



Diagnósticos da América S.A.

Consolidated financial statements
December 31, 2007 and 2006
(with independent auditor's report
thereon)



Diagnósticos da América S.A.

Consolidated financial statements

December 31, 2007 and 2006

Contents

Management Report	3 - 8
Independent auditors' report	9 - 10
Consolidated balance sheets	11
Consolidated statements of income	12
Consolidated statements of changes in shareholders' equity	13
Consolidated statements of financial position	14
Consolidated statements of cash flows	15
Notes to the consolidated financial statements	16 - 81

Management Report

Dear shareholders,

The year of 2007 marked the strengthening of DASA's strategy of consolidation of Brazil's diagnostic medicine market, with a record number of acquisitions, opening of new PSCs and as a provider of services to the public sector – important to attend all social levels.

The acquisition of Exame, in May 2007, CientíficaLab (São Paulo state), in July 2007 and MedImagem (Rio de Janeiro state) in August 2007, which accelerated the pace of our acquisitions and surpassed our commitment of R\$ 300 million in acquisitions of annualized revenues within three years period, 2005 to 2007. In the year, acquisitions represented R\$ 164 million in annualized revenues.

The acquisition of Exame strengthened our presence in mid-west region of Brazil, place that have previously had two other acquisitions. For this reason, potential synergies generated from this acquisition are fascinating.

During the year, the acquisition of CientíficaLab was our debut in providing of services to the public sector, a market where DASA was not operating yet and has great potential for expansion thanks to great benefits generated to the system users by a partnership between a public sector and a private entity, evidenced through improvements in the cost and the quality of the services provided.

Finally, the acquisition of MedImagem strengthened our presence in the Rio de Janeiro metropolitan area and substantially expanded our offering of diagnostic image services

The organic expansion was even more intense in the history of the Company, with the opening of 34 new units, of which 7 are mega units. Our expansion in the year represented a 14% increase in the number of units in relation to 2006, and we closed the year with 296 units. This organic expansion pace reflects the Company's commitment with our nation-wide consolidation, since we believe that a larger number of units in the regions where we are already present can strengthen the link between DASA, its patients and their payers, in addition to ensuring a great increase in the revenues for the coming years.

Reflected for these movements, the total gross revenue climbed by 27.5% over the fourth quarter of 2006, with growth of 26.5% in the lab-to-lab segment and 20.2% in the inpatient and outpatient segment, and achieved the total amount in R\$930.7 millions.

The acceleration in revenue growth above our historical average, however, has not yet reflected into better margins, since the synergies and scale gains expected with the absorption of acquired labs, maturation of the new units and the recently opened image test schedules have not been completed.

As a result, DASA registered gross margin of 31.9%, down 1.9 percentage points from 2006. Meanwhile, operating expenses have maintained their trend of dilution as a portion of net revenue, fueled by the dilution of 2.0 percentage point dilution in expenses at the parent company, mainly due to the efforts to achieve greater post-acquisition synergies.

This resulted in growth in EBITDA of 30.7%, with margin of 20.9%. In the fourth quarter, the EBITDA amounted R\$ 41.6 million, which represented a growth of 18.3% over the 4Q06 and with margin of 17.9%. Net income of the year amounted in R\$ 56.6 million, affected by the recording of deferred income tax and social contribution.

We ended the year satisfied with the acceleration of growth and we believe that the strategy adopted in 2007 will be crucial for the eternal existence of DASA. We envisage that in the coming years there will be plenty of options in the market, which will allow us to strengthen our search for consolidation opportunities

In addition, the Company's organic expansion process remains active and ambitious, with new units being opened in practically all states that where we are working, beyond to the expansion of our work with hospitals and the increased number of laboratories served by our lab to lab operation. Our expectation that the demand will be remain favorable and receptive to our operation model, results from our perception that DASA's diagnostic services are becoming increasingly accessible to all social levels.

Economic scenario

Sources: Brazilian Geographic and Statistics Institute (IBGE) and Brazilian Central Bank

The year of 2007 was marked for turbulent external scenario, from the crisis of US real state market, which brings volatility in the stock market investments around the world, mainly at the end of the year. As a reflection of this stern environment, the government decided to keep the basic interest rate at the end of the year, to outwit a possible recession in the largest economy of the world, and continue in its path toward sustainable growth. In addition, macroeconomic foundations of Brazil continued solid, showing a economic development and improvement in the formal labor market.

Inflation rate measured by the IPCA index (Expanded Consumer Price Index) accumulated an increase of 4.46% in 2007, which was higher than the 3.14% recorded in 2006. The acceleration in the consumer price level essentially reflects the behavior of prices of free negotiation, which, in 2007, went up faster than prices administered and monitored by contract, contrarily to the dynamics observed in the last few years.

Within the possibility increase on inflationary pressures, the SELIC index remained unaltered. In the most recent meeting of the COPOM (Monetary Policy Committee), held in December 2007, the rate was maintained at 11.25%, down from 13.25% in the fourth quarter of 2006.

The Brazilian real appreciated in relation to the US dollar, closing the year with a quotation of R\$1.77 per dollar, thus contributing for the reduction of the trade surplus, which recorded a 13.8% decrease in 2007, in relation to 2006. This fact is a result of the imports, which have been growing faster than exports, due to the strengthening of the Brazilian real and the higher level of economic activity in Brazil.

As a consequence of the favorable in the domestic demand, industrial production presented a 10.3% expansion over October 2006, and accumulated 5.9% in the period from January to October 2007, and 5.3% in the 12 months from November 2006 to October 2007.

In line with the development of economic activity, the labor market continues showing a very favorable performance. The unemployment rate was 9.5%, compared to 10.1% in the same period in 2006, with an increase of 3% in the number of employed workers and 2.2% in the economically active population. Considering the mass of employees in the private sector, the increase in employment level was 0.9% in the month, arising from the 1.5% addition in the number of employees with regular jobs, and the slight reduction of 0.8% in the number of employees without regular jobs. In the period from January to November, the number of independent workers increased 4.5%, and that of employees with regular jobs increased 5.1%, in relation to the same period in 2006, and the number of employers and workers without regular jobs decreased 1% and 1.6%, respectively. The average real income was R\$ 1,143.60 in November, 2.4% higher than in November 2006, and the real-salary mass grew 6% over the same comparison basis.

Brazil's increased level of economic activity, even with the credit crisis in the US, has reflected in an improvement of employment and income indicators, signaling a higher economic development level than that observed in previous years. These indicators, plus a still under control inflation index, have contributed to the growth in the Diagnostic Medicine market, facilitating the expansion of DASA activities.

Comments on Brazil's private health sector and medical diagnostic

Sources: National Health Agency (ANS) and IBGE

Based on the information in the private healthcare report (caderno de saúde suplementar) published by the ANS (updated until September 2007), the growth trend in the number of plan members of the past few years remains in place. In the nine months of the year, the growth in new healthcare plan members was 2.4%, which increased the coverage rate of Brazil's population to 20.6% (from 19.9% in at end 2006).

The distribution of plan members, however, is still concentrated in major cities and in the South and Southeast regions, where economic growth is higher and the supply of formally registered jobs is higher.

The medical diagnostic market has the use of medical technology as one of its operational characteristics. The research and development centers are responsible for perfecting new tests and equipments with higher processing capacity and more accurate results. The highly fragmented nature of the Brazilian market, where 18,000 laboratories are currently operating, represents a host of opportunities for consolidation, organic expansion and the provision of lab-to-lab services by largersized companies, which are in a better position to offer new tests to smaller laboratories, given the better access to cutting-edge technology, lower operating costs, and higher capacity to generate medical knowledge.

Comments on performance and investments

Gross Operation Revenue

The 2007 scenario sustained the growth acceleration pace. Gross revenue increased by 27.5% in 2007 compared to 2006, and amounted R\$930.7 million. This performance is the result of strong organic expansion, the growth of CientíficaLab (5.3% of participation on gross operation revenue) and Alvaro operations (+26.5%), and acquisitions in the outpatient and inpatient segment (+20.2%).

Revenue of the same units rose by 5.3% in 2007, slightly lower than the average recorded in the last years due to true fact that July and August 2006 were an extremely high comparison basis in view of the repressed demand from the World Cup period, and due to a stronger seasonality between the Christmas and year-end holidays.

In the last twelve months, we opened 34 new PSCs (7 mega units and 27 standard units), exceeding the guidance given to the market. Of this total, 10 PSCs were opened in the fourth quarter (5 mega units and 5 standard units). In 2007, the number of units increased by 14.0%, closing the year at 296.

Regarding acquisitions, in 2007, three important laboratories were acquired (Exame, CientíficaLab and Med Imagem), in order to consolidate our presence in the markets we already operate and diversify our payer base, in line with the Company's strategy. The acquisition of CientíficaLab was our debut in the provision of services to the public sector, a market where DASA was not operating yet and has great potential for expansion thanks to great benefits generated to the system users by a partnership between a public sector and a private entity, evidenced through improvements in the cost and the quality of the services provided.

The entrance of the public sector in the payer base in 2007, which already accounted for 10.4% of DASA's revenue in the 4Q07, diluted the revenue from other payers. In addition, the good performance of medical groups (+1.6 p.p.) and self-management (+0.5 p.p.) results from the profile of payers in the acquired laboratories. The larger share of private clients is due to the growth of Laboratório Popular (People's Laboratory). Note the dilution of health insurance and plans results solely from the diversification of payers following the acquisitions.

Costs and Gross Profit

The cost of services rendered totaled R\$ 584.6 million in 2007, versus R\$ 443.5 million recorded in the previous year, dragging the period's gross margin down by 1.9 p.p. to 31.9%.

As we had seen along the year, the decline in margin in relation to 2006 is a consequence of the fixed costs generated by the opening of 46 new units (PSCs) in the last 15 months. In addition, the growth of the business-to-business operation (Alvaro and CientíficaLab), which has a differentiated cost structure, and the new inpatient units, which maintain central laboratories to perform urgent tests, contributed to the variations in the main cost lines.

Considering in 2007 the "cash costs", which excludes costs of depreciation and amortization, there was an increase of 2.3 p.p. in relation to 2006.

Gross profit in 2007 amounted R\$274.2 million, up by 20.8% compared to 2006. The acquisitions and the fast pace of organic expansion pressured the gross margin, which closed 2007 on 31.9%, diluted in 1.9 p.p.

Operating Expenses

Operating expenses amounted R\$ 243.7 million in 2007, remaining virtually stable as a percentage of net revenue compared to 2006, despite the acquisition of three new laboratories, which led to higher net financial expenses due to the decline in cash and goodwill amortization.

On the other hand, general and administrative expenses, the main line influencing EBITDA, were diluted by 2.6 p.p. due to the dilution of expenses in the parent Company (2.0 p.p. – 2007 versus 2006) and lower non-recurring expenses. Part of this gain was offset by the increase in subsidiaries expenses (2.0 p.p.) due to the acquisitions made in the year.

EBITDA

EBITDA amounted R\$179.5 million in 2007, accompanied by a margin of 20.9%, moving up by 30.7% compared to the R\$137.4 million recorded in 2006.

Net Income

In 2007, net income amounted R\$56.6 million, 242.9% up compared to 2006, affected by the booking of R\$57.9 million deferred income tax.

CAPEX

CAPEX totaled R\$215.2 million in 2007, most of which going to (i) the purchase of imaging equipment and construction of PSCs; (ii) the construction of a new call center; and (iii) image digitalization equipment.

The investment of R\$215.2 million is broken down as follows: (i) R\$ 87.4 million went to the acquisition of medical equipment to expand our range of imaging services; (ii) R\$ 69.4 million to improvements, refurbishments and the construction of new patient service centers; (iii) R\$ 27.6 million to hardware, software licenses and the development of information systems; (iv) R\$ 24.1 million to pre-operating investments; and (v) R\$ 6.8 million to other investments

Indebtedness

DASA net debt amounted R\$361.4 million in 2007. Around 75.4% of DASA's total indebtedness is long-term and close to 19.9% is denominated in foreign currency, 26.2% of which is hedged by swaps in order to avoid exposure to exchange rate fluctuations. The bulk of our debt is related to international equipment financing, while the Real-denominated debt comes from debentures.

Information for Shareholders

DASA shares closed the fourth quarter at R\$ 36.90, declining 19.2 p.p. in 2007, versus the 44.0% gains in the Ibovespa Index. In 2007, DASA shares were traded in 100% of the trading sessions on the Bovespa and total traded volume came to R\$ 2.5 billion (daily average of R\$ 10.2 million).

Relevant Events

Market Maker

Diagnósticos da América S.A. hired UBS Pactual S.A. Bank to act as market maker for the Company's registered common shares as of August 8, 2007. The contracting of this service aims to increase liquidity, reduce volatility and ensure that the price of DASA shares better reflect supply and demand conditions. The general conditions of the contract provide for the daily inclusion of firm purchase and sale orders, in accordance with the following parameters:

Ticker	DASA3
Maximum Spread	3,0%
Minimum lot per offer	5,000 shares
Duration	6 months, renewable for a further 6 months
Start	August 8, 2007

Acquisitions

In 2007, the Company increased the number of subsidiaries through the acquisitions of new companies, as shown below:

Acquisitions	Date	Participation
Exame Laboratório de Patologia Clínica Ltda.	May 24, 2007	85.71%
CientíficaLab Produtos Laboratoriais e Sistemas Ltda.	July 19, 2007	100.00%
Med Imagem Ultra-Sonografia e Radiologia Ltda.	August 29, 2007	100.00%

DASA is confirmed on the Bovespa Corporate Sustainability Index (ISE)

In December 2007, DASA shares were confirmed for the third time on the Bovespa's Corporate Sustainability Index portfolio. This index is intended to reflect the return of actions of companies with a recognized commitment to social responsibility, corporate sustainability and good economic performance.

DASA is included in this index since its launch, in November 2005, along with the shares of other 32 companies.

Relationship with independent auditors

In accordance with CVM Instruction 381/2003, from Exchange Security Commission, Company contracted services not related to external auditor for the amount of R\$ 152.5, representing 10.4% of total fees for external auditor contracted services in 2007. These services, provided over a short period, were performed during the year to assistance in describe profiles for employment positions and interviewing candidates for final decision to be taken by Company Management. During discussion with its independent auditors, DASA concluded that these services provided did not affected the independence and the objectivity of its auditors. DASA's policy is to comply with regulatory that define the restrictions on services provided by independent auditors.



KPMG Auditores Independentes
R. Dr. Renato Paes de Barros, 33
04530-904 - São Paulo, SP - Brasil
Caixa Postal 2467
01060-970 - São Paulo, SP - Brasil

Central Tel 55 (11) 2183-3000
Fax Nacional 55 (11) 2183-3001
Internacional 55 (11) 2183-3034
Internet www.kpmg.com.br

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, 2007 and 2006 and the related consolidated statements of income, changes in shareholders' equity and statements of 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, 2007 and 2006, and the consolidated results of its operations, changes in its shareholders' equity and statements of 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, 2007 and 2006 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 28 to the consolidated financial statements.

February 12, 2008

KPMG Auditores Independentes
CRC 2SP014428/O-6

A handwritten signature in black ink, appearing to read 'José Luiz Ribeiro de Carvalho'. The signature is written in a cursive style with large, sweeping loops.

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

Diagnósticos da América S.A.

Consolidated balance sheets

December 31, 2007 and 2006

(in thousand of Reais)

Assets	2007	2006	Liabilities and shareholders' equity	2007	2006
Current assets			Current liabilities		
Cash and cash equivalents	26,196	7,172	Suppliers	52,790	34,038
Marketable investments	20,173	325,490	Loans and financing	97,968	59,210
Trade accounts receivable	205,275	138,615	Taxes and contributions payable	9,899	5,195
Inventories	33,475	20,717	Income tax and social contribution payable	6,587	969
Taxes recoverable and deferred taxes	37,843	16,749	Salaries, social security charges and vacation payable	35,549	26,058
Other accounts receivable	11,132	6,325	Taxes in installments	6,778	5,532
Prepaid expenses	1,678	5,217	Accounts payable from acquisition of subsidiaries	9,688	18,107
	<u>335,772</u>	<u>520,285</u>	Debentures	5,511	6,557
			Dividends payable	13,447	527
Noncurrent assets			Other accounts payable	<u>17,231</u>	<u>13,257</u>
Noncurrent assets				<u>255,448</u>	<u>169,450</u>
Restricted cash	80,720	28,225	Noncurrent liabilities		
Deferred taxes	48,529	-	Noncurrent liabilities		
Prepaid expenses	2,249	12	Loans and financing	100,310	73,444
Judicial deposits	7,243	2,123	Taxes in installments	15,083	16,974
	<u>138,741</u>	<u>30,360</u>	Provision for contingencies	81,417	55,891
Permanent assets			Accounts payable from acquisition of subsidiaries	50,630	31,214
Investments	247,442	120,860	Debentures	<u>202,500</u>	<u>202,500</u>
Property, plant, equipment and intangible assets	426,637	289,494		<u>449,940</u>	<u>380,023</u>
Deferred charges	69,864	57,680	Minority interests	<u>688</u>	<u>-</u>
	<u>743,943</u>	<u>468,034</u>	Shareholders' equity		
			Capital	402,091	402,091
			Capital reserves	65,427	65,427
			Profit reserve	2,942	111
			Retained earnings	<u>41,920</u>	<u>1,577</u>
				<u>512,380</u>	<u>469,206</u>
	<u><u>1,218,456</u></u>	<u><u>1,018,679</u></u>		<u><u>1,218,456</u></u>	<u><u>1,018,679</u></u>

See accompanying notes to financial statements.

Diagnósticos da América S.A.

Consolidated statements of income

Years ended December 31, 2007 and 2006

(in thousand of Reais)

	2007	2006
Gross revenue from services	<u>930,687</u>	<u>729,682</u>
Deductions from gross revenue		
Taxes	(52,573)	(40,803)
Deductions and discounts	<u>(19,294)</u>	<u>(18,429)</u>
	<u>(71,867)</u>	<u>(59,232)</u>
Net operating revenues	<u>858,820</u>	<u>670,450</u>
Cost of services rendered	<u>(584,594)</u>	<u>(443,476)</u>
Gross income	<u>274,226</u>	<u>226,974</u>
Other operating income (expenses)		
Administrative and general expenses	(171,587)	(151,061)
Financial expenses	(63,708)	(62,435)
Financial income	41,226	51,663
Goodwill amortization	(53,255)	(30,105)
Other operating income	<u>3,624</u>	<u>1,725</u>
	<u>(243,700)</u>	<u>(190,213)</u>
Operating income	30,526	36,761
Nonoperating loss	<u>(1,525)</u>	<u>(795)</u>
Income before income and social contribution taxes and minority interests	29,001	35,966
Income and social contribution taxes	<u>28,031</u>	<u>(19,380)</u>
Net income before minority interests	57,032	16,586
Minority interest	<u>(411)</u>	<u>(75)</u>
Net income	<u>56,621</u>	<u>16,511</u>
Net income per share - R\$	<u>0.99</u>	<u>0.29</u>
Number of shares at the end of the year	<u>57,402,935</u>	<u>57,402,935</u>

See accompanying notes to financial statements.

Diagnósticos da América S.A.

Consolidated statements of changes in shareholders' equity

Years ended December 31, 2007 and 2006

(in thousand of Reais)

	Capital	Capital reserves	Profit reserves	Retained earnings (accumulated losses)	Total
Balances at January 1, 2006	216,136	64,136	-	(14,296)	265,976
Capital increase by subscription of new shares	185,955	-	-	-	185,955
Goodwill amortization	-	1,291	-	-	1,291
Net income	-	-	-	16,511	16,511
Legal reserve	-	-	111	(111)	-
Dividends	-	-	-	(527)	(527)
Balances at December 31, 2006	<u>402,091</u>	<u>65,427</u>	<u>111</u>	<u>1,577</u>	<u>469,206</u>
Net income for the year	-	-	-	56,621	56,621
Legal reserve	-	-	2,831	(2,831)	-
Dividends	-	-	-	(13,447)	(13,447)
Balances at December 31, 2007	<u><u>402,091</u></u>	<u><u>65,427</u></u>	<u><u>2,942</u></u>	<u><u>41,920</u></u>	<u><u>512,380</u></u>

See accompanying notes to financial statements

Diagnósticos da América S.A.

Consolidated statements of changes in financial position

Years ended December 31, 2007 and 2006

(in thousand of Reais)

	2007	2006
Source of funds		
From operations		
Net income for the year	56,621	16,511
Items not affecting working capital		
Depreciation and amortization	73,283	59,769
Amortization of goodwill and deferred charges	53,255	28,814
Amortization of goodwill in shareholders' equity	-	1,291
Deferred taxes	(48,529)	-
Residual value of permanent assets written-off	2,741	6,552
Minority interest	411	75
	<u>137,782</u>	<u>113,012</u>
Resources from operations		
	<u>137,782</u>	<u>113,012</u>
Shareholders		
Capital increase	-	185,955
Third parties		
Increase in noncurrent liabilities	70,195	217,099
	<u>207,977</u>	<u>516,066</u>
Applications of funds		
Acquisition of property, plant, equipment and intangible assets	185,760	127,742
Additions to deferred charges	29,437	13,938
Acquisition of Investments	171,374	62,348
Increase in noncurrent assets	59,852	11,047
Permanent assets in the acquisition of subsidiaries	18,617	4,138
Dividends	13,447	527
	<u>478,487</u>	<u>219,740</u>
(Decrease) Increase of net working capital	<u>(270,510)</u>	<u>296,326</u>
Changes in net working capital		
Current assets at the beginning of the year	520,285	210,813
Current assets at the end of the year	<u>335,773</u>	<u>520,285</u>
Changes in current assets	(184,512)	309,472
Current liabilities at the beginning of the year	169,450	156,304
Current liabilities at the end of the year	<u>255,448</u>	<u>169,450</u>
Change in current liabilities	<u>85,998</u>	<u>13,146</u>
(Decrease) Increase of net working capital	<u>(270,510)</u>	<u>296,326</u>

See accompanying notes to financial statements.

Diagnósticos da América S.A.

Consolidated statements of cash flows

Years ended December 31, 2007 and 2006

(In thousand of Reais)

	2007	2006
Cash flows from operating activities		
Net income	56,621	16,511
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	126,540	91,410
Loss on disposal of permanent assets	2,741	4,916
Interest and unrealized exchange loss	35,460	15,596
Deferred income taxes	(57,850)	-
Minority interest	410	(75)
Decrease (increase) in operating assets		
Marketable for trading securities	253,423	(285,594)
Trade accounts receivable	(55,618)	(19,889)
Inventories	(11,228)	(1,785)
Taxes recoverable	(10,618)	(155)
Prepaid expenses	-	540
Legal deposits	(3,263)	1,793
Other accounts receivable	(3,349)	340
Increase (decrease) in operating liabilities		
Suppliers	12,423	4,033
Taxes and contributions payable	8,217	1,229
Income tax and social contribution	-	(740)
Salaries, social security charges and vacation payable	-	2,597
Taxes in instalment	(2,574)	(4,282)
Accountpayable from acquisition of subsidiaries	10,997	-
Provision for contingencies	14,204	21,267
Other accounts payable	6,847	(434)
Net cash provided by (used in) operating activities	<u>383,383</u>	<u>(152,722)</u>
Cash flows from investing activities:		
Business combination, net of cash acquired	(177,454)	(54,940)
Additions to property, plant and equipment	(186,454)	(127,817)
Additions to Investments	(3,898)	-
Additions to deferred charges	(31,483)	(13,924)
Net cash used in investing activities	<u>(399,289)</u>	<u>(196,681)</u>
Cash flows from financing activities		
Proceeds from loan and Financing	243,367	311,397
Issuances	(208,436)	(145,229)
Capital increase	-	185,955
Net cash provided by financing activities	<u>34,931</u>	<u>352,123</u>
Net increase in cash and cash equivalents	19,025	2,720
Cash and cash equivalents, beginning of year	<u>7,172</u>	<u>4,452</u>
Cash and cash equivalents, end of year	<u><u>26,197</u></u>	<u><u>7,172</u></u>
Supplemental disclosure of cash flow information		
Cash paid during the year for:		
Interest paid	35,021	26,204
Income tax paid	9,031	-

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, 2007 and 2006

(In thousands of Reais)

1 Operations

The Company is a public corporation with its registration granted by the Brazilian Securities Exchange Commission - CVM on November 5, 2004, and is listed in Bovespa's Novo Mercado Segment since November 19, 2004.

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 intermediation 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 in July of 2005 represented for the Company the entrance in a new segment of market with new products in environmental analysis, genetically modified organisms and toxicology analysis, the acquisition of Laboratório Alvaro S.A. in December of 2005 represented for the Company the entrance in the Lab to lab operations (support laboratories), and the acquisition of CientíficaLab Produtos Laboratoriais e Sistemas Ltda. in July of 2007 represented for the Company the beginning of services for public health sector. The Company can also invest in other entities. As of December 31, 2007 the company had the following operational units:

Brands	Locality	2007	2006
Delboni Auriemo	São Paulo	35	32
Lavoisier	São Paulo	64	54
Bronstein	Rio de Janeiro	44	39
Lâmina	Rio de Janeiro	17	16
Santa Casa	Paraná	8	8
Pasteur	Brasília	23	15
Frischmann	Paraná	28	25
Image	Bahia	2	2
Laboratório Alvaro	Paraná	15	14
LabPasteur	Ceará	18	16
MedLabor	Brasília, Tocantins and Goiás	2	9
Vita	Santa Catarina	1	2
Atalaia	Goiás	14	12
Exame	Brasília	17	-
MedImagem	Rio de Janeiro	8	-
	Total	<u>296</u>	<u>244</u>

Diagnósticos da América S.A.

Notes to the financial statements

(In thousands of Reais)

At December 31, 2007, the Club DA brand had 21 units, with 18 units annexed to the Delboni Auriemo brand and 3 units under the Lâmina brand.

CientificaLab operates in the segment of "Business to Business ", its major source of revenue is customers contracts of the health public sector, by that management will analyze this operation in function of the number of customers assisted instead of number of operating units.

CientificaLab, the leading privately-owned service provider in the public healthcare sector, served 36 clients when it was acquired and now has 44 clients, being 36 Medium Size (up to 150,000 tests processed per month) and 8 Large Size (over 150,000 tests processed per month).

The type and range of the services provided vary according to the needs and interest of the public entity requiring the service and may comprise three different models:

- Lab to lab (support): includes the transport of samples and central processing. In this case, CientificaLab provides collection materials, training of civil servants and sometimes refurbishment in PSCs to ensure service quality;
- Outpatient: in addition to the support service, it comprises patient service and sample collection;
- Hospital: refers to patient service, test collection, local collection for emergency tests, transport and central processing for the other exams.

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.

Diagnósticos da América S.A.

Notes to the financial statements

(In thousands of Reais)

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 - IBRACON, 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.

Description of significant accounting practices

a. Statement of income

Income and expenses are recognized on the accrual basis.

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

b. Accounting estimates

The preparation of the consolidated 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 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 Brazilian Reais at the foreign exchange rate of US\$ 1.7713 prevailing at the balance sheet date.

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 within liabilities as loans and financing.

- **Marketable investments**

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

- **Trade accounts receivable**

Trade accounts receivable 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 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 items without movement for more than one hundred twenty days.

- **Other current and noncurrent assets**

Presented at the net realizable amount.

- **Restricted cash**

Restricted cash consists of an escrow account to secure the acquired companies obligations under certain representation a warranty provisions. The escrow account is earning an interest rate in 99.9% of CDI at December 31, 2007 (99.8% of CDI at December 31, 2006).

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. The goodwill accounted for in the acquisitions is based on future profitability from operations undertaken by the subsidiary companies, in accordance with profitability forecasts prepared by management projected over 5 years.

- **Property, plant, equipment and intangible assets**

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

- **Deferred charges**

Pre-operating expenses refer to expenditures with the implementation of the new facilities and the acquisition of business, with amortizations which vary between five and ten years. The goodwill calculated from the mergers of investments is supported by future profitability of operations undertaken by the subsidiary companies in accordance with profitability forecasts prepared by management projected 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 up to the balance sheet date.

g. Provision for contingencies

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.

Diagnósticos da América S.A.

Notes to the financial statements

(In thousands of Reais)

h. Deferred income tax and social contribution

Income and social contribution taxes of the current year are calculated by the Company and its subsidiaries at the rate of 15% over taxable income plus a surcharge of 10% on taxable income in excess, of R\$ 240 for income tax and 9% on the taxable income for social contribution on net income, and consider the offsetting of tax loss carryforward and negative basis of social contribution tax basis, limited to 30% of the taxable income, with the exception of the subsidiary Laboratório Atalaia Ltda., DASA Real Estate Empreendimentos Imobiliários Ltda. and Med Imagem Ultra-Sonografia e Radiologia Ltda, which calculate income and social contribution taxes based on presumed profit.

The deferred tax assets resulting from carryforward tax losses, negative basis of social contribution and temporary differences were recorded in accordance with CVM Instruction 371 of June 27, 2002, and consider past profitability and expectations of future taxable income, based on a technical viability study.

3 Consolidated financial statements

The consolidated financial statements include the financial information of the Company and the following subsidiaries:

	2007	2006
Laboratório Frischmann Aisengart S.A.	100.00%	100.00%
Image Memorial S.A.	100.00%	100.00%
Laboratório Alvaro S.A.	100.00%	100.00%
Laboratório Louis Pasteur Patologia Clínica S/C Ltda. - LabPasteur	99.99%	100.00%
DASA Real Estate Empreendimentos Imobiliários Ltda.	99.99%	99.99%
Laboratório Imuno Ltda. - MedLabor	99.99%	100.00%
Clinica Médica Vita S.A.	100.00%	100.00%
Laboratório Atalaia Ltda.	99.99%	100.00%
Exame Laboratórios de Patologia Clínica Ltda.	85.71%	-
CientíficaLab Produtos Laboratoriais e Sistemas Ltda.	100.00%	-
Med Imagem Ultra-Sonografia e Radiologia Ltda.	100.00%	-

Diagnósticos da América S.A.

Notes to the financial statements

(In thousands of Reais)

The accounting policies have been consistently applied in all the consolidated companies and are consistent with those used in the previous year.

Description of main consolidation procedures

- a. Elimination of intercompany asset and liability account balances;
- b. Elimination of investments in the capital, reserves and retained earnings of the subsidiaries;
- c. Identification of minority interests in the consolidated financial statements.

4 Marketable investments

	2007	2006
Marketable investments	104,118	353,715
Classified as current assets	<u>(23,398)</u>	<u>(325,490)</u>
Classified as noncurrent assets	<u>80,720</u>	<u>28,225</u>

The marketable investments classified as current assets as of December 31, 2007 refers to fixed income funds with average interest rate of 99.9% of CDI (99.8% of CDI at December, 31 2006).

Long-term marketable investments in the amount of R\$ 80,720 (R\$ 28,225 on December 31, 2006) in the consolidated figures, earn interest at an average rate of 100.8% of the CDI (inter-bank) rate on December 31, 2007 (99.9% of CDI on December 31, 2006) of which R\$ 48,771 serve as collateral for payments of obligations assumed in connection with the acquisition of a number of laboratories (Note no. 16), and R\$ 31,470 guarantee the payments of the 2nd to the 8th installments of the acquisition price of CientificaLab (Note no. 8a).

The Amount of R\$ 479 on December 31, 2007 (R\$ 429 on December 31, 2006) refers to investment funds on CDB (Bank Deposit Certificate) in Banco do Nordeste do Brasil S.A., this amount is from Image Memorial S.A. subsidiary, with interest rate of 100.0% of CDI to guarantee commercial bank note classified on Bank loans and financing (Note 12).

Diagnósticos da América S.A.

Notes to the financial statements

(In thousands of Reais)

5 Trade accounts receivable

	2007	2006
Current assets		
Trade notes receivable:		
Not due	115,474	77,830
Overdue	<u>104,992</u>	<u>95,962</u>
	220,466	173,792
Other accounts receivable:		
Checks in collection	1,722	1,063
Credit cards	3,853	2,730
Returned checks	<u>3,806</u>	<u>3,449</u>
	9,381	7,242
Less:		
Provision for disallowances and for doubtful accounts	(20,883)	(39,480)
Provision for losses from returned checks	<u>(3,689)</u>	<u>(2,939)</u>
	<u>205,275</u>	<u>138,615</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 for approval of payment and questioning by the health plans as to the adequacy of supporting documentation. All of these factors, historically, have contributed 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 updated in both systems; and (iii) technical questions, such as different interpretations of examination requisitions.

Diagnósticos da América S.A.

Notes to the financial statements

(In thousands of Reais)

All overdue receivables up to 360 days are on collection proceedings or under negotiation, Management does not expect significant losses consequently, a provision for bad debts has not been recorded. The allowance for doubtful accounts has been recorded solely for the balances receivable with no likelihood of being collected, or under court collection proceedings.

On December 3, 2007 the balances for more 360 days in arrears, net of an allowance for doubtful accounts, approximate to R\$ 14,000 (R\$ 24,000 in 2006), of which R\$ 5,000 refer to an important health insurance entity, R\$ 2,400 are in the process of undersigning an agreement, and the remaining cases are still in the collection stage. As is the practice in this business, overdue receivables are subject to a procedure with the insured parties and health insurance entities in order to evidence that the services were provided to the patients and were duly authorized. Based on the background of negotiations, the Company's management expects no significant risks of loss in addition to those sums already provided for.

6 Inventories

	2007	2006
National clinical analysis and diagnostic imaging materials	19,385	11,437
Imported clinical analysis and diagnostic imaging materials	7,241	3,951
National secondary clinical analysis and diagnostic imaging materials	3,227	3,335
Consumption material	2,471	1,819
Inventories held by third parties	1,914	1,013
Provision for obsolescence	<u>(763)</u>	<u>(838)</u>
	<u>33,475</u>	<u>20,717</u>

Diagnósticos da América S.A.

Notes to the financial statements

(In thousands of Reais)

7 Taxes recoverable and deferred taxes

a. Taxes recoverable

	2007	2006
Withholding income tax (IRRF)	5,473	6,255
Income tax recoverable	7,523	1,253
Social contribution recoverable	6,167	3,732
COFINS and PIS tax withheld	7,377	5,033
Others	<u>1,982</u>	<u>476</u>
Current assets	<u>28,522</u>	<u>16,749</u>

b. Deferred taxes

The deferred income and social contribution taxes are recognized to reflect future tax effects attributable to temporary differences between the tax bases of assets and liabilities and their book values.

In accordance with CVM Instruction 371, the Company, based on its profitability history and expectation of generating future taxable income determined by a technical viability study approved by management, recognized in 2007 tax credits on income tax loss carry-forwards and the negative bases accumulated of social contribution tax, with no statutory limitation period and that can be offset against a maximum of 30% of taxable income. The carrying amount of deferred tax assets is reviewed quarterly and projections are reviewed annually. If there are relevant factors that modify the projections, these are reviewed during the year by the Company.

Diagnósticos da América S.A.

Notes to the financial statements

(In thousands of Reais)

The origin of deferred income and social contribution taxes is presented below:

	2007	2006
Assets		
Tax loss carryforward and negative basis	4,803	-
Provision for disallowances and for doubtful accounts	6,500	-
Obsolete items - Inventories	220	-
Goodwill amortization	29,351	-
Provision for specialized medical services	444	-
Other provisions	1,443	-
Provision for contingencies	<u>15,089</u>	<u>-</u>
	<u>57,850</u>	<u>-</u>
Current assets	(9,321)	<u>-</u>
Noncurrent assets	<u>48,529</u>	<u>-</u>

The following is a description of the estimated terms for realizing deferred tax credits in connection with income tax and social contribution on net profits, the origins of which are based on the temporary differences between the bookkeeping profit figures under the accrual system and the taxable profit figures, as well as on the tax losses and the negative social contribution base. Realization terms are based on future taxable profit projections, created as of the fiscal years in which the temporary differences become expenses deductible for tax purposes.

Maturity	Amount
2008	9,321
2009	5,037
2010	3,828
2011	6,866
2012 to 2014	15,906
2015 to 2016	<u>16,892</u>
Total	<u>57,850</u>

Diagnósticos da América S.A.

Notes to the financial statements

(In thousands of Reais)

8 Investments

	2007	2006
Goodwill from acquired shares		
Laboratório Frischmann Aisengart S.A.	31,843	31,843
Image Memorial S.A.	31,638	31,638
Laboratório Alvaro S.A. (a)	32,694	28,811
Laboratório Louis Pasteur Patologia Clínica S/C Ltda. - LabPasteur	13,936	13,936
Laboratório Imuno Ltda. - MedLabor	5,966	5,966
Clínica Médica Vita S.A.	4,768	4,768
Laboratório Atalaia Ltda.	28,329	28,329
Exame Laboratórios de Patologia Clínica Ltda. (b)	46,623	-
CientíficaLab Produtos Laboratoriais e Sistemas Ltda. (b)	80,107	-
Med Imagem Ultra-Sonografia e Radiologia Ltda. (b)	<u>40,760</u>	<u>-</u>
	<u>316,664</u>	<u>145,291</u>
Accumulated amortization		
Laboratório Frischmann Aisengart S.A.	(14,970)	(8,602)
Image Memorial S.A.	(13,948)	(7,620)
Laboratório Alvaro S.A.	(11,139)	(5,161)
Laboratório Louis Pasteur Patologia Clínica S/C Ltda. - LabPasteur	(4,181)	(1,394)
Laboratório Imuno Ltda. - MedLabor	(1,690)	(497)
Clínica Médica Vita S.A.	(1,192)	(238)
Laboratório Atalaia Ltda.	(6,610)	(944)
Exame Laboratórios de Patologia Clínica Ltda.	(6,216)	(-)
CientíficaLab Produtos Laboratoriais e Sistemas Ltda.	(6,676)	(-)
Med Imagem Ultra-Sonografia e Radiologia Ltda.	<u>(2,717)</u>	<u>(-)</u>
	<u>(69,339)</u>	<u>(24,456)</u>
Others	<u>117</u>	<u>25</u>
	<u>247,442</u>	<u>120,860</u>

Diagnósticos da América S.A.

Notes to the financial statements

(In thousands of Reais)

a. Laboratório Alvaro S.A. Increase in acquisition price (goodwill)

On December 2007 the Company recorded R\$ 3,883 as an additional purchase price of Laboratório Álvaro S.A., as part of the contingent payment included in the purchase agreement entered into between the Company and the former shareholders, to be paid in May 2008. In 2008 additional contingent payments may be paid based on achievement of certain goals.

b. Acquisitions of investment interest during the year

Exame - On May 24, 2007, Diagnósticos da América S.A. acquired 6,370,374 quotas totaling 100% of the capital stock of Laboratório Exame Ltda., which provides clinical analysis services in Brasília, Distrito Federal. The acquisition price for all the quotas is of R\$ 56,000, of which R\$ 46,286 paid in full to the former partners in cash with company funds, R\$ 2,000 will be retained in an escrow account for six years, and the balance with regard to an installment of the Exame quotas, equal to 14.29% of capital stock, was disposed of by the estate of a former Exame shareholder, and the transfer of these quotas to the Company depends on a court order. The transaction was approved at a Company Board of Directors meeting held on May 24, 2007. The acquisition of Exame was submitted to the approval of Conselho Administrativo de Defesa Econômica (CADE).

CientíficaLab - On June 19, 2007 the Company acquired 11 million shares representing 100% of the capital stock of CientíficaLab - which provides clinical analysis services to the public health network (SUS - Sistema Único de Saúde) in São Paulo, Rio de Janeiro, and Minas Gerais. The acquisition price for the entire amount of shares was of R\$ 86,373, of which R\$ 83,373 were paid in full using own resources, and the remaining R\$ 3,000 were withheld in an escrow account for six years. In addition, the selling shareholders will be entitled to a sum in the guise of a variable amount based on future revenues (earn-out), equal to 85% of gross revenues in excess of R\$ 97,000, considering the period from July 1, 2007 to June 30, 2008. Between 2008 and 2012 the program will make annual payments equivalent to 10% of the additional revenues calculated over the previous year. As security for payment of the 2nd to the 8th installments payments for the acquisition price, the Company deposited R\$ 30,000 in a deposit account at Banco Alfa S.A. CientíficaLab was founded in 2001 in Barueri, São Paulo, and is the leading private held provider to the public health sector. Since 2003 CientíficaLab gathers and processes clinical analyses specimens for hospitals and health centers in the SUS system in São Paulo, Minas Gerais and, more recently, in Rio de Janeiro.

Diagnósticos da América S.A.

Notes to the financial statements

(In thousands of Reais)

The transaction was approved at a Company Board of Directors meeting held on July 19, 2007. The acquisition of CientificaLab was submitted to the approval of Conselho Administrativo de Defesa Econômica (CADE).

Med Imagem - On August 29, 2007 the Company acquired 1,109,203 quotas totaling 100% of the equity capital of Med Imagem Ultra-Sonografia e Radiologia Ltda. ("Med Imagem"), a company which provides image services to the local governments of Niterói (RJ), São Gonçalo (RJ), and Rio de Janeiro (RJ). The acquisition price for the entire amount of quotas was of R\$ 44,731, of which R\$ 30,258 were paid in full and in cash with the company's own funds, R\$ 4,473 will be paid in August 2008, and R\$ 10,000 were withheld in an escrow account for six years. Med Imagem is the largest image company in Niterói (RJ), founded in 1992 and with eight units, of which six in Niterói, one in Sao Gonçalo, and one in Copacabana (RJ). The transaction was approved at a Company Board of Directors meeting held on August 29, 2007. The acquisition of Med Imagem was submitted to the approval of Conselho Administrativo de Defesa Econômica (CADE).

9 Property, plant, equipment and intangible assets

	Average Depreciation rate % p.a.	2007			2006
		Cost	Depreciation	Net	Net
Property, plant, equipment					
Buildings	4	12,879	(1,160)	11,719	11,002
Leasehold improvements	12	190,511	(96,823)	93,688	69,953
Machinery and equipment	10	324,395	(114,734)	209,661	139,606
Furniture and fixture	10	33,622	(14,412)	19,210	14,298
Facilities	10	5,294	(3,227)	2,067	1,235
IT equipment	20	48,089	(25,459)	22,630	14,788
Vehicles	20	5,495	(1,907)	3,588	1,455
Library	10	118	(62)	56	57
Land		1,685	-	1,685	1,685
Construction in process		39,777	-	39,777	21,974
Intangible assets					
Software	20	39,550	(17,201)	22,349	13,349
Commercial rights of use	20	137	(18)	119	-
Trademarks and patents		88	-	88	81
Telephone lines		-	-	-	11
		<u>701,640</u>	<u>(275,003)</u>	<u>426,637</u>	<u>289,494</u>

Diagnósticos da América S.A.

Notes to the financial statements

(In thousands of Reais)

Cost movement

	Movement					2007
	2006	Additions	Write-offs	Transf.	Other (a)	
Property, plant, equipment						
Buildings	11,684	1,271	(76)	-	-	12,879
Leasehold improvements	143,507	23,545	(1,014)	24,086	387	190,511
Machinery and equipment	223,037	84,159	(2,864)	20,051	12	324,395
Furniture and fixture	25,525	6,420	(27)	1,671	33	33,622
Facilities	3,838	1,402	-	54	-	5,294
IT equipment	33,467	13,397	(41)	1,244	22	48,089
Vehicles	2,451	3,027	(189)	46	160	5,495
Library	110	21	-	-	(13)	118
Land	1,685	-	-	-	-	1,685
Construction in process	21,974	67,347	(28)	(49,156)	(360)	39,777
Intangible assets						
Software	25,368	12,208	(43)	2,004	13	39,550
Commercial rights of use	-	137	-	-	-	137
Trademarks and patents	81	7	-	-	-	88
Telephone lines	<u>11</u>	<u>-</u>	<u>(11)</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>492,738</u>	<u>212,941</u>	<u>(4,293)</u>	<u>-</u>	<u>254</u>	<u>701,640</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)

10 Deferred charges

	End of amortization	Amortization rate % p.a.	2007			2006	
			Cost	Amortization	Net	Net	
Preoperating expenses:							
Implementation of new units			68,856	(27,922)	40,934	21,657	
Acquisition of participation			18,469	(6,287)	12,128	9,106	
Project deployment system			9,043	(3,615)	5,428	7,236	
Goodwill on merger of subsidiary:							
Lab.de Patologia Clínica Curitiba S/C	Jan/08	20	2,785	(2,739)	46	603	
Centro Radiológico da Lagoa Ltda.	Nov/08	20	9,280	(7,579)	1,701	3,558	
Elkis e Furlanetto C.D.A.C. Ltda.	May/09	20	21,130	(15,336)	5,794	10,020	
Elkis e Furlanetto L.M. S/C Ltda.	May/09	20	778	(564)	214	369	
Lab. Pasteur Patologia Clínica S/S Ltda.	Apr/10	20	<u>7,883</u>	<u>(4,318)</u>	<u>3,565</u>	<u>5,141</u>	
			<u>138,224</u>	<u>(68,360)</u>	<u>69,864</u>	<u>57,680</u>	
Consolidated							
Movement in the year							
			2006	Additions	Write-offs	Other (a)	2007
Preoperating expenses:							
Implementation of new units			44,376	25,188	(454)	(254)	68,856
Acquisition of participation			11,922	6,547	-	-	18,469
Project Deployment System			9,043	-	-	-	9,043
Goodwill on merger of subsidiary:							
Lab.de Patologia Clínica Curitiba S/C			2,785	-	-	-	2,785
Centro Radiológico da Lagoa Ltda.			9,280	-	-	-	9,280
Elkis e Furlanetto C.D.A.C. Ltda.			21,130	-	-	-	21,130
Elkis e Furlanetto L.M. S/C Ltda.			778	-	-	-	778
Lab. Pasteur Patologia Clínica S/S Ltda.			<u>7,883</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,883</u>
			<u>107,197</u>	<u>31,735</u>	<u>(454)</u>	<u>(254)</u>	<u>138,224</u>

(a) Other - Regarding transfers of Property, plant, equipment and intangible assets.

Diagnósticos da América S.A.

Notes to the financial statements

(In thousands of Reais)

11 Suppliers

	2007	2006
Domestic suppliers	47,370	29,735
Foreign suppliers	<u>5,421</u>	<u>4,303</u>
	<u>52,790</u>	<u>34,038</u>

The balance of foreign suppliers of US\$3,060 thousand (US\$2,013 thousand at December 31, 2006) refers to the purchase of imported materials used in clinical exams.

12 Loans and financing

	2007	2006
Local currency		
Loans guaranteed accounts	22,684	20,974
Bank loans	65,756	14,054
Leasing under local currency agreements	12,764	5,133
Foreign currency		
Bank loans	8,708	14,403
Financing of equipment	20,344	33,492
Leasing of imported equipment	<u>68,022</u>	<u>44,598</u>
	<u>198,278</u>	<u>132,654</u>
Portion to amortize in the short term classified in current liabilities	(97,968)	(59,210)
Noncurrent liabilities	<u>100,310</u>	<u>73,444</u>

Diagnósticos da América S.A.

Notes to the financial statements

(In thousands of Reais)

The bank loan and financing agreements do not have covenants.

12/31/2007								
Description	Banks		Reais	Maturity	Average interest rate	Guarantors		
Local currency								
Guaranteed accounts	Other		22,684	-	105.0% of CDI	(2)		
Bank loans	Banco Votorantin S.A.		7,638	2009	110.9% of CDI	(3)		
Bank loans	Banco Safra S.A.		17,208	2008	105,0% of CDI	(3)		
Bank loans	Banco do Brasil S.A.		38,368	2010	105,0% of CDI	(2)		
Bank loans	Others		<u>2,542</u>	2010	1.6% p.m.	(2)		
			<u>65,756</u>					
Leasing	Other		12,764	2011	CDI + 1.5% p.a.	-		
12/31/2007								
Description	Financial institutions/ Suppliers	US\$	Reais	Swap	Total Reais	Maturity	Average interest rate	Guarantors
Foreign currency								
Bank loans	Banco Itaú - BBA	2,155	3,818	4,890	8,708	2009	EV+13.06% p.a.	(3)
Equipment suppliers	G.E.	6,073	10,757	9,587	20,344	2011	EV+7.5% to 8.5% p.a.	(1)
Leasing	G.E, Siemens, Philips and Oni Medical	38,402	68,022	-	68,022	2014	EV+7.20% to 9% p.a.	(3)

(1) Platypus S.A. and Balu 460 Participações S.A.

Following the merger of the subsidiaries Platypus S.A., Balu 460 Participações S.A. and DASA Participações S.A., approved at a meeting of shareholders held on July 6, 2007, which provided fidejussory guarantees in financial transactions involving our company (bonds and surety), especially in agreements to acquire diagnostic imaging equipment, bank financing and real estate leases, the company is seeking to replace the guarantees that were provided by the merged subsidiaries through our subsidiary DASA Real Estate Empreendimentos Imobiliários Ltda.

Diagnósticos da América S.A.

Notes to the financial statements

(In thousands of Reais)

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

(3) Promissory Note of 125% of the contractual amount, in the Company's name.

Loans and financing classified as noncurrent liabilities will mature as follows:

Maturity	Amount (R\$)
2009	38,498
2010	27,409
2011	10,525
2012	8,718
2013	6,933
2014	<u>3,432</u>
	95,515
“Swap” (a)	<u>4,795</u>
	<u>100,310</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. On December 31, 2007 these derivatives transactions provided cover for the R\$ 12,784 reference value and resulted in accrued losses in the amount of R\$ 4,795.

Guarantees and sureties

The Company granted guarantees on behalf of its subsidiary as follows:

Diagnósticos da América S.A.

Notes to the financial statements

(In thousands of Reais)

Subsidiary	Bank Institution	Amount (R\$)
Laboratório Frischmann Aisengart S.A	Banco Alfa S.A.	3,250
	Banco Bradesco S.A.	1,500
	Banco HSBC Bank Brasil	4,411
Image Memorial S.A.	Banco Alfa S.A	2,825
	Banco Bradesco S.A.	1,000
	Banco do Brasil S.A.	2,100
	Banco Itaú S.A.	2,000
Laboratório Alvaro S.A	Banco Alfa S.A.	1,263
	Banco do Brasil S.A.	350
	Banco Itaú S.A.	2,000
	Unibanco S.A.	617
Laboratório Louis Pasteur Patologia Clínica S/C	Banco Alfa S.A.	276
	Banco Bradesco S.A.	500
Laboratório Imuno Ltda. - MedLabor	Banco Bradesco S.A.	1,500
Clinica Médica Vita S.A	Banco Alfa S.A.	3,388
	Banco Bradesco S.A.	1,500
	Banco Itaú S.A.	300
Laboratório Atalaia Ltda.	Unibanco S.A.	360
Exame Laboratórios de Patologia Clínica Ltda.	Banco do Brasil S.A.	51
CientíficaLab Produtos Laboratoriais e Sistemas S.A.	Banco Alfa S.A.	5,065
	Banco Bradesco S.A.	4,800
	Banco Itaú S.A.	1,000
	Unibanco S.A.	<u>15</u>
		<u>40,071</u>

13 Debentures

	2007	2006
Non-convertible debentures	202,500	202,500
Compensation interest	<u>5,511</u>	<u>6,557</u>
	<u>208,011</u>	<u>209,057</u>
Portion to amortize in the short term classified in current liabilities	(<u>5,511</u>)	(<u>6,557</u>)
Noncurrent liabilities	<u>202,500</u>	<u>202,500</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 debentured 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 portions classified in non-current liabilities have the following payment schedule:

Year of maturity	Amount (R\$)
2009	67,500
2010	67,500
2011	<u>67,500</u>
Total	<u>202,500</u>

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

14 Salaries, social security charges and provision for vacation payable

	2007	2006
Salaries payable	5,844	4,047
Social security charges payable	5,846	4,350
Provision for vacation, 13th salary and social security charges	18,834	13,406
Provision for the profit sharing and equity income	4,176	4,037
Others	<u>849</u>	<u>218</u>
	<u>35,549</u>	<u>26,058</u>

Diagnósticos da América S.A.

Notes to the financial statements

(In thousands of Reais)

15 Tax in installments

	End of amortization	2007	2006
PPI - REFIS Municipal (a)	2011	3,484	3,957
PAES Program (b)	2013	8,983	8,024
COFINS (c)	2010	1,122	1,583
PIS (c)	2008	286	415
INSS (c)	2009	1,901	3,633
ISS (c)	2007	11	11
INSS - Vita (d)	2018	1,072	1,536
PIS/COFINS - Vita (d)	2018	1,210	1,326
ISS - Vita (d)	2009	147	252
ISS - Atalaia (e)	2018	1,405	1,550
INSS - Exame (f)	2013	1,799	-
Others		<u>441</u>	<u>219</u>
		<u>21,861</u>	<u>22,506</u>
Portion to amortize in the short term classified in current liabilities		(<u>6,778</u>)	(<u>5,532</u>)
Noncurrent liabilities		<u>15,083</u>	<u>16,974</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 debt which was 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, was 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 debt 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. The debt consolidated by the federal revenue service on the validation date for the application by the Company for installment payments, was composed of debt included by the Company and also liabilities in connection with PIS and Cofins which were under discussion in the administrative and legal spheres, and withholding tax of which there was no proof of payment, all of these additional liabilities arising from the acquired companies. The sum of these additional liabilities rose to R\$ 1,291 on July 29, 2003, and by means of a management decision they were recorded fully on December 2007 in taxes and levies (Norte 21), plus accrued interest based on TJLP (long-term interest rate), in addition to interest and fine on the portions in arrears of the liabilities included.
- (c) Installments 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, 2003, stating the 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, with the schedule of 130 monthly installments and updated by TJLP, totaling R\$ 350 at December 31, 2007, and the debt due between March 01, 2003 and December 31, 2005, dealt with in article 8 of the MP, with the schedule of 120 monthly installments and updated by TJLP, totaling R\$ 722 at December 31, 2007.

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, stating the 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, with the schedule of 130 monthly installments and updated by TJLP, totaling R\$ 600 at December 31, 2007, and the debt due between March 1, 2003 and December 31, 2005, dealt with in article 8 of the MP, with the schedule of 120 monthly installments and updated by TJLP, totaling R\$ 610 at December 31, 2007.

Diagnósticos da América S.A.

Notes to the financial statements

(In thousands of Reais)

ISS

In 2006, the company scheduled ISS debt with the Municipality 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\$ 7 at December 31, 2007, (ii) proceeding no. 005408/06 of July 7, 2006, with the schedule of 24 monthly installments with interest at 1% per month, totaling R\$ 5 at December 31, 2007, and (iii) proceeding n° 009476/06 of August 24, 2006, with the schedule of 36 monthly installments with interest at 1% per month, totaling R\$ 135 at December 31, 2007.

- (e) The company scheduled ISS debt with the Municipality of Aparecida de Goiânia, corresponding to the years of 1993, 1994, 1996, 1998, 1999 and 2001, resulting in 7 installment proceedings to be paid in 180 monthly installments updated by the TJLP, totaling R\$ 1,405 at December 31, 2007; the amortizations shall be made until 2018.
- (f) In May 2003, Laboratório Exame adhered to the PAES Program (Law 10,684), declaring tax debits relating to INSS. The Consolidated amount of the debt is divided into 120 monthly installments and updated by the long-term interest rate (TJLP). Amortizations will occur until June 2013, and the Company does not make the payment with a basis on gross revenue, and neither used nor uses tax credits for the amortization of fines and interest.

16 Accounts payable from acquisition of subsidiaries

	2007	2006
Bio-Ciência Lavoisier de Análises Clínicas S.A. (a)	1,787	1,643
Laboratório Bronstein S.A. (b)	1,758	7,042
Lâmina - Laboratório de Análises Médicas e Investigações Anátomo-Patológicas S.A. (c)	-	5,431
Laboratório de Patologia Clínica Curitiba S/C Ltda. (d)	456	423
Centro Radiológico da Lagoa (CRL) e Presmedi Rio Serviços Médicos Ltda. (e)	64	341
Elkis e Furlanetto C.D.A.C. Ltda. (f)	7,822	7,773
Laboratório Pasteur Patologia Clínica S/S Ltda. (g)	453	626
Laboratório Frischmann Aisengart S.A. (h)	2,986	3,210
Image Memorial S.A. (i)	9,227	8,320
Laboratório Alvaro S.A. (j)	5,454	5,155
Laboratório Frischmann Aisengart S.A. (Minority interests) (k)	2,108	2,260
Laboratório Louis Pasteur Patologia Clínica S/C Ltda. - LabPasteur (l)	3,925	3,545

Diagnósticos da América S.A.

Notes to the financial statements

(In thousands of Reais)

	2007	2006
Laboratório Imuno Ltda. - MedLabor (m)	769	730
Clinica Médica Vita S.A. (n)	662	278
Laboratório Atalaia Ltda. (o)	2,801	2,544
Exame Laboratórios de Patologia Clínica Ltda. (p)	2,039	-
CientíficaLab Produtos Laboratoriais e Sistemas S.A. (q)	3,147	-
Med Imagem Ultra-Sonografia e radiologia Ltda. (r)	<u>14,860</u>	<u>-</u>
	<u>60,318</u>	<u>49,321</u>
Installments to amortize in the short term classified under the current liabilities	(<u>9,688</u>)	(<u>18,107</u>)
Noncurrent liabilities	<u>50,630</u>	<u>31,214</u>

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

- (a) **Lavoisier** - Updated at the same rates as those for the funds placed in investment funds managed by the financial institution, as reported in Note no. 4, with the purpose of securing the payment of contingencies which are still under litigation since the former management.
- (b) **Bronstein** - Updated at the same rates as those for the funds placed in investment funds managed by the financial institution, as reported in Note no. 4, with the purpose of securing the payment of contingencies which are still under litigation since the former management.
- (c) **Lâmina** - The amortization of the debt that was scheduled to occur in March 2007, occurred in April 2007.
- (d) **Curitiba** - In connection with tax credits which arose during the period prior to the acquisition, and which were used by the Company, and have been retained with the purpose of securing the payment of contingencies which are still under litigation since the pre-acquisition period.
- (e) **CRL e Presmedi** - Updated by the variation in the IGP-M (inflation index) retained with the purpose of securing the payment of contingencies which are still under litigation since the pre-acquisition period.

Diagnósticos da América S.A.

Notes to the financial statements

(In thousands of Reais)

- (f) **Elkis** - Updated at the same rates as those for the funds placed in investment funds managed by the financial institution, as reported in Note no. 4, and will be settled in May 2011.
- (g) **Pasteur (DF)** - Updated by the variation in the IPCA (inflation index), and has been retained with the purpose of securing the payment of contingencies which are still under litigation since since the pre-acquisition period.
- (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.
- (i) **Image** - Updated using the same rates of investment funds, managed by a financial institution, as reported in Note 4, and will be settled in October 2011.
- (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 2008 the firm calculated and recorded the contingent payment of the purchase price as mentioned in Note 8 (a). This portion will be settled in May 2008.
- (k) **Frischmann (Minority interests)** - Relates 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 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 rates 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 rates 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.
- (p) **Exame** - Updated using the same rates of the investment funds, managed by financial institutions, as reported in Note 4 and will be liquidated in May 2013.

Diagnósticos da América S.A.

Notes to the financial statements

(In thousands of Reais)

(q) **CientificaLab** - Updated using the same rates of the investment funds, managed by financial institutions, as reported in Note 4 and will be liquidated in July 2013.

(r) **MedImagem** - The total amount of debt in R\$14,860, part corresponds to the withheld portion of the price in R\$10,229, restated applying the same rates as those used to amounts invested on investment funds, managed by financial institutions, as stated in Note 4, which shall be settled by August 2013, and R\$4,631 corresponds to the second installment of purchase price, restated at the same rates as the withheld portion and payment thereof is subject to duration of the agreement to render services entered into with Medical Diagnósticos for a period of one year, from the acquisition date.

The portions classified in noncurrent liabilities have the following payment schedule:

Maturity	Amount (R\$)
With no maturity date - See to note 16 (a) and (b)	3,545
2009	251
2010	251
2011	21,905
2012	8,407
2013 to 2016	<u>16,271</u>
Total	<u>50,630</u>

17 Other accounts payable

	2007	2006
Rentals	3,070	2,570
Third-party services	5,686	4,203
Provision for specialized medical services	2,498	777
Franchisee commission payable	434	632
Other accounts payable	<u>5,543</u>	<u>5,075</u>
	<u>17,231</u>	<u>13,257</u>

Diagnósticos da América S.A.

Notes to the financial statements

(In thousands of Reais)

18 Provision for contingencies

	2007			2006
	Provision	Judicial deposit	Net	Net
(a) ICMS on imports	59,374	1,889	57,485	36,719
(b) Labor contingencies	5,157	183	4,974	4,229
(c) Civil contingencies	4,196	27	4,169	2,399
(d) Tax contingencies	<u>31,223</u>	<u>16,434</u>	<u>14,789</u>	<u>12,544</u>
	<u>99,950</u>	<u>18,533</u>	<u>81,417</u>	<u>55,891</u>

a. ICMS on imports

The Company based on the opinion of its legal advisors, has not paid ICMS on the imports of goods and equipment for use in the rendering of its services since February 2000, as discussions are in process regarding whether the Company is an ICMS taxpayer in these operations. In relation to ICMS amounts to be paid on imports occurred after issuance of Complementary Law 114, effective on December 16, 2002, external legal advisors believe that the chances of success are probable. At December 31, 2007, amounts recorded regarding imports from January 1, 2003 onwards in the company R\$ 59,374 (R\$37,578 at December 31, 2006), with related judicial deposits amounts of R\$ 1,889 at December 31, 2007 (R\$ 859 at December 31, 2006). The sum of R\$ 22,458 (R\$ 11,193 on December 31, 2006) is included in the accrued amount, plus interest at the SELIC rate relating to the nationalization of equipment coming from abroad in the international leasing category. The legal advisor of the Company considers the chance of loss, as a result of an eventual judicial dispute as possible. Nevertheless, as the matter does not yet have a definite jurisprudential position, the provision was maintained.

b. Provision for labor contingencies

At December 31, 2007, the Company is a part to 266 labor and judicial lawsuits (211 on December 31, 2006). Based on information provided by its legal advisors, the Company has recorded an amount of R\$ 5,157 (R\$ 4,285 on December 31, 2006), and does not expect any losses from lawsuits beyond amounts already recorded.

Diagnósticos da América S.A.

Notes to the financial statements

(In thousands of Reais)

c. *Provision for civil contingencies*

At December 31, 2007, the Company is a part to 273 labor and judicial lawsuits (228 at December 31, 2006). Based on information provided by its legal advisors, the Company has recorded an amount of R\$ 4,196 (R\$ 2,414 on December 31, 2006), and does not expect any losses from lawsuits in excess of the 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\$ 31,223, R\$ 9,518 refer to taxes and contributions challenged by the acquired companies. Management, based on legal advisors opinion, has recorded provisions in the amount of R\$ 31,223 (R\$ 25,328 on December 31, 2006), and does not expect any losses in excess of amounts already recorded.

Movement of the provision

	2006	Movement in the period			2007
	Opening balance	Addition to provision	Retirements	Revaluation	Closing balance
ICMS on imports	37,578	16,980	-	4,816	59,374
Provision for labor contingencies	4,285	873	(488)	487	5,157
Provision for civil contingencies	2,414	1,970	(426)	238	4,196
Provision for tax contingencies	<u>25,328</u>	<u>11,955</u>	<u>(8,149)</u>	<u>2,089</u>	<u>31,223</u>
	<u>69,605</u>	<u>31,778</u>	<u>(9,063)</u>	<u>7,630</u>	<u>99,950</u>

Diagnósticos da América S.A.

Notes to the financial statements

(In thousands of Reais)

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

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

Diagnósticos da América S.A.

Notes to the financial statements

(In thousands of Reais)

Corporate restructuring approved by the Shareholders' Meeting held on July 6, 2007 at 10:30 AM

On July 19, 2007 the Company's Senior Managers and those of the investing companies Platypus S.A., DASA Participações S.A, and Balu 460 Participações S.A., after having concluded their studies with regard to these companies, pursuant to and for the effects as provided for in articles 223 to 227 of Law no. 6404 dated December 15, 1976, entered into and submitted to the shareholders of DASA and the companies, in a special shareholders' meeting held on July 6, 2007 at 10:30 AM, the Merger Protocol and Justification, in order to ratify the terms and conditions which governed the absorption of the entire shareholders' equity of the companies by the Company, with no limitations to continuity of the business. The merger arose from the assessment by the management of the companies concerned, that the adoption by the Company of a true corporate structure and the encouragement to disperse shareholdings would bring substantial advantages to all the shareholders.

By means of this merger the shareholders' agreements entered into between the direct and indirect shareholders of DASA Participações S.A. were terminated, and the current group of controlling shareholders was dispersed, which fact converted the Company into a true corporation and led to an expressive increase in the number of shareholders and in liquidity.

The Company's capital was not increased as a result of the merger. There was no replacement of the shares held by the Company's non-controlling shareholders, whose respective shares and holdings remained unchanged. No changes were made to the Company by-laws and the policy and equity advantages as well as any other shareholders' rights were not subject to any modifications.

Diagnósticos da América S.A.

Notes to the financial statements

(In thousands of Reais)

The following is a picture of the dispersion of shareholdings before and after the corporate restructuring.

Dispersion share before restructuring approved at the corporate AGE from 06th July 2007				
Shareholders	Shares ON (Unit)	%	Total Shares (Unit)	%
Holder of control diffuse	21.526.099	37,50%	21.526.099	37,50%
Shareholders tied to drivers	642.360	1,12%	642.360	1,12%
	<u>22.168.459</u>	<u>38,62%</u>	<u>22.168.459</u>	<u>38,62%</u>
Board of Directors	7	0,00%	7	0,00%
Directors	1.547	0,00%	1.547	0,00%
Shares on the market	35.232.922	61,38%	35.232.922	61,38%
	<u>57.402.935</u>	<u>100,00%</u>	<u>57.402.935</u>	<u>100,00%</u>

Dispersion share after restructuring in the corporate approved AGE from 06th July 2007				
Shareholders	Shares ON (Unit)	%	Total Shares (Unit)	%
Board of Directors	4.106.519	7,15%	4.106.519	7,15%
Directors	1.547	0,00%	1.547	0,00%
Shares on the market	53.294.869	92,85%	53.294.869	92,85%
	<u>57.402.935</u>	<u>100,00%</u>	<u>57.402.935</u>	<u>100,00%</u>

Diagnósticos da América S.A.

Notes to the financial statements

(In thousands of Reais)

b. Dividends

In accordance with the Company's by-laws, net income has the following destination: (i) 5% for legal 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 the minimum compulsory dividends.

The proposal made by management in connection with the allocation of the net income for the December 31, 2007 fiscal year (subject to approval by the shareholders' meeting) is as follows:

Net income for the year	56,621
Legal Reserve - 5%	(2,831)
Base for dividend distribution	53,790
Dividends (25% minimum mandatory)	13,447

The dividend value calculated per common share is of R\$ 0.2342668101

c. Management remuneration

Management remuneration was R\$ 6,707 for the year of 2007 (R\$ 6,102 in 2006).

20 Income tax and social contribution

The reconciliation between the tax expense as calculated by the combined statutory rates and the income and social contribution tax expense charged to net income is presented below:

	2007	2006
Income before income and social contribution taxes	<u>29,001</u>	<u>35,966</u>
Combined statutory rates	34%	34%
Income and social contribution taxes calculated at the statutory rates	(9,860)	(12,229)

Diagnósticos da América S.A.

Notes to the financial statements

(In thousands of Reais)

	2007	2006
Permanent exclusions (additions), net	267	(840)
Temporary additions, net	(4,529)	(11,554)
Tax loss carry for word	290	4,428
Deferred tax initially recognized	37,685	-
Adjustment for tax calculated base on presumed profit	3,556	548
Other adjustments	622	267
Income tax and social contribution of the year	<u>28,031</u>	<u>(19,380)</u>
Effective rate	<u>-97%</u>	<u>54%</u>

21 Administrative and general

	2007	2006
Personnel expenses	70,986	52,326
Services and utilities	52,385	36,208
Depreciation	15,582	11,980
Taxes	2,132	1,084
Sundry provisions	5,531	8,463
Public offering expenses	-	14,875
Expenses with issuance of debentures (a)	958	639
General expenses	<u>24,012</u>	<u>25,486</u>
	<u>171,587</u>	<u>151,061</u>

22 Tax loss carry-forwards

At December 31, 2007, the Company had tax loss carryforward on the following base values:

Tax losses carryforward	13,195
Negative social contribution base	16,711

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

Diagnósticos da América S.A.

Notes to the financial statements

(In thousands of Reais)

23 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.

The market values were estimated at the date of closing of financial statements, based on “relevant market information”. Any changes in the assumption 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 risk assets on a speculative basis.

a. Composition of balances

In compliance with CVM Instruction 235/95, the accounting balances and the market values of the financial instruments included in the balance sheet at December 31, 2007 are shown below:

Description	Book value	Market value
Cash and cash equivalent	22,971	22,971
Marketable investments	23,398	23,398
Taxes recoverable	37,843	37,843
Investments valued using the equity method	<u>247,442</u>	<u>247,442</u>
Assets	<u>331,654</u>	<u>331,654</u>
Loans and financing:		
Local currency	101,204	101,204
Foreign currency	82,597	88,438
Derivatives (Swap)	<u>14,477</u>	<u>14,095</u>
Liabilities	<u>198,278</u>	<u>203,737</u>

Diagnósticos da América S.A.

Notes to the financial statements

(In thousands of Reais)

b. Criteria, assumptions and limitations used in the calculation of market value

Cash and banks and marketable securities

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

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

Recoverable taxes

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

Marketable 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 assumptions could significantly affect the presented estimates.

Diagnósticos da América S.A.

Notes to the financial statements

(In thousands of Reais)

Exchange rate risk

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

As a strategy for the prevention and reduction of the effects of fluctuations in the exchange rate of the Brazilian Real, the indebtedness in foreign currency is subject to “swap” transactions with financial institutions, and indebtedness with suppliers of equipment denominated in foreign currency is protected by swaps by up to 66.3% 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.

Liabilities	2007	2006
Bank loans	8,708	14,403
Equipment suppliers	20,344	33,492
Leasing of imported equipment	68,022	44,598
Foreign suppliers	<u>5,420</u>	<u>4,303</u>
	<u>102,494</u>	<u>96,796</u>

24 Insurance coverage

The Company adopts the policy of contracting insurance coverage for assets subject to risks for amounts considered to be sufficient to cover eventual casualties, considering the nature of its activity.

The Company has insurance policies taken out with the main insurance companies in Brazil, which were determined in accordance with the orientation of experts, and take into consideration the nature and the level of risk involved. The main insurance coverage are those against fires (R\$58,300), loss of profits (R\$9,500), torts (R\$1,000), torts of officers and administrators (R\$20,000) windstorm and smoke (R\$1,500), and electrical damages (R\$1,500), for amounts considered sufficient to cover any losses. The risk assumptions, due to their nature, are out of the scope of the auditing of the financial statements, and therefore were not audited by our independent auditors.

Diagnósticos da América S.A.

Notes to the financial statements

(In thousands of Reais)

25 Related parties transactions

Our by-laws require related party transactions to be performed in 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 attending the Meeting.

During the year ended December 31, 2007 and 2006, the Company maintained operations in the context of its regular business with related parties, as follows:

	2007			2006		
	Expenses	Permanent assets	Prepaid Expenses	Expenses	Permanent assets	Prepaid Expenses
Terra Molhada Participações Ltda. (a)	3,602	-	-	3,599	-	-
Parkbem Multiserviços S/C Ltda. (b)	6,466	150	-	6,687	83	-
Patrimônio Investimentos e Participações Ltda. (c)	179	-	-	439	-	-
RMA Construtora Ltda. (d)	3,631	10,709	-	1,374	6,560	-
Touch Tecnologia e Informática Ltda. (e)	854	2,780	-	-	2,737	-
Pátria - Banco de Negócios Assessoria, Gestão e Participação Ltda. (f)	447	4,071	-	1,806	1,344	-
Refazenda Participações Ltda. (g)	566	-	-	452	830	-
D.A. Produções Artísticas Ltda (h)	36	-	12	93	-	10
Pátria Assessoria Financeira Ltda. (i)	<u>1,514</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>17,295</u>	<u>17,710</u>	<u>12</u>	<u>14,450</u>	<u>11,554</u>	<u>10</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.

Diagnósticos da América S.A.

Notes to the financial statements

(In thousands of Reais)

b. Parkbem Multiserviços S/C Ltda.

Company controlled by José Auriemo Neto, Dr. Caio Auriemo nephew, 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, Dr. Caio Auriemo son, provides civil engineering services for the construction or remodeling of the service units.

e. Touch Tecnologia e Informática Ltda.

Software development and web Design Company owned by Ricardo Magnanini Auriemo, Dr. Caio Auriemo son, 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., in the year 2006 was holder of general control of the Company. During the year 2006, this company sold a property to the controlled company DASA Real Estate Empreendimentos Imobiliários Ltda. in the amount of R\$ 830.

Diagnósticos da América S.A.

Notes to the financial statements

(In thousands of Reais)

The Company leases four properties (service units in Chácara Flora and Mooca in São Paulo, and Ipanema and downtown Rio de Janeiro), from Refazenda. The rental agreements with regard to the properties located in São Paulo were executed in November 2005 for a 10-year period, and the rental agreements with regard to the properties located in Rio de Janeiro were executed in April 2004 for a 5 year period.

h. DA Produções Artísticas Ltda.

Company owned by Dulce Magnanini Auriemo, wife of Dr. Caio Auriemo, provides license to the company for marks, names and images used rights related for infantile recreation.

i. Pátria Assessoria Financeira Ltda.

Company connected to Patrimônio Investimentos e Participações 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.

26 Leases

Local currency lease

The Company is a lessee of data processing equipment (*hardware*) machinery and equipment with purchase option, totaling a payable balance until 2011 in the sum of R\$ 12,764, of which R\$ 5,595 are classified under the current liabilities and R\$ 7,169 in the non-current liabilities. The average term of the agreements are 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:

Maturity	Amount (R\$)
2008	5,595
2009	4,793
2010 to 2011	<u>2,376</u>
	<u>12,764</u>

Diagnósticos da América S.A.

Notes to the financial statements

(In thousands of Reais)

The equipment related to these contracts are recorded in the property, plant and equipment account as machinery and equipment, of which R\$ 8,729 being cost and R\$ 859 as accumulated depreciation.

Foreign currency lease

The Company is a lessee of equipment used in the services rendered, 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 semi-annual basis. Quarterly and semi-annual 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 2014 in the sum of R\$ 68,022, of which R\$ 14,873 are classified under the current liabilities and R\$ 53,149 under the noncurrent liabilities.

The accounts payable related to leasing matures as follows:

Maturity	Amount (R\$)
2008	14,873
2009	12,426
2010	11,862
2011	9,843
2012	8,653
2013	6,933
2014	<u>3,432</u>
	<u>68,022</u>

The equipment related to these contracts are recorded as property, plant and equipment in the account as machinery and equipment, of which R\$ 91,315 being cost and R\$ 7,888 as accumulated depreciation.

Diagnósticos da América S.A.

Notes to the financial statements

(In thousands of Reais)

27 Subsequent events

Change in the Brazilian corporate law.

On December 28, 2007 Law no. 11,638/07 was enacted, modifying certain provisions in the Brazilian corporate law (Law no. 6404 dated December 15, 1976). In summary, the new law sets the harmonization of the accounting practices adopted in Brazil with international accounting standards derived from the rules issued by the *International Accounting Standards Board - IASB*.

The Company already adopts the practice of disclosing the Statement of Cashs Flows and the Statement of Added-Value, and is assessing the impacts of the changes brought about by the new Law, for the main topics as stated below:

- the creation of new account sub-groups;
- the introduction of new criteria for valuation and classification of financial instruments;
- the Concept of Adjustment to Present Value for long-term transactions and for the relevant short-term transactions;
- The criteria for assessing impairment for fixed assets items and rights, intangible and deferred;
- and the criteria for assessing the fair market price of mergers.

The Company will take into consideration any guidance and definitions issued by the regulatory bodies. The impacts arising from the changes brought about by the new law are under assessment by management and will be recognized in the 2008 financial statements.

Diagnósticos da América S.A.

Notes to the financial statements

(In thousands of Reais)

28 Summary of principal differences between Brazilian GAAP and U.S GAAP

I - Description of GAAP differences

The consolidated financial statements of the Company and subsidiaries is 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 summarize 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. As of December 31, 2006 the balance was fully amortized.

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 allowed to capitalize interest costs and other financial charges of borrowed funds as part of the cost of the related asset being constructed only if the borrowed funds are directly related to the asset under construction.

In accordance with U.S. GAAP, 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 period:

December 31, 2007				
Number of contracts outstanding	Type of derivative instruments	Book value under accounting practices adopted in Brazil	Fair value	U.S. GAAP adjustment
39	Cross-currency interest swap	(14,477)	(14,095)	382
December 31, 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

e. 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 from tax losses carryforward is based on future taxable earnings brought to their present value. Realization estimate period cannot exceed ten years.

Under U.S. GAAP, deferred taxes are recorded on all temporary differences, except for differences arising from 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 carryforward 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.

Diagnósticos da América S.A.

Notes to the financial statements

(In thousands of Reais)

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:

	2007	2006
Deferred tax assets		
Tax loss carryforward	4,803	4,056
Provision for disallowance and doubtful accounts	6,500	13,462
Obsolete items - inventories	220	228
Goodwill amortization	29,351	15,110
Provision for specialized medical services	444	264
Provision for contingencies	15,089	10,567
Other provisions	1,443	1,554
Deferred charges	<u>12,072</u>	<u>7,092</u>
 Total gross deferred tax assets	 69,922	 52,333
 Less valuation allowance	 <u> -</u>	 (15,110)
 Net deferred tax assets	 <u>69,922</u>	 <u>37,233</u>
Deferred tax liabilities		
Capitalization of interest	(1,952)	(1,616)
Fair value adjustments relating to derivatives	(131)	(324)
Differences in goodwill recognized under US GAAP	(25,415)	(23,022)
Intangible assets recorded under US GAAP	<u>(70,384)</u>	<u>(33,256)</u>
 Total gross deferred tax liabilities	 <u>(97,882)</u>	 <u>(58,218)</u>
Net deferred tax assets (liabilities):	<u>(27,960)</u>	<u>(20,995)</u>
Current portion	13,279	19,240
Non-current portion	(41,239)	(40,235)

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\$170 million. Taxable income for the years ended December 31, 2007 and 2006 was R\$29,001 and R\$35,966, 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, 2007. A valuation allowance has been provided in 2006 to reduce the deferred tax asset to an amount management believes is more likely than not to be realized. Expected realization of deferred tax assets for which a valuation allowance has not been recognized is based upon the reversal of existing taxable temporary differences and taxable income expected to be generated in the future. The net change in the total valuation allowance in 2007 was a decrease of R\$ 15,110, which is related to the reversal of the valuation allowance for goodwill amortization.

f. 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. 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.

Diagnósticos da América S.A.

Notes to the financial statements

(In thousands of Reais)

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

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

The disclosures of leasing transactions required by SFAS No. 13 are included in Note III.e).

g. Share issuance costs

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

This difference has no net effect on shareholders' equity.

h. 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.

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 2006 and 2007:

Acquisition date	Company	Interest acquired
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"	99.99%
July 27, 2006	Laboratório Imuno Ltda. - "MedLabor"	99.99%
October 5, 2006	Clínica Médica Vita S.A. - "Vita Medicina Diagnóstica"	100.00%
October 26, 2006	Laboratório Atalaia Ltda. - "Atalaia"	99.99%
May 24, 2007	Laboratório Exame Ltda. - "Exame"	85.71%
July 19, 2007	CientíficaLab Produtos Laboratoriais e Sistemas S.A.	100.00%
August 28, 2007	Med Imagem Ultra-Sonografia e radiologia Ltda.	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:

	Frischmann	Lab Pasteur	MedLabor	Vita	Atalaia	Exame	Científica Lab	Med Imagem
Current assets	8,051	1,613	788	1,344	4,152	6,457	10,991	495
Property, plant and equipment	3,289	484	-	234	2,523	3,125	6,162	6,942
Intangible assets	8,673	7,594	3,425	4,442	8,768	22,823	79,669	22,055
Other assets	253	16	453	6	-	2,240	-	15
Total assets acquired	<u>20,266</u>	<u>9,707</u>	<u>4,666</u>	<u>6,026</u>	<u>15,443</u>	<u>34,645</u>	<u>96,822</u>	<u>29,507</u>
Current liabilities	4,268	3,087	2,149	2,175	4,685	3,826	12,505	3,236
Long-term liabilities	4,204	2,620	1,301	5,487	5,107	13,816	27,579	7,744
Liabilities assumed	8,472	5,707	3,450	7,662	9,792	17,642	40,084	10,980
Net assets (liabilities) acquired (assumed)	<u>11,794</u>	<u>4,000</u>	<u>1,216</u>	<u>(1,636)</u>	<u>5,651</u>	<u>17,003</u>	<u>56,738</u>	<u>18,527</u>
Interest acquired	7.08%	99.99%	99.99%	100.00%	99.99%	85.71%	100.00%	100.00%
Net assets (liabilities) acquired (assumed)	835	4,000	1,216	(1,636)	5,651	14,574	56,738	18,527
Total cost of acquisition	<u>6,634</u>	<u>11,961</u>	<u>5,429</u>	<u>746</u>	<u>29,176</u>	<u>50,153</u>	<u>89,921</u>	<u>44,928</u>
Goodwill recorded under U.S. GAAP	5,799	7,961	4,213	2,382	23,525	35,579	33,183	26,401
Goodwill recorded under accounting practices adopted in Brazil	4,970	13,936	5,966	4,768	28,329	46,623	80,107	40,760

Diagnósticos da América S.A.

Notes to the financial statements

(In thousands of Reais)

The intangible assets recorded by the Company are as follows:

Description	Period of amortization	Amount assigned							Med Imagem
		Frischmann	LabPasteur	MedLabor	Vita	Atalaia	Exame	CientificaLab	
Brand	360 months	8,673	7,594	3,425	4,442	8,768	19,563	30,427	22,055
Government contracts	6 to 60 months	-	-	-	-	-	-	46,531	-
Non compete agreement	120 months	-	-	-	-	-	-	2,711	-
		8,673	7,594	3,425	4,442	8,768	19,563	79,669	22,055

The total amount of goodwill recorded was assigned to the Company 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, 2007 and 2006, in accordance with accounting practices adopted in Brazil, as if Exame, CientificaLab and MedImagem 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:

Amounts under accounting practices adopted in Brazil	2007	2006
Net service revenues	928,257	776,793
Operating income	35,397	66,973
Net income	55,914	41,562
Net income per share	0.97	0.73

Diagnósticos da América S.A.

Notes to the financial statements

(In thousands of Reais)

i. Cash and cash equivalents

Under accounting practices adopted in Brazil, highly liquid investments with original maturities of three months or less are recorded as short-term marketable investments. Under U.S. GAAP, these investments are recorded together with cash and banks under the caption “Cash and cash equivalents”. At December 31, 2007 and 2006, the consolidated balance of cash and cash equivalents under U.S. GAAP is R\$ 26,196 and R\$ 19,031, respectively.

j. Operating income

Non-operating losses in the amount of R\$ 1,525 and R\$ 795 presented for the years ended December 31, 2007 and 2006 under accounting practices adopted in Brazil, relate mainly to losses on disposal of property plant and equipment which should 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 should 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.

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 III.i).

Diagnósticos da América S.A.

Notes to the financial statements

(In thousands of Reais)

m. Recently issued accounting pronouncements

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. The Company is currently evaluating the impact of adopting Statement 157 on its results of operations and financial position.

In February 2007, the FASB issued SFAS no. 159, “The Fair Value Option for Financial Assets and Financial Liabilities”. SFAS 159 includes an amendment of FASB Statement n° 115, “Accounting for Certain Investments in Debt and Equity Securities”. The Statement permits companies to choose to measure many financial instruments and certain other items at fair value in order to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. SFAS No. 159 is effective for the Company’s fiscal year ending January 31, 2009. The Company is currently assessing the impact of this statement on its consolidated financial statements.

Diagnósticos da América S.A.

Notes to the financial statements

(In thousands of Reais)

In December 2007, the FASB issued SFAS 141 (revised 2007), "Business Combination", which replaces SFAS 141, Business Combinations. SFAS 141(R) retains the fundamental requirements in SFAS 141 that the acquisition method of accounting (which SFAS 141 called the purchase method) be used for all business combinations and for an acquirer to be identified for each business combination. SFAS 141(R) defines the acquirer as the entity that obtains control of one or more businesses in the business combination and establishes the acquisition date as the date that the acquirer achieves control. SFAS 141(R) did not define the acquirer, although it included guidance on identifying the acquirer. SFAS 141(R)'s scope is broader than that of SFAS 141, which applied only to business combinations in which control was obtained by transferring consideration. The result of applying SFAS 141's guidance on recognizing and measuring assets and liabilities in a step acquisition was to measure them at a blend of historical costs and fair values. In addition, SFAS 141(R) requires to measure the noncontrolling interest in the acquirer at fair value which results in recognizing the goodwill attributable to the noncontrolling interest in addition to that attributable to the acquirer. SFAS 141(R) applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. An entity may not apply it before that date. The Company will apply such pronouncement on a prospective basis for each new business combination.

In December 2007, the FASB issued SFAS 160, Noncontrolling Interest in Consolidated Financial Statements - amendment of Accounting Research Bulletin No. 51, which clarifies that a noncontrolling interest in a subsidiary is an ownership interest in the consolidated entity that should be reported as equity in the consolidated financial statements. SFAS 160 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. Earlier adoption is prohibited. SFAS 160 shall be applied prospectively as of the beginning of the fiscal year in which this Statement is initially applied, except for the presentation and disclosure requirements.

The presentation and disclosure requirements shall be applied retrospectively for all periods presented. The Company is currently evaluating the impact of such new pronouncement in its consolidated financial statements but believes that it will not generate a material impact on the Company's consolidated results of operations or financial position.

Diagnósticos da América S.A.

Notes to the financial statements

(In thousands of Reais)

II - Reconciliation of the differences between US GAAP and accounting practices adopted in Brazil

Description	Note I	2007	2006
Net income as reported under accounting practices adopted in Brazil		56,621	16,511
Inflation accounting - Property, plant and equipment	a)	-	(379)
Deferred charges	b)	(14,649)	(1,556)
Capitalization of interest:	c)		
Cost		2,452	404
Amortization expenses		(1,463)	(1,333)
Fair value adjustments relating to accounting for derivative instruments	d)	(571)	(1,723)
Deferred tax effects on adjustments above		4,839	1,560
Deferred tax asset on temporary differences and tax loss carryforwards	e)	-	21,884
Reversal of deferred tax previously recognized under U.S. GAAP	e)	(30.131)	-
Shares issuance costs	g)	-	14,778
Business combinations:	h)		
Reversal of amortization of goodwill under BR GAAP		53,255	30,105
Reversal of amortization of goodwill under common control BR GAAP		-	(1,292)
Tax benefit applied as a reduction of goodwill		(453)	(306)
Deferred income taxes on goodwill basis difference	e)	(2,394)	(2,750)
Goodwill difference related to contingent cost		(3,883)	(3,683)
Amortization of intangible assets recognized under U.S. GAAP		(12,083)	(4,109)
Deferred income tax effect on intangible assets	e)	4,108	1,397
Reversal of amortization of goodwill generated from corporate reorganization		-	1,291
Net income under U.S. GAAP		<u>55,648</u>	<u>70,799</u>
Comprehensive income		<u>55,648</u>	<u>70,799</u>
Basic and diluted earnings per common share under U.S. GAAP (*)		<u>0.97</u>	<u>1.25</u>

(*) The calculation of earnings per share is summarized in Note III.i).

Diagnósticos da América S.A.

Notes to the financial statements

(In thousands of Reais)

Description	Note I	2007	2006
Shareholders' equity as reported under accounting practices adopted in Brazil		<u>512,380</u>	<u>469,206</u>
Deferred charges	b)	(35,515)	(20,865)
Capitalization of interest:	c)		
Cost		9,692	7,240
Accumulated amortization		(3,952)	(2,489)
Fair value adjustments relating to accounting for derivative instruments	d)	382	953
Deferred tax effects on adjustments above	e)	9,994	5,155
Deferred tax asset on temporary differences and tax loss carryforwards	e)	-	30,131
Business combinations:	h)		
Goodwill difference		(164,484)	(80,549)
Accumulated amortization of goodwill under U.S. GAAP		(3,217)	(3,217)
Accumulated amortization of goodwill under BR GAAP		200,261	147,006
Tax benefit applied as a reduction of goodwill		(19,443)	(18,990)
Deferred income taxes on goodwill basis difference	e)	(25,415)	(23,022)
Intangible assets recognized under U.S. GAAP		238,768	117,481
Accumulated amortization of intangible assets recognized under U.S. GAAP		(31,753)	(19,670)
Deferred income tax effect on intangible assets	e)	<u>(70,384)</u>	<u>(33,256)</u>
Shareholders' equity under U.S. GAAP		<u><u>617,314</u></u>	<u><u>575,114</u></u>

III - Additional disclosures required by U.S. GAAP

a. Reclassifications

Certain reclassifications have been made to prior year to conform to current year's presentation. These changes have no impact on operating or net income in any prior period.

b. Marketable investments

The Company classifies its marketable investments as trading investments, as the investments are bought and held principally for the purpose of selling them in the near term. These investments 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)

c. 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 2007 and 2006, is as follows:

	2007	2006
Interest cost capitalized	2,452	404
Interest cost charged to income	<u>61,256</u>	<u>62,031</u>
Total interest expense	<u>63,708</u>	<u>62,435</u>

d. 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.

Diagnósticos da América S.A.

Notes to the financial statements

(In thousands of Reais)

e. 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 capital leasing arrangements for machines and equipment, data processing equipment (hardware) and vehicles, based on 51 local currency leasing and 28 foreign leasing contracts in force as of December 31, 2007.

The following table summarizes the assets recorded under capital leases:

	Depreciation rate - % p.a.	2007		
		Cost	Depreciation	Net
Machinery and equipment	10	111,179	14,732	96,447
Furniture and fixtures	10	509	7	502
Hardware	20	912	152	760
Vehicles	20	<u>5,978</u>	<u>620</u>	<u>5,358</u>
		<u>118,578</u>	<u>15,511</u>	<u>103,067</u>

	Depreciation rate - % p.a.	2006		
		Cost	Depreciation	Net
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>

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, 2007 are:

Period ending	Capital leases	Operating Leases
2008	20,468	2,112
2009	17,219	5,399
2010	14,143	5,072
2011	9,938	5,361
2012	8,653	7,246
Later periods	<u>10,365</u>	<u>14,272</u>
Total minimum payments	<u>80,786</u>	<u>39,462</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 expenses for operating leases for the year ended December 31, 2007 and 2006 including contingent rentals, amount to R\$ 38,120 and R\$ 31,144, respectively.

f. 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.

g. 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.

Diagnósticos da América S.A.

Notes to the financial statements

(In thousands of Reais)

h. Changes in number of shares

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

Amount of the period	Common
Shares at December 31, 2005	<u>53,607,935</u>
Issuance of new shares in March 22, 2006	<u>3,300,000</u>
Issuance of new shares in April 07, 2006	<u>495,000</u>
Shares at December 31, 2006	<u>57,402,935</u>
Shares at December 31, 2007	<u>57,402,935</u>

i. 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. Basic earnings per share are equal to diluted earnings per share for all periods presented since the Company did not have any potentially dilutive securities.

Description	2007	2006
Net income under U.S. GAAP	55,648	70,799
Weighted average shares outstanding - Basic and diluted	57,402,935	56,579,768
Basic and diluted earnings per share - R\$	0.97	1.25

j. 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.

Diagnósticos da América S.A.

Notes to the financial statements

(In thousands of Reais)

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

Goodwill description	2007	2006
Lavoisier acquisition	20,846	20,846
Broenstein acquisition	22,499	22,499
Lamina acquisition	1,208	1,208
Santa Casa acquisition	631	779
CRL acquisition	9,480	9,535
Elkis acquisition	20,545	20,676
Pasteur acquisition	6,398	6,517
Frischmann acquisition	28,861	28,861
Image acquisition	29,271	29,271
Álvaro acquisition	14,890	14,890
LabPasteur acquisition	7,961	7,961
MedLabor acquisition	4,213	4,213
Vita acquisition	2,382	2,382
Atalaia acquisition	23,525	23,525
Exame acquisition	35,579	-
CientificaLab acquisition	33,183	-
MedImagem acquisition	<u>26,401</u>	<u>-</u>
	<u>287,873</u>	<u>193,163</u>

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

The Company estimates the entire goodwill balance relating to these acquisitions will be deductible for tax purposes.

Diagnósticos da América S.A.

Notes to the financial statements

(In thousands of Reais)

The carrying amount of goodwill by company for the years ended December 31, 2006 and 2007 are as follows:

Movement of the period	Goodwill
Beginning balance as of January 1, 2006	<u>149,022</u>
Additions	44,447
Tax benefit applied to reduce goodwill	(306)
Balance as of December 31, 2006	<u>193,163</u>
Additions	95,163
Tax benefit applied to reduce goodwill	(453)
Balance as of December 31, 2007	<u>287,873</u>

k. Intangible assets subject to amortization

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

	<u>2007</u>				<u>2006</u>		
	Brands	Government contracts	Non-compete agreements	Total	Brands	Non-compete agreements	Total
Gross	178,989	49,242	10,537	238,768	106,944	10,537	117,481
Accumulated amortization	(18,230)	(6,507)	(7,017)	(31,754)	(13,472)	(6,198)	(19,670)
Net	<u>160,759</u>	<u>42,735</u>	<u>3,520</u>	<u>207,014</u>	<u>93,472</u>	<u>4,339</u>	<u>97,811</u>
Weighted- average amortization period (years)	22.8	3.3	4.3	-	20.1	5.3	-

Under U.S. GAAP the aggregate amortization expense for the above intangible assets amounted to R\$ 12,083 and R\$ 4,109 for the year ended December 31, 2007 and 2006, respectively.

Diagnósticos da América S.A.

Notes to the financial statements

(In thousands of Reais)

No significant residual value is estimated for these intangible assets. The following table represents the total estimated amortization of intangible assets for the next five succeeding year:

	Estimated amortization expenses
2008	19,835
2009	19,835
2010	19,835
2011	9,580
2012	6,195
Thereafter	<u>131,734</u>
Total	<u>207,014</u>

l. Income tax

On January 1, 2007, the Company adopted FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes - An Interpretation of FASB Statement No. 109", (FIN 48). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FASB Statement No. 109, "Accounting for Income Taxes". FIN 48 also prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return that results in a tax benefit. Additionally, FIN 48 provides guidance on de-recognition, statement of operations classification of interest and penalties, accounting in interim periods, disclosure, and transition. The implementation of FIN 48 had no significant impact in the consolidated financial statements.

The Company recognizes interest and penalties related to uncertain tax positions in interest expense.

The Company is subject to Brazilian income tax and social contribution. The calendar years 2002 through 2006 remain open to examination. As of December 31, 2007, the Company does not expect any material changes to unrecognized tax positions within the next twelve months.

Diagnósticos da América S.A.

Notes to the financial statements

(In thousands of Reais)

The following table summarizes the activity related to our gross unrecognized tax benefits from January 1, 2007 to December 31, 2007:

Balance as of January 1, 2007	6,317
Increases related to prior year tax positions	845
Increases related to current year tax positions	4,382
Balance as of December 31, 2007	11,544

All unrecognized tax benefits, if recognized, would affect the effective tax rate.

Interest expense recognized in the statement of income related to liabilities for unrecognized tax benefits for the year ended December 31, 2007 was R\$922.

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

	2007	2006
Income before taxes on income	<u>52,057</u>	<u>68,468</u>
Statutory composite rate	34%	34%
Tax expense at statutory composite rate	(17,699)	(23,279)
Adjustments to derive effective rate:		
Permanent differences	267	(2,327)
Adjustment for tax calculated base on presumed profit	3,556	548
Deferred tax on goodwill basis differences	(6,101)	5,488
Reversal of deferred tax previously recognized under U.S. GAAP	23,587	21,709
Other adjustments	<u>392</u>	<u>267</u>
Income tax and social contribution benefit	<u>4,002</u>	<u>2,406</u>
Effective rate	<u>8%</u>	<u>4%</u>

Diagnósticos da América S.A.

Notes to the financial statements

(In thousands of Reais)

m. Concentration of credit risk

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

The Company manages its credit risk with respect to cash equivalents and marketable 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.

f. Aggregate foreign currency transaction losses (gains)

Total aggregate foreign currency transaction losses (gains) included in financial expense, net amounted to R\$ (3,188), and R\$ 7,701 for the years ended December 31, 2007 and 2006, respectively.

IV - 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 28.

Diagnósticos da América S.A.

Notes to the financial statements

(In thousands of Reais)

a. Consolidated balance sheets as of December 31, 2007 and 2006 under U.S. GAAP

Assets	2007	2006	Liabilities	2007	2006
Current assets			Current liabilities		
Cash and cash equivalents	26,196	19,031	Suppliers	52,790	34,038
Marketable securities	20,173	313,630	Loans and financing	103,479	65,767
Trade accounts receivable	205,275	138,615	Taxes and contributions payable	16,485	6,164
Inventories	33,475	20,717	Salaries, social security		
Taxes recoverable	28,522	16,749	charges and vacation payable	31,373	26,058
Deferred income taxes	13,279	19,240	Installments taxes	6,778	5,532
Other accounts receivable	11,132	6,328	Accounts payable from		
Fair value of derivatives	382	953	acquisition of subsidiaries	9,688	18,107
Prepaid expenses	<u>1,680</u>	<u>5,217</u>	Other accounts payable	<u>34,554</u>	<u>13,785</u>
	<u>340,114</u>	<u>540,480</u>		<u>255,147</u>	<u>169,451</u>
Noncurrent assets			Long-term liabilities		
Restricted cash	80,720	28,225	Loans and financing	303,111	275,944
Deposits in court	7,243	2,123	Installment taxes	15,083	16,914
Other accounts receivable	2,201	13	Accounts payable from		
Investments	117	25	acquisition of subsidiaries	49,089	29,714
Goodwill	287,873	193,163	Provision for contingencies	81,417	55,950
Intangible assets, net	207,014	97,811	Deferred income taxes	<u>41,239</u>	<u>40,235</u>
Property, plant and equipment	<u>437,806</u>	<u>301,482</u>			
	<u>1,022,974</u>	<u>622,842</u>	Minority interest	<u>688</u>	<u>-</u>
			Shareholders' equity		
			Capital	377,206	377,206
			Capital reserves	68,369	65,538
			Retained earnings	<u>171,739</u>	<u>132,370</u>
				<u>617,314</u>	<u>575,114</u>
Total	<u>1,363,088</u>	<u>1,163,322</u>	Total	<u>1,363,088</u>	<u>1,163,322</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, 2007 and 2006 under U.S. GAAP

Description	2007	2006
Net service revenues	858,820	670,451
Cost of services provided	<u>(585,407)</u>	<u>(444,340)</u>
Gross profit	273,413	226,111
Operating income (expense):		
Administrative and general	(192,295)	(141,722)
Amortization of intangible assets	(12,083)	(4,110)
Other, net	<u>3,624</u>	<u>930</u>
Subtotal	<u>(200,754)</u>	<u>(144,902)</u>
Operating income	72,659	81,209
Financial expenses, net	<u>(20,602)</u>	<u>(12,741)</u>
Income before taxes	52,057	68,468
Income tax and social contribution:		
Current	(29,819)	(19,380)
Deferred	<u>33,821</u>	<u>21,786</u>
Income before minority interest	56,059	70,874
Minority interest	<u>(411)</u>	<u>(75)</u>
Net income	<u>55,648</u>	<u>70,799</u>
Earnings per share	0.97	1.25