



Diagnósticos da América S.A.

Consolidated financial statements
December 31, 2005, 2004 and 2003
and independent auditors' report



Diagnósticos da América S.A.

Financial statements

December 31, 2005, 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, 2005, 2004 and 2003, and the related consolidated statements of income, changes in shareholders' equity and statements of cash flows for each of the years in the three-year period ended December 31, 2005. 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, 2005, 2004 and 2003, and the results of their operations, and cash flows, for each of the years in the three-year period then ended, are in accordance with accounting practices adopted in Brazil.


As discussed in Note 26.I.e to the consolidated financial statements, the Company changed its method of accounting of capital leases under accounting practices adopted in Brazil, effectively January 1, 2005.



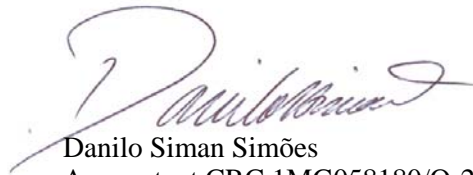
Accounting practices adopted in Brazil vary in certain significant respects from accounting principles generally accepted in the United States of America. Information relating to the nature and effect of such differences is presented in Note 26 to the consolidated financial statements.

February 10, 2006

KPMG Auditores Independentes
CRC 2SP014428/O-6



Adelino Dias Pinho
Accountant CRC 1SP097869/O-6



Danilo Siman Simões
Accountant CRC 1MG058180/O-2 "T" SP

Diagnósticos da América S.A.

Consolidated balance sheets

December 31, 2005, 2004 and 2003

(in thousand of Reais)

Assets	Consolidated			Liabilities and shareholders' equity	Consolidated		
	2005	2004	2003		2005	2004	2003
Current assets				Current liabilities			
Cash and cash equivalents	4,452	2,903	3,460	Accounts payable to suppliers	26,982	20,829	18,266
Marketable securities	48,171	123,255	25,154	Loans and financing	75,385	27,978	31,874
Trade accounts receivable, net	116,405	104,109	72,821	Taxes and contributions payable	3,966	6,305	3,282
Inventories	18,161	15,125	14,413	Income tax and social contribution	1,074	883	-
Recoverables taxes	16,253	18,173	7,724	Salaries, social security charges and vacation payable	21,176	13,992	12,139
Other accounts receivable	6,523	9,913	2,726	Payment of tax in installements	5,558	6,202	4,193
Prepaid expenses	848	901	387	Accounts payable from acquisition of subsidiaries	8,704	19,983	8,901
	<u>210,813</u>	<u>274,379</u>	<u>126,685</u>	Other accounts payable	13,459	15,186	9,323
					<u>156,304</u>	<u>111,358</u>	<u>87,978</u>
Noncurrent assets				Long-term liabilities			
Marketable securities	16,272	7,824	4,997	Loans and financings	78,299	105,207	70,346
Judicial deposits	11,293	3,696	3,470	Payment of tax in installements	16,384	18,448	13,212
Other accounts receivable	10	1,529	2,260	Accounts payable from acquisition of subsidiaries	34,704	19,657	20,188
	<u>27,575</u>	<u>13,049</u>	<u>10,727</u>	Provision for contingencies	41,370	32,669	28,406
					<u>170,757</u>	<u>175,981</u>	<u>132,152</u>
Permanent assets				Minority interest	354	-	-
Investments	78,936	26,324	8,732				
Property, plant and equipment, net	213,841	174,885	144,086	Shareholders' equity			
Deferred charges	62,226	42,964	64,488	Capital	216,136	216,136	27,327
	<u>355,003</u>	<u>244,173</u>	<u>217,306</u>	Capital reserves	64,136	52,579	115,743
				Accumulated losses	(14,296)	(24,453)	(8,482)
					<u>265,976</u>	<u>244,262</u>	<u>134,588</u>
Total assets	<u>593,391</u>	<u>531,601</u>	<u>354,718</u>	Total liabilities and shareholders' equity	<u>593,391</u>	<u>531,601</u>	<u>354,718</u>

The accompanying notes are an integral part of these consolidated financial statements.

Diagnósticos da América S.A.

Consolidated statements of income

Years ended December 31, 2005, 2004 and 2003

(in thousand of reais, except earnings per share)

	Consolidated		
	2005	2004	2003
Gross revenue			
Services rendered	576,940	491,394	399,825
Deductions from gross revenue			
Value-added and other taxes	(33,101)	(34,202)	(28,165)
Discounts	<u>(15,559)</u>	<u>(9,200)</u>	<u>(8,062)</u>
	<u>(48,660)</u>	<u>(43,402)</u>	<u>(36,227)</u>
Net operating revenues	528,280	447,992	363,598
Cost of services rendered	<u>(362,411)</u>	<u>(306,469)</u>	<u>(256,896)</u>
Operating revenue	<u>165,869</u>	<u>141,523</u>	<u>106,702</u>
Other operating income (expenses)			
General and administrative	(88,733)	(88,827)	(50,687)
Financial income, net	(21,031)	(27,896)	(21,891)
Goodwill amortization	(35,711)	(42,765)	(43,218)
Other operating income	<u>761</u>	<u>1,101</u>	<u>3,402</u>
	<u>(144,714)</u>	<u>(158,387)</u>	<u>(112,394)</u>
Operating income (loss)	21,155	(16,864)	(5,692)
Non-operating income (loss)	<u>(488)</u>	<u>(1,112)</u>	<u>(2,790)</u>
Net income (loss) for the year before taxes	20,667	(17,976)	(8,482)
Income tax and social contribution	<u>(10,394)</u>	<u>(883)</u>	<u>-</u>
Net income (loss) before minority interest	10,273	(18,859)	(8,482)
Minority interest	<u>(116)</u>	<u>-</u>	<u>-</u>
Net income (loss) for the year	<u>10,157</u>	<u>(18,859)</u>	<u>(8,482)</u>
Number of shares outstanding at year-end	<u>53,607,935</u>	<u>53,607,935</u>	<u>4,730,112</u>
Earnings per thousand shares at year end	<u>0.19</u>	<u>(0.35)</u>	<u>(1.79)</u>

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

Diagnósticos da América S.A.

Consolidated statements of changes in shareholders' equity

Years ended December 31, 2005, 2004 and 2003

(In thousands of Reais)

	Capital	Capital reserves	Acummulated 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 restitution to shareholders	(78,430)	-	78,430	-
Goodwill amortization	-	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	82,672	(82,672)	-	-
Capital increase from subscription to new shares	126,137	-	-	126,137
Capital reduction from restitution to shareholders	(20,000)	-	-	(20,000)
Goodwill amortization	-	19,508	-	19,508
Net loss for the year	-	-	(18,859)	(18,859)
Balances at December 31, 2004	216,136	52,579	(24,453)	244,262
Goodwill amortization	-	11,557	-	11,557
Net income for the year	-	-	10,157	10,157
Balances at December 31, 2005	<u>216,136</u>	<u>64,136</u>	<u>(14,296)</u>	<u>265,976</u>

The accompanying notes are an integral part of the consolidated financial statements

Diagnósticos da América S.A.

Consolidated statements of changes of Cash Flows

Years ended December 31, 2005, 2004 and 2003

(In thousands of Reais)

	2005	2004	2003
Cash flows from operating activities			
Net income (loss)	10,157	(18,859)	(8,482)
Adjustments to reconcile net income to cash provided by operating activities			
Depreciation and amortization	74,577	73,571	67,354
Loss on disposals of permanent assets	98	2,946	162
Write-off of goodwill		420	1,063
Write-off of permanent assets	858	7,499	-
Unrealized remeasurement loss for exchange rates	22,080	19,655	9,238
Minority interest	116	-	-
Decrease (increase) in operating assets			
Trade accounts receivable	(12,296)	(26,459)	(17,604)
Inventories	(3,036)	(498)	(4,769)
Taxes recoverable	1,920	(7,162)	(736)
Other accounts receivable	1,572	(7,685)	2,353
Prepaid expenses	(53)	(307)	(123)
Other accounts receivable	3,443	(1,509)	20
Legal deposits	(7,597)	(134)	(732)
Increase (decrease) in operating liabilities			
Suppliers	6,153	(200)	4,444
Taxes and contributions payable	(11,661)	2,794	(103)
Income tax and social contribution	10,157	883	-
Salaries, social security charges and vacation payable	7,184	129	1,969
Other accounts payable	(1,373)	1,388	2,602
Installment taxes	(3,352)	(2,622)	7,320
Provision for contingencies	8,701	3,945	(1,741)
Net cash provided by operating activities	<u>107,648</u>	<u>47,795</u>	<u>62,235</u>
Cash flows from investing activities			
Purchase of marketable securities	(8,775)	(116,411)	(27,390)
Proceeds from sale of marketable securities	327	21,225	42,113
Business combinations, net of cash acquired	(71,485)	(2,223)	(889)
Additions to property, plant and equipment	(84,175)	(54,978)	(34,252)
Additions to deferred charges	(19,262)	(8,402)	(2,491)
Proceeds from sales of property, plant and equipment		22	428
Net cash used in investing activities	<u>(183,370)</u>	<u>(160,767)</u>	<u>(22,481)</u>
Cash flows from financing activities			
Loan and Financing	105,694	248,245	110,363
Issuances	(107,275)	(241,050)	(140,862)
Repayments		-	(1,000)
Loans to parent company	3,768	(3,331)	(5,803)
Payments of financed acquisition of subsidiaries		126,137	-
Capital increase	-	(17,586)	-
Capital distribution			
Net cash provided by (used in) financing activities	<u>2,187</u>	<u>112,415</u>	<u>(37,302)</u>
Net increase (decrease) in cash and cash equivalents	(73,535)	(557)	2,452
Cash and cash equivalents at the beginning of the year	<u>126,158</u>	<u>3,460</u>	<u>1,008</u>
Cash and cash equivalents at the end of the year	<u><u>52,623</u></u>	<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	1,824	13,557	13,718
Income taxes paid	-	6,927	6,178

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

Diagnósticos da América S.A.

Notes to consolidated financial statements

Years ended December 31, 2005, 2004 and 2003

(In thousands of Reais)

1 Operations

The Company provides health assistance services to company employees covered by health insurance plans, insurance companies, medical-hospital assistance companies, other corporate entities and individuals in the following areas: (i) clinical analysis, directly, or as a supplementary nature, through the intermediary of contracted laboratories; and (ii) diagnostic medicine, exclusively through third parties and specialized clinics, in the following areas, as well as others that medical development determines in the future: a) clinical pathology; b) cytology and pathological anatomy; c) diagnosis by images and graphic methods; d) immunization, rehabilitation and ophthalmology; e) nuclear medicine and f) clinical trials. The acquisition of Laboratório Frischmann Aisengart during the month of July, 2005 represented for the Company the entrance into new market sector, as environmental analysis areas, genetically modified organisms analysis and toxicological analysis, and the acquisition of Laboratório Alvaro S.A. during the month of December represented to the Company the entrance into the market of support to laboratories. The Company can also invest in other entities. The Company closed the year of 2005 with 192 operational units (148 in 2004 and 131 in 2003), as follows:

Brands	Locality	2005	2004	2003
Delboni Auriemo	São Paulo	29	30	25
Lavoisier	São Paulo	53	49	39
Bronstein	Rio de Janeiro	35	37	36
Lâmina	Rio de Janeiro	16	19	20
Santa Casa	Paraná	8	8	6
Delboni Paraná	Paraná	7	5	1
Pasteur	Brasília	13	-	-
Frischmann	Paraná	17	-	-
Image	Bahia	2	-	-
Laboratório Álvaro	Paraná	12	-	-
CRL	Rio de Janeiro	—	—	<u>4</u>
		<u>192</u>	<u>148</u>	<u>131</u>

At December 31, 2005, the Club DA brand had 13 units, with 11 units annexed to the Delboni Auriemo brand and 2 units annexed to the Lâmina brand.

Diagnósticos da América S.A.

Publicly-held company

Notes to consolidated financial statements

(In thousands of Reais)

2 Corporate aspects occurred from 2003 to 2005

a. Upstream merger of subsidiary companies - 2005

At the Extraordinary Shareholders General Meeting held on August 1st, 2005, the shareholders unanimously approved the merger, by the Company, of its subsidiary companies referred below, recorded in the Protocol and Justification of Incorporation dated July 14, 2005, agreed between the Company's directors and the directors of the subsidiary companies.

The purpose of the upstream merger of all of the net worth, as presented below, of the subsidiary companies by the Company was to rationalize and unify the activities currently undertaken by the subsidiary companies and reduce administrative costs and expenses, with no increase to the Company's capital, given that all of the quotas from the other partners of the subsidiary companies were previously renounced and transferred to the Company, such that, on this date, the Company is the only partner in the subsidiary companies.

	CRL	Presmedi	Elkis CDAC	Elkis LM	Pasteur
Assets	3,059	1	5,079	4,796	2,614
Liabilities	<u>11,015</u>	<u>1,129</u>	<u>25,564</u>	<u>2,972</u>	<u>4,366</u>
Net worth/Unsecured (liabilities) merged	<u>(7,956)</u>	<u>(1,128)</u>	<u>(20,485)</u>	<u>1,824</u>	<u>(1,752)</u>

b. Acquisitions of interests in subsidiaries in 2005

As discussed in Note 8, the Company consummated the following acquisitions of interests in subsidiaries during the year:

Company	Date	Onwership percentage
Laboratório Pasteur Patologia Clínica S/S Ltda.	April 4, 2005	100.00 %
Laboratório Frischmann Aisengart S.A.	July 05, 2005	92.92 %
Image Memorial S.A. Empreendimentos e Participações Hospitalares	October 17, 2005	100.00 %
Laboratório Alvaro S.A.	December 21, 2005	100.00 %

Diagnósticos da América S.A.

Notes to consolidated financial statements

(In thousands of Reais)

c. Acquisitions of interests in subsidiaries in 2004

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

d. Acquisitions of interests in subsidiaries in 2003

On May 27, 2003, by means of a Private Instrument for the Promise to Sell Units and Other Agreements, the Company agreed to acquire Centro Radiológico da Lagoa Ltda. (CRL) and Presmedi Rio Serviços Médicos Ltda. By means of the Term of Conclusion, dated November 13, 2003, the acquisition was consummated based on the closing balance sheets as of October 31, 2003.

3 Presentation of the consolidated financial statements

The consolidated financial statements of the Company were prepared in accordance with accounting practices derived from the Brazilian Corporation Law and rules of the Brazilian Securities Exchange Commission.

The accompanying consolidated financial statements are an adaptation from those originally issued in Brazil, based on accounting practices adopted in Brazil. Certain reclassifications and changes in terminology have been made and these notes have been expanded, in order to conform more closely to reporting practices prevailing pursuant to accounting principles generally accepted in the United States ("U.S. GAAP"). In this regard, the statements of sources and uses of funds ("DOAR") and the statements of cash flows prepared in accordance with the Brazilian Institute of Independent Accountants, disclosed under accounting practices adopted in Brazil, have been replaced by the statements of cash flows prepared in the format required by U.S. GAAP, with amounts determined under accounting practices adopted in Brazil.

Certain reclassifications were made to certain 2004 and 2003 accounts for comparison purposes with 2005.

Diagnósticos da América S.A.

Notes to consolidated financial statements

(In thousands of Reais)

The consolidated financial statements as at December 31, 2005, 2004 and 2003, include:

	December 31, 2005	December 31, 2004	December 31, 2003
(a) Centro Radiológico da Lagoa Ltda.	-	99.99%	99.99%
(a) Presmedi Rio Serviços Médicos Ltda.	-	99.99%	99.99%
(a) Elkis e Furlanetto Centro de Diagnósticos e Análises Clínicas Ltda.	-	100.00%	-
(a) Elkis e Furlanetto Laboratório Médico Ltda.	-	100.00%	-
(b) Laboratório Frischmann Aisengart S.A.	92.92%	-	-
(b) Image Memorial S.A. Empreendimentos e Participações Hospitalares	100.00%	-	-
(b) Laboratório Alvaro S.A.	100.00%	-	-

(a) Incorporated companies at August 1, 2005, as mentioned in Note 2.

(b) Acquired companies during 2005.

Accounting policies were applied on a uniform basis in the consolidated company.

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 expense accounts according to their nature, with the following main eliminations:

- Investment interests in capital, reserves and accumulated results;
- Inter-company balances in the assets and liabilities and revenue accounts.

Description of significant accounting practices

a. Income statement

Income and expenses are recognized on an accrual basis.

Revenue from services rendered is recognized in the income statement upon completion of the services.

Diagnósticos da América S.A.

Notes to consolidated financial statements

(In thousands of Reais)

b. Accounting estimates

Preparation of the financial statements in accordance with accounting practices adopted in Brazil requires that management uses its judgment in determining and recording accounting estimates. Significant assets and liabilities subject to these estimates and assumptions include the estimated time periods for recovery and consequent amortization of the goodwill originated from the acquisition of investments and other deferred charges, provision for doubtful accounts, provision for disallowances, inventories, provision for contingencies, valuation of derivative instruments, among others. The settlement of transactions involving these estimates may result in different amounts due to the lack of precision inherent to the process of their determination. The Company reviews the estimates and assumptions at least quarterly.

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 in the income statement.

d. Current and noncurrent assets

- **Cash and cash equivalents**

Cash and cash equivalents comprise cash balances and bank deposits. Overdrafts are presented as liabilities as loans and financing.

- **Marketable securities**

Marketable securities are recorded at cost plus income accrued up to the quarterly financial information date.

- **Provision for doubtful accounts and provision for disallowances**

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

Diagnósticos da América S.A.

Notes to consolidated financial statements

(In thousands of Reais)

- **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**

Presented at the net realizable amount.

e. Permanent assets

- **Investments**

Relates to goodwill calculated at the time of purchasing an investment in a company with negative shareholders' equity adopting the accounting criteria established in item 17.1.9 of Official Circular/CVM/SNC/SEP 01/2004. The goodwill is based on future profitability from operations undertaken by the subsidiary companies, in accordance with profitability forecasts prepared by management projected for 5 years.

- **Property, plant and equipment**

Property, plant and equipment is stated at acquisition, formation or construction cost. Depreciation is calculated using the straight-line method at rates described in Note 9 and which take into account the estimated useful life of the assets. Leasehold improvements are amortized over the lower of the remaining lease term or the useful life of the improvement.

As from January 1, 2005 the Company changed its accounting of capital leases under accounting practices adopted in Brazil, and started to recognize retrospectively all outstanding lease contracts at this date based in a manner similar to U.S. GAAP capital lease accounting. The effect of this change in accounting practice was not material enough to require prior years' adjustment.

Diagnósticos da América S.A.

Notes to consolidated financial statements

(In thousands of Reais)

- **Deferred charges**

Pre-operating expenses refer to expenses for expansion of the patient service centers and are amortized using the straight-line method over a period between 5 and 10 years. The goodwill calculated from the mergers of investments is based on the future profitability of operations undertaken by the subsidiary companies in accordance with profitability forecasts prepared by management projected over 5 years.

f. Current and noncurrent liabilities

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

g. Provisions

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

h. Goodwill from the merger of the parent company

The goodwill recorded previously by the controlling company Platypus Holdings Ltda was classified after its merger against the capital reserve account in the shareholders' equity of the Company that resulted from the merger. Later, the amortization of goodwill, for a maximum of five years, has been credited to this capital reserve account, with the corresponding entry recorded as income for the year. This procedure was supported by tax legislation, article 11 of Law 9718 of November 27, 1998.

i. Deferred income tax and social contribution

Current income tax and social contribution are calculated based on the effective rates of 15% plus additional rate of 10% on taxable profit in excess of R\$240 for income tax and 9% on taxable profit for 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.

Diagnósticos da América S.A.

Notes to consolidated financial statements

(In thousands of Reais)

The Company has tax losses carryforwards, negative basis of social contributions and temporary differences at the balance sheet date. Management decision regarding the non recognition of the deferred tax assets effects resulting from the aforementioned fiscal benefits is in accordance with CVM Instruction 371 of June 27, 2002, and considered the non existence of profits being reported in at least the three of the last five years.

4 Marketable securities

	2005	2004	2003
Marketable securities	64,443	131,079	30,151
Classified as current assets	<u>(48,171)</u>	<u>(123,255)</u>	<u>(25,154)</u>
Noncurrent assets:			
Restricted deposits	<u>16,272</u>	<u>7,824</u>	<u>4,997</u>

The marketable securities classified to current assets refer to indexed fixed rate funds, earning an average interest rate of 101.1% as of December 31, 2005 (99.7% and 110.5% as of December 31, 2004 and 2003, respectively) of the CDI. The Company seeks to invest in order to maximize profitability by investing their funds in investment fund quotas, whose investment policy includes the possibility of concentrating investments in public and private securities.

Noncurrent marketable securities earning an average interest rate of 99.9% of CDI as of December 31, 2005 and 2004 and 99.7% of the CDI in 2003, and they guarantee to former shareholders the payment for assumed liabilities when shares of the same companies were acquired. Former shareholders previously mentioned in this paragraph are former shareholders of Laboratório Bio-Ciência Lavoisier de Análises Clínicas S.A., Bronstein S.A., Bronstein Administradora Laboratorial S.A., Elkis e Furlanetto - Centro de Diagnósticos e Análises Clínicas Ltda., Elkis e Furlanetto - Laboratório Médico Ltda., L.A.C. - Laboratório de Análises Clínicas S/C Ltda., Laboratório Frischmann Aisengart S.A. and Laboratório Álvaro Análises e Pesquisas Clínicas S.A.

Diagnósticos da América S.A.

Notes to consolidated financial statements

(In thousands of Reais)

5 Trade accounts receivable

	2005	2004	2003
Current:			
Trade notes receivable	148,302	126,800	84,553
Checks in collection	1,208	1,062	1,684
Credit cards	2,213	680	378
Returned checks	<u>2,086</u>	<u>1,918</u>	<u>249</u>
	153,809	130,460	86,864
Less:			
Provision for disallowances and for doubtful accounts	(35,346)	(24,433)	(13,794)
Provision for losses from returned checks	<u>(2,058)</u>	<u>(1,918)</u>	<u>(249)</u>
	<u>116,405</u>	<u>104,109</u>	<u>72,821</u>

The collection process for diagnostic medicine services provided by the Company is complex as a result of a variety of factors, including the large number of health plans used, different coverage offered, the information requested by these plans and questioning by the health plans as to the adequacy of supporting documentation. All of these factors, historically, contribute to the average recovery period for payments being different from the periods defined in the contracts.

Provisions for disallowances are established monthly based on estimated probable losses from the unaccepted amounts being discussed. These discussions refer mainly to: (i) operational questions, such as services provided to clients from health plans without previous authorization; (ii) sales questions, such as new price lists agreed which have not been up dated in both systems; and (iii) technical questions, such as different interpretations of examination requisitions.

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(In thousands of Reais)

6 Inventories

	2005	2004	2003
National clinical analysis and diagnostic imaging materials	11,748	6,706	8,047
Imported clinical analysis and diagnostic imaging materials	4,821	6,460	5,476
Consumption material	1,669	2,176	1,235
Inventories held by third parties	399	271	98
Provision for obsolescence	(476)	(488)	(443)
	<u>18,161</u>	<u>15,125</u>	<u>14,413</u>

7 Recoverable taxes

	2005	2004	2003
Withholding income tax (IRRF)	4,166	5,153	3,799
Income tax recoverable	2,231	2,970	2,216
Social Contribution recoverable	4,142	5,082	707
COFINS and PIS tax withheld	5,611	4,935	-
ISS paid in advance	-	-	737
Other	<u>103</u>	<u>33</u>	<u>265</u>
	<u>16,253</u>	<u>18,173</u>	<u>7,724</u>

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8 Goodwill and other liabilities in affiliates

	2005	2004	2003
Goodwill from acquired shares:			
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	-
Laboratório Frischmann Aisengart S.A.	26,873	-	-
Image Memorial S.A. Empreendimentos e Participações Hospitalares	30,926	-	-
Laboratório Alvaro S.A.	<u>25,127</u>	<u>-</u>	<u>-</u>
	<u>82,926</u>	<u>31,037</u>	<u>8,880</u>
Accumulated amortization			
Centro Radiológico da Lagoa Ltda.	-	(1,978)	(148)
Elkis e Furlanetto C.D.A.C. Ltda.	-	(2,658)	-
Elkis e Furlanetto LM S/C Ltda.	-	(98)	-
Laboratório Frischmann Aisengart S.A.	(2,615)	-	-
Image Memorial S.A. Empreendimentos e Participações Hospitalares	(1,263)	-	-
Laboratório Alvaro S.A.	<u>(135)</u>	<u>-</u>	<u>-</u>
	<u>(4,013)</u>	<u>(4,734)</u>	<u>(148)</u>
Other	<u>23</u>	<u>21</u>	<u>-</u>
	<u>78,936</u>	<u>26,324</u>	<u>8,732</u>

(a) Acquisitions of investment interests during the year

1. On April 4, 2005, the Company acquired all of the capital in Laboratório Pasteur Patologia Clínica S/S Ltda., located in Brasília - DF, for the amount of R\$6,000 being R\$3,600 paid in cash on April 12, 2005 and R\$ 2,400 in 25 monthly installments corrected using the IPCA. From this acquisition the Company calculated goodwill for the amount of R\$7,883. This operation was submitted for consideration by the Council for Economic Defense - CADE, which published a favorable report in the Official Gazette, on July 14, 2005.

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(In thousands of Reais)

2. On July 5, the Company acquired 21,371,573 ordinary nominative shares in Laboratório Frischmann Aisengart S.A., located in Curitiba, in Paraná, for the amount of R\$30,000 representing 92.92% of the 23,000,000 shares which make up its capital, being R\$27,000 paid in cash on July 6, 2005 and R\$3,000 retained in a deposit account for up to 6 years. From this acquisition the Company calculated goodwill for the amount of R\$26,873. This operation was submitted for consideration by the Council for Economic Defense - CADE. At the balance sheet date, the process was still in progress, but had received a favorable report from SEDE and SDE.
3. On October 17, 2005, the Company acquired all of the capital in Image Memorial S.A. Empreendimentos e Participações Hospitalares, located in Salvador, in Bahia, for the amount of R\$33,237, being R\$21,000 paid in cash on October 17, 2005 and R\$8,050 retained in a deposit account for up to six years. The remaining R\$4,187 will be paid on February 15, 2006, subject to a single adjustment calculated at the rate of 5.375 times the EBITDA for 2005. From this acquisition the Company calculated goodwill for the amount of R\$30,926. This operation was considered by the Council for Economic Defense - CADE, which published a favorable report in the Official Gazette, on January 27, 2006.
4. On December 21, 2005, the Company acquired all of the capital in Laboratório Alvaro S.A., located in Cascavel, in Paraná, for the amount of R\$25,675 corresponding to the fixed part of the acquisition price, being R\$24,375 paid in cash on December 21, 2005 and R\$1,300 retained in a deposit account for up to 6 months. From this acquisition the Company calculated goodwill for the amount of R\$25,127. In addition to the fixed payment for the acquisition, the Company has a commitment to make a variable payment as part of the acquisition price, to the previous shareholders of Laboratório Alvaro S.A. to be paid annually, as from 2006, for three consecutive years. The value of the annual payments is dependent on achieving certain goals and there is a progressive table for variable remuneration, between 80%, which corresponds to minimum annual remuneration of R\$179 and 110% which corresponds to maximum annual remuneration of R\$ 4,083. Given that the remuneration is tied to future events, which can not be determined at the moment, with the possibility of such not occurring, the Company decided to record the accounting entry for the variable payment only when the estimates and goals have been reached. This operation was submitted for consideration by the Council for Economic Defense - CADE. At the balance sheet date, the process was still in progress.

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(In thousands of Reais)

- (b) **Increase in shareholders' equity of investments through payment of AFAC** - At the Board of Directors Meeting, of August 1, 2005, the board approved conversion of advances for future capital increase into a capital increase for the amounts of R\$4,879, R\$439 and R\$1,300 made by the Company in Elkis e Furlanetto Centro de Diagnósticos e Análises Clínicas Ltda., Elkis e Furlanetto Laboratório Médico Ltda. and Laboratório Pasteur Patologia Clínica S/S Ltda., respectively.
- (c) **Increase in shareholders' equity of investments through capital increase** - On December 21, 2005, the Extraordinary General Meeting of Laboratório Alvaro S.A. approved a capital increase for the amount of R\$ 600 was authorized.
- (d) **Incorporation of subsidiary companies during the year** - On August 1, 2005, the Company incorporated its subsidiary companies Centro Radiológico da Lagoa Ltda., Presmedi Rio Serviços Médicos Ltda., Elkis e Furlanetto Centro de Diagnósticos e Análises Clínicas Ltda., Elkis e Furlanetto Laboratório Médico Ltda. and Laboratório Pasteur Patologia Clínica S/S Ltda., as reported in note 2 to the financial statements.

9 Property, plant and equipment

	Average depreciation rate % a.a.	2005 Net	2004 Net	2003 Net
Buildings	4	609	-	190
Leasehold improvements	12	68,223	58,746	36,817
Machinery and equipment	10	93,512	73,310	66,833
Furniture and fixtures	10	13,044	9,894	8,582
Facilities	10	1,323	1,148	1,061
Hardware and software	20	21,222	14,486	12,423
Vehicles	20	503	94	115
Library	10	98	33	4
Land		2,550	-	810
Other fixed assets		215	88	8,010
Construction in process (a)		<u>12,542</u>	<u>17,086</u>	<u>9,241</u>
		<u>213,841</u>	<u>174,885</u>	<u>144,086</u>
Accumulated depreciation		<u>147,958</u>	<u>105,397</u>	<u>71,892</u>
Total cost		<u>361,799</u>	<u>280,282</u>	<u>215,978</u>

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Notes to consolidated financial statements

(In thousands of Reais)

- (a) The construction in progress includes ICMS (VAT) on imports recognized by the Company, amounting to R\$4,663 at December 31, 2005 in the parent company and on consolidation (R\$6,439 and R\$ 7,931 at December 31, 2004 and 2003) with the corresponding entry made to the provision for contingencies, classified at non current liabilities. This refers to the ICMS on the import of equipment that was not paid since the Company has legally questioned this payment.

On September 30, 2005, the Company decided to reverse the accounting register for ICMS on imports, recorded in 2002, for the amount of R\$4,396. This decision was based on the opinion of its legal advisors, that only the demand for ICMS by entities classified as non traders are considered valid, when made after the publication of Complementary Law 114 of December 16, 2002, and observing the Principle of Precedence, which authorizes the charge for ICMS only as from January 1, 2003. Consequently, the chance of losses is considered to be remote in the event of tax investigations. For further details on ICMS on imports see note 17 to the financial statements.

10 Deferred charges

	2005			2004	2003
	Cost	Amortization	Net	Net	Net
Pre-operational expenses:	51,758	(17,594)	34,164	29,098	31,771
Goodwill on merger of subsidiary:					
Atacama S.A.	55,967	(55,967)	-	12,149	24,668
Lab. Patologia Clínica Curitiba S/C	2,785	(1,625)	1,160	1,717	2,455
Centro Radiológico da Lagoa Ltda.	9,280	(3,867)	5,413	-	-
Elkis e Furlanetto C.D.A.C. Ltda.	21,130	(6,884)	14,246	-	-
Elkis e Furlanetto L.M. S/C Ltda.	778	(253)	525	-	-
Lab. Pasteur Patologia Clínica S/S Ltda.	7,883	(1,165)	6,718	-	-
Contalon S/A	-	-	-	-	5,594
	<u>149,581</u>	<u>(87,355)</u>	<u>62,226</u>	<u>42,964</u>	<u>64,488</u>

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Notes to consolidated financial statements

(In thousands of Reais)

11 Suppliers

	2005	2004	2003
Domestic suppliers	23,670	16,264	13,742
Foreign suppliers	<u>3,312</u>	<u>4,565</u>	<u>4,524</u>
	<u>26,982</u>	<u>20,829</u>	<u>18,266</u>

The balance of foreign suppliers of US\$1,415 (US\$1,720 and US\$1,565 at December 31, 2004 and 2003, respectively) refers to the purchase of imported materials used in clinical exams.

12 Loans and financing

The loans and financing contracts registered do not have restrictive clauses (covenants).

	2005	2004	2003
Local currency:			
Loans guaranteed accounts	18,707	2,720	-
Bank loans	48,077	43,504	14,129
Leasing under local currency agreements	<u>4,096</u>	<u>-</u>	<u>-</u>
Foreign currency:			
Bank loans	23,342	29,248	27,893
Equipment suppliers	47,842	57,713	60,198
Leasing of imported equipments	11,297	-	-
Other	<u>323</u>	<u>-</u>	<u>-</u>
	<u>153,684</u>	<u>133,185</u>	<u>102,220</u>
Current portion of long-term loans and financing	(<u>75,385</u>)	(<u>27,978</u>)	(<u>31,874</u>)
Noncurrent liabilities	<u>78,299</u>	<u>105,207</u>	<u>70,346</u>

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Notes to consolidated financial statements

(In thousands of Reais)

Description	Financial institution	Reais	Due to	Average interest rates	Guarantors
Local currency					
Guaranteed accounts	Several entities	<u>18,707</u>	-	109.2% of CDI	(1)
Bank loans	Banco Votorantin S.A.	28,022	2009	110.9% of CDI	(1)
Bank loans	Banco Itaú - BBA	16,771	2009	110% of CDI	(1)
Bank loans	Outros	<u>3,284</u>	2008	1.5% p.m.	(1)
		<u>48,077</u>			
Leasing	Several entities	<u>4,096</u>	2008	CDI + 2.2% p.a.	(2)

Consolidated								
Description	Financial institutions / Suppliers	US\$	Reais	Swap	Total Reais	Due to	Interest rate	Guarantors
Foreign currency:								
Bank loans	Banco ABN AMRO Real S.A.	1,011	2,367	1,445	3,812	2009	EV+5.21% p.a.	(1)
Bank loans	Banco Itaú - BBA	5,033	11,780	7,750	<u>19,530</u>	2009	EV+13.06% p.a.	(1)
					<u>23,342</u>			
Equipment suppliers	G.E. and Philips	14,061	32,912	14,930	<u>47,842</u>	2011	EV+7.5% to 8.5% p.a.	(1)
Leasing	G.E. and Siemens	4,826	11,297	-	<u>11,297</u>	2012	EV+7.5% to 8.5% p.a.	(2)

(1) Indirect Parent Company Platypus S.A. and Balu 460 Participações S.A.

(2) Indirect Parent Company Platypus S.A., Balu 460 Participações S.A. and direct Parent Company DASA Participações S.A.

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(In thousands of Reais)

Loans and Financings classified as long-term liabilities will mature as follows:

Due to	2005
2007	23,375
2008	19,998
2009	13,761
2010	2,818
2011	2,220
2012	<u>1,595</u>
	63,767
“Swap” (a)	<u>14,532</u>
	<u>78,299</u>

(a) Company has invested cash (assets) in “swap” transactions in order to protect its exposure of liabilities indexed in foreign currencies, for the same amounts and maturities. At December 31, 2005, these derivative transactions resulted in a loss amounted of R\$ 14,532 (R\$ 10,483 and R\$ 5,251 for December 31, 2004 and 2003, respectively).

13 Salaries, social security charges and vacation payable

	2005	2004	2003
Salaries payable	3,058	2,385	2,272
Social security charges	3,503	2,579	2,190
Provision for vacation, and social security charges	11,614	8,681	7,332
Provision for bonus	2,448	-	-
Other	<u>553</u>	<u>347</u>	<u>345</u>
	<u>21,176</u>	<u>13,992</u>	<u>12,139</u>

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Notes to consolidated financial statements

(In thousands of Reais)

14 Refinanced taxes

	End of amortization	2005	2004	2003
(a) REFIS municipal	2010	4,715	5,124	5,420
(b) PAES program	2013	8,707	9,094	9,293
(c) COFINS	2010	1,921	968	-
(c) PIS	2008	184	378	-
(c) INSS	2009	5,461	7,377	1,940
(c) ISS	2006	480	1,234	-
Other		<u>474</u>	<u>475</u>	<u>752</u>
		<u>21,942</u>	<u>24,650</u>	<u>17,405</u>
Short term portion of long-term refinanced taxes		(<u>5,558</u>)	(<u>6,202</u>)	(<u>4,193</u>)
Long-term refinanced taxes		<u>16,384</u>	<u>18,448</u>	<u>13,212</u>

- (a) Taxes payable by the Company in installments under the Municipal REFIS program (Municipal Law no. 13,092 as of December 7, 2000) 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 extend until December 2010, considering that the Company does not make any payment based on gross revenue neither has utilized such tax credits to amortize fines and interest.
- (b) On July 29, 2003, the Company adhered to the PAES program (Law 10,684), declaring tax debts related to PIS and COFINS which were being discussed judicially. The consolidated amount of the debt is divided into 120 monthly installments and updated by the long-term interest rate (TJLP). Payment of these installments extends to June 2013, considering that the Company does not make any payment based on gross revenue neither has utilized such tax credits to amortize fines and interest.
- (c) Amounts from affiliated companies, incorporated at August 1º, 2005 in compliance with governmental laws.

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(In thousands of Reais)

15 Accounts payable from acquisition of subsidiaries

	2005	2004	2003
(a) Bio-Ciência Lavoisier de Análises Clínicas S.A.	3,581	13,099	10,060
(b) Laboratório Bronstein S.A.	6,294	5,464	4,997
(c) Lâmina - Laboratório de Análises Médicas e Investigações Anátomo - Patológicas S.A.	7,005	12,649	11,657
(d) Laboratório de Patologia Clínica Curitiba S/C Ltda.	406	397	1,226
(e) Centro Radiológico da Lagoa e Presmedi Rio Serviços Médicos Ltda.	328	763	-
(f) Elkis e Furlanetto C.D.A.C. Ltda.	7,305	7,268	-
(g) Laboratório Pasteur Patologia Clínica S/S Ltda.	1,741	-	--
(h) Laboratório Frischmann Aisengart S.A.	3,206	-	-
(i) Image Memorial S.A.	12,238	-	-
(j) Laboratório Álvaro S.A.	<u>1,304</u>	<u>-</u>	<u>-</u>
	<u>43,408</u>	<u>39,640</u>	<u>29,089</u>
Short-term portion of long-term payables from acquisition of subsidiaries	(8,704)	(19,983)	(8,901)
Long-term payables from acquisition of subsidiaries	<u>34,704</u>	<u>19,657</u>	<u>20,188</u>

Accounts payable from the acquisitions of subsidiaries refer to amounts due to the previous owners for the acquisition of in these companies. The debts are updated, and fall due as follows:

- (a) **Lavoisier** - Represented by R\$1,461 which corresponds to funds invested in investment funds as a guarantee for payment of possible contingencies, as reported in note 4 to the financial statements and R\$2,120 which corresponds to the Fiscal Notification of Debit Entry issued by the Social Security Institute - INSS. The Company has a legal deposit for this claim.
- (b) **Bronstein** - Updated using the same rates of investment funds, managed by financial institutions, as reported in note 4 and will be liquidated in December 2006.
- (c) **Lâmina** - Updated by the variation in the IGP-M, plus interest of 12% per annum. Payments will be made until March 2007.

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(In thousands of Reais)

- (d) **Curitiba** - Refers to fiscal credits that have to be transferred to the previous partners, when the Company uses these credits.
- (e) **CRL and Presmedi** - Updated by the variation in the IGP-M. Payments of the debit, which was due in November 2005, has been suspended in guarantee for payment of possible contingencies that are being legally disputed.
- (f) **Elkis** - A portion of this debt, R\$3,994, is updated using the same rates of the investment funds, managed by financial institutions, as reported in note 4 and R\$3,311, which is updated by the variation in the IGP-M. Payments will be made until May 2011.
- (g) **Pasteur** - Updated by the variation in the IPCA. Amortizations of the debt will be made until May 2007.
- (h) **Frischmann** - Updated using the same rates of the investment funds, managed by financial institutions, as reported in note 4. The amount of R\$2,137 will be paid in January 2007 provided that there are no new contingencies, and the total does not exceed R\$1,000. If this is not the case, this installment will be paid together with the remaining balance of R\$1,069 due for payment in July 2007, net of contingencies.
- (i) **Image** - A portion of this debt, R\$8,050, will be retained in deposit accounts for up to 6 years and R\$4,188 will be paid on February 15, 2006, subject to an adjustment calculated at the rate of 5,375 times the variation in the audited EBITDA for 2005, compared to an estimate of R\$7,300.
- (j) **Alvaro** - Updated using the same of the investment funds, managed by financial institutions, as reported in note 4 and will be liquidated in December 2011.

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(In thousands of Reais)

16 Other accounts payable

	2005	2004	2003
Rentals	2,052	1,794	1,400
Third-party services	2,918	2,941	2,261
Freelance doctors	3,009	3,113	2,777
Franchisee commission payable	518	1,053	1,197
Accounts payable - previous owners	2,730	3,813	665
Third-party services IPO	-	1,452	-
Other accounts payable	<u>2,232</u>	<u>1,020</u>	<u>1,023</u>
	<u>13,459</u>	<u>15,186</u>	<u>9,323</u>

17 Provision for contingencies

	2005	2004	2003
(a) ICMS on imports (VAT)	21,302	18,507	21,106
(b) Provision for civil and labour contingencies	5,771	5,669	993
(c) Provision for tax contingencies	14,297	6,671	4,574
(d) INSS - from 1993 to 1999	<u>-</u>	<u>1,822</u>	<u>1,733</u>
	<u>41,370</u>	<u>32,669</u>	<u>28,406</u>

(a) ICMS on imports

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

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ICMS amounts to be paid on imports occurred after issuance of Complementary Law nº 114, effective on December 16, 2002, external legal advisors believe that the chances of success are likely. On December 31, 2005, amounts recorded regarding imports from January 1, 2003 onwards is R\$21,302 (R\$18,507 and R\$21,106 on December 31, 2004 and 2003, respectively), with related judicial reserves amounts of R\$1,218.

There is an administration lawsuit against documentation agent who provides service for the Company, which can cause direct impact over all imports made by the Company through this service provider.

b) Provision for civil and labor contingencies

The Company has filed lawsuits challenging the legality of certain taxes, civil and labor claims. Management, based on information provided by its legal advisors and analyses of the pending legal demands, has recorded a provision for an amount considered sufficient to cover potential losses from claims in progress.

On December 31, 2005, the Company was part of 174 labor judicial lawsuits. Based on information provided by its legal advisors, the Company has recorded an amount of R\$5,771 (R\$5,699 and R\$993 on December 31, 2004 and 2003, respectively) and the Company does not expect any losses from lawsuits above amounts already recorded. The Company has made judicial deposits amounted of R\$183 (R\$127 and R\$2,699 on December 31, 2004 and 2003 respectively), classified as non current assets.

c) Provision for tax contingencies

Provisions for tax contingencies relate to challenges for increases in rates that are the basis for calculation of taxes and alleged to be unconstitutional of the law. Such challenges refer, basically to contributions to PIS, COFINS, INSS and FGTS. From the total amount of R\$14,297, R\$11,241 refer to taxes and contribuições challenged by the acquired companies. Management, base on legal advisors has recorded provisions amounted of R\$14,297 (R\$6,671 and R\$4,574 on December 31, 2004 and 2003, respectively), and, the Company does not expect any losses above amounts already recorded. Regarding those tax contingencies, Company has recorded judicial deposits amounting to R\$6,849, classified as noncurrent assets.

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d) INSS - From 1993 to 1999

It refers to the official notification by the National Institute of Social Security for contributions owed to the INSS supposedly due on the remuneration paid to self-employed doctors who are service providers for DASA, on account of considering these doctors as independent, self-employed workers, on the grounds put forth by the INSS inspector, for the period from August 1993 to September 1999.

18 Shareholders' equity

a. Capital social

As at December 31 2005, the Company had fully subscribed paid in capital of R\$216,136, represented by 53,607,935 ordinary shares, with no par value.

The authorized limit for the capital increase, independently of statutory reform, through the issue of new shares, is 70,000,000 (seventy million) common shares.

Through a resolution of the Supervisory Board, within the limits authorized in the Articles of Association, the Company will be able to increase the capital independently of statutory reform. The Board of Directors will fix the conditions for the share issue, including price and time frame for payment.

At the criteria of the Board of Directors, the share issue may be made, without right of preference or with a reduction of the time frame addressed by §4 of article 171 of Law 6404/76, of shares and debentures that are convertible into shares or a subscription bonus, the flotation of which is made through a sale on the stock exchange or by public subscription, or even through an exchange for shares in a takeover bid, in the terms established in law, within the limits of the authorized capital.

Within the limits of the authorized capital and in accordance with the Plan approved by the General Meeting, the Board of Directors will be able to authorize the Company to grant a share purchase option to the administrators and employees of other companies that are directly or indirectly controlled by the Company, without right of preference for the shareholders.

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(In thousands of Reais)

b. DASA's shareholders' equity interest

As at December 31, 2005 shareholders' interest above 5% of ordinary shares:

Company name	Nationality	Ordinary shares	%	Total shares	%
(i) DASA Participações S.A.	Brazilian	30,745,721	57.35	30,745,721	57.35
Other shareholders'	-	1,065,053	1.99	1,065,053	1.99
Outstanding shares	-	<u>21,797,161</u>	<u>40.66</u>	<u>21,797,161</u>	<u>40.66</u>
		<u>53,607,935</u>	<u>100.00</u>	<u>53,607,935</u>	<u>100.00</u>

c. Special reserve for goodwill on incorporation

Goodwill generated by the incorporation of the Parent Company Platyplus Holdings Ltda., classified under capital reserves accounts, has an amortization period of five years and as at December 31, 2005 consisted of the following:

	End of amortization	Amortization Interest rate % p.a.	2005			2004	2003
			Cost	Amortization	Net	Net	Net
Platyplus Holdings Ltda	Feb/2006	20	50,023	(48,731)	1,292	12,849	32,357

d. Dividends

The statutes guarantee the shareholders the right to receive a minimum dividend of 25% of the net profit for the year, adjusted in accordance with art. 189 and 202 of Law 6,404/76. The Company is not considering dividends to be paid, since the 2005 profit is designated to reduce accumulated losses.

e. Management remuneration

Management remuneration was R\$4,756 for the year of 2005 (R\$3,878 em 2004).

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19 Income tax and social contribution

The amount reported as income tax and social contribution expense in these financial statements is reconciled to the statutory composite rates as follows:

	2005	2004	2003
Income (loss) before taxes on income	20,667	(17,976)	(8,482)
Tax (expense) benefit at statutory composite rate (34%)	(7,027)	6,112	2,884
Adjustments to derive effective rate:			
Permanent differences			
Non-deductible realization of goodwill amortization	(848)	-	
Compensation of tax loss carryforwards	3,909	389	2,129
Other non-deductible expenses	(983)	(1,254)	(392)
Tax loss carryforward utilized to partially offset taxable income for the year	4,455	378	-
Change in the beginning of the year non-recognized balance of tax loss carryforwards and temporary differences	(5,991)	(6,119)	2,492
Income tax and social contribution expense	<u>(10,394)</u>	<u>(883)</u>	<u>-</u>

20 Tax loss carry-forwards

At December 31, 2005, the Company had the following tax loss carry-forwards:

a. Income tax losses	23,325
b. Negative social contribution base	26,841

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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21 Financial instruments

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

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

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

a. Composition of balances

In compliance with CVM Instruction 235/95, the accounting balances and the market values of the financial instruments included in the consolidated balance sheet at December 31, 2005 are presented below:

Description	<u>Book value</u>	<u>Market value</u>
	Consolidated	Consolidated
Cash and cash equivalents	4,452	4,452
Marketable securities	64,443	64,443
Taxes recoverable	16,253	16,253
Investments valued using the equity method	<u>78,913</u>	<u>78,913</u>
Assets	<u>164,061</u>	<u>164,061</u>
Loans and financing:		
Local currency	70,880	70,880
Foreign currency	58,679	53,480
Swap	<u>24,125</u>	<u>21,447</u>
Liabilities	<u>153,684</u>	<u>145,807</u>

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Notes to consolidated financial statements

(In thousands of Reais)

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

Cash and cash equivalents and marketable securities

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

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

Taxes recoverable

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

Investments

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

Loans and financing

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

Derivatives

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

Limitations

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

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c. Exchange rate risk

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

As a strategy for the prevention and reduction of the effects of fluctuations in the exchange rate of the Brazilian Real, the indebtedness in foreign currency is subject to swap transactions with financial institutions, and indebtedness with suppliers of equipment denominated in foreign currency is protected by swaps by up to 79% of the aggregate principal amount outstanding. For indebtedness related to Leasing transactions denominated in foreign currency for equipment and foreign suppliers, the Company does not have instruments in effect that protect against related exchange rate risks.

Liabilities	2005	2004	2003
Bank loans	23,342	29,248	27,893
Equipment suppliers	47,842	57,713	60,198
Leasing of imported equipments (note 12)	11,297	-	-
Foreign suppliers (note 11)	<u>3,312</u>	<u>4,565</u>	<u>4,524</u>
	<u>85,793</u>	<u>91,526</u>	<u>92,615</u>

22 Related parties

Our by-laws require related party transactions to be performed in arms-length basis. Additionally, any operation or operations in aggregate with related parties over US\$500 thousand must be approved by the Board of Directors, by at least 75% of the members. As a consequence, if minority shareholders elect Board of Directors members, they may prevent any related party transactions.

During 2005 and 2004 the Company maintained operations in the context of its regular business with related parties.

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23 Leasing

Local currency lease

On December 31, 2005 the Company has 15 leasing contracts of electronic data processing equipments, with purchase options, totaling an amount of R\$4,096 of which R\$2,715 classified as current and R\$1,381 as long-term liabilities, including interest of R\$920. The average term of the agreements is 36 months and interest rates bearing from CDI plus 1.59 % per annum to CDI plus 3.20 % per annum.

The accounts payable related to leasing matures as follows:

2006	2,715
2007	1,283
2008	<u>98</u>
	<u>4,096</u>

The equipments related to these contracts are registered in the fixed asset account as machinery and equipment, of which R\$6,689 being cost and R\$1,461 as accumulated depreciation.

Foreign currency lease

The Company leases equipments for laboratory services with a purchase option. Payment term is 84 months, and the first installment would be paid six months after the date of the agreement, and for the other installments payments it will be paid in quarterly basis. The leasing agreements are denominated in US Dollars with an interest of 7.85% per annum totaling payables until 2012 in the amount of R\$11,297, of which R\$2,031 classified as current and R\$9,266 as long-term liabilities, including interest of R\$83.

2006	2,031
2007	2,635
2008	2,658
2009	2,212
2010, 2011 and 2012	<u>1,761</u>
	<u>11,297</u>

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The equipments related to these contracts are registered in the fixed assets, as machinery and equipment, of which R\$11,364 being cost and R\$211 as accumulated depreciation.

24 Guaranties and sureties

The Company granted guarantees on behalf of Laboratório Frischmann Aisengart S.A., to Banco Bradesco S.A. in the amount of R\$300 and with Banco do Brasil S.A. in the amount of R\$500, and to its subsidiary Image Memorial S.A. Empreendimentos e Participações Hospitalares, with Banco Bradesco S.A. in the amount of R\$1,500 and with Banco Itaú S.A. in the amount of R\$500.

25 Subsequent events

a. Filing of public offering shares with CVM

On January 24, 2006, the Company filed a request for the public offering of shares with CVM to register a public primary and secondary offer. If the offer is approved and if we are successful in the primary offering, we intend to use the proceeds principally to finance potential future acquisitions of medical diagnostics companies, to finance our investment in technologies and the expansion of our business (including the modernization of our existing client patient service centers and the opening of new centers), to repay short-term debt, and as our working capital.

b. Program of debentures distribution's filing with CVM

On January 30, 2006, the Company filed a registration statement relating to a program for the issuance of debentures public distribution in Brazil with CVM. The total amount of the program was R\$400 million. The Company estimates that the first issuance under the program, assuming CVM approval is obtained, will be R\$150 million.

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Notes to consolidated financial statements

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26 Summary of Principal Differences between Brazilian GAAP and U.S. GAAP

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 Corporate Law 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.

a. Monetary restatement of 1996 and 1997

Under accounting practices adopted in Brazil, the Company was required to discontinue accounting for the effects of inflation in Brazil as of December 31, 1995. As of January 1, 1996, 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 July 1, 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 income statement is represented by the amortization of the restatements of fixed assets, which resulted from the inflation accounting applied during 1996 and 1997, while the U.S. GAAP adjustment on the shareholders' equity reflects the remaining net effect of property, plant and equipment restatement.

b. Deferred charges

Under accounting practices adopted in Brazil, 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, 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.

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c. Capitalization of interest related to construction in progress

Under accounting practices adopted in Brazil, the Company is not required to capitalize the interest cost of borrowed funds as part of the cost of the related asset being constructed.

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. Under U.S. GAAP, the amount of interest capitalized should not include foreign exchange gains and losses on foreign currency borrowings.

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 with a corresponding adjustment to interest expense in the income statement on accrual basis. 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:

As of December 31, 2005

Number of contracts outstanding	Type of derivative instruments	Book value under accounting practices adopted in Brazil	Fair value	U.S. GAAP adjustment
69	Cross-currency interest swap	(24,125)	(21,447)	2,678

As of December 31, 2004

Number of contracts outstanding	Type of derivative instruments	Book value under accounting practices adopted in Brazil	Fair value	U.S. GAAP adjustment
87	Cross-currency interest swap	(17,736)	(12,037)	5,699

As of December 31, 2003

Number of contracts outstanding	Type of derivative instruments	Book value under accounting practices adopted in Brazil	Fair value	U.S. GAAP adjustment
119	Cross-currency interest swap	(10,909)	(3,220)	7,689

e. Leasing transactions

Under accounting practices adopted in Brazil, leases were recorded as an expense in the income statement over the lease term on a straight-line basis. As from January 1, 2005 the Company changed its accounting of capital leases under accounting practices adopted in Brazil, and started to recognize retrospectively all outstanding lease contracts at this date in a manner similar to U.S. GAAP capital lease accounting. The effect of this change in accounting practice was not material enough to require prior years' adjustment. Operating leases are still recorded in the income statement.

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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 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 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.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.

This difference has no net effect on shareholders’ equity.

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 periods estimated to be benefited.

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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.

Acquisitions

The Company acquired the following companies during 2003, 2004 and 2005:

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	
May 14, 2004	Serviços Médicos Ltda - “CRL”	99.99%
	Elkis Furlaneto - “Elkis”	99.99%
April 4, 2005	Laboratório Pasteur Patologia Clínica S/S Ltda. - “Pasteur”	100.00%
July 5, 2005	Laboratório Frischmann Aisengart S.A. - “Frischmann”	92.92%
October 17, 2005	Image Memorial S.A. Empreendimentos e Participações Hospitalares - “Image”	100.00%
December 21, 2005	Laboratório Álvaro S.A. - “Álvaro”	100.00%

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The results of Santa Casa, CRL, Elkis, Pasteur, Frischmann, Image and Alvaro operations have been included in the consolidated financial statements since the 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 area of providing such services.

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

	Santa Casa R\$	CRL R\$	Elkis R\$	Pasteur R\$	Frischmann R\$	Image R\$	Alvaro R\$
Current assets	870	1,563	5,273	667	8,949	2,910	6,488
Property, plant and equipment	212	2,577	3,066	1,414	3,738	3,205	2,682
Intangible assets	2,166	911	4,521	2,526	8,673	8,246	15,689
Other assets	<u>2</u>	<u>5</u>	<u>112</u>	<u>371</u>	<u>2,963</u>	<u>4</u>	<u>1,635</u>
Total assets acquired	<u>3,250</u>	<u>5,056</u>	<u>12,972</u>	<u>4,978</u>	<u>24,323</u>	<u>14,365</u>	<u>26,494</u>
Current liabilities	530	5,832	17,375	3,271	8,005	4,417	7,739
Long-term liabilities	<u>736</u>	<u>7,338</u>	<u>7,563</u>	<u>1,923</u>	<u>7,229</u>	<u>3,286</u>	<u>7,852</u>
Liabilities assumed	<u>1,266</u>	<u>13,170</u>	<u>24,938</u>	<u>5,194</u>	<u>15,234</u>	<u>7,703</u>	<u>15,591</u>
Net assets (liabilities) acquired (assumed)	<u>1,984</u>	<u>(8,114)</u>	<u>(11,966)</u>	<u>(216)</u>	<u>9,089</u>	<u>6,662</u>	<u>10,903</u>
Interest acquired	100%	99.99%	99.99%	100.00%	92.92%	100.00%	100.00%
Net assets (liabilities) acquired (assumed)	1,984	(8,114)	(11,966)	(216)	8,446	6,662	10,903
Total cost of acquisition	<u>3,339</u>	<u>1,475</u>	<u>9,067</u>	<u>6,509</u>	<u>31,690</u>	<u>35,271</u>	<u>25,821</u>
Goodwill recorded under U.S. GAAP	1,355	9,589	21,033	6,725	23,244	28,609	14,918
Goodwill recorded under accounting practices adopted in Brazil	2,785	10,191	22,327	7,883	26,873	30,926	25,127

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The intangible assets recorded by the Company are as follows:

Description	Santa Casa Amount assigned R\$	CRL Amount assigned R\$	Elkis Amount assigned R\$	Pasteur Amount assigned R\$	Frischmann Amount assigned R\$	Image Amount assigned R\$	Álvaro Amount assigned R\$
Brand	1,725	911	1,442	2,526	8,673	8,246	15,689
Non-compete agreements	<u>441</u>	<u>-</u>	<u>3,079</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>2,166</u>	<u>911</u>	<u>4,521</u>	<u>2,526</u>	<u>8,673</u>	<u>8,246</u>	<u>15,689</u>
	Amortization period Months	Amortization period Months	Amortization period Months	Amortization period Months	Amortization period Months	Amortization period Months	Amortization period Months
Brand	360	38	20	360	360	360	360
Non-compete agreements	18	-	120	-	-	-	-

The total amount of goodwill recorded was assigned to the Company as the Company has no reporting segments or reporting units. The goodwill generated under accounting practices adopted in Brazil is normally deductible for tax purposes, upon incorporation of the acquired entities.

The following summary presents the Company's unaudited pro forma consolidated results of operations for the years ended December 31, 2005 and 2004, in accordance with accounting practices adopted in Brazil, as if the Elkis, Pasteur, Frischmann, Image and Alvaro acquisitions had been completed at the 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 and the acquisitions actually been made at such dates, nor is it necessarily indicative of future operating results:

Amounts under accounting practices adopted in Brazil	R\$	
	2005	2004
Net services revenue	598,665	529,767
Operating income (loss)	11,923	(37,082)
Net loss	(4,025)	(40,972)
Net loss per share	(0.08)	(0.76)

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h. Corporate reorganization - Special reserve

The Company completed 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. See note 18.c.

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.

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, 2005, 2004 and 2003, the consolidated balance of cash and cash equivalents under U.S. GAAP is R\$12,221, 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. Operating income

Non-operating losses in the amount of R\$488, R\$1,112 and R\$2,790 presented for the years ended December 31, 2005, 2004 and 2003, respectively, 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.

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l. Financial income (expense)

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

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 IV.d).

n. Disclosures in the notes to financial statements

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 carryforwarded is based on future taxable earnings brought to their present value. Realization estimate period cannot exceed ten years.

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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.

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, 2005, 2004 and 2003, these may be stated as follows:

	2005	2004	2003
Total tax loss carry-forwards - Calculation basis	24,255	34,821	34,921
Statutory rate	34%	34%	34%
Total tax loss carry-forwards - Tax credit	8,247	11,839	11,873
Valuation allowance	-	(11,839)	(11,873)
Net balance of tax credits recognized	8,247	-	-

We have not recorded the tax credits originated from the tax loss carryforwards under the strict probability and recoverability tests imposed by CVM regulations for purposes of accounting practices adopted in Brazil.

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p. New pronouncements

In November 2004, the FASB issued SFAS N° 151, “Inventory Costs-an amendment of ARB N° 43.” The Statement requires abnormal amounts of idle facility expenses, freight, handling costs, and spoilage to be recognized as current period charges. This Statement eliminates the criterion of “so abnormal” and requires that the costs of conversion be based on the normal capacity of the production facilities. The provisions of this Statement shall apply prospectively and are effective for inventory costs incurred by the Company after December 31, 2005. The Company will adopt this Statement as of January 1, 2006. The impact of adopting these new rules is dependent on events that could occur in future periods, and as such, an estimate of the impact cannot be determined until the event occurs in future periods.

In December 2004, the FASB issued SFAS N° 153, “Exchanges of Nonmonetary Assets, an amendment of APB N° 29.” This Statement amends Opinion 29 to eliminate the exception 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. The Statement specifies that a nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. This Statement is effective for nonmonetary asset exchanges occurring in fiscal periods beginning after June 15, 2005. Earlier application is permitted for nonmonetary asset exchanges occurring in fiscal periods beginning after the date this Statement is issued. Retroactive application is not permitted. Management will apply these standards in the event exchanges of nonmonetary assets occur after such date.

In March 2005, the FASB issued FASB Interpretation N° 47, “Accounting for Conditional Asset Retirement Obligations”. This statement requires companies to recognize a liability for the fair value of a legal obligation to perform asset retirement obligations that are conditional on a future event if the amount can be reasonably estimated. This statement becomes effective on December 31, 2005. Management has previously evaluated the application of FASB Statement n° 143 to its operations and concluded that no material effects would be expected.

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In June 2005, the FASB issued SFAS n° 154, “Accounting Changes and Error Corrections, a replacement of APB Opinion n° 20 and FASB Statement n° 3”. SFAS 154 requires retrospective application to financial statements of prior periods for changes in accounting principles as if such principles had always been used. The cumulative effect of the change is reflected in the carrying value of assets and liabilities as of the first period presented and the offsetting adjustments are recorded to opening retained earnings. This statement is effective January 1, 2006. The Company will apply this statement as of January 1, 2006 as such changes in accounting principles occur.

In July 2005, the FASB issued FSP n° APB 18-1, “Accounting By an Investor for Its Proportionate Share of Accumulated Other Comprehensive Income of an Investee Accounted for Under The Equity Method in Accordance with APB Opinion n° 18 Upon a Loss of Significant Influence”, which requires that when equity method accounting ceases upon the loss of significant influence of an investee, the investor’s proportionate share of the investee’s other comprehensive income should be offset against the carrying value of the investment. To the extent this results in a negative carrying value, the investor should adjust the carrying value to zero and record the residual balance through earnings. The Company will apply this Statement in the fiscal period beginning January 1, 2006 as the need arises.

In November 2005, the FASB issued FSP FAS 115-1, “The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments”, which outlines a three-step model for identifying investment impairments in debt and equity securities within the scope of Statement 115 and cost-method investments. The three steps involve (1) determining whether the investment is impaired, (2) evaluating whether the impairment is other-than-temporary, and (3) if the impairment is other-than-temporary, recognizing an impairment loss. The FSP carries forward the disclosure requirements of issue 03-1, “The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments.” The Company will begin applying this guidance as of January 1, 2006 as circumstances arise.

Diagnósticos da América S.A.

Notes to consolidated financial statements

(In thousands of Reais)

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

	Note I	2005	2004	2003
Net income as reported under accounting practices adopted in Brazil		10,157	(18,859)	(8,482)
Inflation accounting - Property, plant and equipment:	a)	(87)	(86)	(106)
Deferred charges:	b)	1,513	(36)	158
Capitalization of interest:	c)			
Cost		1,911	2,142	1,482
Amortization		(595)	(385)	(172)
Subtotal		1,316	1,757	1,310
Fair value adjustments relating to accounting for derivative instruments	d)	(3,021)	(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)
Reversal of financial expenses under accounting practices adopted in Brazil		(356)	-	-
Subtotal		(356)	(26)	151
Deferred income taxes on adjustments above		216	130	(4,356)
Deferred tax asset		8,247	-	-
Public placement share costs	f)	-	10,107	
Business combinations:	g)			
Reversal of amortization of goodwill under BR GAAP		24,154	23,669	20,955
Tax benefit applied as a reduction of goodwill		(3,243)	(3,566)	(3,579)
Deferred income taxes on goodwill basis difference		(4,973)	(4,486)	(3,544)
Amortization of intangible assets recognized under U.S. GAAP		(3,723)	(3,323)	(2,306)
Deferred income tax effect on intangible assets		<u>1,266</u>	<u>1,130</u>	<u>784</u>

Diagnósticos da América S.A.

Notes to consolidated financial statements

(In thousands of Reais)

	Note I	2005	2004	2003
Subtotal		13,481	13,424	12,310
Reversal of amortization of goodwill generated from corporate reorganization	h)	11,557	19,508	23,328
Net income under U.S. GAAP		<u>43,023</u>	<u>23,929</u>	<u>35,612</u>
Comprehensive income		<u>43,023</u>	<u>23,929</u>	<u>35,612</u>
Basic and diluted earnings per common share under U.S. GAAP (*)		0.80	1.00	7.53

(*) The calculation of earnings per share is summarized in Note IV.d). For 2004, the number of shares outstanding reflects the 10-for-1 split of our common shares undertaken in connection with our initial public offering. Pursuant to our share split executed on August 24, 2004, our then existing shareholders received ten shares for each common share they held as of that date. As a result, the number of our common shares outstanding increased by a multiple of ten from 4,730,112 to 47,301,120 common shares. The additional common shares outstanding at December 31, 2004 reflect the sale of additional common shares by us in our initial public offering consummated in November 2004.

	Note I	2005	2004	2003
Shareholders' equity as reported under accounting practices adopted in Brazil		265,976	244,262	134,588
Inflation accounting - Property, plant and equipment:	a)	379	466	552
Deferred charges:	b)	(19,111)	(18,970)	(18,934)
Capitalization of interest:	c)			
Cost		6,836	4,925	2,783
Accumulated amortization		<u>(1,156)</u>	<u>(561)</u>	<u>(176)</u>
Subtotal		5,680	4,364	2,607
Fair value adjustments relating to accounting for derivative instruments	d)	2,678	5,699	7,689

Diagnósticos da América S.A.

Notes to consolidated financial statements

(In thousands of Reais)

	Note I	2005	2004	2003
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>-</u>	<u>(5,161)</u>	<u>(1,357)</u>
Subtotal		-	356	382
Deferred income tax and social contribution effects on adjustments above		3,527	2,749	2,619
Deferred income tax and social contribution asset	o)	8,247	-	-
Business combinations:	g)			
Goodwill under U.S. GAAP		170,779	97,133	75,850
Goodwill under BR GAAP		(231,233)	(135,897)	(111,630)
Accumulated amortization of goodwill under U.S. GAAP		(3,217)	(3,217)	(3,217)
Accumulated amortization of goodwill under BR GAAP		118,186	94,035	70,366
Tax benefit applied as a reduction of goodwill		(18,540)	(15,297)	(11,731)
Deferred income taxes on goodwill basis difference		(20,557)	(15,584)	(11,098)
Intangible assets recognized under U.S. GAAP		92,638	58,118	53,597
Accumulated amortization of intangible assets recognized under U.S. GAAP		(15,562)	(11,839)	(8,516)
Deferred income tax effect on intangible assets		<u>(26,204)</u>	<u>(15,735)</u>	<u>(15,328)</u>
Subtotal		66,290	51,717	38,293
Shareholders' equity under U.S. GAAP		<u>333,666</u>	<u>290,643</u>	<u>167,796</u>

Diagnósticos da América S.A.

Notes to consolidated financial statements

(In thousands of Reais)

III - Statement of changes in shareholders' equity in accordance with U.S. GAAP

	2005	2004	2003
Shareholders' equity under U.S. GAAP			
as of beginning of the year	290,643	167,796	132,184
Prior year adjustments	-	2,888	
Net income	43,023	23,929	35,612
Capital increase	-	116,030	-
Capital distribution	<u>-</u>	<u>(20,000)</u>	<u>-</u>
Shareholders' equity under U.S. GAAP as of the end of the year	<u>333,666</u>	<u>290,643</u>	<u>167,796</u>

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 its acquisition of certain property, plant and equipments.

The Company has leasing arrangements for machines and equipments and data processing equipments (hardwares) with a purchase option, based on 15 leasing contracts in force as of December 31, 2005.

The following table summarizes the assets recorded as capital leases under U.S. GAAP:

	Depreciation rate - % p.a.	2005		
		Cost	Depreciation	Net
Machinery and equipment	10	5,450	1,274	4,176
Furniture and fixtures	10	318	81	237
Hardware	20	2,103	726	1,377
Vehicles	20	<u>133</u>	<u>133</u>	<u>-</u>
		<u>8,004</u>	<u>2,214</u>	<u>5,790</u>

Diagnósticos da América S.A.

Notes to consolidated financial statements

(In thousands of Reais)

	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>
		2003		
	Depreciation rate - % p.a.	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>

Future minimum lease payments under noncancelable operating leases (with initial or remaining lease terms in excess of one year) and future minimum capital lease payments as of December 31, 2005 are:

Year ending December 31:	Capital leases	Operating leases
2006	4,746	2,340
2007	3,918	2,169
2008	2,756	1,820
2009	2,212	1,745
2010	824	1,259
Later years	<u>937</u>	<u>957</u>
Total minimum payments	<u>15,393</u>	<u>10,290</u>
Less amount representing interest (at rates ranging from 7.68% to 7.85% per annum)	<u>(84)</u>	<u>≡</u>
Total principal amount to be paid	<u>9,190</u>	<u>≡</u>

Diagnósticos da América S.A.

Notes to consolidated financial statements

(In thousands of Reais)

Total rent expense associated with operating lease for the years ended December 31, 2005, 2004 and 2003 was R\$ 25,710, R\$ 23,405 and R\$ 17,638, respectively.

Operating leases

The following is a schedule by years of future minimum rental payments required under operating leases that have initial or remaining noncancelable lease terms in excess of one year as of December 31, 2005:

Due to	Number of contracts	Minimum lease payments as of December 31, 2005
2006	30	319
2007	42	1,253
2008	16	257
2009	30	4,421
2010	33	890
Thereafter	<u>69</u>	<u>2,835</u>
Total	<u>220</u>	<u>9,975</u>

Rental payments include minimum rentals plus contingent rentals based on operating revenues.

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 rendered all over the country where we operate.

Diagnósticos da América S.A.

Notes to consolidated financial statements

(In thousands of Reais)

c. Changes in number of shares

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

	Shares issued and outstanding		
	Common	Preferred	Total
Shares at December 31, 2003	<u>3,427,618</u>	<u>1,302,494</u>	<u>4,730,112</u>
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>
Shares at December 31, 2005	<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 the Company did not have any potentially dilutive securities.

	2005	2004	2003
Net income under U.S. GAAP	43,023	23,929	35,612
Weighted average shares outstanding - Basic and diluted	53,607,935	48,283,704	47,301,120
Basic and diluted earnings per share - R\$	<u>0.80</u>	<u>1.00</u>	<u>7.53</u>

Diagnósticos da América S.A.

Notes to consolidated financial statements

(In thousands of Reais)

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 the U.S. GAAP financial statements:

Goodwill description	As of December 31,		
	2005	2004	2003
Lavoisier acquisition	20,846	20,846	21,553
Broenstein acquisition	22,499	23,680	24,968
Lamina acquisition	1,208	2,586	3,858
Santa Casa acquisition	925	1,073	1,221
CRL acquisition	9,589	9,496	9,302
Elkis acquisition	20,806	20,938	-
Pasteur acquisition	6,636	-	-
Frischmann acquisition	23,063	-	-
Image acquisition	28,560	-	-
Álvaro acquisition	14,890	-	-
	<u>149,022</u>	<u>78,619</u>	<u>60,902</u>

Since the Company has no reportable segments or reporting units, the aggregate amount of goodwill was tested at the Company level under U.S. GAAP. No impairment loss was recognized during all periods presented.

Diagnósticos da América S.A.

Notes to consolidated financial statements

(In thousands of Reais)

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.

	2005			2004			2003		
	Brands	Non-compete agreements	Total	Brands	Non-compete agreements	Total	Brands	Non-compete agreements	Total
Gross	82,101	10,537	92,638	47,581	10,537	58,118	46,135	7,458	53,593
Accumulated amortization	(10,180)	(5,382)	(15,562)	(7,274)	(4,565)	(11,839)	(4,838)	(3,679)	(8,517)
Net	<u>71,921</u>	<u>5,155</u>	<u>77,076</u>	<u>40,307</u>	<u>5,972</u>	<u>46,279</u>	<u>41,303</u>	<u>3,779</u>	<u>45,082</u>
Weighted- average amortization period (years)	<u>18.9</u>	<u>6.3</u>		<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\$3,723, R\$3,322 and R\$ 2,307 for the year ended December 31, 2005, 2004 and 2003, respectively.

g. Concentrations of credit risk

Financial instruments which potentially subject the Company to credit risk are cash and cash equivalents and financial investments. Based on the factors described below, the Company considers the risk of counterparty default to be minimal.

The Company manages its credit risk with respect to financial instruments by investing only in liquid instruments with highly-rated financial institutions. In addition, investments are diversified in several financial institutions, and credit limits are established for each individual financial institution. Additionally, the Company has entered into swaps contracts, managing its exchange rate risk.

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.

Diagnósticos da América S.A.

Notes to consolidated financial statements

(In thousands of Reais)

h. Aggregate foreign currency transaction losses (gains)

Total aggregate foreign currency transaction losses (gains) included in financial expense amounted to R\$7,992, R\$(692) and R\$(9,663) for the years ended December 31, 2005, 2004 and 2003, respectively.

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 shareholders' equity and net income (loss) presented in Note 26.

Diagnósticos da América S.A.

Notes to consolidated financial statements

(In thousands of Reais)

a. Consolidated balance sheets as of December 31, 2005, 2004 and 2003 under U.S. GAAP

Assets	Consolidated			Liabilities	Consolidated		
	2005	2004	2003		2005	2004	2003
Current Assets				Current Liabilities			
Cash and cash equivalents	12,221	126,158	28,614	Suppliers	26,982	20,829	18,266
Marketable securities	40,402	-	-	Loans and financing	65,792	24,779	29,269
Trade accounts receivable	116,405	104,109	72,821	Taxes and contributions payable	3,966	6,305	3,282
Inventories	18,161	15,125	14,413	Income tax and social contribution	1,074	883	-
Taxes recoverable	16,253	18,173	7,724	Salaries, social security charges and vacation payable	21,176	13,992	12,139
Other accounts receivable	6,523	9,913	2,726	Installments taxes	5,558	6,202	4,193
Prepaid expenses	<u>848</u>	<u>901</u>	<u>387</u>	Accounts payable from acquisition of subsidiaries	8,704	19,983	8,901
	210,813	274,379	126,685	Other accounts payable	13,459	15,186	9,323
Noncurrent assets				Derivative liability	<u>21,447</u>	<u>12,037</u>	<u>3,220</u>
Marketable securities	16,272	7,824	4,997		168,158	120,196	88,593
Other accounts receivable	11,293	1,529	20	Long-term liabilities			
Legal deposits		3,696	3,470	Loans and financing	63,767	95,830	63,399
Related parties	<u>10</u>	<u>-</u>	<u>2,240</u>	Installments taxes	16,384	18,448	13,212
	27,575	13,049	10,727	Accounts payable from acquisition of subsidiaries	34,704	19,657	20,188
Investments	23	21	-	Provision for contingencies	41,370	32,669	28,406
Goodwill	149,022	78,619	60,902	Deferred income taxes	<u>34,987</u>	<u>28,570</u>	<u>23,807</u>
Intangible assets, net	77,076	46,280	45,081		191,212	195,174	149,012
Property, plant and equipment, net	<u>228,881</u>	<u>193,665</u>	<u>162,006</u>	Minority interest	354	-	-
	455,002	318,585	267,989	Shareholders' equity			
				Capital	206,029	206,029	27,327
				Capital reserves	65,427	65,427	148,099
				Retained earnings	<u>62,210</u>	<u>19,187</u>	<u>(7,630)</u>
					333,666	290,643	167,796
Total	<u>693,390</u>	<u>606,013</u>	<u>405,401</u>	Total	<u>693,390</u>	<u>606,013</u>	<u>405,401</u>

Diagnósticos da América S.A.

Notes to consolidated financial statements

(In thousands of Reais)

b. Consolidated statement of operations for the years ended December 31, 2005, 2004 and 2003 under U.S. GAAP

	Consolidated		
	2005	2004	2003
Gross service revenues	576,940	491,394	399,825
Deductions			
Taxes on revenues	(33,101)	(34,202)	(28,165)
Other	(15,559)	(9,200)	(8,062)
	(48,660)	(43,402)	(36,227)
Net service revenues	528,280	447,992	363,598
Cost of services provided	(363,093)	(306,331)	(256,901)
Gross profit	165,187	141,661	106,697
Operating income (expense)			
Administrative and general	(87,220)	(78,344)	(49,462)
Amortization of intangible assets	(3,723)	(3,322)	(2,307)
Other, net	273	(11)	610
	(90,670)	(81,677)	(51,159)
Operating income	74,517	59,984	55,538
Financial expenses, net	(22,497)	(28,379)	(9,231)
Income before taxes	52,020	31,605	46,307
Income tax and social contribution			
Current	(10,394)	(883)	-
Deferred	1,513	(6,793)	(10,695)
Income before minority interest	43,139	23,929	35,612
Minority interest	(116)	-	-

Diagnósticos da América S.A.

Notes to consolidated financial statements

(In thousands of Reais)

	Consolidated		
	2005	2004	2003
Net income	<u>43,023</u>	<u>23,929</u>	<u>35,612</u>
Basic and diluted earnings per share	<u>0.80</u>	<u>1.00</u>	<u>7.53</u>

* * *

Dr. Caio Roberto Chimenti Auriemo
President of Board of Directors

Marcelo Marques Moreira Filho
Director President and Investors' Relations Director

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

Management's report

Dear shareholder,

Diagnósticos da América S.A. (DASA) considers 2005 a period in which its strategies were strengthened and its targets met with regard to its shareholders and the market in general. In spite of the complexities involved in a process of expansion, the Company was able to meet the targets for organic growth and acquisitions which were set at the beginning of the year, conquering the credibility and trust of the market through the work of its team and the efficient use of its capital resources.

Consolidated net operating income amounted to R\$ 576,9 million in 2005, representing growth of 17,4% in relation to 2004, resulting from the expansion of the operations of DASA during the year and from the performance of its trade marks in the segments in which it operates. The clinical analysis segment produced income of R\$ 365,5 million in 2005, representing growth of 12,6% in relation to 2004, favored by the acquisitions of the *Pasteur* laboratories in Brasilia and *Frischmann Aisengart*, in Curitiba which added about 161 thousand requisitions to the Company's operations.

The imaging services segment contributed R\$ 211,4 million in 2005 and showed growth of 26,8% in relation to 2004. The strategy of introducing imaging diagnostic equipment in the various units and the higher level of filling agendas made it possible to maintain the rate of growth during the whole year. Furthermore, the acquisition in October 2005 of the *Image Memorial* in Salvador, contributed towards the growth trend in the participation of imaging services in DASA's total income, which segment showed an increase in participation of 36,6% of gross income in 2005.

The year of 2005 also represented an important advancement in the expansion of DASA's horizons in the area of diagnostics. The principal movement happened in December 2005 with the purchase of the operations of *Alvaro* laboratories, specialized in providing support in the processing of exams to medium and small laboratories in the whole of Brazil. The services of analysis of the environment and genetically modified organisms were also added to the operations, reinforcing the constant search for innovation.

DASA presented growth of 40,5% in consolidated EBITDA, which amounted to R\$ 119,0 million with an increase in EBITDA margin of 18,9% in 2004, to 22,5% in 2005. Discounting non-recurring expenditure, adjusted EBITDA reached R\$ 135,9 million representing growth of 10,3% when compared to 2004. With this result, the Company was able to turn the loss of R\$ 18,9 million suffered in 2004, into a consolidated profit before income tax of R\$ 20,7 million and a consolidated net profit of R\$ 10,2 million in 2005.

DASA begins 2006 maintaining its firm intent of providing its clients with medical diagnostic services of the highest level of quality. The Company continues to identify growth opportunities not only in the markets in which it already operates, but also in new areas. In this context, in January 2006 the Company filed with CVM (Brazilian Securities Commission), a request for registration of a public offer of primary and secondary distribution of DASA shares as well as a request for registration of a program for public distribution of debentures. With this, Diagnósticos da América S.A. hopes to create favorable conditions to finance its plans for growth, counting on the Brazilian capital market as the source of the necessary resources to achieve its objectives of improving access to medical diagnostic services in Brazil.

Economic Scenario

The Brazilian economy reaches the end of 2005 showing a recovery of its fundamental basis in relation to the beginning of the year. Evidence of an accommodation of wholesale prices and its potential effects on consumer prices, contributed to the downward review of the expectation for inflation in 2006 and permitted a return to the process of reducing interest rates, a fundamental factor in the country achieving a sustainable rate of growth.

At the beginning of 2005 the macroeconomic indicators pointed towards the prospects of inflation being above the targets established by the Central Bank, which was led to implement increases in interest rates as a form of containing increases in prices. With this, the Selic interest rate which had closed 2004 at 18%, was raised to 19,75% in July 2005.

On the other hand, the favorable performance of sectors dedicated to exports, permitted the achievement of record surpluses in the trade balance which closed the year with a balance of US\$ 44,8 billion and contributed to the strengthening of the Real against the Dollar by 13,25%, closing 2005 at the rate of R\$ 2,34/US\$, compared R\$ 2,65/US\$ in 2004.

Thus, while the increase in the interest rate affected free prices and restricted credit, a more valued Real reduced the pressure on wholesale prices, partly off-set by the increase in the price of crude oil on the international market, and reduced the pressure on costs of industrial supplies. Consequently, the year of 2005 recorded the lowest IGP-M index since its creation, closing the year with an increase of only 1,2%.

The behavior of the principal inflationary indices is of fundamental importance in DASA's cost structure and the scenario of low inflation is, undoubtedly favorable to the Company. On the other hand, the Brazilian economy reacted with a slowing down in the rates of growth of GNP, a reflection of all the actions taken to contain price increases.

Although it is premature to assume that this is a long term trend, the main macroeconomic indicators point towards a more favorable scenario in 2006. In this way, the movements towards a more flexible monetary policy may continue to have a positive influence in improving economic activity, allowing greater growth of the internal market in 2006, in a scenario of controlled exchange rates and inflation.

Comments on performance and investments

Gross Operating Income

The consolidated gross operating income of DASA reached R\$ 576,9 in 2005, an increase of 17,4% compared to the same period last year.

This growth is a result of an increase of 12,4% in 2005 in the number of requisitions processed, a reflection of the addition of 44 new units to DASA's operations, a consequence of acquisitions and organic growth which contributed to an increase in the number of patients attended. Thus, the Company closes the year of 2005 with 192 service units, compared to 148 in December of 2004.

The increase in the participation of imaging services in DASA's total sales, produced an increase in the average income per requisition of 4,5% in 2005 (R\$ 111,61).

The strategy of segmenting trade marks continued to produce the expected results. The increase in income of the *premium* and *executive* segments was 22,5% in 2005, favored by the acquisition of the executive trade marks of *Frischmann Aisengart* and *Image Memorial*, and the performance of the *Club DA* trade mark, which showed an increase in sales of 77,4% also contributing to the increase in average value per requisition.

In the *Basic* segment, gross operating income increased 9,5% in 2005 resulting from the introduction of new payers for the trade marks in this segment and the acquisition of *Pasteur*.

Gross Profit

Consolidated gross profit increased 17,2% amounting to R\$ 165,9 million in 2005, compared to R\$ 141,5 million in 2004. As a result, gross margin reached 31,4% in 2005, 0,2 percentage points below the 31,6% achieved in 2004. The trend of increasing gross margins continued throughout 2005, as can be seen in the analysis of "cash" costs, through the reduction of 0,6 percentage points of costs in 2005 in relation to 2004, but an increase in depreciation and amortization charges caused a reduction of the margin in 2005, notably in the 3rd and 4th quarters.

EBITDA

The consolidated generation of cash under the EBITDA concept amounted to R\$ 119,0 million in 2005, compared to R\$ 84,6 million in 2004, an increase of 40,7%. The EBITDA margin increased 3,6 percentage points arriving at 22,5% in 2005 against 18,9% in 2004.

As for adjusted EBITDA, there was an increase of 10,4% reaching R\$ 135,9 million in the 2005 financial year. This behavior was principally due to the influence of the Companies which were purchased which have, in general, a higher charge for general and administration expenses, but which should show an improvement as the 2005 acquisitions become totally integrated to the Company's operations.

Net Profit/(Loss)

The growth in income in a scenario of a relatively stable gross margin, combined with a significant reduction in financial expenses and amortization of goodwill, helped DASA to register a consolidated net profit of R\$ 10,2 million in 2005, turning around the consolidated net loss of R\$ 18,9 million suffered in 2004.

Investments

During 2005, R\$ 71,2 million were invested, of which (i) R\$ 28,0 million went towards the purchase of medical equipment for the expansion of the menu of imaging services; (ii) R\$ 23,2 million were invested in improvements, installations and the construction of new service units; (iii) R\$ 11,9 million were invested in the development of information systems, hardware and software user licenses; (iv) over R\$ 8,1 million was spent in relation to acquisition of companies including financial, legal and accounting consulting services, pre-operating expenses in opening of new units and other investments.

Human Resources

On 31st December 2005, Diagnósticos da América S.A. had 5.727 employees. Approximately R\$ 1,5 million were invested in employee training programs during the year, aimed at disseminating Company values and objectives and a better understanding of their functions within the general strategy of DASA.

A profit sharing program was implemented in 2005, duly filed with the appropriate trade unions, permitting the participation of all employees in the profits and results of our Company - with exception of those derived from the companies purchased but not yet incorporated. For 2005, a provision of \$ 2,4 million was set up to cover payment of bonuses to employees which on an individual basis, should vary in amount between one half and three monthly salaries per annum. These bonuses are granted taking into account the individual performance of the employee, the performance of the business unit to which he belongs and the performance of the Company as a whole.

Research and development and new products

As for investments in research and development, the Company does not conduct specific programs for the development of new equipment or methods of diagnosis. Its strategic focus is in the updating of the menu of exams, so as to provide the medical profession and patients with the most current methods available in medical diagnosis.

Environment, health and occupational safety

Diagnósticos da América has an environmental management system to ensure that in the activities of collecting processes, transport, processing of examinations, discarding of materials and residues, there is an efficient system which guarantees that any impact on the environment will be minimal and in accordance with applicable environmental legislation and regulation as well as the internal Company policies. Internal policies generally follow stricter standards than the rules imposed by current legislation or regulation. The treatment of potentially contaminating liquid residues is carried out in decontaminating tanks inside the Company premises.

Infectious solid residues are compressed and sterilized before being delivered to companies specialized in the treatment of medical and hospital residues, contracted by the Company in the cities where its examination processing centers are located. Chemical residues are incinerated within the installations of a specialized company contracted by Diagnósticos da América. In addition, DASA has a policy for recycling of plastics and paper used in its operations.

Diagnósticos da América has a control plan to avoid risks and injuries to its employees. Practical controls and procedures are employed as well as protective clothing and equipment, training, medical examination, vaccination and other measures considered necessary to minimize exposure to diseases which can be transmitted through contact with biological material. Furthermore, programs are maintained to avoid the occurrence of work-related diseases, in accordance with legislation and labor regulations.

Information to the Shareholders

The shares of DASA closed the year quoted at R\$ 43,50, an increase in value of 73,3% in the last twelve months, compared to an increase of 27,7% in the São Paulo Stock Exchange Index (Ibovespa). The market value of the Company went from R\$ 1.281,2 million at the end of 2004, to R\$ 2.331,9 million in December 2005. During 2005, the shares of DASA were negotiated in 100% of the sessions of the São Paulo Stock Exchange (Bovespa), with 22.449 deals involving a financial volume of R\$ 1,2 billion (daily average of R\$ 4,9 million).

Due to the existence of accumulated losses, the entire profit will be used to absorb these and therefore, dividends or interest on capital will not be paid in respect of financial year 2005.

Relevant Events

Appointment of a new Executive President

On 3rd November 2005, Mr. Marcelo Marques Moreira Filho, previously Vice-President of Operations and Investor Relations, was appointed to the position of Executive President of the Company.

The exercise of the positions of President of the Administrative Council and President of the Executive Board, by different professionals, follows best practice of Corporate Governance in so far as the current President of the Administrative Council, Dr Caio Auriemo, ceases to accumulate the function of President of the Executive Board and becomes totally dedicated to carrying out his activities within the highest echelons of Company management, thus ensuring the definition of the Company's direction and monitoring, with greater autonomy, the actions of the Executive Board, preserving the quality of the implementation of previously defined strategies.

Acquisition of participations during the financial year

During financial year 2005, the Company purchased the following companies:

Company	Date	Participation
Laboratório Pasteur Patologia Clínica S/S Ltda.	04/04/2005	100%
Laboratório Frischmann Aisengart S.A.	05/07/2005	92,92%
Image Memorial S.A. Empreendimentos e Participações Hospitalares	17/10/2005	100%
Laboratório Alvaro S.A.	21/12/2005	100%

Further details regarding the processes of acquisition including amounts paid, adjusted goodwill, approval processes in CADE, can be seen under note no 9 of the explanatory notes to the financial statements.

DASA forms part of the Index of Business Sustainability (ISE) of Bovespa

DASA was one of 28 companies chosen to form part of the Business Sustainability Index (ISE), which was introduced by the São Paulo Stock Exchange (Bovespa) on 1st December 2005. Created by Bovespa in partnership with entities connected with the capital market and developed in conjunction with the Getúlio Vargas Foundation, Ethos Institute and the Ministry of the Environment, the index is intended to offer investors a portfolio alternative, made up of companies with recognized commitment, social responsibility and business sustainability.

Subsequent Events

Filing of registration of public offer of shares with CVM (Brazilian Securities Commission)

In January 2006, DASA filed a new request for registration of a public offer of primary and secondary distribution with the Brazilian Securities Commission (CVM). The selling price will be established following the process of book-building and the resources will be used for capitalization and financing the Company's growth.

Through this new operation, DASA hopes to attract new investors, increase liquidity and reduce the Company's share price volatility. There will also be a dispersion of control over the Company in the market whereby the controlling company, DASA Participações S.A., will continue to detain at least 1/3 of the Capital of Diagnósticos da América S.A., maintaining its commitment with the Company without changing the current management strategy.

Filing of registration of a debenture distribution program with CVM (Brazilian Securities Commission)

Also in January, DASA filed a request for registration of a debenture distribution program in Brazil, with the Brazilian Securities Commission (CVM). The total value of the Distribution Program was R\$ 400,0 million, for which the intention is to make the first offer of R\$ 150 million as soon as this is approved by this Commission. The resources of this operation will be basically directed towards improving the Company's debt profile and also reducing its cost by financing part of its expansion program.

Relationship with independent external auditors

In accordance with CVM Instruction no 381 of the Brazilian Securities Commission, Diagnósticos da América S.A. and its controlled Companies, contracted services not related to external audit which amounted to R\$ 269,6 thousand, representing 44% of the total fees paid for the external audit contracted in 2005. These services of short duration referred to consultancy in the area of job descriptions and profiles and selection of candidates for final decision by the Company Directors. Following discussion with its independent auditors, Diagnósticos da América S.A., concluded that these services rendered did not affect their independence or objectivity. The policy of Diagnósticos da América is to comply with the regulations which define the restrictions regarding services provided by independent auditors.