



**Diagnósticos da América S.A.**

Consolidated financial statements  
December 31, 2006 and 2005  
(with independent auditor's report  
thereon)



# Diagnósticos da América S.A.

## Consolidated financial statements

December 31, 2006 and 2005

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# Management Report

## Dear Shareholder

The year of 2006 brought great challenges and important achievements for Diagnósticos da América S.A. The constant pursuit of excellence medical diagnostics to render medical diagnostics services continued to guide our business. This effort led to the recruitment of a capable and well-trained staff, who, supported by modern information systems and efficient management processes, was able to guarantee customer satisfaction and, consequently, generate good financial results.

The accelerated growth of the Company's gross operating revenue reflects this virtuous cycle. The annual revenue growth of 26.5% was favored by the good performance of the companies acquired in 2005. These companies' revenue totaled R\$128.1 million in 2006, 22.0% up on the R\$105.0 million annual revenue recorded on the acquisition date. The acquisitions made in 2006 were strategic. In June 2006, we acquired LabPasteur, an absolute leader in Fortaleza (Ceará), an important medical diagnostics market. The acquisition of Medlabor, in Distrito Federal, was decisive to strengthen our presence in a region with great presence of health plan and population with high purchasing power. In October, the acquisition of Vita Medicina Diagnóstica, in Florianópolis (Santa Catarina), and Atalaia, the most important laboratory in Goiânia (Goiás), allowed DASA to envisage an ambitious expansion plan and operating synergies in these regions.

In 2006, DASA also had new opportunities for organic expansion. Although we exceeded the goal for the opening of new PSC announced to investors (with the opening of 4 mega units and 12 standard units), the fact that most openings took place at the end of the year reduced their contribution to revenue growth. This, combined with the negotiation of commercial conditions with some healthcare plans affected the performance of our businesses. We believe, however, in the positive impact of these negotiations on the volume of patients given that we established a closer partnership with our main payers, that made us to accelerate our goals both for organic expansion and acquisitions in 2007.

On the new businesses front, our lab to lab (reference) operation's contributed with 8.3% to DASA's gross operating revenue by posting 49.0% gross revenue increase when compared to 2005. In addition, the agreement for test processing outsourcing signed with Unimed Fortaleza and the partnership established with Unimed São Paulo for exclusive management of clinical analysis tests of its hospital and patient service centers, crowned our efforts. The success of our pilot project for patients without healthcare plans, called Laboratório Popular, launched in the east zone of São Paulo, encouraged expansion to other regions of the capital and also to Rio de Janeiro and Curitiba.

Revenue growth, allied to productivity gains in clinical analysis laboratories and imaging test report centers fed the expressive increase of 2.5 percentage points in the gross margin. Virtually stable between 2004 and 2005, the gross margin recovered its upward trend, also profiting from successful integration of the companies acquired in 2005. Although the upturn in general and administrative expenses consumed part of margin gains, the reinforcement of corporate structure implemented along 2006 will be essential to guarantee future growth.

These initiatives gave a 23.5% boost in Adjusted EBITDA in 2006, which came to R\$167.8 million, followed by a 25.0% Adjusted EBITDA margin. Net income reached a record R\$16.5 million, offsetting accumulated losses and allowing the submission of a proposal for the payment of dividends in the amount of R\$527 thousand pursuant to the Company's by-laws.

Thus, in 2006, we (i) underlined our commitment to serve physicians and patients, always with initiative and creativity, by obtaining the ISO 14.000 and 18.000 quality certificates; (ii) confirmed our commitment to serve our payers with ethics and effectiveness; and (iii) reinforced our commitment to our shareholders and the capital markets via the additional share offering; from awards such as the 2<sup>nd</sup> Best Companies for its Shareholders from Capital Aberto magazine and Best Small Cap from Latin Finance; and the retention in the Corporate Sustainability Index.

### **Economic Scenario**

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Sources: Brazilian institute of Geography and Statistic (IBGE) and Brazilian Central Bank

Brazilian economy was marked in 2006 by the flexible monetary politics. The scene was consolidated of establish macroeconomic that was waited on the beginning of the year, strengthening the mainly beddings and promoting a bigger resistance of external shocks. During the year, consistent taxes maintained the inflation with the aims established for Brazilian Central Bank and for reductions on basic tax of interests. These influences promoted expansion on credit, increased job level and income, which helped to stimulate the activity economy.

In 2006, the IPCA index was 3.1% below of 4.5% fixed by the National Monetary Council, reflected by the domestic production development complemented for the biggest level of importation, that limited the effect of increase aggregate demand inflationary. With this the SELIC index that end 2005 in 18%, was reduced in 4.75 pp, during the year of 2006, quoted in the end of the year in 13.25%.

The falling cycle for SELIC index and the increased on power consumer purchase in 4.3% in 2006 fomented the Brazilian credit market to increased the financial system on balances for loans in 20.7% of the year. With a result, was observed a strong expansion of durable goods production, that to remain in 2007.

In the end of 2006, Real valued 8% front Dollar, quoted in R\$2.14, it's a direct consequence of record importation and exportations registered in US\$91.4 billion and US\$137.5 billion, respectively. This surplus was decurrently for growing in world-wide economy whose was favored for the increased on commodities price, beyond of exportation products diversification and for prospecting of new destinations of commercialization's goods.

The formal job and the purchasing power are macro-economic elements that influenced directly on the demand for DASA services, had kept favorable trajectory. The unemployment index in the mainly metropolitans regions of the country ended the year in 8.4%, with was increased in 0.5% on formal jobs generation, contributed for increased in 7.3% the real population average income.

The mainly macro-economic pointers respected of maintenance necessary beddings to economic development during the year of 2007. The movements of flexibly monetary politics should be continue to contributing the positive improvement on the economic activity, making possible a bigger growth on the domestic market in 2007, new jobs, cambial stability and inflation control are important elements to progress of DASA's activities.

### **Comments of health private sector and diagnostics medicine in Brazil**

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Sources: Brazilian National Agency of Health (ANS) and IBGE

In 2006, the Brazilian health private sector had 1.241 operators, taking care for approximately 36.6 million beneficiaries. Until September, 2006 the growth for this sector was surrounds 3.1%, this number was the biggest average registered (2.2%) for last 5 years. This acceleration of beneficiaries' number can be attributed for collective contracts expansion, whose growth has been major than the individual contract account consequence for expansion formal job.

Brazilian's population ended 2006 approximately of 185 million habitants, which only 19.9% was covering of private medical assistance and the rest are taken care of particular payments or for public assistance (Sistema Único de Saúde -Brazilian Public Assistance Health). The market covering of Brazilian population still concentrated in the Southeastern region, where approximately 31.3% population has health assistance health plans. If will be considered only the capitals of this region, the covering tax growing to 54% of population, against a average of only 5% in 72% of the rest cities of the country.

The diagnostics medicine market has characteristics operational for application medical technology, being research and development of responsible of great centers of research, that come dedicating to development for new exams and equipment with major capacity of processing and greater precision on the results. The spraying of Brazilian market ended 2006 with approximately 15 thousand operating laboratories, that awakes series opportunities for consolidation and services support for biggest companies, who has better conditions to offer these new examinations in relation the lesser laboratories, as a result of greatest access to top technology, less operation costs and more knowledge capacity of medical generation.

## **Comments of financial performance and investments**

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### **Gross Operational Income**

Gross operating revenue stood at R\$729.7 million in 2006, up by 26.5% on 2005. This result exceeded the 21.2% CAGR recorded in the last 4 years and its acceleration was favored by the performance of the acquired companies, the upturn in imaging service revenue and the strong growth of the Lab to lab (reference) segment, represented by Laboratório Alvaro.

#### **▪ *Outpatient & Inpatient Market***

The outpatient and inpatient segment's gross operating revenue totaled R\$669.3 million, 16.0% up on 2005. This growth was favored by the good performance of the companies acquired in 2005, which closed 2006 with revenue of R\$128.1 million, 22.0% higher than the R\$105.0 million annual revenue on the acquisition date.

In 2006, the growth in the outpatient and inpatient service line was mainly fueled by the increase of 16.5% in the volume of requisitions processed during the year. The average revenue per requisition dipped 0.5%, from R\$110.4 to R\$109.9. The stability in average revenue per requisition reflects the lower prices charged by the acquired companies and the negotiations of commercial conditions with our main payers, aiming to reflect in further volume increase.

Imaging services accounted for 37.8% of DASA's gross revenue. The 19.8% revenue increase was fueled by the introduction of new equipment in the existing PSC, the maturity of PSC opened in the previous years and the acquisition of Image Memorial (Oct.'05) and Vita (Oct.'06).

Clinical analysis service revenue rose by 13.8% on 2005, totaling R\$416.1 million. The companies acquired in 2006 favored this performance, bringing in additional revenues of R\$18.9 million to the segment.

▪ **Lab to lab (reference) market**

Alvaro's operations continued to record an accelerated growth, accounting for 8.3% of DASA's total gross revenue in 2006. Alvaro closed the year with revenue of R\$60.4 million, up by 49.0% on the figure recorded in 2005, before the company was acquired by DASA.

The strategy adopted for the expansion of the lab to lab (reference) service line focused on the relationship with traditional clients, to which Alvaro offered a higher number of tests from different specializations. In addition, DASA's nationwide presence and the price competitiveness led to the expansion of the geographical coverage and thus Alvaro closed the year serving around 2,200 laboratories in Brazil, versus 1,600 in 2005. The combination of these two initiatives pushed up the number of requisitions processed by 34.0% in 2006. The average revenue per requisition remained flat at R\$17.70.

In 2006, the cost of services provided totaled R\$443.5 million, 22.4% up on the R\$362.4 million reported in the 2005. This increase, below the 26.5% growth of gross operating revenue, and the productivity gains obtained in clinical analysis laboratories and imaging test report centers favored the 2.5 p.p. dilution of these costs on a year-on-year basis. The effective integration of companies acquired in 2005, also contributed to the dilution of the cost of services rendered.

Gross margin recovered its upward trend also thanks to the effective integration of the companies acquired in 2005, closed the year at 33.9%, versus 31.4% in 2005.

In 2006, DASA implemented changes in its operating and management structure, which, along with greater IT, quality and human resource efforts, pushed up general and administrative expenses. Although the increase in these expenses consumed part of the margin gains, a strengthened corporate structure will be essential to lay the grounds for future growth. In Additional the greatest density of operating expenses was influenced in negative form for this line through the companies acquired. This is the main reason for the 31.4% increase in operating expenses. Net financial expenses and goodwill amortization were both diluted.

In respect of financial expenses and goodwill amortization both had been diluted in relation of net income.

Increasing revenue, combined with the benefits arising from the dilution of the cost of services provided, boosted the Company's operating cash generation (EBITDA). In 2006, EBITDA came to R\$137.4 million, 15.4% up on the previous year.

In 2006, DASA recorded R\$30.4 million non-recurring expenses distributed as follows: (i) R\$4.5 million provisions for the ICMS tax; (ii) R\$15.4 million related to capital markets operations; and (iii) R\$10.5 million referring to expenses related to acquisitions and subsequent integration.

Adjusted EBITDA, excluding non-recurring expenses, stood at R\$167.8 million, accompanied by a 25.0% margin. The 23.5% year-on-year growth outperformed the compound annual growth rate (CAGR) of 19.1% in the last 4 years.

Net income reached a record R\$16.5 million in 2006, 62.6% up on 2005, offsetting accumulated losses and allowing the submission of a proposal for the distribution of dividends in the amount of R\$527 thousand pursuant to the Company's by-laws.

In 2006, DASA's investments in organic expansion totaled R\$129.9 million. This difference is due to increased investments in subsidiaries after the acquisitions; said investments amounted to R\$21.9 million and were allocated to organic growth and to the expansion of the range of imaging services. In addition, the acceleration of investments in 2006 absorbed a further R\$11.5 million related to the PSC to be opened in 2007.

Investments were distributed as follows: (i) R\$61.2 million went to the acquisition of medical equipment to expand our range of imaging services; (ii) R\$41.4 million to improvements, refurbishments and the construction of new service PSC; (iii) R\$14.0 million to hardware, software licenses and the development of information systems; (iv) R\$13.3 million to pre-operational PSC or pre-acquisition activities.

### **Human resources**

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At December 31, 2006, Diagnósticos da América S.A. employed 6.981 staff, working in 8 Brazilian capitals with 244 attendance units and 7 central labs. During the year approximately R\$1.5 million was invested in training programs for staff, aimed at development technical and management.

In 2006, the Company provisioned R\$4.2 million for program of profit and results shares that will be sharing to all DASA's employees, except those was working on the acquired companies those still are not incorporated. For the payment of employee which, individually, varies between one half and three monthly salaries paid during the year. These bonuses are granted after taking into consideration the employee's individual performance, the performance reported by the business unit where the employee works and Company's performance as a whole.

### **Research & development and new products**

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The Company does not undertaken specific research programs to develop new equipments or diagnostic methods. Its strategic focus is on constantly up dating its rating of examinations, in order to offer patients and doctors the most up to date in terms of diagnostic medicine.

### **Environment, health and occupational security**

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Diagnósticos da América has an environmental management system to guarantee the systematic and efficient control of processes for collecting, transporting and processing examinations and disposing of material and residues, to ensure that any impacts on the environmental laws and regulations and the Company's internal policies. In general, these internal policies comply with standards that are more rigorous that the rules liquid residues is by means of de-contamination tanks located within the Company's facilities.

The process control environment is certified by ISO 14001 that evaluates the DASA's management and the possible management activities impacts, inspecting the recycling processes, residues discards, as well as the control and rational use of natural resources.

In relation for occupational questions, Diagnósticos da América follow a control plan to prevent risks and damages to employees, certified by OHSAS 18001 covered all the procedures adopted for the company to guarantee conditions work preservation and minimal risks.

## **Shareholders' Information**

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DASA's shares closed the year quoted at R\$ 45.65, a valuation of 17.1% in twelve months, compared to a high of 32.9% on the Ibovespa. Between January and December, these shares were traded in 100% of the Bovespa's trading sessions and total traded volume came to R\$1,549.9 million (daily average of R\$6.5 million).

Given the existence of accumulated losses more than one year, the net profit proposal payments of dividends in the amount of R\$527 thousand pursuant to the Company's by-laws.

## **Relevant Events**

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### **Statutory reform**

In March 3 the reform on the laws of DASA was approved and some conditions were created to prepare the Company's to become a true Corporation. The main changes were:

- 1) Capital raise up from 70 million on common stocks to 140 million on common stocks;
- 2) In case of a acquisition of at least 15% of DASA's total shares a public offering is started. The acquisition price on this public offering cannot be lower than: (i) the evaluation of the economic value accrued by a evaluation report; (ii) 100% of the issuing price on the last 12 month capital raise; (iii) 100% of the average quote traded in the last 90 days period before the public offering and (iv) 100% of the larger value paid by the acquiring shareholder in any negotiation done in the last 12 months;
- 3) Changes to adapt to the Novo Mercado's new regulations (Bovespa), including the increase of board members mandate to 2 years.

### **Primary and Secondary Offering of Shares**

DASA closed on April of 2006 the Primary and Secondary Offering of Shares process.

If the supplementary a lot of shares (green shoe) is considered, a total of 13,518,026 shares were sold at a price of R\$ 49.00 per share, totaling R\$ 662,4 million, of which R\$ 186,0 million were raised by the Company. The proceedings from this issue will be invested on projects of organic growth and on acquisitions within the Company's strategic planning. With this deal, the Company's free-float increased to 62.6% from 40.2%.

### **Debenture Distribution Program**

DASA concluded on May, 5 the issue of 20,250 simple debentures, non-convertible into shares, nominative and scriptural, in a single series, of the non-guaranteed and non-preference type, with an unitary nominal value of R\$ 10,000 (ten thousand reais), dated as of April 1, 2006. The debentures have maturity of 5 years, with amortizations scheduled from the third year and coupon negotiated at the level of 103.6 % of the CDI due every six months. The issue was the first undertaken by the Company, in a R\$ 400 million program, and the amount raised was R\$ 202.5 million, which will be used to the payment of debts and the extension of the debt aging.

### Attribution of Rating A in a National Scale by Standard & Poors

On April 17, 2006, Standard & Poors's Rating Services attributed the Corporate Rating of Credit "brA", with stable perspective, in national scale to Diagnósticos da America and to its first debenture issue.

### Acquisition of the year

During the year of 2006 the Company updated the number of subsidiaries for acquisitions and new company constitution, as below:

<b>Companies acquired</b>	<b>Date</b>	<b>Percentage</b>
Laborat.Louis Pasteur Patologia Clínica S/C Ltda. - LabPasteur	06/15/2006	100,00%
Laboratório Imuno Ltda. - MedLabor	07/27/2006	100,00%
Clinica Médica Vita S.A.	10/03/2006	100,00%
Laboratório Atalaia Ltda.	10/26/2006	100,00%
<b>Constituted Company</b>		
DASA Real Estate Empreendimentos Imobiliários Ltda.	19/06/2006	99,99%

### DASA confirmed on the Bovespa's Corporate Sustainability Index (ISE)

On December 1, 2006, DASA's shares were retained in the ISE, the Bovespa's Corporate Sustainability Index, which was tightened up to improve the quality of the information provided by the companies listed therein.

Figuring in the index since its launch, in November 2005, DASA's shares are among the 28 companies considered capable of combining social and environmental practices that are both correct and effective with a sound financial and economic performance. In 2006, the ISE appreciated by 22.64%, versus the Ibovepa's 17.55%.

### ISO 14.001 and OHSAS 18.001

After integrating its environmental, health and labor safety programs and reevaluating its processes and internal and external auditing, DASA was awarded the ISO 14.001 and ISO 18,001 certifications in July and these, along with the ISO 9001, make Diagnósticos da América the only healthcare company in Brazil to have these three certificates simultaneously.

The ISO 14,001 awards DASA's attitude towards the environment and the community, in the sense of reducing the impacts of its activities; properly recycling, managing and disposing of the waste it generates; and rationally using natural resources.

The OHSAS 18,001 certifies that the Company's procedures related to health and safety in the workplace are of the highest standards, covering all the procedures adopted by the Company to ensure the preservation of working conditions, control methodologies and risk minimization.

The achievement of these certificates attests to the maintenance of high-quality procedures, ranking DASA among the companies with the highest quality control, safety and working conditions.

### **Relationship with independent auditors**

In accordance with CVM Instruction 381, from Securities Commission, Diagnósticos da América S.A. and its subsidiaries contracted services not related to external auditor for the amount of R\$ 179.4 thousand, representing 14.1% of total fees for the external audit contracted in 2006. These services, provided over a short period, were performed during the year and refer: (i) assistance in describing profiles for employment positions and interviewing candidates for the final decision to be taken by Company management for the amount of R\$ 97.3 (7.7%); (ii) services for procedures information to approval process of the Board of directors from Defesa Econômica (CADE) for acquisition of Laboratório Frischmann Aisengart S.A. in amount of R\$ 82.1 (6.4%). During discussion with its independent auditors, Diagnósticos da América S.A., concluded that these services provided did not affect the independence and the objectivity of its auditors. Diagnósticos da América's policy is to comply with regulation that define the restrictions on services provided by independent auditors.



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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. and its subsidiaries as of December 31, 2006 and 2005 and the related consolidated statements of income, changes in shareholders' equity and changes in financial position for the years then ended, which are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements.

We conducted our audits in accordance with auditing standards generally accepted in Brazil and included: (a) planning of the audit work, considering the materiality of the balances, the volume of transactions and the accounting systems and internal accounting controls of the Company and its subsidiaries; (b) verification, on a test basis, of the evidence and records which support the amounts and accounting information disclosed; and (c) evaluation of the most significant accounting policies and estimates adopted by Company management and its subsidiaries, as well as the presentation of the financial statements taken as a whole.


In our opinion, the aforementioned consolidated financial statements present fairly, in all material respects, the consolidated financial position of Diagnósticos da América S.A. and its subsidiaries as of December 31, 2006 and 2005, and the consolidated results of its operations, changes in its shareholders' equity and changes in its financial position for the years then ended, in conformity with accounting practices adopted in Brazil.

Our audits were performed with the objective of expressing an opinion on the financial statements taken as a whole. The statements of cash flows for the years ended December 31, 2006 and 2005 are supplementary to the aforementioned financial statements, which are not required under accounting practices adopted in Brazil and have been included to provide additional analysis. This supplementary information was subject to the same audit procedures as applied to the aforementioned financial statements and, in our opinion, are fairly presented, in all material respects, in relation to the financial statements taken as a whole.

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

February 16, 2007

KPMG Auditores Independentes  
CRC 2SP014428/O-6

  
José Luiz Ribeiro de Carvalho  
Accountant CRC 1SP141128/O-2

# Diagnósticos da América S.A.

## Consolidated balance sheets

December 31, 2006 and 2005

(in thousand of Reais)

Assets	2006	2005	Liabilities and shareholders' equity	2006	2005
<b>Current assets</b>			<b>Current liabilities</b>		
Cash and cash equivalents	7,172	4,452	Accounts payable	34,038	26,982
Financial investments	325,490	48,171	Loans and financing	59,210	75,385
Trade accounts receivable, net	138,615	116,405	Taxes and contributions payable	5,195	3,966
Inventories	20,717	18,161	Income tax and social contribution	969	1,074
Taxes recoverable	16,749	16,253	Salaries, social security charges and vacation payable	26,058	21,176
Other accounts receivable	6,325	6,523	Taxes in installments	5,532	5,558
Prepaid expenses	5,217	848	Accounts payable from acquisition of subsidiaries	18,107	8,704
	<u>520,285</u>	<u>210,813</u>	Debentures	6,557	-
			Dividends payable	527	-
<b>Noncurrent assets</b>			Other accounts payable	<u>13,257</u>	<u>13,459</u>
Financial investments	28,225	16,272		<u>169,450</u>	<u>156,304</u>
Other accounts receivable	12	10	<b>Noncurrent liabilities</b>		
Judicial deposits	2,123	3,031	Loans and financing	73,444	78,299
	<u>30,360</u>	<u>19,313</u>	Tax in installments	16,974	16,384
<b>Permanent assets</b>			Provision for contingencies	55,891	33,108
Investments	120,860	78,936	Accounts payable from acquisition of subsidiaries	31,214	34,704
Property, plant and equipment, net	289,494	213,841	Debentures	<u>202,500</u>	-
Deferred charges	57,680	62,226		<u>380,023</u>	<u>162,495</u>
	<u>468,034</u>	<u>355,003</u>	<b>Minority interest</b>	-	354
			<b>Shareholders' equity</b>		
			Capital	402,091	216,136
			Capital reserves	65,427	64,136
			Profit reserves	111	-
			Retained earning (accumulated losses)	<u>1,577</u>	<u>(14,296)</u>
				<u>469,206</u>	<u>265,976</u>
Total assets	<u>1,018,679</u>	<u>585,129</u>	Total liabilities and shareholders' equity	<u>1,018,679</u>	<u>585,129</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, 2006 and 2005

(in thousand of Reais)

	2006	2005
<b>Gross revenue</b>		
Services rendered	<u>729,682</u>	<u>576,940</u>
<b>Deductions from gross revenue</b>		
Value-added and other taxes	(40,803)	(33,101)
Discounts	<u>(18,429)</u>	<u>(15,559)</u>
	<u>(59,232)</u>	<u>(48,660)</u>
<b>Net operating revenues</b>	<u>670,450</u>	<u>528,280</u>
<b>Cost of services rendered</b>	<u>(443,476)</u>	<u>(362,411)</u>
<b>Gross profit</b>	<u>226,974</u>	<u>165,869</u>
<b>Other operating income (expenses)</b>		
General and administrative	(151,061)	(88,733)
Financial income	(62,435)	(41,765)
Financial expenses	51,663	20,734
Goodwill amortization	(30,105)	(35,711)
Other operating income	<u>1,725</u>	<u>761</u>
	<u>(190,213)</u>	<u>(144,714)</u>
<b>Operating income</b>	36,761	21,155
Non-operating loss	<u>(795)</u>	<u>(488)</u>
<b>Net income for the year before income tax and social contribution</b>	35,966	20,667
Income tax and social contribution	<u>(19,380)</u>	<u>(10,394)</u>
<b>Net income before minority interest</b>	16,586	10,273
<b>Minority interest</b>	<u>(75)</u>	<u>(116)</u>
<b>Net income</b>	<u>16,511</u>	<u>10,157</u>
<b>Earnings per shares at year end</b>	0.29	0.19
<b>Number of shares outstanding at year-end</b>	<u>57,402,935</u>	<u>53,607,935</u>

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

# Diagnósticos da América S.A.

## Consolidated statements of changes in shareholders' equity

Years ended December 31, 2006 and 2005

(in thousand of Reais)

	Capital	Capital reserves	Profit reserves	Retained earnings (accumulated losses)	Total
<b>Balances at January 1, 2005</b>	216,136	52,579	-	(24,453)	244,262
Goodwill amortization	-	11,557	-	-	11,557
Net income for the year	<u>-</u>	<u>-</u>	<u>-</u>	<u>10,157</u>	<u>10,157</u>
<b>Balances at December 31, 2005</b>	216,136	64,136	-	(14,296)	265,976
Capital increase	185,955	-	-	-	185,955
Goodwill amortization	-	1,291	-	-	1,291
Net income for the year	-	-	-	16,511	16,511
Legal reserve	-	-	111	(111)	-
Dividends	<u>-</u>	<u>-</u>	<u>-</u>	<u>(527)</u>	<u>(527)</u>
<b>Balances at December 31, 2006</b>	<u><u>402,091</u></u>	<u><u>65,427</u></u>	<u><u>111</u></u>	<u><u>1,577</u></u>	<u><u>469,206</u></u>

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

# Diagnósticos da América S.A.

## Consolidated statements of changes in financial position

Years ended December 31, 2006 and 2005

(in thousand of Reais)

	2006	2005
<b>Sources of funds</b>		
<b>Operations</b>		
Net income for the year	16,511	10,157
<b>Items not affecting working capital</b>		
Depreciation and amortization	59,769	41,143
Amortization of goodwill and deferred charges	28,814	24,154
Amortization of goodwill from equity	1,291	11,557
Net financial charges of noncurrent items	(8,121)	2,433
Residual cost on disposal of fixed assets	6,550	98
Minority interest	(354)	354
<b>Resources from operations</b>	<u>104,460</u>	<u>89,896</u>
<b>From shareholders</b>		
Capital increase	185,955	-
<b>From third parties</b>		
Increase in noncurrent liabilities	<u>225,652</u>	<u>-</u>
	<u>516,067</u>	<u>89,896</u>
<b>Applications of funds</b>		
Increase in property, plant and equipment	127,742	69,608
Increase in deferred charges	13,938	9,982
Increase in investments	62,348	82,926
Decrease in noncurrent liabilities	-	9,008
Increase noncurrent assets	11,048	13,175
Property, plant and equipment from acquired subsidiaries	4,138	13,709
Dividends	527	-
	<u>219,741</u>	<u>198,408</u>
<b>Increase (decrease) in working capital</b>	<u>296,326</u>	<u>(108,512)</u>
<b>Changes in working capital</b>		
At beginning of year	210,813	274,379
At the end of year	<u>520,285</u>	<u>210,813</u>
<b>Current assets</b>	<u>309,472</u>	<u>(63,566)</u>
At beginning of year	156,304	111,358
At the end of year	<u>169,450</u>	<u>156,304</u>
<b>Current liabilities</b>	<u>13,146</u>	<u>44,946</u>
	<u>296,326</u>	<u>(108,512)</u>

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

# Diagnósticos da América S.A.

## Consolidated statements of cash flows

Years ended December 31, 2006 and 2005

(In thousand of Reais)

	2006	2005
<b>Cash flows from operating activities:</b>		
Net income	16,511	10,157
<b>Adjustments to reconcile net income to net cash provided by operating activities</b>		
Depreciation and amortization	91,410	74,577
Loss on disposal of permanent assets	4,916	956
Interest and unrealized exchange loss	15,596	22,080
Minority interest	(75)	116
<b>Decrease (increase) in operating assets</b>		
Trade accounts receivable	(19,889)	(12,296)
Inventories	(1,785)	(3,036)
Taxes recoverable	(155)	1,920
Other accounts receivable	342	1,572
Prepaid expenses	540	(53)
Other accounts receivable	-	3,443
Legal deposits	1,793	(7,597)
<b>Increase (decrease) in operating liabilities</b>		
Suppliers	4,033	6,153
Taxes and contributions payable	1,229	(11,661)
Income tax and social contribution	(740)	10,157
Salaries, social security charges and vacation payable	2,597	7,184
Other accounts payable	(434)	(1,373)
Taxes in instalment	(4,282)	(3,352)
Provision for contingencies	21,267	8,701
<b>Net cash provided by operating activities</b>	<u>132,873</u>	<u>107,648</u>
<b>Cash flows from investing activities:</b>		
Purchases of marketable securities	(525,154)	(113,122)
Proceeds from sale of marketable securities	239,560	179,758
Investments	(5)	-
Business combinations, net of cash acquired	(54,940)	(71,485)
Additions to property, plant and equipment	(127,817)	(84,175)
Additions to deferred charges	(13,919)	(19,262)
<b>Net cash used in investing activities</b>	<u>(482,275)</u>	<u>(108,286)</u>
<b>Cash flows from financing activities:</b>		
Proceeds from loan and Financing	108,897	105,694
Repayment of loans and financing	(140,437)	(107,275)
Loans to parent company	-	3,768
Capital increase	185,955	-
Cash payments for debentures issuance costs	(4,792)	-
Debentures	202,500	-
<b>Net cash provided by financing activities</b>	<u>352,123</u>	<u>2,187</u>
Net increase (decrease) in cash and cash equivalents	2,720	1,549
Cash and cash equivalents, beginning of year	<u>4,452</u>	<u>2,903</u>
<b>Cash and cash equivalents, end of year</b>	<u><u>7,172</u></u>	<u><u>4,452</u></u>
<b>Supplemental disclosure of cash flow information</b>		
Cash paid during the year for:		
Interest paid	26,204	1,824
Income tax paid	-	-

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

# Diagnósticos da América S.A.

## Notes to the financial statements

### Years ended December 31, 2006 and 2005

(In thousands of Reais)

#### 1 Operations

The Company is public since November 19, 2004, and listed in Bovespa's *Novo Mercado* segment.

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 a new market sector, of environmental analysis, genetically modified organisms analysis and toxicological analysis, and the acquisition of Laboratório Alvaro S.A. during the month of December, 2005 represented to the Company the entrance into the market of support to laboratories. The Company can also invest in other entities.

At year end, the Company had 244 operational units (192 in 2005), as follows:

<b>Brands</b>	<b>Locality</b>	<b>2006</b>	<b>2005</b>
Delboni Auriemo	São Paulo	32	29
Lavoisier	São Paulo	54	53
Bronstein	Rio de Janeiro	39	35
Lâmina	Rio de Janeiro	16	16
Santa Casa	Paraná	8	8
Delboni Paraná	Paraná	0	7
Pasteur	Brasília	15	13
Frischmann	Paraná	25	17
Image	Bahia	2	2
Laboratório Álvaro	Paraná	14	12
LabPasteur	Ceará	16	-
MedLabor	Brasília, Tocantins and Goiás	9	-
Vita	Santa Catarina	2	-
Atalaia	Goiás	<u>12</u>	<u>-</u>
		<u>244</u>	<u>192</u>

# Diagnósticos da América S.A.

## Notes to the financial statements

*(In thousands of Reais)*

At December 31, 2006, the Club DA brand had 15 units, with 13 units annexed to the Delboni Auriemo brand and 2 units annexed to the Lâmina brand.

### **2 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 Commission (CVM).

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 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.

In accordance with CVM deliberation n. 488 on October 3, 2005, certain reclassifications and additional break-downs were made to the financial statements to conform with such deliberation.

The consolidated financial statements as at December 31, 2006 and 2005 include the financial statements of the Company and the subsidiaries listed below:

	<b>2006</b>	<b>2005</b>
Laboratório Frischmann Aisengart S.A.	100.00%	92.92%
Image Memorial S.A.	100.00%	100.00%
Laboratório Alvaro S.A.	100.00%	100.00%
Laboratório Louis Pasteur Patologia Clínica S/C Ltda.	100.00%	-
DASA Real Estate Empreendimentos Imobiliários Ltda.	99.99%	-
Laboratório Imuno Ltda. - MedLabor	100.00%	-
Clinica Médica Vita S.A.	100.00%	-
Laboratório Atalaia Ltda.	100.00%	-

# Diagnósticos da América S.A.

## Notes to the financial statements

*(In thousands of Reais)*

The accounting policies have been consistently applied by the consolidated companies.

The consolidation process consisted of adding up the balances of the assets, liabilities and profit and loss accounts according to their nature, with the following main eliminations:

- Investment interests in capital, reserves and accumulated results;
- Intercompany balances within assets, liabilities and profit and loss accounts.

### ***Description of significant accounting practices***

#### *a. Income statement*

Income and expenses are recognized on the accrual basis.

#### *b. Accounting estimates*

The 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, provision for losses on 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 on a quarterly basis.

#### *c. Foreign currency*

Monetary liabilities denominated in foreign currencies (Dollar) were translated into Reais at the foreign exchange rate of R\$ 2.138 prevailing at the balance sheet date. Foreign exchange differences arising on translation are recognized in the income statement.

# Diagnósticos da América S.A.

## Notes to the financial statements

*(In thousands of Reais)*

### *d. Current and 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.

- **Financial investments**

Financial investments are recorded at cost plus income accrued up to the balance sheet date.

- **Accounts receivable and provision for doubtful accounts**

Accounts receivable from customers are recorded based on the invoiced amount net of sales taxes.

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.

- **Inventories**

Inventories are stated at the average cost that does not exceed the market value. Inventories are used entirely in the performance of clinical and imaging exams and for diagnostics by imaging. Obsolescence reserve was recorded for the items without movement for more than one hundred twenty five days.

- **Other current and noncurrent assets**

Presented at the net realizable amount.

# Diagnósticos da América S.A.

## Notes to the financial statements

*(In thousands of Reais)*

### *e. Permanent assets*

- **Investments**

Investments in subsidiaries were valued using the equity method. Goodwill calculated at the time of purchasing investments in companies with negative shareholders' equity was accounted for by the Company at the time of purchasing such investments, representing the difference between the initial balance of the equity method and the cost of acquisition. The goodwill is based on future profitability from operations undertaken by the subsidiary companies, in accordance with profitability forecasts prepared by management projected for five 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 8 and take into account the estimated useful life of the assets. Leasehold improvements are amortized over the lower of the remaining lease term or the useful life of the improvement.

- **Deferred charges**

Pre-operating expenses refer to expenses for expansion of the patient service centers and are amortized using the straight-line method over a period between five and ten 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 five 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.

# Diagnósticos da América S.A.

## Notes to the financial statements

*(In thousands of Reais)*

### *g. Provisions*

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

### *h. Goodwill from the merger of the parent company*

The goodwill recorded previously by the controlling company Platypus Holdings Ltda was classified after its merger 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. The amortization ended in February, 2006.

### *i. Deferred income tax and social contribution*

The income and social contribution taxes, both current and deferred, are calculated by the company and subsidiaries based on the rates of 15% plus a surcharge of 10% on taxable income in excess of R\$ 240 thousand for income tax and 9% on taxable income for social contribution on net income, and consider the offsetting of tax loss carryforward and negative basis of social contribution limited to 30% of the taxable income, except for Laboratório Atalaia Ltda. which calculates income and social contribution taxes based on presumed profit.

The Company has tax losses carryforwards, negative basis of social contribution and temporary differences at the balance sheet date. Deferred tax assets have not yet been recorded since the Company did not meet the conditions included in the ICVM 347, including presentation of taxable income in three of the last five years.

# Diagnósticos da América S.A.

## Notes to the financial statements

(In thousands of Reais)

### 3 Financial investments

	2006	2005
Financial investments	353,715	64,443
Classified as current assets	<u>(325,490)</u>	<u>(48,171)</u>
Noncurrent assets:		
Restricted deposits	<u>28,225</u>	<u>16,272</u>

Of the consolidated amount of R\$325,490 of the financial investments classified under current assets, R\$ 7,042 are for the payment of the obligations assumed with former shareholders of Laboratório Bronstein S.A. and Bronstein Administradora Laboratorial S.A. at the time of acquisition of the shares of such companies, remunerated at an average rate of 107% of the CDI. In 2005 this investment was fully recorded in the long-term, and R\$ 318,448 referred to fixed income funds (R\$ 48,171 at December 31, 2005), remunerated at an average rate of 99.8% of the CDI at December 31, 2006 (101.1% of the CDI at December 31, 2005). The purpose of the fixed income funds wherein the Company invests is to provide profitability to shareholders by investing their funds in shares (quotas) of exclusive investment funds of which investment policy has the option to concentrate their investments in securities and bonds issued by public and private entities.

Long-term financial investments, in the amount of R\$ 28,225 (R\$ 16,272 at December 31, 2005), are composed of R\$ 27,796 earning an average interest rate of 99.9% of CDI as of December 31, 2006 and 2005, which will be used for the payments to former shareholders of Laboratório Bio-Ciência Lavoisier de Análises Clínicas 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., Laboratório Alvaro, Image Memorial S.A., Laboratório Louis Pasteur Patologia Clínica S/C Ltda., Laboratório Imuno Ltda. - MedLabor, Clínica Médica Vita S.A. and Laboratório Atalaia Ltda. for assumed liabilities when shares of the same companies were acquired, and R\$429 regarding the investment in CDBs (Certificates of bank deposits) of the subsidiary Image Memorial S.A. with Banco do Nordeste do Brasil S.A., as guarantee of transactions with commercial credit certificate registered in the item of bank loans and financing (Note 11).

# Diagnósticos da América S.A.

## Notes to the financial statements

*(In thousands of Reais)*

### 4 Trade accounts receivable

	<b>2006</b>	<b>2005</b>
Current:		
Trade notes receivable:		
Not due	77,830	57,662
Overdue	<u>95,962</u>	<u>90,640</u>
	173,792	148,302
Other accounts receivable:		
Checks in collection	1,063	1,208
Credit cards	2,730	2,213
Returned checks	<u>3,449</u>	<u>2,086</u>
	7,242	5,507
Less:		
Provision for disallowances and for doubtful accounts	( 39,480)	( 35,346)
Provision for losses from returned checks	<u>( 2,939)</u>	<u>( 2,058)</u>
	<u>138,615</u>	<u>116,405</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.

Provisions for doubtful accounts are established by means of a thorough analysis, considering the credit risks specific to each client.

# Diagnósticos da América S.A.

## Notes to the financial statements

*(In thousands of Reais)*

### 5 Inventories

	<b>2006</b>	<b>2005</b>
National clinical analysis and diagnostic imaging materials	11,437	8,566
Imported clinical analysis and diagnostic imaging materials	3,951	4,821
National secondary clinical analysis and diagnostic imaging materials	3,335	3,182
Consumption material	1,819	1,669
Inventories held by third parties	1,013	399
Provision for obsolescence	<u>( 838)</u>	<u>( 476)</u>
	<u>20,717</u>	<u>18,161</u>

### 6 Taxes recoverable

	<b>2006</b>	<b>2005</b>
Withholding income tax (IRRF)	6,255	4,166
Income tax recoverable	1,253	2,231
Social contribution recoverable	3,732	4,142
COFINS and PIS tax withheld	5,033	5,611
Other	<u>476</u>	<u>103</u>
	<u>16,749</u>	<u>16,253</u>

# Diagnósticos da América S.A.

## Notes to the financial statements

(In thousands of Reais)

### 7 Investments

	2006	2005
<b>Goodwill from acquired shares</b>		
Laboratório Frischmann Aisengart S.A	31,843	26,873
Image Memorial S.A.	31,638	30,926
Laboratório Alvaro S.A.	28,811	25,127
Laboratório Louis Pasteur Patologia Clínica S/C Ltda.	13,936	-
Laboratório Imuno Ltda. - MedLabor	5,966	-
Clínica Médica Vita S.A.	4,768	-
Laboratório Atalaia Ltda.	<u>28,329</u>	<u>-</u>
	<u>145,291</u>	<u>82,926</u>
<b>Accumulated amortization</b>		
Laboratório Frischmann Aisengart S.A	( 8,602)	( 2,615)
Image Memorial S.A.	( 7,620)	( 1,263)
Laboratório Alvaro S.A.	( 5,161)	( 135)
Laboratório Louis Pasteur Patologia Clínica S/C Ltda	( 1,394)	-
Laboratório Imuno Ltda. - MedLabor	( 497)	-
Clínica Médica Vita S.A.	( 238)	-
Laboratório Atalaia Ltda.	<u>( 944)</u>	<u>-</u>
	<u>( 24,456)</u>	<u>( 4,013)</u>
Other	<u>25</u>	<u>23</u>
	<u>120,860</u>	<u>78,936</u>

(a) Laboratório Alvaro S.A. - Increase of purchase price (goodwill)

In December, 2006, the Company recorded R\$3,683 as an additional purchase price of Laboratório Alvaro S.A. as part of the contingent payment included in the purchase agreement. This amount will be paid in May 2007. In fiscal 2007 and 2008 additional contingent payments may be paid based on achievement of certain goals.

# Diagnósticos da América S.A.

## Notes to the financial statements

*(In thousands of Reais)*

### *a. Acquisitions of investment interests during the year*

**Frischmann** - On May 19, 2006, the Company acquired the totality of shares belonging to the remaining partner of Laboratório Frischmann Aisengart S.A., representing 7.08% of the capital of that corporation, for the amount of R\$5,400, of which R\$3,000 were paid in cash and R\$2,400 in 120 monthly and successive installments. The goodwill recorded in this acquisition was, R\$4,970. In this transaction, the Company concluded the procedures initiated by the “Memorandum of Understanding” as disclosed on August 4, 2005 in a notice to the market, and then held 100% of the capital of this entity.

**LabPasteur** - On June 15, 2006, acquired the totality of quotas representing the capital of Laboratório Louis Pasteur Patologia Clínica S/C Ltda., for the amount of R\$12,925, of which R\$9,425 were paid in cash and R\$3,500 were held in an escrow account for up to 6 years from the closing date to cover possible contingencies arising out in the future. In this acquisition, the Company recorded goodwill of R\$13,936.

**MedLabor** - On July 27, 2006, the Company acquired the totality of quotas representing the capital of Laboratório Imuno Ltda., known by the brand MedLabor Medicina Laboratorial, which provides laboratory testing services in Brasília (DF), Palmas (TO) and Valparaíso (GO). The price of the acquisition was R\$4,921, of which R\$4,221 were paid in cash and R\$700 held in an escrow account for up to 6 years from the closing date, to cover possible contingencies arising out in the future. In this acquisition, the Company recorded goodwill in the sum of R\$5,966.

**Vita** - On October 5, 2006, the Company acquired the totality of shares representing the capital of Clinica Médica Vita S.A., for the amount of R\$200, held in an escrow account for up to 6 years from the closing date, to cover possible contingencies arising out in the future. In this acquisition, the Company recorded goodwill in the sum of R\$4,768.

**Atalaia** - On October 26, 2006, the Company acquired the totality of quotas representing the capital of Laboratório Atalaia Ltda., for the amount of R\$25,000, of which R\$22,100 were paid in cash and R\$400 paid in sixty days and R\$2,500 were held in an escrow account for up to 6 years from the closing date, to cover possible contingencies arising out in the future. In this acquisition, the Company recorded goodwill of R\$28,329.

# Diagnósticos da América S.A.

## Notes to the financial statements

*(In thousands of Reais)*

### ***b. Capital pay-in in the year***

On June 19, 2006, DASA Real Estate Empreendimentos Imobiliários Ltda., was incorporated, and its Articles of Incorporation were filed with JUCESP on July 11, 2006. The hereby subscribed capital was R\$1, divided into 1,000 (thousand) quotas with face value of R\$1.00 (One Real) each, of which 999 (nine hundred and ninety-nine) quotas belong to the Company and 1 (One) quota belongs to the controlled company Laboratório Frischmann Aisengart S.A.

On July 24, 2006, through a Private Instrument of the First Amendment to the Articles of Incorporation, the partners decide to increase the current capital of R\$1, fully paid in, to R\$14,453, and the consequent creation of 14,452,100 (Fourteen Million, Four Hundred and Fifty-two Thousand and One Hundred) new quotas, in the amount of R\$1.00 (One Real) each, to be paid in by the Company in up to 24 months. Of this capital increase, R\$9,537 have already been paid in by the Company in the year, as follows: R\$452 through the conveyance of real estate, R\$1,710 through the assignment of credits and R\$7,375 in cash.

The company's business purpose is the (i) management of assets in its own name, (ii) investments in the real estate sector, in all its divisions, in its own name; (iii) granting of guarantees for obligations assumed by its controlling partner, by controlled companies and/or companies connected to the Business, especially in the form of sureties of all kinds, both in obligations of real estate nature and financial nature; and (iv) interest in the capital of any other businesses, whether commercial partnerships or not, or in investment funds as a partner, shareholder or quotaholder, in Brazil and/or abroad, especially in those businesses focused on the real estate sector.

### ***c. Capital increase in the year***

The Company increased the capital of Laboratório Imuno Ltda. - MedLabor in the total amount of R\$1,264, with the issuance of 1,263,845 (One Million, Two Hundred and Sixty-Three Thousand, Four Hundred and Forty-Five) new quotas with face value of R\$1.00 (One Real) each, increasing the capital from R\$100 to R\$1,364. Such capital increase was paid in with credits in the amount of R\$1,000 on September 25, 2006, arising from advances for future capital increase carried out on August 2, 2006, and, R\$264 in domestic currency, R\$259 of which on September 25 and R\$5 on September 26, 2006.

# Diagnósticos da América S.A.

## Notes to the financial statements

*(In thousands of Reais)*

On June 30, 2006, through Special Shareholders' Meeting, the capital increase of Laboratório Álvaro S.A. was approved in the total amount of R\$ 2,272, by means of the Company's credit assignment and transfer, without the issuance of shares.

On October 5, 2006, through Special Shareholders' Meeting, the capital increase of Clínica Médica Vita S.A. was approved in the total amount of R\$ 953, the origin of such credit refers to the loan granted to Clínica Vita by its former controlling company, Vita Participações e Empreendimentos S.A., which was acquired by the Company pursuant to the credit assignment agreement. This corporate capital increase represented the issuance of 10,000 (ten thousand) new shares.

### ***d. Reduction of shareholders' equity of the invested company in the year***

On August 11, 2006, through a Special Shareholders' Meeting, it was decided that the capital of the subsidiary Laboratório Frischmann Aisengart S.A. would be reduced from R\$23,000 to R\$19,700, with a reduction of R\$3,300, and the canceling of 3,300,000 (Three Million and Three Hundred Thousand) common nominative shares with face value of R\$1.00 (One Real) each, duly based on articles 173 and 174 of Law no.6,404/76. The amount relative to the capital reduction was fully paid to the Company in domestic currency.

### ***e. Provision of dividends to former quotaholders***

On June 15, 2006, through an Assignment and Transfer of Quota Agreement, it was agreed upon that former quotaholders shall be paid R\$1,200 as profit sharing in 2006. This amount shall be paid up to 30 days as of the date of the meeting which shall approve the financial statements of the controlled company of the year of 2006, to be held up to April 30, 2007.

# Diagnósticos da América S.A.

## Notes to the financial statements

(In thousands of Reais)

### 8 Property, plant and equipment

		<u>Net</u>	
	<b>% p.a. average depreciation rate</b>	<b>2006</b>	<b>2005</b>
<b>Tangible assets</b>			
Buildings	4	11,002	609
Leasehold improvements	12	69,953	68,223
Machinery and equipment	10	139,606	93,512
Furniture and fixture	10	14,298	13,044
Facilities	10	1,235	1,323
Hardware	20	14,788	11,904
Vehicles	20	1,455	503
Library	10	57	98
Land		1,685	2,550
Other fixed assets		-	125
Construction in process		21,974	12,542
<b>Intangible assets</b>			
Software		13,349	9,318
Patents		81	81
Phone lines		<u>11</u>	<u>9</u>
		289,494	213,841
Accumulated depreciation and amortization		<u>203,444</u>	<u>147,958</u>
Total cost		<u>492,738</u>	<u>361,799</u>

# Diagnósticos da América S.A.

## Notes to the financial statements

(In thousands of Reais)

### Cost movement

	Movement in the year					2006
	2005	Additions	Write-offs	Other (a)	Transf.	
<b>Tangible</b>						
Buildings	867	10,713	( 646)	-	750	11,684
Leasehold improvements	123,103	21,012	-	( 533)	( 75)	143,507
Machinery and equipment	154,484	60,895	(2,985)	492	10,151	223,037
Furniture and fixture	21,564	3,850	( 126)	19	218	25,525
Facilities	3,505	647	( 344)	30	-	3,838
IT equipment	24,254	9,782	( 364)	98	( 303)	33,467
Vehicles	867	1,509	( 66)	155	(14)	2,451
Library	145	7	-	( 42)	-	110
Land	2,550	1,685	(1,800)	-	( 750)	1,685
Other fixed assets	125	-	-	( 139)	14	-
Construction in process	12,542	14,675	(1,270)	6,018	( 9,991)	21,974
<b>Intangible</b>						
IT systems	17,703	5,280	( 39)	2,424	-	25,368
Trademarks and patents	81	-	-	-	-	81
Telephone lines	<u>9</u>	<u>11</u>	<u>( 9)</u>	<u>-</u>	<u>-</u>	<u>11</u>
	<u>361,799</u>	<u>130,066</u>	<u>(7,649)</u>	<u>8,522</u>	<u>-</u>	<u>492,738</u>

(a) Other - Movements regarding transfers of Deferred Pre-operational Expenses.

# Diagnósticos da América S.A.

## Notes to the financial statements

(In thousands of Reais)

### 9 Deferred charges

	% p.a average amortization rate	2006 Net	2005 Net
Pre-operational expenses:		37,989	34,164
Goodwill on merger of subsidiary:			
Lab. Patologia Clínica Curitiba S/C	20	603	1,160
Centro Radiológico da Lagoa Ltda.	20	3,558	5,413
Elkis e Furlanetto C.D.A.C. Ltda.	20	10,020	14,246
Elkis e Furlanetto L.M. S/C Ltda.	20	369	525
Lab. Pasteur Patologia Clínica S/S Ltda.	20	<u>5,141</u>	<u>6,718</u>
Accumulated amortization		<u>49,948</u>	<u>87,355</u>
Total cost		<u>107,628</u>	<u>149,581</u>

### 10 Suppliers

	2006	2005
Domestic suppliers	29,735	23,670
Foreign suppliers	<u>4,303</u>	<u>3,312</u>
	<u>34,038</u>	<u>26,982</u>

The balance of foreign suppliers of US\$2,013 (US\$1,415 at December 31, 2005) refers to the purchase of imported materials used in clinical exams.

# Diagnósticos da América S.A.

## Notes to the financial statements

(In thousands of Reais)

### 11 Bank loans and financing

	<b>2006</b>	<b>2005</b>
<b>Local currency</b>		
Loans guaranteed accounts	20,974	18,707
Bank loans	14,054	48,077
Leasing under local currency agreements	5,133	4,096
<b>Foreign currency</b>		
Bank loans	14,403	23,342
Equipment suppliers	33,492	47,842
Leasing of imported equipment	44,598	11,297
Others	<u>-</u>	<u>323</u>
	<u>132,654</u>	<u>153,684</u>
Portion to amortize in the short term classified in current liabilities	( 59,210)	( 75,385)
Noncurrent liabilities	<u>73,444</u>	<u>78,299</u>

The loans and financing contracts registered in Company's Liabilities do not have restrictive clauses (covenants).

Description	Banks	Reais	Maturity	Average interest rate	Guarantors
<b>Local currency</b>					
Guaranteed accounts	Other	20,974	-	106.7% of CDI	(1)
Bank loans	Banco Votorantin S.A.	11,496	2009	110.9% of CDI	(1)
Bank loans	Others	<u>2,558</u>	2008	1.5% p.m.	(1)
		<u>14,054</u>			
Leasing	Other	<u>5,133</u>	2008	CDI + 1.5% p.a.	(2)

# Diagnósticos da América S.A.

## Notes to the financial statements

(In thousands of Reais)

Description	Financial institutions/suppliers	US\$	Reais	Swap	Total Reais	Maturity	Interest rate	Guarantors
<b>Foreign currency</b>								
Bank loans	Banco Itaú - BBA	3,592	7,680	6,723	14,403	2009	EV+13.06% p.a.	(1)
Equipment suppliers	G.E. and Philips	9,345	19,979	13,513	33,492	2011	EV+7.5% to 8.5% p.a.	(1)
Leasing	G.E, Siemens, Philips and Oni Medical	20,860	44,598	-	44,598	2013	EV+7.20% to 9% p.a.	(2)

(1) Platypus S.A. and Balu 460 Participações S.A., shareholders of DASA Participações S.A., holder of general control of the Company.

(2) DASA Participações S.A., Platypus S.A. and Balu 460 Participações S.A.

### Guaranties and sureties

The Company granted guarantees on behalf of subsidiary Laboratório Frischmann Aisengart S.A., with Banco Bradesco S.A. in the amount of R\$1,500, with Banco Alfa S.A. in the amount of US\$ 260; on behalf of subsidiary of Image Memorial S.A., with Banco Bradesco S.A. in the amount of R\$700, with Banco Itaú S.A. in the amount of R\$1,000, with Banco alfa S.A. in the amount of US\$ 220, with Banco do Brasil S.A. in the amount of R\$300 and US\$ 1,010; on behalf of subsidiary Laboratório Alvaro S.A., with Banco Itaú S.A. in the amount of R\$2,000, with Banco Bradesco S.A. in the amount of R\$2,000 and with Banco do Brasil S.A. in the amount of R\$350; on behalf of subsidiary Laboratório Imuno Ltda. - MedLabor, with Banco Bradesco S.A. in the amount of R\$1,500, and on behalf of Clinica Médica Vita S.A., with Banco Bradesco S.A. in the amount of R\$600, and with Banco alfa S.A. in the amount of R\$2,218.

# Diagnósticos da América S.A.

## Notes to the financial statements

*(In thousands of Reais)*

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

<b>Maturity</b>	
2008	24,197
2009	15,757
2010	8,130
2011	6,252
2012	5,584
2013	<u>2,884</u>
	62,804
“Swap” (a)	<u>10,640</u>
	<u>73,444</u>

(a) Company has invested cash (assets) in “swap” transactions in Reais in order to protect its exposure of liabilities indexed in foreign currencies, for the same amounts and maturities. At December 31, 2006, these derivative transactions resulted in a provisioned loss of R\$10,640, and R\$14,532 for December 31, 2005.

## 12 Debentures

	<b>2006</b>	<b>2005</b>
Non-convertible debentures	202,500	-
Compensation interest	<u>6,557</u>	<u>-</u>
	<u>209,057</u>	<u>-</u>
Portion to amortize in the short term. classified in current liabilities	( <u>6,557</u> )	<u>-</u>
Noncurrent liabilities	<u>202,500</u>	<u>-</u>

# Diagnósticos da América S.A.

## Notes to the financial statements

*(In thousands of Reais)*

In a Board of Directors' Meeting held on April 7, 2006, the public issuance of 20,250 (Twenty thousand, two hundred and fifty) non-convertible debentures, of its first issuance, of single series, without guarantee nor preference, with unit face value, of R\$ 10, totaling the sum of R\$ 202,500, was approved with the date of issuance at April 1, 2006. The maturity of the debentures is five years, from the date of issuance, with compensation interest of 103.6% per year of the DI rate. The payment of the compensation interest shall be biannual, to be held always on the first day of the months of April and October, the debit from the bank account of the Company occurs one day prior to the due date; the first took place on October 1, 2006, and the last shall be on April 1, 2011.

The long-term portions have the following payment schedule:

<b>Maturity</b>	
2009	67,500
2010	67,500
2011	<u>67,500</u>
Total	<u>202,500</u>

These debentures have covenants setting forth maximum levels of indebtedness and leverage, based on the consolidated financial statements. At year end, the Company was in compliance with these covenants.

### 13 Salaries and social security charges

	<b>2006</b>	<b>2005</b>
Salaries payable	4,047	3,058
Social security charges payable	4,350	3,503
Provision for vacation, 13th salary and social security charges	13,406	11,614
Provision for the profit sharing and equity income (a)	4,037	2,448
Others	<u>218</u>	<u>553</u>
	<u>26,058</u>	<u>21,176</u>

# Diagnósticos da América S.A.

## Notes to the financial statements

(In thousands of Reais)

(a) In a Board of Directors' Meeting held on March 31, 2005, the implementation of an Employee Profit and Income Sharing Plan ("PLR") of the Company was approved, as of the year 2005, pursuant to the provisions in Law 10,101/2000 and in article 7, Item XI, of the Federal Constitution Federal, which encompasses all the employees. The purpose of the PLR plan is to encourage teamwork and employee commitment to the company's business.

### 14 Taxes in installments

	<b>Amortization</b>	<b>2006</b>	<b>2005</b>
PPI - REFIS Municipal (a)	2011	3,957	4,715
PAES Program (b)	2013	8,024	8,707
Federal Tax on Revenue (COFINS) (c)	2010	1,583	1,921
Federal Tax on Revenue (PIS) (c)	2008	415	184
Social Security tax (INSS) (c)	2009	3,633	5,461
Municipal Tax Services (ISS) (c)	2006	11	480
Social Security tax (INSS) - Vita (d)	2018	1,536	-
PIS/COFINS - Vita (d)	2018	1,326	-
Municipal Tax Services (ISS) - Vita (d)	2009	252	-
Municipal Tax Services (ISS) - Atalaia (e)	2018	1,550	-
Others		<u>219</u>	<u>474</u>
		<u>22,506</u>	<u>21,942</u>
Portion to be amortized in the short term, classified under current liabilities		( <u>5,532</u> )	( <u>5,558</u> )
Noncurrent liabilities		<u>16,974</u>	<u>16,384</u>

(a) On August 29, 2006, the Company joined the PPI -Installment Incentive Program, created by the government of the city of São Paulo, with the enactment of Law no. 14,129 dated January 11, 2006, regulated by Decree no. 47,165 dated April 6, 2006. The tax debts which were part of the Tax Recovery Program- REFIS, created by Law no. 13,092 dated December 7, 2000, adhered by the Company on January 26, 2001, were included in the PPI. The debt amount selected in the PPI shall be amortized in 60 monthly installments, accrued by interest at the SELIC rate. The amortizations shall take place up to August of 2011, and the Company shall not collect based on the gross revenue, nor use, as it has not, tax credits for the amortization of fines and interest.

# Diagnósticos da América S.A.

## Notes to the financial statements

*(In thousands of Reais)*

- (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 1, 2005, dully formalized at competent government agencies.
- (d) **INSS** - Installment program created by Provisional Measure (MP) 303:

In September of 2006, the company adhered to the installment program created by provisional measure no. 303 of June 29, 2006 debt with the Brazilian Social Security (Instituto Nacional do Seguro Social - INSS) due up to February 28, 2003, dealt with in article 1 of the MP, have been scheduled for payment in 130 monthly installments updated by TJLP, totaling R\$ 335 at December 31, 2006. Debt due up to March 1, 2003 and December 31, 2005, dealt with in article 8 of the MP, have been scheduled for payment in 120 monthly installments updated by TJLP, totaling R\$ 716 at December 31, 2006.

**INSS** - Installments for administrative proceedings:

In March 2006, the company scheduled the payment of debt with the INSS totaling R\$ 77 at December 31, 2006 to be paid in 16 monthly installments. In September 2006 the company scheduled the payment of the debt with the INSS totaling R\$ 408 at December 31, 2006, to be paid in 60 monthly installments and updated by TJLP.

**PIS/COFINS** - Installment program created by MP 303:

In September of 2006, the company adhered to the installment program created by provisional measure no. 303 of June 29, 2006. The payment of debt administered by the Federal Revenue Office (Secretaria da Receita Federal - SRF) due up to February 28, 2003, dealt with in article 1 of the MP, have been scheduled for 130 monthly installments updated by TJLP, totaling R\$ 766 at December 31, 2006, and the debt due between March 1, 2003 and December 31, 2005, dealt with in article 8 of the MP, have been scheduled for payment in 120 monthly installments updated by TJLP, totaling R\$ 560 at December 31, 2006.

# Diagnósticos da América S.A.

## Notes to the financial statements

(In thousands of Reais)

### ISS

In 2006, the company scheduled the payment of ISS debt with the city government of Florianópolis, resulting in 3 (three) proceedings, stated as follows: (i) proceeding no.005407/06 of July 7, 2006, with the schedule of 24 monthly installments with interest at 1% per month, totaling R\$ 18 at December 31, 2006, (ii) proceeding no. 005408/06 of July 7, 2006, with the schedule of 24 monthly installments with interest at 1% per month, totaling R\$ 14 at December 31, 2006, and (iii) proceeding no .009476/06 of August 24, 2006, with the schedule of 36 monthly installments with interest at 1% per month, totaling R\$ 220 at December 31, 2006.

- (e) The company scheduled the payment of ISS debt with the city government of Aparecida de Goiânia, corresponding to the years of 1993, 1994, 1996, 1998, 1999 and 2001, resulting in 7 (seven) installment proceedings to be paid in 180 monthly installments updated by the TJLP, totaling R\$ 1,550 December 31, 2006; the amortizations shall be made until 2018.

### 15 Accounts payable from acquisition of subsidiaries

	2006	2005
Bio-Ciência Lavoisier de Análises Clínicas S.A. (a)	1,643	3,581
Laboratório Bronstein S.A (b)	7,042	6,294
Lâmina - Laboratório de Análises Médicas e Investigações Anátomo-Patológicas S.A. (c)	5,431	7,005
Laboratório de Patologia Clínica Curitiba S/C Ltda. (d)	423	406
Centro Radiológico da Lagoa e Presmedi Rio Serviços Médicos Ltda. (e)	341	328
Elkis e Furlanetto C.D.A.C. Ltda. (f)	7,773	7,305
Laboratório Pasteur Patologia Clínica S/S Ltda. (g)	626	1,741
Laboratório Frischmann Aisengart S.A. (h)	3,210	3,206
Image Memorial S.A. (i)	8,320	12,238
Laboratório Alvaro S.A. (j)	5,155	1,304
Laboratório Frischmann Aisengart S.A. (Minority interests) (k)	2,260	-
Laboratório Louis Pasteur Patologia Clínica S/C Ltda. (l)	3,545	-
Laboratório Imuno Ltda. - MedLabor (m)	730	-
Clinica Médica Vita S.A. (n)	278	-
Laboratório Atalaia Ltda. (o)	<u>2,544</u>	<u>-</u>
	<u>49,321</u>	<u>43,408</u>

# Diagnósticos da América S.A.

## Notes to the financial statements

(In thousands of Reais)

	<b>2006</b>	<b>2005</b>
Installments to amortize in the short term classified under the current liabilities	(18,107)	(8,704)
Noncurrent liabilities	<u>31,214</u>	<u>34,704</u>

Accounts payable from the acquisition of subsidiaries refer to amounts due to the previous owners for the acquisition of shares or quotas representing the capital of these companies. The debts are updated, and fall due as follows:

- (a) **Lavoisier** - Updated using the same rates of investment funds, managed by financial institutions, as reported in note 4, to guarantee the payment of possible contingencies.
- (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 (inflation index), plus interest of 12% per annum. Payments will be made until March 2007.
- (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 (inflation index). Payments of the debt, 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\$5,870, is updated using the same rates of the investment funds, managed by financial institutions, as reported in note 4 and R\$1,693, which is updated by the variation in the IGP-M (inflation index). Payments will be made until May 2011.
- (g) **Pasteur (DF)** - Updated by the variation in the IPCA (inflation index). Amortizations of the debt will be made until May 2007.
- (h) **Frischmann** - Updated using the same of the investment funds, managed by financial institution, as reported in note 4 and will be liquidated in July 2011.

# Diagnósticos da América S.A.

## Notes to the financial statements

*(In thousands of Reais)*

- (i) Image** - A portion of this debt, R\$ 7,924 is updated using the same rates of investment funds, managed by a financial institution, as reported in Note 4, and R\$ 149 will be deposited in the same investment fund until December 2006.
- (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. In December of 2006, the variable portion of the acquisition price was assessed and recorded, as reported in Note 7 a, and will be liquidated in May of 2007.
- (k) Frischmann (Minority)** - Relate to the acquisition of the totality of equity of the remaining shareholder of Laboratório Frischmann Aisengart S.A., which is being annually updated monetarily by the IGP-M (inflation index) variation. Amortizations of the debt will be made until May 2016.
- (l) LabPasteur (CE)** - Updated using the same of the investment funds, managed by financial institutions, as reported in note 4 and will be liquidated in September 2012.
- (m) MedLabor** - Updated using the same of the investment funds, managed by financial institutions, as reported in note 4 and will be liquidated in July 2012.
- (n) Vita** - Updated using the same of the investment funds, managed by financial institutions, as reported in note 4 and will be liquidated in October 2012.
- (o) Atalaia** - Updated using the same of the investment funds, managed by financial institutions, as reported in note 4 and will be liquidated in October 2012.

# Diagnósticos da América S.A.

## Notes to the financial statements

*(In thousands of Reais)*

The portion classified in noncurrent assets have the following payment schedule:

### **Maturity**

With no maturity date - See note 16 (a)	1,643
2008	240
2009	240
2010	7,692
2011	13,243
2012	7,336
2013 to 2016	<u>820</u>
Total	<u>31,214</u>

### **16 Other accounts payable**

	<b>2006</b>	<b>2005</b>
Rentals	2,570	2,052
Third-party services	4,203	2,918
Provision for specialized medical services	777	3,009
Franchisee commission payable	632	518
Accounts payable - previous owners	-	2,730
Other accounts payable	<u>5,075</u>	<u>2,232</u>
	<u>13,258</u>	<u>13,459</u>

# Diagnósticos da América S.A.

## Notes to the financial statements

(In thousands of Reais)

### 17 Provision for contingencies

	<u>2006</u>			<u>2005</u>
	<u>Provision</u>	<u>Judicial deposit</u>	<u>Net</u>	<u>Net</u>
(a) ICMS on imports	37,578	859	36,719	20,084
(b) Labor contingencies	4,285	56	4,229	3,383
(c) Civil contingencies	2,414	15	2,399	2,193
(d) Tax contingencies	<u>25,328</u>	<u>12,784</u>	<u>12,544</u>	<u>7,448</u>
	<u>69,605</u>	<u>13,714</u>	<u>55,891</u>	<u>33,108</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. 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 loss are probable. On December 31, 2006, amounts recorded regarding imports from January 1, 2003 onwards is R\$ 37,578 (R\$ 21,302 on December 31, 2005), with related judicial reserves amounts of R\$ 859 on December 31, 2006 (R\$ 1.218 on December 31, 2005). Regarding the amount recorded of R\$ 11,193 (R\$ 2,334 at December 31, 2005), restated by the SELIC rate and referring to international leasing of imported equipment, the legal advisors consider the chances of loss as a result of an eventual judicial dispute as possible. However, this issue still needs legal instrumentation and a provision was maintained.

# Diagnósticos da América S.A.

## Notes to the financial statements

*(In thousands of Reais)*

### **(b) Provision for labor contingencies**

On December 31, 2006, the Company is part to 211 labor judicial lawsuits (174 on December 31, 2005). Based on information provided by its legal advisors, the Company has recorded an amount of R\$4,285 (R\$3,566 on December 31, 2005), and the Company does not expect any losses from lawsuits beyond amounts already recorded.

### **(c) Provision for civil contingencies**

On December 31, 2006, the Company is part to 228 administrative and judicial lawsuits (157 on December 31, 2005). Based on information provided by its legal advisors, the Company has recorded an amount of R\$ 2,414 (R\$ 2,205 on December 31, 2005), and the Company does not expect any losses from lawsuits beyond amounts already recorded.

### **(d) 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\$ 25,328, R\$ 18,957 refer to taxes and contributions challenged by the acquired companies. Management, based on legal advisors opinion, has recorded provisions in the amount of R\$ 25,328 (R\$ 14,297 on December 31, 2005), and does not expect any losses beyond amounts already recorded.

### ***Movement of the provision***

	<b>2005</b>	<b>Movement in the period</b>				<b>2006</b>
	<b>Opening balance</b>	<b>Addition to provision</b>	<b>Usage</b>	<b>Revaluation</b>	<b>Transfer (a)</b>	<b>Closing balance</b>
ICMS on imports	21,302	13,321	( 359)	3,314	-	37,578
Provision for labor contingencies	3,566	503	( 144)	360	-	4,285
Provision for civil contingencies	2,205	97	( 78)	190	-	2,414
Provision for tax contingencies	<u>14,297</u>	<u>5,343</u>	<u>( 795)</u>	<u>4,220</u>	<u>2,263</u>	<u>25,328</u>
	<u>41,370</u>	<u>19,264</u>	<u>(1,376)</u>	<u>8,084</u>	<u>2,263</u>	<u>69,605</u>

# Diagnósticos da América S.A.

## Notes to the financial statements

*(In thousands of Reais)*

- (a) Transfer of accounts payable for the acquisition of Lavoisier, related to the Tax Deficiency Notice issued by Brazilian Social Security (Instituto Nacional de Seguridade Social - INSS). The Company has a judicial deposit for such proceeding.

### **18 Shareholders' equity**

#### *a. Capital*

The capital of the Company is R\$402,091, represented by 57,402,935 (Fifty-Seven Million, Four Hundred and Two Thousand, Nine Hundred and Thirty-Five) common shares, all nominative, without certificate and with no par value, with the exclusion of the right of preference of the current shareholders of the Company of its subscription, pursuant to the provision in Article 172 of Law no. 6,404, dated December 15, 1976, and pursuant to Article 9 of the Company's Bylaws.

The authorized limit for the capital increase, independently of statutory reform, through the issue of new shares, is 140,000,000 (one-hundred and forty million) common shares.

Through a resolution of the Board of Directors, 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, share issuances 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.

# Diagnósticos da América S.A.

## Notes to the financial statements

*(In thousands of Reais)*

During the Board of Directors meeting held on March 22, 2006, it was approved a capital increase, within the limit approved by the Board. The capital increased from R\$ 216,136 to R\$ 377,836, representing 56,907,935 common shares, all nominative, without certificate and with no par value, for a total increase in the amount of R\$ 161,700, with the subscription of 3,300,000 common shares, with the exclusion of the right of preference of the current shareholders of the Company of its subscription, pursuant to the provision in Article 172 of Law no. 6,404, dated December 15, 1976, and pursuant to Article 9 of the Company's Bylaws.

During the Board of Directors meeting held on April 7, 2006, it was approved a capital increase in the amount of R\$ 24,255, within the limit approved by the Board. The capital increased from R\$ 377,836 to R\$ 402,091, with the subscription of 495,000 shares of common stock. The capital of the Company is represented by 57,402,935 (Fifty-Seven Million, Four Hundred and Two Thousand, Nine Hundred and Thirty-Five) common shares, all nominative, without certificate and with no par value, with the exclusion of the right of preference of the current shareholders of the Company of its subscription, pursuant to the provision in Article 172 of Law no. 6,404, dated December 15, 1976, and pursuant to Article 9 of the Company's Bylaws.

### **b. Dividends**

In accordance with the by-laws, net income has the following destination: (i) 5% for profit reserve up to the limit of 20% of capital; and (ii) 25% of the remaining balance adjusted in accordance with art. 202 of Law 6,404/76, for the payment of dividends.

The following is management's proposal to the destination of the net income for the year ended December 31, 2006:

Net income for the year	16,511
Accumulated losses	<u>(14,296)</u>
Adjusted net income	2,215
Legal reserve (5%)	<u>( 111)</u>
Basis for dividends distribution	<u>2,104</u>
Dividends (25%)	<u>( 527)</u>

# Diagnósticos da América S.A.

## Notes to the financial statements

*(In thousands of Reais)*

### *c. Management remuneration*

Management remuneration was R\$6,102 for the year of 2006 (R\$ 4,756 in 2005).

## **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:

	<b>2006</b>	<b>2005</b>
Income before taxes on income	<u>35,966</u>	<u>20,667</u>
Statutory composite rate	34%	34%
Tax expense at statutory composite rate	12,229	7,027
Adjustments to derive effective rate:		
Permanent differences		
Permanent differences	7,791	2,648
Temporarily additions	4,603	4,651
Tax loss carryforward	( 4,428)	( 3,909)
Adjustment for tax calculated base on presumed profit	( 548)	-
Other adjustments	( 267)	( 23)
Income tax and social contribution expense	<u>(19,380)</u>	<u>(10,394)</u>
Effective rate	<u>54%</u>	<u>50%</u>

# Diagnósticos da América S.A.

## Notes to the financial statements

(In thousands of Reais)

### 20 General and administrative expenses

	<b>2006</b>	<b>2005</b>
Personnel expenses	52,326	41,024
Services and utilities	39,208	23,414
Depreciation	11,980	5,052
Taxes	1,084	2,293
Sundry provisions	8,463	4,393
Public offering expenses	14,875	942
Expenses with issuance of debentures (a)	639	-
General expenses	<u>25,486</u>	<u>11,615</u>
	<u>151,061</u>	<u>88,733</u>

(a) Debentures totaled R\$ 4,792, classified under Prepaid expenses, and are being amortized monthly up to April 2011.

### 21 Tax loss carry-forwards

At December 31, 2006, the Company had the following tax loss carry-forwards:

a. Income tax losses; and	10,998
b. Negative social contribution base.	14,514

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

### 22 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 have losses from these operations, besides those already disclosed in the financial statements.

# Diagnósticos da América S.A.

## Notes to the financial statements

*(In thousands of Reais)*

The market values were estimated at the closing date of the financial statements, based on “relevant market information”. Any changes in the premises could significantly affect the estimates presented.

The management of these instruments is done through operating strategies, aimed at liquidity, profitability and security. The control policy consists of permanent follow-up of the rates engaged versus those in force in the market. The Company does not invest in derivatives or any other risky 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 balance sheet at December 31, 2006 are shown below:

<b>Description</b>	<b>Book value</b>	<b>Market value</b>
Cash and cash equivalent	7,172	7,172
Financial investments	325,490	325,490
Taxes recoverable	16,749	16,749
Investments valued using the equity method	<u>120,835</u>	<u>120,835</u>
<b>Assets</b>	<b><u>470,246</u></b>	<b><u>470,246</u></b>
Loans and financing:		
Local currency	40,161	40,161
Foreign currency	72,257	75,806
Swap	<u>20,236</u>	<u>19,283</u>
<b>Liabilities</b>	<b><u>132,654</u></b>	<b><u>135,250</u></b>

### ***b. Criteria, premises and limitations used in the calculation of market value***

#### *Cash and banks and financial investments*

Current accounts held in banks have market values similar to the book values.

# Diagnósticos da América S.A.

## Notes to the financial statements

*(In thousands of Reais)*

For short-term financial investments, the market value was calculated based on the market quotations of these securities.

### *Taxes recoverable*

Taxes recoverable/deferred are presented at book value, 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 similar to the book values, since they have no market quotation.

### *Bank 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 (swap)*

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 date of quarterly information, based on “relevant market information”. Any changes in the premises could significantly affect the estimates presented.

### **c. Exchange rate risk**

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

# Diagnósticos da América S.A.

## Notes to the financial statements

(In thousands of Reais)

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 83% of the aggregate principal amount outstanding. For indebtedness related to Leasing of foreign equipment denominated in foreign currency for equipment and foreign suppliers, the Company does not have instruments in effect that protect against related exchange rate risks.

	2006	2005
<b>Liabilities</b>		
Bank loans	14,403	23,342
Equipment suppliers	33,492	47,842
Leasing of imported equipment	44,598	11,297
Foreign suppliers	<u>4,303</u>	<u>3,312</u>
	<u>96,796</u>	<u>85,793</u>

### 23 Related parties

Our by-laws require related party transactions to be performed on an arms-length basis. Additionally, any operation or operations in aggregate with related parties in Brazilian reais over US\$ 500 thousand must be approved by the Board of Directors, by at least 75% of the members who attended the Meeting.

During the years ended at December 31, 2006 and 2005, the Company maintained operations in the context of its regular business with related parties, as follows (consolidated):

	2006		2005	
	Expenses	Permanent assets	Expenses	Permanent assets
Terra Molhada Participações Ltda. (a)	3,599	-	3,355	-
Parkbem Multiserviços S/C Ltda. (b)	6,687	83	6,093	39
Patrimônio Investimentos e Participações Ltda. (c)	439	-	1,747	2,995
RMA Construtora Ltda. (d)	1,374	6,560	1,791	3,719
Touch Tecnologia e Informática Ltda (e)	-	2,737	-	1,984

# Diagnósticos da América S.A.

## Notes to the financial statements

(In thousands of Reais)

	2006		2005	
	Expenses	Permanent assets	Expenses	Permanent assets
Pátria - Banco de Negócios Assessoria, Gestão e Participação Ltda (f)	1,806	1,344	-	-
Refazenda Participações Ltda (g)	<u>-</u>	<u>830</u>	<u>-</u>	<u>-</u>
	<u>13,905</u>	<u>11,554</u>	<u>12,986</u>	<u>8,737</u>

### (a) Terra Molhada Participações Ltda.

The Company leases three real estate properties (central laboratory and headquarters and service units on Av. Brasil and Rua Baluarte, in São Paulo) from Terra Molhada Participações Ltda., controlled by Renato Magnanini Auriemo, Ricardo Magnanini Auriemo, Adriana Auriemo Miglorancia and Guilherme Magnanini Auriemo, sons and daughter of Dr. Caio Roberto Chimenti Auriemo, Chairman of the Board of Directors of the Company and controlling shareholder of Balu 460 Participações S.A., which controls DASA Participações S.A., holder of general control of the Company. The lease agreements related to the three properties were renewed in May 2004 for an additional period of 10 years.

### (b) Parkbem Multiserviços S/C Ltda.

Company controlled by José Auriemo Neto, nephew of Dr. Caio Auriemo, providing cleaning, security and parking services to the service units.

### (c) Patrimônio Investimentos e Participações Ltda.

Company connected to Pátria - Banco de Negócios Assessoria, Gestão e Participação Ltda., manager of certain funds, indirect shareholders of the Company, provides services related to financial consulting in order to assist the Company in mergers and acquisitions.

### (d) RMA Construtora Ltda.

Construction company owned by Renato Magnanini Auriemo, son of Dr. Caio Auriemo, provides civil engineering services for the construction or remodeling of the service units.

# Diagnósticos da América S.A.

## Notes to the financial statements

(In thousands of Reais)

**(e) Touch Tecnologia e Informática Ltda.**

Software development and web design company owned by Ricardo Magnanini Auriemo, son of Dr. Caio Auriemo, provides *software* development services.

**(f) Pátria - Banco de Negócios Assessoria, Gestão e Participação Ltda.**

Fund management firm, indirect shareholders of the Company, provides services for the assistance of the Company in mergers and acquisitions.

**(g) Refazenda Participações Ltda**

Company that manages its own assets and business, controlled by Balu 460 Participações S.A., which controls DASA Participações S.A., holder of general control of the Company. During the year, this company sold a property to the controlled company DASA Real Estate Empreendimentos Imobiliários Ltda. in the amount of R\$ 830.

## 24 Leases

### *Local currency lease*

The Company is a lessee of data processing equipment (*hardware*) machinery and equipment with purchase option, pursuant to 16 leasing agreements in effect on December 31, 2006, totaling a payable balance until 2012 in the sum of R\$ 5,133, of which R\$ 2,842 are classified under the current liabilities and R\$ 2,291 in the long-term liabilities, and in this amount, interest of R\$ 485 is included. 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:

2007	2,842
2008	1,014
2009	477
2010 to 2012	<u>800</u>
	<u>5,133</u>

# Diagnósticos da América S.A.

## Notes to the financial statements

*(In thousands of Reais)*

The equipment related to these contracts are registered in the fixed asset account as machinery and equipment, of which R\$9,039 relates to cost and R\$1,684 to accumulated depreciation.

### ***Foreign currency lease***

The Company is a lessee of equipment used in the rendering of services, in accordance with leasing agreements with 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 and semestral basis. Quarterly and biannual installments set in US Dollars are converted into Reais by the market price on the payment date, plus interest which vary from 7.20% per year to 8.35% per year, totaling a payable balance until 2013 in the sum of R\$ 44,598, of which R\$ 8,380 are classified under the current liabilities and R\$ 36,218 under the long-term liabilities. In the payable amount of such agreements, interest of R\$607 is included.

The accounts payable related to leasing matures as follows:

2007	8,380
2008	8,427
2009	7,185
2010	6,841
2011	5,564
2012	5,317
2013	<u>2,884</u>
	<u>44,598</u>

The equipment related to these contracts are registered in the fixed assets, as Machinery and equipment, of which R\$58,769 being cost and R\$7,469 as accumulated depreciation.

# Diagnósticos da América S.A.

## Notes to the financial statements

*(In thousands of Reais)*

### **25 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 2 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 shareholder's equity reflects the remain 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.

# Diagnósticos da América S.A.

## Notes to the financial statements

*(In thousands of Reais)*

### *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 (Inter-bank 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. 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 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 hedge accounting, under U.S. GAAP, changes in fair value of these contracts are recognized in earnings in the current period.

# Diagnósticos da América S.A.

## Notes to the financial statements

(In thousands of Reais)

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

2006				
Number of contracts outstanding	Type of derivative instruments	Book value under accounting practices adopted in Brazil	Fair value	U.S. GAAP adjustment
53	Cross-currency interest swap	(20.236)	(19.283)	953

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)	(21.448)	2.677

### 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 records leasing in the same manner as it accounts for U.S. GAAP capital lease accounting. The effect of this change in accounting practice was not material to require prior years' adjustments. Operating leases are recorded in the income statement.

Under U.S. GAAP, pursuant to SFAS No. 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 financed purchase.

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.

# Diagnósticos da América S.A.

## Notes to the financial statements

*(In thousands of Reais)*

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 No. 13 are included in Note.IV.d).

*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 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, but not exceeding ten years.

Under U.S. GAAP, pursuant to SFAS n° 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 at the date of acquisition. The excess of the cost of an acquired entity over 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 captions. 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.

# Diagnósticos da América S.A.

## Notes to the financial statements

(In thousands of Reais)

### Acquisitions

The Company acquired the following companies in 2005 and 2006:

Acquisition date	Company	Interest acquired
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%
May 23, 2006	Laboratório Frischmann Aisengart S.A. - Minority Interest - "Frischmann"	7.08%
June 15, 2006	Laboratório Louis Pasteur Centro de Medicina Laboratorial Ltda - "LabPasteur"	100.00%
July 27, 2006	Laboratório Imuno Ltda - "MedLabor"	100.00%
October 5, 2006	Clínica Médica Vita S.A. - "Vita Medicina Diagnóstica"	100.00%
October 26, 2006	Laboratório Atalaia Ltda - "Atalaia"	100.00%

The results of the acquired companies 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 of these companies:

	Pasteur	Frischmann (92.92%)	Image	Alvaro	Frischmann (7.08%)	LabPasteur	MedLabor	Vita	Atalaia
Current assets	667	8,949	2,910	6,488	8,051	1,613	788	1,344	4,152
Property, plant and equipment	1,414	3,738	3,205	2,682	3,289	484	-	234	2,523
Intangible assets	2,526	8,673	8,246	15,689	8,673	7,594	3,425	4,442	8,768
Other assets	<u>371</u>	<u>2,963</u>	<u>4</u>	<u>1,635</u>	<u>253</u>	<u>16</u>	<u>453</u>	<u>6</u>	<u>-</u>
Total assets acquired	<u>4,978</u>	<u>24,323</u>	<u>14,365</u>	<u>26,494</u>	<u>20,266</u>	<u>9,707</u>	<u>4,666</u>	<u>6,026</u>	<u>15,443</u>
Current liabilities	3,271	8,005	4,417	7,739	4,268	3,087	2,149	2,175	4,685
Long-term liabilities	<u>1,923</u>	<u>7,229</u>	<u>3,286</u>	<u>7,852</u>	<u>4,204</u>	<u>2,620</u>	<u>1,302</u>	<u>5,487</u>	<u>5,108</u>
Liabilities assumed	5,194	15,234	7,703	15,591	8,472	5,707	3,451	7,662	9,793
Net assets (liabilities) acquired (assumed)	<u>( 216)</u>	<u>9,089</u>	<u>6,662</u>	<u>10,903</u>	<u>11,794</u>	<u>4,000</u>	<u>1,215</u>	<u>(1,636)</u>	<u>5,650</u>
Interest acquired	100.00%	92.92%	100.00%	100.00%	7.08%	100.00%	100.00%	100.00%	100.00%
Net assets (liabilities) acquired (assumed)	(216)	8,445	6,662	10,903	835	4,000	1,215	(1,636)	5,650
Total cost of acquisition	<u>6,509</u>	<u>31,690</u>	<u>35,981</u>	<u>25,821</u>	<u>6,634</u>	<u>11,961</u>	<u>5,429</u>	<u>746</u>	<u>29,176</u>
Goodwill recorded under U.S. GAAP	6,725	23,245	29,319	14,918	5,799	7,961	4,214	2,382	23,526
Goodwill recorded under accounting practices adopted in Brazil	7,883	26,873	31,638	25,127	4,970	13,936	5,966	4,768	28,328

# Diagnósticos da América S.A.

## Notes to the financial statements

(In thousands of Reais)

The amounts of intangible assets assigned for each acquired company are as follows:

	Pasteur	Frischmann	Image	Alvaro	LabPasteur	MedLabor	Vita	Atalaia
<b>Description</b>								
Brand	2,526	8,673	8,246	15,689	7,594	3,425	4,442	8,768

The amortization period for all intangible assets recorded (brands) is 360 months (30 years).

The total amount of goodwill recorded was assigned to the Company as a whole as there are 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, 2006 and 2005, in accordance with accounting practices adopted in Brazil, as if the Frischmann, Image, Alvaro, LabPasteur, Medlabor, Vita and Atalaia acquisitions had been completed at the beginning of each period. The unaudited pro forma information is only presented for comparative purposes and does not purport to be indicative of what would have occurred had the acquisition actually been made at such date, nor is it necessarily indicative of future operating results:

<b>Amounts under accounting practices adopted in Brazil</b>	<b>2006</b>	<b>2005</b>
Net service revenues	698,752	598,665
Operating (loss) income	( 64,118)	11,923
Net income (loss)	14,437	( 4,025)
Net income (loss) per share	0.26	(0.08)

### *h. Corporate reorganization - Special reserve*

The Company merged certain of its holding companies in prior years as a result of a corporate reorganization. The goodwill originating from these mergers is classified as a capital reserve account within shareholders equity and was amortized in the income statement on a straight-line basis over a period of 5 years until February 2006.

# Diagnósticos da América S.A.

## Notes to the financial statements

*(In thousands of Reais)*

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 financial investments. Under U.S. GAAP, these investments are recorded together with cash and banks under the caption "Cash and cash equivalents". At December 31, 2006 and 2005, the consolidated balance of cash and cash equivalents under U.S. GAAP is R\$ 19,031 and R\$12,221, respectively.

*j. Operating income*

Non-operating losses in the amount of R\$ 795 and R\$488 presented for the years ended December 31, 2006 and 2005 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.

*k. 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.

*l. 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.

# Diagnósticos da América S.A.

## Notes to the financial statements

*(In thousands of Reais)*

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.h).

### *m. Disclosures in the notes to financial statement*

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

### *n. Deferred income taxes*

Under accounting practices adopted in Brazil, deferred tax assets must be recorded when certain criteria defined by the CVM are met and 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 must be supported by expected future taxable earnings brought to their present value. The estimate of realization cannot exceed ten years.

Under U.S. GAAP, deferred taxes are recorded on all temporary differences, except for differences arising from re-measurement of non-monetary assets and liabilities from Brazilian 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.

The types of temporary differences that give rise to significant portions of the Company's net deferred tax liabilities at December 31 are set forth below:

# Diagnósticos da América S.A.

## Notes to the financial statements

*(In thousands of Reais)*

	<b>2006</b>	<b>2005</b>
<b>Deferred tax assets</b>		
Accruals, reserves and other temporary differences not deductible for tax purposes	26,075	21,783
Net operating loss carryforwards	4,056	8,247
Inflation accounting - Property, plant and equipment	( 272)	( 554)
Deferred charges	7,267	6,670
Capitalization of interest	( 563)	( 658)
Fair value adjustments relating to derivatives	<u>(1,351)</u>	<u>(1,937)</u>
 Total gross deferred tax assets	 35,212	 33,551
 Less valuation allowance	 <u>      -</u>	 <u>(21,768)</u>
 Net deferred tax assets	 <u>35,212</u>	 <u>11,783</u>
 Differences in goodwill recognized under US GAAP	 (22,952)	 (20,564)
Intangible assets recorded under US GAAP	(33,255)	(26,206)
 Total gross deferred tax liabilities	 <u>(56,207)</u>	 <u>(46,770)</u>
 Net deferred tax liability	 <u>(20,995)</u>	 <u>(34,987)</u>

# Diagnósticos da América S.A.

## Notes to the financial statements

*(In thousands of Reais)*

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. In order to fully realize the deferred tax asset, the Company will need to generate future taxable income of approximately R\$105 million. Taxable income for the years ended December 31, 2006 and 2005 was \$30,131 and \$11,783, respectively. Based upon the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax assets are deductible, management believes it is more likely than not that the Company will realize the benefits of these deductible differences, and therefore, no valuation allowance was recorded at December 31, 2006.

### *o. Recently issued accounting standards*

In February 2006, the FASB issued SFAS n° 155, "Accounting for Certain Hybrid Financial Instruments". SFAS n° 155 amends FASB Statements n°. 133, "Accounting for Derivative Instruments and Hedging Activities", and n° 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities". This Statement resolves issues addressed in Statement n° 133 Implementation Issue no. D1, "Application of Statement n° 133 to Beneficial Interests in Securitized Financial Assets". The main topics are that permits fair value remeasurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation; clarifies which interest-only strips and principal-only strips are not subject to the requirements of SFAS n° 133, establishes a requirement to evaluate interests in securitized financial assets to identify interests that are freestanding derivatives or that are hybrid financial instruments that contain an embedded derivative requiring bifurcation; clarifies that concentrations of credit risk in the form of subordination are not embedded derivatives and amends SFAS n° 140 to eliminate the prohibition on a qualifying special purpose entity from holding a derivative financial instrument that pertains to a beneficial interest other than another derivative financial instrument. This Statement is effective for all financial instruments acquired or issued after the beginning of an entity's first fiscal year that begins after September 15, 2006. The Company believes that such pronouncement will not have effects on its consolidated financials statements.

# Diagnósticos da América S.A.

## Notes to the financial statements

*(In thousands of Reais)*

In March 2006, the FASB issued SFAS n° 156, “Accounting for Servicing of Financial Assets”. This statement amends SFAS n° 140, “Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities”. SFAS 156 amends Statement 140 to require that all separately recognized servicing assets and servicing liabilities be initially measured at fair value, if practicable. SFAS 156 permits, but does not require, the subsequent measurement of separately recognized servicing assets and servicing liabilities at fair value. An entity that uses derivative instruments to mitigate the risks inherent in servicing assets and servicing liabilities is required to account for those derivative instruments at fair value. Under this Statement, an entity can elect subsequent fair value measurement to account for its separately recognized servicing assets and servicing liabilities. An entity shall adopt this Statement as of the beginning of its first fiscal year that begins after September 15, 2006. Earlier adoption is permitted in certain cases. The impact of adopting this new rule 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 September 2006, the FASB issued FASB Statement no. 157, Fair Value Measurement (Statement 157). SFAS 157 defines fair value, establishes a framework for the measurement of fair value, and enhances disclosures about fair value measurements. The Statement does not require any new fair value measures. The Statement is effective for fair value measures already required or permitted by other standards for fiscal years beginning after November 15, 2007. The Company is required to adopt Statement 157 beginning on January 1, 2008. Statement 157 is required to be applied prospectively, except for certain financial instruments. Any transition adjustment will be recognized as an adjustment to opening retained earnings in the year of adoption. The Company is currently evaluating the impact of adopting Statement 157 on its results of operations and financial position.

# Diagnósticos da América S.A.

## Notes to the financial statements

(In thousands of Reais)

In July 2006, the FASB issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*, an interpretation of FASB Statement 109 (FIN 48). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements and prescribes a threshold of more-likely-than-not for recognition of tax benefits of uncertain tax positions taken or expected to be taken in a tax return. FIN 48 also provides related guidance on measurement, derecognition, classification, interest and penalties, and disclosure. The provisions of FIN 48 will be effective for the Company on January 1, 2007, with any cumulative effect of the change in accounting principle recorded as an adjustment to opening retained earnings. The Company is in the process of assessing the impact of adopting FIN 48 on its results of operations and financial position. However, the Company's current policy is to recognize tax benefits of uncertain tax positions only if it is probable that the positions will be sustained. The Company is currently evaluating the impact of adopting FIN 48 on its results of operations and financial position.

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

Description	Note I	2006	2005
<b>Net income as reported under accounting practices adopted in Brazil</b>		<b>16,511</b>	<b>10,157</b>
Inflation accounting - Property, plant and equipment	a)	( 379)	( 87)
Deferred charges	b)	( 1,556)	1,513
Capitalization of interest:	c)		
Cost		404	1,911
Amortization expenses		<u>( 1,333)</u>	<u>( 595)</u>
Subtotal		<u>( 929)</u>	<u>1,316</u>
Fair value adjustments relating to accounting for derivative instruments	d)	( 1,723)	( 3,021)
Capital leases:	e)		
Reversal of nonoperating expenses under accounting practices adopted in Brazil		_____	<u>( 356)</u>
Subtotal		_____	<u>( 356)</u>
Deferred tax effects on adjustments above		1,560	216
Deferred tax asset on temporary differences and tax loss carryforwards		21,884	8,247
Public placement of shares expenses	f)	14,778	-
Business combinations:	g)		
Reversal of amortization of goodwill under BR GAAP		25,130	24,154

# Diagnósticos da América S.A.

## Notes to the financial statements

(In thousands of Reais)

Description	Note I	2006	2005
Tax benefit applied as a reduction of goodwill		( 306)	( 3,243)
Deferred income taxes on goodwill basis difference		( 2,750)	( 4,973)
Amortization of intangible assets recognized under U.S. GAAP		( 4,109)	( 3,723)
Deferred income tax effect on intangible assets		<u>1,397</u>	<u>1,266</u>
Subtotal		19,361	13,481
Reversal of amortization of goodwill generated from corporate reorganization	h)	1,291	11,557
<b>Net income under U.S. GAAP</b>		<b><u>70,799</u></b>	<b><u>43,023</u></b>
Comprehensive income		<u>70,799</u>	<u>43,023</u>
Basic and diluted earnings per common share under U.S. GAAP (*)		1.25	0.80

(\*) The calculation of earnings per share is summarized in Note IV.h).

Description	Note I	2006	2005
<b>Shareholders' equity as reported under accounting practices adopted in Brazil</b>		<b>469,206</b>	<b>265,976</b>
Inflation accounting - Property, plant and equipment	a)	-	379
Deferred charges	b)	( 20,865)	( 19,111)
Capitalization of interest:	c)		
Cost		7,240	6,836
Accumulated amortization		<u>( 2,489)</u>	<u>( 1,156)</u>
Subtotal		4,751	5,680
Fair value adjustments relating to accounting for derivative instruments	d)	953	2,678
Deferred tax effects on adjustments above		5,081	3,527
Deferred tax asset on temporary differences and tax loss carryforwards	o)	30,131	8,247
Business combinations:	g)		
Goodwill under U.S. GAAP		215,358	170,779
Goodwill under BR GAAP		(212,141)	(228,016)
Accumulated amortization of goodwill under BR GAAP		147,006	118,186

# Diagnósticos da América S.A.

## Notes to the financial statements

(In thousands of Reais)

Description	Note I	2006	2005
Tax benefit applied as a reduction of goodwill		( 18,990)	( 18,540)
Deferred income taxes on goodwill basis difference		( 22,948)	( 20,557)
Intangible assets recognized under U.S. GAAP		117,481	92,638
Accumulated amortization of intangible assets recognized under U.S. GAAP		( 19,670)	( 15,562)
Deferred income tax effect on intangible assets		( 33,256)	( 26,204)
Subtotal		<u>85,857</u>	<u>66,290</u>
<b>Shareholders' equity under U.S. GAAP</b>		<b><u>575,114</u></b>	<b><u>333,666</u></b>

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

	2006	2005
Shareholders' equity under U.S. GAAP		
as of beginning of the year	333,666	290,643
Net income	70,799	43,023
Capital increase	171,176	-
Capital distribution	( 527)	-
Shareholders' equity under U.S. GAAP as of the end of the year	<u>575,114</u>	<u>333,666</u>

### *IV - Additional disclosures required by U.S. GAAP*

#### *a. Marketable securities*

The Company classifies its debt securities as trading securities, as the securities are bought and held principally for the purpose of selling them in the near term. These securities are recorded at fair value. Unrealized holding gains and losses are included in earnings.

# Diagnósticos da América S.A.

## Notes to the financial statements

(In thousands of Reais)

### b. Capitalized interest

The Company's policy is to capitalize interest cost incurred on debt during the construction of major projects exceeding one year. A reconciliation of total interest cost to "Interest Expense" as reported in the consolidated statements of income for 2006 and 2005, is as follows:

	<b>2006</b>	<b>2005</b>
Interest cost capitalized	404	1,911
Interest cost charged to income	<u>62,031</u>	<u>39,854</u>
Total interest expense	<u>62,435</u>	<u>41,765</u>

### c. Long-lived assets

In accordance with FASB Statement No. 144 (Statement 144), Accounting for the Impairment or Disposal of Long-Lived Assets, long-lived assets, such as property, plant, and equipment, and purchased intangible assets subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If circumstances require a long-lived asset be tested for possible impairment, the Company first compares undiscounted cash flows expected to be generated by an asset to the carrying value of the asset. If the carrying value of the long-lived asset is not recoverable on an undiscounted cash flow basis, an impairment is recognized to the extent that the carrying value exceeds its fair value. Fair value is determined through various valuation techniques including discounted cash flow models, quoted market values and third-party independent appraisals, as considered necessary.

### d. Leasing transactions

#### Capital leases

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

The Company has leasing arrangements for machines and equipment and data processing equipment (hardware) with a purchase option, based on 16 local currency leasing contracts and 9 foreign currency leasing contracts in force as of December 31, 2006.

# Diagnósticos da América S.A.

## Notes to the financial statements

*(In thousands of Reais)*

The Company recorded capital leases as assets and liabilities for purposes of accounting practices adopted in Brazil.

The following table summarizes the assets recorded under capital leases:

		<b>2006</b>		
	<b>Depreciation rate - % p.a.</b>	<b>Cost</b>	<b>Depreciation</b>	<b>Net</b>
Machinery and equipment	10	66,269	8,775	57,494
Hardware	20	<u>1,539</u>	<u>379</u>	<u>1,160</u>
		<u>67,808</u>	<u>9,154</u>	<u>58,654</u>
		<b>2005</b>		
	<b>Depreciation rate - % p.a.</b>	<b>Cost</b>	<b>Depreciation</b>	<b>Net</b>
Machinery and equipment	10	18,555	1,578	16,977
Furniture and fixtures	10	318	81	237
Hardware	20	2,103	726	1,337
Vehicles	20	<u>133</u>	<u>133</u>	<u>-</u>
		<u>21,109</u>	<u>2,518</u>	<u>18,591</u>

# Diagnósticos da América S.A.

## Notes to the financial statements

*(In thousands of Reais)*

Future minimum lease payments under non cancelable operating leases (with initial or remaining lease terms in excess of one year) and future minimum capital lease payments as of December 31, 2006 are:

<b>Year ending December 31</b>	<b>Capital leases</b>	<b>Operating leases</b>
2007	11,222	1,411
2008	9,441	716
2009	7,662	2,430
2010	7,107	3,040
2011	5,831	1,669
Later years	<u>8,468</u>	<u>10,640</u>
Total minimum payments	<u>49,731</u>	<u>19,906</u>
Less amount representing interest (at rates ranging from 7.20% to 8.35% per annum)	<u>( 1,092)</u>	<u>-</u>
Total principal amount to be paid	<u>48,639</u>	<u>-</u>

Minimum rent payments under operating leases are recognized on a straight-line basis over the term of the lease including any periods of free rent. Rental expense for operating leases during 2006 and 2005 amounted to R\$22,428 and R\$25,710, respectively. Operating lease contracts are subject to increases based on an inflation index (IGP-M), which is deemed to be contingent rental.

### *e. Segment information*

The Company has concluded that it operates in one segment and accordingly has provided only the required enterprise-wide disclosures. The Company operates in Brazil and derives its revenue from health assistance services rendered.

# Diagnósticos da América S.A.

## Notes to the financial statements

(In thousands of Reais)

### f. Revenue recognition

The Company recognizes revenue when the services are provided to its customers, collection of relevant receivables is probable, persuasive evidence of an arrangement exists and the sales price is fixed or determinable.

### g. Changes in number of shares

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

	<b>Common</b>
Shares at December 31, 2004	<u>53,607,935</u>
Shares at December 31, 2005	<u>53,607,935</u>
Issuance of new shares	<u>3,795,000</u>
Shares at December 31, 2006	<u>57,402,935</u>

### h. 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.

	<b>2006</b>	<b>2005</b>
Net income under U.S. GAAP	70,799	43,023
Weighted average shares outstanding - Basic and diluted	56,579,768	53,607,935
Basic and diluted earnings per share - R\$	1.25	0.80

# Diagnósticos da América S.A.

## Notes to the financial statements

*(In thousands of Reais)*

### *i. 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:

<b>Goodwill description</b>	<b>2006</b>	<b>2005</b>
Lavoisier acquisition	20,846	20,846
Broenstein acquisition	22,499	22,499
Lamina acquisition	1,208	1,208
Santa Casa acquisition	779	925
CRL acquisition	9,535	9,589
Elkis acquisition	20,676	20,806
Pasteur acquisition	6,517	6,636
Frischmann acquisition	28,861	23,063
Image acquisition	29,271	28,560
Álvaro acquisition	11,207	14,890
LabPasteur acquisition	7,961	-
MedLabor acquisition	4,214	-
Vita acquisition	2,381	-
Atalaia acquisition	<u>23,525</u>	<u>-</u>
	<u>189,480</u>	<u>149,022</u>

# Diagnósticos da América S.A.

## Notes to the financial statements

(In thousands of Reais)

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.

The Company estimates the entire goodwill balance relating to these acquisitions will be deductible for tax purposes, at the time the acquired Company is merged.

The carrying amount of goodwill by company for the year ended December 31, 2005 and 2006 are as follows:

	<b>Goodwill</b>
<b>Beginning balance as of January 1, 2005</b>	<u>78,621</u>
Additions	73,148
Total tax benefit applied to reduce goodwill	( 2,747)
<b>Balance as of December 31, 2005</b>	<u>149,022</u>
Additions	40,764
Total tax benefit applied to reduce goodwill	( 306)
<b>Balance as of December 31, 2006</b>	<u>189,480</u>

### *j. Intangible assets subject to amortization*

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

	<u>2006</u>			<u>2005</u>		
	Brands	Non-compete agreements	Total	Brands	Non-compete agreements	Total
Gross	106,944	10,537	117,481	82,101	10,537	92,638
Accumulated amortization	( 13,472)	( 6,199)	( 19,671)	(10,180)	( 5,382)	(15,562)
Net	93,472	4,338	97,810	71,921	5,155	77,076
Weighted- average amortization period (years)	20.1	5.3	-	18.9	6.3	-

# Diagnósticos da América S.A.

## Notes to the financial statements

*(In thousands of Reais)*

Under U.S. GAAP the aggregate amortization expense for the above intangible assets amounted to R\$4,109 and R\$3,723 for the year ended December 31, 2006 and 2005, respectively.

### *k. Income tax*

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

	<b>2006</b>	<b>2005</b>
Income before taxes on income	<u>68,468</u>	<u>52,020</u>
Statutory composite rate	34%	34%
Tax expense at statutory composite rate	23,279	17,687
Adjustments to derive effective rate:		
Permanent differences	2,327	( 1,281)
Adjustment for tax calculated base on presumed profit	( 548)	-
Deffered tax on goodwill basis differences	( 5,488)	-
Reduction of valuation allowance, net of amounts offset against taxable income	(21,709)	(12,156)
Other adjustments	( 267)	( 20)
Income tax and social contribution expense	<u>( 2,406)</u>	<u>8,881</u>
Effective rate	<u>(4%)</u>	<u>17%</u>

### *l. Concentration 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.

# Diagnósticos da América S.A.

## Notes to the financial statements

*(In thousands of Reais)*

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

*m. Aggregate foreign currency transaction losses (gains)*

Total aggregate foreign currency transaction losses (gains) included in financial expense amounted to R\$7,701, and R\$7,992 for the years ended December 31, 2006 and 2005, 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 25.

# Diagnósticos da América S.A.

## Notes to the financial statements

(In thousands of Reais)

### a. Consolidated balance sheets as of December 31, 2006 and 2005 under U.S. GAAP

<b>Assets</b>	<b>2006</b>	<b>2005</b>	<b>Liabilities</b>	<b>2006</b>	<b>2005</b>
Current assets			Current liabilities		
Cash and cash equivalents	19,031	12,221	Suppliers	34,038	26,982
Financial investments	313,630	40,402	Loans and financing	65,767	75,384
Trade accounts receivable	138,615	116,405	Taxes and contributions payable	6,164	5,040
Inventories	20,717	18,161	Salaries, social security charges and vacation payable	26,058	21,176
Taxes recoverable	16,749	16,253	Installments taxes	5,532	5,558
Other accounts receivable	6,328	6,523	Accounts payable from acquisition of subsidiaries	14,424	8,704
Fair value of derivatives	953	2,677	Other accounts payable	<u>13,785</u>	<u>13,459</u>
Prepaid expenses	<u>5,217</u>	<u>848</u>			
	521,240	213,490		165,768	156,303
Noncurrent assets			Long-term liabilities		
Financial investments	28,225	16,272	Loans and financing	275,944	78,299
Other accounts receivable	1,984	11,293	Intallment taxes	16,914	16,384
Related parties	12	10	Accounts payable from acquisition of subsidiaries	29,714	34,704
Investments	26	23	Provision for contingencies	55,950	41,370
Goodwill	189,480	149,022	Deferred income taxes	<u>20,995</u>	<u>34,987</u>
Intangible assets, net	97,811	77,077			
Property, plant and	<u>301,482</u>	<u>228,880</u>		399,517	205,744
	<u>619,159</u>	<u>482,577</u>	Minority interest	-	354
			Shareholders' equity		
			Capital	377,206	206,029
			Capital reserves	65,538	65,427
			Retained earnings	<u>132,370</u>	<u>62,210</u>
				<u>575,114</u>	<u>333,666</u>
Total	<u>1,140,399</u>	<u>693,067</u>	Total	<u>1,140,399</u>	<u>693,067</u>

# Diagnósticos da América S.A.

## Notes to the financial statements

*(In thousands of Reais)*

*b. Consolidated statement of income for the years ended December 31, 2006 and 2005 under U.S. GAAP*

	<b>2006</b>	<b>2005</b>
Net service revenues	670,451	528,280
Cost of services provided	<u>(444,340)</u>	<u>(363,093)</u>
Gross profit	226,111	165,187
Operating income (expense)		
Administrative and general	(141,722)	( 87,220)
Amortization of intangible assets	( 4,110)	( 3,723)
Other, net	<u>930</u>	<u>273</u>
Subtotal	<u>(144,902)</u>	<u>( 90,670)</u>
Operating income	81,209	74,517
Financial expenses, net	<u>( 12,741)</u>	<u>( 22,497)</u>
Income before taxes	68,468	52,020
Income tax and social contribution		
Current	( 19,380)	( 10,394)
Deferred	<u>21,786</u>	<u>1,513</u>
Income before minority interest	70,874	43,139
Minority interest	<u>( 75)</u>	<u>( 116)</u>
Net income	<u>70,799</u>	<u>43,023</u>
Earnings per share	<u>1.25</u>	<u>0.80</u>