

Diagnósticos da América S.A. (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 indirectly, as contracted by third-party laboratories; and (ii) diagnostic medicine, exclusively through third parties and specialized clinics, in the following areas, as well as others that may be developed 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 is also able to conduct other activities related to: a) the import for own use, of medical equipment, equipment for diagnosis and related material in general; b) the 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) the granting and managing of franchise business, including advertising funds and publication, training and selection of labor, recommending suppliers of equipment and research material, and others. The Company can also invest in other companies, business or non-business, as a partner, quotaholder or shareholder.

The Company has service units in the cities of São Paulo and Rio de Janeiro, and is extending its services to the city of Curitiba. The Company has been expanding the its number of operational units, especially in São Paulo.

As of December 31, 2004 the Company had 148 operational units (131 in 2003) using different brand names, 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 Centro Radiológico da Lagoa Ltda. and Presmedi Rio Serviços Médicos Ltda (“CRL”) units purchased in 2003 were transferred to the Bronstein unities.

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Notes to consolidated financial statements

(In thousands of Reais)

2 Corporate aspects

At the annual general shareholders' meeting held on April 29, 2004, the Company's shareholders decided to increase the capital without issuing new shares, through the partial incorporation of amounts available in reserves totaling R\$ 82,672, thus increasing capital from R\$ 27,328 to R\$ 110,000. At the same time, the shareholders' agreed to reduce capital by R\$ 20,000 to cancellation of shares and in accordance with Articles 173 and 174 of Law 6404/76. The amount of R\$ 20,000 corresponding to the reduction in capital was distributed to the shareholders in local currency, proportionately to each shareholder's participation in the capital of the Company.

On May 14, 2004, pursuant to private sale and transfer of quota contracts signed by Diagnósticos da América S.A. and by the representatives of the quotaholders of 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., the Company acquired all of the shares of these companies, based on their respective balance sheets at April 30, 2004.

On August 24, 2004, in an extraordinary general shareholders' meeting the shareholders decided to convert of the Company's preferred shares into ordinary nominal shares and complete a 1 for 10 share split. As a result, the number of the Company's shares increased from 4,730,112 to 47,301,120. In addition, each ordinary share has the right to vote in decisions taken in general shareholders' 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 Brazilian Federal Securities Commission.

On September 13, 2004, the Company requested registration from the Brazilian Federal Securities Commission as a publicly traded corporation with the right to complete a primary and secondary public offering of shares. The Company shares were listed of the "Novo Mercado" segment of the São Paulo Stock Exchange (BOVESPA) on November 5, 2004.

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(In thousands of Reais)

On November 19, 2004, the Company went public, being listed on the *Novo Mercado* - Bovespa stock exchange. At this time it was issued 6.3 million new shares, which represented a capital increase for the Company amounting R\$ 126.137.

On December 2, 2004, the board of 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 issuance of 822,628 ordinary, nominative shares, registered with no par value. The shares issued were full paid up in cash at the time of subscription.

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 issuance.

3 Presentation of the consolidated financial statements

Our statutory consolidated financial statements, which are used as the basis for determining income taxes and mandatory minimum dividend calculations, have been prepared in accordance with accounting practices adopted in Brazil ("Brazilian GAAP"), which are based on the Brazilian Corporate Law (Law N° 6,404/76, as amended), the rules and regulations of the *Comissão de Valores Mobiliários* (the Brazilian Securities Commission, or "CVM") and the accounting standards issued by the *Instituto dos Auditores Independentes do Brasil* (the Brazilian Institute of Independent Auditors, or "IBRACON"). These consolidated financial statements prepared in accordance with Brazilian GAAP have not been indexed for inflation after 1995.

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Notes to consolidated financial statements

(In thousands of Reais)

The presentation of the consolidated financial statements has been adapted from the consolidated financial statements filed for Brazilian legal and regulatory purposes. In addition, certain terminology changes have been made and the notes to the consolidated financial statements have been expanded to conform them more closely to reporting practices prevailing in the United States of America. All amounts are presented in Brazilian currency (“reais”).

Description of significant accounting practices

The Company’s accounting policies, comply with Brazilian GAAP but differ in certain significant respects from accounting principles generally accepted in the United States of America (“US GAAP”). See Note 25 for further discussion of the differences between Brazilian GAAP and US GAAP and the reconciliation of shareholders’ equity and net income (loss) between Brazilian GAAP and US GAAP, as well as additional disclosures.

a. Statement of operations

Income and expenses are recognized on the accrual basis. Revenue from services rendered is recognized in the statement of operations when the services are rendered.

b. Accounting estimates

Certain accounting estimates were established considering objective and subjective factors, based on management’s opinion of the appropriate amounts to be recorded and disclosed in the consolidated financial statements. Significant items subject to these estimates and assumptions include the estimated time periods for recovery and consequently amortization period of the goodwill originating from the acquisition of investments and other deferred expenses, the provision for doubtful accounts, the provision for rejections to clarify, the provision for inventories, the recoverability of deferred income tax assets, the provision for contingencies and valuation of derivative instruments. The actual settlement of transactions involving these estimates may result in different amounts due to the lack of precision inherent to the process for determining these estimations. The Company reviews its estimates and assumptions quarterly.

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Notes to consolidated financial statements

(In thousands of Reais)

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 statement of operations.

d. Current and noncurrent assets

- **Cash and cash equivalents**

Cash and cash equivalents comprise cash balances and call deposits considered to be all highly liquid temporary cash investments with original maturity dates of three months or less. Overdrafts are presented as liabilities in loans and financing.

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

The provisions for doubtful accounts and for rejections to clarify have been recorded at amounts considered sufficient by the management to cover eventual losses from the realization of the related 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 weighted 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**

Other current and noncurrent assets are presented at the net realizable value.

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Notes to consolidated financial statements

(In thousands of Reais)

e. Permanent assets

- **Investments**

Goodwill calculated at the time of purchasing an investment in a company which is not merged was recorded by the Company as investment. The goodwill is based on the future profitability of the target company, and its amortization is based on forecasts prepared by management for a 5-year period.

- **Property, plant and equipment**

Property, plant and equipment are stated at acquisition and/or construction cost less accumulated depreciation. Depreciation is calculated using the straight-line method at the rates described in Note 11 and takes into consideration 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**

Deferred charges are related to pre-operating expenses for expansion of the patient service centers and are amortized using the straight-line method over periods ranging from 5 to 10 years. The goodwill calculated from the mergers of investments is based on the future profitability of the respective companies operations and its amortization is based on forecasts prepared by management for a 5-year period.

f. Provisions for contingencies

Provisions for contingencies are recognized when the Company has a legal obligation resulting from a past event, and it is probable and estimable that an outflow of economic benefits will be required to settle the obligation. Provisions are recorded using the best estimates of the probable loss to be incurred.

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(In thousands of Reais)

g. Goodwill from the merger of the parent company

The goodwill previously recorded by the Company's parent company relating to the acquisition of its ownership in the Company was pushed down to the Company through the completion of a downstream merger. The goodwill was recorded by the Company, against the capital reserve account in shareholders' equity that resulted from the merger. The amortization of this goodwill has been credited to this capital reserve account, with the corresponding amortization charge recorded on the statement of operations. This procedure is supported by tax legislation.

h. 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 which is not expected to be recovered through offset. Management decision regarding the non recognition of the deferred tax assets is in accordance with CVM rules and considered the non existence of taxable profits being reported in recent years.

i. Consolidation principles

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

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Notes to consolidated financial statements

(In thousands of Reais)

Accounting policies were applied on a consistent basis in all of the consolidated companies and are consistent with those adopted in the previous year. All intercompany transactions and balances were eliminated upon consolidation.

The process for consolidating the assets and liabilities and the profit and loss accounts is by totaling the balances in the asset and liability accounts and the operating 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); and
- Inter-company balances in the assets and liabilities and operating accounts.

4 Cash and cash equivalents and restricted cash

| | 2004 | 2003 |
|---|------------------|-----------------|
| Cash and restricted cash | 133,982 | 33,611 |
| Cash and cash equivalents | <u>(126,158)</u> | <u>(28,614)</u> |
| Noncurrent assets: | | |
| Marketable securities - Restricted cash | <u>7,824</u> | <u>4,997</u> |

The cash and cash equivalents classified as 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 Interbank Certificate Deposit ("CDI"). The objective of the funds in which the Company invests, is to provide the shareholders with profitability by investing their cash in investment fund quotas, whose investment policy includes the possibility of investing in public and private securities.

The Marketable securities - restricted cash comprise the following:

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(In thousands of Reais)

Unibanco S.A. - Bank Deposit Certificates (“CDB”) - remunerated at the average rate of 99.7% and 100% of the CDI, held as guarantee for the payment of the obligations assumed in the acquisition 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 remunerated at the average rate of 100 % of CDI, which guarantees payment of the obligations assumed in the acquisition of Laboratório Bronstein S.A. and Bronstein Administradora Laboratorial S.A.

According to the deposit contracts dated December 12, 2000 (Unibanco), April 13, 2004 (Pátria) and May 14, 2004 (Unibanco), it was established that the amounts deposited would be restricted until December 12, 2006, April 13, 2006 and May 14, 2010, respectively.

5 Trade accounts receivable

| | 2004 | 2003 |
|---|-----------------|---------------|
| Current: | | |
| Trade notes receivable - (substantially health plans) | 110,598 | 70,841 |
| Rejections to clarify | 16,202 | 13,712 |
| Others | 3,660 | 2,311 |
| | <u>130,460</u> | <u>86,864</u> |
| Less: | | |
| Provision for rejections to clarify | (16,202) | (9,320) |
| Provision for doubtful accounts | (8,096) | (4,474) |
| Provision for losses on others | <u>(2,053)</u> | <u>(249)</u> |
| | <u>104,109</u> | <u>72,821</u> |

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(In thousands of Reais)

6 Inventories

| | 2004 | 2003 |
|-----------------------------------|---------------|---------------|
| Inventories: | | |
| National direct material | 3,983 | 6,143 |
| Imported direct material | 6,383 | 5,441 |
| National secondary material | 2,465 | 1,634 |
| Consumption material | 2,023 | 1,098 |
| Inventories held by third parties | <u>271</u> | <u>98</u> |
| | <u>15,125</u> | <u>14,413</u> |

7 Taxes recoverable

| | 2004 | 2003 |
|---|---------------|--------------|
| IRRF (withholding income tax) on revenue | 4,481 | 3,304 |
| IRRF recoverable on marketable securities | 672 | 495 |
| Income tax recoverable | 2,970 | 2,216 |
| Social contribution recoverable | 5,082 | 707 |
| COFINS tax withheld | 3,970 | - |
| PIS tax withheld | 965 | - |
| ISS tax withheld | 18 | 737 |
| INSS recoverable | <u>15</u> | <u>265</u> |
| | <u>18,173</u> | <u>7,724</u> |

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(Publicly-held company)

Notes to consolidated financial statements

(In thousands of Reais)

8 Other accounts receivable

| | 2004 | 2003 |
|---|---------------|--------------|
| Credits with previous owners of acquired companies: | | |
| Bio-Ciência Lavoisier de Análises Clínicas S/C Ltda. | 3,052 | - |
| Elkis e Furlanetto C.D.A.C. Ltda. | 98 | - |
| Lâmina - Laboratório de Análises Médicas e Investigações Anátomo- Patológicas Ltda. | 1,5 | - |
| Various advances | 1,715 | 1,811 |
| Assets and rights receivables from previous owners | 3,813 | - |
| Others | <u>1,235</u> | <u>935</u> |
| | <u>11,442</u> | <u>2,746</u> |
| Amount classified to current assets | <u>9,913</u> | <u>2,726</u> |
| Noncurrent assets | <u>1,529</u> | <u>20</u> |

The credits with previous owners of acquired companies refer to payments made by Diagnósticos da América S.A. between 1999 and 2004 and refer to expenses incurred prior to the purchase date of the acquired companies and represent obligations of the previous owners. These credits will be negotiated or ultimately compensated against balances payable for these acquisitions as described in Note 17.

9 Related parties

| | 2004 | 2003 |
|------------------------------------|------|--------------|
| Parent company: | | |
| Balu 460 Participações S.A. - Loan | = | <u>2,240</u> |
| | = | <u>2,240</u> |

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(In thousands of Reais)

Parent company

Loan

On May 29, 2002 and April 30, 2003, the Company granted loans to Balu 460 Participações S.A. amounting R\$ 2,000. Both of these loans bear interest of 10% per annum, and the original maturity dates were one year subsequent to the date that the loans were granted. On September 30, 2004, as a result of a restitution of capital, Balu 460 Participações S.A. paid off the loans granted by the Company.

10 Investments

| | 2004 | 2003 |
|---|---------------|--------------|
| Goodwill on the purchase of subsidiaries: | | |
| Centro Radiológico da Lagoa Ltda. | 9,130 | 8,880 |
| Elkis e Furlanetto C.D.A.C. Ltda. | 21,130 | - |
| Elkis e Furlanetto LM S/C Ltda. | 777 | - |
| Accumulated amortization: | | |
| Centro Radiológico da Lagoa Ltda. | (1,978) | (150) |
| Elkis e Furlanetto C.D.A.C. Ltda. | (2,658) | - |
| Elkis e Furlanetto LM S/C Ltda. | (98) | - |
| Other | <u>21</u> | <u>2</u> |
| | <u>26,324</u> | <u>8,732</u> |

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11 Property, plant and equipment

| | Depreciation rate % p.a. | 2004 | | | 2003 | | |
|-------------------------|--------------------------------|----------------|------------------|----------------|----------------|-----------------|----------------|
| | | Cost | Depreciation | Net | Cost | Depreciation | Net |
| Buildings | 4 | - | - | - | 241 | (51) | 190 |
| Leasehold improvements | 12 | 98,832 | (40,086) | 58,746 | 62,304 | (25,487) | 36,817 |
| Machinery and equipment | 10 | 116,244 | (42,934) | 73,310 | 98,112 | (31,279) | 66,833 |
| Furniture and fixtures | 10 | 15,855 | (5,961) | 9,894 | 12,834 | (4,252) | 8,582 |
| Facilities | 10 | 2,942 | (1,794) | 1,148 | 2,378 | (1,317) | 1,061 |
| Hardware and software | 20 | 28,917 | (14,431) | 14,486 | 21,851 | (9,428) | 12,423 |
| Vehicles | 20 | 247 | (153) | 94 | 182 | (67) | 115 |
| Library | 10 | 71 | (38) | 33 | 15 | (11) | 4 |
| Land | | - | - | - | 810 | - | 810 |
| Construction in process | | <u>17,174</u> | <u>-</u> | <u>17,174</u> | <u>17,251</u> | <u>-</u> | <u>17,251</u> |
| | | <u>280,282</u> | <u>(105,397)</u> | <u>174,885</u> | <u>215,978</u> | <u>(71,892)</u> | <u>144,086</u> |

12 Deferred charges

| | End of amortization | Amortization rate % p.a. | 2004 | | | 2003 |
|--|------------------------|--------------------------------|----------------|-----------------|---------------|---------------|
| | | | Cost | Amortization | Net | Net |
| Goodwill on merger of subsidiary: | | | | | | |
| Catalon S.A. (a) | Oct-04 | 20 | 27,968 | (27,968) | - | 5,593 |
| Atacama S.A. (b) | Dec-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) | | | <u>39,623</u> | <u>(10,525)</u> | <u>29,098</u> | <u>31,953</u> |
| | | | <u>126,343</u> | <u>(83,379)</u> | <u>42,964</u> | <u>64,488</u> |

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- (a) The goodwill recorded in the wholly owned subsidiary Cantalon S.A. arose when Cantalon acquired 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 projections prepared by management.
- (b) The goodwill recorded in subsidiary Atacama Ltda. was generated when Atacama acquired 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 projections prepared by management, and it is estimated that this goodwill will be fully amortized in December 2005.
- (c) The goodwill recorded in Laboratório de Patologia Clínica Curitiba S/C Ltda. was generated when the Company originally acquired 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 projections prepared by managements, and it is estimated that this goodwill will be fully amortized in January 2008.
- (d) Pre-operating expenses refer to the cost of expansion of the service units and are being amortized in periods from 5 to 10 years.

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13 Suppliers

| | 2004 | 2003 |
|----------|---------------|---------------|
| Domestic | 16,264 | 13,742 |
| Foreign | <u>4,565</u> | <u>4,524</u> |
| | <u>20,829</u> | <u>18,266</u> |

14 Loans and financing

| | 2004 | 2003 |
|--|-------------------|-------------------|
| Local currency: | | |
| Loans guaranteed accounts (a) | 2,720 | 14,129 |
| Bank loans (b) | 43,504 | - |
| Foreign currency | | |
| Bank loans (c) | 29,248 | 27,893 |
| Equipment suppliers (d) | <u>57,713</u> | <u>60,198</u> |
| | <u>133,185</u> | <u>102,220</u> |
| Short term installments to amortize classified As current liabilities | (<u>27,978</u>) | (<u>31,874</u>) |
| Long-term liabilities | <u>105,207</u> | <u>70,346</u> |

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(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 Balu 460 Participações Ltda., shareholders of the Company, providing guarantees.

(b) Bank loans - local currency

1. Loan obtained in October 2004, from Banco Votorantim S.A. in the amount 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 long-term liabilities, with a single maturity date in 2006.

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

2. Loan obtained in November 2004 from Banco Votorantim S.A. in the amount 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 long-term 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 Platypus S.A. and Balu 460 Participações S.A.

3. 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:

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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.

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

1. Loan obtained in August 2002 from Banco Itaú - BBA in the amount 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 long-term 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 unpredictable 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 an accumulated unrealized loss of R\$ 6,317 (R\$ 4,992 as of December 31, 2003), recognized to loans and financing.

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2. Loan obtained 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 long-term liability, maturing as a single payment forecast for 2006.

The foreign currency loan is guaranteed by Platypus S.A. and Balu 460 Participações S.A., represented by promissory notes totaling US\$ 2,500, for which, in order to obtain protection against currency 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.

(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 long-term 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 long-term 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> |

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

15 Salaries, social security charges and vacation payable

| | 2004 | 2003 |
|---|---------------|---------------|
| Salaries payable | 2,385 | 2,272 |
| Social security charges | 2,579 | 2,190 |
| Provision for vacation, and social security charges | 8,681 | 7,332 |
| Others | <u>347</u> | <u>345</u> |
| | <u>13,992</u> | <u>12,139</u> |

16 Installment taxes

| | 2004 | 2003 |
|---|---------------|---------------|
| Installment taxes - REFIS municipal (a) | 5,124 | 5,420 |
| Installment taxes - PAES program (b) | 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>24,650</u> | <u>17,405</u> |
| Installments due in the short term classified as | | |
| Current liabilities | (6,202) | (4,193) |
| Long-term liabilities | <u>18,448</u> | <u>13,212</u> |
| (a) Taxes payable by the Company in installments under the municipal Tax Recovery Program | | |

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(REFIS) refer to taxes due to the municipality of São Paulo. The tax debt was divided into 120 monthly installments, indexed by the long-term interest rate (TJLP) and the installments payments 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, declaring tax debts related to PIS and COFINS (programs of the federal government for social integration) 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 TJLP. Payment of these installments extend to June 2013.

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

| | End of payment term | Current installments | Noncurrent installments | Total |
|---|---------------------|----------------------|-------------------------|---------------|
| Centro Radiológico da Lagoa Ltda. | | | | |
| COFINS (Tax for social security financial) | 2008 | 349 | 619 | 968 |
| INSS (Social security tax) | 2009 | 521 | 925 | 1.446 |
| PIS (Employee profit participation program) | 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> |

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17 Accounts payable from acquisition of subsidiaries

| | 2004 | 2003 |
|--|-----------------|-----------------|
| Previous owners Bio-Ciência Lavoisier Anal. Clínicas S/C Ltda. (a) | 13,099 | 10,060 |
| Previous owners Laboratório Bronstein S.A. (b) | 5,464 | 4,997 |
| Previous owners Lâmina - Laboratório de Análises Médicas e Investigações Anátomo-Patológicas S.A. (c) | 12,649 | 11,657 |
| Previous owners Laboratório de Patologia C. Curitiba S/C Ltda. (d) | 397 | 1,149 |
| Previous owners Centro Radiológico da Lagoa e Presmedi Rio Serviços Médicos Ltda. (e) | 763 | 1,226 |
| Previous owners Elkis e Furlanetto C.D.A.C. Ltda. (f) | <u>7,268</u> | <u>-</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> |
| Noncurrent liabilities | <u>19,657</u> | <u>20,188</u> |

- (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. The debt balance is being monetarily corrected by the IGP-M inflation rate, plus interest of 10% per annum. The debt payments will be made until October 2005.
- (b) This balance represents 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. This debt is updated using the same rates as the resources that are invested in funds administered by financial institutions, as mentioned in Note 4 to the consolidated 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. 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.

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- (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 to 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.
- (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 4, which will be paid in 2010.

The Company has certain guarantees with Bankboston Banco Múltiplo S/A which is the guarantor for the accounts payable to the previous owners that the Company agreed to pay. These agreements contain financial covenants that stipulate minimum values for certain indicators that are required to be achieved or maintained by the Company, such as indebtedness and liquidity. The indicators required in these clauses were fully achieved by the Company for all periods presented.

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18 Other accounts payable

| | 2004 | 2003 |
|--|---------------|--------------|
| Rentals payable | 1,794 | 1,400 |
| Third-party services | 2,941 | 2,261 |
| Provisions for freelance professionals | 3,113 | 2,777 |
| Franchisee commission payable | 1,053 | 1,197 |
| Obligations with previous owners (a) | 3,813 | - |
| Third party services - public placing | 1,452 | - |
| Other accounts payable | <u>1,020</u> | <u>1,688</u> |
| | <u>15,186</u> | <u>9,323</u> |

(a) Obligations with previous owners

According to the private sale and transfer of quotas contract signed on May 14, 2004 by the Company and the previous owners of the companies Elkis e Furlanetto C.D.A.C. Ltda. and Elkis e Furlanetto Laboratório Médico S/C Ltda, the tax credits should be paid when realized by the Company and the land and buildings listed in the abovementioned contract will be returned to the previous owners of those companies. This obligation is represented by an amount of R\$ 3,813 which corresponds to R\$ 1,084 in respect of the land and buildings of those companies and R\$ 2,729 is in respect of tax credits.

19 Provision for contingencies

| | 2004 | 2003 |
|---------------------------------------|---------------|---------------|
| ICMS on imports (a) | 18,507 | 21,106 |
| INSS - processes 1993 to 1999 (b) | 1,822 | 1,733 |
| Provision for labor contingencies (c) | 3,450 | 183 |
| Provision for civil contingencies (d) | 2,219 | 810 |
| Provision for tax contingencies (e) | 3,716 | 1,846 |
| Processes with legal deposits (f) | <u>2,955</u> | <u>2,728</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 (value added tax) 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 - processes 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, the Company has made a provision for the amounts involved, plus 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 probable risk of loss, also based on history of past losses.

(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.

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(e) Provision for tax contingencies

Provisions for tax contingencies refer basically to the following:

| | 2004 | 2003 |
|--|---------------------|---------------------|
| Taxes and dues - Municipality of São Paulo | 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 | <u>750</u> | <u>-</u> |
| | <u>3,716</u> | <u>1,846</u> |

(f) Processes with legal deposits

| | 2004 | 2003 |
|-------|---------------------|---------------------|
| Labor | 127 | 20 |
| Tax | 2,816 | 2,697 |
| Civil | <u>12</u> | <u>11</u> |
| | <u>2,955</u> | <u>2,728</u> |

At December 31, 2004, the Company was a party of various tax and administrative legal proceedings, for which no provision for loss was recorded as the Company and its legal advisors understand that the risk of loss is not probable. The most significant of these proceedings are:

Deductibility of amounts recorded as goodwill and other operating costs and expenses

On May 27, 2004, the tax authorities issued a tax assessment disallowing the deductibility of the amortization of goodwill recorded in the purchase of the investment interests in the capital of other companies since 1999 and also questioning the deductibility of some operational costs and expenses.

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At December 31, 2004, the total amount being discussed in court in these proceedings was approximately R\$ 40,900. Based on the understanding of its external lawyers and management of the Company, the chance 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 its external legal counsel and based on management judgment, the chances of losing these proceedings are remote and, therefore, the Company has not recorded provision 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 and management of the Company believe that the chances of loss are possible. At December 31, 2004 there was only one administrative proceeding for approximately R\$ 3,500.

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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. 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 external legal counsel and management judgment, 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 and management judgment the chance of the Company receiving an unfavorable decision in this proceeding 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, which could be reduced to compensate these tax liabilities.

20 Shareholders' equity

a. Capital

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

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b. Special reserve for goodwill on incorporation

As discussed in Note 3g, the goodwill originating from the incorporation of the Company's parent companies, classified under capital reserve account, has an amortization period of 5 years and as at December 31, 2004 consisted of the following:

| | End of amortization | Amortization rate % p.a. | 2004 | | | 2003 |
|---|---------------------|--------------------------|----------------|-----------------|---------------|---------------|
| | | | Cost | Amortization | Residual | Residual |
| Origem Empreendimentos e Participações Ltda | jun/2004 | 20 | 17,532 | (17,532) | - | 1,754 |
| Antuérpia Ltda | sep/2004 | 20 | 41,322 | (41,322) | - | 6,198 |
| Platypus Holdings Ltda | feb/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 to the shareholders the right to receive a minimum dividend of 25% of the net profit for the year, adjusted in accordance with Brazilian GAAP.

21 Income tax and social contribution on profit

a. Income tax and Social contribution

At December 31, 2004, the Company had the following tax losses 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.

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22 Financial instruments

The Company has a policy of reducing market risks, avoiding positions which may expose it to fluctuations in foreign currencies and operates only with derivative financial instruments which permit control over risks. The major part of contracts involving derivatives is with swap transactions involving pre-fixed foreign currencies rates.

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 foreign currency 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.

a. Composition of balances

In compliance with CVM rules, the book value and the market value of the financial instruments included in the consolidated balance sheet at December 31, 2004 are presented below:

| Description | <u>Book value</u> | <u>Market value</u> |
|---------------------------|-----------------------|-----------------------|
| Cash and cash equivalents | 2,903 | 2,903 |
| Marketable securities | 131,079 | 131,079 |
| Assets | <u>133,982</u> | <u>133,982</u> |
| Loans and financing | | |
| In local currency | 46,224 | 46,224 |
| In foreign currency | 69,224 | 65,015 |
| Swap contracts | <u>17,737</u> | <u>12,037</u> |
| Liabilities | <u>133,185</u> | <u>123,276</u> |

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b. Criteria, premises and limitations used to calculate market values

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.

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.

c. Exchange rate risk

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

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

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23 Insurance coverage (unaudited)

The Company had insurance taken out with 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 2004 |
|---------------------------------|-----------------------|
| 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> |

24 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.

25 US GAAP additional information

I Description of GAAP differences

The consolidated financial statements of the Company are prepared in accordance with accounting practices adopted in Brazil, which comply with those prescribed by Brazilian GAAP and specific standards established by the Brazilian Securities Commission (CVM). Note 3 to the consolidated financial statements summarizes the accounting policies adopted by the Company. Accounting policies, which differ significantly from U.S. GAAP, are summarized below:

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a. Monetary restatement of 1996 and 1997

Because of highly inflationary conditions that prevailed in the past, inflation accounting had been used under Brazilian GAAP for many years, to minimize the impacts caused by inflation in the financial statements. The Company was required to discontinue accounting for the effects of inflation as of December 31, 1995, and consequently as from such date the carrying value of all non-monetary assets and liabilities became their historical cost basis.

Under U.S. GAAP, Brazil was still considered to be a highly inflationary economy until 1997, and consequently, the Company continued to record the effects of inflation using the Market General Price Index (IGP-M) up to 1997. The U.S. GAAP adjustment on the shareholders' equity and net income is represented by the remaining indexation and related depreciation, respectively of the restatements of property, plant and equipment, which resulted from the inflation accounting applied during 1996 and 1997.

b. Deferred charges

Under Brazilian GAAP, the Company defers pre-operating costs incurred in the construction or expansion of new service units until the service units begin its operations. Deferred charges are amortized on a straight-line basis over a period of five to ten years.

Under U.S. GAAP, in accordance with Statement of Position 98-5 *Reporting on the Costs of Start-Up Activities*, pre-operating costs are expensed as incurred. Consequently, the U.S. GAAP adjustment represents the reversal of (i) pre-operating costs capitalized and (ii) the related amortization recorded under accounting practices adopted in Brazil.

c. Capitalization of interest related to construction in progress

Under Brazilian GAAP, according to a regulation issued by the Brazilian Securities and Exchange Commission ("*Deliberação CVM 193*") the Company is not required to capitalize the interest cost of borrowed funds as part of the cost of the related asset being constructed, as long as these interests are not directly financing the asset.

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Under U.S. GAAP, in accordance with SFAS N° 34, *Capitalization of Interest Costs*, interest incurred on borrowings is capitalized to the extent that borrowings do not exceed construction in progress and is amortized over the estimated useful life of the related asset. The amount of interest capitalized excludes foreign exchange gains and losses on foreign currency borrowings and charges resulting from foreign currency derivatives contracts.

d. Accounting for derivative financial instruments

The Company enters into cross currency swap agreements to effectively convert a portion of its U.S. dollar denominated variable-rate debt to Brazilian reais accruing interest at the CDI rate (Interbank deposit rate). Under accounting practices adopted in Brazil, any differential to be paid or received under these contracts is recorded as an asset or liability, at each balance sheet date, with a corresponding adjustment to interest expense or interest income in the income statement. The fair value of these contracts is not recognized in the consolidated financial statements.

Under U.S. GAAP, the Company accounts for its derivative contracts in accordance with SFAS N° 133, *Accounting for Derivative Instruments and Hedging Activities*. SFAS N° 133, as amended, establishes accounting and reporting standards requiring that all derivative instruments be recorded on the balance sheet as either an asset or liability and measured at fair value. SFAS N° 133 requires that changes in the derivative's fair value be recognized currently in earnings unless specific hedge accounting criteria are met. Special accounting for qualifying hedges allows a derivative's gains and losses to offset related results on the hedged item in the income statement, and requires that a company must formally document, designate, and assess the effectiveness of transactions that receive hedge accounting. SFAS N° 133 must be applied to (a) derivative instruments and (b) certain derivative instruments embedded in hybrid contracts.

Since the Company's derivative contracts do not qualify for hedging accounting, under U.S. GAAP, changes in fair value of these contracts are recognized in earnings in the current period.

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The following table provides a detail of the derivative financial instruments outstanding at the end of each year:

| Year end | Number of contracts outstanding | Type of derivative instruments | Book value under accounting practices adopted in Brazil | Fair value | U.S. GAAP adjustment |
|----------|---------------------------------|--------------------------------|---|------------|----------------------|
| 2004 | 87 | Cross-currency interest swap | (17,736) | (12,037) | 5,699 |
| 2003 | 119 | Cross-currency interest swap | (10,909) | (3,220) | 7,689 |

e. Leasing transactions

Accounting practices adopted in Brazil do not require capitalization of assets acquired through capital lease arrangements. Virtually all lease contracts are considered as operating lease, with charges being recorded in statements of income throughout the period of the lease arrangement. The residual value, often reached at a bargain purchase option, after the period of the lease arrangement is capitalized and depreciated over the estimated useful remaining life.

Under U.S. GAAP, pursuant to SFAS N° 13, Accounting for Leases, leasing is classified as a capital lease if it transfers substantially all the benefits and risks incident to ownership. All other leases are classified as operating leases. In a lease that transfers substantially all of the benefits and risks of ownership, the economic effect on the parties is similar, in many respects, to that of a purchase financed in installments.

Under U.S. GAAP, capital leases are recorded as an asset and a liability at the lower of the fair value of the asset and the present value of the minimum lease payments and depreciated consistently with the Company's own assets. If there is no reasonable certainty that the

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Company will obtain ownership at the end of the lease - the asset is depreciated over the shorter of the lease term or the life of the asset.

Under U.S. GAAP, operating leases are recorded as an expense in the income statement over the lease term on a straight-line basis.

The disclosures of leasing transactions required by SFAS N° 13 are included in Note 25 IV.a).

f. Share issuance costs

Under accounting practices adopted in Brazil, costs related to public offering of shares are charged to expenses as incurred. Under U.S. GAAP, costs related to public offering of shares are deducted from the proceeds received from such offering, as a charge to capital.

g. Acquisitions and business combinations

Under accounting practices adopted in Brazil, assets and liabilities of acquired entities are reflected at book values. Goodwill is represented by the excess of purchase price paid over the book value of net assets and is amortized on a straight-line basis over the period estimated to be benefited. This period is determined based on the reasons attributed by management for the payment of goodwill. Impairment, if any, is measured to the extent that the unamortized balance of goodwill exceeds the expected future profits of the business acquired.

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Under U.S. GAAP, pursuant to SFAS 141, Business Combinations, the cost of an acquired entity is allocated to assets acquired, including identifiable intangible assets, and liabilities assumed based on their estimated fair values on the date of acquisition. The excess of the cost of an acquired entity over the net of the amounts assigned to assets acquired and liabilities assumed is recognized as goodwill. SFAS N° 141 requires disclosure of the primary reasons for a business combination and the allocation of the purchase price paid to the assets acquired and liabilities assumed by major balance sheet caption. SFAS N° 141 also requires that when the amounts of goodwill and intangible assets acquired are significant to the purchase price paid, disclosure of other information about those assets is required, such as the amount of goodwill by reportable segment and the amount of the purchase price assigned to each major intangible asset class. Goodwill and intangible assets acquired in a purchase business combination and determined to have an indefinite useful life are not amortized, but instead tested for impairment at least annually, at a level of reporting referred to as a reporting unit, in accordance with the provisions of SFAS 142 Goodwill and Other Intangible Assets. SFAS 142 also requires that intangible assets with estimable useful lives be amortized over their respective estimated useful lives to their estimated residual values, and reviewed for impairment in accordance with SFAS 144, Accounting for *Impairment or Disposal of Long-Lived Assets*.

Acquisitions

The Company acquired the following companies during 2003 and 2004:

| Acquisition date | Company | Interest acquired |
|-------------------------|--|--------------------------|
| January 23, 2003 | Laboratório de Patologia Clínica Curitiba S/C Ltda - "Santa Casa" | 100.00% |
| November 13, 2003 | Centro Radiológico da Lagoa Ltda. and Presmedi Rio Serviços Médicos Ltda - "CRL" | 99.99% |
| May 14, 2004 | Elkis Furlaneto - "Elkis" | 99.99% |

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The results of Santa Casa, CRL and Elkis operations have been included in the consolidated financial statements since their respective acquisition date. Those companies provide health assistance services performing medical diagnostic tests to patients that pay through their health plans - including insurance companies, medical cooperatives, HMOs and direct contractors - or individuals paying by themselves. As a result of these acquisitions, the Company increased its market share in the respective service areas.

The cost of acquisition of Santa Casa, CRL and Elkis amounted to R\$ 3,339, R\$1,475 and 9,067, respectively.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of each acquisition:

| | R\$ | | |
|----------------------------------|-------------------|----------------|-----------------|
| | Santa Casa | CRL | Elkis |
| Current assets | 870 | 1,563 | 5,273 |
| Property, plant and equipment | 212 | 2,577 | 3,066 |
| Intangible assets | 2,166 | 911 | 4,521 |
| Other assets | <u>2</u> | <u>5</u> | <u>112</u> |
| Total assets acquired | <u>3,250</u> | <u>5,056</u> | <u>12,972</u> |
| Current liabilities | 530 | 5,832 | 17,375 |
| Long-term liabilities | <u>736</u> | <u>7,338</u> | <u>7,563</u> |
| Liabilities assumed | <u>1,266</u> | <u>13,170</u> | <u>24,938</u> |
| Net assets (liabilities) assumed | <u>1,984</u> | <u>(8,114)</u> | <u>(11,966)</u> |
| Interest acquired | 100% | 99.99% | 99.99% |
| Net assets (liabilities) assumed | 1,984 | (8,114) | (11,966) |
| Purchase price | <u>3,339</u> | <u>1,475</u> | <u>9,067</u> |

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| | <u>R\$</u> | | |
|--|-------------------|------------|--------------|
| | <u>Santa Casa</u> | <u>CRL</u> | <u>Elkis</u> |
| Goodwill recorded under U.S. GAAP | 1,355 | 9,589 | 21,033 |
| Goodwill recorded under accounting practices adopted in Brazil | 2,785 | 10,191 | 22,327 |

The other intangible assets recorded by the Company are as follows:

| | <u>R\$</u> | | |
|------------------------|----------------------------|----------------------------|----------------------------|
| | <u>Santa Casa</u> | <u>CRL</u> | <u>Elkis</u> |
| Description | Amount assigned | Amount assigned | Amount assigned |
| Brand | 1,725 | 911 | 1,442 |
| Non-compete agreements | <u>441</u> | <u>-</u> | <u>3,079</u> |
| | <u>2,166</u> | <u>911</u> | <u>4,521</u> |
| | Amortization period months | Amortization period months | Amortization period months |
| Brand | 360 | 38 | 20 |
| Non-compete agreements | 18 | - | 120 |

The amount of goodwill recorded on these acquisitions was assigned to the entire Company as it has neither reporting segments nor reporting units, as defined under US GAAP. The goodwill generated under Brazilian GAAP is deductible for tax purposes.

The following summary presents the Company's unaudited pro forma consolidated results of operations for the years ended December 31, 2004 and 2003, in accordance with Brazilian GAAP, as if the Santa Casa, CRL and Elkis acquisitions had been completed at the

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beginning of each acquisition period. The unaudited pro forma information is only presented for comparative purposes and does not purport to be indicative of what would have occurred had the acquisition actually been made at such date, nor is it necessarily indicative of future operating results:

| | Pro forma | |
|--|------------------|-------------|
| | R\$ | |
| | 2004 | 2003 |
| Amounts under Brazilian GAAP | | |
| Net services revenue | 457,500 | 397,853 |
| Operating loss | (21,181) | (24,994) |
| Net loss | (23,200) | (23,756) |
| Net loss per share at each year end -basic and diluted | (0.43) | (5.02) |

h. Corporate reorganization - Special reserve

The Company completed in 2001 a corporate reorganization to merge certain of its holding companies. The goodwill originating from these mergers is classified as a capital reserve account within shareholders equity and is being amortized in the income statement on a straight-line basis over a period of 5 years.

Under U.S. GAAP, this corporate reorganization is accounted for at the historical book values of the respective companies merged, since these companies were under common control. This U.S. GAAP difference has no net effect on shareholders' equity.

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i. Cash and cash equivalents

Under accounting practices adopted in Brazil, highly liquid investments with original maturities of three months or less are recorded as short-term investments. Under U.S. GAAP, these investments are recorded together with cash and banks under the caption "Cash and cash equivalents". At December 31, 2004 and 2003, the consolidated balance of cash and cash equivalents under U.S. GAAP is R\$ 126,158 and R\$ 28,614, respectively.

j. Permanent assets

Accounting practices adopted in Brazil have a class of assets called permanent assets. This is the collective name for all assets on which indexation adjustments were calculated in the corporate and fiscal law accounts of Brazilian companies through 1995. Under U.S. GAAP, the assets in this classification would be non-current assets, investments, property plant and equipment, goodwill and intangible assets.

k. Gain (loss) on disposal of property, plant and equipment

Non-operating losses in the amount of R\$ 1,112 and R\$ 2,790 presented for the years ended December 31, 2004 and 2003 under accounting practices adopted in Brazil, relate mainly to losses on disposal of property plant and equipment and amortization of certain goodwill which would be classified within operating income for U.S. GAAP purposes.

l. Interest income (expense)

Under accounting practices adopted in Brazil, interest income and interest expense, including foreign exchange and monetary variations, are required to be shown as part of operating income. Under U.S. GAAP, such interest income and interest expense would be shown after operating income.

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m. Earnings per share

Under accounting practices adopted in Brazil, the Company determines earnings per share based upon the number of shares outstanding at the end of each year that earnings are reported. Subsequent changes in the Company's share capital are not retroactively reflected in the disclosure of number of shares outstanding and in the calculation of earnings per share under accounting practices adopted in Brazil.

Under U.S. GAAP, earnings per share are determined based upon the weighted average number of shares outstanding during the period, giving retroactive effect to stock dividends and stock splits. The calculation of earnings per share under U.S. GAAP is shown in Note 25 IV.d).

n. Disclosures in the notes to financial statement

Under accounting practices adopted in Brazil, a certain set of information is required to be disclosed in the notes to the financial statements. The additional disclosures required by U.S. GAAP, which are relevant to the accompanying financial statements, are included herein.

o. Deferred income taxes

Under accounting practices adopted in Brazil, deferred tax assets must be recorded to the extent that realization is probable (a valuation allowance is not recorded), while deferred tax liabilities must be recorded in full. Recognition of deferred tax assets from tax losses carry-forwarded is based on future taxable earnings brought to their present value. Realization estimate period cannot exceed ten years.

Under U.S. GAAP, deferred taxes are recorded on all temporary differences, except for differences arising from remeasurement of non-monetary assets and liabilities from reais into US dollar at historical exchange rates. Valuation allowances are established when it is more likely than not that deferred tax assets will not be realized. Deferred tax assets and liabilities are classified as current or long-term based on the classification of the asset or liability underlying the temporary difference. Deferred income tax assets and liabilities in the same tax jurisdiction are netted rather than presented gross. Discounting is not permitted.

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Accounting practices adopted in Brazil does not address fair value adjustments in acquisitions. Thus, deferred tax assets arising from tax losses carried-forward of an acquired entity are recognized directly in the statement of operations in the period when all conditions for recognition are met. Pursuant to US GAAP, these assets must be assessed at the date of acquisition and, if recorded, affect the value assigned to goodwill.

Valuation allowance

U.S. GAAP also requires disclosure of the amount of unrecognized tax credits (valuation allowance). For the financial years ended on December 31, 2004 and 2003, these may be stated as follows:

| | 2004 | 2003 |
|---|-------------|-------------|
| Total tax loss carry-forwards - calculation basis | 34,821 | 34,921 |
| Statutory rate | 34% | 34% |
| Total tax loss carry-forwards - tax credit | 11,839 | 11,873 |
| Valuation allowance | (11,839) | (11,873) |
| Net balance of tax credits recognized | - | - |

p. Impairment of long lived assets

Under U.S. GAAP, long-lived assets, such as property, plant, and equipment, and purchased intangibles subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. For this purpose, assets are grouped at the lowest level for which identifiable cash flows are largely independent of the cash flows of other groups of assets (which also may include liabilities at such level). Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated undiscounted future cash flows, an impairment charge is recognized for the amount by which the carrying amount of the asset exceeds the fair value of the asset.

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Accounting practices adopted in Brazil do not require the 2 steps approach to determine potential asset impairment, but requires measurement of recoverability for long-lived assets on a recurring basis or when events or changes in circumstances indicate that the carrying value of an asset or group of assets may not be recoverable.

For all periods presented, no impairment losses were recognized under accounting practices adopted in Brazil nor U.S. GAAP.

II Reconciliation of the differences between U.S. GAAP and accounting practices adopted in Brazil

| Net income reconciliation | Note 25 I | 2004 | 2003 |
|--|------------------|-------------|-------------|
| Net income as reported under accounting practices adopted in Brazil | | (18,859) | (8,482) |
| Inflation accounting - Property, plant and equipment: | a) | (86) | (106) |
| Deferred charges: | b) | (36) | 158 |
| Capitalization of interest: | c) | | |
| Cost | | 2,142 | 1,482 |
| Amortization | | (385) | (172) |
| Subtotal | | 1,757 | 1,310 |
| Fair value adjustments relating to accounting for derivative instruments | d) | (1,990) | 11,299 |
| Capital leases: | e) | | |
| Depreciation of property, plant and equipment, net of reversal of lease expenses recorded under accounting practices adopted in Brazil | | 609 | 273 |
| Interest expenses on capital lease liabilities | | (635) | (122) |
| Subtotal | | (26) | 151 |

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| Net income reconciliation | Note 25 I | 2004 | 2003 |
|--|------------------|---------------|---------------|
| Deferred income taxes on adjustments above | | 130 | (4,356) |
| Share issuance costs | f) | 10,107 | - |
| Business combinations: | g) | | |
| Reversal of amortization of goodwill under Brazilian GAAP | | 23,669 | 20,955 |
| Tax benefit applied as a reduction of goodwill | | (3,566) | (3,579) |
| Deferred income taxes on goodwill basis difference | | (4,486) | (3,544) |
| Amortization of intangible assets recognized under U.S. GAAP | | (3,323) | (2,306) |
| Deferred income tax effect on intangible assets | | <u>1,130</u> | <u>784</u> |
| Subtotal | | 13,424 | 12,310 |
| Reversal of amortization of goodwill generated from corporate reorganization | h) | 19,508 | 23,328 |
| Net income under U.S. GAAP | | <u>23,929</u> | <u>35,612</u> |
| Comprehensive income | | <u>23,929</u> | <u>35,612</u> |
| Basic and diluted earnings per common share under U.S. GAAP (*) | | 0.50 | 0.75 |

(*) The calculation of earnings per share is summarized in Note 25 IV.d).

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| Shareholders' equity reconciliation | Note 25 I | 2004 | 2003 |
|---|------------------|------------------|------------------|
| Stockholders' equity as reported under accounting practices adopted in Brazil | | 244,262 | 134,588 |
| Inflation accounting - Property, plant and equipment: | a) | 466 | 552 |
| Deferred charges: | b) | (18,970) | (18,934) |
| Capitalization of interest: | c) | | |
| Cost | | 4,925 | 2,783 |
| Accumulated amortization | | (<u>561</u>) | (<u>176</u>) |
| Subtotal | | <u>4,364</u> | <u>2,607</u> |
| Fair value adjustments relating to accounting for derivative instruments | d) | 5,699 | 7,689 |
| Capital leases: | e) | | |
| Capitalization of property, plant and equipment | | 7,078 | 2,557 |
| Accumulated depreciation of property, plant and Equipment | | (1,561) | (818) |
| Liability related to the capital leases | | (<u>5,161</u>) | (<u>1,357</u>) |
| Subtotal | | <u>356</u> | <u>382</u> |
| Deferred tax effects on adjustments above | | 2,749 | 2,619 |
| Business combinations: | g) | | |
| Goodwill under U.S. GAAP | | 97,133 | 75,850 |
| Reversal of goodwill under Brazilian GAAP | | (135,897) | (111,630) |
| Accumulated amortization of goodwill under U.S. GAAP | | (3,217) | (3,217) |
| Reversal of accumulated amortization of goodwill under Brazilian GAAP | | 94,035 | 70,366 |
| Tax benefit applied as a reduction of goodwill under U.S. GAAP | | (15,297) | (11,731) |
| Deferred income taxes on goodwill basis difference under U.S. GAAP | | (15,584) | (11,098) |

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| Shareholders' equity reconciliation | Note 25 I | 2004 | 2003 |
|--|------------------|----------------|----------------|
| Intangible assets recognized under U.S. GAAP | | 58,118 | 53,597 |
| Accumulated amortization of intangible assets recognized under U.S. GAAP | | (11,839) | (8,516) |
| Deferred income tax effect on intangible assets | | (15,735) | (15,328) |
| Subtotal | | 51,717 | 38,293 |
| Stockholders' equity under U.S. GAAP | | <u>290,643</u> | <u>167,796</u> |

III Consolidated statement of changes in stockholders' equity in accordance with U.S. GAAP

| | 2004 | 2003 |
|--|----------------|----------------|
| Stockholders' equity under U.S. GAAP as of beginning of the year | 167,796 | 132,184 |
| Prior year adjustments | 2,888 | - |
| Net income | 23,929 | 35,612 |
| Capital increase | 116,030 | - |
| Capital distribution | (20,000) | - |
| Stockholders' equity under U.S. GAAP as of end of the year | <u>290,643</u> | <u>167,796</u> |

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IV Additional disclosures required by U.S. GAAP

a. Leasing transactions

Capital leases

The Company entered into certain capital lease transaction as a form to finance some of its acquisition of property, plant and equipment.

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

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

Noncancelable future minimum lease payments under capital leases with initial or remaining lease terms in excess of one year at December 31, 2004 are as follows:

| | |
|------|--------------|
| 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.

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The following table summarizes the assets recorded under capital leases at each year end:

| | Depreciation rate - % p.a. | 2004 | | |
|-------------------------|-------------------------------|--------------|--------------|--------------|
| | | Cost | Depreciation | Net |
| Machinery and equipment | 10 | 4,637 | 842 | 3,795 |
| Furniture and fixtures | 10 | 467 | 221 | 246 |
| Hardware | 20 | 1,873 | 397 | 1,476 |
| Vehicles | 20 | <u>101</u> | <u>101</u> | <u>-</u> |
| | | <u>7,078</u> | <u>1,561</u> | <u>5,517</u> |
| | Depreciation rate - % p.a. | 2003 | | |
| | | Cost | Depreciation | Net |
| Machinery and equipment | 10 | 1,263 | 410 | 853 |
| Furniture and fixtures | 10 | 467 | 174 | 293 |
| Hardware | 20 | 726 | 133 | 593 |
| Vehicles | 20 | <u>101</u> | <u>101</u> | <u>-</u> |
| | | <u>2,557</u> | <u>818</u> | <u>1,739</u> |

As of December 31, 2004, the future minimum lease payments under these capital leases are disclosed in Note 25 IV a).

There are no sublease rentals to be received and the Company is not subject to contingent rent pursuant to these lease agreements. Under U.S. GAAP, the interest expense of these capital leases recorded for the years then ended December 31, 2004 and 2003 amounts to R\$ 635 and R\$ 122, respectively.

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b. Segment information

Information about segments is based upon information used by our senior management to assess the performance of our operating segments and decide on the allocation of resources. This approach is required by SFAS 131, "Disclosure about Segments of an Enterprise and Related Information", and it is not applicable to our Company since we provide only health assistance services and management takes its decision based on consolidated information from the services rendered all over the country.

c. Changes in number of shares

The following table presents changes in number of shares issued and outstanding at each year ended:

| | <u>Shares issued and outstanding</u> | | |
|--|--------------------------------------|------------------|-------------------|
| | <u>Common</u> | <u>Preferred</u> | <u>Total</u> |
| Shares at December 31, 2002 | <u>3,427,618</u> | <u>1,302,494</u> | <u>4,730,112</u> |
| Shares at December 31, 2003 | 3,427,618 | 1,302,494 | 4,730,112 |
| Conversion of preferred shares | | | |
| Into common shares | 1,302,494 | (1,302,494) | - |
| Issuance of shares - split of 1 to 10 shares | 42,571,008 | - | 42,571,008 |
| Issuance of new shares | <u>6,306,815</u> | <u>-</u> | <u>6,306,815</u> |
| Shares at December 31, 2004 | <u>53,607,935</u> | <u>-</u> | <u>53,607,935</u> |

d. Earnings per share

The following table provides a reconciliation of the numerators and denominators used in computing earnings per share as required by SFAS N° 128. The calculation of earnings per share as summarized below is retroactively adjusted for stock split of 1 to 10 shares and for the conversion of preferred shares into common shares both occurred in November 2004. Basic earnings per share is equal to diluted earnings per share for all periods presented since

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the Company did not have any potentially dilutive securities.

| | 2004 | 2003 |
|---|-------------|-------------|
| Net income under U.S. GAAP | 23,929 | 35,612 |
| Weighted average shares outstanding - Basic and diluted | 48,283,704 | 47,301,120 |
| Basic and diluted earnings per share - R\$ | 0.50 | 0.75 |

e. Impairment of goodwill

Under U.S. GAAP, goodwill is not amortized and is tested for impairment annually or more frequently if events or changes in circumstances indicate that the goodwill might be impaired. Such impairment test is performed utilizing a two-step method. The first step compares the fair value of a reporting unit with its carrying amount, including goodwill. If the carrying amount of a reporting unit exceeds its fair value, the second step is performed to measure the amount of impairment loss, if any. The second step compares the implied fair value of reporting unit goodwill with the carrying amount of that goodwill. If the implied fair value of reporting unit goodwill is lower than the carrying amount of such goodwill, an impairment loss is recognized.

The Company has recorded the following amounts of goodwill under U.S. GAAP:

| | <u>As of December 31,</u> | |
|-------------------------------------|---------------------------|---------------|
| | 2004 | 2003 |
| Goodwill related to acquisition of: | | |
| Lavoisier | 20,846 | 21,553 |
| Broenstein | 23,680 | 24,968 |
| Lamina | 2,586 | 3,858 |
| Santa Casa | 1,073 | 1,221 |
| CRL | 9,496 | 9,302 |
| Elkis | <u>20,938</u> | <u>-</u> |
| | <u>78,619</u> | <u>60,902</u> |

As mentioned in Note 25 IV.b), since the Company has neither reportable segments nor

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reporting units, as defined under US GAAP, the aggregate amount of goodwill was tested for impairment at the Company level, according to U.S. GAAP requirements. No impairment loss was recognized during all periods presented.

f. Intangible assets subject to amortization

The Company's intangible assets subject to amortization, under U.S. GAAP, are mainly comprised of brands and non-compete agreements acquired through business combinations.

| | <u>2004</u> | | | <u>2003</u> | | |
|--|---------------|-------------------------------|---------------|---------------|-------------------------------|---------------|
| | Brands | Non-compete agreements | Total | Brands | Non-compete agreements | Total |
| Gross | 47,581 | 10,537 | 58,118 | 46,139 | 7,458 | 53,597 |
| Accumulated amortization | (7,274) | (4,565) | (11,839) | (4,838) | (3,679) | (8,517) |
| Net | <u>40,307</u> | <u>5,972</u> | <u>46,279</u> | <u>41,301</u> | <u>3,779</u> | <u>45,080</u> |
| Weighted-average amortization period (years) | <u>17.9</u> | <u>10.0</u> | | <u>28.4</u> | <u>11.7</u> | |

Under U.S. GAAP the aggregate amortization expense for the above intangible assets amounted to R\$3,322 and R\$2,307 for the year ended December 31, 2004 and 2003, respectively.

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The estimated aggregate amortization expense related to these intangibles for the next five years is as follows:

| | |
|------------|---------------|
| 2005 | 3,414 |
| 2006 | 2,613 |
| 2007 | 2,325 |
| 2008 | 2,325 |
| 2009 | 2,325 |
| Thereafter | <u>33,277</u> |
| Total | <u>46,279</u> |

g. Concentrations of credit risk

Financial instruments which potentially subject the Company to credit risk are cash and cash equivalents, financial investments and trade receivables. Based on the factors described below, the Company considers the risk of counterparty default to be not critical.

The Company manages its credit risk with respect to cash equivalents and financial investments by investing only in liquid instruments with highly-rated financial institutions. In addition, investments are diversified in several institutions, and credit limits are established for each individual institution.

The Company has a concentration of revenues and credit risk exceeding 10% of total revenues and accounts receivable, respectively, for Sul America Serviços Médicos and Bradesco Seguros.

h. Aggregate foreign currency transaction losses

Total aggregate foreign currency transaction losses included in financial expense amounted to R\$ 692 and R\$ 9,663 for the years ended December 31, 2004 and 2003, respectively.

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i. New accounting pronouncements

In May 2003 FASB Statement 150, Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity, was issued. This Statement establishes standards for the classification and measurement of certain financial instruments with characteristics of both liabilities and equity. The Statement also includes required disclosures for financial instruments within its scope. For the Company, the Statement was effective for instruments entered into or modified after May 31, 2003 and otherwise was effective as of January 1, 2004, except for mandatorily redeemable financial instruments. For certain mandatorily redeemable financial instruments, the Statement will be effective for the Company on January 1, 2005. The effective date has been deferred indefinitely for certain types of mandatorily redeemable financial instruments. The Company currently does not have any financial instruments that are within the scope of this Statement.

In December 2003, the FASB issued Interpretation 46 (revised December 2003), Consolidation of Variable Interest Entities, which addresses how business enterprise should evaluate whether it has a controlling financial interest in an entity through means other than voting rights and accordingly should consolidate this entity. FIN 46R replaces FASB Interpretation 46, Consolidation of Variable Interest Entities, which was issued in January 2003. The Company was required to apply FIN 46R to variable interests in VIEs created after December 31, 2003. For variable interests in VIEs created before January 1, 2004, the Interpretation will be applied beginning on January 1, 2005. For any VIEs that must be consolidated under FIN 46R that were created before January 1, 2004, the assets, liabilities and noncontrolling interests of the VIEs initially would be measured at their carrying amounts with any difference between the net amount added to the balance sheet and any previously recognized interest being recognized as the cumulative effect of an accounting change. If determining the carrying amounts is not practicable, fair value at the date FIN 46R first applies may be used to measure assets, liabilities and noncontrolling interests of the VIE. The adoption of FIN 46R did not have a material effect on the Company's financial statements.

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In December 2004, the FASB issued FASB Statement 123 (revised 2004), Share-Based Payment, which addresses the accounting for transactions in which an entity exchanges its equity instruments for goods or services, with a primary focus on transactions in which an entity obtains employee services in share-based payment transactions. This Statement is a revision to Statement 123 and supersedes APB Opinion N° 25, Accounting for Stock Issued to Employees, and its related implementation guidance. Management of the Company does not expect any impact on the Company's financial statements by applying this pronouncement.

In December 2004, the FASB issued FASB Statement 151, Inventory Costs, which clarifies the accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage). Under this Statement, such items will be recognized as current-period charges. In addition, the Statement requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. This Statement will be effective for the Company for inventory costs incurred on or after January 1, 2006. Management of the Company does not expect any significant impact on the Company's financial statements by applying this pronouncement.

In December 2004, the FASB issued FASB Statement 153, Exchanges of Nonmonetary Assets, which eliminates an exception in APB 29 for nonmonetary exchanges of similar productive assets and replaces it with a general exception for exchanges of nonmonetary assets that do not have commercial substance. This Statement will be effective for the Company for nonmonetary asset exchanges occurring on or after January 1, 2006. Management of the Company does not expect any significant impact on the Company's financial statements by applying this pronouncement.

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In March 2005, the FASB issued FASB Interpretation 47, "Accounting for Conditional Asset Retirement Obligations", which clarifies the term conditional asset retirement obligation as used in SFAS 143, "Accounting for Asset Retirement Obligations", as a legal obligation to perform an asset retirement activity in which the timing and/or method of settlement are conditional on a future event that may or may not be within the control of the Company. FIN No. 47 is effective no later than the end of fiscal years ending after December 15, 2005. The Company adopted SFAS 143 effective January 1, 2003, and currently does not expect that the adoption of the Interpretation 47 will have a material impact on the Company's results of operation or financial position.

In May 2005, the FASB issued FASB Statement 154, Accounting Changes and Error Corrections, which replaces APB Opinion No. 20, Accounting Changes, and FASB Statement No. 3, Reporting Accounting Changes in Interim Financial Statements, and changes the requirements for the accounting for and reporting of a change in accounting principle. This Statement shall be effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005.

j. Statement of cash flows

Accounting practices adopted in Brazil do not require the presentation of a statement of cash flows as required by U.S. GAAP. The statements of cash flows for the years ended December 31, 2004 and 2003 are presented in accordance with the presentational format required by U.S. GAAP using amounts determined under accounting practices adopted in Brazil:

| | 2004 | 2003 |
|---|-------------|-------------|
| Cash flows from operating activities | | |
| Net loss | (18,859) | (8,482) |
| Adjustments to reconcile net income to cash provided by operating activities: | | |
| Depreciation and amortization | 73,571 | 67,354 |
| Loss on disposals of permanent assets | 2,946 | 162 |
| Amortization of goodwill | 420 | 1,063 |
| Write-offs of deferred charges | 7,499 | - |
| Interest expense and foreign currency transaction loss, net | 19,655 | 9,238 |
| Decrease (increase) in operating assets: | | |
| Trade accounts receivable | (26,459) | (17,604) |

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| | 2004 | 2003 |
|--|------------------|------------------|
| Cash flows from operating activities | | |
| Inventories | (498) | (4,769) |
| Taxes recoverable | (7,162) | (736) |
| Other accounts receivable | (7,685) | 2,353 |
| Prepaid expenses | (307) | (123) |
| Other accounts receivable | (1,509) | 20 |
| Legal deposits | (134) | (732) |
| | | |
| Increase (decrease) in operating liabilities: | | |
| Suppliers | (200) | 4,444 |
| Taxes and contributions payable | 2,794 | (103) |
| Income tax and social contribution | 883 | - |
| Salaries, social security charges and vacation payable | 129 | 1,969 |
| Installments taxes | (5,550) | 125 |
| Other accounts payable | 1,388 | 2,602 |
| Installment taxes | 2,928 | 7,195 |
| Provision for contingencies | <u>3,945</u> | <u>(1,741)</u> |
| | | |
| Net cash provided by operating activities | <u>47,795</u> | <u>62,235</u> |
| | | |
| Cash flows from investing activities | | |
| Purchase of marketable securities | (116,411) | (27,390) |
| Proceeds from sale of marketable securities | 21,225 | 42,113 |
| Business combinations, net of cash acquired | (2,223) | (889) |
| Additions to property, plant and equipment | (54,978) | (34,252) |
| Additions to deferred charges | (8,402) | (2,491) |
| Proceeds from sales of property, plant and equipment | <u>22</u> | <u>428</u> |
| | | |
| Net cash used in investing activities | <u>(160,767)</u> | <u>(22,481)</u> |
| | | |
| Cash flows from financing activities | | |
| Loan and Financing | | |

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| | 2004 | 2003 |
|--|---------------------|---------------------|
| Cash flows from financing activities | | |
| Issuances | 248,245 | 110,363 |
| Repayments | (241,050) | (140,862) |
| Loans to parent company: | - | (1,000) |
| Payments on financed acquisition of subsidiaries | (3,331) | (5,803) |
| Capital increase | 126,137 | - |
| Capital distribution | (17,586) | - |
| Net cash provided by (used in) financing activities | <u>112,415</u> | <u>(37,302)</u> |
| Net increase (decrease) in cash and cash equivalents | (557) | 2,452 |
| Cash and cash equivalents at the beginning of the year | <u>3,460</u> | <u>1,008</u> |
| Cash and cash equivalents at the end of the year | <u><u>2,903</u></u> | <u><u>3,460</u></u> |
| Supplemental disclosure of cash flow information | | |
| Cash paid during the year for: | | |
| Interest paid | 13,557 | 13,718 |
| Income taxes paid | 6,927 | 6,178 |
| Noncash investing and financing activities: | | |
| Acquisition of businesses: | | |
| Assets acquired, including goodwill | 35,769 | 18,000 |
| Liabilities assumed | (26,702) | (13,186) |
| Purchase price | 9,067 | 4,814 |
| Financed acquisition of subsidiaries | (6,826) | (3,729) |
| Cash acquired | (18) | (196) |
| Purchase price paid, net of cash acquired | <u>2,223</u> | <u>889</u> |
| Receipt of loan from parent company through a capital reduction: | <u>2,414</u> | <u>-</u> |

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V *Supplemental information*

The following information is presented as supplemental information to the reconciliation of the differences between U.S. GAAP and accounting practices adopted in Brazil in stockholders' equity and net loss presented in Note 25 II.

a. Consolidated balance sheets as of December 31, 2004 and 2003 under U.S. GAAP

| | Consolidated | | | Consolidated | |
|---------------------------|---------------------|----------------|------------------------------------|---------------------|---------------|
| Assets | 2004 | 2003 | Liabilities | 2004 | 2003 |
| Current Assets | | | Current Liabilities | | |
| Cash and cash equivalents | 126,158 | 28,614 | Suppliers | 20,829 | 18,266 |
| Trade accounts receivable | 104,109 | 72,821 | Loans and financing | 24,779 | 29,269 |
| Inventories | 15,125 | 14,413 | Taxes and contributions payable | 6,305 | 3,282 |
| Taxes recoverable | 18,173 | 7,724 | Income tax and social contribution | 883 | - |
| Other accounts receivable | 9,913 | 2,726 | Salaries, social security charges | | |
| Prepaid expenses | <u>901</u> | <u>387</u> | and | | |
| | | | vacation payable | 13,992 | 12,139 |
| | <u>274,379</u> | <u>126,685</u> | Installments taxes | 6,202 | 4,193 |
| Noncurrent assets | | | Accounts payable from acquisition | | |
| Marketable securities | 7,824 | 4,997 | of subsidiaries | 19,983 | 8,901 |
| Other accounts receivable | 1,529 | 20 | Other accounts payable | 15,186 | 9,323 |
| Legal deposits | 3,696 | 3,470 | Derivative liability | <u>12,037</u> | <u>3,220</u> |
| Related parties | <u>-</u> | <u>2,240</u> | | 120,196 | 88,593 |
| | 13,049 | 10,727 | Long-term liabilities | | |
| Permanent assets | | | Loans and financing | 95,830 | 63,399 |
| Investments | 21 | - | Installments taxes | 18,448 | 13,212 |
| Goodwill | 78,619 | 60,902 | Accounts payable from acquisition | | |
| Intangible assets, net | 46,280 | 45,081 | of subsidiaries | 19,657 | 20,188 |
| Property, plant and | | | Provision for contingencies | 32,669 | 28,406 |
| equipment, net | <u>193,665</u> | <u>162,006</u> | Deferred income taxes | <u>28,570</u> | <u>23,807</u> |
| | <u>318,585</u> | <u>267,989</u> | | 195,174 | 149,012 |

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| | <u>Consolidated</u> | | | <u>Consolidated</u> | |
|--------------|---------------------|----------------|---|---------------------|----------------|
| | <u>2004</u> | <u>2003</u> | | <u>2004</u> | <u>2003</u> |
| | | | Shareholders' equity | | |
| | | | Capital | 206,029 | 27,327 |
| | | | Capital reserves | 65,427 | 148,099 |
| | | | Retained earnings | <u>19,187</u> | <u>(7,630)</u> |
| | | | | <u>290,643</u> | <u>167,796</u> |
| Total Assets | <u>606,013</u> | <u>405,401</u> | Total Liabilities and shareholders' equity | <u>606,013</u> | <u>405,401</u> |

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b. Consolidated statement of operations for the years ended December 31, 2004 and 2003 under U.S. GAAP

| | Consolidated | |
|------------------------------------|---------------------|------------------|
| | 2004 | 2003 |
| Gross Service Revenues | 491,394 | 399,825 |
| Deductions | | |
| Taxes on revenues | (34,202) | (28,165) |
| Other | (9,200) | (8,062) |
| | <u>(43,402)</u> | <u>(36,227)</u> |
| Net Service Revenues | 447,992 | 363,598 |
| Cost of services | <u>(306,331)</u> | <u>(256,901)</u> |
| Gross Profit | 141,661 | 106,697 |
| Operating income (expense) | | |
| Administrative and general | (78,344) | (49,462) |
| Amortization of intangible assets | (3,322) | (2,307) |
| Other | (11) | 610 |
| | <u>(81,677)</u> | <u>(51,159)</u> |
| Operating income | 59,984 | 55,538 |
| Financial expenses, net | <u>(28,379)</u> | <u>(9,231)</u> |
| Income before taxes | 31,605 | 46,307 |
| Income tax and social contribution | | |
| Current | (883) | - |
| Deferred | <u>(6,793)</u> | <u>(10,695)</u> |
| Net income | <u>23,929</u> | <u>35,612</u> |