



US\$250,000,000
DASA Finance Corporation
(incorporated in the Cayman Islands)

8.75% Senior Notes due 2018

Unconditionally and Irrevocably Guaranteed by
Diagnósticos da América S.A.

DASA Finance Corporation (“DASA Finance”), an exempted company incorporated under the laws of the Cayman Islands, is offering US\$250,000,000 aggregate principal amount of its 8.75% senior notes due 2018 (the “notes”). Diagnósticos da América S.A. (“DASA”), a corporation (*sociedade por ações*) organized under the laws of the Federative Republic of Brazil will unconditionally and irrevocably guarantee the notes on a senior unsecured basis.

Interest on the notes will be payable semi-annually in arrears on May 29 and November 29 of each year, beginning on November 29, 2008. The notes will mature on May 29, 2018. DASA Finance may, at its option, redeem the notes, in whole but not in part, at any time prior to May 29, 2013, at a redemption price based on a make-whole premium and, at any time thereafter, in whole or in part, at the redemption prices set forth herein, or at any time, in whole but not in part, upon the occurrence of specified events relating to Cayman Islands or Brazilian tax laws as set forth in this offering memorandum, in each case plus accrued interest and additional amounts, if any.

The notes will be senior unsecured obligations of DASA Finance, ranking equal in right of payment with all of its other existing and future senior unsecured debt. DASA’s guarantee will be the senior unsecured obligation of DASA, ranking equal in right of payment with all of its other existing and future senior unsecured debt. The notes will be effectively subordinated to DASA’s secured debt to the extent of the value of the assets securing such debt and structurally subordinated to all debt and other obligations of DASA’s subsidiaries that do not provide a guarantee of the notes. Certain of DASA’s significant subsidiaries will also guarantee the notes if those subsidiaries incur more than US\$20.0 million of indebtedness.

Application has been made to list the notes on the Official List of the Luxembourg Stock Exchange and to trading on the Euro MTF Market of the Luxembourg Stock Exchange. The notes sold to qualified institutional buyers are eligible for trading in the Private Offerings, Resales and Trading through Automatic Linkages (PORTAL) market.

Investing in the notes involves risks that are described in “Risk Factors” beginning on page 21.

The notes will initially be sold to investors at a price equal to 98.374% of the principal amount thereof, plus accrued interest, if any, from May 29, 2008.

The notes have not been registered under the U.S. Securities Act of 1933, as amended (the “Securities Act”), and may not be offered or sold in the United States or to U.S. persons (as defined in Regulation S) except in transactions exempt from, or not subject to, the registration requirements of the Securities Act. Accordingly, we are offering the notes only to qualified institutional buyers under Rule 144A and outside the United States in compliance with Regulation S. For more information about restrictions on transfer of the notes, see “Transfer Restrictions” beginning on page 193.

The notes will be delivered to purchasers in book-entry form through The Depository Trust Company and its direct and indirect participants, including Clearstream Banking, S.A. Luxembourg and Euroclear Bank S.A./N.V., as operator of the Euroclear System, on or about May 29, 2008.

Joint Book-Runners

Credit Suisse

Merrill Lynch & Co.

The date of this offering memorandum is May 21, 2008

You should rely only on the information contained in this offering memorandum. We have not, and the initial purchasers have not, authorized anyone to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. We are not, and the initial purchasers are not, making an offer to sell the notes in any jurisdiction where the offer or sale is not permitted. This document may only be used where it is legal to sell the notes. You should assume that the information appearing in this offering memorandum is accurate only as of the date on the front cover of this offering memorandum. Our business, financial condition, results of operations and prospects may have changed since that date.

Unless otherwise indicated or the context otherwise requires, all references to “our company,” “we,” “our,” “ours,” “us” or similar terms refer to Diagnósticos da América S.A and its consolidated subsidiaries, and all references to “DASA Finance” refer to DASA Finance Corporation. All references to “DASA” refer to Diagnósticos da América S.A. alone, and all references to the “issuer” or “DASA Finance” refer to DASA Finance Corporation alone.

We are relying on an exemption from registration under the Securities Act for offers and sales of securities that do not involve a public offering. By purchasing the notes, you will be deemed to have made the acknowledgments, representations, warranties and agreements described under “Transfer Restrictions” in this offering memorandum. You should understand that you will be required to bear the financial risks of your investment for an indefinite period of time.

This offering memorandum has been prepared by us solely for use in connection with the proposed offering of the notes and may only be used for the purposes for which it has been published. We, as well as the initial purchasers, reserve the right to reject any offer to purchase, in whole or in part, for any reason, or to sell less than all of the notes offered by this offering memorandum.

We confirm that, after having made all reasonable inquiries, the information contained in this offering memorandum with regards to us is true and accurate in all material respects and that there are no omissions of any other facts from this offering memorandum which, by their absence herefrom, make this offering memorandum misleading in any material respect. We accept responsibility accordingly. This offering memorandum summarizes certain documents and other information and we refer you to them for a more complete understanding of what we discuss in this offering memorandum. In making an investment decision, you must rely on your own examination of our company and the terms of the offering and the notes, including the merits and risks involved.

We are not making any representation to any purchaser of the notes regarding the legality of an investment in the notes by such purchaser under any legal investment or similar laws or regulations. You should not consider any information in this offering memorandum to be legal, business or tax advice. You should consult your own attorney, business advisor and tax advisor for legal, business and tax advice regarding an investment in the notes.

Application has been made to admit the notes to listing on the Official List of the Luxembourg Stock Exchange and to trading on the Euro MTF market. This offering memorandum forms the prospectus for admission to the Luxembourg Stock Exchange. The Luxembourg Stock Exchange takes no responsibility for the contents of this offering memorandum, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this offering memorandum.

Neither the U.S. Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this offering memorandum is truthful or complete. Any representation to the contrary is a criminal offense.

It is expected that delivery of the notes will be made against payment therefor on or about the date specified on the cover of this offering memorandum, which is the fifth business day following the date of pricing of the

notes (such settlement cycle being referred to as “T+5”). You should note that trading of the notes on the date of pricing or the next five succeeding business days may be affected by the T+5 settlement. See “Plan of Distribution.”

NOTICE TO INVESTORS

Notwithstanding anything in this document to the contrary, except as reasonably necessary to comply with applicable securities laws, you (and each of your employees, representatives or other agents) may disclose to any and all persons, without limitation of any kind, the U.S. federal income tax treatment and tax structure of the offering and all materials of any kind (including opinions or other tax analyses) that are provided to you relating to such tax treatment and tax structure. For this purpose, “tax structure” is limited to facts relevant to the U.S. federal income tax treatment of the offering.

NOTICE TO NEW HAMPSHIRE RESIDENTS

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY, OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER, OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

NOTICE TO RESIDENTS OF BRAZIL

The notes have not been, and will not be, registered with the *Comissão de Valores Mobiliários*, the Brazilian securities commission or “CVM.” Any public offering or distribution, as defined under Brazilian laws and regulations, of the notes in Brazil is not legal without such prior registration. Documents relating to the offering of the notes, as well as information contained therein, may not be supplied to the public in Brazil, as the offering of the notes is not a public offering of securities in Brazil, nor may they be used in connection with any offer for subscription or sale of the notes to the public in Brazil. The initial purchaser has agreed not to offer or sell the notes in Brazil, except in circumstances which do not constitute a public offering or distribution of securities under applicable Brazilian laws and regulations.

NOTICE TO MEMBERS OF THE PUBLIC OF THE CAYMAN ISLANDS

SECTION 194 OF THE COMPANIES LAW (2007 REVISION) OF THE CAYMAN ISLANDS PROVIDES THAT AN EXEMPTED COMPANY (SUCH AS DASA FINANCE) THAT IS NOT LISTED ON THE CAYMAN ISLANDS STOCK EXCHANGE IS PROHIBITED FROM MAKING ANY INVITATIONS TO THE PUBLIC IN THE CAYMAN ISLANDS TO SUBSCRIBE FOR ANY OF ITS NOTES. EACH PURCHASER OF THE NOTES AGREES THAT NO INVITATION MAY BE MADE TO THE PUBLIC IN THE CAYMAN ISLANDS TO SUBSCRIBE FOR THE NOTES.

NOTICE TO RESIDENTS OF THE UNITED KINGDOM

Each of the initial purchasers has represented and agreed that (1) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of The Financial Services and Markets Act of 2000, or the FSMA) received by it in connection with the issue or sale of any notes in circumstances in which section 21(1) of the FSMA does not apply to us; and (2) it has complied, and will comply, with all applicable provisions of the FSMA with respect to anything done by it in relation to the notes in, from or otherwise involving the United Kingdom.

NOTICE TO RESIDENTS OF THE EUROPEAN ECONOMIC AREA

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a “Relevant Member State”), each initial purchaser has represented and agreed that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the “Relevant Implementation Date”) it has not made and will not make an offer of the notes to the public in that Relevant Member State prior to the publication of an offering memorandum in relation to the notes which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, all in accordance with the Prospectus Directive, except that it may, with effect from and including the Relevant Implementation Date, make an offer of notes to the public in that Relevant Member State at any time (a) to legal entities which are authorized or regulated to operate in the financial markets or, if not so authorized or regulated, whose corporate purpose is solely to invest in securities; (b) to any legal entity which has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than €43,000,000, and (3) an annual net turnover of more than €50,000,000, as shown in its last annual or consolidated accounts; or (c) in any other circumstances which do not require the publication by the issuer of a prospectus pursuant to Article 3 of the Prospectus Directive. For the purposes of this provision, the expression an “offer of notes to the public” in relation to any notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the notes to be offered so as to enable an investor to decide to purchase or subscribe the notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression Prospectus Directive means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

NOTICE TO RESIDENTS OF FRANCE

This document is furnished to you solely for your information and may not be reproduced or redistributed to any other person. This document does not constitute an offer or an invitation to subscribe for or to purchase any securities and neither this document nor anything contained herein shall form the basis of any contract or commitment whatsoever. This paragraph is applicable only to residents of France.

This document may not be distributed to the public in France or used in connection with any offer for subscription or sale of securities in France other than in accordance with article L-411-2 of the Code Monétaire et Financier and Décret no. 98-880 dated October 1, 1998. This document has not been submitted to the *Autorité des Marchés Financiers* for approval and does not constitute an offer for sale or subscription of securities.

NOTICE TO RESIDENTS OF HONG KONG

Each of the initial purchasers has represented and agreed that (1) it has not offered or sold, and will not offer or sell, in Hong Kong, by means of any document, any notes other than to persons whose ordinary business is to buy or sell shares or debentures, whether as principal or agent, or in circumstances which do not constitute an offer to the public within the meaning of the Companies Ordinance (Cap. 32) of Hong Kong and (2) it has not issued, or had in its possession for the purpose of issue, and will not issue, or have in its possession for the purpose of issue, whether in Hong Kong or elsewhere, any invitation, document or advertisement relating to the notes, which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to notes which are or are intended to be disposed of only to persons outside Hong Kong or only to “professional investors” within the meaning of the Securities and Futures Ordinance (Cap. 571) of Hong Kong and any rules made under that Ordinance.

NOTICE REGARDING SINGAPORE OFFERING

This offering memorandum has not been registered as a prospectus with the Monetary Authority of Singapore, or the MAS, and the notes are offered in Singapore pursuant to exemptions invoked under section 274 and/or section 275 of the Securities and Futures Act (chapter 289) of Singapore, or the “SFA.” Accordingly, each of the initial purchasers has represented and agreed that it will not offer or sell the notes nor make the notes the subject of an invitation for subscription or purchase, nor will it circulate or distribute this offering memorandum or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the notes, whether directly or indirectly, to the public or any member of the public in Singapore other than (a) to an institutional investor or other person specified in section 274 of the SFA, (b) to a sophisticated investor, and in accordance with the conditions, specified in section 275 of the SFA or (c) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

U.S. INTERNAL REVENUE SERVICE CIRCULAR 230 DISCLOSURE

PURSUANT TO U.S. INTERNAL REVENUE SERVICE CIRCULAR 230, WE HEREBY INFORM YOU THAT THE DESCRIPTION SET FORTH HEREIN WITH RESPECT TO U.S. FEDERAL TAX ISSUES WAS NOT INTENDED OR WRITTEN TO BE USED, AND SUCH DESCRIPTION CANNOT BE USED, BY ANY TAXPAYER FOR THE PURPOSE OF AVOIDING ANY PENALTIES THAT MAY BE IMPOSED ON THE TAXPAYER UNDER THE U.S. INTERNAL REVENUE CODE. SUCH DESCRIPTION WAS WRITTEN IN CONNECTION WITH THE PROMOTION OR MARKETING OF THE TRANSACTIONS OR MATTERS ADDRESSED HEREIN. TAXPAYERS SHOULD SEEK ADVICE BASED ON THE TAXPAYER’S PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISOR.

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Forward-Looking Statements

This offering memorandum includes forward-looking statements, principally in the sections entitled “Summary,” “Risk Factors,” “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” “Medical Diagnostics Industry” and “Description of Our Business.” We have based these forward-looking statements largely on our current expectations and projections about future events and financial trends affecting our business.

While we believe these expectations and projections are based on reasonable premises, they are subject to different risks and uncertainties and are based solely on information currently available to us.

The factors that may affect our expectations and projections include, among others, the following:

- general economic, political and business conditions, both in Brazil and in the rest of Latin America;
- our ability to execute our business strategy and to identify attractive acquisition targets, new business opportunities for CientificaLab in the Brazilian public sector and new markets in which to expand through organic growth;
- our ability to consummate potential acquisitions and to integrate acquired businesses with the rest of our operations;
- our capital expenditure plans and levels of debt and other fixed obligations;
- our compliance with the terms (including the required net debt to EBITDA ratio) of our outstanding debentures;
- our ability to compete successfully;
- our dependence on a limited number of private health plans for a significant percentage of our gross operating revenues;
- the risk of changes in Brazilian government healthcare regulations or the policies of healthcare plans;
- the changes in market prices, patients’ preference or competitive conditions;
- the risk of changes in tax, labor or other laws and regulations, or of adverse decisions in our tax, labor or other administrative or judicial actions; and
- other risk factors as set forth under “Risk Factors.”

Statements that rely on or are related to events or subsequent or uncertain conditions, or which include the words “believe,” “could,” “may,” “will,” “would,” “estimate,” “continue,” “anticipate,” “intend,” “expect” and similar words, are intended to identify forward-looking statements. Forward-looking statements include information concerning our possible or assumed future results of operations, business strategies, financing plans, competitive position, industry environment, potential growth opportunities, the effects of future regulation and the effects of competition. Forward-looking statements speak only as of the date they were made, and we undertake no obligation to update publicly or revise any forward-looking statements because of new information, future events or otherwise. In light of these risks and uncertainties, the forward-looking information, events and circumstances discussed in this offering memorandum may not occur. Any such forward-looking statements are not guarantees of future performance and involve risks and uncertainties. Our actual results and performance could differ substantially from those anticipated in our forward-looking statements, as a result of various factors.

Presentation of Financial Information

DASA financial statements

Included in this offering memorandum are our audited consolidated financial statements as of and for the years ended December 31, 2005, 2006 and 2007, and the three months ended March 31, 2007 and 2008, which have been prepared in accordance with accounting practices adopted in Brazil, or “Brazilian GAAP.” We maintain our books and records in *reais*. The comparability of our financial statements as of and for the years ended December 31, 2005, 2006 and 2007 is limited because of the companies we acquired in each of those years. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Limits on comparability of our financial statements.”

Brazilian GAAP is based on:

- Brazilian Law No. 6,404/76, as amended, which we refer to collectively as the Brazilian Corporation Law;
- the rules and regulations of the CVM; and
- the accounting standards issued by the *Instituto dos Auditores Independentes do Brasil*, the Brazilian Institute of Independent Accountants.

Brazilian GAAP differs in certain respects from accounting principles generally accepted in the United States, or U.S. GAAP. For a discussion of certain differences between Brazilian and U.S. GAAP, see Annex A—“Description of Certain Differences between Brazilian GAAP and U.S. GAAP.”

DASA Finance financial statements

We have not included any financial statements for DASA Finance in this offering memorandum. DASA Finance will not publish financial statements, except for such financial statements which DASA Finance may be required under the laws of the Cayman Islands to publish. In addition, DASA Finance does not intend to furnish to the trustee or the holders of the notes any financial statements of, or other reports relating to, DASA Finance. DASA Finance will not have any operations independent from DASA. DASA Finance’s obligations under the notes will be fully and unconditionally guaranteed by DASA.

Market share and other information

We make statements in this offering memorandum about our market share in the medical diagnostics industry in Brazil and our test processing capacity relative to that of other diagnostic companies in Brazil. We have made these statements on the basis of information obtained from third party sources that we believe are reliable and accurate. Although we have no reason to believe that any of this information is inaccurate in any material respect, neither we nor the initial purchasers have independently verified the data provided by third parties or derived from industry or general publications.

Currency information

In this offering memorandum, the term “Brazil” refers to the Federative Republic of Brazil, and the phrase “Brazilian government” refers to the federal government of Brazil. The term “Central Bank” refers to the Central Bank of Brazil. The terms “U.S. dollar” and “U.S. dollars” and the symbol “US\$” refer to the legal currency of the United States. The terms “*real*” and “*reais*” and the symbol “R\$” refer to the legal currency of Brazil.

This offering memorandum contains translations of various *real* amounts into U.S. dollars at specified rates solely for your convenience. You should not construe these translations as representations by us that the *real* amounts actually represent these U.S. dollar amounts or could be converted into U.S. dollars at the rates indicated. Unless otherwise indicated, we have translated the *real* amounts as of and for the year ended December 31, 2007 and the three months ended March 31, 2008 using a rate of R\$1.7491 to US\$1.00, the U.S. dollar selling rate on March 31, 2008 published by the Central Bank on its electronic information system, SISBACEN, using transaction PTAX 800, option 5.

Rounding

Some of the percentages and other numbers included in this offering memorandum are rounded to facilitate their presentation. Therefore, some of the totals included in the charts herein may not represent an exact sum of the preceding amounts.

Non-GAAP Financial Measures

The U.S. Securities and Exchange Commission (“SEC”) has adopted rules to regulate the use in filings with the SEC and in public disclosures of “non-GAAP financial measures,” such as net income before net financial expense, income tax and social contribution, depreciation and amortization (EBITDA) and Adjusted EBITDA. These measures are calculated in accordance with methodologies that are not dictated by Brazilian GAAP or U.S. GAAP. The SEC rules govern the manner in which non-GAAP financial measures may be publicly presented and prohibit in all filings with the SEC, among other things:

- exclusion of charges or liabilities that require, or will require, cash settlement or would have required cash settlement, absent an ability to settle in another manner, from a non-GAAP liquidity measure; and
- adjustment of a non-GAAP financial measure to eliminate or smooth items identified as nonrecurring, infrequent or unusual, when the nature of the charge or gain is such that it has occurred in the past two years or is reasonably likely to recur within the next two years.

We have included non-GAAP financial measures in this offering memorandum, including, for example, EBITDA plus non-operating results and minority interest, Adjusted EBITDA and Adjusted EBITDA minus DASA Real Estate EBITDA that may not comply with the SEC rules governing the presentation of non-GAAP financial measures. In addition, some of the adjustments to EBITDA plus non-operating results and minority interest, which comprise Adjusted EBITDA and Adjusted EBITDA minus DASA Real Estate EBITDA as presented in this offering memorandum would not be allowed under Regulation S-X under the Securities Act. See “Summary Financial Information” for a description of the calculation of EBITDA plus non-operating results and minority interest, Adjusted EBITDA and Adjusted EBITDA minus DASA Real Estate EBITDA. Furthermore, our measurements of EBITDA plus non-operating results and minority interest, Adjusted EBITDA and Adjusted EBITDA minus DASA Real Estate EBITDA may not be comparable to those of other companies. For a presentation of net income as calculated under Brazilian GAAP and a reconciliation to our EBITDA plus non-operating results and minority interest, Adjusted EBITDA and Adjusted EBITDA minus DASA Real Estate EBITDA, see “Summary Financial Information” in this offering memorandum.

Summary

This summary highlights information contained elsewhere in this offering memorandum. This summary does not contain all of the information you should consider before purchasing the notes. You should read this entire offering memorandum carefully before purchasing any notes, including the information contained in the sections entitled “Risk Factors,” “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our consolidated financial statements and related notes included in this offering memorandum.

Our company

We believe we are the largest medical diagnostics company in Brazil and among the five largest publicly traded medical diagnostics companies in the world, in each case based on revenues for the year ended December 31, 2007. We operate in nine Brazilian states and the Federal District through 17 distinct brands. At March 31, 2008, we had 10,312 employees and 269 outpatient service centers (of which 18 were franchisees), including 34 “mega centers” of over 1,500 square meters. In 2007, we processed over 15.1 million test requisitions, an increase of 62.9% compared to 2006.

We provide clinical analysis and diagnostic imaging services throughout Brazil, offering a comprehensive portfolio of over 3,000 clinical analysis and diagnostic tests. Our business model is based on the following five pillars: (1) a multi-product offering, which allows us to service our clients using a “one-stop shop” concept, (2) a multi-brand strategy, which allows us to service all social classes in a segmented manner, (3) a multi-region strategy, which contemplates expanding our network and achieving economies of scale through geographic dispersion, (4) a multi-payer customer base, which diversifies our risk among different types of health care providers and (5) a multi-market strategy of providing services to both the private and public healthcare sectors, which further increases our diversification and growth opportunities.

We operate in four primary business lines: (1) outpatient services, (2) inpatient services, (3) services to government healthcare providers and (4) laboratory-to-laboratory services. While our main business is providing services to outpatients at our patient service centers, we have been increasing our services to hospitals, or inpatient services, since 2000, increasing our services to laboratories throughout Brazil since 2005 and recently entered the market for services to government healthcare providers through our acquisition of CientíficaLab Produtos Laboratoriais e Sistemas Ltda. (“CientíficaLab”) in July 2007.

We commenced operations over 40 years ago, and since 1999, we have pursued expansion through both organic growth and strategic acquisitions. Our organic growth is based primarily on: (1) expanding our geographic coverage through the establishment of new service centers, (2) expanding our offering of diagnostic imaging tests, which generally provide a higher contribution margin, and increasing the percentage of our revenues from such tests, (3) offering inpatient services in the regions where we are active in the outpatient market, (4) expanding the base of laboratories to which we provide services and (5) seeking to enter into additional contracts to provide services to government healthcare providers. Our growth through acquisitions is based on acquisitions of selected medical diagnostics companies that are well positioned in strategic regions and segments of the market. Our net operating revenues increased by a compounded annual average growth rate of 29.1% from 1999 to 2007.

We are present throughout Brazil and maintain service centers in the states of Bahia, Ceará, Goiás, Paraná, Rio de Janeiro, Santa Catarina, São Paulo, Minas Gerais and Tocantins and in the Federal District. According to data from the *Instituto Brasileiro de Geografia e Estatística*, or “IBGE,” these regions accounted for 66.5% of the Brazilian population in 2007 and accounted for 76.9% of Brazil’s GDP in 2005. Our laboratory-to-laboratory business processes samples for over 2,600 laboratories located throughout Brazil.

The table below sets forth some of our financial and operating metrics for the periods indicated:

	As of and for the Year Ended December 31,			As of and for the Three Months Ended March 31,	
	2005	2006	2007	2007	2008
Gross operating revenue (R\$ million)	576.9	729.7	930.7	206.2	280.1
Number of requisitions (millions)	5.2	9.3	15.1	2.8	5.6
Number of outpatient service centers	178	223	268	251	269

The Brazilian medical diagnostics market

We believe the Brazilian medical diagnostics market continues to offer geographic expansion and consolidation opportunities. It remains highly fragmented, with opportunities for improvement in the quality of services and prices available to the Brazilian consumer. For instance, according to data published in February 2008 by the *Departamento de Informática do SUS* (the Department of Technology for the Brazilian public health system, which is overseen by the Brazilian Ministry of Health, or “DATASUS”), there are more than 18,535 laboratories operating in Brazil, as of April 2008. In addition, Brazil’s changing demographics and the aging of the population are expected to result in higher demand for diagnostic testing. According to the IBGE, from 1980 to 2000, the average age of the Brazilian population rose from 20.2 years to 25.3 years, and life expectancy rose from 62.5 years in 1980 to 72.4 years in 2006. In addition, physicians are increasingly resorting to preventive medicine, which relies heavily on diagnostic tests. According to a 1999 report by the Institute of Medicine in the United States, 70% of medical decisions in the United States depend on one or more diagnostic test. We believe that the trend towards greater dependence on diagnostic tests also exists in Brazil. Accordingly, we believe that the Brazilian market provides excellent opportunities for the continued growth of our business in both the public and private healthcare sectors.

Our services

Private outpatient services

We provide our outpatient services through 269 outpatient service centers as of March 31, 2008 (18 of which are owned by franchisees), which are segmented using a multi-brand strategy that uses brands that we believe are well regarded among patients in our various markets. At these centers, our trained personnel collect samples for clinical analysis and obtain diagnostic images. We then analyze the samples at our seven central laboratory facilities that service our private outpatient business and which are located in Barueri (a municipality in greater São Paulo), Rio de Janeiro, São José dos Pinhais, Cascavel, Brasília, Fortaleza and Goiânia. Together, these laboratories have the capacity to process and analyze approximately 11.6 million clinical tests per month. Diagnostic images are analyzed by nearly 1,000 physicians employed by medical services companies, which we refer to as “physician organizations,” and with which we contract to read and prepare the related diagnostic imaging reports. For certain diagnostic imaging tests, these physicians also assist our technicians in obtaining images. Our imaging equipment has capacity to produce up to 1.1 million exams per month.

We believe we are well positioned for continued growth in our outpatient services due to our commitment to reliability and quality service, the benefits resulting from our size, our structure of segmented multi-brand service centers located in key markets throughout Brazil and our wide range of diagnostic services. Our multi-brand service centers allow us to offer services that are covered by the various healthcare plans that target different socio-economic groups. Our brand segmentation strategy was created to reflect the segmentation of private health plans, always aiming to meet the demands of each segment with high quality services at competitive prices. Although we deliver the same uncompromising diagnostic quality for all brand segments, our centers provide different ranges of exams and tests, support services and other amenities for each segment.

We use a “hub” and “spoke” model for our patient service centers. At March 31, 2008, we had 34 “mega centers,” each with more than 1,500 square meters of facilities and acting as “hubs” for smaller surrounding patient service centers. Our formats and brands include:

- *Executive Premium*—Our 21 executive premium *Club DA* patient service centers located inside some of our executive centers in São Paulo and Rio de Janeiro offer a broad range of clinical analysis and diagnostic imaging services and offer private lounges, personalized services and amenities. Our *Club DA* centers consist of special lounges adjoining selected executive level patient service centers and allow us to better serve our upper-middle class patients without the fixed costs of building free-standing patient service centers.
- *Executive*—Our 118 executive patient service centers (of which five are franchises), consisting of our *Delboni Auriemo* centers in São Paulo, *Lâmina* centers in Rio de Janeiro, *Image Memorial* centers in Bahia, *LabPasteur* centers in Ceará, *Atalaia* centers in Goiás, *Frischmann Aisengart* centers in Paraná, *VitaLâmina* centers in Santa Catarina and *Exame* centers in the Federal District, offer the same wide range of clinical analysis and diagnostic imaging services as our executive premium centers (at *Image Memorial* in Bahia and *VitaLâmina* in Santa Catarina, we currently offer only diagnostic imaging services) in an attractive, relaxing environment. Our services at this brand level do not include the private lounges and certain additional premium services available to our *Club DA* patients.
- *Standard*—Our 151 standard patient service centers (of which 13 are franchises), consisting of our *Lavoisier* centers in São Paulo, *Bronstein* and *Med Imagem* centers in Rio de Janeiro (at *Med Imagem* we currently offer only diagnostic imaging services), *Alvaro* and *Curitiba Santa Casa* centers in Paraná, *MedLabor* centers in Tocantins and *Pasteur* centers in the Federal District offer a range of clinical analysis and diagnostic imaging tests but are lower-priced and offer a more limited number of support services and amenities. While the mega centers offer our full panoply of tests, the smaller surrounding centers have fewer imaging machines.

In the fourth quarter of 2007 and the first quarter of 2008, our outpatient services represented 76.1% and 74.2% of our gross operating revenues, respectively. Our executive premium and executive patient service centers accounted for 65.0% and 64.7% of our gross operating revenues for outpatient services, and our standard patient service centers accounted for 35.0% and 35.3% of our gross operating revenues for outpatient services in the fourth quarter of 2007 and the first quarter of 2008, respectively.

Private inpatient services

We currently have contracts with 28 hospitals and medical clinics. We have ten laboratories located in hospitals and clinics in São Paulo, four laboratories located in hospitals and clinics in Rio de Janeiro, six laboratories located in hospitals in Paraná, three laboratories located in hospitals in Brasília and five laboratories located in hospitals in Ceará. We process certain clinical exams at these on-site laboratories and process other tests at the same central laboratories that handle our outpatient tests. We also provide diagnostic imaging exams at some hospitals, including Hospital São Luiz Anália Franco, Hospital Villa Lobos and Hospital Santa Paula in São Paulo and the Clínica São Vicente in Rio de Janeiro. We strive to innovate in seeking new ways to provide diagnostic services to hospitals. For example, we have developed a small mobile clinical testing cart that can be easily moved among hospital rooms to allow convenient testing of a limited range of clinical tests.

Our inpatient services business represented 5.3% and 5.4% of our gross operating revenues in the fourth quarter of 2007 and the first quarter of 2008, respectively. We believe our inpatient services business is a potential area of growth for our business as our partnerships with hospitals provide a stable flow of patients and increase the exposure of our outpatient service brands to the medical community in general. We believe there are other significant opportunities for geographic expansion and to increase the services we provide to our existing hospital clients. Furthermore, according to the Brazilian Ministry of Health, there were 4,752 private and 1,956 public hospitals in Brazil as of December 2007, which we believe represent additional growth opportunities.

Public sector services

In July 2007, we acquired CientíficaLab, a provider of clinical analyses to state and municipal government hospitals and clinics. CientíficaLab has contracts with 47 institutions, of which 32 are municipal and 12 are state hospitals and clinics in São Paulo, Rio de Janeiro and Minas Gerais. Under these contracts, CientíficaLab supports and/or operates more than 700 facilities. In addition, CientíficaLab operates a central lab located in Barueri, greater São Paulo that processes all tests for our public sector clients. Our public sector services provided 10.4% and 5.3% of our gross operating revenues in the fourth quarter of 2007 and year ended December 31, 2007, respectively. Our public sector services provided 12.5% of our gross operating revenues in the first quarter of 2008. Pursuant to the Brazilian Ministry of Health, there are over 55,000 public hospitals that we believe may provide significant opportunities for the expansion of our services to the Brazilian public sector, using CientíficaLab as a platform for this expansion.

Laboratory-to-laboratory services

In December 2005, we acquired Laboratórios Alvaro S.A. (“Alvaro”), a provider of processing and analysis services to more than 1,600 small- and medium-sized laboratories, primarily throughout southern and southeastern Brazil. Since this acquisition and as of March 31, 2008, we have increased the number of laboratories we serve to over 2,600 throughout Brazil. In addition to our processing laboratory for these services in Cascavel, Paraná, we operate a logistical network consisting of (1) 49 commercial representatives and 188 logistics agents, (2) 37 regional offices, (3) a transportation and sample conservation network, (4) an information management system and (5) post-sales support.

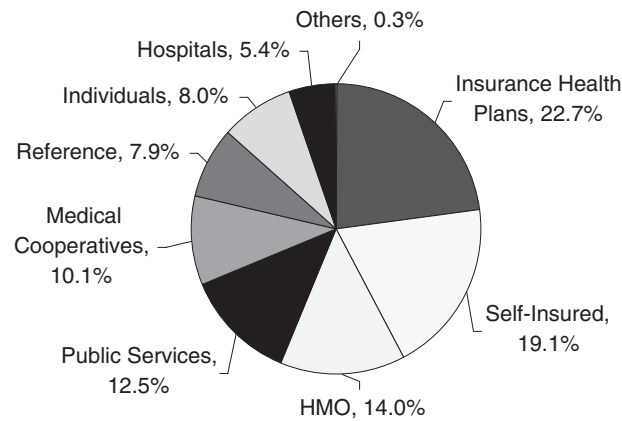
Commercial representatives are responsible for sales to laboratories and for collection of samples performed by their logistics agents. Once collected, our land-based fleet delivers the samples to our regional offices, where they are transported directly to our central laboratories by plane.

Our laboratory-to-laboratory services business represented 8.2% and 7.9% of our gross operating revenues in the fourth quarter of 2007 and the first quarter of 2008, respectively. According to DATASUS, there were 18,535 laboratories in Brazil as of April 2008. We believe the Brazilian market for laboratory-to-laboratory services offers geographic expansion and consolidation opportunities due to the significant fragmentation in the market and new regions with potential for further development.

Payers

We value our relationships with the principal payers of outpatient medical services in the Brazilian private sector, including private health plans (which include insurance health plans, health maintenance organizations (HMOs) and physician-managed medical cooperatives), company-sponsored insurance plans, individuals, other laboratories and state and municipal government healthcare providers. The charts below set forth the percentage of our gross operating revenues received from each category of payers for the quarter ended March 31, 2008.

Quarter ended March 31, 2008



Recent acquisitions

Since 1999, we have completed 17 acquisitions and have gained extensive experience in integrating acquisitions into our operations.

In 2005, 2006 and 2007, we acquired Laboratório Pasteur Patologia Clínica S/C Ltda. (“Pasteur”), Laboratório Frischmann Aisengart S.A. (“Frischmann Aisengart”), Image Memorial S.A. Empreendimentos e Participações Hospitalares (“Image Memorial”), Alvaro, Laboratório Louis Pasteur Patologia Clínica S/C Ltda.—LabPasteur (“LabPasteur”), Laboratório Imuno Ltda.—MedLabor (“MedLabor”), Clínica Médica Vita S.A. (“VitaLâmina”), Laboratório Atalaia Ltda. (“Atalaia”), Exame Laboratórios de Patologia Clínica Ltda. (“Exame”), CientíficaLab and Med Imagem Ultra-Sonografia e Radiologia Ltda. (“Med Imagem”). The following table summarizes these recent acquisitions.

<u>Acquisition Date</u>	<u>Company Acquired</u>	<u>Location</u>	<u>Purchase Price (R\$ millions)</u>	<u>Number of Service Centers Added</u>	<u>Our Direct and Indirect Percentage Ownership</u>
April 2005	Pasteur	Federal District	6.0	12	100%
July 2005	Frischmann Aisengart	Paraná	30.0	16	100%
October 2005	Image Memorial	Bahia	40.4	2	100%
December 2005	Alvaro	Paraná	25.7	12	100%
June 2006	LabPasteur	Ceará	12.9	14	100%
July 2006	MedLabor	Tocantins, Goiás and Federal District	4.9	8	100%
October 2006	VitaLâmina	Santa Catarina	4.5	2	100%
October 2006	Atalaia	Goiás	25.0	12	100%
May 2007	Exame	Federal District	56.0	19	85.7%(1)
July 2007	CientíficaLab	São Paulo, Rio de Janeiro and Minas Gerais	86.4	N/A(2)	100%
August 2007	Med Imagem	Rio de Janeiro	44.7	8	100%

- (1) The remaining 14.3% of Exame is owned by the estate of Bechara Daher Neto. We signed an agreement in May 2007 with the estate of Bechara Daher Neto under which we will acquire the remaining 14.3% of Exame for R\$7.7 million. The transfer of the remaining 14.3% of Exame to us is conditioned upon approval of the judge handling of the estate of Bechara Daher Neto.
- (2) DASA operates more than 700 facilities through CientíficaLab, but none of these patient service centers is owned by DASA.

Our strengths

We believe we have the following competitive strengths:

- ***Economies of scale and platform for growth.*** As we have grown, we have achieved increasing economies of scale, which enable us to process our clinical tests efficiently and at low cost. Tele-medicine and the centralization of imaging results have enabled us to be competitive in the diagnostic imaging sector. As our central laboratories currently operate below maximum capacity, we believe we can expand our processing capacity as necessary in the medium-term with limited incremental capital expenditure. In addition, we believe our “hub” and “spoke” model of mega centers and standard patient service centers offer a flexible platform for continued growth for our operations. Furthermore, we believe our size and nationwide presence gives us greater bargaining power with suppliers thereby allowing us to further reduce costs and increase our margins.
- ***Nationwide presence.*** Although our main line of business is outpatient services, we have diversified our business into inpatient services, public sector services and laboratory-to-laboratory services, both diversifying our exposure to the outpatient business and providing cross-marketing and operational synergies with that business. We provide services in the principal urban centers of Brazil, located in states which together account for 76.9% of Brazil’s GDP, according to IBGE data for 2005. The coverage of our laboratory-to-laboratory services is nationwide. Our logistics networks allow us to collect samples efficiently from patients and laboratory clients and process them at one of our eight central laboratories or, for inpatient services, in our smaller hospital-based laboratories.

- **Multi-brand strategy.** In our current markets, we offer three separately branded levels of outpatient service centers—executive premium, executive and standard—consistent with the segmentation of the healthcare industry in Brazil. Our brands differ in the amenities they offer and consequently in the prices we charge. This strategy has enabled us to be a leader in the Brazilian private sector healthcare industry, while providing the same high quality services to all of our patients. Our multiple brands enable us to offer our services to a wide range of healthcare plans and patients from varying socio-economic groups. While we use *Club DA* as our nationwide brand for the executive premium segment, we also develop and maintain the outpatient brands that we acquire, which generally are well-established regionally, to promote the loyalty of our patients and physicians.
- **Multi-product offering.** We have the capacity to carry out substantially all of the medical diagnostics tests and exams currently prescribed in Brazil. We generally organize our patient service centers geographically around our 34 mega patient service centers, where we offer a “one-stop shop” concept for clinical analysis and diagnostic imaging tests. In addition, our smaller centers enable us to provide some services in areas where the patient base would not support a mega center, while allowing our patients to use the nearest mega center for other tests. In the inpatient services business, we offer quick-turnaround for tests performed and processed at the hospital, while obtaining cost efficiencies for tests that are processed at our central laboratories.
- **Focus on quality and physicians.** We are committed to ensuring the highest quality diagnostic services for all our patients. Our commitment to quality service and reliable results is the same for all our lines of business. We were the first laboratory in Brazil to receive ISO 9001 and INMETRO certifications granted by the *Instituto Nacional de Meteorologia, Normalização e Qualidade Industrial*, the Brazilian National Institute of Measurements, Standards and Quality (or “INMETRO”). We are also certified by the College of American Pathologists (CAP), ISO 14001 and OHSAS 18001. In the clinical analysis sector, we operate between the 5.5 and 5.7 Sigma standards (equivalent to 32 to 13 errors per one million exams). This can be compared to 4.8 Sigma (equivalent to 447 errors per one million exams) for the industry as a whole. We value the confidence that physicians and other medical professionals place in our company and brands, and we continually strive to improve the functionality of the data we provide to physicians, who can influence a patient’s decision to use our services.
- **Focus on patients.** Through our extensive network of patient service centers throughout Brazil, we offer our patients convenient locations for their diagnostic tests, an appealing environment with support services and amenities, extended service hours, a wide variety of examinations and fast delivery of results. Some hospital tests for hospital inpatients are provided by our on-site laboratories, allowing for rapid and efficient service tailored to the specific needs of the patient. Our laboratory-to-laboratory services enable us to provide the benefits of our quality and efficiency to smaller laboratories serving patients throughout the country.
- **Medical support.** The increasingly large number of diagnostic tests available and the constant technological innovation of the sector demands that physicians have extensive knowledge of tests, interpretation of results and their application. In addition to processing diagnostic tests, we have contracts with nearly 1,000 physicians at physicians’ organizations who provide suggested interpretations of imaging tests when we deliver the results and are available to answer questions from doctors throughout the country based on up-to-date knowledge of the clinical analysis and imaging tests we offer. We seek to promote greater interaction between the physicians who request the tests and these specialists so that the data are used to maximize the benefits to the patient’s health and treatment.
- **Experienced management team with a proven growth track record.** Our senior management has extensive experience in the medical diagnostics industry and in achieving organic growth and expansion through acquisitions. From 1999 to 2007, our annual net operating revenues increased at a compounded annual average growth rate of 29.1%, which was accompanied by increases in quality and productivity and reduction of production costs and delivery time. Our management has been successful

in integrating the operations and businesses of the companies we have acquired. Our board of directors is made up of seven members, of whom four are independent and have extensive experience in medicine, governmental relations, management of human resources, finances and retail marketing.

Our strategy

The following are key elements of our strategy:

- ***Continue to grow our business.*** We intend to participate in the expected growth in the Brazilian medical diagnostic testing market, both through organic expansion and acquisitions.
 - ***Continue to expand in markets in which we operate.*** We intend to open approximately 100 patient service centers in the next five years, of which 19 are expected to be mega centers and 81 are expected to be standard patient service centers, in accordance with our “hub” and “spoke” strategy. Additionally, we may pursue strategic acquisitions in markets where we currently operate that offer opportunities for synergies and economies of scale, and these acquisitions may substitute for a portion of our organic growth.
 - ***Expand into other Brazilian markets.*** We consistently explore expansion opportunities in other large metropolitan areas in Brazil through the acquisition of regional market leaders with loyal client bases. These acquisitions would provide a basis for organic growth in new regions through the introduction of additional services, such as diagnostic imaging, and would enable us to further increase our bargaining power with suppliers. In our public sector business, we intend to seek contracts with additional governmental entities to which we can provide services. In addition, we expect to continue to expand the geographical reach of our laboratory-to-laboratory business through contracts with additional small laboratories throughout the country.
 - ***Introduce new and complementary services.*** We continually add new clinical analysis and diagnostic imaging services to our portfolio, and we continue to seek revenue from complementary services, such as performing clinical trials for pharmaceutical companies and analysis of genetically modified organisms. These measures expand our sources of revenues and we believe they further enhance our reputation of commitment and dedication to the medical community.
 - ***Respond to market demand for more advanced medical exams.*** Our use of mega centers and our scale generally enable us to offer diagnostic imaging tests that may not be cost-effective for smaller competitors to provide. We intend to offer a greater variety of diagnostic imaging tests in our patient service centers and to increase the percentage of our revenues from such tests, as the growth in demand for these services has been in excess of the growth in demand for our clinical tests.
- ***Continue to reduce our costs.*** We believe that our continued growth should permit us to continue to reduce our costs and expenses per test.
 - ***Maintain our low-cost producer position.*** We intend to further exploit increasing economies of scale as we continue to grow through organic expansion and acquisitions in each of our lines of business. In laboratory-to-laboratory services, we believe that the increase in the volume of non-routine (or esoteric) tests will result in additional cost reductions. We have an aggressive cost management strategy, and we continue to seek synergies as we integrate the operations of the companies that we acquire into our central laboratories, mega centers and satellite patient service centers.
 - ***Improve efficiencies through management processes, logistics and information technology.*** As the largest independent clinical analysis and diagnostic imaging company in Latin America in

terms of gross operating revenues and the number of test requisitions for year ended December 31, 2007, we have managerial expertise that we believe will improve the efficiency of the businesses we have acquired. For example, we continue to implement a protected Internet database that will integrate all patient records at our service centers and we are exploring other methods of using information technology to improve our test processes, billing and marketing. We believe these new processes will also improve our own efficiency.

- **Maintain the highest quality service.** Our commitment to the quality and reliability of our services is the fundamental principle that drives our strategy for each of our business lines. Key elements of this strategy include the following:
 - **Apply Six Sigma quality controls to all of our processes.** We are implementing the Six Sigma quality control program in the processing of clinical analysis tests by our central laboratories to increase the precision of our processes, so as to minimize errors when compared to international quality standards.
 - **Identify and implement advanced medical diagnostic technologies.** We regularly update our equipment and technology to respond to the needs of our patients, and the medical community and to increase the quality and efficiency of our processing capacity. We believe we are the largest single consumer of diagnostic equipment in Brazil and that our market position gives us greater negotiating leverage in acquiring or leasing equipment. This position gives us access to advanced technologies that enhance the quality and reliability of our services. We believe we have one of the most modern portfolios of equipment in the market, both for clinical analysis and imaging tests.
 - **Continue to develop and implement an integrated information technology system.** We currently operate systems that allow for rapid communication of test results between our clients, our service centers and central production centers, as well as the monitoring of our inventory of materials required for the performance of tests. Additionally, we are continuing to implement a database system that allows us to electronically collect and locate a patient's historical test results (the patient's electronic file), permitting centralized analysis of a patient's file. Moreover, we have implemented an ERP system focused on back office management and a call center software that facilitates appointments and patient orientation. Finally, we are developing a new service platform to manage customer service that will be integrated to our central laboratories.
 - **Respond to the demands of patients and physicians.** Our patients and the medical community demand precise, high quality diagnostic test results and medical information related to these tests on a short turnaround basis. In order to respond to these demands, we provide diagnostic assistance to physicians in interpreting test results through our contracts with physicians' organizations, and we deliver the results of clinical and imaging tests through electronic means. In addition, we seek to remain up-to-date with the latest medical treatments that are being developed worldwide, as well as with the respective clinical analysis and imaging tests demanded.

Acquisition pipeline

We have achieved growth in recent years due to strong organic growth and a successful mergers and acquisitions track record. In order to reach our acquisition-related objectives, our experienced mergers and acquisitions team and advisors constantly analyze the Brazilian market for companies that might be potential targets for an acquisition. The main characteristics we look for in a potential target are:

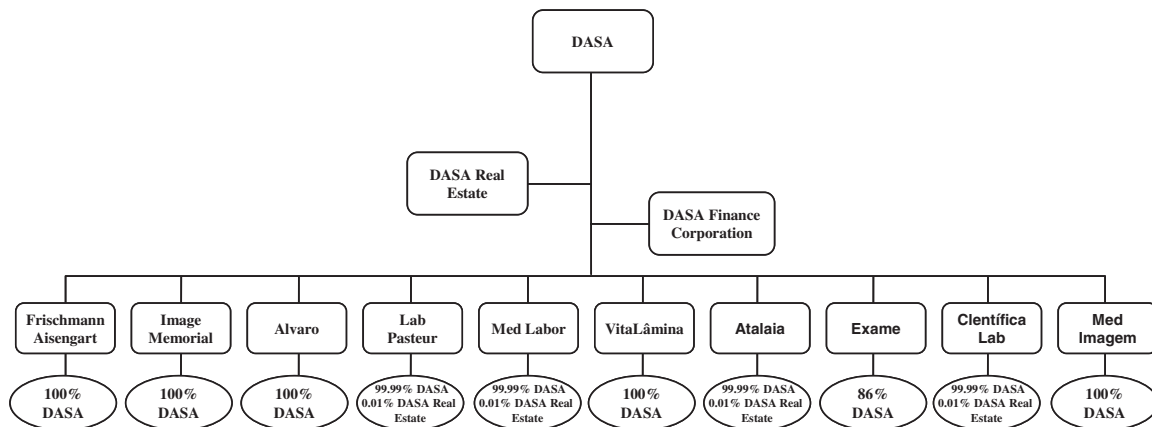
- strategic and geographic fit (*i.e.*, whether a potential target would allow us access to new or underdeveloped markets or allow us to consolidate and take advantage of potential synergies);
- operational fit (*i.e.*, whether a potential target adds to our product mix or has skilled management that we would consider an asset to our operations);

- strong valuation; and
- an appropriate risk profile.

Our acquisition process is made up of the following phases: (1) a screening process (in which we and our advisors seek out potential targets), (2) initial approach (in which we make contact with a potential target and initiate conversations about a potential purchase), (3) drafting of a non-disclosure agreement, (4) negotiation of terms of sale/purchase, (5) due diligence and (6) drafting of the final contract. Our legal, audit and business due diligence processes help us determine a potential target’s strengths and liabilities. Over the past three years, we have purchased three to four companies per year. In order to do so, our mergers and acquisitions team analyzed 30 to 40 companies.

Corporate structure

The following chart sets forth our corporate structure:



We expect that our subsidiary DASA Real Estate Empreendimentos Imobiliários Ltda. (“DASA Real Estate”), which holds certain of our properties, will be designated an “unrestricted subsidiary” in the indenture relating to the notes.

Our executive offices are located at Avenida Juruá, 434, Alphaville, Barueri, São Paulo, Brazil, and our telephone number is +55 11 4197-5500. Our website is www.diagnosticsdaamerica.com.br. Information contained on, or accessible through, our website is not incorporated by reference in, and shall not be considered part of, this offering memorandum.

The Offering

The following is a brief summary of some of the terms of this offering. For a more complete description of the terms of the notes, see "Description of the Notes." Terms which are defined in other sections of the offering memorandum have the same meaning when used in this summary.

Issuer	DASA Finance Corporation, or "DASA Finance."
Notes offered	US\$250.0 million aggregate principal amount of 8.75% senior notes due 2018.
Guarantor	Diagnósticos da América S.A., or "DASA."
DASA Guarantee	DASA will unconditionally and irrevocably guarantee on a senior unsecured basis all the obligations of the DASA Finance under the transaction documents, including the due and punctual payment of all amounts at any time becoming due and payable with respect to the notes.
Subsidiary Guarantees	Certain of DASA's significant subsidiaries will guarantee the notes if those subsidiaries incur more than \$20.0 million of indebtedness. In such an event, the amount of a significant subsidiary's guarantee will be in the same amount as such other indebtedness. As of the closing date, there are no subsidiary guarantors.
Unrestricted Subsidiary	We expect that DASA Real Estate will be designated an "unrestricted subsidiary" in the indenture relating to the notes. DASA Real Estate had (1) operating income of R\$0.3 million in the year ended December 31, 2007 and operating income of R\$0.3 million in the three months ended March 31, 2008, (2) total assets of R\$12.2 million as of March 31, 2008 and (3) total liabilities of R\$38.5 thousand as of March 31, 2008.
Issue price	98.374% of the principal amount of the notes, plus accrued interest from May 29, 2008, if any.
Maturity date	May 29, 2018.
Interest	Interest will accrue on the notes at the annual rate of 8.75% from May 29, 2008 and will be payable semi-annually in arrears each May 29 and November 29, commencing on November 29, 2008.
Ranking	The notes will be senior unsecured obligations of DASA Finance, ranking equal in right of payment with all of its other existing and future senior unsecured debt. DASA Finance has no indebtedness other than the notes. DASA's guarantee will constitute the unconditional, senior unsecured obligation of DASA ranking: <ul style="list-style-type: none">• equal in right of payment to all other existing and future senior unsecured obligations of DASA (except those obligations preferred by operation of law);• senior in right of payment to any subordinated debt of DASA; and

- effectively subordinated to debt and other liabilities of DASA’s subsidiaries (excluding DASA Finance) that do not provide a guarantee of the notes, and to secured debt of DASA to the extent of the value of the assets securing such indebtedness.

Each subsidiary guarantee will be the senior unsecured obligation of such subsidiary, ranking equal in right of payment with all of its other existing and future senior unsecured debt.

As of March 31, 2008:

- DASA had outstanding R\$504.7 million of senior indebtedness; and
- DASA’s subsidiaries had outstanding R\$44.9 million of indebtedness and other liabilities,

in each case on a historical basis and without giving *pro forma* effect to this offering.

Optional redemption DASA Finance may, at its option, redeem the notes, in whole but not in part, at any time prior to May 29, 2013, at a redemption price based on a make-whole premium and, at any time thereafter, in whole or in part, at the redemption prices set forth herein, in each case plus accrued interest and additional amounts, if any.

Optional tax redemption DASA Finance may redeem the notes, in whole but not in part, at 100% of their principal amount plus accrued interest and additional amounts, if any, upon the occurrence of specified events relating to Cayman Islands and Brazilian tax law. See “Description of the Notes—Optional Tax Redemption.”

Additional amounts Payments of interest on the notes (and under the guarantee) will be made after withholding and deduction for any taxes imposed by the Cayman Islands, Brazil or any other jurisdiction from or through which payments by or on behalf of DASA Finance or DASA are made or by or within any political subdivision thereof or any authority therein or thereof having power to tax. DASA Finance or DASA will pay such additional amounts as will result in receipt by the holders of notes of such amounts as would have been received by them had no withholding or deduction for any such taxes been required, subject to certain exceptions set forth under “Description of the Notes—Additional Amounts.”

Covenants The indenture governing the notes contains certain covenants that, among other things, limit DASA’s ability to:

- pay dividends, make other distributions in respect of our capital stock or make other restricted payments;
- make certain types of investments, loans, guarantees or acquisitions;
- incur additional debt;
- create liens on certain assets to secure debt;

- sell assets, including common shares of restricted subsidiaries;
- merge, consolidate or otherwise dispose of substantially all our assets; and
- enter into certain transactions with affiliates.

These covenants are subject to a number of important qualifications and exceptions. See “Description of the Notes—Restrictive Covenants.”

Events of default	The indenture governing the notes sets forth the events of default applicable to the notes, including an event of default triggered by cross-acceleration of other debt in an amount of US\$20.0 million or more. For a discussion of certain events of default that will permit acceleration of the principal of the notes plus accrued interest, see “Description of the Notes—Events of Default.”
Further issuances	DASA Finance may, from time to time, without notice to or consent of the holders of the notes, create and issue an unlimited principal amount of additional notes of the same series as the notes, subject to satisfaction of the conditions set forth in the indenture.
Use of proceeds	The net proceeds from the sale of the notes (net of the initial purchasers’ discount and estimated expenses) will be US\$239,560,000 million and will be used to finance future growth, both organic growth and acquisitions of medical diagnostics companies in accordance with our strategy, to make future debt service payments (including our outstanding debentures) and for general corporate purposes. See “Use of Proceeds.”
Form and denomination	The notes sold in the United States in reliance on Rule 144A will be evidenced by a fully registered note in global form without interest coupons called a restricted global note, which will be deposited with a custodian for, and registered in the name of a nominee of, The Depository Trust Company, or “DTC.” The notes sold outside the United States in reliance on Regulation S will be evidenced by a separate fully registered note in global form without interest coupons called a Regulation S global note, which also will be deposited with a custodian for, and registered in the name of a nominee of, DTC. Transfers of beneficial interests between the restricted global note and the Regulation S global note are subject to certification requirements. The notes will be issued in fully registered form in denominations of US\$2,000 and integral multiples of US\$1,000 in excess thereof. See “Description of the Notes—General” and “—Form and Registration.”
Transfer restrictions	The notes have not been registered under the Securities Act and are subject to limitations on transfers, as described under “Transfer Restrictions.”
Listings	Application has been made to admit the notes to listing on the Official List of the Luxembourg Stock Exchange and to trade the notes on the Euro MTF market. We cannot assure you, however, that this application will be accepted.

The notes sold to qualified institutional buyers are eligible for trading in the PORTAL Market.

Governing law The indenture, the notes and the guarantee will be governed by, and will be construed in accordance with, the laws of the State of New York.

Trustee, registrar and transfer agent and paying agent The Bank of New York.

Principal paying agent The Bank of Tokyo Mitsubishi UFJ Ltd.

Luxembourg paying agent The Bank of New York (Luxembourg) S.A.

Risk factors See “Risk Factors” and the other information in this offering memorandum for a discussion of factors you should carefully consider before deciding to invest in the notes.

ERISA considerations See “Certain ERISA Considerations.”

Currency Hedge On or before the closing date of the offering, we will enter into one or more currency hedges with affiliates of the initial purchasers with a total notional amount equal to the total principal amount of the notes outstanding on the closing date. These currency hedges will hedge against currency fluctuations with respect to the interest payments on the notes for the first five years of the notes so long as the *real* does not depreciate against the U.S. dollar beyond a specified level. Under the currency hedges, if the *real* depreciates beyond a specified level, we will be required to make payments to the swap counterparty. We may be required to mark to market the value of the hedges, which could increase the volatility of our earnings to the extent that the *real* appreciates or depreciates against the U.S. dollar.

Summary Financial Information

You should read the information below together with our consolidated financial statements and the notes thereto included elsewhere in this offering memorandum, as well as the information under “Presentation of Financial Information” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

The summary statement of income and balance sheet data denominated in *reais* as of December 31, 2005, 2006 and 2007 and for the three years ended December 31, 2007 have been derived from our audited consolidated financial statements included in this offering memorandum. The summary statements of income and balance sheet data denominated in *reais* as of and for the three months ended March 31, 2007 and 2008 have been derived from our unaudited consolidated financial statements included in this offering memorandum.

Our consolidated financial statements are prepared in accordance with Brazilian GAAP, which differs in certain respects from U.S. GAAP. For a summary of certain differences as they relate to our consolidated financial statements, see Annex A to this offering memorandum.

Comparability of the financial statements and results of operations at and for the three years ended December 31, 2007 and the three months ended March 31, 2007 and 2008 is limited because of the companies we acquired in each of those years. Please see “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Limits on comparability of our financial statements” for a description of the principal limitations on the comparability of our results of operations.

The summary financial information set forth in the tables below includes results of operations and financial condition information for DASA Real Estate, except that Adjusted EBITDA excludes DASA Real Estate. We expect that DASA Real Estate will be designated an “unrestricted subsidiary” in the indenture relating to the notes. DASA Real Estate had (1) operating income of R\$0.3 million in the year ended December 31, 2007 and operating income of R\$0.3 million in the three months ended March 31, 2008, (2) total assets of R\$12.2 million as of March 31, 2008 and (3) total liabilities of R\$38.5 thousand as of March 31, 2008.

For purposes of the table below and solely for your convenience, we have translated the *real* amounts as of and for the year ended December 31, 2007 and the three months ended March 31, 2008 into U.S. dollars using a rate of R\$1.7491 to US\$1.00, the selling rate on March 31, 2008, as reported by the Central Bank. You should not construe these translations are representations by us that the *real* amounts actually represent these U.S. dollars amounts or could be converted into U.S. dollars at the rates indicated. See “Exchange Rate Information.”

	Year Ended December 31,				Three Months Ended March 31,		
	2005	2006	2007	2007	2007	2008	2008
	(R\$ millions)	(R\$ millions)	(R\$ millions)	(US\$ millions)	(R\$ millions)	(R\$ millions)	(US\$ millions)
Statement of income data							
Gross operating revenues	R\$ 576.9	R\$ 729.7	R\$ 930.7	US\$ 532.1	R\$ 206.2	R\$ 280.1	US\$ 160.1
Deductions:							
Sales taxes	(33.1)	(40.8)	(52.6)	(30.1)	(11.6)	(16.9)	(9.7)
Discounts	(15.6)	(18.4)	(19.3)	(11.0)	(5.7)	(6.4)	(3.7)
	(48.7)	(59.2)	(71.9)	(41.1)	(17.3)	(23.3)	(13.3)
Net operating revenues	528.3	670.5	858.8	491.0	188.9	256.7	146.8
Cost of services	(362.4)	(443.5)	(584.6)	(334.2)	(124.4)	(170.9)	(97.7)
Gross profit	165.9	227.0	274.2	156.8	64.5	85.9	49.1
Other operating income (expenses):							
Selling, general and administrative expense	(88.7)	(151.1)	(171.6)	(98.1)	(36.9)	(43.4)	(24.8)
Net financial expense	(21.0)	(10.8)	(22.5)	(12.9)	(2.4)	(11.1)	(6.3)
Amortization of goodwill	(35.7)	(30.1)	(53.3)	(30.4)	(9.4)	(18.0)	(10.3)
Other operating income (expenses)	0.8	1.7	3.6	2.1	0.3	0.7	0.4
Operating income	21.2	36.8	30.5	17.5	16.1	14.1	8.1
Non-operating loss	(0.5)	(0.8)	(1.5)	(0.9)	(0.5)	(1.8)	(1.0)
Income before income and social contribution taxes	20.7	36.0	29.0	16.6	15.5	12.3	7.1
Income tax and social contribution	(10.4)	(19.4)	28.0	16.0	33.4	(3.7)	(2.1)
Minority interest	(0.1)	(0.1)	(0.4)	(0.2)	—	(0.4)	(0.2)
Net income	R\$ 10.2	R\$ 16.5	R\$ 56.6	US\$ 32.4	R\$ 49.0	R\$ 8.3	US\$ 4.7

	As of December 31,				As of March 31,		
	2005	2006	2007	2007	2007	2008	2008
	(R\$ millions)	(R\$ millions)	(R\$ millions)	(US\$ millions)	(R\$ millions)	(R\$ millions)	(US\$ millions)
Balance sheet data							
Assets							
Cash and cash equivalents	R\$ 4.5	R\$ 7.2	R\$ 23.0	US\$ 13.1	R\$ 4.7	R\$ 16.2	US\$ 9.2
Short-term marketable securities	48.2	325.5	23.4	13.4	292.7	32.7	18.7
Trade accounts receivable, net	116.4	138.6	205.3	117.4	153.1	221.7	126.7
Inventories	18.2	20.7	33.5	19.1	21.0	31.7	18.1
Recoverable taxes	16.3	16.7	37.8	21.6	25.5	44.8	25.6
Other accounts receivable	3.8	6.3	11.1	6.3	6.4	8.4	4.8
Prepaid expenses	0.8	5.2	1.7	1.0	3.9	4.4	2.5
Current assets	208.1	520.3	335.8	192.0	509.0	359.9	205.8
Long-term marketable securities	16.3	28.2	80.7	46.1	30.0	82.6	47.2
Deferred taxes	—	—	48.5	27.7	46.0	55.2	31.6
Prepaid expenses	—	—	2.2	1.3	—	2.0	1.1
Judicial deposits	3.0	2.1	7.2	4.1	2.2	7.5	4.3
Long-term assets	19.3	30.3	138.7	79.3	78.2	147.4	84.3
Investments	78.9	120.9	247.4	141.5	113.5	231.4	132.3
Property, plant and equipment and intangible assets, net	213.8	289.5	426.6	243.9	305.4	454.2	259.7
Deferred charges	62.2	57.7	69.9	39.9	57.0	63.2	36.1
Fixed assets	355.0	468.0	743.9	425.3	476.0	748.8	428.1
Total assets	R\$ 582.4	R\$ 1,018.7	R\$ 1,218.5	US\$ 696.6	R\$ 1,063.1	R\$ 1,256.0	US\$ 718.1
Liabilities							
Accounts payable to suppliers	R\$ 27.0	R\$ 34.0	R\$ 52.8	US\$ 30.2	R\$ 27.5	R\$ 41.4	US\$ 23.7
Loans and financing	75.4	59.2	98.0	56.0	46.6	102.2	58.4
Taxes and contributions payable	4.0	5.2	9.9	5.7	13.3	12.6	7.2
Income taxes and social contribution	1.1	1.0	6.6	3.8	—	13.7	7.9
Salaries, social charges and vacation payable	21.2	26.1	35.5	20.3	24.0	40.7	23.2
Payment of tax in installments	5.6	5.5	6.8	3.9	5.4	5.8	3.3
Accounts payable from acquisition of subsidiaries	8.7	18.1	9.7	5.5	10.0	10.8	6.2
Debentures	—	6.6	5.5	3.2	—	—	—
Dividends payable	—	0.5	13.4	7.7	—	13.4	7.7
Other accounts payable	10.7	13.3	17.2	9.9	23.8	21.4	12.2
Current liabilities	R\$ 153.6	R\$ 169.5	R\$ 255.4	US\$ 146.0	R\$ 150.6	R\$ 262.1	US\$ 149.8
Loans and financing	78.3	73.4	100.3	57.3	277.5	117.6	67.2
Payment of tax in installments	16.4	17.0	15.1	8.6	16.0	14.2	8.1
Provision for contingencies	33.1	55.9	81.4	46.5	67.6	86.4	49.4
Accounts payable from acquisition of subsidiaries	34.7	31.2	50.6	28.9	33.4	51.7	29.5
Debentures	—	202.5	202.5	115.8	—	202.5	115.8
Long-term liabilities	R\$ 162.5	R\$ 380.0	R\$ 449.9	US\$ 257.2	R\$ 394.4	R\$ 472.2	US\$ 270.0
Minority interest	0.4	—	0.7	0.4	—	1.0	0.6
Capital	216.1	402.1	402.1	229.9	402.1	402.1	229.9
Capital reserves	64.1	65.4	65.4	37.4	65.5	65.4	37.4
Profit reserves	—	0.1	2.9	1.7	—	2.9	1.7
Retained earnings (accumulated losses)	(14.3)	1.6	41.9	24.0	50.6	50.2	28.7
Shareholders' equity	266.0	469.2	512.4	292.9	518.2	520.6	297.7
Total liabilities and shareholders' equity	R\$ 582.4	R\$ 1,018.7	R\$ 1,218.5	US\$ 696.6	R\$ 1,063.1	R\$ 1,256.0	US\$ 718.1

Other financial data	Year Ended December 31,				Three Months Ended March 31,		
	2005	2006	2007	2007	2007	2008	2008
	(R\$ millions)	(R\$ millions)	(R\$ millions)	(US\$ millions)	(R\$ millions)	(R\$ millions)	(US\$ millions)
EBITDA plus non-operating results and minority interest(1)	R\$ 119.0	R\$ 137.4	R\$ 179.5	US\$ 102.6	R\$ 43.4	R\$ 65.5	US\$ 37.4
Adjusted EBITDA(1)	135.9	167.8	197.8	113.1	46.6	67.6	38.7
Adjusted EBITDA minus DASA Real Estate EBITDA(1)	135.9	168.0	197.5	113.1	46.6	67.4	38.7

(1) We calculate EBITDA plus non-operating results and minority interest as net income *plus* net financial expenses *plus* income tax and social contribution *plus* depreciation and amortization *plus* amortization of goodwill *plus* non-operating results *plus* minority interest. We calculate Adjusted EBITDA as EBITDA *plus* non-operating results, minority interest and certain expenses that we view as either non-cash, non-recurring or unpredictable in amount, including: (i) provisions for certain potential losses in litigation, primarily relating to the ICMS tax contingency described in “Description of Our Business—Legal proceedings—Tax,” (ii) expenses relating to our acquisitions and (iii) expenses related to our follow-on offering and our debentures. Adjusted EBITDA minus DASA Real Estate EBITDA excludes the EBITDA of DASA Real Estate because we expect that DASA Real Estate will be designated an “unrestricted subsidiary” in the indenture relating to the notes.

We use EBITDA plus non-operating results and minority interest and Adjusted EBITDA as supplemental measures of financial performance as well as of our ability to generate cash from operations. We use EBITDA plus non-operating results and minority interest and Adjusted EBITDA in making certain management decisions. EBITDA plus non-operating results and minority interest and Adjusted EBITDA are not prescribed measures under Brazilian GAAP or U.S. GAAP and should not be considered as substitutes for net income, cash flow from operations or other measures of operating performance or liquidity determined in accordance with Brazilian GAAP or U.S. GAAP. In addition, we have not calculated EBITDA plus non-operating results and minority interest and Adjusted EBITDA in accordance with the guidelines adopted by the SEC on the presentation of non-GAAP financial measures. See “Non-GAAP Financial Measures.” The use of EBITDA plus non-operating results and minority interest, Adjusted EBITDA and Adjusted EBITDA minus DASA Real Estate EBITDA has material limitations, including the following:

- EBITDA plus non-operating results and minority interest, Adjusted EBITDA and Adjusted EBITDA minus DASA Real Estate EBITDA do not include financial expenses, including interest expense. For example, because we borrow money to finance our operations, our capital expenditures for equipment and other items, interest is a necessary and ongoing part of our costs.
- EBITDA plus non-operating results and minority interest, Adjusted EBITDA and Adjusted EBITDA minus DASA Real Estate EBITDA do not include income and social contribution taxes. The payment of these taxes is a necessary and ongoing cost of our operations.
- EBITDA plus non-operating results and minority interest, Adjusted EBITDA and Adjusted EBITDA minus DASA Real Estate EBITDA do not include depreciation and amortization or amortization of goodwill. For example, because we use property, plant and equipment to generate revenues in our operations and because acquisitions are an integral element of our strategy, depreciation and amortization is a necessary and ongoing part of our costs.
- Adjusted EBITDA and Adjusted EBITDA minus DASA Real Estate EBITDA do not include certain expenses of our acquisitions. Because we expect to continue to engage in acquisitions, these types of expenses are a necessary and ongoing part of our costs.

EBITDA plus non-operating results and minority interest, Adjusted EBITDA and Adjusted EBITDA minus DASA Real Estate EBITDA as calculated by us may not be comparable to similarly titled measures of other companies.

The following table sets forth, for the periods indicated, a reconciliation of net income (loss) to EBITDA plus non-operating results and minority interest, to Adjusted EBITDA and to Adjusted EBITDA minus DASA Real Estate EBITDA :

	Year Ended December 31,				Three Months Ended March 31,		
	2005	2006	2007	2007	2007	2008	2008
	(R\$ millions)	(R\$ millions)	(R\$ millions)	(US\$ millions)	(R\$ millions)	(R\$ millions)	(US\$ millions)
Net income	R\$ 10.2	R\$ 16.5	R\$ 56.6	US\$ 32.4	R\$ 49.0	R\$ 8.3	US\$ 4.8
Depreciation and amortization	41.1	59.8	73.3	41.9	15.5	22.3	12.8
Net financial expense	21.0	10.9	22.5	12.9	2.4	11.1	6.4
Amortization of goodwill	35.7	30.1	53.3	30.5	9.4	18.0	10.3
Income tax and social contribution	10.4	19.4	(28.0)	(16.0)	(33.4)	3.7	1.8
Non-operating results	0.5	0.8	1.4	0.8	0.5	1.7	1.0
Minority shareholders	0.1	0.1	0.4	0.2	—	0.4	0.2
EBITDA plus non-operating results and minority interest	119.0	137.4	179.5	102.6	43.4	65.5	37.4
ICMS tax contingency provisions(a) ...	4.0	4.6	6.4	3.7	1.6	0.7	0.4
Acquisition-related and other expenses(b)	12.9	11.0	11.9	6.8	1.6	1.4	0.8
Expenses related to our follow-on offering(c)	—	14.8	—	—	—	—	—
Adjusted EBITDA	135.9	167.9	197.8	113.1	46.6	67.6	38.7
Exclusion of DASA Real Estate EBITDA(d)	—	(0.1)	(0.3)	(0.2)	—	0.2	0.1
Adjusted EBITDA minus DASA Real Estate EBITDA	<u>R\$135.9</u>	<u>R\$168.0</u>	<u>R\$197.5</u>	<u>US\$113.1</u>	<u>R\$ 46.6</u>	<u>R\$67.4</u>	<u>US\$38.7</u>

(a) Since 2000, ICMS taxes were levied against us in connection with our acquisition of imported equipment and materials such as reagents used in our clinical tests. The provision related to ICMS tax claims in connection with our acquisition of reagents is a non-cash item of our income statement. These provisions relate to claims in which we view our chances of loss as probable, and if we lose these claims, we would be required to make a cash payment that could equal or even exceed the amount of our provisions. For a detailed description of the claims related to ICMS tax, please see “Description of Our Business—Legal proceedings—Tax.”

(b) These expenses consisted of:

- In 2005, (1) R\$6.0 million related to efforts in connection with the acquisition and integration of Pasteur, Frischmann Aisengart, Image Memorial and Alvaro, (2) R\$2.5 million related to bonuses paid in 2005 that were recorded as non-operating expenses and were related to 2004 before we implemented a formal profit sharing program for our employees and (3) R\$4.4 million for a provision for doubtful debts recorded prior to 2005.
- In 2006, (1) R\$10.3 million related to the acquisition and integration of Lab Pasteur, MedLabor, VitaLamina and Atalaia and (2) R\$0.6 million in expenses related to the issuance of debentures, which we amortized on a monthly basis.

- In 2007, (1) R\$10.0 million related to the acquisition and integration of Exame, CientificaLab and Med Imagem, (2) R\$1.0 million related to the issuance of debentures (in 2006, which we continued to amortize on a monthly basis) and (3) other expenses of R\$0.9 million, which consisted of adjustments for taxes due by acquired companies, a fee for the termination of a contract with one of our service providers and certain outstanding audit expenses.
 - In the first quarter of 2007, (1) R\$0.8 million related to the acquisition and integration of VitaLâmina and Atalaia, (2) R\$0.2 million related to the issuance of debentures (in 2006, which we continue to amortize on a monthly basis) and (3) other expenses of R\$0.6 million, which consisted of adjustments for taxes due by acquired companies, a fee for the termination of a contract with one of our service providers and certain outstanding audit expenses.
 - In the first quarter of 2008, (1) R\$1.1 million related to the acquisition and continuing integration of Exame, CientificaLab and Med Imagem, (2) R\$0.2 million related to the issuance of debentures (in 2006, which we continue to amortize on a monthly basis) and (3) other expenses of R\$0.1 million, which consisted of adjustments for taxes due by acquired companies, a fee for the termination of a contract with one of our service providers and certain outstanding audit expenses.
- (c) Represents underwriting, legal, accounting and other expenses in connection with our follow-on equity offering, which closed in March 2006.
- (d) The EBITDA of DASA Real Estate is excluded from this calculation because we expect that DASA Real Estate will be designated an “unrestricted subsidiary” in the indenture relating to the notes.

Risk Factors

Before making any investment decision, potential investors should carefully consider all the information set forth in this offering memorandum, particularly the risks described below. Such risks, as well as others which are at present unknown to us or which we consider to be insignificant, may have a material adverse effect on our business, our financial condition or results of operations. The price of the notes may decrease due to any of these risks, and you may lose all or part of your investment.

RISKS RELATING TO BRAZIL

The Brazilian government has exercised, and continues to exercise, significant influence over the Brazilian economy. This influence, as well as Brazilian political and economic conditions, could adversely affect us and the price of the notes.

The Brazilian government has frequently intervened in the Brazilian economy and occasionally made drastic changes in economic policy. To influence the course of Brazil's economy, control inflation and effect other policies, the Brazilian government has taken various actions, including the use of wage and price controls, currency devaluations, capital controls, limits on imports and freezing of bank accounts. We have no control over, and cannot predict, what measures or policies the Brazilian government may take in the future. Our business, financial condition, revenues, results of operations, prospects and the market price of the notes may be adversely affected by changes in government policies, as well as other factors, such as:

- fluctuations in exchange rates and changes in monetary policies;
- inflation;
- interest rates;
- changes in tax regimes;
- domestic and global economic growth;
- liquidity of the domestic capital and lending markets;
- energy shortages;
- changes in environmental, health and sanitary regulations;
- price control policies;
- fiscal policy; and
- other political, diplomatic, social or economic developments in or affecting Brazil.

Inflation and certain government measures to curb inflation may have adverse effects on the Brazilian economy, the Brazilian securities market, our business and operations and the market price of the notes.

Brazil has in the past experienced extremely high rates of inflation, reduced with the implementation of the *real* economic plan in 1994. The Brazilian government floating foreign exchange policy and the devaluation of the *real* with regard to the U.S. dollar may result in additional inflationary pressures, which may lead to government use of policies that may affect the economy in general, including our clients and us. If inflation increases, potential anti-inflationary policies implemented by the Brazilian government may decrease economic growth and the Brazilian population's purchasing power, which may adversely affect our business, financial condition, results of operations, or the price of the notes.

In addition, if Brazil experiences high rates of inflation, we may not be able to adjust the price of our services sufficiently to offset the effects of inflation on our cost structure.

Exchange rate instability may adversely affect the Brazilian economy and the price of the notes.

The Brazilian currency has been periodically devalued against the U.S. dollar and other foreign currencies for four decades ending in 2002. Throughout this period, the Brazilian government has implemented several economic plans and utilized a number of exchange rate policies, including sudden devaluations, periodic mini-devaluations, during which the frequency of adjustments has ranged from daily to monthly, floating exchange rate systems, exchange controls and dual exchange rate markets. From time to time, there have been significant fluctuations in the exchange rate between the Brazilian *real* and the U.S. dollar and other currencies. For example, the *real* depreciated against the U.S. dollar by 18.67% in 2001 and 52.27% in 2002. Although there was an appreciation of the *real* against the U.S. dollar of 8.45% in 2004, 11.8% in 2005, 8.7% in 2006 and 17.2% in 2007, we cannot assure you that the *real* will not depreciate or be devalued against the U.S. dollar again. On May 21, 2008, the U.S. dollar-*real* exchange rate published by the Central Bank was R\$1.6492 to US\$1.00.

Depreciation of the *real* against the U.S. dollar could create additional inflationary pressures in Brazil by increasing the price of imported products and requiring deflationary government policies. On the other hand, appreciation of the *real* against the U.S. dollar may lead to a deterioration of the country's current account and the balance of payments, as well as to a dampening of export-driven growth.

While substantially all of our revenues are denominated in *reais*, approximately 28.4% of the total supplies we purchase is linked to the *real*-U.S. dollar exchange rate. This percentage represents among others, costs of reagents used in our clinical laboratory tests, materials and films needed for our diagnostic imaging tests. In addition, we either purchase or lease a significant portion of our imaging equipment in U.S. dollars. In 2007, we spent US\$38.6 million on equipment purchased or leased under agreements denominated in U.S. dollars. To the extent that the value of the *real* decreases relative to the U.S. dollar, it becomes more costly for us to purchase these materials and equipment, which could materially adversely affect our business, financial condition and results of operations.

The market value of the securities issued or guaranteed by Brazilian companies is influenced by the perception of risk of investing in Brazil and other emerging market economies, which may have a negative effect on the market price of the notes and may restrict our access to international capital markets.

Economic and market conditions in other emerging market countries, especially those in Latin America, may influence the market for securities issued by Brazilian companies. Although economic conditions in such countries may differ significantly from economic conditions in Brazil, investors' reactions to developments in these other countries may have an adverse effect on the market value of securities of Brazilian issuers. In the wake of economic problems in various emerging market countries in recent years (such as the Asian financial crisis of 1997, the Russian financial crisis of 1998 and the Argentine financial crisis that began in 2001), investors viewed investments in emerging markets with heightened caution. These crises produced a significant outflow of U.S. dollars from Brazil, causing Brazilian companies to face higher costs for raising funds, both domestically and abroad, and impeding access to international capital markets. There can be no certainty that international capital markets will remain open to Brazilian companies or that the costs of financing in these markets will be advantageous to us. Crises in other emerging market countries could dampen investor enthusiasm for notes issued by Brazilian issuers, including ours, which could adversely affect the market price of our notes.

RISKS RELATING TO OUR BUSINESS

We may not be able to execute fully our business strategy.

Our ability to implement our business strategy is dependent upon a number of factors, including our ability to:

- identify new communities with sufficient demand to support new patient service centers in the markets where we currently operate;
- identify attractive acquisition targets in current or new markets;

- identify new business opportunities in the Brazilian public sector and successfully win the public bidding processes with respect to these opportunities;
- successfully integrate acquired laboratories, brands and patient service centers into our existing lines of business;
- continue to take advantage of the economies of scale resulting from the processing of test results in our eight central laboratories, and the replication of our segmented and multi-product model in the patient service centers;
- appropriately develop and take advantage of potential synergies and cross-marketing opportunities between our four lines of business;
- provide services to small and medium-sized laboratories through our reference laboratory services, with attractive prices, efficient logistics, attracting good representatives who sell our services to these laboratories, and retaining key employees related to this business in our company;
- further develop the services we offer to the public health sector through CientíficaLab and improve service efficiency; and
- maintain the quality, efficiency and attractiveness of our patient service centers and continue to manage the distinct characteristics of each of our brands.

We cannot assure you that any of these goals will be successfully or fully executed. For example, as we seek to expand to other regions of Brazil, we may not be able to identify potential acquisition targets that meet our strategic criteria and/or acquire them on satisfactory terms. In general, we seek to acquire regional market leaders with loyal patient followings, and we seek to acquire laboratories that can easily be integrated into our existing business. However, legal issues or difficult price negotiations may force us to abandon planned acquisitions or could result in our acquisition of less lucrative targets. Any such failure to make suitable acquisitions could adversely affect our gross operating revenues and our results of operations.

We may also be unable to consummate acquisitions as significant, or at prices and on terms as favorable as those we have achieved in our acquisitions to date, which could materially impact our growth and results of operations. We may also need to raise additional funds to consummate these acquisitions. Competition for acquisitions in the markets in which we are interested may also result in higher prices for those businesses, which could adversely impact our acquisition rate or our success in consummating acquisitions. In addition, the amortization of goodwill recorded by our company in connection with the mergers and acquisitions is likely to continue to adversely affect our profitability and ability to pay dividends.

We operate in an industry that is undergoing consolidation both in Brazil and worldwide, which is likely to increase competition and may negatively affect our gross operating revenues and results of operations.

The Brazilian medical diagnostics market is still highly fragmented, and has increasingly been undergoing consolidation. In addition, we operate in an industry which has historically shown a high level of consolidation worldwide. This may increase the competition in our current market and in new markets, including by creating larger players with substantial resources and market power. In addition, consolidation could decrease the number of attractive targets for acquisition by our company, affecting our growth strategy. These challenges could negatively affect our gross operating revenues and results of operations.

Our business may be affected by our acquisitions that we make or by our inability to integrate other companies we acquire into our business.

We have, in recent years, made several acquisitions, and our strategy calls for further acquisitions in the future. Any such business combinations are likely to involve a number of additional risks and difficulties to our business, including:

- failure to integrate operations, management information systems, personnel, marketing operations, logistics, sales and support;

- changes to our strategy;
- potential loss of key current employees or employees of the acquired company;
- potential loss of the acquired company's clients;
- unanticipated costs and liabilities; and
- other accounting and internal control consequences.

In addition, we may not realize benefits from any business combination we may undertake or be subject to in the future. The integration of the businesses of the companies we acquire demands significant management resources that may divert the attention of our senior management from the management of our existing businesses. In particular, our recent acquisitions have, and will continue to, require more attention from management and resources than were required in the past with respect to our other acquisitions. The integration of any other business that we may acquire in the future includes a series of risks, including, among others:

- loss of key customers or employees;
- difficulty in integrating personnel, consolidating redundant facilities and infrastructure, standardizing information and other systems, and coordinating and maintaining the efficiency of our logistics structure;
- failure to maintain the quality of services that such companies had historically provided;
- erosion of our brands if we rebrand acquired patient service centers with one of our existing brands but do not successfully maintain the quality standards associated with our brand; and
- diversion of management's attention from the day-to-day business of our company.

We acquired and may continue to acquire companies with financial statements that are unaudited and have weak internal controls. As a result, we may find that the financials of acquired companies materially differ from those we reviewed prior to the acquisition of the relevant company. Furthermore, we may have to spend additional resources on improving an acquired company's internal controls. We may not successfully forecast the impact of an acquisition, including accounting charges and effects on internal controls. If we fail to successfully integrate companies that we may acquire in the future, our business and your investment may be harmed.

Even if we are able to successfully integrate the operations of future acquisitions, we may be unable to realize the benefits we expect to obtain as a result of the integration of these operations, including projected cost reductions, in a given period or on a definitive basis.

We face significant competition, including price competition, that could adversely affect our market share and our results of operations.

We face competition in attracting patients to our patient service centers, contracting with private health plans and maintaining brand recognition in the medical community, contracting with hospitals for the provision of inpatient services, and small- and medium-sized clinical analysis laboratories to provide reference laboratory services.

The clinical analysis and diagnostic imaging market is intensely competitive both in terms of price and service. According to the DATASUS, there are 18,535 medical diagnostics laboratories in Brazil as of April 2008, some of which are present in the markets where we operate. Under the Brazilian healthcare system and medical support services, patients covered by healthcare plans are generally free to choose any diagnostic services company with which their private health plan has a contract to perform diagnostic tests they require. If we are unable to maintain and increase brand loyalty within the segment targeted by each of our brands, to maintain consistently high quality standards at competitive prices and to offer comfortable environments at each

of our patient service centers, we could lose market share in both outpatient and inpatient services business and our results of operations could be adversely affected. In addition, we depend on physicians to endorse our patient service centers and our inpatient services to their patients. Maintaining our reputation in the medical community as an efficient, high-quality service provider and differentiating our services from those of our competitors is crucial to our success. Our reference laboratory services business is particularly dependent on our ability to maintain prices at competitive levels and any failure to do so could result in a loss of market share and revenue from this business, and adversely impact our results of operations.

We generally renegotiate our contracts with private health plans annually. In addition to the quality of our services, pricing is the most significant factor used by private health plans in selecting diagnostic services providers for their patients. Larger diagnostic services companies are able to increase cost efficiencies afforded by large-scale automated testing, resulting in greater price competition. As competition increases in Brazil, other companies may seek to expand and consolidate, creating greater upward price pressures in acquisitions and greater downward pricing pressures due to increased competition in our business operations. We may be unable to increase cost efficiencies sufficiently as we grow, and our results of operations may be adversely affected by price competition as a result. If one or more of the principal private health plans that are our largest customers terminates our contracts because our pricing policies are not competitive, our results of operations will be adversely affected.

Our inpatient services, laboratory-to-laboratory and public services businesses are particularly dependent on our ability to be competitive in terms of service, price, logistics and quality. Moreover, the providers of medical diagnostics services currently operating in our market could consolidate, and certain private health plans or our other customers might opt to develop their own laboratory networks to cover their needs. In addition, we have begun to face competitive pressure in our laboratory-to-laboratory services business from the increasing tendency of small laboratories to form groups for purposes of purchasing services at lower prices. These factors, whether jointly or in isolation, may adversely affect our results of operations.

We receive a significant percentage of our gross operating revenues from a limited number of private health plans, who could favor other providers.

Private health plans accounted for 52.4% of our gross operating revenues in 2007 and 46.8% of our gross operating revenues in the first quarter of 2008. Moreover, a limited number of private health plans historically contribute a significant percentage of our gross operating revenues, with five private health plans accounting for 25.3% of our gross operating revenues in the fourth quarter of 2007. We expect that a limited number of private health plans will continue to account for a significant portion of our gross operating revenues in the foreseeable future. The majority of our gross operating revenues come from large private health plans that have significant market power, which has historically given them substantial leverage in negotiating contract terms with us. In addition, our contracts with private health plans generally have indefinite terms and may be terminated by either party after a short notice period, usually 30 days, without any penalty. The loss of one or more of these significant payers could adversely affect our gross operating revenues and results of operations.

Interruptions in the operations of our central laboratories may have an adverse effect on our operations and financial condition.

The processing of our exams is centralized in our central laboratories, especially in Barueri, Rio de Janeiro, São José dos Pinhais, Brasília and Cascavel. The majority of our equipment for clinical analysis and our technical production team are located in these laboratories, receiving samples from all patient service centers in their respective regions and processing the great majority of clinical tests we offer. Any interruption in the operation of one of our central laboratories—especially those in Barueri and Rio de Janeiro—may significantly and adversely affect our ability to process clinical tests and would force us to redistribute the processing of samples among our other central laboratories, some located in hospitals and others contracted from third party providers. Given the volume of samples processed in our laboratories, any redistribution could be very difficult. This could increase the time necessary for the delivery of the results and the cost of processing clinical tests, which could adversely affect our gross operating revenue and our results of operations.

We may be unable to pass increased costs on to our clients.

Our agreements with private health plans determine the prices that we can charge for each exam that we perform for their clients and stipulate that the prices are readjusted periodically by mutual agreement. The prices in our agreements with public healthcare companies are set by the federal government through the *Sistema Único de Saúde*, or “SUS.” The SUS has the sole discretion to review the price schedule and does not do so regularly. In the past few years only minor adjustments have been made. The governmental entities with whom we have contracts are also subject to budgetary limitations and might not be willing to pay additional amounts if we were to seek an increase in payments for our services to the public sector. If our materials or equipment suppliers increase their prices, additional taxes are created or our costs in general increase for any reason, we may not be able to pass these increased costs through to our patients and payers, which could result in disputes and force us to choose between losing a payer or absorbing any increases in costs, which would adversely affect our gross operating revenue and results of operations.

Changes in tax laws and regulations in Brazil could adversely affect our operating revenues.

The Brazilian government is in the process of discussing and developing specific bills, some of which have already been implemented, involving changes to the tax regime, and this could have an adverse impact on our tax burden, insofar as these changes apply to our business.

Among other matters, the Brazilian government continues to discuss the proposed unification of state laws governing the *Imposto sobre a Circulação de Mercadorias e Serviços* (Tax on the Circulation of Goods and Services, or “ICMS”), as well as the proposed creation of a value-added tax to replace the ICMS, the *Imposto sobre Produtos Industrializados* (Tax on Industrial Products, or “IPI”) and the *Imposto sobre Serviços* (Tax on Services, or “ISS”). We cannot provide any assurance as to what, if any, changes proposed or considered in relation to the tax regime will be implemented, nor what impact such changes would have on our results of operations or financial condition.

The effects of these proposed tax reform measures and any other changes that result from enactment of additional tax reforms have not been, and cannot be, quantified. However, some of these measures, if enacted, may result in increases in our overall tax burden, which could negatively affect our overall financial performance.

Our future acquisitions may be challenged by Brazilian antitrust authorities.

Under Brazilian Law No. 8,884/94, any transaction that affects the Brazilian market and that results in a concentration of market share equal to or greater than 20.0% of any relevant market and that involves any company or group of companies with total annual revenues of R\$400.0 million in Brazil or more must be submitted to and approved by the Brazilian antitrust authorities. Based on our results for the 2007 fiscal year, which exceeded R\$400.0 million, we are required to submit any future proposed acquisitions for the approval of these authorities. Accordingly, we notified the anti-trust authorities of all acquisitions made by our company in 2005, 2006 and 2007. All acquisitions made up to and including 2006 were approved, and the three acquisitions made in 2007 are still subject to approval by Brazilian antitrust authorities. Brazilian antitrust authorities determine whether the specific transaction can negatively affect competitive conditions in the markets in which we operate or negatively affect consumers in those markets, although to date the Brazilian antitrust authorities have never made a determination of this type in the medical services sector. The Brazilian antitrust authorities may disapprove the acquisitions which are currently being reviewed by them or any future acquisitions by us, or may impose costly obligations on us, such as the divestiture of portions of our operations or restrictions on how we operate or market our services, as a condition for the approval of these acquisitions that could adversely affect our results of operations and financial condition.

We depend on key personnel to carry out our business strategy and sustain our growth.

In order to implement our business strategy, we depend on a limited number of key personnel with experience in identifying diagnostic services companies for acquisition and maintaining our organic growth.

The loss of key senior personnel could significantly hinder our growth. Our current senior management is made up of eight individuals. The loss of any of these individuals could materially adversely impact our business and operations. In addition, our future growth depends in large part on our ability to attract and retain highly skilled and qualified personnel to support our growth objectives. We may not be successful in doing so because the competition for qualified personnel in our industry is intense. In particular, the demand for anatomical pathologists in Brazil currently exceeds the supply of such professionals and we are highly dependent on them since we rely on them to carry out biopsies and analyze tissue samples and liquids from puncture tests. Anatomical pathologists are responsible for determining whether there are cancerous cells in a sample and identifying inflammatory or infectious processes.

Brazilian bankruptcy laws may be less favorable to you than U.S. bankruptcy and insolvency laws.

If we are unable to pay our indebtedness, including our obligations under the guarantee, then we may become subject to bankruptcy proceedings in Brazil. The new Brazilian bankruptcy law that became effective on June 9, 2005 is significantly different from, and may be less favorable to creditors than, the bankruptcy law in effect in the United States. In addition, any judgment obtained against us in Brazilian courts in respect of any payment obligations under the notes may be expressed in the *real* equivalent of the dollar amount of such sum at the exchange rate in effect (1) on the date of actual payment, or (2) on the date on which collection or enforcement proceedings are started against us. Consequently, in the event of our bankruptcy in a liquidation proceeding, all of our debt obligations, including the guarantee, that are denominated in foreign currency will be converted into *reais* at the prevailing exchange rate on the date of declaration of our bankruptcy by the court. However, in a reorganization proceeding under Brazilian bankruptcy law, all of our debt obligations, including the guarantee, that are denominated in foreign currency will remain in foreign currency, unless the parties agree otherwise.

Changes in government regulations or policies of private health plans may adversely affect the price we charge for clinical analysis and diagnostic imaging testing.

Private health plans have increased their efforts to control the cost, utilization and delivery of healthcare services. These efforts may pressure private health plans to reduce prices they pay for our services and/or attempt to control the use of our services by our clients, depending on the outcome of the periodic renegotiation of our contracts with these plans.

We are not interested in and it is not market practice to enter into contracts under which a diagnostic company and a private or self-managed health plan agree to a per member, per month payment to cover all laboratory tests during the month, regardless of the number or cost of the tests actually performed. Such contracts shift the risk of additional testing onto us. If such contracts do become market practice and we begin entering into them, they could reduce our gross operating revenues and adversely affect our results of operations.

In addition, the *Agência Nacional de Saúde* (the Brazilian National Health Agency, or “ANS”), which regulates healthcare plans and health insurance companies, has the authority to cap the price readjustment that private health plans may charge individuals who have contracted individual healthcare plans and who are not covered by healthcare through their employers (individual plans). Such limits imposed by the ANS may affect the profitability of private health plans, which comprise the majority of our payers. A decrease in the profitability of these private health companies may cause renegotiation of our current prices. Any reduction in these price readjustment levels could adversely affect our business.

Our business could be materially adversely affected if a governmental entity to which we provide services unilaterally alters or terminates its contract with us. We cannot guarantee that our contracts will be renewed or on what terms they will be renewed.

We are currently a party to over 40 agreements with governmental entities. We will continue to bid on and enter into contracts with federal, state and municipal governments. We are therefore vulnerable to the risks

inherent to such contracts. Brazilian administrative law outlines bidding procedures and other hiring formalities to be followed by private companies entering into a contract with public entities. More importantly, Brazilian administrative law allows governmental entities to unilaterally alter or terminate contracts with private sector companies in certain circumstances. For instance, Brazilian administrative law states that a governmental entity may terminate a contract if there is a change of control in a private company with which it entered into the relevant contract and the change control disrupts the private party's performance under such contract. Our business and results of operations could be materially adversely affected if a governmental entity unilaterally alters or terminates a contract with us. Additionally, early terminations could directly and indirectly hinder our efforts to secure new or additional contracts with governmental agencies.

Most of our contracts with governmental authorities are valid for one-year terms but may be renewed for a term of five years at the sole discretion of the governmental entity. Upon renewal, we are often unable to guarantee what terms will apply to the new contract. We cannot assure you that any of our contracts with governmental entities will be renewed and, if renewed, that the terms and conditions of the new contract will be favorable to us.

Brazilian administrative law also dictates specific procedures for how overdue payments by public sector companies must be processed. Such procedures may delay our receipt of payments and such delays could have an adverse impact on our results of operations.

Furthermore, we are vulnerable to changes in the administration of the municipalities and states with which we have contracts. Newly elected officials may, for example, terminate or try to renegotiate existing contracts with us. The replacement of officials with whom we had already established a relationship with officials who do not know our services may require us to restart or re-establish business development efforts that may demand the attention and time of our officers.

If any of the above occurs, our gross operating revenues and results of operations may be adversely affected.

Adverse decisions in one or more of the tax lawsuits to which we are party could adversely affect our results of operations.

We are involved in several tax lawsuits and administrative proceedings, and at December 31, 2007, the aggregate amount claimed in these proceedings was approximately R\$210.8 million. At December 31, 2007, we had established provisions of R\$90.6 million relating to potential tax liabilities under these lawsuits. In the event that the relevant courts find against us in these lawsuits for amounts greater than our established provisions, our results of operations and financial condition will be adversely affected. In addition, new claims can arise at any time. For example, in May 2008, we received an additional tax assessment in the amount of R\$86.0 million. See "Description of Our Business—Legal proceedings."

Any adverse determination of the legal status of the physician organizations that provide services to us could negatively affect our results of operations.

We have contracts with numerous specialized medical companies incorporated as physician organizations that provide medical diagnoses of diagnostic imaging tests through physicians that are either partners of the professional service companies or are hired by them for that purpose. In this offering memorandum, we refer to these entities as "physician organizations." We depend on those specialized professional companies for the performance and interpretation of diagnostic imaging tests. The physicians that are either partners of or are hired by these physician organizations are not our employees, and we are not required to contribute to the Brazilian social security system and other benefit programs on their behalf. See "Medical Diagnostics Industry—Regulatory matters." However, Brazilian labor courts may characterize these physicians as our employees or otherwise require us to make social benefit payments on their behalf. Any adverse court decision finding that an employee relationship existed between us and these physicians or the obligation to make social benefit payments on behalf of these physicians would result in substantial contributions and incremental costs that could require us to restructure our operations. Any such increased costs or change in the structure of our operations could adversely affect our results of operations and financial condition.

Failure to timely or accurately bill for our services or disputes with payers over our invoices for services rendered could adversely affect our financial condition or results of operations.

Billing for diagnostic testing services is complex due to the large number of payers and patients we have a contractual relationship with, and differences in coverage and information requirements among various private health plans and the disputes over which party is responsible for payment, among other factors. These complexities can cause delays in receiving payment in full from payers, delays in receiving payment or rejections of claims. These delays and rejections would adversely affect our business, and any increase in these delays and rejections could adversely affect our results of operations and financial condition.

Additionally, in our reference laboratory services, we rely on small to medium-sized laboratories for payment of our services. We may meet difficulties in collections for our reference laboratory services, due to the credit risk which is inherent for the clients we typically attend in this market, and this may adversely affect the results of our operations.

Failure in our information technology system could significantly increase testing turn-around or time required for billing processes and otherwise disrupt our operations.

Our central laboratory operations depend, in part, on the continued and uninterrupted performance of our information technology systems. Information systems are used extensively in virtually all aspects of our business, including laboratory and image testing, billing, customer service, logistics and management of medical data. Our information technology systems are potentially vulnerable to physical or electronic break-ins, computer viruses and similar disruptive problems. Sustained or repeated system failures or interruption of our system in one or more of our laboratory and diagnostic imaging operations could disrupt our ability to process laboratory requisitions, perform testing, provide test results in a timely manner or bill the appropriate party. Failure of our information technology systems could adversely affect our business, financial condition and results of operations. We are currently developing a system that will allow us to collect and locate the history of exams of a given patient. Any failure in the implementation of this system, for example, may adversely affect our business, financial and results of operations.

Our failure to comply with Brazilian federal, state and municipal laws and regulations could result in penalties and loss of licenses, which could adversely affect our business and results of operations and financial condition.

We are subject to Brazilian federal, state and local laws as well as the regulations of various governmental bodies, such as the *Agência Nacional de Vigilância Sanitária*, the national sanitation agency or “ANVISA,” on a variety of matters, including operating licenses, environmental protection, workplace health and safety, the collection of samples (including drawing of blood) and the handling, transportation and disposal of medical specimens, hazardous waste and radioactive materials. Our central laboratories and service centers are subject, among other requirements, to applicable laws and regulations relating to disposal of laboratory specimens, and we use medical waste treatment companies for disposal of some of these specimens. Furthermore, there are requirements relating to workplace safety for healthcare employers, including clinical laboratories. These regulations, among other things, demand work practice controls and protective clothing and equipment designed to minimize exposure to, and transmission of, blood-borne pathogens. To operate a patient service center or central laboratory, we are also required to obtain permits for that facility issued by the municipal authority and, in some cases, by the local fire department.

Failure to comply with these laws and regulations could, among other consequences, result in a shutdown of patient service centers, loss of operating licenses, inability to conduct certain diagnostic tests, fines, criminal penalties or other enforcement actions, which could have a material adverse effect on our business, results of operations or financial condition. In addition, compliance with future legislation could impose additional costly requirements on us.

We are currently in the process of obtaining the sanitary licenses we require to conduct our business in some of our facilities. For greater detail, see “Medical Diagnostics Industry—Regulation.”

Changes in technology could increase the costs of updating our equipment and could render some of our services obsolete.

Our business is continually subject to changing technology and new product introductions. We believe that our success depends significantly upon the association of our brands with the latest and highest quality diagnostic testing capabilities. We could be required to spend increasing amounts of money to purchase state-of-the-art equipment to maintain our competitive position, and such increases in costs could adversely affect our business and results of operations.

Professional liability litigation could have an adverse effect on our client base and reputation.

As a general matter, providers of diagnostic services may be subject to lawsuits alleging negligence or carelessness, amongst other types of civil professional liability claims. These suits could involve claims for significant damages. Any professional liability litigation could also have an adverse impact on our reputation and, consequently, on our client base. As is customary for providers in our industry in Brazil, we do not carry professional liability or medical malpractice insurance. A series of liability lawsuits against us could adversely affect our financial condition and cash flow, and any high profile liability lawsuit could significantly damage our reputation and consequently cause a decrease in patient volume and a reduction in our gross operating revenues.

The development of new, more cost-effective tests that can be performed by physicians in their offices or by patients could negatively impact our testing volume and gross operating revenues.

The diagnostic testing industry is constantly susceptible to technological innovation and new product introductions. Advances in technology may lead to the development of more cost-effective tests that can be performed outside of an independent clinical laboratory such as (1) point-of-care tests that can be performed by physicians in their offices or (2) home testing that can be performed by patients at home or by physicians in their offices. Development of such technology and its use by our patients could reduce demand for clinical testing services and negatively impact our results of operations and financial condition.

We are significantly influenced by Pátria and our founder, Dr. Caio Auriemo, which own a significant percentage of our common shares.

Funds associated with Pátria—Banco de Negócios, Assessoria, Gestão e Participação Ltda., or “Pátria,” currently hold 13.4% of our common shares, and Dr. Caio Auriemo (our founder and the chairman of our board of directors) and members of his family together hold approximately 12.5% of our common shares. These shareholders are able to influence any of our corporate decisions. For example, two of the Pátria partners currently sit on our board of directors (one is the vice-chairman of the board), and Pátria is actively involved in our acquisition activities by providing advisory services and taking an active role throughout each step of our acquisition process. Pátria also played an active role in our initial public offering and our follow-on equity offering, as well as in this offering. Dr. Caio Auriemo, in turn, was our chief executive officer until 2005 and is today the chairman of our board of directors. Circumstances could arise in which the interests of these shareholders are different from those of other holders of securities of our company.

We may be unable to continue using some of our trademarks in the future.

Some of our trademarks that we have applied to register with the relevant intellectual property agencies in Brazil have been challenged, including “Laboratórios Pasteur,” “LabPasteur,” “Med Imagem” and “MedLabor.” As a result, we may have to discontinue the use of certain brand names or may be forced to pay the original owners of certain trademarks for the use of certain names. In addition, the acquisition contract related to our

purchase of VitaLâmina requires us to discontinue the use of the names “Vita” and “VitaLâmina” by October 2009, and we are in the process of changing the names of those centers to “Lâmina.” Because one of the criteria we use to select companies to acquire is the strength of their brands in their local markets, our inability to use any of these brands could affect brand recognition and consequently negatively affect our revenues or, to the extent we must pay license fees for the use of these brands, our expenses. For more information about trademark-related issues, see “Description of our Business—Intellectual Property—Trademarks.”

RISKS RELATING TO THE NOTES

The use of proceeds of the offering could trigger a default under our existing debentures.

Our existing debentures in the principal amount of R\$202.5 million as of March 31, 2008 contain an event of default provision that is triggered if a specified minimum consolidated net debt to EBITDA ratio is not met at the end of any quarter. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and capital resources—Debt and contractual commitments.” Although we do not anticipate that this provision would be triggered by the issuance of the notes, the provision may be triggered by the use of proceeds of the offering of the notes. In such an event, we may use a portion of the proceeds of the offering of the notes to repay our existing debentures in full. However, because the terms of our debentures do not allow the optional redemption of the debentures, we would need to seek the agreement of the holders representing at least 90% of the debentures to amend the terms of the debentures to allow an optional redemption. Alternatively, our use of the proceeds of the offering of the notes could trigger a default, which would cause a meeting of the holders of the debentures to be convened and could lead to the acceleration of the debentures.

The indenture related to the notes provides that an event of default will occur if there is an acceleration of the debentures and we fail to pay the debentures in 30 days.

We may not be able to generate sufficient cash to service all of our indebtedness, including the notes, and be forced to take other actions to satisfy our obligations under our indebtedness, which may not be successful.

Our ability to make scheduled payments or to refinance our debt obligations depends on our financial and operating performance, which is subject to prevailing economic and competitive conditions and to certain financial, business and other factors beyond our control. We cannot assure you that we will maintain a level of cash flows from operating activities sufficient to permit us to pay the principal, premium, if any, and interest on our indebtedness. See “Forward-Looking Statements” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and capital resources.”

If our cash flows and capital resources are insufficient to fund our debt service obligations, we may be forced to reduce or delay capital expenditures, sell assets or operations, seek additional capital or restructure or refinance our indebtedness, including the notes. We cannot assure you that we would be able to take any of these actions, that these actions would be successful and permit us to meet our scheduled debt service obligations or that these actions would be permitted under the terms of our existing or future debt agreements, including the indenture that will govern the notes. In the absence of such operating results and resources, we could face substantial liquidity problems and might be required to dispose of assets and use the proceeds from the disposition. We may not be able to consummate those dispositions or to obtain the proceeds which we could realize from them and these proceeds may not be adequate to meet any debt service obligations then due. See “Description of the Notes.”

DASA Finance has no operations of its own, and as a result, the holders of the notes must rely on DASA to provide DASA Finance with sufficient funds to make payments on the notes.

DASA Finance is a special purpose, wholly-owned subsidiary of DASA and is an exempted company incorporated with limited liability under the laws of the Cayman Islands. DASA Finance was established on

February 26, 2008 to act as a finance subsidiary of DASA. Accordingly, the ability of DASA Finance to pay interest and other amounts due on the notes will depend upon DASA's financial condition and results of operations. In the event of an adverse change in DASA's financial condition or results of operations, DASA Finance may not have sufficient funds to repay all amounts due on or with respect to the notes.

Payments on the notes will be junior to our secured debt obligations and effectively junior to debt obligations of our subsidiaries who are not guarantors.

The notes will constitute our senior unsecured obligations. The notes will rank equal in right of payment with all of our other existing and future senior unsecured indebtedness. However, the notes will be subordinated to secured debt to the extent of the assets and property securing such debt. Payment on the notes will also be structurally subordinated to the payment of secured and unsecured indebtedness of our subsidiaries, other than the issuer and any subsidiary guarantors with respect to unsecured debt (limited, in the case of any subsidiary guarantor, to the stated value of its guarantee).

As of the date of this offering memorandum, a portion of our properties, equipment and accounts receivable is subject to liens and other security interests to secure our indebtedness. Any right of the holders of the notes to participate in our assets, including the capital stock of our controlled entities, and the assets of our subsidiaries upon any liquidation or reorganization will be subject to the prior claims of our secured creditors and the creditors of our restricted subsidiaries, as defined in the "Description of the Notes." The indenture relating to the notes includes a limitation of our ability and those of our restricted subsidiaries, in the future, to create or suffer to existing liens, although this limitation is subject to certain significant exceptions.

At March 31, 2008, DASA had outstanding R\$504.7 million of senior indebtedness and our subsidiaries had outstanding R\$44.9 million of indebtedness and other liabilities. At March 31, 2008, we had R\$86.6 million in indebtedness outstanding that was secured by collateral.

We conduct a significant portion of our business operations through our subsidiaries. In servicing payments to be made on the notes, we will rely, in part, on cash flows from these subsidiaries, mainly dividend payments. The ability of these subsidiaries to make dividend payments to us will be affected by, among other factors, the obligations of these entities to their creditors, requirements of Brazilian corporate and other law, and restrictions contained in agreements entered into by or relating to these entities.

In addition, only certain significant subsidiaries that have indebtedness of over R\$20.0 million will guarantee the notes and then only in an amount equal to their other indebtedness. Our subsidiaries are separate and distinct legal entities and, unless they are guarantors, they will have no obligation, contingent or otherwise, to pay amounts due under the notes or to make any funds available to pay those amounts, whether by dividend, distribution, loan or other payment. In addition, any future guarantee of the notes will be effectively subordinated to any indebtedness of a guarantor that is secured, to the extent of the value of the collateral securing such guarantees.

Covenants in our debt agreements may restrict our business in many ways.

We are party to various debt agreements, some of which contain various covenants, including financial covenants. A breach that is not cured within the applicable grace periods (if any) could result in a default under these agreements. Upon the occurrence of an event of default, most of these agreements provide that the lenders may elect to declare all amounts outstanding be immediately due and payable, as well as a cross-default could result under other debt agreements. We cannot assure you that we will have sufficient assets and cash flow to repay such indebtedness. In addition, these agreements restrict our ability to incur additional indebtedness, sell assets, create liens and consolidate or merge, among other restrictions, all of which could make it more difficult for us to consummate attractive acquisitions.

Restrictive covenants may adversely affect our operations.

Our indenture governing the notes will contain various covenants that limit our ability to, among other things:

- pay dividends, make other distributions in respect of our capital stock or make other restricted payments;
- make certain types of investments, loans, guarantees or acquisitions;
- incur additional debt;
- create liens on certain assets to secure debt;
- sell assets, including common shares of restricted subsidiaries;
- merge, consolidate or otherwise dispose of substantially all our assets; and
- enter into certain transactions with affiliates.

We and our subsidiaries may be able to incur additional indebtedness in the future. The terms of the indenture do not fully prohibit us or our subsidiaries from doing so. If we incur any additional indebtedness that ranks equally with the notes, the holders of that debt will be entitled to share ratably with you in any proceeds distributed in connection with any insolvency, liquidation, reorganization, dissolution or other winding-up of us. This may have the effect of reducing the amount of proceeds paid to you. In addition, you will not have a claim as a creditor against any of our existing subsidiaries who are not guarantors or against any of our future subsidiaries who are not guarantors. Indebtedness and other liabilities, including trade payables, whether secured or unsecured, of those subsidiaries will be effectively senior to your claims against those subsidiaries.

Developments in other emerging markets may adversely affect the market value of the notes.

The market price of the notes may be adversely affected by declines in the international financial markets and world economic conditions. Brazilian securities markets are, to varying degrees, influenced by economic and market conditions in other emerging market countries, especially those in Latin America. Although economic conditions are different in each country, investors' reaction to developments in one country may affect the securities markets and the securities of issuers in other countries, including Brazil. The market for Brazilian securities may continue to be affected negatively by events elsewhere, particularly in emerging markets, and such developments may have a negative impact on the market value of the notes.

Brazilian foreign exchange policy may affect the ability of DASA to make remittances outside Brazil in respect of the DASA guarantee, and restrictions on the movement of capital out of Brazil may impair the ability of holders of the notes to receive payments on the notes.

Under current Brazilian regulations, Brazilian companies are not required to obtain authorization from the Central Bank in order to make payments in U.S. dollars outside Brazil under guarantees in favor of foreign persons, such as the holders of the notes. We cannot assure you that these regulations will continue to be in force at the time DASA may be required to perform any of its obligations under the guarantee described in "Description of the Notes." If these regulations or their interpretation are modified and an authorization from the Central Bank is required, DASA would need to seek such an authorization to transfer the amounts under the guarantee out of Brazil or, alternatively, to make such payments with funds held by DASA outside Brazil. We cannot assure you that such an authorization would be obtained or that such fund would be available.

Furthermore, the Brazilian government may impose temporary restrictions on the conversion of Brazilian currency into foreign currencies and on the remittance to foreign investors of proceeds of their investments in Brazil. Brazilian law permits the government to impose these restrictions whenever there is a serious imbalance in Brazil's balance of payments or there are reasons to foresee a serious imbalance.

The Brazilian government imposed remittance restrictions for approximately six months in 1990. Similar restrictions, if imposed, would impair or prevent the conversion of interest payments on the notes from *reais* into U.S. dollars and the remittance of U.S. dollars abroad to holders of the notes. The Brazilian government may take similar measures in the future that (1) restrict companies, such as us, from paying amounts denominated in foreign currencies (such as payments under the notes or any guarantees thereof) or (2) require that any of those payments be made solely in *reais*. The likelihood of such restrictions may be affected by the extent of Brazil's foreign currency reserves, the availability of sufficient foreign currency in the foreign exchange markets on the date a payment is due, the size of Brazil's debt service burden relative to the economy as a whole and political constraints to which Brazil may be subject, all of which are factors beyond our control. We cannot assure you that the Central Bank will not modify its policies or that the Brazilian government will not institute restrictions or impose delays on payments of external debt.

Judgments of Brazilian courts enforcing our obligations under the notes are payable only in Brazilian *reais*.

If proceedings are brought in a Brazilian court seeking the enforcement of our obligations under the guarantee described in "Description of the Notes," we would not be required to discharge them in a currency other than *reais*. Any judgment obtained against us in Brazilian courts in respect of any payments under the notes will be expressed in the *real* equivalent to the U.S. dollar amount of such payment at the exchange rate on (1) the date of actual payment, (2) the date on which such judgment is rendered or (3) the actual due date of the obligations, as published by the Central Bank. We cannot assure you that such exchange rate will afford you full compensation for amounts owed on the notes.

We cannot assure you that a judgment of a United States court for liabilities under U.S. securities laws would be enforceable in Brazil.

We are incorporated under the laws of Brazil, and substantially all of our assets are located in Brazil. In addition, all or substantially all of our directors and officers and certain advisors named herein reside in Brazil. As a result, it may not be possible for investors to effect service of process within the United States upon us or our directors, officers and advisors or to enforce against them in U.S. courts any judgments predicated upon the civil liability provisions of the U.S. federal securities laws. See "Enforceability of Judgments."

We cannot assure you that an active trading market for the notes will develop.

The notes constitute a new issue of securities, for which there is no existing market. We cannot assure you regarding the future development of a market for the notes, the ability of holders of the notes to sell their notes, or the price at which such holders may be able to sell their notes. If such market were to develop, the notes could trade at prices that may be higher or lower than the initial offering price depending on many factors, including prevailing interest rates, our results of operations and financial condition, political and economic developments in and affecting Brazil and the market for similar securities. The initial purchasers of this offering have advised our company that they currently intend to make a market in the notes. However, the initial purchasers are not obligated to make a market in the notes, and any market-making with respect to the notes may be discontinued at any time without notice. Application has been made to admit the notes to listing on the Official List of the Luxembourg Stock Exchange and to trading on the Euro MTF market.

The notes are subject to transfer restrictions

The notes have not been registered under the Securities Act or any state securities laws and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and applicable state securities laws. Such exemptions include offers and sales that occur outside the United States in compliance with Regulation S under the Securities Act and in accordance with any applicable securities laws of any other jurisdiction and sales to qualified institutional buyers as defined under Rule 144A under the Securities Act. For a discussion of certain restrictions on resale and transfer, see "Transfer Restrictions."

The notes have no sinking fund provisions and are not redeemable at the option of holders of notes unless a change of control occurs.

As a result, holder of the notes will be entitled to receive a return of the principal amount of their investment only if we elect to redeem or repurchase the notes or in the event of acceleration to an event of default.

We may not be able to repurchase the notes upon a change of control.

Upon the occurrence of specific kinds of change of control events, we will be required to offer to repurchase all outstanding notes at 101% of their principal amount, plus accrued and unpaid interest. We may not be able to repurchase the notes upon a change of control because we may not have sufficient funds. Our failure to repurchase the notes upon a change of control would cause a default under the indenture. In addition, the change of control provisions in the indenture may not protect you from certain important corporate events, such as a leveraged capitalization (which would increase the level of our indebtedness), reorganization, restructuring, merger or other similar transaction. Such a transaction may not involve a change in voting power or beneficial ownership or, even if it does, may not involve a change that constitutes a “Change of Control” as defined in the indenture that would trigger our obligation to repurchase the notes. If an event occurs that does not constitute a “Change of Control” as defined in the indenture, we will not be required to make an offer to repurchase the notes as you may be required to continue to hold your notes despite the event. See “Description of the Notes—Repurchases at the Option of the Holders of the Notes upon Change of Control.”

Enforceability of Judgments

Cayman Islands

We have been advised by our Cayman Islands legal counsel, Maples and Calder, that there is no statutory enforcement in the Cayman Islands of judgments obtained in New York or Brazil. However, the courts of the Cayman Islands will recognize a foreign judgment as the basis for a claim at common law in the Cayman Islands, provided such judgment is rendered by a foreign court of competent jurisdiction, imposes on the judgment debtor a liability to pay a liquidated sum for which the judgment has been rendered, is final, is not in respect of taxes, a fine or a penalty and was not obtained in a manner and is not of a kind the enforcement of which is contrary to natural justice or the public policy of the Cayman Islands.

Brazil

We have been advised by our Brazilian legal counsel, Mattos Filho, Veiga Filho, Marrey Jr. e Quiroga Advogados, that a final conclusive judgment for the payment of money rendered by any New York state or federal court sitting in New York City in respect of the guarantee of the notes would be recognized in the courts of Brazil (to the extent that Brazilian courts may have jurisdiction), and such courts would enforce such judgment without any retrial or reexamination of the merits of the original action only if such judgment has been previously ratified by the *Superior Tribunal de Justiça* (the Brazilian Superior Court of Justice, or “STJ”) such ratification being available only if:

- the judgment fulfills all formalities required for its enforceability under the laws of the State of New York;
- the judgment contemplates an order to pay a determined sum of money;
- the judgment is issued by a competent court after proper service of process on the parties, which service must comply with Brazilian law if made in Brazil, or after sufficient evidence of the parties’ absence has been given, as established pursuant to applicable law;
- the judgment is not subject to appeal;
- the judgment is authenticated by the Brazilian consulate in the State of New York and is accompanied by a sworn translation into Portuguese; and
- the judgment is not against Brazilian public policy, good morals or national sovereignty.

Notwithstanding the foregoing, we cannot assure you that such ratification would be obtained, that the process described above could be conducted in a timely manner or that a Brazilian court would enforce a monetary judgment for violation of the U.S. securities laws with respect to the notes.

We have been advised by our Brazilian legal counsel that if the notes or the indenture were to be declared void by a court applying the laws of the State of New York, a judgment obtained outside Brazil seeking to enforce the guarantee of DASA or any subsidiary guarantor may not be ratified by the STJ.

We have also been advised that:

- civil actions may be brought before Brazilian courts in connection with this offering memorandum based solely on the federal securities laws of the United States and that Brazilian courts may enforce such liabilities in such actions against us (provided that provisions of the federal securities laws of the United States do not contravene Brazilian public policy, good morals or national sovereignty and provided, further, that Brazilian courts can assert jurisdiction over the particular action); and
- a plaintiff, whether Brazilian or non-Brazilian, who resides outside Brazil or is outside Brazil during the course of the litigation in Brazil and who does not own real property in Brazil must post a bond to secure the payment of the defendant’s legal fees and court expenses, except in case of collection claims based on an instrument (which do not include the notes issued hereunder) that may be enforced in Brazilian courts without the review of its merit (*título executivo extrajudicial*) or counterclaims as established under Article 836 of the Brazilian Code of Civil Procedure. The bond must have a value sufficient to satisfy the payment of court fees and the defendant’s attorney fees, as determined by a Brazilian judge. This requirement does not apply to the enforcement of foreign judgments that have been duly confirmed by the Brazilian Superior Court of Justice.

Exchange Rate Information

Before March 14, 2005, there were two legal foreign exchange markets in Brazil, the commercial exchange rate market and the floating exchange rate market. On March 4, 2005, the Brazilian *Conselho Monetário Nacional* (National Monetary Council) enacted Resolution No. 3,265, pursuant to which the floating exchange rate market and the commercial exchange rate market were unified in one “exchange market,” effective as of March 14, 2005. The new regulation allows the purchase and sale of foreign currency and the international transfer of *reais* by any person or legal entity, regardless of the amount, provided the transaction is legal and complies with certain regulatory procedures.

Since 1999, the Central Bank has allowed the U.S. dollar-*real* exchange rate to float freely, and, since then, the U.S. dollar-*real* exchange rate has fluctuated considerably. Since the beginning of 2001, the Brazilian exchange rate market has been increasingly volatile, and, until early 2003, the value of the *real* declined relative to the U.S. dollar. The *real* appreciated against the U.S. dollar in 2003, 2004, 2005, 2006 and 2007. In the past, the Central Bank has intervened occasionally to control unstable movements in foreign exchange rates. We cannot predict whether the Central Bank or the Brazilian government will continue to let the *real* float freely or will intervene in the exchange rate market through the return of a currency band system or otherwise. The *real* may depreciate or appreciate against the U.S. dollar substantially in the future. For more information on these risks, see “Risk Factors—Risks relating to Brazil.”

The following table shows the selling rate for U.S. dollars for the periods and dates indicated. The information in the “Average” column represents the average of the daily exchange rates during the period presented.

<u>Year</u>	<u>Reais per U.S. Dollar</u>			
	<u>High</u>	<u>Low</u>	<u>Average(1)</u>	<u>Period End</u>
2003	3.6623	2.8219	3.0715	2.8892
2004	3.2051	2.6544	2.9257	2.6544
2005	2.7621	2.1633	2.4341	2.3407
2006	2.3711	2.0586	2.1766	2.1380
2007	2.1556	1.7325	1.9483	1.7713
2008 (through March 31, 2008)	1.8301	1.6700	1.7379	1.7491

<u>Month</u>	<u>Reais per U.S. Dollar</u>			
	<u>High</u>	<u>Low</u>	<u>Average(1)</u>	<u>Period End</u>
November 2007	1.8501	1.7325	1.7699	1.7837
December 2007	1.8233	1.7616	1.7860	1.7713
January 2008	1.8301	1.7414	1.7743	1.7603
February 2008	1.7681	1.6715	1.7277	1.6833
March 2008	1.7491	1.6700	1.7076	1.7491
April 2008	1.7934	1.6575	1.6889	1.6872
May 2008 (through May 21)	1.8301	1.6434	1.7163	1.6492

Source: Central Bank.

(1) Represents the average of the exchange rates on the closing of each day during the period.

As of May 21, 2008, the exchange rate published by the Central Bank for selling U.S. dollars was R\$1.6492 per US\$1.00.

Use of Proceeds

We expect the offering to generate net proceeds for us (net of the initial purchasers' discount and estimated expenses) of approximately US\$239,560,000. We intend to use the net proceeds from the sale of the notes to finance our organic growth, fund future acquisitions of medical diagnostics companies in accordance with our strategy, make future debt service payments (including the debentures) and for general corporate purposes.

Our debentures bear interest at rate equal to 103.60% of the *Certificado de Depósito Interbancário*, or "CDI," rate, an interbank rate, and mature in April 2011. For more information on our debentures, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and capital resources—Debt and contractual commitments."

Under certain circumstances, we may use a portion of the proceeds of the offering to repay our debentures in full. See "Risk Factors—Risks Related to the Notes—The use of proceeds of the offering could trigger a default under our existing debentures."

Capitalization

The following table sets forth our cash, cash equivalents and marketable securities, short-term debt, and long-term debt and capitalization at March 31, 2008 on a historical basis and as adjusted to give effect to the issuance of the notes offered hereby, after deduction of the initial purchasers' discounts, commissions and estimated expenses payable by us and the receipt of the proceeds of this offering. There has been no material change in our capitalization since March 31, 2008.

The *real*-denominated amounts set forth in the "Actual" column of the table below are derived from our unaudited consolidated financial statements as of and for the three months ended March 31, 2008 prepared in accordance with Brazilian GAAP except for total capitalization (which is equal to total debt plus shareholders' equity). You should read this table in conjunction with "Selected Financial Information," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our audited consolidated financial statements and the notes thereto included in this offering memorandum.

Solely for the convenience of the reader, *real* amounts at March 31, 2008 have been translated into U.S. dollars at the commercial market rate as reported by the Central Bank at March 31, 2008 of R\$1.7491 to US\$1.00. The selling rate as reported by the Central Bank on May 21, 2008 was R\$1.6492 to US\$1.00. The U.S. dollar equivalent information should not be construed to imply that the *real* amounts represent, or could have been or could be converted into, U.S. dollars at such rates or at any other rate.

	At March 31, 2008			
	As Adjusted for		As Adjusted for	
	Actual	Offering(1)	Actual(2)	Offering(1)(2)
	(R\$ millions)		(US\$ millions)	
Cash and cash equivalents	16.1	435.2	9.2	248.8
Marketable securities	32.7	32.7	18.7	18.7
	<u>48.8</u>	<u>467.9</u>	<u>27.9</u>	<u>267.5</u>
Short-term debt(3)				
<i>Real</i> -denominated	87.0	87.0	49.8	49.8
Foreign currency-denominated	31.8	31.8	18.2	18.2
Total short-term debt	<u>118.8</u>	<u>118.8</u>	<u>68.0</u>	<u>68.0</u>
Long-term debt				
<i>Real</i> denominated	320.2	320.2	183.0	183.0
Foreign currency-denominated	65.7	503.0	37.6	287.6
Total long-term debt	<u>385.9</u>	<u>823.2</u>	<u>220.6</u>	<u>470.6</u>
Total debt(4)	<u>504.7</u>	<u>942.0</u>	<u>288.5</u>	<u>538.6</u>
Total shareholders' equity	<u>520.6</u>	<u>520.6</u>	<u>297.7</u>	<u>297.7</u>
Total capitalization (total debt plus shareholders' equity)	<u>1,025.3</u>	<u>1,462.6</u>	<u>586.2</u>	<u>836.3</u>

(1) Adjusted to give effect to the issuance of the notes offered hereby, after deduction of the initial purchasers' discounts, commissions and estimated expenses payable by us and the receipt of the proceeds of this offering.

(2) Translated into U.S. dollars at the commercial market rate as reported by the Central Bank at March 31, 2008 of R\$1.7491 to US\$1.00.

(3) Includes current portion of long-term debt.

(4) Of our short-term debt and long-term debt, R\$290.5 million is guaranteed, not including the guarantee by DASA of the notes offered hereby.

Selected Financial Information

You should read the information below together with our consolidated financial statements and the notes thereto included elsewhere in this offering memorandum, as well as the information under “Presentation of Financial Information” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

The selected statement of income and balance sheet data denominated in *reais* as of December 31, 2005, 2006 and 2007 and for the three years ended December 31, 2007 have been derived from our audited consolidated financial statement included in this offering memorandum. The selected statement of income and balance sheet data in *reais* as of and for the years ended December 31, 2003 and 2004 have been derived from our audited consolidated financial statements not included in this offering memorandum. The selected statements of income and balance sheet data denominated in *reais* as of and for the three months ended March 31, 2007 and 2008 have been derived from our unaudited consolidated financial statements included in this offering memorandum.

Our consolidated financial statements are prepared in accordance with Brazilian GAAP, which differs in certain respects from U.S. GAAP. For a summary of certain differences as they relate to our consolidated financial statements, see Annex A to this offering memorandum.

Comparability of the financial statements and results of operations for the five years in the period ended December 31, 2007 and the three months ended March 31, 2007 and 2008 is limited because of the companies we acquired in each of those years. Please see “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Limits on comparability of our financial statements” for a description of the principal limitations on the comparability of our results of operations.

The selected financial information set forth in the tables below includes results of operations and financial condition information for DASA Real Estate. We expect that DASA Real Estate will be designated an “unrestricted subsidiary” in the indenture relating to the notes. DASA Real Estate had (1) operating income of R\$0.3 million in the year ended December 31, 2007 and operating income of R\$0.3 million in the three months ended March 31, 2008, (2) total assets of R\$12.2 million as of March 31, 2008 and (3) total liabilities of R\$38.5 thousand as of March 31, 2008.

For purposes of the table below and solely for your convenience, we have translated the *real* amounts as of and for the year ended December 31, 2007 and the three months ended March 31, 2008 into U.S. dollars using a rate of R\$1.7491 to US\$1.00, the selling rate on March 31, 2008, as reported by the Central Bank. You should not construe these translations are representations by us that the *real* amounts actually represent these U.S. dollars amounts or could be converted into U.S. dollars at the rates indicated. See “Exchange Rate Information.”

	Year Ended December 31,					Three Months Ended March 31,			
	2003	2004	2005	2006	2007	2007	2007	2008	2008
	(R\$ millions)	(R\$ millions)	(R\$ millions)	(R\$ millions)	(R\$ millions)	(US\$ millions)	(R\$ millions)	(R\$ millions)	(US\$ millions)
Statement of income data									
Gross operating revenues . . .	R\$ 399.8	R\$ 491.4	R\$ 576.9	R\$ 729.7	R\$ 930.7	US\$ 532.1	R\$ 206.2	R\$ 280.1	US\$160.1
Deductions:									
Sales taxes	(28.2)	(34.2)	(33.1)	(40.8)	(52.6)	(30.1)	(11.6)	(16.9)	(9.7)
Discounts	(8.0)	(9.2)	(15.6)	(18.4)	(19.3)	(11.0)	(5.7)	(6.4)	(3.7)
	<u>(36.2)</u>	<u>(43.4)</u>	<u>(48.7)</u>	<u>(59.2)</u>	<u>(71.9)</u>	<u>(41.1)</u>	<u>(17.3)</u>	<u>(23.3)</u>	<u>(13.3)</u>
Net operating revenues	<u>363.6</u>	<u>448.0</u>	<u>528.3</u>	<u>670.5</u>	<u>858.8</u>	<u>491.0</u>	<u>188.9</u>	<u>256.7</u>	<u>146.8</u>
Cost of services	<u>(256.9)</u>	<u>(306.5)</u>	<u>(362.4)</u>	<u>(443.5)</u>	<u>(584.6)</u>	<u>(334.2)</u>	<u>(124.4)</u>	<u>(170.9)</u>	<u>(97.7)</u>
Gross profit	<u>106.7</u>	<u>141.5</u>	<u>165.9</u>	<u>227.0</u>	<u>274.2</u>	<u>156.8</u>	<u>64.5</u>	<u>85.9</u>	<u>49.1</u>
Other operating income (expenses):									
Selling, general and administrative expense . . .	(50.7)	(88.8)	(88.7)	(151.1)	(171.6)	(98.1)	(36.9)	(43.4)	(24.8)
Net financial expense	(21.9)	(27.9)	(21.0)	(10.8)	(22.5)	(12.9)	(2.4)	(11.1)	(6.3)
Amortization of goodwill . . .	(43.2)	(42.8)	(35.7)	(30.1)	(53.3)	(30.4)	(9.4)	(18.0)	(10.3)
Other operating income (expenses)	3.4	1.1	0.8	1.7	3.6	2.1	(0.3)	(0.7)	(0.4)
Operating income (loss)	<u>(5.7)</u>	<u>(16.9)</u>	<u>21.2</u>	<u>36.8</u>	<u>30.5</u>	<u>17.5</u>	<u>16.1</u>	<u>14.1</u>	<u>8.1</u>
Non-operating loss	<u>(2.8)</u>	<u>(1.1)</u>	<u>(0.5)</u>	<u>(0.8)</u>	<u>(1.5)</u>	<u>(0.9)</u>	<u>(0.5)</u>	<u>(1.8)</u>	<u>(1.0)</u>
Income before income and social contribution taxes . .	<u>(8.5)</u>	<u>(18.0)</u>	<u>20.7</u>	<u>36.0</u>	<u>29.0</u>	<u>16.6</u>	<u>15.5</u>	<u>12.3</u>	<u>7.1</u>
Income tax and social contribution	—	(0.9)	(10.4)	(19.4)	28.0	16.0	33.4	(3.7)	(2.1)
Minority interest	—	—	(0.1)	(0.1)	(0.4)	(0.2)	—	(0.4)	(0.2)
Net income (loss)	<u>R\$ (8.5)</u>	<u>R\$ (18.9)</u>	<u>R\$ 10.2</u>	<u>R\$ 16.5</u>	<u>R\$ 56.6</u>	<u>US\$ 32.4</u>	<u>R\$ 49.0</u>	<u>R\$ 8.3</u>	<u>US\$ 4.7</u>

	As of December 31,						As of March 31,		
	2003	2004	2005	2006	2007	2007	2007	2008	2008
	(R\$ millions)	(R\$ millions)	(R\$ millions)	(R\$ millions)	(R\$ millions)	(US\$ millions)	(R\$ millions)	(R\$ millions)	(US\$ millions)
Balance sheet data									
Assets									
Cash and cash equivalents	R\$ 3.5	R\$ 2.9	R\$ 4.5	R\$ 7.2	R\$ 23.0	US\$ 13.1	R\$ 4.7	R\$ 16.2	US\$ 9.2
Short-term marketable securities	25.2	123.3	48.2	325.5	23.4	13.4	292.7	32.7	18.7
Trade accounts receivable, net	72.8	104.1	116.4	138.6	205.3	117.4	153.1	221.7	126.7
Inventories	14.4	15.1	18.2	20.7	33.5	19.1	21.0	31.7	18.1
Recoverable taxes	7.7	18.2	16.3	16.7	37.8	21.6	25.5	44.8	25.6
Other accounts receivable	2.7	9.4	3.8	6.3	11.1	6.3	6.4	8.4	4.8
Prepaid expenses	0.3	0.9	0.8	5.2	1.7	1.0	3.9	4.4	2.5
Current assets	126.6	274.4	208.1	520.3	335.8	192.0	509.0	359.9	205.8
Long-term marketable securities	5.0	7.8	16.3	28.2	80.7	46.1	30.0	82.6	47.2
Deferred taxes	—	—	—	—	48.5	27.7	46.0	55.2	31.6
Prepaid expenses	—	—	—	—	2.2	1.3	—	2.0	1.1
Judicial deposits	3.5	3.7	3.0	2.1	7.2	4.1	2.2	7.5	4.3
Long-term assets	10.8	13.0	19.3	30.3	138.7	79.3	78.2	147.4	84.3
Investments	8.7	26.3	78.9	120.9	247.4	141.5	113.5	231.4	132.3
Property, plant and equipment and intangible assets, net	144.1	174.9	213.8	289.5	426.6	243.9	305.4	454.2	259.7
Deferred charges	64.5	43.0	62.2	57.7	69.9	39.9	57.0	63.2	36.1
Fixed assets	217.3	244.2	355.0	468.0	743.9	425.3	476.0	748.8	428.1
Total assets	R\$354.7	R\$531.6	R\$582.4	R\$1,018.7	R\$1,218.5	US\$ 696.6	R\$1,063.1	R\$1,256.0	US\$ 718.1
Liabilities									
Accounts payable to suppliers	R\$ 18.3	R\$ 20.8	R\$ 27.0	R\$ 34.0	R\$ 52.8	US\$ 30.2	R\$ 27.5	R\$ 41.4	US\$ 23.7
Loans and financing	31.9	28.0	75.4	59.2	98.0	56.0	46.6	102.2	58.4
Taxes and contributions payable	3.3	6.3	4.0	5.2	9.9	5.7	13.3	12.6	7.2
Income tax and social contribution	—	0.9	1.1	1.0	6.6	3.8	—	13.7	7.9
Salaries, social charges and vacation payable	12.1	14.0	21.2	26.1	35.5	20.3	24.0	40.7	23.2
Payment of tax in installments	4.2	6.2	5.6	5.5	6.8	3.9	5.4	5.8	3.3
Accounts payable from acquisition of subsidiaries	8.9	20.0	8.7	18.1	9.7	5.5	10.0	10.8	6.2
Debentures	—	—	—	6.6	5.5	3.2	—	—	—
Dividends payable	—	—	—	0.5	13.4	7.7	—	13.4	7.7
Other accounts payable	9.3	15.2	10.7	13.3	17.2	9.9	23.8	21.4	12.2
Current liabilities	R\$ 88.0	R\$111.4	R\$153.6	R\$ 169.5	R\$ 255.4	US\$ 146.0	R\$ 150.6	R\$ 262.1	US\$ 149.8
Loans and financing	70.3	105.2	78.3	73.4	100.3	57.3	277.5	117.6	67.2
Payment of tax in installments	13.2	18.4	16.4	17.0	15.1	8.6	16.0	14.2	8.1
Provision for contingencies	28.4	32.7	33.1	55.9	81.4	46.5	67.6	86.4	49.4
Accounts payable from acquisition of subsidiaries	20.2	19.7	34.7	31.2	50.6	28.9	33.4	51.7	29.5
Debentures	—	—	—	202.5	202.5	115.8	—	202.5	115.8
Long-term liabilities	R\$132.1	R\$176.0	R\$162.5	R\$ 380.0	R\$ 449.9	US\$ 257.2	R\$ 394.4	R\$ 472.2	US\$ 270.0
Minority interests	—	—	0.4	—	0.7	0.4	—	1.0	0.6
Capital	27.3	216.1	216.1	402.1	402.1	229.9	402.1	402.1	229.9
Capital reserves	115.8	52.6	64.1	65.4	65.4	37.4	65.5	65.4	37.4
Profit reserves	—	—	—	0.1	2.9	1.7	—	2.9	1.7
Retained earnings (accumulated losses)	(8.5)	(24.5)	(14.3)	1.6	41.9	24.0	50.6	50.2	28.7
Shareholders' equity	134.6	244.3	266.0	469.2	512.4	292.9	518.2	520.6	297.7
Total liabilities and shareholders' equity	R\$354.7	R\$531.6	R\$582.4	R\$1,018.7	R\$1,218.5	US\$ 696.6	R\$1,063.1	R\$1,256.0	US\$ 718.1

Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion should be read in conjunction with our consolidated financial statements and the notes thereto, which are included elsewhere in this offering memorandum and have been prepared in accordance with Brazilian GAAP, which differs in certain significant respects from U.S. GAAP. For a description of certain differences between U.S. GAAP and Brazilian GAAP as they relate to our audited consolidated financial statements, see Annex A.

The following discussion includes the results of operations and financial condition of DASA Real Estate, which we expect will be designated an "unrestricted subsidiary" in the indenture relating to the notes.

Overview

We believe we are the largest medical diagnostics company in Brazil and among the five largest publicly traded medical diagnostics companies in the world, in each case based on revenues for the year ended December 31, 2007. We operate in nine Brazilian states and the Federal District through 17 distinct brands. At March 31, 2008, we had 10,312 employees and 269 outpatient service centers (of which 18 were franchisees), including 34 "mega centers" of over 1,500 square meters. In 2007, we processed over 15.1 million test requisitions, an increase of 62.9% compared to 2006.

We are present throughout Brazil and maintain service centers in the states of Bahia, Ceará, Goiás, Paraná, Rio de Janeiro, Santa Catarina, São Paulo, Minas Gerais and Tocantins and in the Federal District. According to data from the IBGE, these regions accounted for 66.5% of the Brazilian population in 2007 and accounted for 76.9% of Brazil's GDP in 2005. Our laboratory-to-laboratory business processes samples for over 2,600 laboratories located throughout Brazil.

We perform all our diagnostic services with the same quality and care, although our patient service centers are segmented according to the amenities they offer our patients. Our *Club DA* premium brand of patient service centers offer clinical and diagnostic services in attractive surroundings, providing patients with fast, highly personalized, sophisticated service. Our executive level *Delboni Auriemo* patient service centers in greater São Paulo, São Paulo; *Lâmina* centers in greater Rio de Janeiro, Rio de Janeiro; *Frischmann Aisengart* centers in greater Curitiba, Paraná; *Image Memorial* centers in greater Salvador, Bahia; *LabPasteur* centers in greater Fortaleza, Ceará; *VitaLâmina* centers in greater Florianópolis, Santa Catarina; *Atalaia* centers in greater Goiânia, Goiás; and *Exame* centers in greater Brasília, Federal District, offer a wide variety of medical diagnostic services in an attractive, relaxing environment. Our *Lavoisier* patient service centers in greater São Paulo, São Paulo; *Bronstein* centers in greater Rio de Janeiro, Rio de Janeiro; *Curitiba Santa Casa* centers in greater Curitiba, Paraná; *Pasteur* centers in greater Brasília, Federal District, *MedLabor* centers in greater Palmas, Tocantins and *Med Imagem* centers in Niterói, greater Rio de Janeiro, offer a more limited array of diagnostic tests onsite, referring other tests to our other centers of the same brand, and more limited amenities for patients awaiting tests.

We entered the laboratory-to-laboratory services business in December 2005 when we acquired Alvaro, which is a provider of processing and analysis services to more than 2,600 small- and medium-sized laboratories, throughout Brazil.

In July 2007, we acquired CientíficaLab, a provider of clinical analysis to state and municipal government hospitals and clinics. CientíficaLab has contracts with 47 institutions, of which 32 are municipal and 12 are state hospitals and clinics in São Paulo, Rio de Janeiro and Minas Gerais. Under these contracts, CientíficaLab supports and, in some cases, operates more than 700 facilities.

Recent developments in Brazilian accounting rules

In order to update Brazilian GAAP and bring them closer to International Financial Reporting Standards, or "IFRS," the Brazilian government recently enacted Law No. 11,638 on December 28, 2007 (Law No. 11,638),

which amended the Brazilian Corporation Law and other applicable law. Law No. 11,638 modifies the presentation of the income statement and the balance sheet and sets forth new valuation criteria for assets and liabilities.

The new law came into force on January 1, 2008 and will affect how we present our financial information beginning with the financial statements for the year ended on December 31, 2008.

In addition, on July 13, 2007, the CVM issued Ruling 457, pursuant to which companies listed on the *Bolsa de Valores de São Paulo* (the São Paulo Stock Exchange, or “BOVESPA”) will be required to report financial statements in accordance with IFRS beginning with the financial statements for the year ended December 31, 2009. The CVM and the *Comitê de Práticas Contábeis* (the Committee on Accounting Practices, or “CPC”) will issue further rules to implement specific provisions of Law No. 11,638. Therefore, there may be further changes to our financial disclosure as a result of those regulatory changes.

In accordance with the changes outlined above, we will continue to publish financial statements prepared in accordance with Brazilian GAAP, but beginning in the first quarter of 2010, we will no longer present our financial statements reconciled with U.S. GAAP but will instead present our financial statements in accordance with IFRS.

Brazilian macroeconomic conditions

Demand for our services is directly related to the level of economic activity, growth and unemployment in Brazil. For example, greater economic activity and growth, together with lower unemployment rates, often translates into greater levels of formal employment and more Brazilians with access to private healthcare plans.

In 2005, Brazilian political and economic conditions were affected by accusations of corruption against members of the executive and legislative branches of the Brazilian government and by the Central Bank’s effort to a lower annual inflation target of 4.5%. To reach this target, the Central Bank kept interest rates at high levels throughout most of 2005. However, in November 2005, an economic slowdown led the government to reduce the *Sistema Especial de Liquidação e Custódia* (the basic interest rate, or “SELIC”) in an attempt to stimulate economic growth. On December 31, 2005, the SELIC was 18.0% per year. The *real* appreciated by 11.8% against the U.S. dollar during 2005. Despite this appreciation, Brazil generated a trade surplus of US\$44.7 billion. The average unemployment rate decreased from 11.5% to 9.8% in the main metropolitan regions of Brazil, and GDP grew 3.2% in 2005 according to the IBGE. Inflation, as measured by the *Índice Nacional de Preços ao Consumidor* (the National Extended Consumer Price Index, or “IPCA”), was 5.7%, and the *Taxa de Juros de Longo Prazo* (the average Brazilian long-term interest rate, or “TJLP”) was 9.8%.

In 2006, the presidential elections did not adversely impact macroeconomic conditions in Brazil. Despite continuing accusations of corruption against government officials and the resignation of the Minister of Finance, Antônio Pallocci, the *real* remained strong and appreciated 8.7% against the U.S. dollar. Brazil achieved its highest trade surplus ever, in the amount of US\$46.5 billion in 2006. Country risk, as measured by the EMBI+ index (Emerging Markets Bond Index Plus), closed the year at 192 points. The average unemployment rate increased from 9.8% in 2005 to 10% in 2006 in the main metropolitan regions of Brazil, and GDP grew 3.7% in 2006, according to the IBGE. Inflation, as measured by the IPCA, averaged 3.1% during the year, below the 4.5% target established by the government, and the average TJLP interest rate was 7.9% for the same period.

In 2007, the rate of economic growth and monetary stability in Brazil increased. During this period, Brazil’s international reserves reached US\$180.3 billion. Economic growth continued accelerating, supported by further reductions in the SELIC rate, which on December 31, 2007 was 11.25%, and an increase in credit availability. In 2007 the Brazilian trade surplus was US\$40 billion. The average unemployment rate decreased from 10% on December 31, 2006 to 9.3% on December 31, 2007 in the main metropolitan regions of Brazil, according to the IBGE. Inflation, as measured by the IPCA, closed the period ended December 30, 2007 at 4.5%, and the average TJLP interest rate was 6.37% for the same period.

In the first quarter of 2008, the economic production data indicated an increase in domestic demand. In order to reduce the risk of inflation pressures, the Central Bank's *Comitê de Política Monetária* (Committee on Monetary Policy, or "COPOM") decided to increase the SELIC rate on April 16, 2008 to 11.75%. In the first quarter of 2008, the Brazilian trade surplus was US\$2.84 billion, and international reserves reached US\$195.2 billion. The average unemployment rate decreased from 9.3% on December 31, 2007 to 8.35% on February 29, 2008 in the main metropolitan regions of Brazil, according to the IBGE. Inflation, as measured by the IPCA, was 1.5% for the three months ended March 31, 2008.

Effects of exchange variations

The table below sets forth GDP growth, inflation, interest rates and the U.S. dollar exchange rate for the periods indicated:

	As of and for the Year Ended December 31,			As of and for the Three Months Ended March 31,
	2005	2006	2007	2008
GDP growth(1)	2.9%	3.7%	5.4%	NA(2)
Inflation (IGP-M)(3)	1.2%	3.8%	7.7%	2.4%
Inflation (IPCA)(4)	5.7%	3.1%	4.5%	1.5%
INPC(5)	5.1%	2.8%	5.2%	1.7%
SELIC(6)	19.1%	15.3%	11.3%	11.8%
TJLP(7)	9.8%	7.9%	6.4%	6.3%
Appreciation (devaluation) of the <i>real</i> vs. the U.S. dollar in the given period	12.1%	8.6%	17.2%	14.7%
Exchange rate at period end—US\$1.00	R\$ 2.3	R\$ 2.1	R\$1.771	R\$1.7491
Average exchange rate—US\$1.00(8)	R\$ 2.4	R\$ 2.2	R\$1.948	R\$1.7076

Sources: Fundação Getulio Vargas, *Instituto de Pesquisa Econômica Aplicada* (Institute for Applicable Economic Research), Instituto Brasileiro de Geografia e Estatística, Sistema de Contas Nacionais Referência 2000 (IBGE/SCN 2000 Annual), Central Bank and Bloomberg.

- (1) GDP is measured by the IBGE.
- (2) Not available.
- (3) The IGP-M is the general market price index measured by the Fundação Getulio Vargas.
- (4) The IPCA is a broad consumer price index measured by the IBGE.
- (5) The *Índice Nacional de Preços do Consumidor* (National Consumer Price Index, or "INPC"), is published by the IBGE and measures inflation rates for families with a household income between one and eight times the minimum wage in the nine largest metropolitan areas of Brazil, as well as in the capital of Brazil, Brasília, and the city of Goiânia, in the midwestern region of Brazil. As of December 31, 2007, the minimum wage was R\$380.00.
- (6) SELIC stands for the basic interest rate or *Sistema Especial de Liquidação e Custódia*.
- (7) The TJLP is the long-term interest rate published every quarter by the Central Bank. It is an average of the long-term interest rate in the period indicated.
- (8) Average exchange rate for the period indicated.

The results of our operations and the financial condition of our company are impacted by fluctuations in inflation rates. Most of our costs and expenses are incurred in *reais*, and are linked to inflation indexes, such as the IGP-M, INPC and IPCA, or readjusted based on fluctuations in exchange rates. In the last three years, these costs and expenses were readjusted (based on indexes such as IGP-M, INPC and IPCA), on average, at levels lower than those of the fluctuation of these rates.

Our contracted services and utilities (property rent, electricity, telephone, water and gas) expenditures represented approximately 31.4% of our cost of services in 2007. These expenditures are indexed to inflation, primarily using the IGP-M rate. Our expenditures for clinical and imaging materials represented approximately 27.2% of our total service costs in 2007.

Since we are a service provider, personnel expenses represented approximately 29.7% of our cost of services in 2007 and 41.4% of our selling, general and administrative expenses. In Brazil, salaries are generally adjusted once a year based on collective bargaining agreements between employers and unions. Generally, unions follow the INPC as a benchmark in their negotiations.

The results of our operations and our financial condition have also been affected by fluctuations of the *real*-U.S. dollar exchange rate. In 2007, approximately 28.4% of the total supplies purchased was linked to the *real*-U.S. dollar exchange rate. Of these U.S. dollar-linked expenses, a major portion represented costs of reagents used in our clinical laboratory tests, materials needed for conducting diagnostic imaging tests and other costs related to imported materials and supplies. In addition, we had R\$91.6 million and R\$97.1 million in U.S. dollar-denominated indebtedness at December 31, 2006 and 2007, respectively, which represented 22.1% and 19.9%, respectively, of our gross indebtedness. At March 31, 2008, we had R\$97.5 million in U.S. dollar-denominated indebtedness, which represented 19.3% of our gross indebtedness. At March 31, 2008, 23.9% of our U.S. dollar debt exposure was hedged through cashless swap transactions in which we swap liabilities denominated in U.S. dollars for liabilities denominated in *reais* that bear interest at a rate based on the *Certificado de Depositário Interbancário* (Interbank Deposit Certificate, or “CDI”) rate, an interbank rate.

Principal trends

Growth in gross operating revenues

From 2005 to 2007, our net operating revenues increased at a compounded annual average growth rate of 27.5%. In 2007, gross operating revenues increased 27.5% as compared to 2006 and 26.5% in 2006 as compared to 2005. This growth resulted principally from the following factors:

- ***Market growth captured through organic growth.*** Increased demand for medical diagnostic services in Brazil is primarily a result of (1) the aging Brazilian population who generally demand greater medical resources, (2) a trend towards preventive medicine that relies on testing and treatments that require frequent monitoring and testing, (3) increasing recognition of the importance of diagnostic services in assisting medical decisions and (4) the development of new medications and tests used in the diagnosis of illnesses in their preliminary stages. To capture this growth in demand, we have pursued an aggressive plan for organic growth, opening 100 new patient service centers (representing 31.2% of our gross operating revenues in 2007 (including on-site hospital clinics)) since January 1, 1999. In 2007, approximately 18.1% of our gross operating revenues were attributable to patient service centers we opened before January 1, 1999. From 1999 to 2007, revenues from patient service centers we opened before January 1, 1999 increased at an average annual growth rate of 9.6%.
- ***Strategic acquisitions.*** Since 1999, we have made a number of strategic acquisitions of companies operating in the Brazilian medical diagnostics market. Our expansion through acquisitions has sustained two important pillars of our growth strategy: (1) entry into markets in which we do not operate and (2) strengthening our market position in regions where we already operate. During the past nine years, we acquired 17 companies, including clinical analysis laboratories and diagnostic imaging service companies. In 2007, approximately 50.7% of our gross operating revenues were attributable to 176 patient service centers or operations acquired since 1999.
- ***Diversification of services.*** The choice of services offered in our patient service centers has steadily expanded as we have introduced a broader array of diagnostic imaging tests and added new services such as vaccines. Our diagnostic imaging services have expanded most significantly. These services, which generated approximately 60% of the gross revenues of Brazil’s medical diagnostics industry in 2005, according to estimates provided by third-party consultants contracted by Pátria, the most recent

data available, represent a strong potential for our growth. In addition, the increase in diagnostic imaging services has proven to be an important factor in attracting and retaining clients. The portion of our gross operating income attributable to these services increased from 30.9% in 1999 to 37.6% in 2007.

We have experienced an increase in our average revenue per requisition in the companies and brands acquired before 2005, which increased 2.3% from 2005 to 2007 as a result of (1) the expansion of the range of services offered, (2) an increase in the number of tests per requisition resulting from greater needs of the aging population and the trend toward preventive medicine, (3) the increased proportion of requisitions for diagnostic imaging tests, which have a higher average price per test, and (4) the introduction of new and more complex tests, which are generally more expensive. However, if we consider our company on a consolidated basis, including all companies we have acquired, the average gross operating revenue per requisition in 2007 decreased 4.7% compared to 2006 and 0.5% in 2006 compared to 2005. This has occurred due to a change in revenue mix, since we have mostly acquired companies that provide clinical analysis services, which have lower average prices, impacting our overall price average.

Our gross operating revenues have experienced growth despite the fact that our prices for services rendered remained relatively stable. Almost all our gross operating revenues are denominated in *reais*.

Acquisitions in the past three years

When we became a publicly traded company in Brazil in 2005, we made clear to the market our commitment to strategic acquisitions of clinical analysis laboratories and diagnostic imaging service companies, both to strengthen our presence in markets where we already operated and to expand our geographic penetration into new markets. We acquired Pasteur in April 2005, Frischmann Aisengart in July 2005, Image Memorial in October 2005, Alvaro in December 2005, LabPasteur in June 2006, MedLabor in July 2006, VitaLâmina and Atalaia in October 2006, Exame in May 2007, CientíficaLab in July 2007 and Med Imagem in August 2007.

The acquisition of Pasteur, located in Brasília, Federal District, facilitated our entry into an important medical diagnostics market in Brazil with high purchasing power. The acquisition of Frischmann Aisengart, in turn, allowed us to consolidate our operations in Curitiba, Paraná, and create a platform for the expansion of our diagnostic imaging services. The acquisition of Image Memorial marked the entry of our company into Bahia, today the sixth largest private medical market in the country in terms of number of individuals living in the area, according to IBGE. At the end of 2005, our company took another important step by acquiring Alvaro, whose principal business is processing and testing services for more than 2,600 small and medium-sized laboratories throughout Brazil.

With the acquisition of LabPasteur, we established a clinical analysis presence in the Northeast of Brazil. In July 2006, we acquired MedLabor, our second acquisition in Brasília, Federal District, aiming to improve the services provided to the patients in the region. In October 2006, the acquisition of VitaLâmina represented the commencement of our activities in Florianópolis, Santa Catarina, one of the five largest markets in the Brazilian private healthcare market. We also acquired Atalaia in Goiânia, Goiás, where around 23.2% of the population is covered by health insurance plans, according to the ANS and IBGE. With the acquisition of Exame in May 2007, our third acquisition in Brasília, we strengthened our market position in the Federal District. By acquiring CientíficaLab, a privately-owned service provider in the public healthcare sector, we entered a segment that we expect will become an important growth driver for the Company's strategic plan. The last acquisition of 2007 was Med Imagem in Niterói, in greater Rio de Janeiro, which will help us leverage our presence in the Niterói and São Gonçalo regions and reinforce our multi-product strategy in Rio de Janeiro.

We believe that these acquisitions will contribute to the growth of our gross operating revenues in the coming years. In 2007, gross operating revenues of R\$309.6 million were attributable to companies we have acquired since 2005. Initially, however, the companies we acquire generally have a negative effect on our consolidated margins until they are completely integrated into our operations and generally have margins that, on average, are lower than ours. This occurs, in part, because these companies have lower economies of scale and

smaller volumes compared to ours. In addition, the expenses incurred in integrating these companies and reorganizing them to operate within our company's business model negatively affects our costs and expenses. Thus, in the months initially following an acquisition, we generally experienced a decrease in our operating margins.

The integration process depends on a variety of factors, including the size of the company acquired and the degree of its professionalism and efficiency, and generally takes between 12 and 18 months from the date of acquisition. We conduct a step-by-step integration so that we adapt the acquired company gradually to our standards without compromising our quality. During the first six months following an acquisition, we focus our integration efforts on an acquired company's production areas by streamlining processes, centralizing the purchases of materials and renegotiating contracts with suppliers. At the same time, we standardize back office operations and create synergies among our new and pre-existing facilities and the regions they covered.

The chart below sets forth certain financial and other data relating to the companies we acquired in 2007:

	Financial and Other Data Regarding 2007 Acquisitions		
	Exame (May 2007)	CientificaLab (July 2007)	Med Imagem (August 2007)
Net operating revenues (R\$ millions):			
Three months ended December 31, 2007	9.0	24.9	7.3
Three months ended March 31, 2008	9.7	32.4	7.8
Gross profit (R\$ millions):			
Three months ended December 31, 2007	3.0	8.3	4.0
Three months ended March 31, 2008	3.2	12.6	4.1
Total assets as of March 31, 2008 (R\$ millions)	15.2	50.2	14.9
Total liabilities as of March 31, 2008 (R\$ millions)	7.9	37.8	4.1
Number of facilities added	18	NA(1)	8
Number of requisitions per month	28,761	NA(2)	13,967
Average revenue per requisition (R\$)	119.7	NA(2)	197.4

- (1) DASA operates in more than 400 facilities through CientificaLab; however, none of these patient service centers is owned by DASA.
- (2) Numbers are not available since we do not use "requisitions" as a measurement in our public sector business.

The principal reasons for the large differences in average revenue per test set forth in the table above are (1) the number of tests performed, (2) the client for whom the test is performed and (3) the nature of the different tests performed. CientificaLab performs a very high number of tests for each client and the clients are all governmental entities, for which the pricing per test is fixed by the SUS. The higher average revenue per test attributed to Med Imagem is due to the fact that Med Imagem only performs imaging tests and Exame performs only clinical analysis tests.

Business drivers and measures

In pursuing our business and our financial policies and objectives, we focus on a number of performance measures and operational factors.

Our outpatient and inpatient revenues are derived mainly from private health insurance providers, company-sponsored insurance plans, health maintenance organizations (HMOs), physician-managed medical cooperatives, hospitals and individual patients. Our laboratory-to-laboratory services revenues are derived primarily from esoteric tests, in the case of large labs, from both esoteric and more routine tests, in the case of medium-sized

labs, and from routine tests in the case of small labs. Our public sector revenues are derived from state and municipal government hospitals and clinics.

Our expenses are described above under “—Overview—Effects of exchange variations and inflation” and below under “—Description of principal line items.”

We use a variety of metrics to monitor our performance and financial condition, including those described below:

- **Revenue measures:** Our revenues from these services are primarily a function of:
 - *Outpatient and inpatient services:*
 - approximately 60% of the gross revenues of the Brazil’s medical diagnostics industry were derived from imaging tests, and the remaining 40% from clinical analysis tests in 2005, according to estimates provided by third-party consultants contracted by Pátria. In 2007, imaging tests represented 37.6% of our gross operating revenues and the remaining 62.4% were derived from clinical analysis tests. Our objective is to increase the proportional part of our gross operating revenues derived from imaging tests because imaging tests generally have a higher margin;
 - the number of requisitions for tests and the average revenue per requisition; and
 - the number of patient service centers at which we provide services.
 - *Public sector services:*
 - the number of our contracts with federal, state and municipal hospitals and clinics and the number of patient service centers we service per contract; and
 - the number of requisitions for tests and the average revenue per test.
 - *Laboratory-to-laboratory services:*
 - the number of laboratories we serve, which is currently over 2,600; and
 - average revenue per laboratory.
- **Expense measures:** Our expenses are driven primarily by the following factors:
 - *General:*
 - the cost of supplies needed for the tests we perform, such as films, contrast agents and collection materials, which are higher as a percentage of gross operating revenues for our laboratory-to-laboratory and public sector businesses than for our inpatient and outpatient businesses;
 - salaries and benefits for our employees, which tend to be higher for our public sector business than our private inpatient and outpatient businesses primarily due to the higher number of facilities they serve;
 - fees paid to the doctors from the physicians organizations who analyze our diagnostic imaging tests;
 - other operating expenses, including contract services, utilities, professional fees, marketing expenses, repairs and maintenance; and
 - general expenses such as corporate insurance, personal protective equipment (PPE) and fees to labor unions (such as annual membership payments).
 - *Integration-related expenses:*
 - *Private sector:* When we acquire a company, we initially have higher costs related to:
 - training in corporate governance, transparency, corporate culture and quality control;

- liquidating debt and outstanding tax payments of the acquired entity; and
- restructuring of the business and human resources.
- *Public sector:* When we assume the management of a testing center or laboratory inside a public hospital, we have higher initial expenses related to renovation, refurbishment, equipment and training of employees.
- *Interest expenses:* As a result of this transaction, we will have increased interest expenses due to the payment of interest on the notes.
- *Amortization of goodwill:* Under Brazilian GAAP, the amount we pay for companies we acquire above the book value of their shareholders' equity, as reflected on their balance sheets, is recorded on our consolidated balance sheet as goodwill. We amortize the goodwill resulting from our acquisitions in our income statement over a five year period. Our goodwill amortization charges were R\$35.7 million in 2005, R\$30.1 million in 2006 and R\$53.3 million in 2007. These non-cash charges reduce our taxable income.
- **Other:**
 - *Capital expenditures:* Our most significant capital expenditures are currently related to acquisition activity; purchases of diagnostic imaging and other equipment; construction of a new call center in São Paulo; construction of a new central lab in São José dos Pinhais, in greater Curitiba; and construction of new service centers and the remodeling of service centers we acquire. The shift from analog to digital technology, a trend that has influenced the diagnostic imaging industry around the world, has increased our capital expenditures in recent years. Our recent expenditures have also included the construction of an imaging report center where doctors responsible for diagnostic imagings are able to review the images collected at our numerous service centers and issue their reports. The creation of a central imaging report center allows our doctors to consult with each other in person and in real time and allows us to reduce our transportation expenses, as doctors no longer have to commute among our different service centers.
 - *Working capital:*
 - We closely monitor our accounts receivable as an important component of our working capital; and
 - Our levels of working capital tend to decrease when we acquire a new company because it often takes a period of a few months after we acquire a company to bring their collection and accounts receivables aging standards closer to ours.

Description of principal line items

Gross operating revenues

Our gross operating revenues consist of payments received from private health plans (which consist of health insurance companies, HMOs, company-sponsored insurance plans and physician-managed medical cooperatives), hospitals, individual patients, laboratories and the public health system. See "Description of Our Business—Payers and Clients." Substantially all of our gross operating revenues are in *reais*. We recognize revenues on an accrual basis. Approximately 81.4% of our gross operating revenues in the fourth quarter of 2007 were derived from outpatient and inpatient services, approximately 8.2% from laboratory-to-laboratory services and 10.4% from public sector services. We are presenting these percentages based on the fourth quarter of 2007 because this quarter reflects the acquisition of CientificaLab.

Sales taxes

In addition to income taxes, which are described below under "—Income taxes," we are subject to taxes assessed on our gross operating revenues.

The principal taxes on our gross operating revenues are:

- **PIS/COFINS.** The *Programa de Integração Social* (Social Integration Program, or “PIS”) and *Contribuição para o Financiamento da Seguridade Social* (Contribution for the Financing of Social Security, or “COFINS”) taxes are federal social contribution taxes levied on gross operating revenues. Our gross operating revenues are subject to PIS at a rate of 3.00% and COFINS at a rate of 0.65%. We are permitted to offset against our PIS and COFINS tax obligations the amount of these taxes withheld by the private healthcare plans, hospitals and laboratories in paying our invoices.
- **ISS.** The *Imposto Sobre Serviços* (Tax on Services, or “ISS”) is a municipal tax levied at varying rates on gross operating revenues derived services. We pay ISS depending on the municipality where the actual service is rendered. For clinical tests, the ISS is charged based on the location of our central laboratories. We pay 2.0% in the municipalities of Barueri, São José dos Pinhais, Fortaleza and Goiânia and in the Federal District, 5.0% in the municipality of Rio de Janeiro and less than 0.5% in Cascavel, Paraná, below the normal rate in that municipality of 2.0% because our operations in that city are mainly laboratory-to-laboratory services. For our diagnostic imaging tests, we pay the ISS tax rate charged by the municipality where our patient service center is located. For example, we pay ISS at a rate of 2.0% for diagnostic imaging tests performed in the municipalities of Barueri, São Paulo, Florianópolis and Salvador and in the Federal District and at a rate of 5.0% in the municipalities of Curitiba and Rio de Janeiro.

The table below shows the weighted average effective rates for these taxes for the periods indicated.

<u>Tax</u>	<u>Weighted Average Effective Rate for the Period</u>		
	<u>2005</u>	<u>2006</u>	<u>2007</u>
PIS(1)	0.64%	0.64%	0.62%
COFINS(1)	2.94	2.96	2.89
ISS(2)	2.07	2.01	2.13
Total	<u>5.65%</u>	<u>5.61%</u>	<u>5.65%</u>

- (1) The weighted average effective rate of PIS and COFINS includes the effect of minor adjustments to our PIS and COFINS obligations for prior periods due to rejections by payers of bills for those prior periods.
- (2) Average of all ISS charged by all municipalities.

These taxes are reflected in the “Sales taxes” line of our financial statements. Because we negotiate and determine our prices based on certain tax rates, fluctuations in our tax rates can have a significant effect on our results of operations.

Discounts

Discounts consist of disallowances relating to tests for which our payers refuse to pay for invoices we submit and for which we do not expect to receive payment. We closely monitor the volume of disallowances and adjust our reserves accordingly from time to time. See “—Discussion of critical accounting policies—Provisions for disallowances.”

Net operating revenues

Our net operating revenues consist of our gross operating revenues minus taxes and discounts.

Cost of services

Our cost of services includes both fixed and variable costs relating to the operation of our patient service centers, fixed and variable production costs incurred for clinical analysis and the performance of diagnostic

imaging tests and depreciation and amortization. The following table sets forth the principal components of our cost of services and the percentages represented by each for the year ended December 31, 2007:

<u>Cost of Services Offered</u>	<u>% of Total Costs</u>
Personnel costs	29.7%
Materials and supplies	27.2%
Services and utilities	31.4%
Depreciation and amortization	9.9%
General costs	0.8%
Total costs	<u>100.0%</u>

Patient service center costs. Patient service center costs consist of fixed and variable costs. Fixed costs include personnel costs and services and utilities, such as rent, contracted services and building maintenance. These costs are subject to adjustment based on fluctuations in the rate of inflation and increase with the opening of new patient service centers. Variable costs include materials used in the performance of clinical analysis and diagnostic imaging tests, which depend on our volume of requisitions and general costs, such as fees paid to our franchisees. The amounts we pay to our franchisees are variable, as they are calculated as a percentage of the revenues we receive through our franchisees.

Production costs. Our clinical production costs include reagents, laboratory personnel and the operating expenses of our laboratories. Clinical analysis is performed in a centralized manner in one of our eight central laboratories and 28 patient service centers located in hospitals and therefore may benefit from economies of scale and dilution of expenses incurred in connection with personnel, rent, expenses with utilities and contracted services. The cost of reagents is directly related to the volume of tests performed.

Our diagnostic imaging costs consist of equipment maintenance costs as well as the fees we pay to the physician’s organizations that we contract to analyze imaging texts. The diagnostic imaging tests that must be reviewed by a doctor in the presence of the patient are reviewed at our patient service centers while all other diagnostic imaging tests are analyzed at our centralized laboratories. We developed a new technology platform for sending digitalized images electronically that has generated new synergies. Equipment and physicians required for the performance of exams are located at our central laboratories, allowing us to bring physicians together to analyze exams, improving the quality of the tests and contributing to gains from economies of scale. A major portion of our costs is related to volume of exams performed, since the physicians’ organizations that analyze these tests are paid for services rendered. Our maintenance costs increase as we increase the capacity of our patient service centers.

Operating expenses (income)

Our operating expenses consist of selling, general and administrative expenses, depreciation and amortization, net financial expenses, goodwill amortization and other operational expenses.

- **Selling, general and administrative expenses.** Our selling, general and administrative expenses include (1) marketing, legal, finance, information technology, human resource, quality control, management and commercial expenses as well as expenses related to our call centers, (2) administrative expenses, including depreciation and amortization of property, plant and equipment not directly related to costs of production and (3) expenses related to acquisitions.
- **Net financial expenses.** Our financial expenses reflect primarily (1) the cost of long-term and short-term debt, (2) income from financial investments, (3) other charges paid to financial institutions and (4) currency gains or losses attributable to the effects of exchange rate fluctuations on our U.S. dollar-denominated debt. Our financial expenses include non-cash items, such as the effects of interest accrued on the outstanding balances of loans denominated in *reais*. For a description of our indebtedness, see “—Liquidity and capital resources—Debt and contractual commitments.”

- **Goodwill amortization.** Under Brazilian corporate law and Brazilian GAAP, the amount we pay for companies we acquire above the book value of shareholders' equity, as reflected on their balance sheets, is recorded on our consolidated balance sheet as goodwill. We amortize the goodwill resulting from our acquisitions over five years. The following table sets forth our monthly average amortization of goodwill for each acquired company as of December 31, 2007 and the date by which that goodwill will have been fully amortized. See “—Discussion of critical accounting policies—Goodwill.”

<u>Acquired Companies</u>	<u>Expiration Date</u>	<u>Monthly Average Amortization as of December 31, 2007</u>
		(R\$ thousands)
Santa Casa	January 2008	46
CRL	November 2008	155
Elkis e Furlanetto	May 2009	365
Pasteur	April 2010	131
Frischmann Aisengart	July 2010	530
Image Memorial	October 2010	527
Alvaro	December 2010	498
LabPasteur	June 2011	232
MedLabor	July 2011	99
VitaLamina	September 2011	79
Atalaia	October 2011	472
Exame	April 2012	710
CientíficaLab	July 2012	1,658
Med Imagem	August 2012	679
	Total	<u>R\$6,185</u>

Other operating revenues

Our other operating revenues include royalties received from franchisees.

Non-operating expenses

Our non-operating expenses consist primarily of gains or losses on the sale of property, plant and equipment.

Income taxes

We are subject to income and social contribution taxes on net income that, in the aggregate, amount to a maximum of approximately 34% of our income. The breakdown of this tax and social contribution is as follows: (1) ordinary income tax, levied at a rate of 15%, (2) an incremental percentage over the ordinary income tax, applicable to the portion of adjusted income that exceeds R\$240,000 per annum, levied at a rate of 10% and (3) the *Contribuição Social Sobre Lucro Líquido* (Social Contribution on Net Income, or “social contribution”), an additional tax on net income, levied at a rate of 9%. We are permitted to offset against our income tax and social contribution tax obligations the amount of any such taxes retained by private health plans, company-sponsored plans, public sector payers, hospitals and laboratories at the time they pay us.

Brazilian tax law permits us to deduct from our pretax earnings the amortized goodwill described in “—Operating expenses (income)—Goodwill amortization” over a minimum term of five years and a maximum of ten years and limited to 20% per year. As a result, we did not incur income and social contribution tax obligations in 2002 and 2003. We incurred R\$10.4 million in 2005, R\$19.4 million in 2006 and R\$28.0 million in 2007 in income and social contribution tax obligations.

Discussion of critical accounting policies

Critical accounting policies are those that are important to the portrayal of our financial condition and results of our operations and that require the most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. As the number of variables and assumptions affecting the possible future resolution of these uncertainties increases, those judgments become even more subjective and complex. In order to provide an understanding about how our management forms its judgments about future events, including the variables and assumptions underlying the estimates and the sensitivity of those judgments to different circumstances, we have identified the following critical accounting policies:

Property, plant and equipment

We record our property, plant and equipment at the cost of acquisition, formation or construction. We calculate depreciation of our property, plant and equipment using the straight-line method, taking into consideration the useful lives of our assets. Improvements of real property owned by third parties are amortized based on the term of the rent agreement or useful life of the asset, whichever is less.

	<u>Average Annual Depreciation Rate</u>
Diagnostic imaging and clinical analysis equipment	10.0%
Improvements to real estate	12.0%
Information technology equipment and systems	20.0%
Other expenditures	10.0%

Given the nature of our property, plant and equipment and the changes in technology and industry practice that may cause them to become obsolete before our original estimate, the estimated useful life of our property, plant and equipment is subjective and uncertain. If we make any material change in the estimate of the useful life of our assets and if the market conditions require a new valuation of our property, plant and equipment, expenses for depreciation, obsolescence of our assets and, consequently, the value of our property, plant and equipment, may be substantially different.

Goodwill

We record goodwill as the amount we pay for the companies we acquired above the book value of their shareholders' equity, as reflected on their balance sheets and we amortize that goodwill over five years. As of the date of each balance sheet, we must conduct an impairment analysis of goodwill. Goodwill amortization and its potential realization are determined based on the future expectation of cash flow generation relating to those assets. To the extent the amount of the goodwill recorded exceeds the expected realizable amount, we are required to reduce the goodwill and recognize the corresponding impairment. To determine the impairment of goodwill, our management makes certain assumptions and estimates of cash flow projections related to our revenues, expenses and future investments. These assumptions and estimates may be influenced by several internal and external factors, such as, trends in the economy and in our industry, interest rates, changes in our strategy and changes in our services and products. The adoption of different assumptions and estimates could substantially affect our financial statements. For example, more conservative assumptions and estimates of projected cash flow could result in a lower realization of goodwill, which would affect operating results and shareholders' equity.

Provisions for disallowances

Disallowances are amounts under dispute between us and private healthcare plans, company-sponsored plans and hospitals, usually related to (1) operational issues, such as services rendered to the users of such entities without prior authorization, (2) commercial issues, such as new prices agreed to by us and these entities,

which have not been updated in the systems of both parties and (3) technical issues, such as conflicting interpretations of test requisitions. Provisions for disallowances are established on a monthly basis, based on our management's estimates of probable losses with respect to the amounts under negotiation. In the event the amount of our provisions for disallowances is less than the amounts we fail to receive, an increase in our provisions may be necessary. We do not establish provisions for disallowances for our public sector clients.

Provisions for doubtful accounts

We establish provisions for doubtful accounts based on our management's estimate of probable losses on accounts receivable. In this determination, we consider our history of losses, our experience in similar cases and the stage of the negotiation of the pending cases. This process requires a degree of discretion by our management given the uncertainty of the assumptions involved, such as the financial situation and strategy of our debtors, as well as commercial and economic trends. In the event the amount of our provisions for doubtful accounts is different from the amount actually received, an increase in our provisions may be necessary.

Contingency provisions

We disclose and make provisions for contingencies in our financial statements when one of our legal or administrative contingencies is, based on the assessment of our outside counsel, expected to result in probable losses. We establish our provisions based on the relevant facts and circumstances, such as judicial decisions that may have a material adverse effect on our results of operations and shareholders' equity. Although our management believes our existing contingency provisions are adequate, the facts on which our management bases its decisions could change in the future.

Deferred tax assets

We recognize deferred income and social contribution taxes to reflect future tax effects attributable to temporary differences between the tax bases of assets and liabilities and their book values. In 2007, based on our profitability history and expectation of generating future taxable income determined by a technical viability study approved by management, we recognized tax credits on income tax loss carry-forwards and the accumulated negative basis of social contribution tax, with no statutory limitation period. These credits can be used to offset 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.

Deferred charges

Pre-operating expenses are personnel, rent, utility and other expenses we incur prior to the inauguration of a new facility. In addition, we have a policy of deferring operating expenses of newly opened facilities during the first three months of operations of those facilities. We amortize our pre-operating expenses and the deferred operating expenses of newly opened facilities over an average period of eight years. The estimated average amortization period of these expenses involves a considerable amount of discretion. If our management significantly changes the assumptions underlying the amortization periods, our amortization expenses and, consequently, the net amount of our deferred charges may be materially different.

Limits on comparability of our financial statements

The comparability of our financial statements for the years ended December 31, 2005, 2006 and 2007 is limited because we acquired the following companies during those periods:

Pasteur. On April 4, 2005, we acquired Pasteur, a clinical analysis laboratory located in Brasília, Federal District. Pasteur's results of operations are included in our financial statements only for periods after April 1, 2005. Pasteur was merged into our company on August 1, 2005.

Frischmann Aisengart. On July 5, 2005, we acquired Frischmann Aisengart, a clinical analysis laboratory with operations in the city of Curitiba, Paraná. Frischmann Aisengart's results of operations are included in our financial statements only for periods after July 1, 2005. On August 2, 2005, we executed a stock purchase agreement with Mr. James Frischmann Aisengart, for, among other things, the acquisition of 1,628,427 nominative common shares of Frischmann Aisengart, representing 7.08% of its capital stock. On May 19, 2006, we acquired the remaining 7.08% of its Capital Stock.

Image Memorial. On October 17, 2005, we acquired Image Memorial, an imaging services company with operations in the city of Salvador, Bahia. Image Memorial's results of operations are included in our financial statements only for periods after October 1, 2005.

Alvaro. On December 21, 2005, we acquired Alvaro, a clinical analysis services company with headquarters in Cascavel, Paraná. Alvaro's results of operations are included in our financial statements only for periods after December 31, 2005.

LabPasteur. On June 15, 2006, we acquired LabPasteur, a company that provides clinical analysis services in Fortaleza, Ceará. LabPasteur's results of operations are included in our financial statements only for periods after July 1, 2006.

MedLabor. On June 27, 2006, we acquired MedLabor, a clinical analysis services company with operations in Brasília, Federal District, Valparaíso, Goiás and Palmas, Tocantins. MedLabor's results of operations are included in our financial statements only for periods after July 1, 2006.

VitaLamina. On October 5, 2006, we acquired VitaLamina, an imaging services company with operations headquarters in Florianópolis, Santa Catarina. VitaLamina's operations are included in our financial statements only for periods after October 1, 2006.

Atalaia. On October 26, 2006, we acquired Atalaia, a company that offers clinical analysis and imaging services in Goiânia, Goiás. Atalaia's results of operations are included in our financial statements only for periods after October 1, 2006.

Exame. On May 24, 2007 we acquired 85.71% of Exame, a clinical analysis services company with operations in Brasília, Federal District. Exame's results of operations are included in our financial statements only for periods after May 1, 2007. A portion of the Exame shares, representing 14.29% of the capital stock, was sold by the estate of a former partner of Exame, and the transfer of these quotas to our company is awaiting court authorization.

CientíficaLab. On July 19, 2007, we acquired CientíficaLab, which provides clinical analysis services to the SUS in the states of São Paulo, Rio de Janeiro and Minas Gerais. CientíficaLab's results of operations are included in our financial statements only for periods after July 1, 2007.

Med Imagem. On August 29, 2007, we acquired Med Imagem, a company that offers imaging services in the cities of Niterói, São Gonçalo and Rio de Janeiro, in Rio de Janeiro state. Med Imagem's results of operations are included in our financial statements only for periods after September 1, 2007.

Results of operations

Over the past three years, we pursued our growth strategy through the opening of new patient service centers and acquisitions of clinical analysis laboratories and diagnostic imaging companies, which resulted in significant revenue growth. However, the considerable costs associated with these acquisitions and the opening of new patient service centers, combined with our policy of maintaining stable pricing, offset a portion of the benefits gained from the decreases in fixed expenses at our patient service centers and from the development of

greater economies of scale in our central laboratories. Our selling, general and administrative expenses were affected by the expenses of our subsidiaries, given that full integration of these companies has not yet been completed.

The following table sets forth, for the periods indicated, certain items derived from our income statements, shown as a percentage of net operating revenues:

	Year Ended December 31,			Three Months Ended March 31,	
	2005	2006	2007	2007	2008
	(in percentages)				
Gross operating revenues	109.2	108.8	108.4	109.2	109.1
Deductions:					
Sales taxes	(6.3)	(6.1)	(6.1)	(6.2)	(6.6)
Discounts	(2.9)	(2.7)	(2.3)	3.0	(2.5)
	(9.2)	(8.8)	(8.4)	(9.2)	(9.1)
Net operating revenues	100.0	100.0	100.0	100.0	100.0
Cost of services	(68.6)	(66.1)	(68.1)	(65.8)	(66.5)
Gross profit	31.4	33.9	31.9	(34.2)	33.5
Other operating income (expenses):					
Selling, general and administrative expenses	(16.8)	(22.5)	(20.0)	(19.4)	(16.9)
Net financial expense	(4.0)	(1.6)	(2.6)	(1.3)	(4.3)
Amortization of goodwill	(6.8)	(4.5)	(6.2)	(5.0)	(7.0)
Other operating income	0.1	0.3	0.4	0.2	0.3
Operating income	4.0	5.5	3.6	8.5	5.5
Non-operating results	(0.1)	(0.1)	(0.2)	(0.3)	(0.7)
Income before income tax and social contribution	3.9	5.4	3.4	8.2	4.8
Income tax and social contribution	(2.0)	(2.9)	3.2	17.7	(1.5)
Net income	1.9	2.5	6.6	25.9	3.2

Three months ended March 31, 2008 compared to three months ended March 31, 2007

Gross operating revenues

Gross operating revenues increased by 35.8%, or R\$73.9 million, to R\$280.1 million in the three months ended March 31, 2008 from R\$206.2 million in the three months ended March 31, 2007. This increase was primarily due to:

- our entry into the public sector business in August 2007 and resulting receipt of R\$35.0 million in the three months ended March 31, 2008 through CientíficaLab;
- an increase in the gross operating revenue of our outpatient and inpatient businesses of 17.9%, or R\$33.8 million, to R\$222.9 million in the three months ended March 31, 2008 from R\$189.1 million in the three months ended March 31, 2007, primarily due to (1) same-unit growth (4.8%), (2) organic expansion (35 new patient service centers in the 15 months ended March 31, 2008) and (3) acquisitions (two new companies in the outpatient and inpatient services businesses since March 31, 2007, Exame and Med Imagem, that together contributed R\$18.7 million in revenues in the three months ended March 31, 2008). Organic growth led to an increase of 12.7% in gross revenue from clinical analysis as well as an increase of 26.7% in gross revenue from diagnostic imaging. As a result, diagnostic imaging as a percentage of our services increased to 39.5% in the three months ended March 31, 2008 from 36.8% in the three months ended March 31, 2007 and revenue from our standard brand segment

increased by 21.8% from period to period. This increase was primarily due to our acquisition of Med Imagem, the introduction of new services in our existing patient service units and the inauguration of 7 mega units during the 15 months ended March 31, 2008. The acquisition of Exame, in turn, led to an increase of 15.9% in revenue from our premium and executive brands; and

- an increase in the gross operating revenue in the laboratory-to-laboratory business of 29.6%, or R\$5.1 million, to R\$22.2 million in the three months ended March 31, 2008 from R\$17.1 million in the three months ended March 31, 2007, mainly due to (1) an increase in the number of tests available, fueling the number of requisitions per laboratory (which increased 36.5%) and (2) an expansion of geographical coverage, increasing the number of client laboratories by 21.7% and requisitions per laboratory by 12.2%.

Sales taxes

Sales taxes increased by 45.6%, or R\$5.3 million, to R\$16.9 million in the three months ended March 31, 2008 from R\$11.6 million in the three months ended March 31, 2007. This increase was primarily due to the increase in gross operating revenues and an increase in the ISS rate applicable to services performed in Barueri from 0.5% to 2.0%.

Discounts

Discounts increased by 12.2%, or R\$0.7 million, to R\$6.4 million in the three months ended March 31, 2008 from R\$5.7 million in the three months ended March 31, 2007. This increase was primarily due to the increase of gross operating revenues. However, discounts increased at a lower rate than gross operating revenues because of the increased proportion of gross operating revenues we derive from public sector and individual payers who tend to have a lower rate of rejections of our bills than private health plans.

Net operating revenues

Net operating revenues increased by 35.9%, or R\$67.8 million, to R\$256.7 million in the three months ended March 31, 2008 from R\$188.9 million in the three months ended March 31, 2007. This increase was primarily due to the increase in our gross operating revenues described above.

Cost of services

Cost of services increased by 37.4%, or R\$46.5 million, to R\$170.9 million in the three months ended March 31, 2008 from R\$124.4 million in the three months ended March 31, 2007. This increase was primarily due to the following factors:

- Our personnel costs increased by 43.8%, or R\$15.6 million, to R\$51.2 million in the three months ended March 31, 2008 from R\$35.6 million in the three months ended March 31, 2007 due to the opening of 35 new patient service centers in the 15 months ended March 31, 2008. In addition, CientíficaLab had higher personnel costs as a percentage of net operating revenues than our private outpatient and inpatient businesses during the three months ended March 31, 2008 primarily due to the higher number of facilities they service.
- Our costs related to materials increased by 43.1%, or R\$14.2 million, to R\$47.2 million in the three months ended March 31, 2008 from R\$33.0 million in the three months ended March 31, 2007, primarily due to the volume increase and growth in our laboratory-to-laboratory services business and inclusion of the costs from CientíficaLab in our results of operations. Material costs in both our laboratory-to-laboratory services business and our public sector business represent a greater percentage of gross operating revenue in those businesses than in our other businesses.
- Our service and utilities costs increased by 24.9%, or R\$10.5 million, to R\$52.5 million in the three months ended March 31, 2008 from R\$42.0 million in the three months ended March 31, 2007. This

line includes the operating costs of patient service centers and medical services associated with diagnostic imaging. The higher costs related to the opening of new units and new imaging test schedules. The increased costs related to the opening of new patient service centers and new imaging test schedules tend to decrease as we progress with the integration of acquired companies.

- Our depreciation and amortization costs increased by 39.4%, or R\$4.9 million, to R\$17.4 million in the three months ended March 31, 2008 from R\$12.5 million in the three months ended March 31, 2007 as a result of investments in the 35 new patient service centers opened in the 15 months ended March 31, 2008 and the fixed assets of companies acquired since March 31, 2007, as well as additions to their property, plant and equipment.
- Our general expenses rose by 103.7%, or R\$1.3 million, to R\$2.6 million in the three months ended March 31, 2008 from R\$1.3 million in the three months ended March 31, 2007. This line includes the expenses related to CientíficaLab's support operations, which did not exist in the same period in 2007. In addition, this line includes support expenses related to laboratory and patient service center activities, such as insurance, transport, meals and other expenses. Our general expenses also include expenses of our acquired companies that we record as general expenses until we are able to integrate their accounting systems into our accounting systems and allocate their expenses more specifically.

Gross profit

Gross profit increased by 33.1%, or R\$21.4 million, to R\$85.9 million in the three months ended March 31, 2008 from R\$64.5 million in the three months ended March 31, 2007. This increase was primarily due to the increase in the gross operating revenue described above, partially offset by higher costs related to new patient service centers and acquired companies.

Operating expenses (income)

Operating expenses increased by 48.2%, or R\$23.4 million, to R\$71.8 million in the three months ended March 31, 2008 from R\$48.4 million in the three months ended March 31, 2007. This increase was primarily due to:

- Selling, general and administrative expenses increased by 17.6%, or R\$6.5 million, to R\$43.4 million in the three months ended March 31, 2008 from R\$36.9 million in the three months ended March 31, 2007 due to an increase in expenses related to acquisitions and an increase in expenses from subsidiaries before they are integrated, requiring us to maintain multiple call centers, commercial teams and other staff before the integration process is complete.
- Net financial expenses increased by 358.6%, or R\$8.7 million, to R\$11.1 million in the three months ended March 31, 2008 from R\$2.4 million in the three months ended March 31, 2007 as a result of higher cash consumption due to acquisitions and organic expansion.
- Goodwill amortization expenses increased by 91.4%, or R\$8.6 million, to R\$18.0 million in the three months ended March 31, 2008 from R\$9.4 million in the three months ended March 31, 2007 as a result of the acquisition of Exame, Med Imagem and CientíficaLab between May and August 2007; and
- Other operating revenues increased by 138%, or R\$0.4 million, to R\$0.7 million in the three months ended March 31, 2008 from R\$0.3 million in the three months ended March 31, 2007. This increase was primarily due to adjustments to inventory in relation to Alvaro and the receipt of proceeds from the sale of our payroll to Banco Itaú S.A. As a result of the latter, all our employees have become account holders of Banco Itaú S.A., and we deposit their salaries into their accounts at that bank.

Non-operating expenses

Non-operating expenses increased by 260.0%, or R\$1.3 million, to R\$1.8 million in the three months ended March 31, 2008 from R\$0.5 million in the three months ended March 31, 2007. This increase was primarily due to a write-off of fixed assets.

Income tax and social contribution

Income tax and social contribution increased to R\$3.7 million in the three months ended March 31, 2008 from a credit of R\$33.4 million in the three months ended March 31, 2007. This change in income tax and social contribution was primarily due to the recognition of deferred income tax credits in the three months ended March 31, 2008 in the amount of R\$5.7 million compared to R\$47.5 million in the prior period. The credit recognized in the three months ended March 31, 2007, when offset against our tax liabilities for the period, yielded the net R\$33.4 million credit described above.

Minority interest

We had minority interests of R\$0.4 million for the three months ended March 31, 2008 because of the acquisition of Exame in May 2007, 14.3% of which is still held by the former owners of that company.

Net income

Net income decreased by 83.2%, or R\$40.7 million, to R\$8.3 million in the three months ended March 31, 2008 from R\$49.0 million in the three months ended March 31, 2007 for the reasons outlined above.

Year ended December 31, 2007 compared to year ended December 31, 2006

Gross operating revenues

Gross operating revenues increased by 27.5%, or R\$201.0 million, to R\$930.7 million in the year ended December 31, 2007 from R\$729.7 million in the year ended December 31, 2006. This increase was primarily due to:

- an increase in the gross operating revenue of our outpatient and inpatient businesses of 20.2%, or R\$135.5 million, to R\$804.8 million in the year ended December 31, 2007 from R\$669.3 million in the year ended December 31, 2006, primarily due to (1) same-unit growth (5.5%), (2) organic expansion (34 new units in 2007) and (3) acquisitions (two new companies, Exame and Med Imagem, that together contributed R\$36.0 million in revenues in 2007);
- an increase in the gross operating revenue in the laboratory-to-laboratory business of 26.5%, or R\$16.0 million, to R\$76.4 million in the year ended December 31, 2007 from R\$60.4 million in the year ended December 31, 2006 mainly due to (1) an increase in the number of tests available, fueling the number of requisitions per laboratory and (2) an expansion of geographical coverage, increasing the number of client laboratories; and
- our entry into the public sector business and resulting receipt of R\$49.6 million in the year ended December 31, 2007 through CientíficaLab.

Sales taxes

Sales taxes increased by 28.9%, or R\$11.8 million, to R\$52.6 million in the year ended December 31, 2007 from R\$40.8 million in the year ended December 31, 2006. This increase was primarily due to an increase in our gross operating revenue.

Discounts

Discounts increased by 18.4%, or R\$0.9 million, to R\$19.3 million in the year ended December 31, 2007 from R\$18.4 million in the year ended December 31, 2006. This increase was primarily due to gross operating revenue growth, largely offset by a decrease in rejections as a percentage of gross operating revenue as result of improvements in the efficiency of our billing systems.

Net operating revenues

Net operating revenues increased by 28.1%, or R\$188.3 million, to R\$858.8 million in the year ended December 31, 2007 from R\$670.5 million in the year ended December 31, 2006. This increase was primarily due to the increase in our gross operating revenue. Moreover, a decrease in discounts as a percentage of gross operating revenues also positively influenced our results.

Cost of services

Cost of services increased by 31.8%, or R\$141.1 million, to R\$584.6 million in the year ended December 31, 2007 from R\$443.5 million in the year ended December 31, 2006. This increase was primarily due to the following factors:

- Our personnel costs increased by 30.8%, or R\$40.9 million, to R\$173.5 million in 2007 from R\$132.6 million in 2006 due to the opening of 46 new patient service centers during the last 15 months. In addition, our three acquisitions in 2007 contributed to this increase due to our need to hire new personnel and train the existing personnel of the companies we acquired.
- Our costs related to materials increased by 35.9%, or R\$42.5 million, to R\$158.7 million in 2007 from R\$116.7 million in 2006, primarily due to the volume increase and growth in our laboratory-to-laboratory services business and inclusion of the costs from CientíficaLab in our results of operations. Material costs in both our laboratory-to-laboratory services business and our public sector business represent a greater percentage of gross operating revenue in those businesses than in our other businesses.
- Our service and utilities costs increased by 29.4%, or R\$41.7 million, to R\$183.5 million in 2007 from R\$141.8 million in 2006. This line includes the operating costs of patient service centers and medical services associated with diagnostic imaging. The higher costs are related to the opening of new units and new imaging test schedules. The increased costs related to the opening of new patient service centers and new imaging test schedules tend to decrease as we progress with the integration of acquired companies.
- Our depreciation and amortization costs increased by 20.7%, or R\$9.9 million, to R\$57.7 million in 2007 from R\$47.8 million in 2006 as a result of investments in the 34 new patient service centers opened in 2007 and improvements to property, plant and equipment of companies acquired in that year.
- Our general expenses rose by 138.0%, or R\$6.3 million, to R\$10.9 million in 2007 from R\$4.6 million in 2006. This increase was mainly due to the fact that we record certain expenses of our acquired companies as general expenses until we are able to integrate their accounting systems into our accounting systems and allocate their expenses more specifically.

Gross profit

Gross profit increased by 20.8%, or R\$47.2 million, to R\$274.2 million in the year ended December 31, 2007 from R\$227.0 million in the year ended December 31, 2006. This increase was primarily due to the increase in the gross operating revenue described above, partially offset by higher costs related to new patient service centers and acquired companies.

Operating expenses (income)

Operating expenses increased by 28.1%, or R\$53.5 million, to R\$243.7 million in the year ended December 31, 2007 from R\$190.2 million in the year ended December 31, 2006. This increase was primarily due to:

- Selling, general and administrative expenses increased by 13.6%, or R\$20.5 million, to R\$171.6 million in 2007 from R\$151.1 million in 2006 due to an increase in expenses related to acquisitions and an increase in expenses from subsidiaries before they are integrated, requiring us to maintain multiple call centers, commercial teams and other staff before the integration process is complete.
- Net financial expenses increased by 108.7%, or R\$11.7 million, to R\$22.5 million in 2007 from R\$10.8 million in 2006 as a result of higher cash consumption due to acquisitions and organic expansion.
- Goodwill amortization expenses increased by 77.7%, or R\$23.4 million, to R\$53.3 million in 2007 from R\$30.1 million in 2006 as a result of the acquisition of Exame, Med Imagem and CientíficaLab in 2007; and
- Other operating revenues increased by 111.8%, or R\$1.9 million, to R\$3.6 million in 2007 from R\$1.7 million in 2006. This increase was primarily due to adjustments to inventory in relation to Alvaro and the receipt of proceeds from the sale of our payroll to Banco Itaú S.A. As a result of the latter, all our employees have become account holders of Banco Itaú S.A. and we deposit their salaries into their accounts at Banco Itaú S.A.

Non-operating expenses

Non-operating expenses increased by 87.5%, or R\$0.7 million, to R\$1.5 million in the year ended December 31, 2007 from R\$0.8 million in the year ended December 31, 2006. This increase was primarily due to a write-off of fixed assets.

Income tax and social contribution

Income tax and social contribution decreased by 244.3%, or R\$47.4 million, to positive R\$28.0 million in the year ended December 31, 2007 from a negative R\$19.4 million in the year ended December 31, 2006. This decrease in our payments of income tax and social contribution was primarily due to our recognition in 2007 of tax credits on fiscal losses and negative social contribution basis from previous years. CVM Instruction 371 allows companies with three years of continued profitability and projections of future profitability to recognize deferred income tax and social contribution.

Minority interest

Minority interest increased by R\$0.3 million, to R\$0.4 million in the year ended December 31, 2007 from R\$0.1 million in the year ended December 31, 2006. This increase was due to the addition of Exame's minority shareholders.

Net income

Net income increased by 243.0%, or R\$40.1 million, to R\$56.6 million in the year ended December 31, 2007 from R\$16.5 million in the year ended December 31, 2006 for the reasons outlined above.

Year ended December 31, 2006 compared to year ended December 31, 2005

Gross operating revenues

Gross operating revenues increased by 26.5%, or R\$152.8 million, to R\$729.7 million in the year ended December 31, 2006 from R\$576.9 million in the year ended December 31, 2005. This increase was primarily due to:

- an increase in our gross operating revenue in the outpatient and inpatient businesses of 16.0%, or R\$92.4 million, to R\$669.3 million in 2006 from R\$576.9 million in the year ended December 31, 2005, primarily due to (1) same-unit growth (5.6%), (2) the performance of acquired companies (LabPasteur, MedLabor, VitaLâmina and Atalaia together contributed R\$21.0 million to our gross operating revenue) and (3) an increase in revenue from imaging services (R\$41.8 million); and
- an increase in gross operating revenue in our laboratory-to-laboratory business of R\$60.6 million in the year ended December 31, 2006 due to our acquisition of Alvaro in December 2005.

Sales taxes

Sales taxes increased by 23.3%, or R\$7.7 million, to R\$40.8 million in the year ended December 31, 2006 from R\$33.1 million in the year ended December 31, 2005. This increase was primarily due to an increase in our gross operating revenue.

Discounts

Discounts increased by 18.4%, or R\$2.8 million, to R\$18.4 million in the year ended December 31, 2006 from R\$15.6 million in the year ended December 31, 2005, accounting for 2.5% of gross operating revenue, versus 2.7% in 2005. This increase in absolute terms was mainly due to the decision in the fourth quarter of 2006 to make additional provisions for rejections and to increase adjustments for discounts made in the first three quarters of 2006, following a periodic review of the company's provisions for rejections.

Net operating revenues

Net operating revenues increased by 26.9%, or R\$142.2 million, to R\$670.5 million in the year ended December 31, 2006 from R\$528.3 million in the year ended December 31, 2005. This increase was primarily due to the increase in gross operating revenue and a decrease in discounts as a percentage of gross operating revenue.

Cost of services

Cost of services increased by 22.4%, or R\$81.1 million, to R\$443.5 million in the year ended December 31, 2006 from R\$362.4 million in the year ended December 31, 2005. The increase was primarily due to the following factors:

- Our personnel costs increased by 31.7%, or R\$31.9 million, to R\$132.6 million in the year ended December 31, 2006 from R\$100.7 million in the year ended December 31, 2005. The increase was mainly due to the costs of eliminating redundancies due to the integration of acquired companies. However, the increase in personnel costs was, to a certain extent, offset by an increase in the productivity of our existing patient service centers (based on a smaller increase in personnel costs at the more mature patient service centers acquired before 2005 and Pasteur, which was acquired in 2005).
- Our material costs increased by 28.3%, or R\$25.6 million, to R\$116.7 million in the year ended December 31, 2006 from R\$91.0 million in the year ended December 31, 2005, primarily due to the growth of our laboratory-to-laboratory business following our acquisition of Alvaro in December 2005, as the material costs in that business represent a larger percentage of gross operating revenues in that business than in our outpatient and inpatient businesses. This was partially offset by the effects of increases in productivity of our patient service centers and reductions in material cost prices due to the increase in the volume of tests analyzed.

- Our services and utilities costs increased by 16.0%, or R\$19.6 million, to R\$141.8 million in the year ended December 31, 2006 from R\$122.2 million in the year ended December 31, 2005. Although these costs increased, they were partially offset by the effect of growth in our laboratory-to-laboratory business following our acquisition of Alvaro in December 2005 because the laboratory-to-laboratory business does not require the expenses of patient service centers, primarily due to the implementation of preventive equipment maintenance and a rise in the prices for replacement parts.
- General expenses decreased by 62.9%, or R\$7.8 million, to R\$4.6 million in the year ended December 31, 2006 from R\$12.4 million in the year ended December 31, 2005, mainly due to the reclassification of some general expenses, now booked under other line items.
- Depreciation and amortization costs increased by 32.4%, or R\$11.7 million, to R\$47.8 million in the year ended December 31, 2006 from R\$36.1 million in the year ended December 31, 2005, primarily due to the increase in investments in imaging equipment and the construction of 16 new patient service centers, including four mega centers and 12 standard patient service centers. Furthermore, the increase in fixed assets, which affects depreciation expenses, was also influenced by changes in the accounting treatment of Image Memorial's operating equipment, which are now booked under permanent assets (financial leasing). The impact of this change in accounting practices was an increase of depreciation and amortization costs of R\$4.2 million.

Our costs of services increased at a lower rate than our revenue, mainly due to our ability to dilute our costs related to doctor fees (by, for example, processing a higher number of tests per doctor) and the effect on utilities costs of our acquisition of Alvaro, as described above.

Gross profit

Gross profit increased by 36.9%, or R\$61.1 million, to R\$227.0 million in the year ended December 31, 2006 from R\$165.9 million in the year ended December 31, 2005, primarily due to our ability to increase our gross operating revenue while maintaining a lower increase of costs of services during the same period. As a result, our gross margin increased by 2.5 percentage points between 2005 and 2006, from 31.4% in 2005 to 33.9% in 2006.

Operating expenses

Operating expenses increased by 31.4%, or R\$45.5 million, to R\$190.2 million in the year ended December 31, 2006 from R\$144.7 million in the year ended December 31, 2005. This increase was primarily due to:

- Selling, general and administrative expenses increased by 70.3%, or R\$62.4 million, to R\$151.1 million in the year ended December 31, 2006 from R\$88.7 million in the year ended December 31, 2005. This increase was mainly due to (1) changes we implemented in our operating and management structure, such as the creation of new management positions and the hiring of additional personnel, (2) the introduction of new training courses, (3) the training of a larger number of employees, (4) the introduction of a new IT system for clinical analysis and (5) steps we took to obtain the ISO 14000 and the OHSAS 18000 certifications.
- Net financial expenses decreased by 48.8%, or R\$10.2 million, to R\$10.8 million in the year ended December 31, 2006 from R\$21.0 million in the year ended December 31, 2005, mainly due to an increase in financial revenue from the investment of funds raised in the capital markets and the prepayment of certain loans.
- Goodwill amortization expenses decreased by 15.7%, or R\$5.6 million, to R\$30.1 million in the year ended December 31, 2006 from R\$35.7 million in the year ended December 31, 2005, mainly due to the end of amortization of goodwill generated by acquisitions made up to and including 2001.

- Other operating revenues increased by R\$0.9 million, to R\$1.7 million in the year ended December 31, 2006 from R\$0.8 million in the year ended December 31, 2005, mainly due to adjustments made to the inventory of Alvaro.

Non-operating expenses

Non-operating expenses increased by 60.0%, or R\$0.3 million, to R\$0.8 million in the year ended December 31, 2006 from R\$0.5 million in the year ended December 31, 2005, mainly due to write-offs related to the sale of obsolete fixed assets in connection with the refurbishment of new service centers.

Income tax and social contribution

Income tax and social contribution increased by 86.5%, or R\$9.0 million, to R\$19.4 million in the year ended December 31, 2006 from R\$10.4 million in the year ended December 31, 2005, primarily because our gross operating revenue increased at a higher rate than our costs of services.

Minority interest

Minority interest remained at R\$0.1 million during the year ended December 31, 2005 and 2006.

Net income

Net income increased by 61.7%, or R\$6.3 million, to R\$16.5 million in the year ended December 31, 2006 from R\$10.2 million in the year ended December 31, 2005 for the reasons outlined above.

Liquidity and capital resources

Our principal sources of funds are funds from operations and debt and equity financings. We received funds from our initial public offering of common shares in November 2004, an issuance of debentures in April 2006 and a follow-on equity offering in March 2006.

Our principal uses of funds are for capital expenditures, installment payments for acquisitions, additional acquisitions and debt service. We describe our capital expenditures in greater detail under “—Capital expenditures” below. We also describe our debt agreements and our obligations to former shareholders of companies we have acquired under “—Debt and contractual commitments” below. Amounts to be paid to former shareholders of companies we acquired were R\$60.3 million at December 31, 2007, of which R\$49.3 million related to deposits in escrow.

We believe that we have sufficient liquidity from cash generated by our operations and existing financing agreements to meet our current commitments.

Changes in cash flows

The following table sets forth the variations in our cash flow in the periods indicated:

	<u>Year Ended December 31,</u>			<u>Three Months Ended</u>	
	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>March 31,</u>	<u>2008</u>
	(R\$ millions)				
Net cash provided by operating activities	104.3	156.5	95.6	25.5	43.1
Net cash used in investing activities	(176.2)	(208.2)	(405.2)	(34.4)	(47.2)
Net cash provided from (used in) financing activities	(1.6)	331.7	23.3	(26.7)	6.7

Net cash provided by operating activities

Net cash provided by operating activities increased to R\$43.1 million in the three months ended March 31, 2008 from R\$25.5 million in the three months ended March 31, 2007 due to increases in net operating revenues, among other factors. Although net income decreased to R\$8.3 million in the three months ended March 31, 2008 from R\$49.0 million in the prior period, net income excluding non-cash items increased in the three months ended March 31, 2008 from the prior period, primarily because (1) net income in the three months ended March 31, 2007 included the recognition of significantly larger deferred income taxes (because in 2007 we had reached the necessary history of profitability to recognize those assets) and (2) increases in depreciation and amortization and amortization of goodwill. The increase in net income excluding non-cash items was partially offset by slightly higher net adjustments to working capital and other operating assets and liabilities of R\$(11.6) million in the three months ended March 31, 2008 compared to R\$(10.3) million in the prior period.

Net cash provided by operating activities decreased to R\$95.6 million in the year ended December 31, 2007 from R\$156.5 million in the year ended December 31, 2006, primarily because of net adjustments to working capital and other operating assets and liabilities of R\$(60.7) million in 2007 compared to R\$1.7 million in 2006. In 2007, these adjustments included (1) a R\$66.7 million increase in trade accounts receivable compared to R\$22.2 million in 2006, primarily due to the initial impact of changes in regulations that require additional administrative formalities in submitting invoices to health plans (although we expect this effect to decrease over time as we modify our processes to comply with the new regulations) and (2) a R\$72.9 million increase in other operating assets compared to R\$18.4 million in 2006, primarily reflecting long-term marketable securities that serve as collateral for our obligations to pay additional amounts to the former owners of CientificaLab if certain performance goals are met and for our obligations to pay amounts in escrow in connection with other past acquisitions (see note 4 to our audited consolidated financial statements). These adjustments to operating assets were partially offset by an increase in other noncurrent liabilities of R\$43.3 million in 2007 compared to R\$19.5 million in 2006. Our other noncurrent liabilities consist of ICMS tax liabilities and other tax provisions, including provisions relating to tax contingencies of acquired companies. Net income also increased to R\$56.7 million in 2007 from R\$16.5 million in 2006, although net income excluding non-cash items increased only slightly, primarily due to the effect of recognition of deferred income tax of R\$57.9 million in 2007 compared to zero in 2006, partially offset by increased depreciation and amortization.

Net cash provided by operating activities increased to R\$156.5 million in the year ended December 31, 2006 from R\$104.3 million in the year ended December 31, 2005. Although net income increased to R\$16.5 million in 2006 from R\$10.2 million in 2005, net income excluding non-cash items increased significantly more due to the effects on net income of increased depreciation and amortization and a provision recorded in 2006 to reflect obligations to pay interest during 2006 on the debentures issued in April 2006. Net adjustments to working capital and other operating assets and liabilities were R\$1.7 million in 2006 compared to R\$(5.0) million in 2005, primarily due to the effects of an increase in other noncurrent liabilities and accounts payable and provisions, partially offset by an increase in trade accounts receivable and other operating assets.

Net cash used in investing activities

Net cash used in investing activities increased in the three months ended March 31, 2008 compared to the three months ended March 31, 2007, primarily due to an increase in additions to property, plant and equipment due to construction of new patient service centers.

Net cash used in investing activities increased from 2006 to 2007, primarily due to an increase in additions to property, plant, equipment and intangible assets; additions to permanent assets; and additions to investments due to an increase in the size of acquisitions in 2007 (Exame, CientificaLab and Med Imagem) compared to acquisitions in 2006 (MedLabor, LabPasteur, VitaLamina and Atalaia), the construction of new patient service centers, the construction of a central laboratory in São José dos Pinhais, Curitiba and the purchase of additional equipment.

Net cash used in investing activities decreased from 2005 to 2006 because our uses of cash in 2006 were partially offset by the receipt of proceeds of our follow-on equity offering in 2006 (R\$185.9 million) and because of a decrease in additions to investments in 2006 (due to the smaller amounts spent on acquisitions in 2006 compared to 2005). These factors were partially offset by an increase in additions to property, plant, equipment and intangible assets due to the construction of new patient service centers.

Net cash provided from (used in) financing activities

Net cash provided by financing activities was R\$6.7 million in the three months ended March 31, 2008, compared to net cash used in financing activities of R\$26.7 million in the three months ended March 31, 2007, primarily because of an increase in proceeds from loans and financing (as our use of cash for acquisitions required us to obtain additional funds from bank loans), partially offset by payments of principal on short-term debt.

Net cash provided by financing activities decreased from 2006 to 2007, because (1) in 2006, we received the proceeds of the issuance of our debentures (R\$202.5 million), (2) we increased our payments of loans in 2007 compared to 2006 and (3) in 2007, we made a full year of interest payments on our debentures compared to approximately nine months in 2006.

Net cash provided by financing activities increased from 2005 to 2006, primarily due to the proceeds of the debentures we issued in 2006, partially offset by increases in repayments of loans.

Capital expenditures

The table below sets forth our capital expenditures for the periods indicated.

	<u>Year Ended December 31,</u>		
	<u>2005</u>	<u>2006</u>	<u>2007</u>
	(R\$ millions)		
Expansion of patient service centers:			
Improvements to real estate (construction)	19.6	41.4	69.4
Diagnostic imaging and clinical analysis equipment(1)	25.0	61.2	87.3
Pre-operating expenses(2)	N/A(3)	8.6	24.1
	<u>44.6</u>	<u>111.2</u>	<u>180.8</u>
Information technology equipment and systems	9.1	14.0	27.6
Other capital expenditures	17.5	4.7	6.8
Total capital expenditures	<u>71.2</u>	<u>129.9</u>	<u>215.2</u>

- (1) Includes capital expenditures relating to diagnostic imaging equipment for existing centers.
- (2) Pre-operating expenses are expenses related to the construction and remodeling of new facilities and the acquisition of businesses. We capitalize these expenses and amortize them over periods that vary between five and ten years.
- (3) This number is not available because we did not report pre-operating expenses in the same manner in 2005. The amounts were not material.

The table below sets forth our projected capital expenditures for the years ended December 31, 2008 and 2009. Our capital expenditures are likely to vary significantly from these projections as we respond to competitive pressures and capitalize on market opportunities.

	<u>Year Ended December 31,</u>	
	<u>2008</u>	<u>2009</u>
	(R\$ millions)	
Expansion of patient service centers:		
Improvements to real estate (construction)(1)	49.2	41.3
Diagnostic imaging and clinical analysis equipment(2)	53.4	59.9
Pre-operating expenses	—	—
	<u>102.6</u>	<u>101.2</u>
Information technology equipment and systems	<u>7.4</u>	<u>18.8</u>
Other capital expenditures	—	—
Total capital expenditures	<u><u>110.0</u></u>	<u><u>120.0</u></u>

(1) Includes capital expenditures for new mega centers and satellite service centers, including equipment, and improvements to existing patient service centers.

(2) Includes capital expenditures relating to diagnostic imaging equipment for existing centers.

We intend to open 17 additional patient service centers by the end of 2008. Furthermore, if acquisition opportunities emerge that allow us to add patient service centers and acquire patients more efficiently than through organic growth, we may shift a portion of our planned capital expenditures to capitalize on those opportunities. It is also likely that the timing of our projected capital expenditures will vary with market opportunities.

In the three months ended March 31, 2008, we made capital expenditures of R\$47.2 million, which are included in the 2008 estimate above.

Debt and contractual commitments

Debt

At March 31, 2008, our aggregate debt was R\$504.7 million, composed of long-term loans and financing of R\$385.9 million and short-term loans and financing of R\$118.8 million. These loans and financing primarily consist of our existing debentures, bank loans and financing for the acquisition of equipment, tax installments and seller financing. If we take into account our cash and marketable securities and long-term investment positions, our net debt increased from R\$53.8 at December 31, 2006 to R\$361.4 million at December 31, 2007 and increased to R\$373.2 million at March 31, 2008, primarily as a result of financing and use of cash for the acquisition of the Exame, CientificaLab and Med Imagem for R\$56.0 million, R\$86.4 million and R\$44.7 million, respectively (including assumption of debt), and R\$215.2 million in capital expenditures.

The following table sets forth our debt as of December 31, 2005, 2006 and 2007 and as of March 31, 2008:

	As of December 31,			As of March 31,
	2005	2006	2007	2008
	(R\$ millions)			
Loans and financing:				
Bank loans	96.9	66.1	119.7	125.2
Equipment finance	56.8	67.8	78.6	94.6
Taxes in installments	21.9	22.4	21.9	20.0
Debentures	—	209.1	208.0	202.5
Seller financing	43.4	49.3	60.3	62.4
Total	219.0	414.7	488.5	504.7
Cash and marketable securities	(52.6)	(332.6)	(46.4)	(48.9)
Funds deposited in escrow accounts	(16.3)	(28.2)	(80.7)	(82.7)
Net debt	150.1	53.8	361.4	373.2

The table below sets forth the amortization of our consolidated total debt at March 31, 2008:

<u>Debt amortization schedule</u>	<u>Amount of Debt</u>
	(R\$ millions)
2008	110.2
2009	129.8
2010	117.3
2011	96.1
2012 and thereafter	51.3
Total	504.7

Our loans and financing include the contracts and instruments described below. See note 12 to our audited consolidated financial statements for information about certain other loans and financing.

Domestic bank loans. We have entered into financing agreements with Brazilian financial institutions in an aggregate amount of R\$88.5 million outstanding at December 31, 2007. These loans mature on various dates, and the last date is November 2010, and bear interest, payable on a monthly basis, varying between 105% and 110.9% of the CDI rate per annum. The loans benefit from guarantees (*fianças*) from our subsidiary DASA Real Estate Empreendimentos Imobiliários Ltda. and from a promissory note for 125% of the contractual amount issued by us.

Debentures. In April 2006, we issued 20,250 non-convertible debentures in an aggregate principal amount of R\$202.5 million. At December 31, 2007, the amount outstanding under the debentures was R\$208.0 million. The debentures are payable in three equal installments on April 1, 2009, April 1, 2010 and April 1, 2011. Additional debentures may be issued pursuant to the same contract no later than two years following the filing of the debentures with the CVM in an aggregate amount, together with the debentures outstanding, not to exceed R\$400.0 million. Interest on the debentures is payable semi-annually at a rate of 103.60% of the CDI rate. The terms of the debentures contain covenants that limit our ability, under certain circumstances, to repurchase stock, merge or consolidate or take certain other actions, as well as covenants that require us to maintain (a) a ratio of consolidated net debt to EBITDA (as defined in the terms of the debentures) of less than or equal to 2.5 and (b) a coverage ratio of EBITDA to net cash interest expense equal to or greater than 2.0. As of December 31, 2007, our ratio of consolidated net debt to EBITDA was 1.8:1.0, and our ratio of EBITDA to net cash interest expense was 8.8:1.0, in each case calculated in accordance with the terms of the debentures. EBITDA as defined in the debentures is comparable to “EBITDA plus non-operating results and minority shareholders,” as described in

footnote (1) in “Summary—Summary Financial Information” but is different from EBITDA as defined in the notes. The terms of the debentures also include cross-acceleration provisions.

As described above, debentures contain an event of default provision that is triggered if a specified minimum consolidated net debt to EBITDA ratio is not met at the end of any quarter. Although we do not anticipate that this provision would be triggered by the issuance of the notes, the provision may be triggered by the use of proceeds of the offering of the notes. In such an event, we may use a portion of the proceeds of the offering of the notes to repay our existing debentures in full. However, because the terms of our debentures do not allow the optional redemption of the debentures, we would need to seek the agreement of the holders representing at least 90% of the debentures to amend the terms of the debentures to allow an optional redemption. Alternatively, our use of the proceeds of the offering of the notes could trigger a default, which would cause a meeting of the holders of the debentures to be convened and could lead to the acceleration of the debentures.

Itaú BBA/IFC financing. In August 2002, Banco Itaú BBA S.A. received a US\$10.0 million loan from the International Finance Corporation, or “IFC,” and simultaneously made a loan to us in the same amount using a structure known as a *repassé* (pass-through). The principal amount of this loan is payable in 14 semi-annual installments. The loan is payable in *reais* based on the selling exchange rate of U.S. dollars (PTAX rate) on the date of each amortization payment. At December 31, 2007, an aggregate amount of US\$2.2 million (R\$3.8 million using the PTAX rate for that date) was outstanding under this loan. Interest on the loan accrues at a rate of 13.06% per annum and is payable semi-annually. We have entered into a swap transaction with respect to this loan (R\$4.9 million), replacing its original cost with interest corresponding to the CDI rate less 2.0% per annum. See “—Quantitative and qualitative disclosures about market risk—Foreign currency risk.”

Equipment financing. We have entered into international leasing agreements for the acquisition of equipment from GE Medical Systems and Siemens Aktiengesellschaft Medical Solutions through GE Capital, BB Leasing, CSI Leasing and HVB Export, of which US\$38.4 million was outstanding on December 31, 2007 (R\$68.0 million if calculated based on PTAX exchange rate applicable at such date). These loans must be repaid in 14 installments, mature in December 2015 and accrue interest, payable semi-annually, at the rate of 7.0% to 8.5% per year. We have also entered into direct financing arrangements with GE Capital for the acquisition of equipment from GE Medical Systems, of which an aggregate principal amount of US\$6.0 million was outstanding at December 31, 2007 (R\$10.6 million using the PTAX exchange rate for that date). These loans are payable in 28 quarterly or in 14 semi-annual installments and bear interest at rates varying between 7.5% and 8.5% per annum. We have entered into a swap transaction with respect to these loans with a notional amount of R\$9.6 million. See “—Quantitative and qualitative disclosures about market risk—Foreign currency risk.” Pursuant to all these agreements, title to the equipment is vested in the equipment supplier until full payment of the amounts outstanding. In addition, at December 31, 2007, a total amount of US\$0.1 million (or R\$0.1 million using the PTAX rate for that date) was due to Medrad, Inc. under a financing agreement for the acquisition of equipment from that company.

Taxes in installments. At December 31, 2007, we recorded a liability of R\$21.9 million for renegotiated taxes owed to federal and local authorities. The obligations included in the PAES program are payable in 120 monthly installments, adjusted using the TJLP rate ending in September 2013. The obligations included in the REFIS program are payable in 60 installments, adjusted using the TJLP rate ending in August 2011. A portion of this amount derives from liabilities of companies we acquired.

Other financial leases. We also have leases for clinical analysis equipment and information technology equipment that amounted to R\$12.8 million at December 31, 2007. The interest rates for these leases are based on the CDI rate plus between 1.86% and 2.30% per year. The maturity of the leases is 48 months, with the last of the leases maturing in 2011.

Accounts payable from acquisitions of subsidiaries. When acquiring a number of our subsidiaries, we have made the payment of a portion of the purchase price conditioned upon the fulfillment of certain conditions (such as the seller remaining as an employee or consultant for a period of time, obtaining a material license or the

renewal of a material lease agreement). Our purchase obligations consist primarily of obligations to former shareholders of acquired companies, as follows:

- *Santa Casa*. At December 31, 2007, we owed R\$0.5 million to the former shareholders of Laboratório de Patologia Clínica Curitiba S/C, pursuant to the contracts under which we purchased the business in January 2003. All amounts owed to the former shareholders may be used to offset contingencies generated after the acquisition.
- *Pasteur*. At December 31, 2007, we owed R\$0.5 million to the former shareholders of Laboratório Pasteur, pursuant to the contracts under which we purchased the business in April 2005. All amounts owed to the former shareholders may be used to offset contingencies generated after the acquisition.
- *CRL*. At December 31, 2007, we owed R\$0.1 million to the former shareholders of Centro Radiológico da Lagoa Ltda.—CRL, pursuant to the contracts under which we purchased the business in November 2003. All amounts owed to the former shareholders may be used to offset contingencies generated after the acquisition.
- *Elkis*. At December 31, 2007, we owed R\$7.8 million to the former shareholders of Laboratório Elkis e Furlanetto Centro de Diagnósticos e Análises Clínicas S/C Ltda., pursuant to the contract under which we purchased the business in May 2004. The total amount owed has been deposited in an escrow account. This amount will be payable to the sellers in May 2011, subject to reduction in the event certain liabilities arise relating to the period before the acquisition.
- *Frischmann Aisengart*. At December 31, 2007, we owed R\$2.9 million to the former shareholders of Frischmann Aisengart. The purchase of Frischmann Aisengart was structured as a two-step acquisition. In July 2005, we acquired 92.92% of the company and deposited R\$3.0 million in an escrow account. This escrow amount will be payable to the sellers in July 2011 minus the amounts used to settle contingencies identified prior to or after the acquisition date. In May 2006, we acquired the remaining 7.08% for R\$5.4 million, of which R\$3.0 million was paid in cash and R\$5.4 million will be paid in 120 installments of R\$20 thousand (adjusted using the IGP-M index). The last payment will be due in May 2016.
- *Image Memorial*. At December 31, 2007, we owed R\$9.2 million to the former shareholders of Image Memorial, pursuant to the contracts under which we purchased the business in October 2005. The total amount owed has been deposited in an escrow account and will be payable to the sellers in October 2011, subject to reduction in the event certain liabilities arise relating to the period before the acquisition.
- *Alvaro*. At December 31, 2007, we owed R\$5.5 million to the former shareholders of Alvaro pursuant to the contracts under which we purchased the business in December 2005. Of this amount, R\$1.3 million has been deposited in an escrow account, which will be payable to the sellers in December 2011, subject to reduction in the event certain liabilities arise relating to the period before the acquisition. The contract also provides for the payment of up to R\$3.8 million in 2008 if Alvaro, which is currently managed by its former shareholders, achieves certain performance targets.
- *LabPasteur*. At December 31, 2007, we owed R\$3.9 million to the former shareholders of LabPasteur, pursuant to the contracts under which we purchased the business in June 2006. The total amount owed has been deposited in an escrow account and will be payable to the sellers in September 2012, subject to reduction in the event certain liabilities arise relating to the period before the acquisition.
- *MedLabor*. At December 31, 2007, we owed R\$0.8 million to the former shareholders of MedLabor, pursuant to the contracts under which we purchased the business in July 2006. The total amount owed has been deposited in an escrow account and it will be payable to the sellers in July 2012, subject to reduction in the event certain liabilities arise relating to the period before the acquisition.
- *VitaLâmina*. At December 31, 2007, we owed R\$0.7 million to the former shareholders of VitaLâmina, pursuant to the contracts under which we purchased the business in October 2006. The total amount

owed has been deposited in an escrow account and it will be payable to the sellers in October 2012, subject to reduction in the event certain liabilities arise relating to the period before the acquisition.

- *Atalaia*. At December 31, 2007, we owed R\$2.8 million to the former shareholders of Atalaia, pursuant to the contracts under which we purchased the business in October 2006. The total amount owed has been deposited in an escrow account and it will be payable to the sellers in October 2012, subject to reduction in the event certain liabilities arise relating to the period before the acquisition.
- *Exame*. At December 31, 2007, we owed R\$2.0 million to the former shareholders of Exame, pursuant to the contracts under which we purchased the business in May 2007. The total amount owed has been deposited in an escrow account and it will be payable to the sellers in May 2013, subject to reduction in the event certain liabilities arise relating to the period before the acquisition.
- *CientíficaLab*. At December 31, 2007, we owed R\$3.1 million to the former shareholders of CientíficaLab, pursuant to the contracts under which we purchased the business in July 2007. The amount owed has been deposited in an escrow account and will be payable to the sellers in July 2013, subject to reduction in the event certain liabilities arise relating to the period before the acquisition. Furthermore, we agreed to pay the former shareholders of CientíficaLab an additional amount based on CientíficaLab's performance and the renewal of its contract with the City of São Paulo. For the period from July 1, 2007 to June 30, 2008, the sellers will receive 85% of the incremental gross operating revenue accrued by the company exceeding R\$97.0 million. From 2008 to 2012, the variable payment will be equal to 10% of the amount by which the gross operating revenue increased from one year to the next.
- *Med Imagem*. At December 31, 2007, we owed R\$14.9 million to the former shareholders of Med Imagem, pursuant to the contracts under which we purchased the business in August 2007. Of the amount owed, R\$4.7 million will be paid in August 2008, and the remaining R\$10.2 million has been deposited in an escrow account and will be payable to the sellers in August 2013, subject to reduction in the event certain liabilities arise relating to the period before the acquisition.
- *Lavoisier*. At December 31, 2007, we owed R\$1.8 million to the former shareholders of Bio-Ciência Lavoisier Análises Clínicas S.A., pursuant to the contracts under which we purchased the business in 1999. The amount owed has been deposited in an escrow account and will be payable to the sellers in 2010, subject to reduction in the event certain liabilities arise relating to the period before the acquisition.
- *Bronstein*. At December 31, 2007, we owed R\$1.8 million to the former shareholders of Bronstein Administradora Laboratorial S.A. and Laboratório Bronstein S.A., pursuant to the contracts under which we purchased the business in 2000. The amount owed has been deposited in an escrow account and will be payable to the sellers in 2009, subject to reduction in the event certain liabilities arise relating to the period before the acquisition.

Contractual commitments

The table below sets forth our contractual commitments as of December 31, 2007, including the indebtedness described under “—Debt” above.

	Payments due by period			
	Total	Less than 1 year	1-3 years	After 4 years
		(R\$ millions)		
Loans and financing(1)	105.2	68.1	37.1	—
Debentures	208.0	5.5	202.5	—
Equipment financing(2)	78.6	20.1	40.7	17.9
Swap arrangements	14.5	9.7	4.8	—
Taxes in installments	21.9	6.8	10.2	4.9
Accounts payable from acquisition of subsidiaries(3)	60.3	9.7	27.1	23.5
Total	<u>488.5</u>	<u>119.9</u>	<u>322.3</u>	<u>46.3</u>

- (1) Includes the Itaú BBA/IFC financing described in “—Debt” above and leasing transactions related to assets other than real estate or imaging equipment, such as computers. Also includes expected interest obligations and expenses related to domestic bank loans.
- (2) Includes expenses related to equipment leases described under “—Debt” above.
- (3) These obligations are described under “—Debt” above.

Financial guarantees

We have provided financial guarantees and issued promissory notes for the benefit of some of our subsidiaries to guarantee payment of certain leasing contracts described in “—Debt” above and other agreements related to the indebtedness of our subsidiaries. As of March 31, 2008, the total outstanding indebtedness of our subsidiaries totaled R\$44.9 million, of which R\$40.8 million is backed by promissory notes issued by DASA and R\$12.2 million of which is also backed by collateral granted by DASA.

Other agreements

We have not entered into any significant agreement that is not directly related to our main activities. Our significant contracts related to our main activities are: (1) the agreements with private health plans and company-sponsored plans (see “Description of Our Business—Clients and patients”), (2) the commercial lease agreements for the properties where our patient service centers are located (see “Description of Our Business—Properties”), (3) the franchising and licensing agreements related to certain of our patient service centers (see “Description of Our Business—Franchises and licenses”), (4) the agreements for the acquisition of equipment described in “—Debt and contractual commitments” above and in “Description of Our Business—Property—Our equipment,” (5) the other financing agreements described in “—Debt and contractual commitments” above and (6) our acquisition agreements.

Off-balance sheet arrangements

We currently do not use any off-balance sheet arrangements to finance our operations.

Quantitative and qualitative disclosures about market risk

We are exposed to several market risks, including interest rate and exchange rate variations. We enter into hedging transactions in order to reduce our exposure to exchange rate risk. Our U.S. dollar-denominated debt was 26.2% hedged by swap transactions at December 31, 2007. We do not enter into derivative contracts for trading or speculative purposes.

Interest rate risk

Our primary interest rate exposure is to the CDI rate. At December 31, 2006 and 2007, we had R\$250.7 million and R\$301.0 million, respectively, in obligations that bore interest at the CDI rate, including under the exchange rate swap transactions described in the following paragraphs. The additional interest expense we would have incurred in 2007 in the event of a 10% increase in the CDI rate would have been R\$3.5 million.

We also have exposure to the TJLP rate. At December 31, 2006 and 2007, we had, R\$8.0 million and R\$8.9 million, respectively, in obligations that bore interest at the TJLP rate. The additional interest expense we would have incurred in 2007 in the event of a 10% increase in the TJLP would have been approximately R\$0.1 million.

We are also exposed to the SELIC rate. At December 31, 2006 and 2007, we had obligations pegged to SELIC in the amount of R\$14.4 million and R\$12.9 million, respectively. The additional interest expense we would have incurred in 2007 in the event of a 10% increase in SELIC would have been approximately R\$0.1 million.

Foreign currency risk

At December 31, 2007, R\$97.1 million of our short-term and long-term indebtedness, or 19.9% of our total indebtedness, was denominated in U.S. dollars, compared to R\$91.6 million of our short-term and long-term indebtedness, or 22.1% of our total indebtedness in 2006. However, at December 31, 2007, 26.2% of our U.S. dollar-denominated debt was hedged using swap transactions, compared to 46.7% in 2006.

It is our policy to hedge a portion of our U.S. dollar-denominated long-term debt using swap transactions with financial institutions. We had two primary swap transactions relating to our long-term debt outstanding at December 31, 2007. We entered into a swap transaction with Banco Itaú BBA S.A. with respect to the loan described under “—Liquidity and capital resources—Debt and contractual commitments—Itaú BBA/IFC financing.” Under this transaction, we make principal payments in *reais* and pay interest on the principal at the CDI rate, minus 2.0% per annum. This swap expires in June 2009. We also entered into a swap transaction with Banco Votorantim with respect to one of the equipment financing transactions described under “—Liquidity and capital resources—Debt and contractual commitments—Debt—Equipment financing.” Under this transaction, we make principal payments in *reais* and pay interest on the principal at the CDI rate, minus 0.7% per annum. This swap expires in December 2010. Both swaps discussed above are for the total amount of the debt obligations and follow the same maturity schedule. The effect of a 10% devaluation of the *real* against the U.S. dollar would have increased our cost of services by R\$0.7 million in 2007.

On or before the closing date of the offering, we will enter into one or more currency hedges with affiliates of the initial purchasers with a total notional amount equal to the total principal amount of the notes outstanding on the closing date. These currency hedges will hedge against currency fluctuations with respect to the interest payments on the notes for the first five years of the notes so long as the *real* does not depreciate against the U.S. dollar beyond a specified level. Under the currency hedges, if the *real* depreciates beyond a specified level, we will be required to make payments to the swap counterparty. We may be required to mark to market the value of the hedges, which could increase the volatility of our earnings to the extent that the *real* appreciates or depreciates against the U.S. dollar.

Medical Diagnostics Industry

THE INDUSTRY

The global medical diagnostics market

The medical diagnostics market covers both clinical analysis and diagnostic imaging.

Until the early 1990s, clinical analysis was carried out almost exclusively on a non-standardized manner by the physicians themselves at their offices or at small- and medium-sized laboratory facilities. The market was highly fragmented and dependent on local brand awareness.

From the mid 1990s onwards, however, the medical diagnostics market has undergone, and continues to undergo, significant changes as a result of the acceleration of technological developments in clinical analysis and the implementation of new techniques and devices capable of processing diagnostic tests with higher precision and efficiency and at greater volumes. The use of robotic and computer resources have become key competitive strengths. The level of investment required to implement such technologies increased the importance of achieving economies of scale, consequently leading to a movement of market integration.

The trend for acquisitions and consolidation in the sector began in the United States and is continuing in Asia and Oceania. There has also been an increase in the number of global players in some market segments, such as esoteric testing. Esoteric tests are non-routine clinical tests, such as genotype testing, that require special equipment or more highly skilled personnel. As esoteric tests are less in demand and generally cost more than routine clinical tests, they are more likely to be outsourced to third-party laboratories than routine tests.

Technological developments have also impacted the diagnostic imaging market. Diagnostic techniques now available in Brazil range from the basic x-ray to advanced telemedicine and image digitalization, which allows for the analysis of images from remote locations.

The technological developments in the medical diagnostics market and the increasing reliability, variety and availability of clinical tests and diagnostic imaging have made such tests integral to the medical diagnosis performed by physicians. According to reports published by the U.S. Institute of Medicine in 1999, estimates indicate that 70% of medical decisions are based on diagnostic tests.

We believe some of the key growth drivers of the medical diagnostics market include the aging of the population; increasing overall public awareness of the value of medical diagnostics services to medical decisions through the media or internet; creation of new tests capable of detecting diseases at an early stage; and ongoing development of new drugs expected to increase demand for clinic trials.

As a result of increasing public awareness and increasing regulation and supervision of the sector, quality has become a priority for medical diagnosis service providers. Both physicians and the general population have been seeking more information on tests and medical diagnosis procedures, which is now easily accessible online and in *real* time. We believe that the public's perception of the quality of service provided by a medical diagnostics service provider is influenced by ISO 9001 certifications and accreditations from reputable bodies such as the College of American Pathologists.

In a highly competitive market in which consolidation is ongoing and individuals have easy access to information, medical diagnostics service providers are increasingly focusing their business strategy and marketing on the patients, the end-users of their services, who are becoming more active in deciding which providers to use for their tests and exams. Accordingly, there is a move to tailor services to the patients' needs, for example, by providing convenient "one-stop" shops for clinical analysis, diagnostic imaging and prescription services. In addition, providers may also be increasing their revenues per client by providing prescription services in conjunction with its diagnostic services.

We believe that all the changes described above have contributed and will continue to contribute to the consolidation of medical diagnostics service providers and therefore greater resources and more professional management are expected to be required for success in this industry.

The Brazilian diagnostics industry

Although, there are no precise figures on total market size, estimates from third-party consultants contracted by Pátria indicate that, in 2000, the medical diagnostics industry accounted for approximately 11% of the total Brazilian private health market. In 2005, clinical analysis accounted for 40% of gross revenues of the Brazilian medical diagnostics industry, with diagnostic imaging services accounting for the balance, according to the same source.

Trends in the global medical diagnostics industry are also present in the Brazilian market. They include, among others:

- the development of diagnostic imaging as an important tool for medical diagnosis;
- the development of new technologies for the performance of clinical analysis and the use of new increasingly automated machines and robots capable of processing exams with greater speed and precision;
- consolidation in the market, primarily through strategic acquisitions in new regions, followed by organic growth;
- offering of support services (laboratory-to-laboratory services) to small- and medium-sized laboratories for clinical analysis in general, as well as to larger laboratories for rarer tests;
- convergence between clinical analysis and diagnostic imaging so as to make both types of services available in the same service center, for the patients' convenience;
- increasing reliance and trust by doctors on diagnostic tests and exams and a corresponding increase in demand for those tests, increasing the revenues generated by them;
- aging of the population and increase in life expectancies;
- greater public knowledge of healthcare in general and medical diagnostics because of the media or Internet;
- creation of new exams directed at the early detection of diseases, meaning, the application of a prophylactic approach to medical diagnostics;
- constant development of new medications and the need for clinical trials related to their use;
- certification of quality; and
- rationalization of administration.

The private medical diagnostics industry can be divided into three major lines of business: (1) outpatient services, (2) inpatient services and (3) laboratory-to-laboratory services.

Outpatient services are services to patients through service centers located outside hospitals where samples are collected for clinical analysis tests and images are captured for diagnostic imaging. After the collection of the samples or registration of the images, the exams are processed either at the patient service center or at a central processing center.

Inpatient services are characterized by services to patients in service centers located inside hospitals where samples are collected for clinical analysis tests and/or images are captured for diagnostic imaging. After the collection of the samples or registration of the images, the exams are processed either at the hospital (tests that require results within a short period of time) or at a central processing center.

Services to laboratories consist of processing samples of clinical tests for other laboratories that are usually small-or medium-sized in cases in which the difficulty of processing a particular test or the absence of economies of scale make outsourcing an attractive option for financial reasons. The laboratories, including larger ones, also use this service for highly complex exams and esoteric tests.

Many factors have contributed to the growth of the market for services to laboratories. The dissemination of medical information through the media and Internet among patients and doctors has stimulated demand for sophisticated diagnostic exams, even in non-urban regions and areas that are not consolidation targets of larger laboratory networks. The rapid introduction of exams of increasing complexity and the growing automation of the processing of clinical exams have demanded increasing investments by laboratories in equipment and trained personnel. Accordingly, a growing number of laboratories have opted for outsourcing as a less expensive alternative to such investments in order to provide their patients a more updated and complete portfolio of exams.

At the same time, specialized companies with a simple and accessible financial and logistics structure have emerged. The laboratory-to-laboratory services market is very sensitive to price levels, depends on a competent and well distributed sales force and requires an efficient logistics structure that enables the transportation of samples across long distances and within short time frames of a few hours or days. These companies usually offer medical and administrative support to their clients in relation to the outsourced tests. The accessibility of these tests, their reliability and the medical support provided by the supporting laboratory provide the doctors with greater security in their tests, generating an increase in demand for these tests.

Industry characteristics

The Brazilian private diagnostics industry is characterized by the following factors, among others:

- **Fragmented market:** The medical diagnostics industry in Brazil is highly fragmented, with hundreds of service providers with limited scale, mostly with a single patient service center. According to the DATASUS, there were approximately 18,535 laboratories in Brazil as of April 2008.
- **Outpatient-based:** Unlike in the United States and Canada, for example, in-hospital patient treatment in Brazil is generally dedicated to more complex treatments or surgeries. In Brazil, the market is based mainly on outpatient care. As a result, patients using the private system choose their providers taking account of factors such as convenience, location, healthcare plan coverage, doctors' recommendations and word-of-mouth.
- **Under-utilization of medical diagnostics by the population:** The Brazilian population uses diagnostic testing much less than in the United States and Canada, for example. This is due to, among other factors, a lack of resources in the public health sector and limited access to resources among private health providers.
- **Geographic presence:** Most laboratories consist of one or a few centers with a geographic presence limited to a municipality or specific local urban areas.
- **Brand awareness:** The most important characteristic that helps laboratories to attract and keep patients, despite size and scope of services provided, is brand awareness. The established close relationships with patients and with the local medical community have allowed laboratories to maintain high levels of loyalty among patients.
- **Limited scope of service:** Services are usually limited to either clinical analysis or diagnostic imaging, with some laboratories specializing in specific groups of exams. This requires patients to visit several laboratories in order to perform a number of different exams.
- **Socio-economic segmentation:** Most laboratories usually provide services to one specific segment of the market and may be unable to serve patients of different socio-economic classes and with different private healthcare coverage plans.

- **Demand for medical knowledge among doctors and patients:** Currently, doctors and patients seek not only data as the result of their tests but also to gain medical knowledge in the use of diagnostic tests.

Some major medical diagnostics companies in São Paulo and Rio de Janeiro, including our company, have responded to these trends and characteristics of the Brazilian healthcare industry and have sought to: (1) gain economies of scale through organic growth as well as acquisitions, (2) integrate clinical analysis and diagnostic imaging services through a “one-stop-shopping” concept, where patients have the convenience of performing a full array of exams in the same location and (3) operate in one or more lines of business and/or service specific clients in the market.

These leading players have been expanding their businesses, but mostly within their existing regions. These companies also have a considerable competitive advantage as only service providers with sufficient scale to have the necessary financial flexibility to purchase state-of-the-art equipment developed for use on a large scale and to reach minimum occupancy rates in order to achieve a profitable return on investment.

Comparison of the U.S. with the Brazilian, European and U.S. medical diagnostics markets

The following chart identifies certain characteristics, which, in our view, are the basic differences between the U.S. and Brazilian markets for medical diagnostics.

<u>Characteristics</u>	<u>United States</u>	<u>Brazil</u>
Capacity	Over capacity (highly consolidated)	Under capacity (highly fragmented)
Physicians	Office laboratories Highly trusted	Doctors do not collect samples (not allowed by health plans and culturally not accepted by patients) Limited physician influence (consumer choice)
Payment	Hybrid system: payment per exam carried out (fee for service) or per number of patients covered (with capped payments)	Payment per exam carried out (fee for service)
Patients/Business Model	No brand Clinical analysis and diagnostic imaging provided by separate companies.	Branding Clinical analysis and diagnostic imaging together

The medical diagnostics services industry in Brazil, Europe and the United States share many aspects in common, including the following:

- U.S. and European medical literature has great influence over medical procedures in Brazil;
- the leading physicians in Brazil were educated at medical schools in the United States and Europe;
- quality control procedures are the same (for example, ISO, Six Sigma and the College of American Pathology);
- suppliers of medical equipment are the same in the three markets;
- the technology used by the principal service providers is equivalent;
- the types exams for clinical analyses and diagnostic imaging are the same; and

- on average, in the market generally, diagnostic imaging tests represent approximately 60% of the gross revenues generated of Brazil's medical diagnostics industry.

THE BRAZILIAN HEALTHCARE SYSTEM

Brazil is the largest Latin American market for healthcare services in terms of gross revenue and population. The Brazilian market is composed of service providers, comprised mostly of private service providers (including physicians, hospitals, clinics and providers of clinical analysis and diagnostic imaging) and private and public payers (including private health insurance providers, company-sponsored plans, health management organizations (HMOs), physician-managed medical cooperatives and state and municipal government healthcare providers).

The Brazilian healthcare system consists of a public and a private system. The public system is based on the principle that every Brazilian citizen has the right to free healthcare coverage, guaranteed under the Brazilian Federal Constitution. In theory, this system of healthcare financing covers all Brazilian citizens and also includes medical support services, such as medical diagnostics. However, due to the relative inefficiency and poor quality and reliability of the services financed and rendered by the public sector, a privately financed healthcare and medical support services industry has developed in Brazil and resulted in the modernization of private medical services and related support services.

The public system

The Brazilian Federal Constitution provides that the federal government has a duty to provide free health services to all Brazilian citizens. Article 196 states that health is a right of all and a duty of the state and shall be guaranteed (i) by means of social and economic policies aimed at reducing the risk of illness and (ii) through universal and equal access to actions and services for its promotion, protection and recovery. Because of the significant differences that exist among the different regions and municipalities in Brazil, the Ministry of Health has decentralized public health services and delegated responsibilities to municipal and state health departments.

The Brazilian public healthcare system is managed by the *Sistema Único de Saúde*, or "SUS," an agency overseen by the federal Ministry of Health that was created in 1988. The SUS is a decentralized single-payer system, accounts for approximately one-half of Brazil's funded healthcare and medical support services and serves approximately 75% of the total population. The SUS oversees all healthcare and related medical support services provided by public institutions at all three levels of government (federal, state and municipal), as well as private institutions (not-for-profit organizations and commercial entities) that provide services under contract to those systems. The SUS network is financed by taxes collected by federal, state and municipal governments.

Under the Brazilian Federal Constitution, federal, state and municipal governments must invest a minimum percentage of their public revenues in healthcare, such as for the construction and operation of hospitals and health centers and the distribution of drugs and medicines. Article 77 of the Constitutional Transitory Dispositions Act ("ADCT"), enacted with Amendment No. 29 to the Brazilian Federal Constitution, dated September 13, 2000 requires the following minimum investments in health-related actions and public services: (1) on the federal level, in 2000, at least 105% of the amount invested in health-related actions and public services in fiscal year 1999 and, between 2001 and 2004, the amount for the previous fiscal year adjusted by the nominal fluctuation of the gross domestic product ("GDP"), (2) on the state and federal district levels, 12% of the tax proceeds until fiscal year 2004 and (3) on the municipal level, 15% of the tax proceeds until fiscal year 2004. Article 77, § 4^o of the ADCT also provided that these minimum investment requirements would remain in effect until a Complementary Law was enacted to regulate Article 198, § 3 of the Brazilian Federal Constitution.

The Brazilian Senate is considering a bill (currently PLC 089/2007) that, if enacted into Complementary Law, would require the following minimum investments in healthcare: (1) 15% for municipalities and the Federal District, (2) 12% for states and (3) 10% to 17% for the federal government. In order to become a law,

this bill must be approved by the Brazilian Senate, the House of Representatives and by the President to become law. According to the Ministry of Health, total public healthcare expenditures (including administrative fees and expenses) in Brazil reached R\$63.9 billion in 2003, R\$60.0 billion in 2004 and R\$72.0 billion in 2005. We believe these expenditures will increase if the bill described above is approved.

Although the government plays a key role in funding the public system, the government purchases most of the healthcare and medical support services from the private sector, including clinical analysis and diagnostic imaging services. Contracts between private providers and the SUS are assigned through public auctions. Federal Law No. 8,666, of June 26, 1993 (Administrative Proceedings and Bidding Law or Law No. 8,666/93), establishes a special procedure for public bids and general rules that govern administrative contracts between public and private entities. Any private contractor that intends to render services to the public sector generally must participate in a bid process, regulated by Law No. 8,666/93. In addition, bidders must comply with legal, tax, technical and financial requirements set out in the bid invitation. The bidder that offers the best price and best conditions is selected to enter into an agreement with the relevant public entity.

Under Brazilian law, the public entity is entitled to unilaterally amend the terms and conditions of the agreement or terminate them early, provided that the amendment or early termination is justified in view of the public interest. These contracts may be valid for up to five years and, after this period, a new bid process must be carried out by the public entity. See section “Risk Factors—Risks Relating to Our Business—Our business could be materially adversely affected if a governmental entity to which we provide services unilaterally alters or terminates its contract with us. We cannot guarantee that our contracts will be renewed or on what terms they will be renewed.”

The private system

Private health plans generally include three distinct categories of payers:

- **Health insurance companies.** Health insurance companies pay the medical expenses of their insured clients when they use the services of professionals in the provider’s network, or reimburse them in whole or in part for medical expenses incurred with a healthcare provider selected by the insured outside of the insurer’s network. Policyholders generally have the right to choose their own service provider of healthcare and medical support, although the amount of reimbursement varies according to the type of plan purchased.
- **Health management organizations.** These are companies engaged in the healthcare business operating through their own or a third-party’s network, including healthcare and medical support service providers. Either the individual participant or the contracting employer pays the monthly premiums to the company that operates the group. Within certain limitations, participants may have the right to use a provider of their own choice. Health management organizations are comparable to HMOs in the United States.
- **Physician-managed medical cooperatives.** These are cooperatives owned by groups of physicians who manage private healthcare plans in a manner similar to the health management organizations.

Private healthcare plans may be individual plans, when contracted directly between the patient and the payers, or corporate plans, when the patients are covered by plans contracted and paid for by their employers. According to *Agência Nacional de Saúde Suplementar*, or “ANS,” as of December 2007, 72.0% of private healthcare plans were contracted by corporations, 21.8% contracted by individuals and the remainder could not be identified.

In addition to the above-mentioned categories, some large corporations have developed self-managed plans, self-insuring the costs of healthcare coverage for their employees. These employees may be required to contribute a part of the costs of these services. In this system, independent providers render services to the employees of these companies, who are initially responsible for paying the service providers.

According to ANS, the number of Brazilians covered by private healthcare plans and self-managed plans, including dental plans, has steadily increased in the last few years, from approximately 31.2 million in 2001 to 39.1 million in 2007, covering approximately 25% of the total population according to *Lafis—Consultoria, Análises Sectoriais e de Empresas*, a Brazilian research consulting firm.

	Health Insurance Companies	Health Management Organizations	Physician-Managed Medical Cooperatives	Self-Insured Company Plans	Total
Number of users (in millions)	4.3	16.2	13.1	5.5	39.1
Companies	14	716	299	349	1,378
Representative body	Fenaseg	Abramge	Unimed	Abraspe/Ciefas	

	December						June 2007	
	2000	2001	2002	2003	2004	2005		2006
Number of users with dental plans	2.9	3.3	3.9	4.5	5.5	6.4	7.7	8.3
Number of users without dental plans	31.9	31.2	31.3	31.9	33.5	35.4	37.4	37.9
Total number of users	34.8	34.5	35.2	36.4	39.0	41.8	45.1	46.2

Source: ANS, *Caderno de Informações de Saúde Suplementar*, June 2007.

Increases in participation in private healthcare plans

Budgetary restrictions at all levels of the Brazilian public sector and the public system’s inefficiency and lack of investment in personnel, physicians, equipment and technology have limited the Brazilian population’s access to government funded healthcare. In certain cases, access to certain medical procedures is not available or requires a long waiting period. As a result, contracting a private healthcare plan is among the top five main desires of Brazilian families, according to a survey published by *Veja* magazine in February 2002, the weekly news magazine with the highest circulation in Brazil.

We believe this environment has led to the migration of patients from the SUS to the private health system. Additional reasons for the shift include:

- the constant improvements of the private system due to investments in equipment and technology;
- government incentives, such as favorable tax treatment for individuals contracting private healthcare plans and company-sponsored plans;
- the efforts of the private health plans to develop lower cost plans;
- the increase of the portion of the economically active population with formal employment positions;
- the increase in the average income of the Brazilian population in general, favoring the access to private health-related services;
- the increase in the perception of companies that it is important to offer high-quality health services to their employees, which may also be considered as a tool to attract and maintain professionals, increase productivity and decrease absenteeism; and
- the fact that the contracting of private health plans is the principal benefit sought by unions in collective bargaining agreements.

Private sector trends

During the last ten years, there has been a significant concentration in the number of payers in the private system in Brazil, where a few major companies have increased market share and established regional or even national footprints. This trend has been bolstered by ANS, which aims to maintain stability and a certain level of

quality in Brazil’s healthcare sector. Additionally, an increasing number of payers are optimizing their operations by rationalizing their relationship with healthcare providers, concentrating their activities in fewer players with broader geographic presence. This process of rationalization has led to a search for higher quality services by professionally organized service providers, with a view to reduce potential liabilities that not only may cause financial losses, but also damage to the payer’s image.

In response to varying perceptions of medical services, related costs and patient demands, the Brazilian private healthcare market has developed medical plans that are targeted at different economic segments of the Brazilian population. Generally, top-shelf plans (such as those which offer use of our executive premium patient service centers) offer better known providers, free access to all services and several amenities. Middle market plans (such as those which offer use of our executive patient service centers) generally are characterized by well-known market participants and relatively fewer choices compared to the high-end plans. The low-cost plans (such as those which offer use of our standard patient service centers) typically provide fewer choices and generally less well-known providers. By segmenting plans based on correlated coverage costs, payers are aiming at targeting different classes of the population.

In the past, most healthcare plans were selected and subscribed for by individuals. More recently the percentage of employer-sponsored plans, as a percentage of the total private system, has increased. According to ANS, these employer-sponsored plans accounted for approximately 60.4% of all private insured patients as of December 2003 and 72.0% as of December 2007. Brazilian demand for private healthcare and medical support services, although less sensitive to income, has therefore become dependent on overall employment conditions.

This increase in the relative number of corporate plans has had consequences for the relationship between payers and patients, given the differences in the regulatory framework between the individual and corporate plans, as described in “—Regulation” below.

Providers have been responding to changes in the payers’ environment in several ways. First, price pressure has forced providers to reduce margins, cut costs and rationalize procedures. As a result of these changes, providers have either focused on increasing size in order to benefit from increased economies of scale or have focused on industry niches. By specializing in specific segments, providers are better positioned to maintain their margins and serve payers with segmented client bases.

Additionally, the relationship of providers with both payers and patients has become increasingly important. Brand awareness with the client base has become an important marketing tool for providers to negotiate more favorable terms with payers.

Public sector trends

The table below sets forth the total and per capital expenditures on public health services by the federal, state and municipal governments in Brazil for the years indicated.

	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
Funds spent by the federal government on public health actions and services (R\$ billions)	20,351	22,474	24,737	27,181	32,703	36,475
Funds spent by Brazilian states on public health actions and services (R\$ billions)	6,313	8,270	10,078	12,224	15,104	17,633
Funds spent by Brazilian municipalities on public health actions and services (R\$ billions)	7,404	9,269	11,759	14,218	16,141	17,920
Brazil total (R\$ billions)	34,068	40,013	46,574	53,623	63,948	72,028

Source: Ministério da Saúde/Secretaria de Gestão Estratégica e Participativa (Departamento de Monitoramento e Avaliação da Gestão do SUS), 2006.

In the last ten years, in response to the growing and unmet demand of the population for health services, the Brazilian government has had to (1) allocate additional funds to the SUS network, (2) expand the SUS network through additional investments and (3) begin contracting private institutions to provide services the SUS network is not able to provide. These three factors have led to an increase in demand for diagnostic and preventive medical services in Brazil.

In its attempt to reduce the costs of providing health services and increase efficiency, the government has increased the number and types of services it outsources to private companies like ours. We believe that certain trends in the public sector will positively influence our business. These trends include, but are not limited to: (1) potential increases in government spending on healthcare mandated by legislation, (2) growing interest in and support for public/private partnerships due to growing awareness that such partnerships increase efficiency and decrease costs and (3) increasing focus by elected officials on healthcare (both during campaigns and once in office). The government is expected to increase its spending on public health because of the existing minimum requirements for healthcare investments and the expected growth of tax proceeds with any growth in GDP. See “—The Brazilian Healthcare System—The public system.” We believe increased government spending with healthcare will also entail a growing number of contracts with the private sector and spending on preventive health.

REGULATION

Under the Brazilian Federal Constitution, health is a right granted to all citizens and a duty of the government. As a result, healthcare is deemed essential to public policy and, therefore, is subject to regulation, inspection and monitoring by the government. In addition, the Brazilian Federal Constitution further authorizes the federal government, the states and the municipalities to regulate issues related to healthcare and to sanitation inspection, with a view to eliminate, reduce and prevent sanitation problems. The federal government issues laws and regulations of general application, which are enforced and complemented by the actions of the states and municipalities. Inspections are made by federal, state and municipal authorities, acting jointly.

Health services

Despite substantial regulation, supervision and direct involvement by the government, the Brazilian Federal Constitution allows that healthcare services be provided by private companies concurrently with the government. Clinical analysis and diagnostic imaging services are not considered health services but rather instruments of medical support. The Brazilian Federal Constitution does not include health services and medical support services among the activities that must be performed exclusively by the government, and therefore private entities are free to undertake these activities.

The federal government, states and municipalities both provide healthcare and medical support services and regulate the provision of these services by private entities. Federal Law No. 8,080, of September 19, 1990, as amended, outlines the general principles for the organization and rendering of health services by both public and private entities. Under the existing framework, the public health system is organized under the SUS, and the national board of SUS is empowered to issue regulation relating to the interplay between private providers of health services and public entities that are part of the SUS. States and municipalities may also issue their own *Códigos Sanitários*, or “Health Codes,” statutes related to healthcare and sanitation matters.

In view of the relative inefficiency and sometimes questionable quality and reliability of the healthcare services rendered by the government, private healthcare plans and company-sponsored plans have met the increasing demand from Brazilian upper- and middle-classes for higher-quality healthcare and medical support services.

In addition, the healthcare industry is supervised and regulated by the ANS, an autonomous governmental agency overseen by the Brazilian Ministry of Health, which has powers to regulate and monitor the activities of private healthcare plans and company-sponsored plans. ANS is the primary policy making body for issues of

public health plans and oversees the relationship between healthcare plan companies, healthcare service providers (including diagnostic service providers and clinical analysis laboratories such as our company) and the final customers.

Many health service providers, such as clinics, physicians, hospitals and clinical analysis laboratories, render services to clients of private healthcare plans and company-sponsored plans and are paid in accordance with service agreements between the service providers and the plans. On November 28, 2003, ANS issued Normative Rule No. 54, which regulates the main terms and conditions of the agreements between the diagnostic service providers and healthcare plans.

Regulation of health plans

Law No. 9,656, of June 3, 1998, as amended (the “Health Plans Law”), established rules related to the sector, establishing two contract types: individual (or family) and collective. The main characteristic of an individual or family health plan lies on the fact that the agreement is entered into between the individual and the healthcare plan operator, and the plan provides medical assistance for the contracting party and his/her dependants (family plan). On the other hand, the collective health plan agreement is entered into between a legal entity (such as a company, association, foundation or trade union), and the healthcare plan operator and provides medical assistance for the employees, associates and managers of such legal entities, including or not their respective dependants.

These two types of health plans are subject to different rules especially concerning adjustment and termination provisions. Except for certain very specific situations, healthcare plan operators are forbidden to unilaterally terminate or suspend individual or family plans, while collective plans may be unilaterally terminated by the HMO if and when provided in the respective agreement.

For collective plans, ANS acts only as a regulatory monitor, with no influence on the determination of the price adjustments. ANS monitors and has oversight of the market in relation to the quality of services and the compliance with the legal requirements applicable to the plans, including the coverage offered. Pricing rules for individual plans, however, are based on several variables, including the date of signature, geographic location and coverage provided under the plan. The pricing mechanism is based on an annual index defined by ANS that takes into consideration industry-wide price fluctuation.

The Health Plans Law prohibits exclusive agreements by healthcare plan operators with medical services providers (such as hospitals and medical and diagnostic centers, among others). Therefore, a single agreement entered into between DASA and a healthcare plan operator cannot prevent DASA from celebrating contracts with other healthcare plan operators.

Sanitation regulation

Overview

The general guidelines for sanitation inspection are outlined by Federal Law No. 9,782, of January 26, 1999, as amended, that created ANVISA and established the *Sistema Nacional de Vigilância Sanitária*, or “SNVS”; the *Conselho Nacional dos Secretários Estaduais de Saúde*, or “CONASS”; the *Conselho Nacional dos Secretários Municipais de Saúde*, or “CONASEMS”; and the *Centros de Vigilância Sanitária Estaduais do Distrito Federal e Municipais*, or “VISAS.”

ANVISA is an autonomous government agency that regulates and controls sanitation inspection in Brazil. ANVISA operates under a management agreement entered into with the Ministry of Health but is independent from the Ministry of Health in budgetary and managerial matters. The directors of ANVISA hold office for determined terms and may not be freely dismissed by the Ministry of Health. ANVISA has powers to (1) coordinate actions of the several authorities responsible for sanitation inspection in all government levels,

(2) issue regulation and enforce the policies and actions related to sanitation inspection, (3) issue prior registration of food products and drugs, among others, (4) apply penalties in case of violation of sanitation laws and regulations and/or jeopardy of public health, such as cease orders, cancel permits and suspension of operations, (5) monitor state and municipal sanitation authorities, (6) enforce laws and regulations applicable to sanitation and (7) monitor prices of drugs, health and medical equipment and health services. ANVISA also has powers to inspect health services, including hospital, diagnostic and therapy services, as well as the physical premises, equipment, locations and procedures used or applied in the rendering of the health services, including the disposal of related waste.

CONASS and CONASEMS were formed by state and municipal health agencies and have as their duties to: (1) apply the guidelines and principles issued by ANVISA in the development of healthcare services, (2) coordinate joint efforts of the many state and municipal secretaries in decisions related to the management of the public health system and the regulation of the health services, (3) direct proposals to legislative authorities to enhance the regulation of the healthcare services and the rendering of the services by the public health system.

VISAS are subordinated to the state and municipal Secretaries of Health and have powers to issue regulation, coordinate, supervise and inspect products and services related to health or otherwise subject to sanitation inspection.

Furthermore, under federal laws, clinical tests laboratories, diagnostic centers and collection, points must comply with the Resolution enacted by the Joint Board of Directors of ANVISA, known as RDC No. 50, of February 2, 2002, which establishes rules for approval of architectural plans and the flow of activity, and RDC No. 306, of December 7, 2004, which governs the waste management plans of health services (PGRSS).

In addition, RDC No. 302, of October 13, 2005, addresses technical regulations for the operation of clinical laboratories, diagnostic centers and collection points. Pursuant to RDC No. 302, of October 13, 2005, the sites that operate as clinical laboratories, diagnostic centers and/or collection points must (1) be registered at the *Cadastro Nacional de Estabelecimentos de Saúde* (the Federal Enrollment of Health Sites, or “CNES”), (2) be licensed to operate by the state or municipal health authorities, issued after inspection of the facilities (*licença de funcionamento*), (3) and have a technician in charge of its activities bearing a *Anotação de Responsabilidade Técnica* (Technical Responsibility Certificate, or “ART”). As a general rule, the License to Operate and the ART are valid for one year, and the CNES is valid for an undetermined time.

Sanitation inspection of diagnostic service providers

Inspection of sanitation standards is carried out at three governmental levels, including through an intricate system of licenses and permits in the state and municipal levels that requires periodic renewal of such licenses, as well as notice of changes to existing premises and equipment, which are described in further detail below.

Federal inspection. Law No. 6,437, of August 20, 1977, as amended, sets forth the sanitation standards and the penalties for their violation. Any diagnostic service provider or clinical analysis laboratory that operates without a permit issued by the relevant sanitation authority is in violation of sanitation rules and is subject to penalties that range from warning, suspension of activities, cancellation of permit to penalty fines. Violations are verified in administrative proceedings that follow the principles of due process of law.

State and municipal inspection. Since we have centers in the states of São Paulo, Rio de Janeiro, Paraná, Goiás, Santa Catarina, Ceará, Tocantins, Minas Gerais and Bahia, as well as in the Federal District, we are subject to the state and municipal statutes and regulations in force in these states and in the Federal District, as described below.

State of São Paulo. State Law No. 10,083, of September 23, 1998, as amended (the State Sanitation Code), regulates health-related activities, *i.e.* actions and activities directly or indirectly related to the protection and maintenance of health, aimed at the general public and performed by public or private entities and individuals.

Any entities that perform health-related activities, including diagnostic service providers and clinical analysis laboratories, must enroll with the *Centro de Vigilância Sanitária*, or “CVS”, established by State Decree No. 26,048, of October 15, 1986, prior to beginning operations. Enrollment is subject to the presentation of documents by the applicant, evidencing that the equipment, premises and personnel meet the technical requirements for the activity. In addition, State Decree No. 12,479, of October 18, 1978, sets out that any clinical laboratory must appoint a professional responsible for the technical aspects of each of its fields of activity, as well as technical personnel to perform services. State Decree No. 12,479 and CVS Rule (*Portaria*) No. 1 of January 22, 2007 define the *Cadastro Estadual de Vigilância Sanitária* (the State Sanitation Monitoring Registry, or “CEVS”) and the administrative procedures related to registration and licensing in the field of sanitary monitoring in the State of São Paulo. State Decree 44,954 of June 6, 2000 defines the scope of action of the *Sistema Estadual de Vigilância Sanitária* (State System for Sanitation Monitoring, or “SEVISA”) and the need for inter-government integration of the information from the CEVS, operating licenses, technical responsibility terms and other regulations.

City of São Paulo. In the City of São Paulo, the Municipal Sanitation Code, approved by Municipal Law No. 13,725 of January 9, 2004, applies to health-related activities. Under the Municipal Sanitation Code, entities that perform health-related activities must enroll with the *Cadastro Municipal de Vigilância Sanitária*, or “CMVS,” which is regulated by the *Portaria da Secretaria Municipal de Saúde de São Paulo* No. 1,239, of August 18, 2007. Enrollment with CMVS allows entities that perform health-related activities to commence operations and consists of a public directory of such entities. Such enrollment is valid for one year, counted from the date of its publication in the Official Gazette, and must be renewed for subsequent one-year terms. The operation of any entity without the enrollment and registrations mentioned above or without the presence of the professional responsible for technical operations, or any violation of sanitation rules and regulations, may subject the violator to penalties such as a warning, fines, suspension of activities and cancellation of the permit or registration with the sanitation authorities.

State of Rio de Janeiro. The Sanitation Code of the State of Rio de Janeiro, approved by State Decree-Law No. 214, of July 17, 1975, states that the State of Rio de Janeiro Secretary of Health is responsible for the regulation and monitoring of activities related to any sources of radioactivity and the disposal of radioactive waste, as well as the operation of laboratories for clinical and pathology analysis. The Secretary of Health may act directly or under cooperation agreements with federal, state and municipal authorities. The operation of any entity without the required registration, or any violation of sanitation rules and regulations, may subject the violator to penalties such as a warning, fines, and suspension of activities and cancellation of the sanitation permit or registration with the sanitation authorities.

City of Rio de Janeiro. SMG Rule No. 693, of August 17, 2004, which repealed Rule No. 542, of May 11, 2001, provides that the entities that perform health-related activities in the City of Rio de Janeiro must obtain a permit issued by the Municipal Secretary of Health, or the “CMVS”. To obtain a permit, an applicant must file documents evidencing that its equipment, premises and personnel meet the technical requirements for the activity. Radiology activities and clinical analysis laboratories must operate under specific permits even if they are part of larger premises such as health clinics or hospitals. The permit must be renewed for further one-year terms, pursuant to an application filed annually by April 30 of each year. Any facts that change the conditions in which the permit was issued, such as changes of address, modification in the premises, corporate reorganizations, changes in the by-laws, changes in the radiology equipment, change of professional responsible for technical operation of the unit, and cessation of activities must be notified to the Municipal Secretary of Health.

State of Paraná. Under State Law No. 13,331, of November 23, 2001 (the State Health Code), governed by Decree 5,711, of May 5, 2002, the State of Paraná has powers to regulate the establishment of healthcare service providers and the issuance of permits to such providers. Such licenses must be issued by the Municipalities of the State of Paraná, which have the powers to inspect and monitor the premises in which healthcare services are provided. Any healthcare service provider that operates without a permit is in violation of the State Law No. 13,331 and is subject to penalties such as a warning, temporary or definitive suspension of activities,

cancellation of the sanitation permit issued by the sanitation authorities, cancellation of the *alvará de funcionamento* (municipal commercial permit) and fines. Under Resolution of the State of Paraná Secretary of Health No. 8, of March 11, 1987, the clinical analysis laboratories must obtain a permit from the *Serviço Regional de Vigilância Sanitária*, or “SRVS,” the regional sanitation monitoring service that has jurisdiction over the laboratory and appoint a professional responsible for the technical aspects of the services. To obtain a permit, an applicant must file documents evidencing that its equipment, premises and personnel meet the technical requirements for the activity. A technical inspection is made by the sanitation authorities prior to the issuance of the permit. Any changes of the conditions in which the permit was issued, such as changes of address, modification in the premises, changes in the by-laws and the change of professional responsible for technical operation of the unit, must be notified to the SRVS that has jurisdiction over the laboratory.

City of Curitiba, Paraná. Under Municipal Law No. 9,000, of December 27, 1996, which promulgated the Sanitation Code of the City of Curitiba, all health-related service providers must obtain from the Municipality of Curitiba a sanitation license, which is valid for a one-year term and must be renewed by application filed 30 days in advance of the expiration of the license. In order to be allowed to operate, any clinical analysis laboratory must have been granted with a construction permit, a sanitation license and a special operational permit, if required by applicable state or federal laws.

Municipalities of Cascavel and Foz do Iguaçu, Paraná. The municipalities of Cascavel and Foz do Iguaçu do not have municipal sanitation laws and, therefore, state laws apply. These municipalities adopted State Law No. 13,331, of November 23, 2001, regulated by Decree 5,711, of May 5, 2002, which regulates the organization and operation of the SUS in the State of Paraná, establishing rules for the protection and recovery of health and governs health violations and the respective administrative process.

State of Goiás. The Sanitation Code of the State of Goiás, approved by Law No. 16,140, of October 2, 2007, sets forth the rules and inspection procedures applicable to health services on both state and municipal levels. The State of Goiás has the power to regulate the establishment of healthcare service providers and the issuance of permits. Any healthcare service provider that operates without a permit is in violation of Law No. 16,140 and is subject to penalties such as a warning, temporary or definitive suspension of activities, cancellation of the sanitation permit issued by the sanitation authorities and fines.

Municipality of Goiânia, Goiás. Municipal Decree No. 1,588, of December 28, 1992, provides that the activities of a health-related clinical analysis laboratory must be duly authorized by the relevant sanitation authority which will issue the sanitation license to operate. In addition, each health service area must be supervised by a legally qualified expert.

Municipality of Formosa, Goiás, Municipal Law No. 114, of August 23, 2002, established that the municipality, through the Municipal Health Office and in conjunction with other supervisory agencies, must supervise the health effects of products, premises, equipment, establishments and/or service providers that may directly or indirectly interfere with collective or individual health conditions, and we are required to have a sanitary permit for the decentralized collection point existing in the municipality.

State of Santa Catarina. State Law No. 6,320, of December 20, 1983, promulgated the Health Code of the State of Santa Catarina, which sets forth the basic rules for authorization and inspection of clinical analysis laboratories in the state. Any person may open or modify the location of a health establishment in the State of Santa Catarina, provided that previous authorization and registration are granted by the relevant state sanitation authority, subject to penalties of warning, suspension of activities, cancellation of the sanitation permit and/or fines.

Municipality of Florianópolis, Santa Catarina. Municipal Laws No. 3,291, of November 1, 1989 and No. 3,970, of January 14, 1993, govern the operation of clinical analysis laboratories and collection points in the city of Florianópolis. Establishments not in compliance with these laws are subject to penalties foreseen in the federal sanitation legislation.

State of Tocantins. The Decree No. 680, of November 23, 1998, promulgated the Sanitation Code of the State of Tocantins, and set forth the basic rules for the authorization and inspection of clinical analysis laboratories in the state. According to the Sanitation Code, establishments engaged in health-related activities may only operate with permits granted by the relevant sanitation authority.

Municipality of Palmas, Tocantins. The Sanitation Code of the Municipality of Palmas was being discussed in the municipal chamber of representatives as of the date of this offering memorandum. As a result, Decree No. 680, of November 23, 1998, which promulgated the Sanitation Code of the State of Tocantins and sets forth the rules for the authorization and inspection of clinical analysis laboratories, is applicable to the municipality.

Municipality of Fortaleza, Ceará. The State of Ceará does not have its own Sanitation Code and, therefore, observes the federal sanitation rules. The City of Fortaleza is ruled by the Municipal Ordinance (*Portaria*) No. 26/2002, which sets forth the terms and conditions for the registration of clinical analysis laboratories in the municipality.

State of Minas Gerais. State Law No. 13,317, of September, 24, 1999, promulgated the Health Code of the State of Minas Gerais and provides that the agents of the Health Secretary of the State of Minas Gerais, of the Health Local Directories and of the Municipals Health Offices or equivalent entities are the only entities competent to issue sanitation permits. Additionally, the Health Code of the State of Minas Gerais states that the operation of any entity without the required sanitation permit or registration, or any violation of sanitation rules and regulations, may subject the violator, after the due administrative process, to penalties such as a warning, fines, suspension of activities and cancellation of the relevant permit or registration with the sanitation authorities.

Municipality of Belo Horizonte, Minas Gerais. Municipal Law No. 4,323, of 1986, regulated by the Decree No. 5,616, of 1987, and Law No. 7,031, of January 12, 1996, set forth the Sanitation Code of the City of Belo Horizonte. Under Law No. 7,031, permission to operate a diagnostic or clinical analysis laboratory shall be granted under by the relevant sanitation authority.

State of Bahia. Under State Law No. 3,982, of December 29, 1981, which governs the health system of the State of Bahia, the state has the right to supervise the activities of centers located in the City of Salvador.

Federal District. Law No. 5,027, of June 14, 1966, promulgated the Sanitation Code of the Federal District, which is regulated by the Decree No. 8,386 of January 9, 1985. This is the basic law that must be followed for the establishment of a laboratory and decentralized collection point in the Federal District.

Radiation Regulation

Our medical activities that generate small quantities of nuclear radiation are subject to control by the Comissão Nacional de Energia Nuclear, or “CNEN.” This agency oversees radiation sources that may cause significant damage to the public health. Any change to the working conditions set forth by CNEN must be previously authorized. Also, our employee responsible for managing the radiation source must be registered with CNEN.

The management of radioactive waste is subject to specific federal environmental regulation and applicable rules enacted by CNEN.

Environment

In Brazil, medical establishments are subject to stringent environmental laws and regulations at the federal, state and municipal levels. Such laws establish several obligations, including environmental licensing requirements for laboratories, and compliance with environmental quality standards related to solid waste, effluents and other matters. Any non-compliance with such obligations may subject the violator to administrative

and criminal sanctions, in addition to the obligation to repair or to indemnify damages caused to the environment and third parties. As far as civil liabilities are concerned, Brazilian environmental laws impose a strict liability standard. Moreover, Brazilian environmental laws and regulations allow piercing the corporate veil of a company in order to ensure sufficient financial resources for the recovery of damages caused against the environment.

The generation, treatment and final disposal of controlled/hazardous products are governed in Brazil by both general and specific legislation. As a general rule, the federal legislation defines the term polluter as a person/company who directly or indirectly causes environmental degradation. Based on this legal provision, the Brazilian public authorities in general are adopting the understanding that whoever generates residues of whatsoever nature is responsible for the environmental damages caused as a result of the management (temporary storage, transportation and final disposal), even when such management is carried out by third parties.

As far as medical waste is concerned, ANVISA and the *Conselho Nacional do Meio Ambiente* (Brazilian Council for the Environment, or “CONAMA”) enacted Resolution RDC No 306/2004 and Resolution No 358/2005, respectively, which establish the general rules on the management of the waste generated by health establishments, including, among others, clinics and analysis laboratories. ANVISA Resolution RDC No. 306/2004 required preparation of a Health Services Waste Management Plan for each health establishment.

Environmental agencies from Rio de Janeiro and Paraná currently consider that all of our activities are subject to environmental licensing requirements. Our labs are also subject to regulations relating to the control of residues generated in connection with our medical diagnostics services. Although we retain specialized service providers to render these services, we remain subject to liability for any environmental damage caused by such service providers.

Regulation of the professions

In addition to the permits and licenses issued by state, municipal and federal autonomous authorities, all centers of clinical analysis and clinical pathology laboratories, decentralized collection points and diagnostic centers must be registered with the professional council that regulates the profession. Laboratories and collection points must register with the *Conselho Regional de Biomedicina* or the *Conselho Regional de Medicina* (the regional councils of biomedicine and medicine, respectively). Failure to obtain that registration leads to penalties such as warnings, fines, suspensions, failure to obtain or renewal of the health permit, as well as the cancellation of the professional admission.

Legal status of contracted doctors

We are required by law to have medical doctors to take responsibility for (1) signing clinical analysis prepared by our laboratories and (2) diagnostic imaging tests prepared in our patient service centers or telemedicine facilities. All medical doctors and other professionals responsible for the clinical analysis are our employees. All medical doctors and other professionals responsible for diagnostic imaging tests, which are specialized in specific types of tests, provide services to different customers and consequently do not have any employment or other professional relationship with us. These professionals have their own clinics, work for hospitals and other laboratories that compete with us and therefore are not viewed as having a labor relationship with us. Thus, doctors reading and signing diagnostic imaging tests are employees or partners of physicians’ organizations that have entered into service agreements with us. We believe that if any such doctor were to assert the existence of an employment relationship with our company, it would not meet the tests ordinarily used by labor courts to confirm the existence of an employment relationship.

In eight cases, doctors who are partners of companies with which we have service contracts have alleged that an employment relationship existed between our company and them. To date, three out of eight cases have been adjudicated in our favor. Of the five remaining cases, we won two that are now being appealed and lost three, which we are now appealing. For more information please see “Description of Our Business—Legal proceedings—Labor.”

In addition, medical companies have the obligation to contribute to the *Instituto Nacional da Seguridade Social*, or “INSS”, the Brazilian social security system, on behalf of their employees. Since there is no labor relationship between us and the physicians, we are not required to withhold payments to the INSS on their behalf. We are subject to inspections by representatives of INSS from time to time and, to date, no administrative proceeding or assessment of contributions allegedly due by us to the INSS was commenced or threatened.

Any regulatory change requiring the establishment of an employee relationship with the medical doctors that render services to us, or numerous adverse decisions finding that an employment relationship exists, would result in substantial contributions, labor charges and incremental costs. See “Risk Factors—Risks relating to our business—Any adverse determination of the juridical relationship between the specialized medical clinics that render services to us may negatively affect our results of operations.”

Issuer

Dasa Finance is an exempted company with limited liability, incorporated by DASA on February 26, 2008 under the laws of the Cayman Islands with company registration number 205602. The registered office of the issuer is at the offices of Maples Corporate Services Limited, PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands. The Memorandum and Articles of Association of the Issuer have not been amended since its incorporation.

DASA Finance is a wholly-owned finance subsidiary of DASA. Accordingly, the ability of DASA Finance to pay interest and other amounts due on the notes will depend upon DASA's financial condition and results of operations. In the event of an adverse change in DASA's financial condition or results of operations, DASA Finance may not have sufficient funds to repay all amounts due on or with respect to the notes.

DASA Finance will not publish financial statements, except for such financial statements that DASA Finance may be required under the laws of the Cayman Islands to publish. In addition, DASA Finance does not intend to furnish to the trustee or the holders of the notes any financial statements of, or other reports relating to, DASA Finance. DASA Finance will not have any operations independent from DASA. DASA Finance's obligations under the notes will be fully and unconditionally guaranteed by DASA.

As of March 31, 2008, DASA Finance had no convertible debt securities, exchangeable debt securities or debt securities with warrants attached. On a pro forma basis after giving effect to this offering, the total amount of loan capital outstanding of DASA Finance will be US\$250.0 million (consisting entirely of the notes and guaranteed by DASA), and DASA Finance is not expected to have any unguaranteed loan capital. DASA Finance does not hold any capital that is likely to have a significant effect on the assessment of its own assets and liabilities, financial position or profits or losses.

The authorized share capital of DASA Finance is US\$50,000, divided into 50,000 shares of US\$1.00 par value each. The issued share capital of DASA Finance is one share of US\$1.00 par value.

The directors of DASA Finance are Marcelo Marques Moreira Filho and Flávia Pareto Conrado. For more information on these directors, see "Management."

The articles of association of DASA Finance will be available at the offices of the Luxembourg paying agent.

Description of Our Business

OVERVIEW

We believe we are the largest medical diagnostics company in Brazil and among the five largest publicly traded medical diagnostics companies in the world, in each case based on revenues for the year ended December 31, 2007. We operate in nine Brazilian states and the Federal District with 17 distinct brands. At March 31, 2008, we had 10,312 employees and 269 outpatient service centers (of which 18 were franchisees), including 34 “mega centers” of over 1,500 square meters. In 2007, we processed over 15.1 million test requisitions, an increase of 62.9% compared to 2006.

	As of and for the Year Ended December 31,			As of and for the Three Months Ended March 31,	
	2005	2006	2007	2007	2008
Gross operating revenue (R\$ million)	576.9	729.7	930.7	206.2	280.1
Number of requisitions (millions)	5.2	9.3	15.1	2.8	5.6
Number of outpatient service centers	178	223	268	251	269

We provide clinical analysis and diagnostic imaging services throughout Brazil, offering a comprehensive portfolio of over 3,000 clinical analysis and diagnostic tests. Our business model is based on the following five pillars: (1) a multi-product offering, which allows us to service our clients using a “one-stop shop” concept, (2) a multi-brand strategy, which allows us to service all social classes in a segmented manner, (3) a multi-region strategy, which contemplates expanding our network and achieving economies of scale through geographic dispersion, (4) a multi-payer customer base, which diversifies our risk among different types of health care providers and (5) a multi-market strategy of providing services to both the private and public healthcare sectors, which further increases our diversification and growth opportunities.

We operate in four primary business lines: (1) outpatient services, (2) inpatient services, (3) services to government healthcare providers and (4) laboratory-to-laboratory services. While our main business is providing services to outpatients at our patient service centers, we have been increasing our services to hospitals, or inpatient services, since 2000, increasing our services to laboratories throughout Brazil since 2005 and recently entered the market for services to government healthcare providers through our acquisition of CientificaLab in July 2007.

We commenced operations over 40 years ago, and since 1999, we have pursued expansion through both organic growth and strategic acquisitions. Our organic growth is based primarily on: (1) expanding our geographic coverage through the establishment of new service centers, (2) expanding our offering of diagnostic imaging tests, which generally provide a higher contribution margin, and increasing the percentage of our revenues from such tests, (3) offering inpatient services in the regions where we are active in the outpatient market, (4) expanding the base of laboratories to which we provide services and (5) seeking to enter into additional contracts to provide services to government healthcare providers. Our growth through acquisitions is based on acquisitions of selected medical diagnostics companies that are well positioned in strategic regions and segments of the market. Our net operating revenues increased by a compounded annual average growth rate of 29.1% from 1999 to 2007.

We are present throughout Brazil and maintain service centers in the states of Bahia, Ceará, Goiás, Paraná, Rio de Janeiro, Santa Catarina, São Paulo, Minas Gerais and Tocantins and in the Federal District. According to data from the IBGE, these regions accounted for 66.5% of the Brazilian population in 2007 and accounted for 76.9% of Brazil’s GDP in 2005. Our laboratory-to-laboratory business processes samples for over 2,600 laboratories located throughout Brazil.

HISTORY

We trace our activities to July 7, 1966, when Dr. Humberto Delboni and Dr. Raul Dias dos Santos founded the Laboratório Clínico de Médicos Associados em Patologia Map S/C Ltda. in São Paulo. Dr. Caio Auriemo, Chairman of our Board of Directors, joined our company in 1974, which was renamed Laboratório Clínico Delboni Auriemo S/C Ltda., or “Delboni Auriemo,” on July 15, 1985. Beginning in 1982, we began to offer diagnostic imaging tests in addition to the clinical analysis tests offered until then, reflecting the beginning of our strategy to offer multiple products and services at each patient service center. In 1996, we constructed our central laboratory in Barueri, which we believe to be the largest laboratory processing clinical analysis in Latin America based on potential production capacity, and, in 1997, we inaugurated our first mega center in the neighborhood of Tatuapé, in São Paulo.

In July 1999, several investment funds led by Pátria purchased an interest in our company. Together with Balu 460 Participações, S.A., which was then controlled by Dr. Auriemo, these investment funds controlled our company. In October 1999, Delboni Auriemo acquired the laboratory Bio-Ciência Lavoisier Análises Clínicas S.A., or “Lavoisier,” located in São Paulo, thereby becoming the largest private diagnostic services company in Latin America. This acquisition launched our “multi-brand” strategy. In September 2000, Lavoisier was merged into Delboni Auriemo, which was renamed Diagnósticos da América S.A.

In December 2000, we acquired Bronstein Administradora Laboratorial S.A. and Laboratório Bronstein S.A. These laboratories together represented the largest diagnostic services company in the city of Rio de Janeiro. This acquisition launched our multi-region strategy. In March 2001, we purchased Corlab—Laboratório de Patologia Clínica S.A. and Lâmina Laboratório de Análises Clínicas e Investigações Anátomo-Patológicas S.A., laboratories that, together, represented the third largest private diagnostic services company in Rio de Janeiro, in terms of gross operating revenue and number of test requisitions. We merged these companies into our company. In January 2003, we expanded to the city of Curitiba in the state of Paraná, acquiring Laboratório de Patologia Clínica Curitiba S.A., which we also merged into our company. We changed our name to Diagnósticos da América S.A. on August 17, 2000.

Although we conduct all these businesses directly, we continue to use the established *Delboni Auriemo*, *Lavoisier*, *Lâmina*, *Bronstein* and *Curitiba Santa Casa* brand names for our patient service centers. In 2002, we opened our first *Club DA* premium patient service center adjoined to a *Delboni Auriemo* mega center in São Paulo.

In November 2003, we acquired Presmedi Rio Serviços Médicos Ltda. and Centro Radiológico da Lagoa Ltda., a smaller diagnostic imaging company in Rio de Janeiro, which we merged into our company. We also acquired Elkis e Furlanetto—Laboratório Médico S/C Ltda., L.A.C.—Laboratórios de Análises Clínicas S/C Ltda. and Elkis e Furlanetto—Centro de Diagnósticos e Análises Clínicas S/C Ltda. in May 2004, extending our presence in the city of São Paulo. We also merged these companies into our company.

In November 2004, we completed an initial public offering of our common shares, selling 40.8% of our common shares to the public. In March 2006, we completed a follow-on offering of common shares, after which a total of 62.5% of our common shares were held by non-affiliates. In June 2007, our shareholder structure was further simplified. As of December 31, 2007 the public holds 93.5% of our common shares. Of the remaining 6.5%, Dr. Caio Auriemo holds 6.3%, and other board members and two directors hold 0.2%.

Since our initial public offering, dated November 18, 2004, we have continued to acquire companies in the diagnostic testing business. The following table summarizes our acquisitions in 2005, 2006 and 2007.

<u>Acquisition Date</u>	<u>Company Acquired</u>	<u>Location</u>	<u>Purchase Price (R\$ millions)</u>	<u>Number of Service Centers Added</u>	<u>Our Direct and Indirect Percentage Ownership</u>
April 2005	Pasteur	Federal District	6.0	12	100%
July 2005	Frischmann	Paraná	30.0	16	100%
	Aisengart				
October 2005	Image	Bahia	40.4	2	100%
	Memorial				
December 2005	Alvaro	Paraná	25.7	12	100%
June 2006	LabPasteur	Ceará	12.9	14	100%
July 2006	MedLabor	Tocantins, Goiás and Federal District	4.9	8	100%
October 2006	VitaLâmina	Santa Catarina	4.5	2	100%
October 2006	Atalaia	Goiás	25.0	12	100%
May 2007	Exame	Federal District	56.0	19	85.7%(1)
July 2007	CientíficaLab	São Paulo, Rio de Janeiro and Minas Gerais	86.4	N/A(2)	100%
August 2007	Med Imagem	Rio de Janeiro	44.7	8	100%

- (1) The remaining 14.3% of Exame is owned by the estate of Bechara Daher Neto. We signed an agreement in May 2007 with the estate of Bechara Daher Neto under which we will acquire the remaining 14.3% of Exame for R\$7.7 million. The transfer of the remaining 14.3% of Exame to us is conditioned upon approval of the judge handling of the estate of Bechara Daher Neto.
- (2) DASA operates more than 700 facilities through CientíficaLab, but none of these patient service centers is owned by DASA.

All companies acquired before 2005 have been merged into DASA. However, of the companies mentioned in the chart above, which were acquired between 2005 and 2007, only Pasteur has been merged into DASA.

OUR STRENGTHS

We believe we have the following competitive strengths:

- **Economies of scale and platform for growth.** As we have grown, we have achieved increasing economies of scale, which enable us to process our clinical tests efficiently and at low cost. Tele-medicine and the centralization of imaging results have enabled us to be competitive in the diagnostic imaging sector. As our central laboratories currently operate below maximum capacity, we believe we can expand our processing capacity as necessary in the medium-term with limited incremental capital expenditure. In addition, we believe our “hub” and “spoke” model of mega centers and standard patient service centers offer a flexible platform for continued growth for our operations. Furthermore, we believe our size and nationwide presence gives us greater bargaining power with suppliers thereby allowing us to further reduce costs and increase our margins.
- **Nationwide presence.** Although our main line of business is outpatient services, we have diversified our business into inpatient services, public sector services and laboratory-to-laboratory services, both diversifying our exposure to the outpatient business and providing cross-marketing and operational synergies with that business. We provide services in the principal urban centers of Brazil, located in states which together account for 76.9% of Brazil’s GDP, according to IBGE data for 2005. The

coverage of our laboratory-to-laboratory services is nationwide. Our logistics networks allow us to collect samples efficiently from patients and laboratory clients and process them at one of our eight central laboratories or, for inpatient services, in our smaller hospital-based laboratories.

- **Multi-brand strategy.** We offer three separately branded levels of outpatient service centers—executive premium, executive and standard—consistent with the segmentation of the healthcare industry in Brazil. Our brands differ in the amenities they offer and consequently in the prices we charge. This strategy has enabled us to be a leader in the Brazilian private sector healthcare industry, while providing the same high quality services to all of our patients. Our multiple brands enable us to offer our services to a wide range of healthcare plans and patients from varying socio-economic groups. While we use *Club DA* as our nationwide brand for the executive premium segment, we also develop and maintain the outpatient brands that we acquire, which generally are well-established regionally, to promote the loyalty of our patients and physicians.
- **Multi-product offering.** We have the capacity to carry out substantially all of the medical diagnostics tests and exams currently prescribed in Brazil. We generally organize our patient service centers geographically around our 34 mega patient service centers, where we offer a “one-stop shop” concept for clinical analysis and diagnostic imaging tests. In addition, our smaller centers enable us to provide some services in areas where the patient base would not support a mega center, while allowing our patients to use the nearest mega center for other tests. In the inpatient services business, we offer quick-turnaround for tests performed and processed at the hospital, while obtaining cost efficiencies for tests that are processed at our central laboratories.
- **Focus on quality and physicians.** We are committed to ensuring the highest quality diagnostic services for all our patients. Our commitment to quality service and reliable results is the same for all our lines of business. We were the first laboratory in Brazil to receive ISO 9001 and INMETRO certifications granted by the *Instituto Nacional de Meteorologia, Normalização e Qualidade Industrial*, the Brazilian National Institute of Measurements, Standards and Quality (or INMETRO). We are also certified by the College of American Pathologists (CAP), ISO 14001 and OHSAS 18001. In the clinical analysis sector, we operate between the 5.5 and 5.7 Sigma standards (equivalent to 32 to 13 errors per one million exams). This can be compared to 4.8 Sigma (equivalent to 447 errors per one million exams) for the industry as a whole. We value the confidence that physicians and other medical professionals place in our company and brands, and we continually strive to improve the functionality of the data we provide to physicians, who can influence a patient’s decision to use our services.
- **Focus on patients.** Through our extensive network of patient service centers throughout Brazil, we offer our patients convenient locations for their diagnostic tests, an appealing environment with support services and amenities, extended service hours, a wide variety of examinations and fast delivery of results. Some hospital tests for hospital inpatients are provided by our on-site laboratories, allowing for rapid and efficient service tailored to the specific needs of the patient. Our laboratory-to-laboratory services enable us to provide the benefits of our quality and efficiency to smaller laboratories serving patients throughout the country.
- **Medical support.** The increasingly large number of diagnostic tests available and the constant technological innovation of the sector demands that physicians have extensive knowledge of tests, interpretation of results and their application. In addition to processing diagnostic tests, we have contracts with nearly 1,000 physicians at physicians’ organizations who provide suggested interpretations of imaging tests when we deliver the results and are available to answer questions from doctors throughout the country based on up-to-date knowledge of the clinical analysis and imaging tests we offer. We seek to promote greater interaction between the physicians who request the tests and these specialists so that the data are used to maximize the benefits to the patient’s health and treatment.
- **Experienced management team with a proven growth track record.** Our senior management has extensive experience in the medical diagnostics industry and in achieving organic growth and expansion through acquisitions. From 1999 to 2007, our annual net operating revenues increased at a compounded annual average growth rate of 29.1%, which was accompanied by increases in quality and

productivity and reduction of production costs and delivery time. Our management has been successful in integrating the operations and businesses of the companies we have acquired. Our board of directors is made up of seven members, of whom four are independent and have extensive experience in medicine, governmental relations, management of human resources, finances and retail marketing.

OUR STRATEGY

The following are key elements of our strategy:

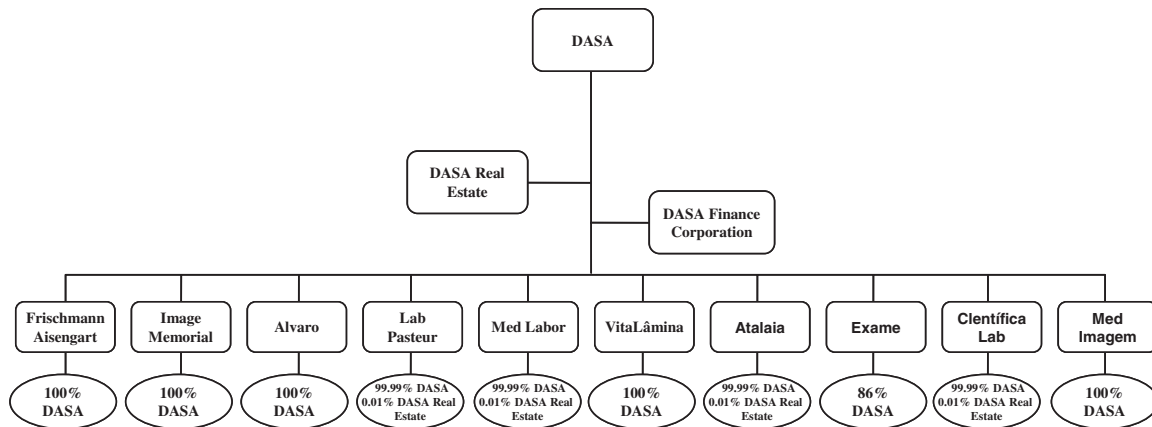
- ***Continue to grow our business.*** We intend to participate in the expected growth in the Brazilian medical diagnostic testing market, both through organic expansion and acquisitions.
 - ***Continue to expand in markets in which we operate.*** We intend to open approximately 100 patient service centers in the next five years, of which 19 are expected to be mega centers and 81 are expected to be standard patient service centers, in accordance with our “hub” and “spoke” strategy. Additionally, we may pursue strategic acquisitions in markets where we currently operate that offer opportunities for synergies and economies of scale, and these acquisitions may substitute for a portion of our organic growth.
 - ***Expand into other Brazilian markets.*** We consistently explore expansion opportunities in other large metropolitan areas in Brazil through the acquisition of regional market leaders with loyal client bases. These acquisitions would provide a basis for organic growth in new regions through the introduction of additional services, such as diagnostic imaging, and would enable us to further increase our bargaining power with suppliers. In our public sector business, we intend to seek contracts with additional governmental entities to whom we can provide services. In addition, we expect to continue to expand the geographical reach of our laboratory-to-laboratory business through contracts with additional small laboratories throughout the country.
 - ***Introduce new and complementary services.*** We continually add new clinical analysis and diagnostic imaging services to our portfolio, and we continue to seek revenue from complementary services, such as performing clinical trials for pharmaceutical companies and analysis of genetically modified organisms. These measures expand our sources of revenues and we believe they further enhance our reputation of commitment and dedication to the medical community.
 - ***Respond to market demand for more advanced medical exams.*** Our use of mega centers and our scale generally enable us to offer diagnostic imaging tests that may not be cost-effective for smaller competitors to provide. We intend to offer a greater variety of diagnostic imaging tests in our patient service centers and to increase the percentage of our revenues from such tests, as the growth in demand for these services has been in excess of the growth in demand for our clinical tests.
- ***Continue to reduce our costs.*** We believe that our continued growth should permit us to continue to reduce our costs and expenses per test.
 - ***Maintain our low-cost producer position.*** We intend to further exploit increasing economies of scale as we continue to grow through organic expansion and acquisitions in each of our lines of business. In laboratory-to-laboratory services, we believe that the increase in the volume of non-routine (or esoteric) tests will result in additional cost reductions. We have an aggressive cost management strategy, and we continue to seek synergies as we integrate the operations of the companies that we acquire into our central laboratories, mega centers and satellite patient service centers.
 - ***Improve efficiencies through management processes, logistics and information technology.*** As the largest independent clinical analysis and diagnostic imaging company in Latin America in terms of gross operating revenues and the number of test requisitions for year ended December 31, 2007, we have managerial expertise that we believe will improve the efficiency of the businesses we have acquired. For example, we continue to implement a protected Internet database that will integrate all patient records at our service centers and we are exploring other methods of using

information technology to improve our test processes, billing and marketing. We believe these new processes will also improve our own efficiency.

- **Maintain the highest quality service.** Our commitment to the quality and reliability of our services is the fundamental principle that drives our strategy for each of our business lines. Key elements of this strategy include the following:
 - **Apply Six Sigma quality controls to all of our processes.** We are implementing the Six Sigma quality control program in the processing of clinical analysis tests by our central laboratories to increase the precision of our processes, so as to minimize errors when compared to international quality standards.
 - **Identify and implement advanced medical diagnostic technologies.** We regularly update our equipment and technology to respond to the needs of our patients, and the medical community and to increase the quality and efficiency of our processing capacity. We believe we are the largest single consumer of diagnostic equipment in Brazil and that our market position gives us greater negotiating leverage in acquiring or leasing equipment. This position gives us access to advanced technologies that enhance the quality and reliability of our services. We believe we have one of the most modern portfolios of equipment in the market, both for clinical analysis and imaging tests.
 - **Continue to develop and implement an integrated information technology system.** We currently operate systems that allow for rapid communication of test results between our clients, our service centers and central production centers, as well as the monitoring of our inventory of materials required for the performance of tests. Additionally, we are continuing to implement a database system that allows us to electronically collect and locate a patient’s historical test results (the patient’s electronic file), permitting centralized analysis of a patient’s file. Moreover, we have implemented an ERP system focused on back office management and developed a call center system that facilitates appointments and patient orientation. Finally, we are developing a new service platform to manage customer service that will be integrated to our central laboratories.
 - **Respond to the demands of patients and physicians.** Our patients and the medical community demand precise, high quality diagnostic test results and medical information related to these tests on a short turnaround basis. In order to respond to these demands, we provide diagnostic assistance to physicians in interpreting test results through our contracts with physicians’ organizations, and we deliver the results of clinical and imaging tests through electronic means. In addition, we seek to remain up-to-date with the latest medical treatments that are being developed worldwide, as well as with the respective clinical analysis and imaging tests demanded.

CORPORATE STRUCTURE

The following chart sets forth our corporate structure:



We expect that our subsidiary DASA Real Estate, which holds certain of our properties, will be designated an “unrestricted subsidiary” in the indenture relating to the notes.

OUR SERVICES

We offer both clinical analysis and diagnostic imaging services directly to patients through our network of outpatient service centers, to hospitals through our inpatient services business, to governmental entities through our public sector business and to other laboratories through our laboratory-to-laboratory services business. As of December 31, 2007, we had capacity to perform approximately 11.6 million outpatient clinical tests per month, and we were using 37.1% of our capacity. As of the same date, we also had the capacity to perform 1.1 million diagnostic imaging tests per month, and we were using 21.3% of our capacity. We calculate our capacity to process clinical tests based on the number of tests we could produce if we hired additional personnel to run our central laboratories 24 hours a day with our existing buildings and equipment; and we calculate our capacity of performing diagnostic imaging tests based on the number of exams we could produce if we operated from 6:00 a.m. to 10:00 p.m. in all our patient service centers six days a week.

Clinical analysis

Our clinical analysis tests accounted for approximately 62.4% of our outpatient and inpatient gross operating revenue in 2007. Our clinical analysis tests include routine clinical tests as well as esoteric tests, anatomic pathology tests and molecular diagnostic tests, which require more specialized equipment and training.

Routine clinical tests

Our routine clinical tests measure the functions of the body's vital organs. These tests include, among others:

- hematology tests, such as blood cell counts and coagulation tests;
- chemistry tests, such as blood cholesterol, glucose and urea tests;
- endocrinology tests, such as hormone dosages;
- immunology tests, such as tests for infection and auto-immune diseases;
- microbiology tests, such as cultures and tests of sensitivity to antibiotics;
- cytology tests, such as tests to detect uterine cancer;
- urinalysis tests; and
- pregnancy tests.

We collect test samples at our patient service centers and transport them to our nearest central laboratory. We process these tests at our eight central laboratories in Barueri, São Paulo (two laboratories); in Rio de Janeiro, Rio de Janeiro; in São José dos Pinhais and Cascavel, Paraná; in Brasília, in the Federal District; in Fortaleza, Ceará; and Aparecida de Goiânia, Goiás. We deliver the results of approximately 90% of routine tests the same day samples are collected, and we deliver the results to patients at any of our patient service centers or through a secure site accessible on the Internet. The remaining tests, approximately 10%, require more than one day for processing, and, on average, their results are delivered within two days.

In our public sector services business, we collect test samples at public patient service centers and transport the tests that we do not process at the hospitals to our central laboratory in Barueri, São Paulo.

In our inpatient services business, we process many routine tests at the hospitals and clinics we serve and we send the other samples to our central laboratories.

In June 2006 we launched a program entitled Laboratório Popular, aimed at offering clinical analysis and diagnostic imaging tests at lower prices to patients who are not members of health plans. As of March 31, 2008, the Laboratório Popular program was present in 105 of our patient service centers and generated monthly revenues of over R\$1.8 million.

Esoteric tests

Esoteric tests are less common clinical tests that require special equipment or more highly skilled personnel. They are in general infrequent and their prices are higher than those of more routine tests. The esoteric tests we offer include the following:

- specialized tests in endocrinology and immunology;
- specialized tests in microbiology, which is the study of microscopic organisms and their effects on other life forms;
- molecular biology tests that use the molecular information in cells and their structures;
- specialized tests in oncology developed for the prevention, diagnosis and treatment of cancer; and
- toxicology tests for chemicals and poisons and their effects on the body.

As with our routine tests, we collect test samples at our patient service centers and transport them to our nearest central laboratory. Similarly, in our laboratory-to-laboratory services, we collect the samples of over 2,600 independent laboratories throughout Brazil and transport them to our nearest central laboratory as well. We process most of these tests at our central laboratories and outsource a few to third-party reference laboratories, primarily in the United States, including the Quest Diagnostics Nichols Institute in Los Angeles, California. We deliver the results of our esoteric tests in the same manner as our routine tests, and the time required to deliver the results varies with the complexity of the exam and whether we must send the sample to a third-party laboratory for processing.

We constantly endeavor to refresh our exam portfolio by introducing new exams in response to medical discoveries, technological developments and market trends. We recently introduced a number of new more complex clinical analyses, including tests for delta F508 mutation, prenatal genetics testing for cystic fibrosis, Y chromosome microdeletion, MLL gene (myeloid/lymphoid or mixed lineage leukemia), FLT3 gene (FMS-like tyrosine kinase 3), NPML gene (nuclear isoforms promyelocytic leukaemia gene) and Chromosome Philadelphia (translocation chromosome 9 and chromosome 22), BTA (bladder tumor antigen). We are taking advantage of recent developments in molecular diagnosis and human genomic studies to increase significantly the number of our molecular diagnosis tests. In 2007, we offered more than 100 different types of molecular diagnostic tests and performed, on average, over 7,500 of such tests per month.

Diagnostic imaging services

Our diagnostic imaging services accounted for approximately 37.6% of our outpatient and inpatient gross operating revenue in 2007. We offer a wide range of diagnostic imaging tests, including the following:

- *MRI*. Magnetic resonance imaging (MRI) tests create a magnetic field that causes protons in a patient's body to send signals in a manner that can be compiled into an image of the bones and tissues in the patient's body.
- *CAT scans*. Computerized axial tomography, or "CAT" scans use a rotating x-ray tube to capture cross-section images of a patient's body that are combined to produce three-dimensional images of the body.
- *Ultrasounds*. Ultrasound systems emit, detect and process high frequency sound waves to generate images of internal structures.
- *Nuclear medicine tests*. In nuclear medicine tests, a patient inhales or is injected with radioactive pharmaceuticals whose gamma radiation is detected by special cameras to provide information about organ functions.
- *X-rays*. Our x-ray capabilities include both conventional x-ray systems, used to create images of bones and contrast-enhanced organs and blood vessels, and digital x-ray systems that adds computer image processing to conventional systems.

- *Bone densitometry.* Bone densitometry measures bone density and the calcium content of bone for the diagnosis of osteoporosis and other bone diseases.
- *Endoscopy.* Endoscopy tests use a tiny video camera to visualize the insides of bodily canals or hollow organs.
- *Mammography.* Our mammography exams include mammotomy, which uses a probe carefully to remove breast tissue samples for biopsy testing, and stereotaxy, which uses images from slightly different angles to guide the location of biopsy testing.
- *Electrocardiograms and stress tests.* Electrocardiograms, known as “EKGs” or “ECGs,” are used to detect and diagnose heart abnormalities by measuring the electrical currents associated with the heart. Stress tests measure the heart’s reaction to physical exercise.

During 2007 we made available integrated and annotated reports for thyroid pathology, gastrointestinal endoscopy, antiphospholipid syndrome (APS), heart tomography, coronary tomography and cardiac tomography tests.

At December 31, 2007, we had over 800 imaging machines, which were operated by approximately 1,326 support employees. The resulting images were read by members of physician organizations that provide those services to us as independent contractors.

Other services

In addition to offering clinical analysis and diagnostic imaging tests, we offer a variety of additional services, such as:

- carrying out clinical trials for pharmaceutical companies;
- performing vaccinations at our patient service centers; and
- performing genetic tests to identify genetically modified organisms in food.

In offering these services, we seek to build on our expertise in diagnostic testing to supplement our revenues and reinforce our image of offering one convenient source for a variety of diagnostic and other medical needs.

Our gross operating revenues from these other services represented less than 0.2% of our gross operating revenues in the fourth quarter of 2007. Although we do not expect these services to account for a significant percentage of our gross operating revenues in the future, we will continue to explore expanding our portfolio of related services where they are profitable and add value to our brands.

Outpatient service centers

We provide our outpatient services through 269 outpatient service centers as of March 31, 2008 (of which 18 were franchisees) in the metropolitan areas of nine Brazilian states and the Federal District, each center strategically positioned and branded to attend to a specific segment of the market. At all our centers, we focus on serving patients efficiently and respectfully and on providing a comfortable environment for patients and their family and friends who are waiting for tests to be performed. In the fourth quarter of 2007 and the first quarter of 2008, our outpatient services represented 76.1% and 74.2%, respectively, of our gross operating revenue.

Mega centers

In 1997, we began organizing our patient service centers into mega centers with more than 1,500 square meters that act as a “one-stop shop” for a broad range of clinical analysis and diagnostic imaging tests. These mega centers function as the hub for a number of smaller satellite patient service centers in nearby areas that

provide most or all routine clinical analysis exams and some diagnostic imaging tests, while referring patients to the mega centers for more complex exams. Beginning with mega centers under the *Delboni Auriemo* brand, we have begun expanding the mega center concept to our *Lâmina*, *Lavoisier*, *Bronstein*, *Image Memorial* and *VitaLâmina* brands. We now have 34 mega centers and intend to open 100 more patient service centers in the next five years, of which 20 are expected to be mega centers and 80 are expected to be satellite centers.

We believe this method of organization sets us apart from our competitors in the markets where we operate, and we believe the “one-stop shop” concept brings several advantages, such as the following:

- *Convenience for patients.* By visiting a mega center, a patient can complete a number of tests in one visit, and we offer patients the ability to schedule several tests at specific times to reduce waiting time. We believe the convenience of these centers helps attract new patients.
- *Operating synergies.* Installing a wide variety of equipment at one location allows us to optimize the use of our personnel who receive patients and collect test samples and to optimize the use of the physician organizations whom we contract to perform and interpret diagnostic imaging tests. In addition, with limited capital expenditures, we are able to construct executive premium *Club DA* facilities adjoining the mega centers, whose patients use the same testing equipment available to other patients at the mega center but who enjoy more amenities and support services.
- *Increased average revenue per requisition.* Mega centers enable us to increase our average revenue per requisition, both because the greater availability of tests increases the average number of tests per requisition and because our diagnostic imaging services, which have higher average prices, are concentrated in the mega centers. The average gross operating revenue from our mega centers in 2007 were six times larger than the average gross operating revenue of the patient service centers of our outpatient services business.

Satellite centers

In communities in which we have not yet constructed a mega center or where the patient base would not support a mega center, we provide our services through smaller patient service centers, which also offer more routine clinical and imaging tests. These service centers allow us to more effectively penetrate local communities at a lower fixed cost than the mega centers and maintain brand awareness in the cities in which we operate. At the same time, the satellite patient service centers direct patients to mega centers for more complex tests that cannot be performed at those smaller centers.

Franchises and licenses

Of our 269 outpatient service centers, 18 centers are operated under franchises or licensing arrangements, which, collectively, represented 2.3% of our gross operating revenues in 2007 and 2.3% the first quarter of 2008. However, we view these franchised and licensed patient service centers as an efficient way to add to our managerial resources and establish a presence in remote neighborhoods or those with less significant volumes of test requisitions. These patient service centers are smaller centers that do not have imaging equipment and serve to collect clinical analysis samples. We process all clinical analysis related to samples collected in our franchised or licensed service centers at our central laboratories as we do for test samples collected at other patient service centers.

Most of these franchise and license relationships became part of our business in our acquisition of our *Bronstein* and *Lâmina* centers, and all of them are located in the state of Rio de Janeiro. Most of our 13 *Bronstein* franchisees generally have five-year franchise contracts for specified zones in the Rio de Janeiro metropolitan area. Our five *Lâmina* licensees have a slightly different legal arrangement consisting of a service contract with our company coupled with a contract granting them a limited license to use our brand in their operations. To date, our franchisees and licensees have sought to renew these arrangements, and we have generally granted

those renewals except in cases where we have decided to acquire the franchised center for the strategic development of new services. Under these arrangements, we recognize 100% of the revenues generated by franchisees and pay fees that correspond, on average, to 20% of the gross operating revenue of the respective patient service center owned by such franchisee or licensee.

Differentiation through brands

We offer three separately branded levels of patient service centers—executive premium (only in São Paulo and Rio de Janeiro), executive and standard – consistent with the segmentation of the private healthcare sector in Brazil. Our brands differ in the amenities they offer and consequently in the prices we charge. The clinical test samples from all the centers outside hospitals are performed at the same central laboratories with the same equipment, and we offer the same quality diagnostic imaging services to all patients. The segmentation of our brands enables us to tailor the services we offer to each specific segment of the market, in accordance with the different levels of coverage provided by private healthcare plans and the socioeconomic differences of each region and segment.

In Brazil, patients have discretion to determine which provider to use in contrast to other markets like the United States. Accordingly, our agreements with major private health insurers are non-exclusive contracts. As a result, laboratories compete on the basis of service and quality rather than price alone.

We currently operate the following outpatient service centers:

São Paulo (greater City of São Paulo):

- 18 *Club DA* executive premium-level service centers located inside some of our *Delboni Auriemo* units;
- 35 *Delboni Auriemo* executive-level service centers, including 19 mega centers; and
- 58 *Lavoisier* standard-level services centers, including six mega centers.

Rio de Janeiro (greater City of Rio de Janeiro):

- 3 *Club DA* executive-level premium centers located inside some of our *Lâmina* units;
- 14 *Lâmina* executive-level centers, including three mega centers;
- 42 *Bronstein* standard-level centers, including three mega centers; and
- 8 *Med Imagem* standard-level centers.

Bahia (greater Salvador):

- 2 *Image Memorial* executive-level service centers.

Ceará (greater Fortaleza):

- 13 *LabPasteur* executive-level service centers.

Goiás (greater Goiânia):

- 14 *Atalaia* executive-level service centers.

Paraná (greater Cascavel, Curitiba and Foz do Iguaçu):

- 24 *Frischmann Aisengart* executive-level service centers in Curitiba;
- 8 *Curitiba Santa Casa* standard-level centers in Curitiba; and

- 13 *Alvaro* standard-level service centers in Cascavel and Foz do Iguaçu.

Santa Catarina (greater Florianópolis):

- 1 *VitaLâmina* executive-level service center.

Federal District (Brasília):

- 17 *Exame* executive-level service centers:
- 20 *Pasteur* standard-level service centers.

Executive Premium—*Club DA*. Our *Club DA* patient service centers, which were launched in 2002, target upper class and upper-middle class patients. Adjoining several of our *Delboni Auriemo* and *Lâmina* mega centers, our 21 *Club DA* centers allow easy access to the wide range of clinical analysis and diagnostic imaging tests available at the mega centers from exclusive private lounges with a coffee area, meeting rooms that can be used to work while waiting for tests, Internet access, valet parking, bilingual Portuguese and English-speaking personnel and other amenities. We also offer delivery of test results to the homes of *Club DA* clients.

Our *Club DA* patients generally choose a diagnostic laboratory based on the privacy we offer, their doctors' recommendations or the amenities provided, are often more concerned about preventive procedures than our other clients, value personalized and exclusive service and place a premium on obtaining their test results quickly. In positioning the brand among physicians, we seek to market our *Club DA* centers to physicians who are leaders in their fields or who work extensively with premium category private health plans. We market our *Club DA* centers to premium health plans who demand an extensive test portfolio and for whom the premium brand attributes of our *Club DA* centers are consistent with the positioning of the health plans in their own markets.

Executive—*Delboni Auriemo, Lâmina, Image Memorial, LabPasteur, Atalaia, Frischmann Aisengart, VitaLâmina* and *Exame*. Our executive-level patient service centers target middle class and upper-middle class patients. Offering the same tests available to *Club DA* patients, our 132 executive-level centers contain attractive waiting rooms and coffee areas and sometimes offer amenities like live music on weekends and play areas for children. One of our *Delboni Auriemo* centers in São Paulo is a specialized center designed for pregnant women, mothers and their children, and we are exploring other opportunities to open other specialized centers.

Our executive-level patients generally choose a diagnostic testing provider based on word-of-mouth recommendations and referrals from their doctors or their private health plans or company-sponsored plans. These clients value convenience, short waiting times at the patient service centers and a range of tests aimed both at prevention and treatment of disease. In positioning the brands among physicians, we target physicians who primarily serve the middle class and upper-middle class and seek to meet their demands for consistent quality and reliability, support in interpreting and using tests and close relationships with diagnostic providers. We market our executive-level centers to private health plans and company-sponsored plans on the basis of our broad test portfolio, our certified quality and the convenience we offer for plan participants.

Standard—*Lavoisier, Bronstein, Curitiba Santa Casa, Alvaro, MedLabor, Pasteur* and *Med Imagem*. Our 164 standard-level patient service centers target middle and lower-middle class patients. Offering the same tests available to the patients of our other brands, the brands of this segment offer efficient service but with fewer amenities than in our other patient service centers (except for *Santa Casa, Alvaro* and *MedLabor* that provide only clinical analysis and *Med Imagem*, which currently offers diagnostic imaging services only). Several of our standard-level brands have also introduced frequent user benefits that provide discounts to patients who do not have health insurance and who present their personal frequent user cards.

Our standard-level patients generally have the right to choose their diagnostic laboratory, but their choices are limited by the coverage offered in their private healthcare and company-sponsored plans. These patients tend

to use a diagnostic services company for exams related mainly to the treatment of existing symptoms, rather than exams aimed at preventing diseases. We seek to work within the limitations imposed by private healthcare and company-sponsored plans used by these patients, providing convenient, quality tests with greater geographic coverage and lower prices than those offered at the service centers of our other brands. In marketing these brands among physicians, we focus on physicians who serve mainly middle and lower-middle class patients, and we emphasize our ability to offer these patients accessible prices. We market our standard-level brands to private healthcare and company-sponsored plans that seek to limit the costs of exams and are attracted to the quality of our services and by the easy access we offer to the members of their plans through our large network of service centers.

Inpatient services

The inpatient segment represented 5.3% and 5.4% of our gross operating revenue in the fourth quarter of 2007 and the first quarter of 2008, respectively. In addition to our patient service centers, we currently have contracts with 27 hospitals and outpatient clinics for whom we process certain more routine clinical analysis tests onsite and collect samples for other clinical tests that we process at our central laboratories. We have ten laboratories located in hospitals and clinics in São Paulo, four laboratories located in hospitals and clinics in Rio de Janeiro, six laboratories located in hospitals in Paraná, three laboratories located in hospitals in Brasília and five laboratories located in hospitals in Ceará. Inpatient services are an attractive growth opportunity for our company, as partnerships with hospitals guarantee a steady flow of patients and increase awareness of our brands among physicians on staff at the hospitals. We also offer diagnostic imaging tests as part of our inpatient services business at some hospitals, including for Hospital Santa Paula, Hospital Villa Lobos and Hospital São Luiz Anália Franco in São Paulo, and Clínica São Vicente in Rio de Janeiro. We recently signed an agreement to provide services to the Hospital Mãe de Deus in Rio Grande do Sul. We strive to innovate in seeking new ways to provide diagnostic services to hospitals. For example, we have developed a small mobile clinical testing cart that can be easily moved around a hospital to allow convenient testing of a limited range of clinical tests.

While the small laboratories we maintain onsite in hospitals generally do not generate significant economies of scale, we believe that the provision of onsite services in hospitals through these laboratories allows us to increase our visibility among the medical community and to take advantage of the opportunities this presents to cross-market our outpatient and laboratory-to-laboratory services.

Public sector services

The public segment represented 10.4% and 12.5% of our gross operating revenue in the fourth quarter of 2007 and the first quarter of 2008, respectively. In July 2007, we acquired CientíficaLab, a provider of clinical analyses to state and municipal government hospitals and clinics. CientíficaLab has contracts with 47 institutions, in which 32 are municipal, 12 are state hospitals and clinics in São Paulo, Rio de Janeiro and Minas Gerais, and the remainder are support contracts with other institutions. Under these contracts, CientíficaLab supports and/or operates more than 700 facilities.

We regard CientíficaLab as the platform we will use to expand our presence in the public sector, focusing on increasing the number of new contracts with state and municipal governments and increasing the number of tests performed under existing contracts. We believe there is a trend among state and municipal governments toward outsourcing diagnostic testing, both to improve turnaround time and overall service quality and to reduce costs. We believe we are well positioned, based on our experience in the medical diagnostics business, our infrastructure and our quality standards, to grow our public sector business in response to this trend.

CientíficaLab's existing contracts generally have a term of one year, but they may be renewed for a term of five years at the sole discretion of the governmental entity. Once this five-year term is over, renewal requires a bidding process.

Laboratory-to-laboratory services

The laboratory-to-laboratory segment represented 8.2% and 7.9% of our gross operating revenue in the fourth quarter of 2007 and the first quarter of 2008, respectively. In December 2005, we acquired Alvaro, a provider of processing and analysis services to more than 1,600 small- and medium-sized laboratories, primarily throughout southern and northeastern Brazil. Since this acquisition, we have increased the number and geographic distribution of laboratories we serve to over 2,600 throughout Brazil. As of March 31, 2008, Alvaro serviced 76.9% of the laboratories included in our portfolio. We believe we are one of the leading providers of laboratory-to-laboratory services in Brazil.

The chart below sets forth the number of client laboratories Alvaro served as of the dates indicated in the specified regions of Brazil:

	As of March 31,	
	2007	2008
North	121	121
Northeast	380	604
Center West	242	311
South	1,086	1,126
Southeast	348	488

Various factors have contributed to the market growth in services rendered to laboratories. The extent of medical knowledge spread by the media and the Internet among patients and doctors has generated a growing demand for up-to-date tests, even far from large urban centers in areas that are not a consolidation target for large diagnostic testing companies. The growing number and complexity of available tests and the increased automation of clinical test processing have increased the investments that would be necessary for small laboratories. As a result, an increasing number of laboratories have chosen outsourcing as an alternative that allows them to make available to their clients a more up-to-date portfolio of tests without the need for additional investments in equipment and personnel to provide these tests.

Several specialized companies, like our company, have emerged that offer these outsourced services at competitive prices. This market is highly sensitive to price levels and dependent on a competent and well-distributed sales team and an efficient logistics structure that allows for the transportation of samples over long distances within a few hours or days. These companies have the availability to offer medical and administrative support to their clients that would otherwise be unable to offer certain tests. The accessibility to additional tests, the reliability of outsourced testing providers and the medical support offered by these specialized companies have generated a significant increase in the demand for these tests.

Seasonality

We typically experience somewhat higher patient volume at our patient service centers from August through October due to weather conditions and winter illnesses in the cities in which we operate. We also generally experience somewhat lower patient volume in December due to the holidays and in January and February due to vacation schedules.

LOGISTICS AND INFRASTRUCTURE

Under Brazilian regulations, our facilities require several government permits in order to operate, and these vary by state and municipality. We have obtained or requested all required permits. In some locations, the procedure for obtaining permits takes a relatively long time, and some of our facilities still do not have these permits. None of our facilities have ceased to be operational due to the lack of permits.

In order to operate a patient service center or central laboratory, we are also required to obtain permits relating to the adequacy of the facilities, issued by municipal authorities and, in some cases, by the local fire department.

Failure to comply with these laws and regulations could, among other consequences, result in a shutdown of patient service centers, loss of operating licenses, inability to conduct certain diagnostic tests, fines, criminal penalties or other enforcement actions, which could have a material adverse effect on our business, results of operations or financial condition. In addition, compliance with future legislation could impose additional costly requirements on us.

Central laboratories

Samples for the tests we perform are collected from our patients in our patient service centers, governmental health facilities and independent laboratories we serve and delivered to our central laboratories for processing. At these laboratories, all the tests are performed with equipment organized into flexible modules without walls, allowing easy moving of test samples within the laboratory and facilitating communication between lab personnel. We believe we could rapidly increase our total capacity at our central laboratories without significant additional capital expenditures by, among other things, reconfiguring the laboratories and adding another shift.

We carefully filter the air in our central laboratories and generally maintain high standards of hygiene consistent with the Brazilian and international certification standard and accreditations we have received. See “—Quality assurance.”

Outpatient and inpatient services

We currently have seven central laboratories that process samples for our outpatient services business, not including the laboratory dedicated to our public sector business described below. These laboratories also process samples for non-urgent tests collected at hospitals served by our inpatient business when those samples cannot be processed at our onsite laboratories in the hospitals.

- *Barueri, São Paulo.* Built in 1996, our central laboratory located in Alphaville, in the municipality of Barueri, in greater São Paulo, is, we believe, the largest clinical diagnostic laboratory in Latin America. This laboratory is a part of our Operating Technical Center (*Núcleo Técnico Operacional*), which also contains our administrative headquarters, a mega center, two auditoriums and a training area with a total of approximately 2,100 square meters. Our Barueri laboratory is currently configured to perform up to three million tests per month.
- *Rio de Janeiro, Rio de Janeiro.* Built in 2001, our 1,300 square-meter central laboratory in the neighborhood of Botafogo is currently configured to perform up to 1.5 million clinical tests per month.
- *Brasília, Federal District.* In April 2005, we acquired Pasteur, in July 2006, we acquired MedLabor and in May 2007, we acquired Exame. Since then we have begun to reorganize the production area and processes, including the establishment of a 900 square-meter laboratory. The current installed capacity of this laboratory is of approximately 1.5 million exams per month.
- *Cascavel, Paraná.* At December 31, 2005, we acquired Alvaro, a company with a central laboratory of approximately 1,000 square meters located in Cascavel with a production capacity of 2.0 million exams, focusing on the processing of esoteric exams. This is the same laboratory that processes tests for our laboratory-to-laboratory business, and the capacity figures in the preceding sentence include processing of tests for that business as well.
- *Fortaleza, Ceará.* In June 2006, we acquired LabPasteur, with a small laboratory of approximately 400 square meters located in Fortaleza with a production capacity of 0.6 million exams.

- *Goiania, Goiás.* In October 2006, we acquired Atalaia, with a central laboratory of approximately 500 square meters located in Goiania with a production capacity of 1.5 million exams.
- *São José dos Pinhais, Paraná.* Opened in November 2007, our laboratory in São José dos Pinhais, in greater Curitiba has approximately 1,300 square meters. The laboratory is currently configured to perform up to 1.5 million tests per month. This laboratory allows us to integrate our production operations in Paraná.

We also perform clinical trials for multinational pharmaceutical corporations at our Barueri and Rio de Janeiro central laboratory facilities. These trials usually involve performing diagnostic tests on volunteers and analyzing the results over a period of months or years. In 2007, there were approximately 200 active protocols, each protocol representing one drug that is being tested on a certain number of patients. We are currently performing 25,000 tests per month.

Public sector services

Our recently acquired subsidiary CientíficaLab operates a 1,300 square-meter central laboratory in greater Barueri that processes all the tests for our public sector clients. This laboratory is currently configured to perform up to 2.0 million tests per month.

Laboratory-to-laboratory services

Our central laboratory in Cascavel, Paraná, which is described above under “—Outpatient and inpatient services,” also processes all the tests for our laboratory-to-laboratory services business. In the event demand exceeds this laboratory’s capacity, we believe we can rely on the idle capacity of our other laboratories throughout Brazil.

Transportation of samples

Outpatient, inpatient and public sector services

We transport thousands of clinical test samples three to four times daily from our patient service centers to be analyzed in our central laboratories. We operate a fleet of 330 vehicles (170 rented and 160 owned) that handle the transportation of samples and materials necessary for our tests. Additionally, we fly certain samples daily on our own airplanes and outsourced fleet, to be analyzed at our Barueri and Rio de Janeiro central laboratories. All clinical material and samples are handled by trained personnel and are packaged and transported in containers that are in compliance with the sanitation guidelines imposed by the Brazilian health authorities and our own internal policies. We increasingly use tele-medicine to provide services more quickly and efficiently. This is particularly useful in diagnostic imaging, as we are able to transmit digitalized images to doctors from the physicians’ organizations that we have contracted to review and analyze the tests.

For a few esoteric tests for which we do not have onsite equipment to analyze test samples, we have contracts with the Quest Diagnostics Nichols Institute in Los Angeles, California, to process the tests for us and return the results to us. We send these test samples by air carrier to the United States and generally receive the results on a daily basis. We currently use this U.S. laboratory for more than 100 different clinical tests.

Laboratory-to-laboratory services

We have a logistics structure that allows efficient collection of samples nationwide, including (1) 44 commercial representatives that use 188 logistics agents, (2) 37 regional offices, (3) transportation and conservation systems for samples, (4) an information technology system to monitor the entire process and (5) post-sales support. The commercial representatives are responsible for sales to the laboratories and for collection of samples performed by the logistics agents. Once collected, the samples are delivered to our regional offices by our land-based fleet, where they are transported directly to our central laboratories by plane. In general, the samples collected are processed and the results are made available electronically to their clients within 24 to 48 hours of the collection of the samples.

Delivery of results

Upon arrival at our patient service centers with a test requisition, patients complete a form in which they can elect to pick up their results at any of our patient services centers, access their test results over a secure Internet site (through which approximately 33% of results are currently obtained by patients and doctors), receive the results by mail or fax or have the results sent directly to their doctor. Our central labs return approximately 90% of the results of routine clinical tests on the same day that the sample was collected and can return emergency results (short turnaround, or STAT, tests) more quickly. At our hospital laboratories, we process results 24 hours a day to meet the demands of the hospital, and we return the results directly to the physician.

Our diagnostic imaging tests are performed at our patient service centers. The results of our diagnostic imaging tests generally consist of the image accompanied by a report prepared by the doctors that are members of physician organizations with whom we contract to provide those services. These reports are prepared centrally for some of our tests, such as many of our mammography tests and are prepared at the patient service centers in other instances. Although the images may be transmitted digitally to the doctors at the physician organizations, the images and reports are delivered to the patient in physical form.

We have a system for identifying results in which clinical analysis or diagnostic imaging tests reveal a medical problem that requires immediate attention. In those instances, our staff attempts to contact the patient or the patient's doctor as soon as possible rather than waiting for the patient to obtain the results.

Information technology

We have approximately 119 employees dedicated to information technology and invested R\$25.6 million in information technology hardware and software in 2007. This amount included information technology expenses related to the inauguration of new patient service centers and our new call center. We have progressively integrated the information technology systems that support our business, linking the systems of acquired businesses into our existing systems. However, due to our acquisition-driven growth, we are continuing to integrate distinct systems and platforms. Our integrated billing, accounts payable and receivable, inventory, payroll and purchasing systems allows for the close management of our company-wide receivables, payables and cash flow.

We continue to explore ways of improving our efficiency and cutting costs through information technology. We are also working to add to the diagnostic imaging tests for which we can transfer images electronically to allow centralized analysis. Unlike in the United States, where many clinical and diagnostic tests must be performed while a doctor is present, this is not the case in Brazil for most tests. We are therefore able to centralize many of our processing activities, allowing us to maximize efficiency and minimize costs. We currently have this capability for colonoscopy, endoscopy, electrocardiogram exams, ultrasound exams, MRI and CAT scan exams, x-ray and mammography.

We currently operate systems that allow for the rapid communication of test results between our clients, our service centers and central laboratories. They also allow us to monitor our inventory of materials required for the performance of tests. We are continuing to implement a database system that allows us to electronically collect and locate a patient's historical test results (the patient's electronic file), thereby permitting us to centralize the analysis of a person's file. Moreover, we have implemented an ERP system focused on back office management and use a centralized system to record patient attendance at our patient service centers. In addition, we developed a call center system to offer test appointments and patient orientation.

On the operational side, we tag clinical test samples with bar codes that allow easy tracking during transportation, performance of the test and storage. In addition, our proprietary Lab Information System, a networked information system linking our central laboratories, allows rapid communication of results of tests that are occasionally sent to a different central laboratory from that in the region in which the patient's test sample was taken and facilitates collaboration among our personnel. The control of our warehouse and materials necessary for tests is also centralized through our information systems.

Call centers and Internet

Our call centers field calls 365 days a year from 6 a.m. to 12 a.m. We maintain call centers in São Paulo and Rio de Janeiro whose operators help patients schedule exams, answer questions about test procedures, report results to physicians and call patients to confirm appointments. The Rio de Janeiro call centers support the following brands: *Bronstein, Lâmina* and *Club DA*. The São Paulo call center supports the following brands: *Delboni Auriemo, Club DA, Lavoisier, Pasteur, MedLabor, Frischmann Aisengart, Santa Casa, Image Memorial, Frischmann Aisengart* and *Vita Lâmina*. Our São Paulo call center has 750 attendants, and our Rio de Janeiro call center has 220 attendants. Together they field approximately 40,000 calls per day. We also have smaller call centers in Brasília (15 attendants to support *Exame*), in Fortaleza (14 attendants to support *Exame*) and in Goiânia (10 attendants to support *Atalaia*). In addition to our call centers, we operate a hotline staffed by doctors to assist other doctors in reviewing and interpreting test results.

An increasing number of patients and physicians has been using our Internet site to obtain information about our testing capabilities, directions to our patient service centers and other information. Also, we make clinical test results available to patients over a secure Internet site. However, we believe our call centers will continue in the near future to be the primary method used by patients to schedule their tests and obtain information.

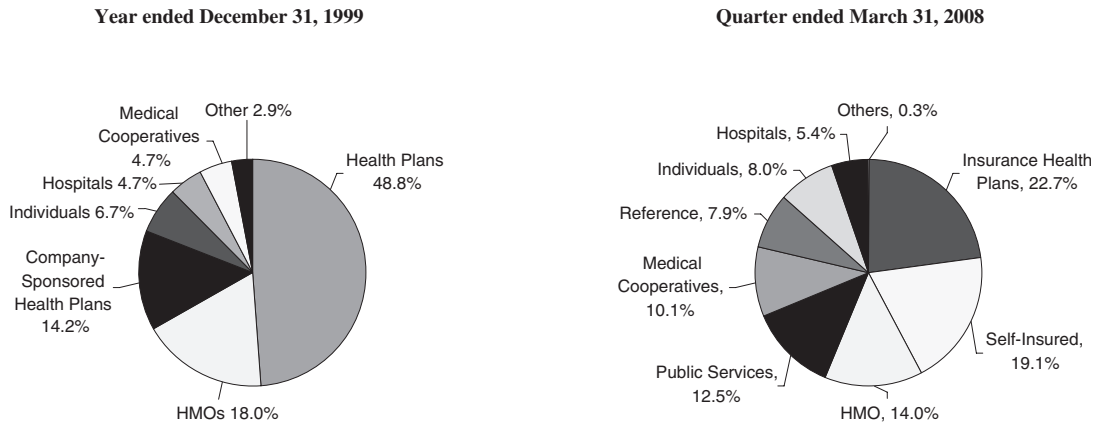
Certified quality

We have historically been leaders in our market in ensuring the certified quality of our services and products. We have monitored the performance of our quality controls for the past 29 years, participating in the *Programa em Excelência em Laboratórios Médicos* (Program for Excellence in Medical Laboratories, or “PELM”). Our central laboratory in Barueri was the first laboratory in Brazil to receive both ISO 9001 (Quality Management Standard) and INMETRO certifications. Our central laboratory in Rio de Janeiro has the following certifications: ISO 9001, INMETRO, the College of American Pathologists, or “CAP,” ISO 14001 (Environmental Management) from the British Standard Institution and OHSAS 18001 (Health and Safety Management), as well as recognition in the *Programa de Acreditação de Laboratórios Clínicos* sponsored by the Brazilian Society of Clinical Pathology, or “PALC.” Our central laboratory in São Paulo also has the ISO 9001, ISO 14001, OHSAS 18001, PALC and CAP Certifications. The Frischmann Aisengart laboratory has an ISO 9001 certification, the LabPasteur laboratory has the PALC Certification and the laboratories in Brasília and Goiânia both have ISO 9001 and PALC certifications.

We constantly seek to improve the way we collect test samples, transport them to our central laboratories and perform clinical analysis and diagnostic imaging tests. We have implemented a Six Sigma quality assurance program in our clinical central laboratories through which we analyze and correct errors we identify or complaints received from physicians and patients, and we have succeeded in progressively reducing errors in our test results from 2002 through 2007. Currently, in the clinical analysis sector, we operate between the 5.5 and 5.7 Sigma standards (equivalent to 13 to 32 errors per one million tests). This compares to 4.8 Sigma (equivalent to 447 errors per one million tests) for the industry as a whole. Ultimately, our objective is to introduce the same techniques and procedures of the Six Sigma technology to all our laboratory facilities. We use internationally accepted standards as benchmarks for the quality control of our processes. We rely on quality control software, which we developed based on Lotus Notes and accessible from multiple locations, to monitor our processes.

PAYERS AND CLIENTS

We value our relationships with the principal payers of outpatient medical services in the Brazilian private sector, including private health insurance providers, company-sponsored health plans, health maintenance organizations (“HMOs”), physician-managed medical cooperatives and state and municipal government healthcare providers. The charts below set forth the percentage of our gross operating revenues received from each category of payers for the year ended on December 31, 1999 and for the quarter ended on March 31, 2008. We show the chart for December 31, 1999 to demonstrate the further diversification of our payers in the last several years.



The mix of payers differs according to the segment we are serving, as described below:

- **Executive premium:** Our payers for services rendered at our executive premium patient service centers tend to be primarily (1) more premium health plans and (2) individuals who later seek reimbursement from their insurance companies.
- **Executive:** Our payers for services rendered at our executive-level centers are primarily (1) health insurance companies and (2) company-sponsored health plans.
- **Standard:** Our payers for services rendered at our standard-level centers are primarily HMOs, medical cooperatives and company-sponsored health plans.
- **Public sector:** Our payers for our public sector services are state and municipal governments.

See also “—Private healthcare plans” below.

The section entitled “Medical Diagnostics Industry” contains a variety of additional information about the Brazilian healthcare system and these categories of payers.

Patients

Our primary goal is to provide efficient and accurate test results to patients and to provide a comfortable environment to patients undergoing those tests. We believe our success in meeting this objective has a ripple effect in the markets where we operate, as a significant percentage of the patients who use our services are

returning patients or were encouraged to use our services by a relative or friend. The following table shows the results of an internal patient survey we undertook in July 2007 that cites reasons given by our patients for selecting our patient service centers.

<u>Reason cited for using our patient service centers(1)</u>	<u>Percentage of patients citing that reason</u>
Conveniently located near home	40.1
Good service	42.5
Test result accuracy	34.0
Private health plan reference book	16.8
Doctors' referrals	17.7
Confidence in the brand	14.1
Days we are open and our working hours	7.1
Advertising	1.0

(1) Patients could choose more than one reason.

In the great majority of cases, the costs of the tests we perform for patients are borne by their private and company-sponsored health plans. When individual patients pay for their own tests, they pay out-of-pocket before the tests are performed.

Physicians

Physicians are vital to our business because we perform substantially all our clinical analysis and diagnostic imaging tests upon the request of physicians. In addition, under most private health and company-sponsored plans, physicians are not required to refer their patients to any specific diagnostic laboratory, and therefore maintaining our reputation among physicians for excellence is crucial in leading doctors to recommend our services to patients. We have a help desk of 69 physicians who are available by telephone or in person to interpret our clinical analysis and diagnostic imaging tests and answer questions from other doctors. The doctors that are members of physicians' organizations with which we contract as independent contractors to read the images from our diagnostic imaging tests and prepare the related reports are also available to speak with physicians who requested the exams. In total, we count on a team of more than 1,000 doctors, including the doctors from the physicians' organizations.

Private healthcare plans and company-sponsored plans

According to ANS, as of December 2007, there are almost 2,000 private and company-sponsored healthcare plans in Brazil, and we currently contract with over 400 of those plans. Our ten largest private healthcare plans together accounted for approximately 45.0% of our gross operating revenues in the fourth quarter of 2007, and only one plan represented more than 10% of our revenues: Sul América Serviços Médicos S.A. (which represented 12.1% of our gross operating revenues during that period). Our next largest client represented 9.2% of our gross operating revenue during the same period.

We use the term "private healthcare plans" in this offering memorandum to refer generally to three distinct categories of payers:

- health insurance companies, which accounted for approximately 23.4% of our gross operating revenues in the fourth quarter of 2007;
- HMOs that are not health insurance companies, which accounted for approximately 13.8% of our gross operating revenues in the fourth quarter of 2007; and
- physician-managed medical cooperatives, which accounted for approximately 11.2% of our gross operating revenues in the fourth quarter of 2007.

Company-sponsored plans, which are health care plans established and managed by corporations for their employees, accounted for 19.5% of our gross operating revenues in the fourth quarter of 2007.

Our contracts with private healthcare plans and company-sponsored plans generally either have no specified term or have a one-to-two year term with an automatic renewal provision. These contracts are generally terminable upon breach of contract by either party or bankruptcy or insolvency of our company.

Hospitals

We currently have contracts with 27 hospitals and medical clinics, and ten laboratories located in hospitals and clinics in São Paulo, four in Rio de Janeiro, six in Curitiba, three in Brasília and five in Fortaleza. We process some routine clinical exams at these on-site laboratories. We also provide diagnostic imaging exams at some hospitals and clinics, including Hospital Santa Paula, Hospital Villa Lobos and Hospital São Luiz Anália Franco in São Paulo and the Clínica São Vicente in Rio de Janeiro. Our on-site operations in hospitals represented 5.3% of our gross operating revenues in the fourth quarter of 2007.

Public sector payer

As described in more detail under “Medical Diagnostics Industry—Brazilian Healthcare System,” the Brazilian public healthcare system is overseen by SUS, an agency of the Brazilian Ministry of Health. CientíficaLab’s existing contracts generally have a term of one year but may be renewed for a term of five years at the sole discretion of the governmental entity. Once this five year term is over, renewal requires a new bidding process. Under Brazilian law, SUS is entitled to unilaterally amend the terms and conditions of the agreement or terminate them early, provided that the amendment or early termination is justified in view of the public interest.

Laboratory-to-laboratory services

Through Alvaro, we currently provide services to over 2,600 laboratories. The laboratories pay Alvaro according to the number and type of tests performed. We rely on outsourced commercial representatives for developing additional clients and also for billing follow-up to ensure that Alvaro is paid by the numerous laboratories it services.

BILLING

We maintain a centralized integrated billing system in São Paulo responsible for the billing process of seven of our brands, and our other brands bill independently. Billing for diagnostic testing services is complex due to a number of factors, including:

- the large number of payers and clients and differences in coverage and information requirements among various payers; and
- the volume of supporting paperwork for diagnostic tests, in which each test included in a patient requisition sometimes requires separate authorization.

We bill private and self-managed health plans within an average of 15 days after the tests are performed, and they reimburse us an average of 40 days after billing. We generally renegotiate our contracts once a year. Our contracts provide for fee-for-service payment. In Brazil, we have not experienced demand for capitated payment contracts under which a clinical analysis and a private healthcare plan agree to a per member, per month payment to cover all laboratory tests during the month, regardless of the number or cost of the tests actually performed.

For the services rendered under public sector contracts, we bill for each exam performed or service rendered at the rate set forth by SUS for such exam or service. In general, we bill these governmental entities monthly, and payment on the bills is normally received approximately 15 to 20 days after the due date of the bill.

Our billing and accounts receivable systems have varying safeguards to ensure payment by private healthcare plans, self-managed plans, hospitals and state and municipal governments. Our rejections (bills for which payment has been rejected by the private health plans) represented 2.1% of our gross operating revenues in 2007, compared to 2.5% in 2006 and 2.7% in 2005. We believe that most of our rejections are due to missing and incorrect billing information rather than credit issues. Missing or incomplete billing information, and related negotiations as to private health plans, lengthen our accounts receivable and generally slow the billing process. While delays are common for payments made by state and municipal governments, default is rare. Our accounts receivable had an average age of 72 days at December 31, 2007, compared to 71 days at December 31, 2006 and 72 days at December 31, 2005.

As of March 31, 2008, our receivables overdue by more than 360 days, net of an allowance for doubtful accounts were approximately R\$13.0 million of which R\$9.3 million was attributable to one health insurance provider. See note 5 to our unaudited consolidated financial statements

SALES AND MARKETING

We use a three-pronged sales and marketing strategy in all our markets:

- point-of-sale marketing to patients at our patient service centers;
- marketing directed at physicians to encourage them to opt for our services; and
- direct marketing to payers.

Given the characteristics of the Brazilian diagnostic testing market, where patients choose their own diagnostic services provider, our main marketing effort is toward the users of our services. We market to patients primarily by providing them high quality and efficient service. Although we do not intend to make extensive use of mass media, we are exploring more extensive use of targeted marketing materials. We believe that targeted marketing may provide opportunities to contribute to our growth.

Our success also depends on doctors' satisfaction with our diagnostic services and their willingness to recommend our services to patients. We therefore place great emphasis on helping doctors in using our services to provide the best possible care to their patients. We keep a database of approximately 10,200 physicians in São Paulo, 10,000 physicians in Rio de Janeiro, 8,000 physicians in Curitiba, 4,000 in Brasília, 1,300 in Salvador, 4,000 in Goiânia, 1,650 in Fortaleza and 2,100 in Florianópolis that use our services. Periodically, we sponsor medical conferences and symposia to raise awareness of our services and our branded patient service centers.

We maintain strong relationships with the primary payers in the markets where we operate. We have a team of 25 people responsible for developing these relationships and building new relationships. We speak with these payers regularly to ascertain their needs and to receive feedback on our services.

In addition, we sponsor several community projects that increase awareness of our brands, such as *Associação Pró-Hope—Casa de Apoio ao Menor com Câncer* (an association that offers assistance to children with cancer) and the *Prêmio Pereira Barreto*, a scholarship program for medical students in their final years of medical school.

SUPPLIERS

We purchase the materials we need for our routine and esoteric clinical analysis from Brazilian and international producers. We have a direct import program through which we contract with several suppliers of materials in the United States, Europe and Japan thereby achieving cost savings compared to purchases from Brazilian distributors of those companies. Approximately 28.4% of the total supplies purchased in 2007 represented payments to suppliers under our direct import program.

We view our relationships with our suppliers as partnerships in which our suppliers not only provide materials we need but also help us quickly to identify new tests that are developed based on technological

updates in equipment and new reagents. Our suppliers include General Electric, Siemens AG Medical Solutions, Dade-Behring, Abbott GMBH, Tecnocold, Bayer Corp., Biolab Merieux, Roche Diagnóstica and Greiner Bio-One. We have equipment financing arrangements with some of these suppliers that are described in “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and capital resources—Debt and contractual commitments.” Our top ten suppliers represented approximately 48.9% of our cost of materials and equipment in 2007.

We store materials for our clinical analysis and diagnostic imaging tests at central warehouses in São Paulo, Rio de Janeiro, Curitiba, Brasília, Goiânia, Cascavel, Fortaleza, Salvador and Florianópolis. We generally provide supplies to patient service centers weekly based on electronic requests from the centers. We keep close track of our inventory, performing monthly controls and completing a physical count of our materials annually.

COMPETITION

The Brazilian medical diagnostics market is highly fragmented, with 18,535 laboratories providing diagnostic services throughout the country, according to DATASUS. We compete against companies with collection, processing and commercial functions similar to ours, companies for which test samples are collected by franchisees and companies that outsource the tests they process for third parties. Ownership structures in our industry also vary and include companies like ours that own their laboratories and equipment and employ personnel to perform tests, as well as laboratories that are partnerships organized by groups of physicians.

In our markets where patients choose their providers and costs are generally borne by private health and company-sponsored plans, several factors are important to payers in selecting a diagnostic laboratory, including:

- quality and timeliness of service;
- brand reputation among patients, physicians and payers;
- pricing of tests;
- number and type of tests performed by such laboratories;
- ability to provide service to patients covered under a variety of private health and company-sponsored plans; and
- the geographic coverage and convenience of our patient service centers.

Our specific competitors vary according to our different kinds of business and the local markets where we operate and our brand segmentation:

Outpatient services and inpatient services:

- **Metropolitan Region of São Paulo, São Paulo.** Fleury S.A., the second-largest diagnostic company in São Paulo in terms of gross operating revenue and number of requisitions, is the principal competitor of our *Club DA* premium service centers. Owned by a partnership of doctors, Fleury targets primarily upper middle class patients. *Club DA* also faces competition from Sociedade Israelita Albert Einstein (Hospital Einstein). The competitors of our *Delboni Auriemo* brand include Fleury and CDB—Centro Diagnóstico Brasil Ltda. (specifically in diagnostic imaging tests). The competitors of *Lavoisier* include CDB, Centro de Patologia Clínica Campana Ltda. and Rhesus Medicina Auxiliar Ltda., or “Rhesus.”
- **Metropolitan Region of Rio de Janeiro, Rio de Janeiro.** The Rio de Janeiro market is less highly segmented than the São Paulo market. Our *Lâmina* brand faces competition from Centro de Diagnósticos por Imagem (CDPI) and Clínica Radiológica Luiz Felipe Matoso Ltda. in diagnostic imaging tests and Laboratório de Pesquisas de Physiopathologia Humana (Laboratório Richet) in clinical analysis. Laboratórios Médicos Dr. Sérgio Franco Ltda. and Labs D’or Laboratório e Imagem, the second and third-largest laboratories in Rio de Janeiro, respectively, in terms of gross operating revenue and number of requisitions are important competitors of our *Bronstein* centers.

- **Salvador, Bahia.** Our *Image Memorial* centers face competition from Clínica Delfin Gonzalez Miranda Ltda.; Clínica de Assistência à Mulher (Instituto Médico Especializado de Barreiras Ltda.); and Diagnoson (Ultrassom e Densitometria Óssea Ltda.).
- **Fortaleza, Ceará.** Our *LabPasteur* brand faces competition from Laboratório Emílio Ribas and Laboratório Clementino Fraga.
- **Goiânia, Goiás.** Our *Atalaia* brand faces competition from Padrão Laboratório Clínico, Laboratório Jardim América and Laboratório Citocenter.
- **Metropolitan Region of Curitiba, Paraná.** Our *Curitiba Santa Casa* and *Frischmann Aisengart* brands face competition from Hormocentro Laboratório de Dosagens Hormonais Ltda. and, in diagnostic imaging tests, from Diagnóstico Avançado por Imagem and Centro de Tomografia Computadorizada Ltda. (CETAC).
- **Cascavel, Paraná.** Our *Alvaro* centers face competition from Laboratório Parzianello Ltda.
- **Florianópolis, Santa Catarina.** Our *VitaLâmina* centers face competition from Clinica Imagem, Sonitec—Diagnóstico Médico por Imagem, Clínica DMI – Diagnóstico Médico por Imagem and Ultralitho Centro Hospital.
- **Palmas, Tocantins.** Our *MedLabor* brand faces competition from PHD Laboratório Clínica Ltda. and Labcenter Laboratório de Análises Clínicas Ltda.
- **Brasília, Federal District.** Our *Exame* and *Pasteur* centers face high competition in the Brasília market. In the clinical analysis segment, they compete against Sabin Laboratório de Análises Clínicas Ltda., Santa Cruz laboratory and Santa Paula laboratory, and in diagnostic imaging they compete against Clínica Villas Boas, Clínica Radiológica Vila Rica S/C Ltda. and Centro Radiológico de Brasília Ltda.

Public sector services:

- Our main competitors in the state of São Paulo are Associação Fundo de Incentivo à Psicofarmacologia, Bio-Fast Laboratórios and Laboratório Clínico de Itajubá Ltda. In other states, we compete mostly with smaller laboratories.

Laboratory-to-laboratory services:

- Our laboratory-to-laboratory services business faces competition from Instituto Hermes Pardini (Instituto de Patologia Clínica H. Pardini Ltda.), which has a central laboratory located in Belo Horizonte with national coverage; Rhesus, which has a facility in São Paulo with national coverage; Sérgio Franco, which has a facility with coverage of Rio de Janeiro; and Criesp Central de Radioimunoensaio de São Paulo, Ltda., which has a facility in São Paulo with national coverage.

We believe that we will continue to see consolidation in the markets where we operate, and we intend to continue to participate in this process of consolidation through acquisitions.

PROPERTY

Our facilities

As of March 31, 2008, we operated 297 patient service centers, of which 28 are located in hospitals and include small on-site laboratories, and eight central laboratories. We lease almost all our facilities, most of them for terms of five to ten years. The facilities of seven of our centers are leased from Terra Molhada Participações Ltda. and Refazenda Ltda., companies owned by the sons and daughter of Dr. Caio Roberto Chimenti Auriemo, the chairman of our board of directors. See “Related Party Transactions.”

We own 13 properties through our subsidiary DASA Real Estate. Some of the properties that we own are subject to mortgages or other encumbrances, such as sale restriction clauses. We expect that DASA Real Estate will be designated an “unrestricted subsidiary” in the indenture relating to the notes.

We lease most of our facilities. Some of our lease agreements have not been registered with the competent Brazilian real estate registries, and we therefore may not have certain renewal rights with respect to these leases. Furthermore, we may not be reimbursed for our expenses related to construction or other improvements carried out by us on the properties we lease.

The following table shows our ten largest leased properties and their functions.

<u>Ten Largest Leased Properties</u>	<u>Size (square meters)</u>	<u>Function</u>
Barueri, São Paulo	7,757	Central laboratory and headquarters
São Paulo (Tatuapé), São Paulo	5,648	Mega center
São Paulo (Sumaré), São Paulo	4,600	Mega center
São Paulo (Morumbi), São Paulo	4,485	Mega center
São Paulo (Ipiranga), São Paulo	4,229	Mega center
Rio de Janeiro (Botafogo), Rio de Janeiro	3,400	Central laboratory and headquarters
São Paulo (Saúde), São Paulo	3,180	Mega center
São Paulo (Vila Olímpia), São Paulo	3,000	Mega center
Rio de Janeiro (Copacabana), Rio de Janeiro	2,130	Mega center
Rio de Janeiro (Méier), Rio de Janeiro	2,100	Mega center

Our equipment

The following tables set forth information about some of the principal categories of equipment we use to process clinical analysis and perform diagnostic imaging tests.

Clinical analysis equipment

<u>Type</u>	<u>Number of Units</u>		
	<u>Central Laboratories</u>	<u>Hospitals</u>	<u>DASA Total</u>
Automated equipment	305	119	424
Partially automated equipment	124	37	161
Manual equipment	182	222	404
Total	611	378	989

Diagnostic imaging equipment

<u>Type</u>	<u>Number of Units DASA Total</u>
Ultrasound	235
Electrocardiograph	163
Mammography	76
X-Ray	82
Fiber endoscope	113
Densitometer	58
Echocardiograph	56
CTI	32
MRI	38
Gamma camera	7
Total	860

We acquired a substantial portion of our equipment through 13 leasing agreements entered into with Siemens Aktiengesellschaft Medical Solutions, or “Siemens,” and GE Medical Systems through GE Capital, BB Leasing, CSI Leasing and HVB Export Leasing GmbH. Under these contracts, title to the equipment is vested in the equipment provider and is transferred to us only upon final payment under the applicable agreement. We have similar arrangements with Philips Medical Systems Export, Inc. for a smaller number of machines, some of which we obtained indirectly through our past acquisitions. We also lease some of our equipment from leasing companies in Brazil. For additional information on our equipment financing and lease arrangements, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and capital resources—Debt and contractual commitments.”

We constantly seek to update our equipment and technologies to keep up with the needs of our patients and the medical community and to increase our capacity. Through our relationship with GE, Siemens and a select group of equipment manufacturers, we seek to minimize the cost of obtaining new equipment. We believe this kind of relationship meets most of our equipment requirements and leads to efficiencies in maintenance and training. We also believe we have the largest demand for diagnostic equipment of any company in Brazil, and we believe our position gives us cost advantages in the purchase or lease of new equipment and makes us an important client of our diagnostic equipment suppliers.

In addition, our strategy of segmented brands of patient service centers enables us to take full advantage of the life cycle of our imaging equipment. When new imaging equipment becomes available in the market, that equipment usually performs all the tests performed by the preceding model but offers additional testing capability or special features. We often install this new equipment first at our *Club DA*, *Delboni Auriemo*, *Lâmina*, *Frischmann Aisengart*, *Atalaia*, *Lab Pasteur*, *VitaLâmina* and *Image Memorial* centers and use earlier models at our *Lavoisier*, *Bronstein* and *Curitiba Santa Casa* centers during the useful life of that equipment. However, we never transfer equipment with inferior performance for its essential functions to other centers.

During 2007, we spent approximately R\$10.9 million on maintenance costs for our imaging equipment. Currently, most of the maintenance on our equipment is performed by third parties, but we intend to attempt to reduce our maintenance costs by increasing the portion of our maintenance work performed by our own employees.

Production capacity and expansion potential

We have gained significant economies of scale by processing our clinical analysis at our eight central laboratories. These laboratories are currently operating below capacity, as described in “—Logistics and infrastructure—Central laboratories.” Our central laboratory facilities have flexible designs, and equipment is arranged in modules without walls, allowing easy reconfiguration through the addition of new equipment. We currently operate only two shifts at most of our central laboratories and could substantially increase our capacity at these central laboratories by adding one more shift of work.

In November 2007, we inaugurated a 2,500 square meter central laboratory in São José dos Pinhais, in greater Curitiba. We invested approximately R\$7.5 million in its construction. We expect to be able to process same-day results for 95% of the tests received by this laboratory within the next two years.

The factors affecting increases in our capacity for diagnostic imaging tests are different from those for clinical analysis. Increasing our diagnostic imaging capacity depends on purchasing additional imaging equipment and putting that equipment to use in existing or new patient service centers. We achieve economies of scale through the centralized purchasing of imaging equipment and the centralized analysis of certain diagnostic imaging test results.

We constantly open new patient service centers and renovate existing centers to accommodate a greater numbers of patients. We intend to open approximately 100 new patient service centers in the next five years, of

which 20 are expected to be mega centers and 80 are expected to be satellite service centers. We estimate that we will spend approximately R\$196 million over the next five years to open these centers.

When we acquire other diagnostic services companies, we also must invest in bringing the laboratories operated by those companies up to the standards of our company. In order to do so, we may purchase new equipment (especially imaging equipment) to be installed in the acquired patient service centers.

ENVIRONMENT, HEALTH AND OCCUPATIONAL SAFETY

We have implemented an environmental management system to minimize the environmental impact of the collection, transportation and processing of tests and of the disposal of materials and waste and to ensure that they are compliant with applicable environmental laws and regulations, as well as our own internal policies. For example, we treat potentially contaminant liquid waste in decontamination tanks at our facilities. We compress and sterilize infectious solid waste before delivering them to specialized medical waste treatment firms with which we have contracts. We also have a contract with BASF to incinerate certain chemical waste at their facilities. We have a policy of recycling plastic and paper used in our operations. We have also implemented initiatives to minimize health and safety risks for our employees. Generally, our internal policies are more exacting than those of applicable Brazilian laws and regulations.

In 2006, we invested R\$2.5 million in environmental initiatives, a 91.9% increase over the previous year, and 3,026 employees were trained in environmental education programs.

In 2006, we received the ISO 14001 certification, granted by the British Standard Institution (BSI), and promoted a series of ecoefficiency initiatives which included, among other efforts, the training of suppliers in environmental issues. This certification includes our units in São Paulo and Rio de Janeiro, and the companies we acquire are expected to meet the directions required for receiving the ISO 14001 certification.

In 2006, we completed the conversion of all vehicles transporting samples to natural gas. This initiative reduces the emission of carbon dioxide (CO₂) into the atmosphere. Furthermore, we began substituting conventional taps with automated taps at our central laboratories to reduce water consumption. Another initiative being adopted is the reuse of rain water at the central laboratory in Curitiba. All our central laboratories have effluent treatment capacities. In addition, in December 2007 we inaugurated our first “green” patient service center built in São Paulo in accordance with the guidelines issued by Leadership in Energy and Environmental Design.

INSURANCE

We have contracted our insurance policies under market conditions. All the facilities and equipment owned by us and our subsidiaries are covered by insurance policies related to fire, lightning, explosions and loss of electricity. Our commercial multiple peril policies also cover (1) property damages related to natural disasters, (2) loss of income caused by business interruptions that resulted from fire, lightning, explosions and loss of electricity, (3) additional expenses and (4) civil liability arising from our primary activities. Some events are not covered by our insurance policies, such as war, *force majeure*, acts of God and business interruptions in connection with non-covered events. Furthermore, we are not currently insured against medical malpractice or professional liability insurance. We consider the amounts of our insurance coverage to be adequate for a company of our size and sufficient to meet the risks associated with our operations.

In case of any event of the type mentioned above, we would be responsible for additional expenses and costs to repair or acquire new assets. In addition, we cannot guarantee that any payment made by the insurer in a covered claim would be enough to cover all damages and losses incurred by us and our subsidiaries. We paid R\$0.5 million per year for insurance premiums in the last 3 years.

INTELLECTUAL PROPERTY

Trademarks

In Brazil, title to a trademark is only acquired once its valid registration is issued by the National Institute of Industrial Property (*Instituto Nacional da Propriedade Industrial*, or “INPI”). The holder of a trademark has the right to its exclusive use throughout Brazil for an initial term of ten years, renewable for additional ten-year terms. During the registration process, the entity requesting the trademark merely has an expectation of the right to use the trademark that is used to identify its products or services.

The trademarks that we and our affiliate companies use in operating our laboratories are: “Club DA—Medicina Diagnóstica,” “Delboni Auriemo,” “Lâmina,” “Lavoisier,” “Frischmann Aisengart,” “Image Memorial,” “Bronstein,” “Medicina Diagnóstica Curitiba Santa Casa,” “Laboratório Pasteur,” “Alvaro,” “Exame,” “Atalaia,” “LabPasteur,” “Med Imagem” and “MedLabor Medicina Laboratorial”. We own several trademarks that were duly registered with the INPI. In addition, we have registered the trademark “DA—Diagnósticos da América” with the relevant trademark offices in Argentina, Uruguay, Paraguay, Chile, Peru, France, United States of America, Venezuela and Bolivia. We carefully manage our brands by standardizing our operations and the amenities we provide within each brand.

LabPasteur and Laboratório Pasteur

We have three applications for registration of trademarks using the word *Pasteur* before the INPI (two for “Laboratório Pasteur” and one for “LabPasteur”). Two such requests were formally opposed by Institut Pasteur of France, which is currently the holder of the rights to use the trademark “Pasteur” in Brazil. Also, two of the requests were put on hold by INPI and will only be judged after decisions are issued on other requests (by third parties) also using the expression “Pasteur.” We are currently discussing with Institut Pasteur the terms and conditions of a license to use the trademark “Pasteur” in Brazil, but no agreement has been reached to date.

Med Imagem and MedLabor

Before we acquired it, Med Imagem had filed applications with the INPI for registration of trademarks using the words “Med Imagem” and “MedLabor Medicina Laboratorial”. Third parties have filed oppositions against both applications, and we have not responded to these oppositions. We are currently awaiting the decision of INPI and we may have to discontinue our use of these two important trademarks in the future if our appeals are not successful.

Vita

Clause 8 of the acquisition contract related to our purchase of Clínica Médica Vita S.A. stipulated that we would have to discontinue our use of the names “Vita” and “VitaLâmina” within three years of our purchase of Clínica Médica Vita S.A. Since then, we have been gradually changing the names of our *Vita* patient service centers to “VitaLâmina,” which will then become “LâminaVita” and finally “Lâmina.” We hold the registration for the trademark “Lâmina,” but have not applied for registration of the trademark “VitaLâmina” and “LâminaVita” since we consider them transitional brands that will be discontinued.

Domain names

We own several domain names in Brazil such as “diagnosticosdaamerica.com.br”, “laboratorioalvaro.com.br”, “bronstein.com.br”, “labsanta.com.br”, “elkis.com.br”, “labnet.com.br”, “crl.com.br”, “bronsteinweb.com.br”, “clubda.com.br”, “curitibamd.com.br”, “danet.com.br” and “delboniauriemo.com.br”.

Copyrights

We have registered certain drawings relating to our trademarks with the Brazilian National Library.

Technology

We do not conduct independent research and development to develop new diagnostic testing equipment and methods. Our strategic focus is to keep abreast of new developments in our field and to introduce new equipment and methods in our operations as quickly as possible when we believe we can meet a demand in our markets.

EMPLOYEES

The table below shows the number of our employees by category at the dates indicated.

	At December 31,			At March 31,
	2005	2006	2007	2008
Patient service center employees(1)	3,768	4,454	6,083	6,141
Laboratory technicians	810	1,020	2,035	1,989
Call center operators	581	683	900	1,143
Corporate administration	489	732	908	910
Information technology employees	79	92	119	129
Total	<u>5,727</u>	<u>6,981</u>	<u>10,045</u>	<u>10,312</u>

(1) Includes doctors, nurses, receptionists and technicians who take clinical test samples and perform diagnostic imaging tests. Does not include medical personnel employed by physicians' organizations with whom we have contracts to provide services to us in connection with our diagnostic imaging tests.

Our employee turnover rate was approximately 23.9% in 2007. We invested approximately R\$1.3 million in employee training programs in 2007. We have developed an institutional training program aimed at educating all our employees in our values and objectives, and we seek to help all employees to understand how their respective functions are critical to the success of our company-wide strategy.

We have good working relationships with all applicable labor unions and negotiate salaries and benefit programs with them. We have never experienced a strike.

Collective bargaining agreements

We have entered into collective bargaining agreements with labor unions such as the *Sindicato dos Empregados em Estabelecimentos de Serviços de Saúde de São Paulo*. The salaries and benefits of our employees are determined in these collective bargaining agreements.

Profit sharing plans

In 2005, we implemented a profit sharing program, which allows all our employees to share in the profits of our company, with the exception of the employees of the last three acquisitions, which have not yet been merged into our company. In 2005, we distributed R\$3.5 million in profit sharing payments, and in 2006, we distributed an average of half a salary per employee as recognition for the results obtained, equaling a total of R\$4.4 million. In 2007, we allocated up to R\$5.1 million for profit sharing payments, which ranged between one-half to three monthly salaries for our eligible employees.

The performance-based bonuses are paid in April each year and are allocated among our employees based on (1) our performance in the preceding financial year, (2) the performance of the department that the individual employee is a part of in the preceding financial year and (3) the performance of the individual employee in relation to reaching the goals and targets set for the individual employee for the preceding financial year. Our overall performance and the performance of the individual's specific department account for 75% of the bonus each year, and the individual performance assessment accounts for the remaining 25%.

LEGAL PROCEEDINGS

General

We are subject to various tax, labor, social security and civil lawsuits and administrative proceedings which involves amounts totaling approximately R\$233.6 million at December 31, 2007 (of which R\$210.8 million relate to tax contingencies, R\$12.2 million to labor contingencies and R\$10.5 million to civil lawsuits and administrative proceedings). At December 31, 2007, our total provisions for all our contingencies were R\$100.0 million, of which R\$19.0 million related to companies we have acquired. This amount corresponds to the sum of all probable and possible losses based on assessment of management and of our external counsel.

Of the R\$233.6 million figure, approximately R\$25.0 million is attributable to administrative and judicial proceedings originally filed against companies acquired by us. The amounts under discussion in these proceedings refer to events having occurred during the period prior to our acquisition of these companies. Consequently, if payments are required in such judicial proceedings, we may offset those payments against amounts still payable by us in connection with such acquisitions. The total amount remaining to be paid by us in connection with the acquisitions to the former owners of the companies we acquired is R\$60.3 million, including R\$11.5 million in installment payments and R\$48.8 million is deposited in escrow accounts, which may be reduced to offset these possible contingencies.

We do not believe any individual pending lawsuit or administrative proceeding, if adversely decided, would have a material adverse effect on our financial condition or results of operations, except for the proceedings described below.

Tax

At December 31, 2007, we were the defendant in several tax lawsuits and administrative proceedings, and the total amount that may be required to be paid by us under these lawsuits and proceedings is approximately R\$210.8 million, not including the R\$86.0 million assessment described below, of which we received notice in May 2008. On the same date, we had recorded provisions in the amount of R\$90.6 million related to tax proceedings. We list below the most significant tax proceedings:

- **Deductibility of goodwill.** In 2004, the Brazilian tax authorities initiated an administrative proceeding questioning the deductibility of goodwill we recorded in connection with acquisition of interests in other companies in 1999. Similarly, in 2006, the Brazilian tax authorities initiated an administrative proceeding questioning the deductibility of goodwill we recorded in connection with acquisition of interests in other companies in 2000 and 2001. At December 31, 2007, the total amount in question in the proceedings concerning 1999 was approximately R\$54.1 million, and the total amount in question in the proceedings concerning 2000 and 2001 was approximately R\$8.5 million. Based on the advice of our external legal counsel, we believe the risk of losing these proceedings is remote and have not recorded a provision for this proceeding.
- **ICMS Tax.** ICMS taxes have been levied against us since 2000 in connection with our import of materials, such as reagents and equipment that we use to process our clinical tests. Until December 2001, the ICMS tax was generally levied on individuals or entities that conduct one of the following activities on a regular basis or in amounts that indicate commercial purposes: marketing, sale or distribution of merchandise, rendering of inter-state or inter-municipal transportation services or communication services. We had not been paying or making provisions for the ICMS tax on importation of raw materials and equipment for use in the services prior to the enactment of Complementary Law No. 114 of December 2002. We took this position based on the opinion of external legal counsel that the chance of losing a legal dispute was remote for periods prior to December 2001 and possible for the period from December 2001 to December 2002.

However, the enactment of Constitutional Amendment No. 33 and Complementary Law No. 114 in December 2002 led our external legal counsel to reevaluate our position and conclude that the chances

of losing a legal dispute concerning the ICMS tax are probable. Complementary Law No. 114 stated that the ICMS tax is due on imports, even in the case of imports by individuals or entities not on a regular basis or in amounts that do not indicate commercial purposes.

The amount of ICMS tax being claimed by the State Finance department on importations undertaken up to December 2002 is R\$21.6 million. In view of the legislative changes mentioned above and the advice of our external counsel, we believe (1) the chances of adverse decisions in the assessments made with respect to imports before December 2001 are remote, (2) the chances of adverse decisions in the assessments made with respect to imports between December 2001 and December 2002 are possible and (3) the chances of adverse decisions in the assessments made with respect to imports after December 2002 are probable, and therefore we recorded provisions for the full amount of these latter assessments.

On December 31, 2007, the amount provisioned for imports as from January 1, 2003 was R\$59.4 million, of which R\$1.9 million has been deposited with the courts. The provisioned amount of R\$59.4 million includes: (a) R\$22.5 million, plus interest at the SELIC rate, related to imported equipment that entered Brazil under international leasing agreements, (b) R\$26.9 million related to materials, (c) R\$6.3 million related to direct financing for equipment and (d) R\$3.8 million related to equipment purchased for subsidiaries. Our external legal counsel is of the opinion that the chances of losing a legal dispute concerning these pieces of equipment under international leasing agreements are possible. Since no case law has been established regarding this matter, a provision has been recorded.

In May 2008, we received notice of a tax assessment related to imports undertaken between 2003 and 2006. The total amount of this assessment is R\$86.0 million, which includes both the ICMS tax and related penalties. Of this amount, R\$29.6 million corresponds to the principal amount of the assessment and the remaining R\$56.4 million corresponds to related penalties. Based on the advice of our external legal advisors, we believe the chances of an adverse decision in this assessment are remote with respect to imports of equipment under international leasing arrangements (which corresponds to R\$9.9 million of the total assessment), and we believe the chances of an adverse decision are possible with respect to ICMS tax on other imports (which corresponds to R\$18.6 million of the total assessment). We believe that the penalty imposed, corresponding to 150% of the tax assessment, would likely be reduced to 80% in any event.

- **ISS tax.** In 2001, the City of São Paulo's tax authorities initiated administrative proceedings seeking payment of the ISS tax, a municipal tax on services, on certain of our clinical tests. The tax authorities asserted that our clinical tests are rendered in the municipalities where we collect blood and other samples for clinical tests and that the ISS tax is due on that service. We have consistently paid the ISS on our performance of clinical tests in the municipality of Barueri, where our Alphaville central laboratory is located and where our clinical tests effectively occur. There are approximately 100 administrative proceedings pending on this matter as the tax is payable monthly. At December 31, 2007, the total amount in question was approximately R\$26.8 million, and we have not recorded provisions for these proceedings. Based on the advice of our external legal counsel, we believe our chances of losing these proceedings are remote. In addition, there is a proceeding pending against *Elkis e Furlanetto* (a company we acquired in May 2004 and merged into our company) in which the ISS charged by the municipality of Santo André is being challenged. At December 31, 2007, the total amount under discussion in this proceeding was R\$9.2 million and, based on the advice of external counsel hired to represent *Elkis e Furlanetto* in this case, we believe that our chances of receiving an unfavorable decision in this proceeding is remote.
- **Social Security.** We and our subsidiaries are defendants in several lawsuits and administrative proceedings concerning social security contributions. Based on the advice of our external counsel, we believe the deposits we have made (in the total amount of approximately R\$4.9 million) represent a sufficient amount to cover unfavorable decisions in proceedings in which our chances of loss are probable.

Labor

At December 31, 2007, we were the defendant in 266 labor lawsuits and labor administrative proceedings, and the total amount claimed in these proceedings was R\$9.2 million. Our estimated liability, based on the risk of loss evaluations of external counsel, is approximately R\$12.2 million. Provisions in the amount R\$5.1 million were recorded as of December 31, 2007. The main claims outstanding relate to (1) overtime, (2) vacation, (3) extra allowances for night work and (4) the nature of the employment relationship.

Of these proceedings, the most significant series of cases are eight cases brought by doctors who are partners of companies with which we have service contracts, alleging that an employment relationship existed between our company and them. See “Medical Diagnostics Industry—Regulatory matters—Legal status of contracted doctors.” To date, three out of eight cases have been adjudicated in our favor. Of the five remaining cases, we won two that are now being appealed and lost three, which we are now appealing. The total amount claimed in these five cases was R\$0.6 million. Our estimated liability, based on the risk of loss evaluations of our external counsel are approximately R\$1.4 million, and we have made provisions related hereto in the amount of R\$1.1 million. We are currently anticipating rulings from the lower labor courts on three of these lawsuits. See “Risk Factors—Risks Relating to Our Business—Any adverse determination of the legal status of the physician organizations that provide services to us could negatively affect our results of operations.”

Approximately 13% of the labor claims pending against us were brought by third-party service providers who render services to us, such as security, cleaning, valet parking and construction. Under Brazilian labor legislation, we are jointly and severally responsible for the fulfillment of the labor obligations of our contracted service providers’ employees.

Civil

At December 31, 2007, we were the defendant in many civil legal proceedings, involving a total amount claimed of approximately R\$32.0 million. Based on the advice of our external counsel, we estimated our civil liabilities at almost R\$10.5 million and recorded a provision of approximately R\$4.1 million for civil proceedings. The great majority of these proceedings are claims for indemnification and moral damages arising in connection with the alleged delivery of incorrect test results.

Among the above-mentioned civil legal proceedings, we are a defendant in two civil class actions. The first lawsuit was filed by Rio de Janeiro’s Public Prosecutor Office, seeking the suspension of construction of a facility. The other civil class action was filed against us and the Municipality of São Paulo by an association representing Jardim Marajoara’s residents (a neighborhood in São Paulo), which challenges the validity of a building permit for a facility located in that neighborhood. In both of these claims, the plaintiffs request compensation for environmental and other damages, which have not yet been determined. These claims have not been adjudicated. However, we understand, based on the opinion of our counsel, that unfavorable decisions are possible.

When we acquire a company, the acquisition documentation for each of the acquisitions places the risks of possible claims and other contingencies in the acquired companies that have arisen before the completion of the acquisition and thus under the previous management with the sellers of the individual company. Our possible claim against the sellers in each of the individual acquisitions is secured by either (1) an escrow account, (2) a mortgage or (3) the possibility of set-off against the future installments of the acquisition price payable to the sellers of the company.

SOCIAL RESPONSIBILITY POLICIES, SPONSORSHIP & CULTURAL INCENTIVES

Social Responsibility

As part of our corporate philosophy, we seek to incorporate into our operational activities, practices and attitudes that reflect a consideration of ethical principles and social responsibility in relation to the general community's health and well-being, the environment and the medical community. One of the objectives is to participate in the democratization of access to quality medical diagnostics.

Ethics

Through our code of ethics, we seek to establish parameters for the conduct and behavior of our employees in terms of their relationships within and outside our company.

Projects

We make an effort to support initiatives that can contribute to the strengthening of our image and aggregating value to our business, while providing culture and well-being to our clients and employees. We currently support two such initiatives of a corporate nature, with an annual investment of R\$407,400.

- *Doutores do Riso* (Doctors of Laughter). Sponsorship of the community project in partnership with *Associação Pró-Hope—Casa de Apoio ao Menor com Câncer*, promoting of *Doutores do Riso* which are presentations by a group of artists for children that are undergoing medical treatment for cancer or who must undergo tests at laboratories. We spent R\$92,400 on this initiative in 2007.
- *Saúde em Concerto* (Health in Concert). In partnership with the *Centro Livre de Aprendizagem Musical* ("CLAM"), a music school in São Paulo conducted by the renowned Zimbo Trio, we support the project *Saúde em Concerto*, which promotes popular Brazilian music. Through musical presentations at our service centers, the project opens up new space for new talents and at the same time provides quality entertainment to our clients while they wait to undergo their exams. We spent R\$315,000 on this initiative in 2007.

Recognition

Empresa Amiga da Criança (Friend of Children Company)

We were awarded by ABRINQ with the title *Empresa Amiga da Criança* because of the quality of our pediatric care offered in our service centers, which have special spaces dedicated to children, and because of the presence of professionals specialized in children.

BOVESPA Corporate Sustainability Index

We are part of a group of 32 Brazilian companies chosen to be a part of the *Índice de Sustentabilidade Empresarial* (the Corporate Sustainability Index, or "ISE") that was launched on December 1, 2005 by BOVESPA. The objective of this index is to offer investors the option to invest in a portfolio of companies that have a recognized commitment to social responsibility and corporate sustainability and was constituted to become a reference point for socially responsible investment.

Participation in this index reflects the performance of shares of companies in the Brazilian market that have adopted the most vanguard social responsibility practices such as transparency in relation to the financial market, ethical relationships with distributors, employees, the community and the environment.

Management

BOARD OF DIRECTORS

Our board of directors is our decision-making body responsible for formulating general guidelines and policies for our business, including our long-term strategies. Among other things, our board of directors is also responsible for appointing and supervising our executive officers.

Decisions of our board of directors are taken by majority vote of directors present at any meeting.

Under Brazilian corporation law, a company's board of directors must have at least three members, and each member of the board of directors must be a shareholder of the company, although there is no requirement as to the minimum number of shares that an individual must hold in order to serve as a director. Our bylaws provide that our board of directors must consist of at least five members but no more than seven. Directors are elected at a shareholders' meeting generally for a three-year term and are subject to removal at any time by our shareholders at a special shareholders' meeting.

In addition, pursuant to Brazilian corporation law, a member of a board of directors is prevented from voting in any shareholders' meeting, or from acting in any business or transaction, who may have a conflict of interest with the company.

Our board of directors currently consists of seven members. Our current directors were elected at an ordinary shareholders' meeting held on March 17, 2006 and will remain in office until the annual shareholders' meeting to be held in 2009. The table below sets forth the names, ages and positions of our current directors.

<u>Name</u>	<u>Age</u>	<u>Position</u>	<u>Year first elected</u>
Caio Roberto Chimenti Auriemo	60	Chairman of the board of directors	1999
Alexandre Teixeira de Assumpção Saigh	40	Vice-Chairman of the board of directors	1999
Olímpio Matarazzo Neto	46	Board member	2001
Plínio Villares Musetti	51	Board member	2004
Gregory James Ryan	50	Board member	2001
Jorge Raimundo Filho	65	Board member	2005
Claudia Maria Costin	52	Board member	2005

For a description of contracts and other material obligations between our management and our company, see "Related Party Transactions."

EXECUTIVE OFFICERS

The members of our board of executive officers are our legal representatives and are primarily responsible for managing our day-to-day operations and implementing the general policies and guidelines set forth by our board of directors.

Under Brazilian corporation law, each executive officer must be a Brazilian resident but is not required to be a shareholder of our company. Furthermore, not more than one-third of our directors may serve as members of our board of executive officers at any given time. None of the members of our board of executive officers is a member of our board of directors.

Our executive officers are appointed by our board of directors for three-year terms and may be removed by the board of directors at any time.

Currently, our board of executive officers consists of nine members, each of whom was appointed at a meeting of our board of directors held on April 11, 2007. The term of our executive officers will expire at our 2010 annual shareholders' meeting. Under our bylaws, our board of executive officers may have up to ten members.

The table below sets forth the names, ages and titles of our executive officers, as well as the years in which they were first appointed.

<u>Name</u>	<u>Age</u>	<u>Titles</u>	<u>Year First Appointed</u>
Marcelo Marques Moreira Filho	38	Chief Executive Officer and Investor Relations Officer(1)	2005
Flávia Pareto Conrado	32	Chief Financial Officer	2006
Luiz Gastão Mange Rosenfeld	64	Medical Officer	2001
Maria Cristina Funck	54	Human Resources Director	2001
Maurício Viécili	55	Clinical Analysis Director	2001
Carlos Augusto Loureiro Brandão	60	Diagnostic imagings Officer	2002
Antonio Carlos Gaeta	56	Chief Operations Officer	2004
Erich Brants	33	Sales Officer	2006

(1) Currently, Mr. Marcelo Marques Moreira Filho holds both the Chief Executive Officer and Investor Relations Officer positions, as per Section 21 of our bylaws.

BIOGRAPHICAL INFORMATION

Set forth below are the principal occupations and employment histories of our directors and executive officers.

Directors

Dr. Caio Roberto Chimenti Auriemo, Chairman of the Board of Directors. Dr. Auriemo was our chief executive officer from 1985 through 2005 and has been chairman of our board of directors since 1999. Dr. Auriemo joined our company in 1974, and the company was renamed Laboratório Clínico Delboni Auriemo S/C Ltda. in 1985. Dr. Auriemo obtained his medical degree in 1971 and a master's degree and PhD in clinical endocrinology in 1978 and 1982, from the *Escola Paulista de Medicina* (São Paulo School of Medicine). He obtained a specialization in endocrinology from the University of California at Los Angeles in 1974. Dr. Auriemo was Head Professor of the Clinical Laboratory and Medical Department of the *Escola Paulista de Medicina* and is a member of the *Academia Paulista de Medicina* (São Paulo Academy of Medicine). In addition, he has published approximately 200 papers and approximately 40 articles in Brazilian and international magazines and books.

Alexandre Teixeira de Assumpção Saigh, Vice-Chairman of the Board of Directors. Mr. Saigh has been a member of our board of directors since 1999 and has been vice-chairman of the board of directors since 1999. Mr. Saigh has been a managing partner of Pátria since 1999 and oversees its private equity activities. From 1994 to 1999, Mr. Saigh was managing partner of Banco Patrimônio (the predecessor of Pátria), an investment bank associated with Salomon Brothers, and was chief executive officer of Drogasil S.A., a pharmaceutical and cosmetics company, for three years during this period. Before joining Banco Patrimônio, Mr. Saigh was a vice president in the corporate finance and mergers and acquisitions department at J.P. Morgan from 1989 to 1994. Mr. Saigh has a bachelor's degree in financial management and hotel and food administration from Boston University and a post-graduate degree in economics from Harvard University.

Olímpio Matarazzo Neto, Board Member. Mr. Matarazzo has been a member of our board of directors since 2001. Mr. Matarazzo has been managing partner of Pátria since 2001 and oversees investor relations and the

groups of multi-market funds. Before joining Pátria, Mr. Matarazzo was an officer of Chase Manhattan Bank and, before 1999, was also an establishing member of Banco Patrimônio, where he was responsible for the departments of controlling, capital markets and investor relations. Before that Mr. Matarazzo was vice-president of the department of corporate finance and mergers and acquisitions of J.P. Morgan in Brazil. Mr. Matarazzo has a bachelor's degree in business administration from the University of São Paulo—USP.

Plínio Villares Musetti, Board Member. Mr. Musetti has been a member of our board of directors since 2004. In February 2008 he was elected the CEO of Satipel Industrial S.A. From January 2006 to January 2008, he was elected chief executive officer of Vitopel do Brasil, Ltda., a producer of plastic film for the packaging segment. From September 2002 through December 2005, he was a partner at J.P. Morgan Partners, as the individual responsible for private equity in Brazil. Mr. Musetti started his career at Grupo Villares, where he worked for nine years in its finance department and then held the position of chief executive officer of Elevadores Atlas S.A. and Elevadores Atlas Schindler S.A., between 1992 and 2002. Mr. Musetti obtained a civil engineering degree and a business administration degree from University Mackenzie, in São Paulo, and took part in the Program for Management Development at Harvard Business School. Mr. Musetti is also a member of the board of directors of Satipel Industrial S.A. and Elevadores Schindler S.A.

Gregory James Ryan, Board Member. Mr. Ryan is a member of the board of directors since 2001. From 1979 to 1997, Mr. Ryan was a partner and chief executive officer of McDonald's Comércio de Alimentos Ltda., having been responsible for the start-up of McDonald's in Brazil. From 1997 to 1999, Mr. Ryan was the chairman of the board of directors of McDonald's Comércio de Alimentos Ltda. Mr. Ryan has a degree in hotel administration from Cornell University and was assistant to the dean of the Hotel Administration School of Cornell University. Mr. Ryan has also been the chairman of the board of directors of Atlantica Hotels Internacional and a member of the board of directors of Barrington International University since 1997.

Jorge Raimundo Filho, Board Member. Mr. Raimundo obtained a law degree in 1996 from Faculdade Nacional de Direito da Universidade do Brasil (UFRJ). In 1987 Mr. Raimundo was elected chief executive officer of Glaxo do Brasil S.A. and in 1992 was appointed regional officer of Glaxo America Latina. In 1996, Mr. Raimundo was appointed regional officer of Glaxo Wellcome America Latina, acting as chief executive officer for Argentina, Central America/Caribe, Chile, Colombia, Ecuador, Mexico, Paraguay, Peru, Puerto Rico, Uruguay, Venezuela and Brazil. Mr. Raimundo was a member of the executive committee of Glaxo Wellcome P.L.C., headquartered in London, England, and of the management and commercial operations committee. Mr. Raimundo left Glaxo Wellcome in 2001 and in the same year was appointed a member of the board of directors of EXTRACTA Moléculas Naturais S.A., in the research of new drugs area. In 2002, Mr. Raimundo was elected chairman of the consulting board of Interfarma (Association of the Pharmaceutical and Research Industry). In 2005, he was appointed a member of the consulting board of Veirano & Advogados Associados. We have determined that Mr. Raimundo is independent under the rules of the *Novo Mercado* segment of the Sao Paulo Stock Exchange, where our ordinary shares are listed.

Claudia Maria Costin, Board Member. Ms. Costin is an expert in public policy management. Ms. Costin holds a B.A., masters and Ph.D. from the Fundação Getúlio Vargas de São Paulo. From 1991 to 1992, she held the following positions in the federal government: Secretary of Planning and Evaluation (Ministry of Economy), Secretary of Social Security (Ministry of Social Security), Minister of Federal Administration and Government Reform. From 1984 to 1985, Ms. Costin worked in Angola and Cape Verde with the Swedish Agency for Development. From 2000 to 2001, she held the positions of Manager of the Public Sector and Officer of Poverty Reduction and Economic Management in the Latin America division of the World Bank. In January 2003, she was appointed Minister of Culture for Brazil. Ms. Costin is currently vice-president of Fundação Victor Civita. We have determined that Ms. Costin is independent under the rules of the *Novo Mercado* segment of the Sao Paulo Stock Exchange, where our ordinary shares are listed.

Executive officers

Marcelo Marques Moreira Filho, Chief Executive Officer and Investor Relations Officer. Mr. Moreira has been Chief Executive Officer since 2005. Our board of directors appointed him, in December 2005, as chairman of our board of executive officers. Mr. Moreira is currently also Investor Relations Officer of our company. Between 1999 and 2004, he also worked for our company as the Chief Financial Officer and Expansion Officer. Mr. Moreira is a partner at Pátria and before joining our company he was responsible for monitoring the performance of the Brazil Private Equity Fund's portfolio companies. Before 1998, Mr. Moreira was the Chief Financial Officer of Fotoptica Ltda., the largest photo and optical retail chain in Brazil, and between 1994 and 1996, he was Planning Manager of Drogasil S.A. Mr. Moreira received a bachelor's degree in Economics from Universidade Federal do Rio de Janeiro.

Flávia Pareto Conrado, Chief Financial Officer. Ms. Conrado has been our Chief Finance Officer since June 2006. Before joining our company, she was Vice-President of Operations and Finances in Fotoptica Ltda. from 2005 to 2006, during which period she was also an employee of Pátria. Ms. Conrado was also Chief Financial Officer, from 2004 to 2005, and Planning Manager, from 2001 to 2003, of Fotoptica Ltda. She was also Controller of Cotia Trading S.A. from 2000 to 2001. Ms. Conrado has a bachelor's degree in business administration from Fundação Armando Álvares Penteado (FAAP).

Luiz Gastão Mange Rosenfeld, Chief Medical Officer. Mr. Rosenfeld has been our medical officer since 2001, when he accepted an invitation to join our company. Before working with us, Mr. Rosenfeld was the chief of Hospital Albert Einstein Laboratory from 1976 to 2001. Mr. Rosenfeld was also the chief of the laboratory of Hospital do Coração of the Associação Sanatório Sírio, from 1972 to 1986. During this period, he was also the chief of the laboratory of Instituto Dante Pazzanese de Cardiologia. Mr. Rosenfeld was the chief executive officer of Sociedade Brasileira de Hematologia e Hemoterapia, and its officer from 1972 to 1986. Mr. Rosenfeld has a degree in medicine from Faculdade de Medicina da Santa Casa de São Paulo, and he is a specialist in hematology and clinical pathology.

Maria Cristina Funck, Human Resources Director. Ms. Funck has been our human resources officer since 2001. Before joining our company, Ms. Funck was a human resources consultant for KPMG Consulting from 1986 to 2000 and often worked with *Delboni Auriemo* as a consultant. Before 1986, Ms. Funck had been human resources senior analyst at both Banco Crefisul and Unibanco—União de Bancos Brasileiros S.A., from 1984 to 1986, and from 1974 to 1978, respectively. Ms. Funck has a degree in social communications from *Pontifícia Universidade Católica de Campinas* (Campinas Catholic University) and a master degree in human resources from *Universidade Paulista*.

Maurício Viécili, Clinical Analysis Director. Mr. Viécili has been our clinical analysis officer since 2001, having worked for us since 1975. Before becoming the clinical analysis officer, Mr. Viécili had worked as the Production Officer at the central laboratory in São Paulo, and later as the R&D Officer. Mr. Viécili was also the Production Officer of Trilab Diagnóstica Ltda. from 1988 to 1994. Mr. Viécili received his degree in medical bioscience from Escola Paulista de Medicina in 1976 and served for two years as the president of the Brazilian Association of Medical, Deontological & Laboratory Association—ABIMO (*Associação Brasileira das Empresas Médico-odontológicas, Hospitalares e Laboratoriais*).

Carlos Augusto Loureiro Brandão, Diagnostic imaging Officer. Mr. Brandão has been our diagnostic processes officer since 2002. Mr. Brandão has also been chief of the medical staff at Hospital São Luiz in the city of São Paulo for six years, and for four years has acted as Clinical Director at this hospital. Mr. Brandão obtained his medical degree in 1973 from the *Faculdade de Medicina da Universidade de Lisboa* (the Medical School of the University of Lisbon, Portugal) and completed his medical residence training at *Hospitais Civis de Lisboa* (Civil Hospitals of Lisbon) from 1974 to 1977.

Antonio Carlos Gaeta, Chief Operations Officer. Mr. Gaeta joined our company in 1999 and has been chief operations officer since 2004. His duties include the management of our patient service centers, overseeing our

call center and coordinating our marketing efforts. Mr. Gaeta joined Lavoisier in 1995 as an operational manager responsible for client relationships, logistics and communications. Mr. Gaeta remained with our company after we acquired Lavoisier in 1999. Before joining Lavoisier, he was a technology manager at Brinquedos Estrela, a toy manufacturer, from 1967 to 1995, and at KHS Indústria de Máquinas, a capital goods manufacturer, from May to December, 1995. Mr. Gaeta has a degree in business administration from Escola Superior de Administração de Negócio.

Erich Brants, Sales Officer. Mr. Brants joined our Company in 2004 as Supply Chain Manager and became the Sales Officer in June 2006. He began his career in logistics at Nestlé, in 1996. He acted as purchasing manager from 2000 to 2002. From 2002 to 2004 he worked as a logistics, e-business and foreign trade consultant. He has a degree in business administration from Faculdade de Economia, Administração e Contabilidade da Universidade de São Paulo and an MBA in international commerce from Fundação Instituto de Administração da Universidade de São Paulo and Université Pierre Mendes in Grenoble, France.

SHARE OWNERSHIP

The following table indicates the number of shares directly held by each of our directors and executive officers, as well as the percentage that their individual holdings represent of the total number of our common shares as of the date of this offering. See “Principal Shareholders.”

<u>Directors and Executive Officers</u>	<u>Number of Shares</u>	<u>Percentage of Class</u>
Caio Roberto Chimenti Auriemo(1)	3,598,923	6.27%
Alexandre Teixeira de Assumpção Saigh(2)	21,715	0.04%
Olímpio Matarazzo Neto(2)	106,777	0.19%
Plínio Villares Musetti	1	—
Gregory James Ryan	1	—
Jorge Raimundo Filho	1	—
Claudia Maria Costin	1	—
Marcelo Marques Moreira Filho	—	—
Luiz Gastão Mange Rosenfeld	—	—
Maria Cristina Funck	516	0.001%
Maurício Viécili	1,031	0.002%
Carlos Augusto Loureiro Brandão	—	—
Antonio Carlos Gaeta	—	—

(1) Dr. Auriemo’s children hold an additional 3,598,923 shares. See “Principal Shareholders.”

(2) Mr. Alexandre Teixeira de Assumpção Saigh and Olímpio Matarazzo Neto are principals in Pátria Banco de Negócios, Assessoria Gestão e Participação Limitada, which manages Patrimônio Brasil Private Equity Fundo de Investimento and other funds that together hold 7,669,697, or 13.4%, of our shares. See “Principal Shareholders.” Mr. Saigh and Mr. Neto may be deemed to share voting and dispositive power with respect to the shares held by these funds, but they disclaim beneficial ownership of the shares held by the Pátria funds.

Transactions with our management

We have entered into written employment contracts with our management, setting forth the criteria for their compensation. Pursuant to these agreements, the officers have a contractual duty not to compete with us or perform services similar to those rendered to us to third parties, whether directly or indirectly.

COMPENSATION

According to Brazilian corporation law, our shareholders are responsible for establishing at a shareholders' meeting the aggregate compensation we pay to our directors and executive officers. Moreover, according to our by-laws, the board of directors is then responsible for distributing that aggregate compensation individually among its members and to our executive officers.

For the fiscal year ended December 31, 2007, compensation for our executive officers and members of our board of directors paid by our company totaled R\$6.7 million, which is below the maximum compensation of R\$9.5 million approved at our shareholders' meeting held on April 11, 2007.

STOCK OPTION PLAN

Our shareholders approved the implementation of a stock option plan at our special shareholders' meeting on March 25, 2008. The stock option plan will be offered to members of our senior management and brand managers. Grants of stock options are expected to be made once a year by our board of directors. The maximum yearly distribution to option holders is 0.2% of our total capital stock, not exceeding 1.0% of our total capital stock over a period of five years, as long as the total number of shares to be issued pursuant to the stock option plan is within the limit of our authorized capital. The shares offered through our stock option plan may be newly issued shares or may be drawn from treasury stock. The expiration date is five years from the date the individual's participation in the stock option plan begins. Stock option holders may exercise (1) 33% of their options after holding them for two years and (2) after three years they can exercise the remaining 67% of their options plus eventual unsubscribed shares not exercised during the preceding two years. The exercise price is the average price of our shares based on their trading price during the five days preceding the grant date.

If a stock option holder dies, becomes disabled or retires, he or she (or his or her estate) will have two years to exercise his or her options. In the case of dismissal, the three possible scenarios will be treated as follows:

- *dismissal with cause*: the stock option holder will lose his or her options;
- *dismissal without cause*: the stock option holder will be allowed to keep his or her vested options and exercise them according to the same schedule afforded to our employed stock option holders but will lose his or her non-vested options; or
- *voluntary resignation*: the stock option holder will be allowed to keep all vested options, but the maximum period granted for the exercise of the options will be 30 days. Stock option holders who resign will lose all non-vested options.

Principal Shareholders

Our capital stock consists exclusively of common shares. The following table shows the principal beneficial owners of our common shares at the date hereof and the expected holdings of each such person after completion of this offering in each case, after giving effect to the stock reduction described below. We had 57,402,935 outstanding shares as of March 31, 2008.

<u>Shareholders</u>	<u>At March 31, 2008(1)</u>	
	<u>Shares</u>	<u>% of total</u>
Pátria funds(1)	7,669,697	13.4%
Hedging Griffó(2)	5,214,885	9.1%
Dr. Caio Auriemo(3)	3,598,924	6.3%
Auriemo family(3)	3,598,924	6.3%
HSBC(4)	3,387,002	5.9%
Oppenheimer(5)	2,730,490	4.8%
Fidelity(6)	2,515,906	4.4%
Findlay(7)	2,512,000	4.4%
JPMorgan(8)	1,979,327	3.4%
Others(9)	24,073,742	41.9%

- (1) The Pátria funds are managed by Pátria and include Brazilian Analysis and Diagnostics Private Investments LLP—Citibank DTVM S.A. (5,819,985 shares), Patrimônio Brasil Private Equity Fundo de Investimento (1,416,965 shares) and OPCO Brazil Private Equity, LLC—Citibank DTVM S.A. (432,747 shares). Mr. Alexandre Teixeira de Acumpção, Saigh and Mr. Olímpio Matarazzo Neto, members of our board of directors, may be deemed to share voting and dispositive power with respect to the shares held by these funds, but they disclaim beneficial ownership of those shares.
- (2) Hedging Griffó includes Skopos Master Fundo de Investimento em Ações (1,824,800 shares), Hedging Griffó Skopos HG Fund LLC (1,508,800 shares), Skopos HG BRK Fund, LLC—Hedging Griffó CV S.A. (176,800 shares), Skopos HG Grey City Fund, LLC—Hedging Griffó CV S.A. (133,300 shares), CSHG Quetzal Fundo de Investimento em Ações (80,400 shares), and Sunset CSHG Master Fundo de Investimento em Ações (55,000 shares).
- (3) Dr. Caio Roberto Chimenti Auriemo, the Chairman of our board of directors, holds directly 3,598,924 shares. The following members of his family hold an additional 3,598,924 shares as follows: Ricardo Magnanini Auriemo (899,731 shares), Adriana Auriemo Miglorancia (899,731 shares), Renato Magnanini Auriemo (899,731 shares) and Guilherme Magnanini Auriemo (899,731 shares), all of whom are children of Dr. Caio Roberto Chimenti Auriemo.
- (4) HSBC includes HSBC Global Investment Funds—BankBoston Banco Múltiplo S.A. (2,452,365 shares), the Master Trust Bank of Japan LTD as Trustee for HSBC Brazil Mother Fund—HSBC CTVM S.A. (645,900 shares), HSBC Fundo de Investimento em Ações Small Caps (236,593 shares), HSBC Fundo de Investimento em Ações Valor ISE (35,700 shares), HSBC Fundo de Investimento em Ações Zinco (8,000 shares), HSBC Fundo de Investimento em Ações Mirante IBX (5,300 shares), HSBC Fundo de Investimento Previdenciário Multimercado Small Caps (3,100 shares) and HSBC Fundo de Investimento Multimercado Abaete (44 shares).
- (5) Oppenheimer includes Oppenheimer Developing Markets Fund—HSBC CTVM S.A. (2,053,900 shares), Oppenheimer Funds PLC—HSBC CTVM S.A. (41,200 shares), TA IDEX Oppenheimer Emerging Markets – Citibank DTVM S.A. (114,200 shares) and Blackrock Strategic Funds—Blackrock Latin American Opportunities Fund—Citibank DTVM S.A. (37,000 shares).
- (6) Fidelity includes Fidelity Select Portfolios: Health Care Portfolio—Citibank DTVM S.A. (1,020,600 shares), Fidelity Select Portfolios: Medical Delivery Portfolio—Citibank DTVM S.A. (644,300 shares), Fidelity Central Investment Portfolios LLC: Fidelity Health Care Central Investment Portfolio—HSBC CTVM S.A. (390,400 shares), Fidelity Advisor Series VII: Fidelity Advisor Health Care Fund—HSBC

CTVM S.A. (318,500 shares), Fidelity Funds SICAV—Citibank DTVM S.A. (104,606 shares), Fidelity Focus Health Care Fund (37,000 shares) and Fidelity Select Portfolios: Pharmaceuticals Portfolio—Citibank DTVM S.A. (500 shares).

- (7) Findlay includes Findlay Park Latin American Fund – Citibank DTVM S.A. (1,398,800 shares) and Findlay Park US Smaller Companies Fund—Citibank DTVM S.A.(1,113,200 shares).
- (8) JPMorgan includes JP Morgan Partners (BHCA), L.P.—Banco Itaú S.A. (1,493,599 shares), JP Morgan Partners Latin America, L.P.—Banco Itaú S.A. (250,794 shares), JP Morgan Partners Latin America Offshore L.P.—Banco Itaú S.A. (104,556 shares), JP Morgan Chase Bank, National Association (112,878 shares) and JP Morgan Whitefriars Inc. (9,500 shares).
- (9) Others include Merrill Lynch funds that, in the aggregate, hold 2.7% of our shares, Janus funds with 1.9%, Vale do Rio Doce S.A. funds with 1.8%, Fama funds with 1.5%, Caisse Depot et Plac du Quebec funds with 1.5%, and Scudder funds with 1.5%.

Our directors and executive officers (excluding Dr. Caio Roberto Chimenti Auriemo, the Chairman of our board of directors) hold 130,038 shares. This number includes the shares held by Maurício Viécili, Maria Cristina Funck, Olímpio Matarazzo Neto and Alexandre Teixeira de Assumpção Saigh. This number does not include shares held by funds managed by Pátria, of which two of our directors, Mr. Alexandre Saigh and Mr. Olímpio Matarazzo Neto, are principals. Mr. Saigh and Mr. Matarazzo may be deemed to share voting and dispositive power with respect to the shares held by these funds, but they disclaim beneficial ownership of the shares held by the Pátria funds.

Related Party Transactions

Brazilian laws and our bylaws require that transactions with related parties be carried out on an arm's-length basis. In addition, related party transactions which in the aggregate for such related party in the aggregate exceeds R\$500,000 must be approved by at least 75% of the directors present at the meeting of the board of directors. In case minority shareholders are entitled to designate members of the Board of Directors, the member will have a veto power over transactions with related parties.

We describe below our principal transactions with related parties in 2006 and 2007:

Terra Molhada Participações Ltda. We have entered into three lease contracts related to four properties (one lease agreement relating to our central laboratory and headquarters in Alphaville, Barueri, São Paulo, one lease agreement relating to the property located on Avenida Brasil, 762, São Paulo and the property located at Rua Dr. Cardoso de Melo 214, São Paulo, and one lease agreement relating to our administrative office at the property located at Rua Cardoso de Melo 221, São Paulo) with Terra Molhada Participações Ltda. Terra Molhada Participações Ltda. is a Brazilian limited liability company controlled by Renato Magnanini Auriemo, Ricardo Magnanina Auriemo, Adriana Auriemo Miglorancia and Guilherme Magnanini Auriemo, sons and daughters of Dr. Caio Roberto Chimenti Auriemo, chairman of our board of directors. The lease agreements related to the four first properties were renewed in May 2004 for an additional period of ten years. We rented the property located at Rua Dr. Cardoso de Melo 221, São Paulo in August 2007, and the lease agreement will expire in 2012. In each of 2006 and 2007 we paid Terra Molhada Participações Ltda. R\$3.6 million for the leases described above. In the three months ended March 31, 2008, we paid Terra Molhada Participações Ltda. R\$0.9 million.

Parkbem Multiserviços S/C Ltda. Parkbem Multiserviços S/C Ltda. has provided cleaning, security, receptionist and parking services to our patient service centers. Parkbem Multiserviços S/C Ltda. is controlled by José Auriemo Neto, who is the nephew of Dr. Caio Roberto Chimenti Auriemo, chairman of our board of directors. Our payments to Parkbem Multiserviços S/C Ltda. in 2006, 2007 and the three months ended March 31, 2008 were R\$6.7 million, R\$6.5 million and R\$1.6 million, respectively. As of December 31, 2006 and 2007, we also had assets of R\$0.1 million and R\$0.1 million, respectively, that represented deferred charges for services rendered by Parkbem Multiserviços S/C Ltda. to new centers that we are amortizing as described in "Management's Discussion and Analysis of Financial Condition and Results of Operations—Discussion of critical accounting policies—Deferred charges."

Pátria—Banco de Negócios, Assessoria, Gestão e Participações Ltda. and Affiliates. Pátria has provided us with a range of mergers and acquisitions advisory services in connection with our acquisitions of other companies. They have helped us identify potential targets, analyze opportunities, establish contact with target companies, conduct due diligence and negotiate contracts. They charge a success fee (set at a minimum of R\$300,000) as well as a monthly fee of R\$63,728. Pátria manages funds that hold 13.4% of our shares. See "Principal Shareholders." Two of our directors, Mr. Alexandre Saigh and Mr. Olímpio Matarazzo Neto, are principals of Pátria. Our payments to Pátria in 2006 and 2007 were R\$1.8 million and R\$0.4 million, respectively. As of December 31, 2006 and 2007, we also had assets of R\$1.3 million and R\$4.1 million, respectively, that represented deferred charges for services rendered by Pátria that we are amortizing over time. We also entered into contracts for financial consulting services in connection with our acquisitions of other companies with the following affiliates of Pátria:

- *Patrimônio Investimentos e Participações Ltda.* Our payments to Patrimônio Investimentos e Participações Ltda. in 2006 and 2007 were R\$0.4 million and R\$0.2 million, respectively.
- *Pátria Assessoria Financeira Ltda.* Our payments to Pátria Assessoria Financeira Ltda. in 2007 were R\$1.5 million, and our payments in the three months ended March 31, 2008 were R\$0.1 million.

RMA Construtora Ltda. RMA Construtora Ltda. has provided civil engineering services to us in connection with the construction or remodeling of a number of our service units. RMA Construtora Ltda. is owned by Renato Magnanini Auriemo, who is the son of Dr. Caio Roberto Chimenti Auriemo, chairman of our board of

directors. Our payments to RMA Construtora Ltda. in the year ended December 31, 2006 and 2007 and in the three months ended March 31, 2008 were R\$1.4 million, R\$3.6 million and R\$0.9 million, respectively. As of December 31, 2006 and 2007, we also had assets of R\$6.6 million and R\$10.7 million, respectively, that represented deferred charges for services rendered by RMA Construtora Ltda. that we are amortizing over time.

Touch Tecnologia e Informática Ltda. Touch Tecnologia e Informática Ltda. has provided software development, licensing or assignment of use of software services. Touch Tecnologia e Informática Ltda. is a software development and web design company owned by Ricardo Magnanini Auriemo, who is the son of Dr. Caio Roberto Chimenti Auriemo, chairman of our board of directors. Our payments to Touch Tecnologia e Informática Ltda. in 2007 and in the three months ended March 31, 2008 totaled R\$0.8 million and R\$0.2 million, respectively. As of December 31, 2006 and 2007, we also had assets of R\$2.7 million and R\$2.8 million, respectively, that represented deferred charges for services rendered by Touch Tecnologia e Informática Ltda. that we are amortizing over time.

Refazenda Participações Ltda. Refazenda Participações Ltda. is owned by Dr. Caio Roberto Chimenti Auriemo. We lease four properties from Refazenda Participações Ltda.: the property located on Avenida Washington Luis 2530, Chácara Flora; the property located on Avenida Paes de Barros 667, Mooca; the property located on Avenida Rio Branco, Rio de Janeiro (255/257, suites 511 and 512); and the property located on Avenida Garcia D'Ávila 64 and 68, Rio de Janeiro. The lease agreements for the properties located in São Paulo expire in 2015 and the lease agreements for the properties located in Rio de Janeiro expire in April 2009. Our payments to Refazenda Participações Ltda. in the year ended December 31, 2006 and 2007 and in the three months ended March 31, 2008 were R\$0.5 million, R\$0.6 million and R\$0.2 million, respectively. In 2006, Refazenda Participações Ltda. held R\$0.8 million of our permanent assets. As of December 31, 2006, we also had assets of R\$0.8 million that represented deferred charges for services rendered by Refazenda Participações Ltda. that we have now amortized.

DA Produções Artísticas Ltda. We have licensed the use of trademarks related to our children's recreational area located in our service centers, together with copyrights related to such trademarks from DA Produções Artísticas Ltda., a company controlled by Dulce Magnanini Auriemo, wife of Dr. Caio Roberto Chimenti Auriemo, chairman of our board of directors. Our payments expenses related to DA Produções Artísticas Ltda. in the years ended December 31, 2006 and 2007 and in the three months ended March 31, 2008 were R\$93 thousand, R\$36 thousand and R\$51 thousand, respectively.

Furthermore, we lease a property located at Avenida Brigadeiro Luiz Antônio 3717, São Paulo, which is owned by several members of Dr. Caio Roberto Chimenti Auriemo's family (95%) and by Dr. Caio Roberto Chimenti Auriemo (5%). We pay R\$11.2 thousand per month to lease the property. The lease agreement was renewed in October 2006 and will expire in 2012.

Description Of The Notes

The following summary describes certain provisions of the notes and the indenture. This summary is subject to and qualified in its entirety by reference to the provisions of the indenture and the notes. Capitalized terms used in the following summary and not otherwise defined herein shall have the meaning ascribed to them in the indenture. You may obtain copies of the indenture and specimen notes upon request to the Company at the addresses set forth under “Where You Can Find More Information.”

The notes (the “Notes”) are to be issued under and governed by an Indenture, to be dated as of May 29, 2008 (the “Indenture”), among DASA Finance Corporation, Diagnósticos da América S.A., as guarantor, and The Bank of New York, as trustee (the “Trustee”), registrar, transfer agent and paying agent, and The Bank of New York (Luxembourg) S.A., as Luxembourg paying agent (the “Luxembourg Paying Agent”) and transfer agent, the Bank of Tokyo Mitsubishi UFJ Ltd., as principal paying agent (the “Principal Paying Agent”) and the Bank of New York, London branch, as paying agent. The following summaries of certain provisions of the Indenture do not purport to be complete and are subject to, and are qualified in their entirety by reference to, all the provisions of the Indenture. Copies of the Indenture are available for inspection during normal business hours at the Company’s principal office and at the office of the Trustee in New York, New York. The holders of the Notes are entitled to the benefits of, are bound by, and are deemed to have notice of, all the provisions of the Indenture. Wherever defined terms of the Indenture are referred to, such defined terms are incorporated herein by reference. Certain terms used in this description are defined under the subheading “—Certain Definitions.” For purposes of this “Description of the Notes,” the term “the Company” means Diagnósticos da América S.A. and its successors under the Indenture, in each case excluding its Subsidiaries, and the term “the Issuer” means DASA Finance Corporation, and its successors under the Indenture, in each case excluding its Subsidiaries.

General

The Indenture does not limit the aggregate principal amount of the debt securities that may be issued under the Indenture, although the issuance of notes in this offering will be limited to US\$250.0 million. The Issuer may issue an unlimited principal amount of additional notes having identical terms and conditions as the Notes (the “Additional Notes”). The Issuer will only be permitted to issue such Additional Notes if at the time of such issuance, the Company and the Issuer are in compliance with the covenants contained in the Indenture. Any Additional Notes will be part of the same issue as the Notes that the Issuer is currently offering and will vote on all matters with the holders of the Notes.

The Notes will be issued in fully registered form in denominations of US\$2,000 and integral multiples of US\$1,000 in excess thereof and will be issued as one or more Global Notes. Principal is to be payable, and the Notes will be transferable and exchangeable at the Issuer’s office or agency maintained for such purposes in New York, New York, which initially will be the Corporate Trust Office of the Trustee; *provided* that the Global Notes will be exchangeable only in the manner and to the extent set forth under “—Form and Registration.” The Notes may be transferred, combined or divided without payment of any charge other than taxes or other governmental charges.

The initial outstanding principal amount of the Notes will be US\$250.0 million. The Notes will mature on May 29, 2018 (the “Maturity Date”), and the aggregate principal amount of Notes outstanding at such time will become due and payable. On such date, the Issuer will pay the registered Holder(s) of the Notes principal in an amount in U.S. dollars equal to the outstanding principal amount of the Notes. The Notes will bear interest at the rate per annum of 8.75% from May 29, 2008, the date of issuance, or from the most recent interest payment date to which interest has been paid or provided for. Interest on the Notes will be payable semi-annually on May 29 and November 29 of each year, commencing on November 29, 2008, to the person in whose name a Note is registered at the close of business on the preceding May 15, or November 15, whether or not a Business Day (each a “Record Date”), as the case may be. Interest on the Notes will be computed on the basis of a 360-day year of twelve 30-day months.

Except as described under “—Form and Registration,” the Issuer will pay principal and interest at the office or agency of the Issuer maintained for that purpose in New York, New York.

If any interest payment date or redemption date falls on a day which is not a Business Day, payment of interest, principal and premium, if any, with respect to such Notes will be made on the next succeeding Business Day with the same force and effect as if made on the due date, and no interest on such payment will accrue from and after such due date. The principal of and interest on the Notes will be payable in U.S. dollars or in such other coin or currency of the United States as at the time of payment is legal tender for the payment of public and private debts.

The Company Guarantee

The Company will unconditionally and irrevocably guarantee the due and punctual payment of the principal of, and interest and Additional Amounts on, the Notes, as well as any other amounts whatsoever owed under the Indenture (the “Company Guarantee”).

Ranking

The Notes will be the Issuer’s senior unsecured obligations. The Issuer has no other indebtedness other than the Notes.

The Company Guarantee will constitute the unconditional, senior unsubordinated obligation of the Company and will rank:

- equal in right of payment with all of the Company’s existing and future senior unsecured obligations (except those obligations preferred by operation of law, including labor and tax claims);
- senior in right of payment to any subordinated debt of the Company;
- effectively subordinated to the Company’s secured indebtedness to the extent of the value of the assets securing such indebtedness; and
- structurally subordinated to the Indebtedness and other liabilities incurred by the Company’s Subsidiaries which do not provide a Significant Subsidiary Guarantee (as defined below) and any of its equity investees.

As of March 31, 2008, without giving effect to this offering, the Company’s outstanding senior Indebtedness would have been R\$504.7 million (or US\$288.5 million using the commercial market rate as reported by the Central Bank at March 31, 2008 of R\$1.7491 to US\$1.00), of which R\$86.6 million (or US\$49.5 million) was secured by assets of the Company. As of March 31, 2008, without giving effect to this offering, the Company’s Subsidiaries and equity investees would have had outstanding R\$44.9 million (or US\$25.7 million) of Indebtedness and other liabilities.

Future Subsidiary Guarantors

If a Significant Subsidiary Incurs any Indebtedness over US\$20.0 million (excluding Refinancing Indebtedness), individually or in the aggregate, after the Closing Date, then such Significant Subsidiary shall provide a Significant Subsidiary Guarantee in the same amount as such Indebtedness upon the Incurrence of any such Indebtedness; *provided* that Indebtedness of any Significant Subsidiary that is not wholly-owned by the Company Incurred and outstanding on or prior to the date on which such Significant Subsidiary was acquired by the Company (other than Indebtedness Incurred as consideration in, or to provide all or any portion of the funds or credit support utilized to consummate, the transaction or series of related transactions pursuant to which such Significant Subsidiary became a Subsidiary of, or was otherwise acquired by, the Company) shall not be included in the calculation of Indebtedness in the prior clause. The Significant Subsidiary Guarantees will be joint and

several obligations of the Significant Subsidiaries. Each Significant Subsidiary Guarantee will be senior to the payment in full of all Subordinated Obligations of such Significant Subsidiary. The obligations of each Significant Subsidiary under its Significant Subsidiary Guarantee will be limited to the extent necessary to prevent such Significant Subsidiary Guarantee from constituting a fraudulent conveyance under applicable law.

The Luxembourg Stock Exchange will be notified by the Company or the Issuer in the event a Significant Subsidiary becomes a Subsidiary Guarantor.

In the event a Subsidiary Guarantor is sold or disposed of (whether by merger, consolidation, the sale of its Capital Stock or the sale of all or substantially all of its assets (other than by lease) and whether or not the Subsidiary Guarantor is the surviving company in such transaction) to a Person that is not the Issuer, the Company or a Restricted Subsidiary of the Company, such Subsidiary Guarantor will be released from its obligations under its Subsidiary Guarantee if:

- the sale or other disposition is in compliance with the Indenture, including the covenants “—Restrictive Covenants—Limitation on Sales of Assets,” “—Limitation on the Sale or Issuance of Capital Stock of Restricted Subsidiaries” and “—Consolidation, Merger, Conveyance, Sale or Lease”;
- all the obligations of such Subsidiary Guarantor under any agreements relating to other Indebtedness of the Issuer, the Company or any other Restricted Subsidiary terminate or are unconditionally released in full upon consummation of such sale or other disposition; and
- the Issuer shall provide written notice thereof to the Trustee.

In addition, a Subsidiary Guarantor will be released from its obligations under the Indenture and its Subsidiary Guarantee if the Company designates such Subsidiary as an Unrestricted Subsidiary and such designation complies with the other applicable provisions of the Indenture or in connection with any legal defeasance of the Notes in accordance with the terms of the Indenture.

Optional Redemption

The Issuer may redeem the Notes in whole, but not in part, in U.S. dollars, at any time before May 29, 2013, at its option, at a redemption price equal to the greater of (1) 100% of the principal amount of the Notes to be redeemed, and (2) the sum of the present values of the remaining scheduled payments of principal and interest and Additional Amounts (if any) on the Notes to be redeemed discounted to the date of redemption on a semi-annual basis (assuming a 360-day year consisting of twelve 30-day months) at the applicable Treasury Rate plus 50 basis points plus, in each case, accrued and unpaid interest on the principal amount being redeemed to the redemption date. Notice of such redemption to each holder of Notes must be mailed and published in accordance with the provisions set out under the Indenture not less than 30 days nor more than 60 days prior to the redemption date.

“Treasury Rate” means, with respect to the redemption date, (1) the yield, under the heading which represents the average for the immediately preceding week, appearing in the most recently published statistical release designated “H.15(519)” (or any successor publication which is published weekly by the Board of Governors of the Federal Reserve System and which establishes yields on actively traded United States Treasury securities adjusted to constant maturity) under “Treasury Constant Maturities,” for the maturity corresponding to the Comparable Treasury Issue (if no maturity is within three months before or after the Remaining Life, yields for the two published maturities most closely corresponding to the Comparable Treasury Issue will be determined and the Treasury Rate will be interpolated or extrapolated from such yields on a straight line basis, rounding to the nearest month) or (2) if such release (or any successor release) is not published during the week preceding the redemption date or does not contain such yields, the rate per annum equal to the semi-annual equivalent yield-to-maturity of the Comparable Treasury Issue, calculated using a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price of the redemption date. The Treasury Rate will be calculated on the third Business Day preceding the redemption date.

“Comparable Treasury Issue” means the United States Treasury security having an actual or interpolated maturity comparable to the remaining term (“Remaining Life”) of the Notes to be redeemed that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of comparable maturity to the Remaining Life.

“Comparable Treasury Price” means, with respect to the redemption date, (1) the average of five Reference Treasury Dealer Quotations for the redemption date, after excluding the highest and lowest Reference Treasury Dealer Quotations, or (2) if there are fewer than five such Reference Treasury Dealer Quotations, the average of all such quotations.

“Reference Treasury Dealer” means a primary U.S. government securities dealer or its affiliates and their respective successors in New York, New York.

“Reference Treasury Dealer Quotations” means, with respect to each Reference Treasury Dealer and any redemption date, the average of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing by such Reference Treasury Dealer at 3:30 p.m., New York, New York time, on the third Business Day preceding such redemption date.

The Notes will be subject to redemption at the option of the Issuer, in whole or in part, during the 12-month periods beginning on May 29, 2013 of the years indicated below upon not less than 30 and not more than 60 days’ notice given as provided herein under “—Notices” for a redemption price (expressed as a percentage of principal amount) set forth below plus accrued but unpaid interest, if any, to the applicable redemption date and any Additional Amounts in respect thereto.

<u>Year</u>	<u>Percentage</u>
2013	104.375%
2014	102.917%
2015	101.458%
2016 and thereafter	100.000%

Prior to May 29, 2011, the Company may on any one or more occasions redeem up to 35% of the original principal amount of the Notes with the Net Cash Proceeds of one or more Equity Offerings at a redemption price of 108.75% of the principal amount thereof, plus accrued and unpaid interest, if any, to the redemption date; *provided* that (1) at least 65% of the original principal amount of the Notes remains outstanding after each such redemption; and (2) the redemption occurs within 60 days after the closing of such Equity Offering.

The Issuer or any of its Affiliates may purchase Notes in the market at any time (in any manner and at any price). Such Notes may be tendered to the Trustee for cancellation.

Optional Tax Redemption

The Notes may be redeemed at the Issuer’s election, in whole, but not in part, by giving notice as provided in the Indenture, at a price in U.S. dollars equal to the outstanding principal amount thereof, together with any Additional Amounts and accrued and unpaid interest to the redemption date, if, as a result of any change in, or amendment to, the laws (or any regulations or rulings promulgated thereunder) of Brazil, the Cayman Islands, or any political subdivision or taxing authority thereof or therein, or any change in the official application, administration or interpretation of such laws, regulations or rulings in Brazil or the Cayman Islands, the Issuer or the Company has or will become obligated to pay Additional Amounts on the Notes (i) in respect of any deduction or withholding of Cayman Islands Local Taxes or (ii) in respect of any deduction or withholding of Brazilian Local Taxes in excess of the Additional Amounts that the Company or the Issuer would pay if payments in respect of the Notes were subject to deduction or withholding at a rate of 15% (determined, in each case, without reference to any interest, fees, penalties or other additions to tax), if such change or amendment is

announced on or after the Closing Date and such obligation cannot be avoided by the Issuer and the Company taking reasonable measures available to them; *provided, however*, that (1) for the avoidance of doubt, reasonable measures will not include changing the jurisdiction of incorporation or organization of the Issuer or the Company or the incurrence of material out-of-pocket costs by the Issuer or the Company or an Affiliate thereof and (2) no such notice of redemption shall be given earlier than 60 days prior to the earliest date on which the Issuer or the Company would be obligated to pay such Additional Amounts, were a payment in respect of the Notes then due.

Notice of any redemption will be mailed at least 30 days but not more than 60 days before the redemption date to each holder of Notes to be redeemed. All notices shall be published in accordance with the provision set out under “—Notices” below.

Prior to the giving of notice of redemption of such Notes pursuant to the Indenture, the Company or the Issuer will deliver to the Trustee an Officers’ Certificate and a written opinion of recognized Brazilian or Cayman Islands counsel, as the case may be, independent of the Company and the Issuer to the effect that all governmental approvals necessary for the Issuer to effect such redemption, including any required approvals from the Central Bank or Cayman Islands monetary authorities, have been or at the time of redemption will be obtained and are in full force and effect and that the Issuer is entitled to effect such a redemption pursuant to the Indenture, and setting forth, in reasonable detail, the circumstances giving rise to such right of redemption.

Unless the Issuer defaults in payment of the redemption price, interest will cease to accrue on the Notes on and after the redemption date.

The Issuer or the Company may enter into an arrangement under which the Company or any subsidiary of the Company may, in lieu of redemption by the Issuer, purchase any Note to be redeemed pursuant to provisions described under “—Optional Redemption” or “—Optional Tax Redemption.” In the event that the price paid by the Company or any such subsidiary is less than the full redemption amount, the Issuer will pay, or cause one of its Affiliates to pay, the amount of such shortfall directly to the holder of the Note being so purchased on the redemption date.

Restrictive Covenants

Limitation on Restricted Payments

(1) The Company will not, and will not permit any Restricted Subsidiary, directly or indirectly, to:

(a) declare or pay any dividend or make any other distribution on or in respect of its Capital Stock (including any payment in connection with any merger or consolidation involving the Company or any Subsidiary of the Company) or similar payment to the direct or indirect holders of its Capital Stock except dividends or distributions payable solely in the form of its Capital Stock (other than Disqualified Stock) and except dividends or distributions payable to the Company or any Restricted Subsidiary (and, if such Restricted Subsidiary has shareholders other than the Company or any other Restricted Subsidiary, to its other shareholders on a *pro rata* basis);

(b) purchase, redeem, retire or otherwise acquire for value any Capital Stock of the Company held by Persons other than the Company or another Restricted Subsidiary (other than a purchase, redemption, retirement or other acquisition for value that would constitute a Permitted Investment);

(c) purchase, repurchase, redeem, defease or otherwise acquire or retire for value, prior to scheduled maturity, scheduled repayment or scheduled sinking fund payment, any Subordinated Obligations (other than (x) Indebtedness of the Company owing to and held by any Restricted Subsidiary which has provided a Significant Subsidiary Guaranty or Indebtedness of a Restricted Subsidiary owing to and held by the Company or any Restricted Subsidiary which has provided a Significant Subsidiary Guaranty, each as permitted under

paragraph (2)(a) of the covenant “—Limitation on Indebtedness” or (y) the purchase, repurchase, redemption, defeasance or other acquisition of Subordinated Obligations made in anticipation of satisfying a sinking fund obligation, a principal installment or a final maturity, in each case, due within one year of the date of such purchase, repurchase, redemption, defeasance or other acquisition); or

(d) make any Investment (other than a Permitted Investment) in any Person;

(the actions described in clauses (a) through (d) above being herein referred to as “Restricted Payments” and each, a “Restricted Payment”), if at the time the Company or such Restricted Subsidiary makes such Restricted Payment:

(i) an Event of Default will have occurred and be continuing;

(ii) after giving effect to the Restricted Payment, the Company’s Net Debt to EBITDA Ratio would be greater than 3.50:1; or

(iii) the aggregate amount of such Restricted Payment and all other Restricted Payments (the amount so expended, if other than in cash, to be determined in good faith by the management of the Company or the applicable Restricted Subsidiary) declared or made subsequent to the Closing Date would exceed the sum of, without duplication:

(A) 50% of Consolidated Net Income accrued during the period (treated as one accounting period) from March 31, 2008 to the end of the most recent fiscal quarter for which financial statements are available prior to the date of such Restricted Payment (or, in case such Consolidated Net Income will be a deficit, *minus* 100% of such deficit); *plus*

(B) the aggregate Net Cash Proceeds, and the Fair Market Value of any property, received by the Company from the issue or sale of its Capital Stock (other than Disqualified Stock) or other capital contributions subsequent to the Closing Date (other than Net Cash Proceeds received from an issuance or sale of such Capital Stock to a Restricted Subsidiary of the Company or an employee stock ownership plan, option plan or similar trust to the extent such sale to an employee stock ownership plan or similar trust is financed by loans from or Guaranteed by the Company or any Restricted Subsidiary unless such loans have been repaid with cash on or prior to the date of determination); *plus*

(C) (1) the amount of a Guarantee of the Company or any Restricted Subsidiary upon the unconditional release in full of the Company or such Restricted Subsidiary from such Guarantee if such Guarantee was previously treated as a Restricted Payment; and

(2) in the event that the Company or any Restricted Subsidiary makes an Investment in a Person that, as a result of or in connection with such Investment, becomes a Restricted Subsidiary, an amount equal to the Company’s or such Restricted Subsidiary’s existing Investment in such Person;

provided that any amount added pursuant to clauses (1) and (2) of this clause (C) shall not exceed the amount of such Investment or Guarantee, respectively, previously made and treated as a Restricted Payment and not previously added pursuant to this clause (iii); *provided*, however, that no amount will be included under this clause (C) to the extent it is already included in Consolidated Net Income; *plus*

(D) the amount by which Indebtedness of the Company or any Restricted Subsidiary is reduced on the Company’s balance sheet or the balance sheet of any Restricted Subsidiary, in each case, upon the conversion or exchange (other than for Indebtedness held by the Company or any Restricted Subsidiary) subsequent to the Closing Date of any such Indebtedness for Capital Stock (other than Disqualified Stock) of the Company (less the amount of any cash or the Fair Market Value of other property distributed by the Company or any Restricted Subsidiary upon such conversion or exchange); *plus*

(E) the amount equal to the net reduction of Investments (other than Permitted Investments) made by the Company or any Restricted Subsidiary in any Person resulting from (1) repurchases or redemptions of such Investment by such Person, proceeds realized upon the sale of such Investment, repayments of loans or advances or other transfers of assets (including by way of dividend or distribution) by such Person to the Company or any Restricted Subsidiary or (2) the redesignation of Unrestricted Subsidiaries as Restricted Subsidiaries (valued in each case as provided in the definition of “Investment”) not to exceed, in the case of any Unrestricted Subsidiary, the amount of Investments previously made by the Company or any Restricted Subsidiary in such Unrestricted Subsidiary; *provided* that any amount added pursuant to this clause (E) shall not exceed the amount of such Investment previously made and treated as a Restricted Payment; *provided, however*, that no amount will be included under this clause (E) to the extent it is already included in Consolidated Net Income.

(2) The provisions of clause (1) above will not prohibit:

(a) any purchase, repurchase, redemption, defeasance or other acquisition or retirement for value of Capital Stock, Disqualified Stock or Subordinated Obligations of the Company made by exchange for, or out of the proceeds of the substantially concurrent sale of, Capital Stock of the Company (other than Disqualified Stock and other than Capital Stock issued or sold to a Restricted Subsidiary of the Company or an employee stock ownership plan or other trust established by the Company or any of its Restricted Subsidiaries to the extent that such sale to an employee stock ownership plan or other trust was financed by loans from or Guaranteed by the Company or a Restricted Subsidiary unless such loans have been repaid with cash on or prior to the date of determination); *provided, however*, that (x) such purchase, repurchase, redemption, defeasance, acquisition or retirement will be excluded in subsequent calculations of the amount of Restricted Payments and (y) the Net Cash Proceeds from such sale of Capital Stock, to the extent such Net Cash Proceeds are used for such purchase, repurchase, redemption, defeasance, acquisition or retirement, will be excluded from clause (1)(iii)(B) of this covenant;

(b) any purchase, repurchase, redemption, defeasance or other acquisition or retirement for value of Subordinated Obligations of the Company made by exchange for, or out of the proceeds of the substantially concurrent sale of, Subordinated Obligations of the Company that is permitted to be Incurred pursuant to the covenant described under “—Limitation on Indebtedness” below; *provided, however*, that such purchase, repurchase, redemption, defeasance or other acquisition or retirement for value will be excluded in the calculation of the amount of Restricted Payments pursuant to clause (1)(iii) above;

(c) dividends paid within 60 days of the declaration if at such date of declaration such dividend would have complied with this covenant; *provided, however*, that the payment or declaration, but not both the payment and the declaration, of such dividend will be included in the calculation of the amount of Restricted Payments pursuant to clause (1)(iii) above;

(d) the payment of the Minimum Legally Required Dividends; *provided, however*, that such payment shall be included in the calculation of the amount of Restricted Payments pursuant to clause (1)(iii) above;

(e) so long as no Default or so long as no Default or Event of Default has occurred and is continuing:

(1) the purchase, redemption or other acquisition, cancellation or retirement for value of Capital Stock, or options, warrants, equity appreciation rights or other rights to purchase or acquire Capital Stock of the Company or any Restricted Subsidiary of the Company held by any existing or former employees or management of the Company or any Subsidiary of the Company or their assigns, estates or heirs, in each case in connection with the repurchase provisions under employee stock option or stock purchase agreements or other agreements to compensate management employees; *provided* that such redemptions or repurchases pursuant to this clause will not exceed \$5.0 million in the aggregate during any calendar year and \$20.0 million in the aggregate for all such redemptions and repurchases; *provided, however*, that such payment shall be included in the calculation of the amount of Restricted Payments pursuant to clause (1)(iii) above; and

(2) loans or advances to employees or directors of the Company or any Subsidiary of the Company the proceeds of which are used to purchase Capital Stock of the Company, in an aggregate amount not in excess of \$2.0 million at any one time outstanding; *provided, however*, that such payment shall be included in the calculation of the amount of Restricted Payments pursuant to clause (1)(iii) above;

(f) repurchases of Capital Stock deemed to occur upon the exercise of stock options, warrants or other convertible securities if such Capital Stock represents a portion of the exercise price thereof; *provided, however*, that such repurchases shall be excluded from subsequent calculations of the amount of Restricted Payments pursuant to clause (1)(iii) above; and

(g) Restricted Payments in an amount not to exceed the greater of US\$35.0 million and 8.0% of Net Tangible Assets; *provided, however*, that such payment shall be included in the calculation of the amount of Restricted Payments pursuant to clause (1)(iii) above.

The amount of all Restricted Payments (other than cash) shall be the Fair Market Value on the date of such Restricted Payment of the asset(s) or securities proposed to be paid, transferred, issued, purchased, repurchased, redeemed, retired, defeased or otherwise acquired by the Company or such Restricted Subsidiary, as the case may be, pursuant to such Restricted Payment, *provided*, that if such Restricted Payment or related series of Restricted Payments involves aggregate consideration in excess of US\$25.0 million, as determined by the management of the Company, such determination shall be based upon an opinion or appraisal issued by an accounting, appraisal or investment banking firm of recognized standing.

Limitation on Indebtedness

(1) The Company will not, and will not permit any Restricted Subsidiary to, Incur any Indebtedness; *provided, however*, that the Company or any Restricted Subsidiary may Incur Indebtedness if:

(a) on the date of such Incurrence and after giving effect thereto and the application of the proceeds therefrom, the Company's Net Debt to EBITDA Ratio would be no greater than 3.50:1; and

(b) no Event of Default shall have occurred and be continuing.

(2) Notwithstanding clause (1) above, the Company or any Restricted Subsidiary may Incur the following Indebtedness:

(a) intercompany Indebtedness between or among the Company and any Restricted Subsidiary or between or among Restricted Subsidiaries; *provided, however*, that:

(i) if the Company is the obligor on such Indebtedness Incurred, or if a Subsidiary Guarantor is the obligor on such Indebtedness Incurred and the obligee is a Person other than the Company or a Subsidiary Guarantor, and, in each case, such Indebtedness is in an aggregate principal amount in excess of US\$5.0 million, such Indebtedness must be expressly subordinated to the Notes and any applicable Significant Subsidiary Guarantee in ranking and in priority of payment; and

(ii) any subsequent issuance or transfer of Capital Stock or any other event that results in any such Indebtedness being held by a Person other than the Company or a Restricted Subsidiary and any sale or other transfer of any such Indebtedness to a Person that is neither the Company nor a Restricted Subsidiary will be deemed, in each case, to constitute an incurrence of such Indebtedness by the Company or such Restricted Subsidiary, as the case may be, that was not permitted by this clause (a);

(b) Indebtedness:

(i) represented by the Notes and the Significant Subsidiary Guarantees (other than any Additional Notes and Significant Subsidiary Guarantees thereon);

(ii) outstanding on the Closing Date;

(iii) consisting of Refinancing Indebtedness Incurred in respect of any Indebtedness described in this clause (b) or the foregoing clause (1);

(iv) consisting of Guarantees of any Indebtedness permitted under clause (1) and subclauses (a) and (b) of this clause (2);

(c) Indebtedness in respect of bankers' acceptances, deposits, promissory notes, letters of credit, self-insurance obligations, performance, surety, appeal or similar bonds and Guarantees provided by the Company or any Restricted Subsidiary in the ordinary course of its business;

(d) Purchase Money Obligations, Capitalized Lease Obligations, Attributable Debt and Indebtedness incurred from the *Banco Nacional de Desenvolvimento Econômico e Social* (BNDES) or another Latin American development bank Incurred to finance the acquisition of real or personal property or to acquire Capital Stock of a Person in a Related Business in an aggregate principal amount not in excess of US\$10 million at any time outstanding and Refinancing Indebtedness Incurred in respect of Indebtedness Incurred pursuant to this clause (d);

(e) Capitalized Lease Obligations in an aggregate principal amount not in excess of 5.0% of Total Assets at any time outstanding all of the net proceeds of which are used to purchase diagnostic imaging and clinical analysis equipment and Refinancing Indebtedness Incurred in respect of Indebtedness Incurred pursuant to this clause (e);

(f) Hedging Obligations of the Company or any Restricted Subsidiary in the ordinary course of business or directly related to Indebtedness permitted to be Incurred by the Company or any Restricted Subsidiary pursuant to the Indenture, and in any event not entered into for speculative purposes;

(g) Indebtedness arising from the honoring by a bank or other financial institution of a check, draft or similar instrument drawn against insufficient funds in the ordinary course of business; *provided, however*, that such Indebtedness is extinguished within five Business Days of its Incurrence;

(h) Indebtedness of (i) another Person Incurred and outstanding on or prior to the date on which such Person is acquired by, consolidates with or merges into the Company or any Restricted Subsidiary; *provided, however*, that on the date that such transaction is consummated, after giving effect to the Incurrence of such Indebtedness pursuant to this clause (h), either (x) the Company would have been able to Incur US\$1.00 of additional Indebtedness pursuant to clause (1) above or (y) the Net Debt to EBITDA Ratio of the Company would be less than or equal to the Net Debt to EBITDA Ratio of the Company immediately prior to giving effect thereto; and any Refinancing Indebtedness in respect thereof;

(i) Indebtedness arising from agreements providing for indemnification, adjustment of purchase price or similar obligations, in each case Incurred or assumed in connection with the disposition of a business, assets or Capital Stock of a Restricted Subsidiary; *provided* that, in the case of a disposition, the maximum aggregate liability in respect of such Indebtedness will at no time exceed the gross proceeds actually received by the Company or such Restricted Subsidiary in connection with such disposition;

(j) Indebtedness of the Company or any Restricted Subsidiary consisting of Guarantees of Indebtedness of the Company or any Restricted Subsidiary Incurred under any other clause of this covenant; and

(k) Indebtedness in an aggregate principal amount at any time outstanding not to exceed the greater of US\$35.0 million and 8.0% of Net Tangible Assets.

(3) Notwithstanding the foregoing, neither the Company nor any Restricted Subsidiary may Incur any Indebtedness pursuant to clause (2) above if the proceeds thereof are used, directly or indirectly, to repay, prepay, redeem, defease, retire, refund or refinance any Subordinated Obligations, unless 100% of such Indebtedness will

be subordinated to the Notes and any applicable Significant Subsidiary Guarantee to at least the same extent as such Subordinated Obligations being repaid.

(4) For purposes of determining compliance with this covenant, in the event that an item of Indebtedness meets the criteria of more than one of the types of Indebtedness described above, including clause (1) above, the Company, in its sole discretion, may classify, and from time to time divide and/or reclassify an item of Indebtedness in more than one of the types of Indebtedness described above.

Notwithstanding any other provision of this covenant, neither the Company nor any Restricted Subsidiary shall, with respect to any outstanding Indebtedness Incurred, be deemed to be in violation of this covenant solely as a result of fluctuations in the exchange rates of currencies.

In addition, the Company will not permit any Unrestricted Subsidiary to Incur any Indebtedness or issue any shares of Disqualified Stock, other than Non-Recourse Debt. If at any time an Unrestricted Subsidiary becomes a Restricted Subsidiary, any Indebtedness of such Subsidiary shall be deemed to be Incurred as of such date (and, if such Indebtedness is not permitted to be Incurred as of such date under this covenant, the Company shall be in Default of this covenant).

For purposes of determining compliance with any U.S. dollar-denominated restriction on the Incurrence of Indebtedness, the U.S. dollar-equivalent principal amount of Indebtedness denominated in a foreign currency shall be calculated based on the relevant currency exchange rate determined on the date of Incurrence, in the case of term Indebtedness, or first committed, in the case of revolving credit Indebtedness. The principal amount of any Indebtedness Incurred to Refinance other Indebtedness, if Incurred in a different currency from the Indebtedness being Refinanced, shall be calculated based on the currency exchange rate applicable to the currencies in which such Refinancing Indebtedness is denominated calculated based on the relevant currency exchange rates as calculated in the first sentence of this paragraph.

Limitation on Liens

The Company covenants and agrees that neither it nor any Restricted Subsidiary will issue, assume or Guarantee any Indebtedness secured by a Lien (the "Initial Lien") upon any property or assets of the Company or any Restricted Subsidiary without effectively providing that the Notes (together with, if the Company so determines, any other Indebtedness or obligations then existing or thereafter created) (or, in respect of Liens on any property or assets of a Significant Subsidiary, the Significant Subsidiary Guarantee of such Significant Subsidiary), shall be secured equally and ratably with (or prior to) such Indebtedness so long as such Indebtedness shall be so secured (*provided, however*, that any Lien created for the benefit of the holders of the Notes (and, if applicable, holders of such other Indebtedness or obligations) pursuant to the foregoing shall provide by its terms that such Lien will be automatically and unconditionally released and discharged upon release and discharge of the Initial Lien), except that the foregoing provisions shall not apply to (without duplication):

(a) Liens which secure only Indebtedness owing by any Restricted Subsidiary to the Company or one or more Restricted Subsidiaries and/or by the Company to one or more Restricted Subsidiaries, if any;

(b) Liens on any property or assets acquired from a Person which is merged with or into the Company or any Restricted Subsidiary, or any Liens on the property or assets of any Person or other entity existing at the time such Person or other entity becomes a Restricted Subsidiary and, in either such case, is not created as a result of or in connection with or in anticipation of any such transaction; *provided* that such Liens may not extend to any other property owned by the Company or any Restricted Subsidiary;

(c) any Lien on any property or assets existing at the time of acquisition thereof and which is not created as a result of or in connection with or in anticipation of such acquisition; *provided* that such Liens may not extend to any other property owned by the Company or any Restricted Subsidiary;

(d) Liens for taxes, assessments, governmental charges, levies or claims which are not yet due or thereafter can be paid without penalty or are being contested in good faith by appropriate proceedings or the period within which such proceedings may be initiated has not expired;

(e) pledges or deposits in connection with workers' compensation laws, unemployment insurance laws or similar legislation, or good faith deposits, letters of credit and performance, surety, appeal or similar bonds in connection with bids, tenders, contracts (other than for payment of Indebtedness) or leases to which the Company or any Restricted Subsidiary is a party, or deposits for the payment of rent, or deposits to secure public or statutory obligations or for contested taxes or import or customs duties, in each case incurred in the ordinary course of business;

(f) Liens imposed by law, such as landlords', carriers', warehousemen's and mechanics' Liens and other similar Liens, on the property or assets of the Company or any Restricted Subsidiary arising in the ordinary course of business and securing payment of obligations that are not more than 60 days past due or are being contested in good faith by appropriate proceedings;

(g) easements, rights of way, restrictions, minor defects or irregularities in title and other similar charges or encumbrances not interfering in any material respect with the business of the Company;

(h) Liens arising solely by virtue of any statutory or common law provision relating to bankers' liens, rights of set-off or similar rights and remedies as to deposit accounts or other funds maintained with a creditor depository institution; *provided, however*, that such deposit account is not a dedicated cash collateral account and is not intended by the Company or any Restricted Subsidiary to provide collateral to such depository institution;

(i) judgment Liens not giving rise to an Event of Default so long as such Lien is bonded in accordance with applicable law and any appropriate legal proceedings which may have been duly initiated for the review of such judgment have not been finally terminated or the period within which such proceedings may be initiated has not expired;

(j) Liens in existence on the Closing Date;

(k) Liens securing Hedging Obligations permitted under clause (2)(f) of the covenant described under "—Limitation on Indebtedness";

(l) leases, licenses, subleases and sublicenses of assets (including, without limitation, real property and intellectual property rights) that do not materially interfere with the ordinary conduct of business do the Company or any of its Restricted Subsidiaries;

(m) any interest or title of a lessor under any Capitalized Lease Obligation or operating lease;

(n) Liens securing Indebtedness incurred pursuant to Section (2)(d) of the covenant described under "—Limitation on Indebtedness"; *provided* that such Liens extend only to the assets purchased or financed with such Indebtedness and any improvements on or additions to such assets;

(o) any Lien on the Capital Stock of an Unrestricted Subsidiary;

(p) Liens created to guarantee or otherwise secure Indebtedness in an aggregate principal amount not to exceed the greater of US\$35.0 million and 8.0% of Net Tangible Assets; and

(q) any extension, renewal or replacement (or successive extensions, renewals or replacements), in whole or in part, of any Lien referred to in the clauses (b), (c), (j), (n) and (p) above or of any Indebtedness secured thereby and any Refinancing Indebtedness in respect thereof; *provided* that the principal amount of Indebtedness so secured shall not exceed the principal amount of Indebtedness so secured at the time of such extension,

renewal or replacement (plus premiums, interest and reasonable expenses incurred in connection therewith), and that such extension, renewal or replacement Lien shall be limited to all or part of the property which secured the Lien extended, renewed or replaced (plus improvements on or additions to such property).

Limitation on Sales of Assets

(1) The Company will not, and will not permit any Restricted Subsidiary to, make any Asset Disposition unless the following conditions are met:

(a) The Asset Disposition is for Fair Market Value;

(b) At least 75% of the consideration consists of all or part of any of the following, received at closing, (i) cash and Temporary Cash Investments or (ii) Additional Assets;

(c) Within 270 days after the receipt of any Net Available Cash from an Asset Disposition, the Net Available Cash is used:

- to permanently repay Indebtedness, other than Subordinated Obligations, of the Company or of any of its Restricted Subsidiaries, in each case owing to a Person other than the Company or any Subsidiary;
- to acquire all or substantially all of the assets of a Related Business, or a majority of the Voting Stock of another Person that thereupon becomes a Restricted Subsidiary engaged in a Related Business, or to make capital expenditures or otherwise acquire long-term assets that are to be used in a Related Business; or
- to acquire Additional Assets for the Company or its Restricted Subsidiaries;

provided that pending the final application of any such Net Available Cash in accordance with clause (c) above, the Company and its Restricted Subsidiaries may temporarily reduce Indebtedness or otherwise invest such Net Available Cash in any manner not prohibited by the Indenture.

(d) The Net Available Cash of an Asset Disposition not applied pursuant to paragraph (c) above within 270 days of the Asset Disposition shall constitute “Excess Proceeds.” Excess Proceeds will be carried forward and accumulated, except as provided in the following sentence. When accumulated Excess Proceeds equals or exceeds US\$25.0 million, the Issuer must, and the Company shall cause the Issuer to, within 30 days, make an Offer (as defined in clause (2) below) having a principal amount equal to:

- accumulated Excess Proceeds, multiplied by
- a fraction (x) the numerator of which is equal to the then outstanding principal amount of the Notes and (y) the denominator of which is equal to the then outstanding principal amount of the Notes and all *pari passu* Indebtedness similarly required to be repaid, redeemed or tendered for in connection with the Asset Disposition, rounded down to the nearest US\$1,000.

Upon completion of the Offer to Purchase, Excess Proceeds will be reset at zero and the Company shall be entitled to use any remaining proceeds for any corporate purposes to the extent permitted under the Indenture.

For the purposes of this clause (1), the assumption by the transferee of Indebtedness (other than Subordinated Obligations) of the Company or a Restricted Subsidiary and the release of the Company or such Restricted Subsidiary from all liability on such Indebtedness in connection with such Asset Disposition will be deemed to be cash.

(2) (a) In the event of an Asset Disposition that requires the purchase of Notes pursuant to clause (d) above, the Issuer will, and the Company shall cause the Issuer to, make an offer (an “Offer”) to purchase Notes (and any other Senior Indebtedness), at a purchase price, in U.S. dollars, of 100% of their principal amount *plus* accrued and unpaid interest (including Additional Amounts, if any) thereon, to the date of purchase and (b) if the aggregate purchase price of the Notes (and any other Senior Indebtedness) tendered pursuant to the Offer exceeds the Net Available Cash allotted to their purchase, the Company shall select the Notes and other Senior Indebtedness to be purchased on a *pro rata* basis but in round denominations, which in the case of the Notes will be denominations of U.S.\$1,000 principal amount or multiples thereof.

(3) The Issuer and the Company will comply, to the extent applicable, with the requirements of Section 14(e) of the Exchange Act and any other applicable securities laws or regulations in connection with any repurchase of Notes pursuant to this covenant. To the extent that the provisions of any applicable securities laws or regulations conflict with provisions of this covenant, the Issuer and the Company will comply with the applicable securities laws and regulations and will not be deemed to have breached its obligations under this covenant by virtue thereof.

Limitation on Transactions with Affiliates

The Company will not, and will not permit any Restricted Subsidiary to, enter into any transaction (or series of related transactions) with any Affiliates, including any Investment, either directly or indirectly (an “Affiliate Transaction”), unless (i) such transaction or series of related transactions are on terms no less favorable to the Company or such Restricted Subsidiary, as the case may be, than those that could have been obtained in a comparable arm’s-length transaction with an unrelated third party; and (ii) the Company delivers to the Trustee: (a) with respect of any Affiliate Transaction or series of related Affiliate Transactions involving aggregate consideration in excess of US\$4.0 million, an Officers’ Certificate stating that such Affiliate Transaction complies with this covenant and that such Affiliate Transaction has been approved by the management of the Company; and (b) with respect of any Affiliate Transaction or series of related Affiliate Transactions involving aggregate consideration in excess of US\$25.0 million, an opinion as to the fairness to the Company or such Restricted Subsidiary of such Affiliate Transaction from a financial point of view issued by an accounting, appraisal or investment banking firm of recognized standing.

The preceding paragraph will not apply to:

(1) any Restricted Payment or Permitted Investment permitted to be made pursuant to the covenant described under “—Limitation on Restricted Payments”;

(2) any issuance of securities, or other payments, awards or grants in cash, securities or otherwise pursuant to, or the funding of, employment agreements and other compensation arrangements, options to purchase Capital Stock of the Company, restricted stock plans, long-term incentive plans, stock appreciation rights plans, participation plans or similar employee benefits plans and/or indemnity provided on behalf of officers and employees approved by the Board of Directors of the Company;

(3) loans or advances to employees, officers or directors in the ordinary course of business of the Company or any of its Restricted Subsidiaries but in any event not to exceed US\$2.0 million in the aggregate outstanding at any one time (without giving effect to the forgiveness of any such loan) with respect to all loans or advances made since the Closing Date;

(4) any transaction between the Company and a Restricted Subsidiary or between Restricted Subsidiaries and Guarantees issued by the Company or a Restricted Subsidiary for the benefit of the Company or a Restricted Subsidiary, as the case may be, in accordance with “—Limitation on Indebtedness”;

(5) the payment of reasonable and customary fees paid to, and indemnity provided on behalf of, directors of the Company or any Restricted Subsidiary of the Company; and

(6) the existence of, and the performance of obligations of the Company or any of its Restricted Subsidiaries under the terms of, any agreement to which the Company or any of its Restricted Subsidiaries is a party as of or on the Closing Date and identified on a schedule to the Indenture on the Closing Date, as these agreements may be amended, modified, supplemented, extended or renewed from time to time; *provided, however*, that any future amendment, modification, supplement, extension or renewal entered into after the Closing Date will be permitted to the extent that its terms are not more disadvantageous to the holders of the Notes than the terms of the agreements in effect on the Closing Date.

Limitation on Sale and Lease-Back Transactions

The Company covenants and agrees that neither the Company nor any Restricted Subsidiary will enter into any Sale and Lease-Back Transaction unless:

(a)(i) pursuant to the provisions of the covenant described under “—Limitation on Indebtedness” above, the Company or such Restricted Subsidiary would be entitled to Incur Indebtedness in a principal amount equal to or exceeding the Attributable Debt in respect of such Sale and Lease-Back Transaction; and

(ii) pursuant to the provisions of the covenant described under “—Limitation on Liens” above, the Company or such Restricted Subsidiary would be entitled to Incur a Lien to secure such Indebtedness; or

(b) the Company, during or immediately after the expiration of three months after the effective date of such Sale and Lease-Back Transaction (whether made by the Company or a Restricted Subsidiary), applies, to the voluntary retirement of Funded Debt, an amount equal to the Value of such Sale and Lease-Back Transaction, less an amount equal to the sum of: (i) the principal amount of Notes delivered, within such three-month period, to the Trustee for retirement and cancellation and (ii) the principal amount of other Funded Debt voluntarily retired by the Company within such three-month period, in each case excluding retirements of Notes and other Funded Debt as a result of conversions or pursuant to mandatory sinking fund or mandatory prepayment provisions or by payment at maturity.

Limitation on Dividend and Other Payment Restrictions Affecting Restricted Subsidiaries

The Company will not, and will not permit any Restricted Subsidiary to, directly or indirectly, create or permit to exist or become effective any consensual encumbrance or restriction on the ability of any Restricted Subsidiary to:

(1) pay dividends or make any other distributions on its Capital Stock to the Company or any Restricted Subsidiary;

(2) pay any Indebtedness owed to the Company or any Restricted Subsidiary;

(3) make loans or advances to the Company or any Restricted Subsidiary; or

(4) transfer any of its properties or assets to the Company or any Restricted Subsidiary.

However, the preceding restrictions will not apply to encumbrances or restrictions:

(i) existing under or by reason of applicable law or governmental rule, regulation or order;

(ii) on any property or assets acquired from a Person which is merged with or into the Company or any Restricted Subsidiary, or by reason of any Liens on the property or assets, or relating to the Indebtedness, of any Person or other entity existing at the time such Person or other entity becomes a Restricted Subsidiary, or restriction relating to Indebtedness of any such Person and, in any such case, is not created as a result of or in connection with or in anticipation of any such transaction; *provided* that such Liens may not extend to any other property owned by the Company or any Restricted Subsidiary;

(iii) on any property or assets existing at the time of acquisition thereof and which are not created as a result of or in connection with or in anticipation of such acquisition; *provided* that such encumbrances and restrictions may not extend to any other property owned by the Company or any Restricted Subsidiary;

(iv) in the case of clause (4) above:

(a) that exist by virtue of any transfer of, agreement to transfer, option or right with respect to, or Lien on, any property or assets of the Company or any Restricted Subsidiary not otherwise prohibited by the Indenture;

(b) that restricts in a customary manner the subletting, assignment or transfer of any property or asset that is subject to a lease, license or similar contract, or the assignment or transfer of any such lease, license or other contract or contractual right;

(c) contained in mortgages, pledges or other security agreements permitted under the Indenture securing Indebtedness of the Company or a Restricted Subsidiary to the extent such encumbrances or restrictions restrict the transfer of the property subject to such mortgages, pledges or other security agreements;

(d) imposed by Purchase Money Obligations for property acquired in the ordinary course of business or by Capitalized Lease Obligations permitted under the Indenture on the property so acquired, but only to the extent that such encumbrances or restrictions restrict the transfer of the property so acquired; or

(e) arising or agreed to in the ordinary course of business, not relating to Indebtedness, and that do not, individually or in the aggregate, detract from the value of the property or assets of the Company or any Restricted Subsidiary in any manner material to the Company and its Restricted Subsidiaries;

(v) by reason of Liens that secure Indebtedness otherwise permitted to be incurred under the provisions of the covenant described under “—Limitation on Liens” above and that limit the right of the debtor to dispose of the assets subject to such Liens;

(vi) imposed with respect of a Restricted Subsidiary (or any of its property or assets) pursuant to an agreement entered into for the sale or disposition of all or substantially all the Capital Stock or assets of such Restricted Subsidiary (or the property or assets that are subject to such restrictions) pending the closing of such sale or disposition;

(vii) existing on the Closing Date; or

(viii) any encumbrance or restriction with respect to a Restricted Subsidiary pursuant to an agreement effecting a refunding, replacement or refinancing of, or amendment or modification to, Indebtedness Incurred pursuant to an agreement referred to in clause (ii), (iii) or (vii) of this paragraph or this clause (viii); *provided, however*, that such encumbrance or restriction is no less favorable in any material respect, taken as a whole, to the holders of the Notes than the encumbrances and restrictions contained in such agreements referred to in clauses (ii), (iii) or (vii) on the Closing Date or the date of acquisition of such Person, property or assets, as applicable.

Consolidation, Merger, Conveyance, Sale or Lease

Nothing contained in the Indenture prevents the Company from consolidating with or merging into another Person or conveying, transferring or leasing the Company’s properties and assets substantially as an entirety to any Person; *provided* that,

(a) the Person formed by such consolidation or into which the Company is merged or the Person which acquires by conveyance or transfer, or which leases, the Company’s properties and assets substantially as an entirety is a Person (the “Successor Company”) organized and existing under the laws of Brazil or the United States, any State thereof or the District of Columbia or any other country that is a member of the European Union or the Organization for Economic Co-operation and Development on the date of the Indenture, and expressly assumes, by an indenture supplemental to the Indenture, executed and delivered to the Trustee, in form satisfactory to the Trustee, the due and punctual payment of the principal of (and premium, if any) and interest, if any, on all the Notes and the performance of every covenant of the Indenture on the part of the Company to be performed or observed;

(b) immediately after giving effect to such transaction, no Default or Event of Default shall have occurred and be continuing;

(c) immediately after giving effect to such transaction, either (i) the Successor Company could Incur at least an additional US\$1.00 of Indebtedness under clause (1) of the covenant described under “—Limitation on Indebtedness” above or (2) the Net Debt to EBITDA Ratio of the Successor Company would be less than or equal to the Net Debt to EBITDA Ratio of the Company immediately prior to giving effect thereto;

(d) any applicable Significant Subsidiary (unless it is the other party to the transactions above, in which case clause (a) above shall apply) shall have by supplemental indenture confirmed that its Significant Subsidiary Guarantee, if any, shall apply to such Person's obligations in respect of the Indenture and the Notes; and

(e) the Company has delivered to the Trustee an Officers' Certificate and an opinion of counsel, each stating that such consolidation, merger, conveyance, transfer or lease and, if a supplemental indenture is required in connection with such transaction, such supplemental indenture comply with the Indenture and that all conditions precedent therein relating to such transaction have been complied with.

Notwithstanding the foregoing, any Restricted Subsidiary may consolidate with, merge into or transfer all or part of its properties or assets to the Company, and the Company and such Restricted Subsidiary shall not be required to comply with clause (c) and with the legal opinion requirement of clause (e).

The Company will not permit the Issuer or any Subsidiary Guarantor to consolidate with or merge with or into, or convey, transfer or lease, in one transaction or a series of transactions, all or substantially all of its assets to any Person (other than the Company or any Restricted Subsidiary) unless:

(1)(x) the resulting, surviving or transferee Person (if not the Company or such Subsidiary Guarantor) shall be a Person organized and existing under the laws of the jurisdiction under which such Subsidiary Guarantor was organized or under the laws of Brazil or the United States, any State thereof or the District of Columbia or any other country that is a member of the European Union or the Organization for Economic Co-operation and Development on the date of the Indenture, or, in the case of the Issuer, the Cayman Islands; (y) in the case of the Issuer, such Person shall expressly assume all the obligations of the Issuer under the Notes and the Indenture; and (z) in the case of a Subsidiary Guarantor, such Person shall expressly assume, by a Guarantee agreement substantially similar in all respects to the Significant Subsidiary Guarantee to which such Subsidiary Guarantor was a party and in a form satisfactory to the Trustee, all the obligations of such Subsidiary Guarantor, if any, under such Significant Subsidiary Guarantee; *provided* that the foregoing clauses (x), (y) and (z) shall not apply in the case of a Subsidiary Guarantor that (A) has been disposed of in its entirety to another Person (other than the Company or a Restricted Subsidiary), whether through a merger, consolidation or sale of Capital Stock or assets or (B) as a result of the disposition of all or a portion of its Capital Stock, ceases to be a Restricted Subsidiary, in both cases, if in connection therewith the Company provides an Officers' Certificate to the Trustee to the effect that the transaction complies with the covenants described under “—Limitation on Sales of Assets” and “—Limitation on the Sale or Issuance of Capital Stock of Restricted Subsidiaries” in respect of such disposition);

(2) immediately after giving effect to such transaction or transactions on a *pro forma* basis (and treating any Indebtedness which becomes an obligation of the resulting, surviving or transferee Person as a result of such transaction as having been issued by such Person at the time of such transaction), no Default or Event of Default shall have occurred and be continuing; and

(3) the Company delivers to the Trustee an Officers' Certificate and an opinion of counsel, each stating that such consolidation, merger or transfer complies with the Indenture.

Limitation on the Sale or Issuance of Capital Stock of Restricted Subsidiaries

The Company will not, and will not permit any Restricted Subsidiary to, transfer, convey, sell, lease or otherwise dispose of any Voting Stock of any Restricted Subsidiary or to issue any Voting Stock of any Restricted Subsidiary (other than, if necessary, shares of its Voting Stock constituting directors' qualifying shares) to any Person except:

(1) to the Company or a Restricted Subsidiary; or

(2) in compliance with the covenant described under “—Limitation on Sales of Assets” above and immediately after giving effect to such transfer, conveyance, sale, lease, other disposal or issuance, such

Restricted Subsidiary either continues to be a Restricted Subsidiary or if such Restricted Subsidiary would no longer be a Restricted Subsidiary, then the Investment of the Company in such Person (after giving effect to such transfer, conveyance, sale, lease, other disposal or issuance) would have been permitted to be made under the covenant described under “—Limitation on Restricted Payments” above as if made on the date of such transfer, conveyance, sale, lease, other disposal or issuance.

Reports

The Company shall provide the Trustee and, upon request, the holders of the Notes:

- (i) within 110 days following the end of each fiscal year of the Company after the Closing Date, the audited annual financial statements (including the notes thereto) of the Company in a form substantially similar to the financial statements included in this Offering Memorandum prepared in accordance with GAAP and presented in the English language, and a report thereon by the Company’s certified independent accountants; and
- (ii) within 60 days following the end of the first three fiscal quarters in each fiscal year of the Company beginning with the quarter ending after the Closing Date, all quarterly financial statements (including the notes thereto) of the Company, prepared in accordance with GAAP and presented in the English language.

In addition, the Issuer and the Company will furnish to the holders of the Notes and to prospective investors, upon request of such holders or investors, any information required to be delivered pursuant to Rule 144A(d)(4) under the Securities Act so long as the Notes are not freely tradable under the Securities Act.

For so long as any of the Notes are outstanding, the above information will be made available at the specified offices of each Paying Agent. For so long as the Notes are listed on the Official List of the Luxembourg Stock Exchange and the rules of such exchange so require, the above information will also be made available in Luxembourg through the offices of the Luxembourg Paying Agent.

Other Covenants

In addition, the Indenture will (subject to exceptions, qualifications and materiality thresholds, where appropriate) contain covenants regarding permitted lines of business, the performance of the Company’s and the Issuer’s obligations under the Notes, the maintenance of the Company’s and the Issuer’s corporate existence, the maintenance of the Company’s and Restricted Subsidiaries’ properties, the compliance with applicable laws, the maintenance of an office or agency in the State of New York, notices of certain events, further actions and the use of proceeds.

Repurchases at the Option of the Holders of the Notes upon Change of Control

If a Change of Control occurs, each holder of Notes will have the right to require the Issuer and the Company to repurchase all or any part (equal to US\$2,000 and integral multiples of US\$1,000 in excess thereof) of that holder’s Notes pursuant to a Change of Control Offer (as defined below) on the terms set forth in the Indenture. No such purchase in part shall reduce the outstanding principal amount of the Notes held by any holder to below US\$2,000. In the Change of Control Offer, the Issuer and the Company will offer a “Change of Control Payment” in U.S. dollars equal to 101% of the aggregate principal amount of Notes repurchased *plus* accrued and unpaid interest and Additional Amounts, if any, on the Notes repurchased, to the date of purchase (subject to the right of the holders of record on the relevant Record Date to receive interest and Additional Amounts, if any, on the relevant interest payment date).

Within 30 days following any Change of Control, the Issuer and the Company will make a “Change of Control Offer” by notice to each holder of Notes in accordance with the provision set out under “—Notices” below, describing the transaction or transactions that constitute the Change of Control and offering to repurchase

Notes on the date specified in the notice (the “Change of Control Payment Date”), which date will be no earlier than 30 days and no later than 60 days from the date such notice is mailed, pursuant to the procedures required by the Indenture and described in such notice. The Company will also give notices to the holders of the Notes by publication in a daily newspaper of general circulation in Luxembourg and/or on the website of the Luxembourg Stock Exchange (www.bourse.lu).

The Issuer and the Company will comply, to the extent applicable, with the requirements of Section 14(e) of the Exchange Act and any other applicable securities laws or regulations in connection with the repurchase of Notes pursuant to this covenant. To the extent that the provisions of any applicable securities laws or regulations conflict with provisions of this covenant, each of the Issuer and the Company will comply with the applicable securities laws and regulations and will not be deemed to have breached its obligations under this covenant by virtue of its compliance with such securities laws or regulations.

On the Change of Control Payment Date, the Issuer and the Company will, to the extent lawful:

(1) accept for payment all Notes or portions of Notes properly tendered pursuant to the Change of Control Offer;

(2) deposit with the Paying Agents an amount equal to the Change of Control Payment in respect of all Notes or portions of Notes properly tendered; and

(3) deliver or cause to be delivered, if applicable, to the Trustee for cancellation the Notes properly accepted together with an Officers’ Certificate stating the aggregate principal amount of Notes or portions of Notes being purchased.

The Paying Agents will promptly mail to each holder of Notes properly tendered the Change of Control Payment for such Notes, and the Trustee will promptly authenticate and mail (or cause to be transferred by book entry) to each holder a new note equal in principal amount to any unpurchased portion of the Notes surrendered, if any; *provided* that each new note will be in a principal amount of US\$2,000 and integral multiples of US\$1,000 in excess thereof. The Issuer and the Company will publicly announce the results of the Change of Control Offer on or as soon as practicable after the Change of Control Payment Date.

The provisions described above that require the Issuer and the Company to make a Change of Control Offer following a Change of Control will be applicable whether or not any other provisions of the Indenture are applicable. Except as described above with respect to a Change of Control, the Indenture does not contain provisions that permit the holders of the Notes to require that the Issuer and the Company repurchase or redeem the Notes in the event of a takeover, recapitalization or similar transaction.

The Issuer and the Company will not be required to make a Change of Control Offer upon a Change of Control if (1) a third party makes the Change of Control Offer in the manner, at the times and otherwise in compliance with the requirements, set forth in the Indenture, that are applicable to a Change of Control Offer made by the Issuer and the Company and such third party purchases all Notes properly tendered and not withdrawn under the Change of Control Offer or (2) a notice of redemption has been given pursuant to the Indenture as described under the caption “—Optional Redemption,” unless and until there is a default in payment of the applicable redemption price.

Other existing and future indebtedness of the Company and its Subsidiaries may contain prohibitions on the occurrence of events that would constitute a Change of Control or require that indebtedness to be repurchased upon a Change of Control. In addition, the exercise by the holders of their right to require the Company to repurchase the Notes upon a Change of Control may cause a default under such indebtedness even if the Change of Control itself does not.

If a Change of Control Offer occurs, the Company may not have available funds sufficient to make the Change of Control Payment for all the Notes that might be delivered by holders seeking to accept the Change of

Control Offer. In the event the Company is required to purchase outstanding Notes pursuant to a Change of Control Offer, the Company expects that it would seek third-party financing to the extent it does not have available funds to meet its purchase obligations. However, the Company may not be able to obtain necessary financing.

Subject to applicable law, a Change of Control Offer may be made in advance of a Change of Control and conditioned upon the occurrence of such Change of Control if a definitive agreement is in place for the Change of Control at the time of making of the Change of Control Offer.

The Change of Control provisions described above may deter certain mergers, tender offers and other takeover attempts involving the Company by increasing the capital required to effectuate such transactions.

Release of Covenants

If on any date following the Closing Date:

- (1) the Notes have been assigned an Investment Grade Rating by any two Rating Agencies; and
- (2) no Default shall have occurred and be continuing,

then, beginning on that day and subject to the provisions of the following paragraph, the covenants specifically listed under the following captions will automatically, without any notice of any kind, be suspended (and the Company and its Subsidiaries will have no obligation or liability whatsoever with respect to such covenants):

- (a) “—Limitation on Restricted Payments”;
- (b) “—Limitation on Indebtedness”;
- (c) “—Limitation on Sales of Assets”;
- (d) “—Limitation on Transactions with Affiliates”;
- (e) “—Limitation on Dividend and Other Payment Restrictions Affecting Restricted Subsidiaries”;
- (f) clause (c) of the covenant “—Consolidation, Merger, Conveyance, Sale or Lease”;
- (g) “—Limitation on the Sale or Issuance of Capital Stock of Restricted Subsidiaries”; and
- (h) clause (a)(i) of the covenant “—Limitation on Sale and Leaseback Transactions.”

Clauses (a) through (h) above are collectively referred to as the “Suspended Covenants.”

If, during any period in which the Suspended Covenants are suspended, the Notes cease to have an Investment Grade Rating by two Rating Agencies, the Suspended Covenants will thereafter be reinstated and be applicable pursuant to the terms of the Indenture (including in connection with performing any calculation or assessment to determine compliance with the terms of the Indenture), unless and until the Notes subsequently attain an Investment Grade Rating by any two Rating Agencies (in which event the Suspended Covenants will again be suspended for such time that the Notes maintain an Investment Grade Rating by any two Rating Agencies); *provided, however*, that no Default or breach or violation of any kind will be deemed to exist under the Indenture, the Notes the Company Guarantee or any Significant Subsidiary Guarantee with respect to the Suspended Covenants (whether during the period when the Suspended Covenants were suspended or thereafter) based on, and none of the Issuer, the Company or any Restricted Subsidiaries will bear any liability (whether during the period when the Suspended Covenants were suspended or thereafter) for, any actions taken or events occurring after the Notes attain an Investment Grade Rating by any two Rating Agencies and before any reinstatement of the Suspended Covenants as provided above, or any actions taken at any time (whether during the period when the Suspended Covenants were suspended or thereafter) pursuant to any contractual obligation arising prior to the reinstatement, regardless of whether those actions or events would have been permitted if the applicable Suspended Covenant had remained in effect during such period.

Events of Default

An Event of Default with respect to the Notes is defined in the Indenture as being a:

- default for 30 days in payment of any interest or Additional Amounts on the Notes when the same becomes due and payable;
- default in payment of principal or of premium, if any, on the Notes when the same becomes due and payable, upon optional redemption, upon required purchase, upon declaration of acceleration or otherwise;
- failure by the Company or any Restricted Subsidiary to comply with the provisions described under “—Restrictive Covenants—Consolidation, Merger, Conveyance, Sale or Lease”;
- default in the performance, or breach, of any other covenant or obligation of the Company or any Restricted Subsidiary in the Indenture and continuance of such default or breach for a period of 45 consecutive days after written notice specifying such default or breach is given to the Issuer or the Company by the Trustee or to the Issuer, the Company and the Trustee by the holders of at least 25% in aggregate principal amount of the Notes;
- default under any mortgage, indenture or instrument under which there may be issued or by which there may be secured or evidenced any Indebtedness by the Company or any Restricted Subsidiary (or the payment of which is Guaranteed by the Company or any Restricted Subsidiary) whether such Indebtedness or Guarantee now exists, or is created after the Closing Date, if that default:
 - is caused by a failure to pay principal of, or interest or premium (or Additional Amounts) on such Indebtedness within any applicable grace period (a “Payment Default”); or
 - results in the acceleration of such Indebtedness prior to its Stated Maturity,
 - and, in each case, the principal amount of any such Indebtedness, together with the principal amount of any other such Indebtedness under which there has been a Payment Default or the maturity of which has been so accelerated, aggregates US\$20 million or more; provided that any acceleration of the non-convertible debentures due April 1, 2011 (the “Debentures”), issued pursuant to the *Escritura Particular da 1ª Emissão Pública de Debêntures Simples, Não Conversíveis em Ações, em Série Única, da Espécie sem Garantia nem Preferência, da Diagnósticos da América S.A.*, dated April 7, 2006, due to the offering of the Notes or the application of the proceeds thereof shall not be deemed to be a Default or an Event of Default so long as the Debentures are prepaid in full no later than 30 days following any such declaration of acceleration;
- a default in the payment of any amounts in excess of US\$20 million owed by the Company or the Issuer under any Hedging Obligations entered into by the Company or the Issuer on or prior to the Closing Date that hedge all or any portion of the Company’s or the Issuer’s obligations under the Notes.
- except as permitted by the Indenture, any Significant Subsidiary Guarantee shall be held in any judicial proceeding to be unenforceable or invalid or shall cease for any reason to be in full force and effect or any Subsidiary Guarantor, or any Person acting on behalf of any Subsidiary Guarantor, shall contest the enforceability thereof in a pleading in any court of competent jurisdiction or similar body;
- the Company Guarantee shall fail to be in full force and effect or is declared null and void or the Company denies that it has further liability under the Indenture and the Company Guarantee, or gives notice to such effect (other than by reason of the termination of the Indenture or the release of the Company Guarantee in accordance with the provisions of the Indenture);
- any final judgment or order for the payment of money in excess of US\$20.0 million or its equivalent in other currencies at the time of determination (to the extent not covered by insurance as acknowledged in writing by the insurer) is rendered against the Company or any Significant Subsidiary and such

judgment or order is not paid (whether in full or if there is a failure to pay installments in accordance with the terms of the judgment aggregating in excess of US\$20.0 million) or otherwise discharged and remains unstayed for a period of 60 days after such judgment becomes final and non-appealable; and

- certain events of bankruptcy, insolvency or reorganization of the Issuer, the Company or any Significant Subsidiary.

The Company or the Issuer will deliver to the Trustee, within ten business days after obtaining actual knowledge thereof, written notice of any Default or Event of Default that has occurred and is still continuing, its status and what action the Issuer and the Company are taking or proposing to take in respect thereof. The Indenture provides that the Trustee may withhold notice to the holders of the Notes of any Default or Event of Default (except in payment of principal of, or interest or premium (and Additional Amounts), if any, on the Notes) if the Trustee in good faith determines that it is in the interest of the holders of the Notes to do so.

The Indenture provides that, if an Event of Default (other than an Event of Default involving a bankruptcy, insolvency or similar event in respect of the Issuer or the Company) with respect to the Notes specified therein shall have happened and be continuing, either the Trustee or the holders of at least 25% in aggregate principal amount of the Notes, by written notice to the Issuer and the Company (and to the Trustee if notice is given by the holders), may declare the principal amount of (and interest on) all the Notes to be due and payable immediately. The Indenture provides that if an Event of Default involving a bankruptcy, insolvency or other similar event in respect of the Issuer or the Company shall have happened, the principal amount of all the Notes will be immediately due and payable without notice or any other act on the part of the Trustee or any holder of the Notes.

If the Issuer and the Company cure all Defaults or such Defaults have been waived (except the nonpayment of principal of and accrued interest or premium (and Additional Amounts) on Notes) and certain other conditions are met, such declaration may be rescinded and annulled by the holders of not less than a majority in aggregate principal amount of the Notes. In addition, past Defaults with respect to the Notes may be waived by the holders of not less than a majority in aggregate principal amount of the Notes except (i) a Default in the payment of principal of (or premium, if any) or interest (and Additional Amounts), if any, on any Note or (ii) in respect of a covenant or provision of the Indenture which cannot be modified or amended without the consent of the holder of each outstanding Note.

Subject to the provisions of the Indenture relating to the duties of the Trustee, in case an Event of Default will occur or be continuing, the Trustee will be under no obligation to exercise any of its rights or powers under the Indenture at the request or direction of any of the holders of the Notes, unless such holders shall have offered to the Trustee reasonable security or indemnity. Subject to such provision for indemnification, the holders of a majority in principal amount of the Notes will have the right to direct the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred on the Trustee with respect to the Notes; *provided* that the Trustee shall have the right to decline to follow any such direction if the Trustee shall determine that the action so directed conflicts with any law or the provisions of the Indenture or if the Trustee shall determine that such action would be prejudicial to holders of the Notes not taking part in such direction.

No holder of any Note shall have any right to institute any proceeding, judicial or otherwise, with respect to the Indenture, or for the appointment of a receiver or trustee, or for any other remedy thereunder, unless:

- such holder has previously given written notice to the Trustee of a continuing Event of Default with respect to the Notes;
- the holders of not less than 25% in principal amount of the outstanding Notes shall have made written request to the Trustee to institute proceedings in respect of such Event of Default in its own name as Trustee thereunder;
- such holder or holders have offered to the Trustee indemnity reasonably satisfactory to the Trustee against the costs, expenses and liabilities to be incurred in compliance with such request;

- the Trustee for 60 days after its receipt of such notice, request and offer of indemnity has failed to institute any such proceeding; and
- no direction inconsistent with such written request has been given to the Trustee during such 60-day period by the holders of a majority in principal amount of the outstanding Notes,

it being understood and intended that no one or more of such holders shall have any right in any manner whatsoever by virtue of, or by availing of, any provision of the Indenture to affect, disturb or prejudice the rights of any other of such holders, or to obtain or to seek to obtain priority or preference over any other of such holders or to enforce any right under the Indenture, except in the manner therein provided and for the equal and ratable benefit of all such holders.

Notwithstanding any other provision of the Indenture, the holder of any Note shall have the right, which is absolute and unconditional, to receive payment of the principal of (and premium, if any) and interest (and Additional Amounts), if any, on such Note and to institute suit for the enforcement of any such payment, and such rights shall not be impaired without the consent of such holder.

Additional Amounts

All payments of principal and interest in respect of the Notes or the Company Guarantee shall be made free and clear of, and without withholding or deduction for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or within the Cayman Islands, Brazil or any other jurisdiction from or through which payments by or on behalf of the Issuer or the Company are made or by or within any political subdivision thereof or any authority therein or thereof having power to tax, unless such withholding or deduction is required by law. In the event of any such withholding or deduction, the Issuer or the Company shall pay to holders of the Notes in U.S. dollars such additional amounts (“Additional Amounts”) as will result in the payment to such holder of the U.S. dollar amount that would otherwise have been receivable by such holder in the absence of such withholding or deduction, except that no such Additional Amounts shall be payable:

(a) in respect of any tax that would not have been so withheld or deducted but for the existence of any present or former connection, including a permanent establishment, between the holder or beneficial owner of the Note and any payment in respect of such Note (or, if the holder or beneficial owner is an estate, nominee, trust, partnership or corporation, between a fiduciary, settlor, beneficiary, member or shareholder of, or possessor of power over, the holder or beneficial owner) and the jurisdiction imposing the tax, other than the mere receipt of such payment or the mere holding or ownership of such Note or beneficial interest or enforcement of rights thereunder;

(b) in respect of any tax that would not have been so withheld or deducted if the Note had been presented for payment within 30 days after the Relevant Date (as defined below);

(c) in respect of any tax that would not have been so withheld or deducted but for the failure by the holder, the beneficial owner of the Note or the Trustee to (i) make a declaration of non-residence, or any other claim or filing for exemption, to which it is entitled or (ii) comply with any reasonable certification, identification, information, documentation or other reporting requirement concerning its nationality, residence, identity or connection with the jurisdiction imposing the tax;

(d) in respect of any estate, inheritance, gift, value added, sales, use, excise, transfer, personal property or similar taxes, duties, assessments or other governmental charges;

(e) in respect of any tax, assessment or other government charge payable other than by withholding or deduction;

(f) in respect of any payment to a holder of a Note that is a fiduciary or partnership or any Person other than the sole beneficial owner of such payment or Note, to the extent that a beneficiary or settlor with respect to such

fiduciary, a member of such partnership or the beneficial owner of such payment or Note would not have been entitled to the Additional Amounts had such beneficiary, settlor, member or beneficial owner been the actual holder of such Note;

(g) in respect of any withholding or deduction imposed on a payment to an individual that is required to be made pursuant to the European Union Directive on the taxation of savings income (the "Directive") implementing the conclusions of the European Council of Economic and Finance Ministers (ECOFIN) meeting on June 3, 2003, or any law implementing or complying with, or introduced in order to conform to, such Directive;

(h) in respect of any taxes imposed in connection with a Note presented for payment by or on behalf of a holder thereof who would have been able to avoid such tax by presenting the relevant Note to another paying agent in a member state of the European Union to whom presentation could have been made if the holder of the Note is a resident of the European Union for tax purposes; or

(i) in respect of any combination of (a) through (h) above.

"Relevant Date" means, with respect to any payment due from the Issuer or the Company, whichever is the later of (i) the date on which such payment first becomes due and (ii) if the full amount payable has not been received by the Trustee or the Paying Agents on or prior to such due date, the date on which, the full amount having been so received, notice to that effect shall have been given to the holders of the Notes in accordance with the Indenture.

All references to principal and interest in respect of the Notes shall be deemed also to refer to any Additional Amounts, unless the context requires otherwise, which may be payable as set forth in the Indenture or in the Notes.

At least ten Business Days prior to the first Interest Payment Date (and at least ten Business Days prior to each succeeding Interest Payment Date if there has been any change with respect to the matters set forth in the below-mentioned Officers' Certificate), the Issuer or the Company will furnish to the Trustee and each paying agent an Officers' Certificate instructing the Trustee and each such paying agent whether payments of principal or interest on the Notes due on such interest payment date shall be without deduction or withholding for or on account of any tax. If any such deduction or withholding shall be required, prior to such Interest Payment Date, the Issuer or the Company will furnish the Trustee and each such paying agent with an Officers' Certificate which specifies the amount, if any, required to be withheld on such payment to holders of the Notes and certifies that the Issuer or the Company shall pay such withholding or deduction.

The Issuer or the Company shall furnish to the Trustee the official receipts (or a certified copy of the official receipts) evidencing payment of any tax. Copies of such receipts shall be made available to holders of the Notes upon request.

The Issuer and the Company shall promptly pay when due any present or future stamp, court or documentary taxes or any other excise or property taxes, charges or similar levies that arise in any jurisdiction from the execution, delivery or registration of each Note or any other document or instrument referred to herein or therein, excluding any such taxes, charges or similar levies imposed by any jurisdiction outside of Brazil or the Cayman Islands and except, in certain cases, for taxes, charges or similar levies resulting from certain registrations of transfer or exchange of Notes.

Modification of the Indenture

The Indenture contains provisions permitting the Issuer, the Company and the Trustee, with the consent of the holders of a majority in aggregate in principal amount of the outstanding Notes, to modify the Indenture or

any supplemental indenture or the rights of the holders of the Notes; *provided* that no such modification shall without the consent of the holder of each outstanding Note affected thereby:

- change the stated maturity upon which the principal of or the interest on any Note is due and payable; or reduce the principal amount thereof or the rate of interest thereon (including Additional Amounts) or any premium payable upon the redemption thereof; or change any place of payment or the currency in which any Note or any premium or the interest thereon is payable; impair the right to institute suit for the enforcement of any such payment on or after the stated maturity thereof (or, in the case of redemption, on or after redemption date);
- reduce the percentage in principal amount of the outstanding Notes, the consent of whose holders is required for any waiver (of compliance with certain provisions of the Indenture or certain defaults thereunder and their consequences) provided for in the Indenture; or
- modify certain other provisions of the Indenture.

The Indenture provides that Notes owned by the Issuer, the Company or any of their Affiliates shall be deemed not to be outstanding for, among other purposes, consenting to any modification.

The Indenture also contains provisions permitting the Issuer, the Company and the Trustee to amend the Indenture in certain circumstances without notice to or consent of the holders of any Notes:

- cure any ambiguity, omission, defect or inconsistency;
- provide for the assumption by a successor Person of the obligations of the Company, the Issuer or a Subsidiary Guarantor under the Indenture;
- add Guarantees with respect to the Notes or release a Subsidiary Guarantor upon its designation as an Unrestricted Subsidiary; *provided* that such designation is in accordance with the applicable provisions of the Indenture;
- secure the Notes;
- add to the covenants of the Company for the benefit of the holders or surrender any right or power conferred upon the Company;
- make any change that does not adversely affect the rights of any holder;
- to conform the text of the Indenture of the Notes to any provision of this “Description of the Notes” to the extent that such provision in this “Description of the Notes” was intended to be a verbatim recitation of a provision of the Indenture of the Notes;
- release a subsidiary Guarantor from its obligations under its Subsidiary Guarantee or the Indenture in accordance with the applicable provisions of the Indenture; or
- provide for the appointment of a successor trustee; *provided* that the successor trustee is otherwise qualified and eligible to act as such under the terms of the Indenture.

No Personal Liability of Directors, Officers, Employees, Shareholders and Quotaholders

No past, present or future director, officer, partner, employee, incorporator, shareholder, quotaholder or member of the Issuer, the Company or any Subsidiary of the Company shall have any liability for any obligations of the Issuer, the Company or any Subsidiary of the Company under the Notes, the Indenture, the Company Guarantee or any Significant Subsidiary Guarantee or for any claim based on, in respect of, or by reason of, such obligations or their creation. Each holder of Notes, by accepting a Note, waives and releases all such liability. Such waivers and releases are part of the consideration for issuance of the Notes. The waivers may not be effective to waive liabilities under the U.S. federal securities laws or under the Brazilian Corporate Law.

Enforceability of Judgments

Since the Company is incorporated in Brazil and the Subsidiaries of the Company may be incorporated in various non-U.S. jurisdictions, including Brazil, and all their operating assets and the operating assets of their Subsidiaries may be outside the United States, any judgment obtained in the United States against the Company or any Subsidiary of the Company, including judgments with respect to the payment of principal, premium, interest, Additional Amounts and any purchase price with respect to the Notes, may not be collectable within the United States. See “Enforceability of Judgments.”

Since the Issuer is incorporated in the Cayman Islands and all its assets and are outside the United States, any judgment obtained in the United States against the Issuer, including judgments with respect to the payment of principal, premium, interest, Additional Amounts and any purchase price with respect to the Notes, may not be collectable within the United States. See “Enforceability of Judgments.”

Luxembourg Listing

Application has been made to list the Notes on the Official List of the Luxembourg Stock Exchange and to trade on the Euro MTF market of the Luxembourg Stock Exchange, and the Issuer and the Company will each use commercially reasonable efforts to obtain and maintain listing of the Notes on the Official List of the Luxembourg Stock Exchange; however, the Notes are not yet listed, and the Issuer and the Company cannot assure the holders of the Notes that they will be accepted for listing.

In the event that a Significant Subsidiary provides a Significant Subsidiary Guarantee or is released from its obligations under a Significant Subsidiary Guarantee at a time when the Notes are listed on the Official List of the Luxembourg Stock Exchange, the Issuer and the Company will, to the extent required by the rules of the Luxembourg Stock Exchange, publish notice of the granting or release of such Significant Subsidiary Guarantee in the *Luxemburger Wort* (or publish a notice on the website of the Luxembourg Stock Exchange (www.bourse.lu), send a copy of such notice to the Luxembourg Stock Exchange and, in the case of the granting of a new Significant Subsidiary Guarantee and deposit a copy of the Significant Subsidiary Guarantee with the Luxembourg Stock Exchange and the Luxembourg Paying Agent.

The Trustee

The Bank of New York is the Trustee under the Indenture and has been appointed by the Issuer as Registrar and Paying Agent with respect to the Notes.

Luxembourg Paying Agent, Luxembourg Transfer Agent and Principal Paying Agent

The Bank of New York (Luxembourg) S.A. is the Luxembourg Paying Agent and Luxembourg transfer agent in respect of the Notes. The Issuer and the Company will maintain such agencies so long as the Notes are listed on the Official List of the Luxembourg Stock Exchange and the rules of the exchange so require. The address of the Luxembourg Paying Agent and the Luxembourg transfer agent are set forth on the inside back cover of this offering memorandum.

The Bank of Tokyo Mitsubishi UFJ Ltd. is the Principal Paying Agent in respect of the Notes. The address of the Principal Paying Agent is set forth on the inside back cover of this offering memorandum.

Notices

All notices shall be deemed to have been given upon the mailing by first class mail, postage prepaid, of such notices to the holders of the Notes at their registered addresses as recorded in the Notes register not later than the latest date, and not earlier than the earliest date, prescribed in the Notes for the giving of such notice.

As long as the Notes are listed on the Official List of the Luxembourg Stock Exchange and its rules so require, the Issuer and the Company will also give notices to the holders of the Notes by publication in a daily newspaper of general circulation in Luxembourg. The Issuer and the Company expect that newspaper to be, but it need not be, the *Luxemburger Wort*. Notices may also be published on the website of the Luxembourg Stock Exchange (*www.bourse.lu*). If publication in Luxembourg is impracticable, the Issuer and the Company will make the publication elsewhere in Western Europe. By “daily newspaper,” the Issuer and the Company mean a newspaper that is published on each day, other than a Saturday, Sunday or holiday, in Luxembourg or, when applicable, elsewhere in Western Europe. The holders of the Notes will be presumed to have received these notices on the date the Issuer or the Company first publishes them. If the Issuer and the Company are unable to give notice as described in this paragraph because the publication of any newspaper is suspended or it is otherwise impractical for the Issuer or the Company to publish the notice, then the Issuer or the Company, or the Trustee acting on their instructions and at their expense, will give the holders of the Notes notice in another form. That alternate form of notice will be sufficient notice to the holders of the Notes.

Neither the failure to give any notice to a particular holder of Notes, nor any defect in a notice given to a particular holder of Notes, will affect the sufficiency of any notice given to another holder of Notes.

Form and Registration

The Notes will be represented by Regulation S Global Notes (as defined below) and Restricted Global Notes (as defined below) (each sometimes referred to herein as a “Global Note” and together referred to herein as the “Global Notes”).

Notes sold outside the United States in reliance on Regulation S will be represented by one or more Global Notes in definitive, fully registered form without interest coupons (collectively, “Regulation S Global Notes”) and will be deposited with the Trustee, as custodian for DTC, and registered in the name of DTC or its nominee for the accounts of Euroclear and Clearstream (as indirect participants in DTC).

Notes sold in reliance on Rule 144A under the Securities Act initially will be represented by one or more Global Notes in definitive, fully registered form without interest coupons (collectively, “Restricted Global Notes”) and will be deposited with the Trustee, as custodian for DTC and registered in the name of DTC or its nominee. Restricted Global Notes will be subject to certain restrictions on transfer and will bear a legend to that effect as described under “Transfer Restrictions.”

On or prior to the 40th day after the later of the commencement of the offering and the Closing Date, beneficial interests in Regulation S Global Notes may be transferred to a person who takes delivery in the form of an interest in Restricted Global Notes only upon receipt by the Trustee of a written certification from the transferor (in the form provided in the Indenture) to the effect that such transfer is being made to a person that the transferor reasonably believes is a qualified institutional buyer in a transaction meeting the requirements of Rule 144A and in accordance with any applicable securities laws of any state of the United States or any other jurisdiction.

Beneficial interests in Restricted Global Notes may be transferred to a person who takes delivery in the form of an interest in Regulation S Global Notes only upon receipt by the Trustee of a written certification from the transferor (in the form provided in the Indenture) to the effect that such transfer is being made in accordance with Rule 903 or Rule 904 of Regulation S under the Securities Act.

Any beneficial interest in one of the Global Notes that is transferred to a person who takes delivery in the form of an interest in the other Global Note will, upon transfer, cease to be an interest in such Global Note and become an interest in the other Global Note and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to beneficial interests in such other Global Note for as long as it remains such an interest.

In order to ensure the availability of Rule 144 under the Securities Act, the Indenture will provide that all Notes which are purchased or otherwise acquired by the Issuer or the Company or any of their Affiliates may not be resold or otherwise transferred.

Global Notes

The following description of the operations and procedures of DTC, Euroclear and Clearstream are provided solely as a matter of convenience. These operations and procedures are solely within the control of the respective settlement systems and are subject to change by them. The Issuer and the Company take no responsibility for these operations and procedures and urge investors to contact the systems or their participants directly to discuss these matters.

Upon the issuance of Regulation S Global Notes and Restricted Global Notes, DTC or its custodian will credit, on its internal system, the respective principal amount of the individual beneficial interests represented by such Global Note to the accounts of persons who have accounts with DTC. Such accounts initially will be designated by or on behalf of Credit Suisse Securities (USA) LLC and Merrill Lynch, Pierce Fenner, & Smith Incorporated (the “Initial Purchasers”). Ownership of beneficial interests in a Global Note will be limited to persons who have accounts with DTC (“DTC Participants”) or persons who hold interests through DTC Participants. Ownership of beneficial interests in the Global Notes will be shown on, and the transfer of that ownership will be effected only through, records maintained by DTC or its nominee (with respect to interests of DTC Participants) and the records of DTC Participants (with respect to interests of persons other than DTC Participants).

DTC has advised the Issuer and the Company as follows: DTC will act as the depository for the Notes. The Notes will be issued as fully registered senior notes registered in the name of Cede & Co., which is DTC’s nominee. Fully registered Global Notes will be issued for the Notes, in the aggregate principal amount of the issue, and will be deposited with DTC.

So long as DTC or its nominee is the registered owner or holder of a Global Note, DTC or such nominee, as the case may be, will be considered the sole owner or holder of the Notes represented by such Global Note for all purposes under the Indenture. No beneficial owner of an interest in a Global Note will be able to transfer that interest except in accordance with DTC’s applicable procedures, in addition to those provided for under the Indenture.

Investors may hold their interests in Regulation S Global Notes directly through Euroclear or Clearstream, if they are participants in such systems, or indirectly through organizations that are participants in such systems. Euroclear and Clearstream will hold interests in the Regulation S Global Notes on behalf of their participants through customers’ securities accounts in their respective names on the books of their respective depositories, which in turn will hold such interests in Regulation S Global Notes in customers’ securities accounts in the depositories’ names on the books of DTC. Investors that are qualified institutional buyers may hold their interests in Restricted Global Notes directly through DTC if they are DTC Participants, or indirectly through organizations that are DTC Participants.

Payments of the principal and interest and any Additional Amounts on a Global Note registered in the name of DTC or its nominee will be made to DTC or its nominee, as the case may be, as the registered owner of the Global Note. None of the Issuer, the Company, the Trustee or any Paying Agent will have any responsibility or liability for any aspect of the records relating to or payments made on account of beneficial ownership interests in the Global Notes or for maintaining, supervising, or reviewing any records relating to such beneficial ownership interests. The Issuer and the Company expect that DTC or its nominee, upon receipt of any payment of principal, interest or Additional Amounts, if any, in respect of a Global Note representing any Notes held by it or its nominee, will credit DTC Participants’ accounts with payments in amounts proportionate to their respective beneficial interests in the principal amount of such Global Note as shown on the records of DTC or its nominee. The Issuer and the Company also expect that payments by DTC Participants to owners of beneficial interests in

such Global Note held through such DTC Participants will be governed by standing instructions and customary practices, as is now the case with securities held for the accounts of customers registered in the names of nominees for such customers. Such payments will be the responsibility of such DTC Participants.

Transfers between DTC Participants will be effected in accordance with DTC rules and procedures and will be settled in same-day funds. Transfers between participants in Euroclear and Clearstream will be effected in accordance with their respective rules and procedures.

The laws of some states require that certain persons take physical delivery of securities in definitive form. Consequently, the ability to transfer beneficial interests in a Global Note to such persons may be limited because DTC can only act on behalf of DTC Participants, who in turn act on behalf of indirect participants and certain banks. Accordingly, the ability of a person having a beneficial interest in a Global Note to pledge such interest to persons or entities that do not participate in the DTC system, or otherwise take actions in respect of each interest, may be affected by the lack of a physical certificate for such interest.

Subject to compliance with the transfer restrictions applicable to the Notes described above and under “Transfer Restrictions,” cross-market transfers between DTC, on the one hand, and directly or indirectly through Euroclear or Clearstream participants, on the other, will be effected in DTC in accordance with DTC rules and procedures on behalf of Euroclear or Clearstream, as the case may be, by its respective depository; however, such cross-market transactions will require delivery of instructions to Euroclear or Clearstream, as the case may be, by the counterparty in such system in accordance with its rules and procedures and within its established deadlines (Brussels, Belgium time). Euroclear or Clearstream, as the case may be, will, if the transaction meets its settlement requirements, deliver instructions to its respective depository to take action to effect final settlement on its behalf by delivering or receiving interests in Regulation S Global Notes in DTC, and making or receiving payment in accordance with normal procedures for same-day funds settlement applicable to DTC. Euroclear participants and Clearstream participants may not deliver instructions directly to the depositories for Euroclear or Clearstream.

Because of time zone differences, the securities account of a Euroclear or Clearstream participant purchasing an interest in a Global Note from a DTC Participant will be credited during the securities settlement processing day (which must be a business day for Euroclear or Clearstream, as the case may be) immediately following the DTC settlement date, and the credit of any transactions in interests in a Global Note settled during such processing will be reported to the relevant Euroclear or Clearstream participant on such day. Cash received in Euroclear or Clearstream as a result of sales of interests in a Global Note by or through a Euroclear or Clearstream participant to a DTC Participant will be received with value on the DTC settlement date but will be available in the relevant Euroclear or Clearstream cash account only as of the business day following settlement in DTC.

DTC has advised the Issuer and the Company that it will take any action permitted to be taken by a holder of Notes (including, without limitation, the presentation of Notes for transfer, exchange or conversion as described below) only at the direction of one or more DTC Participants to whose account with DTC interests in the Global Notes are credited and only in respect of such portion of the aggregate principal amount of the Notes as to which such Participant or Participants has or have given such direction. However, in the limited circumstances described herein, DTC will exchange the Global Notes for certificated Notes in definitive form, which it will distribute to DTC Participants and which, if representing interests in the Restricted Global Note, will be legended as set forth under “Transfer Restrictions.” See “—Certificated Notes.”

DTC is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Exchange Act. DTC holds securities that its participants deposit with DTC. DTC also facilitates the settlement among participants of securities transactions, including transfers and pledges, in deposited securities through electronic computerized book-entry changes to

participants' accounts, thereby eliminating the need for physical movement of certificates. Direct participants of DTC include securities brokers and dealers, including the Initial Purchasers, banks, trust companies, clearing corporations and certain other organizations. DTC is owned by a number of its direct participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc., and the National Association of Securities Dealers, Inc. Access to DTC's system is also available to indirect participants, which includes securities brokers and dealers, banks and trust companies that clear through or maintain a custodial relationship with a direct participant, either directly or indirectly. The rules applicable to DTC and its participants are on file with the SEC.

To facilitate subsequent transfers, all Global Notes which are deposited with, or on behalf of, DTC are registered in the name of DTC's nominee, Cede & Co. The deposit of Global Notes with, or on behalf of, DTC and their registration in the name of Cede & Co. effect no change in beneficial ownership. DTC has no knowledge of the actual beneficial owners of interests in the Global Notes; DTC's records reflect only the identity of the direct participants to whose accounts the Notes are credited, which may or may not be the beneficial owners. The participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to direct participants, by direct participants to indirect participants, and by direct and indirect participants to beneficial owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Neither DTC nor Cede & Co. will consent or vote with respect to the Global Notes. Under its usual procedure, DTC mails an omnibus proxy to the Issuer as soon as possible after the applicable record date. The omnibus proxy assigns Cede & Co.'s consenting or voting rights to those direct participants to whose accounts the Notes are credited on the applicable record date (identified in a listing attached to the omnibus proxy).

DTC may discontinue providing its services as securities depository with respect to the Notes at any time by giving reasonable notice to the Issuer or the Trustee. Under such circumstances, in the event that a successor securities depository is not obtained, certificated Notes are required to be printed and delivered. See "—Certificated Notes."

Under certain circumstances, the Issuer and the Company may decide to discontinue use of the system of book-entry transfers through DTC or a successor securities depository. In that event, certificated Notes will be printed and delivered. See "—Certificated Notes."

Although DTC, Euroclear and Clearstream have agreed to the procedures described above in order to facilitate transfers of interests in the Global Notes among participants of DTC, Euroclear and Clearstream, they are under no obligation to perform or continue to perform these procedures, and these procedures may be discontinued at any time. Neither the Trustee, the Issuer nor the Company will have any liability or responsibility for the performance by DTC, Euroclear or Clearstream or their respective participants or indirect participants of their respective obligations under the rules and procedures governing their operations.

Certificated Notes

If (1) DTC is at any time unwilling or unable to continue as a depository for the Global Notes and a successor depository is not appointed by the Issuer within 90 days, (2) the Issuer decides to discontinue the use of the system of book entry transfers through DTC or a successor depository or (3) an Event of Default shall have occurred and be continuing and the beneficial owner of a Note shall have requested that the Issuer issue to such beneficial holder its proportionate interest in a Global Note, the Issuer and the Company will issue certificated Notes, which may bear the legend referred to under "Transfer Restrictions," in exchange for the Global Notes. Holders of an interest in a Global Note may receive certificated Notes, which may bear the legend referred to under "Transfer Restrictions," in accordance with DTC's rules and procedures in addition to those provided for under the Indenture; *provided, however*, that if the Issuer and the Company are issuing certificated Notes

pursuant to clause (3) above, the Issuer and the Company shall only be required to issue certificated Notes to the beneficial owners of the Notes who request certificated Notes.

The Holder of a definitive Note may transfer such Note by surrendering it at the office or agency maintained by the Issuer and the Company for such purpose in the Borough of Manhattan, The City of New York, which initially will be the Corporate Trust Office of the Trustee. Upon the transfer, exchange or replacement of definitive Notes bearing the legend, or upon specific request for removal of the legend on a definitive Note, the Issuer and the Company will deliver only definitive Notes that bear such legend, or will refuse to remove such legend, as the case may be, unless there is delivered to the Issuer and the Company such satisfactory evidence, which may include an opinion of counsel, as may reasonably be required by the Issuer, the Company, the registrar and the Trustee, that neither the legend nor the restrictions on transfer set forth therein are required to ensure compliance with the provisions of the Securities Act. In addition, the Issuer and the Company shall maintain a transfer agent in Luxembourg.

Neither the Trustee, the Principal Paying Agent, the Luxembourg Paying Agent nor any other paying agent, registrar or transfer agent shall be required to register the transfer of or exchange Notes for a period from the record date to the due date for any payment of principal of, or interest on, the Notes or register the transfer of or exchange any Notes for 15 days prior to selection for redemption through the date of redemption. For so long as the notes are listed on the Official List of the Luxembourg Stock Exchange and the rules of such exchange so require, in the case of a transfer or exchange of definitive registered Notes, a holder thereof may effect such transfer or exchange by presenting and surrendering such Notes at, and obtaining new definitive registered Notes from, the office of the Luxembourg Transfer Agent. In the case of a transfer of only part of a definitive registered Note, a new definitive Note in respect of the balance of the principal amount of the definitive registered Note transferred will be delivered at the office of the Luxembourg Transfer Agent, and in the case of any lost, stolen, mutilated or destroyed definitive registered Note, a holder thereof may obtain a new definitive registered Notes from the Luxembourg Transfer Agent.

Prior to presentment of a Note for registration of transfer (including a Global Note), the Issuer, the Company, the Trustee and any agent of the Issuer, the Company or the Trustee may treat the person in whose name such Note is registered as the owner or holder of such Note for the purpose of receiving payment of principal, interest and any Additional Amounts on such Note and for all other purposes whatsoever, whether or not such Note is overdue, and none of the Issuer, the Company, the Trustee or any agent of the Issuer or the Company shall be affected by notice to the contrary.

Satisfaction and Discharge

The Indenture will be discharged and (together with any Significant Subsidiary Guarantee) will cease to be of further effect as to all Notes issued thereunder, when:

- (1)(a) all Notes that have been authenticated, except lost, stolen or destroyed Notes that have been replaced or paid and Notes for whose payment money has been deposited in trust and thereafter repaid to the Issuer, have been delivered to the Trustee for cancellation; or
- (b) all outstanding Notes that have not been delivered to the Trustee for cancellation have become due and payable by reason of the making of a notice of redemption or otherwise and the Issuer or the Company or any Restricted Subsidiary has irrevocably deposited or caused to be deposited with the Trustee, as funds in trust solely for the benefit of the holders, cash in U.S. dollars or U.S. Government Obligations or a combination thereof, in amounts as will be sufficient without consideration of any reinvestment of interest, to pay and discharge the entire Indebtedness on the Notes not delivered to the Trustee for cancellation for principal, premium and Additional Amounts, if any, and accrued and unpaid interest to the date of maturity or redemption;
- (2) no Default or Event of Default has occurred and is continuing on the date of the deposit or will occur as a result of the deposit and the deposit will not result in a breach or violation of, or constitute a default

under, any other material instrument to which the Issuer, the Company or any Restricted Subsidiary is a party or by which the Issuer, the Company or any Restricted Subsidiary is bound;

- (3) The Issuer, the Company or any Restricted Subsidiary has paid or caused to be paid all other sums payable by it under the Indenture; and
- (4) The Issuer and the Company have delivered irrevocable instructions to the Trustee under the Indenture to apply the deposited money toward the payment of the Notes at maturity or the redemption date, as the case may be.

In addition, the Issuer and the Company must deliver an Officers' Certificate and an opinion of counsel to the Trustee stating that all conditions precedent to satisfaction and discharge have been satisfied.

Defeasance

The Issuer and the Company, at their option:

- (1) will be discharged from any and all obligations in respect of the Notes (except in each case for certain obligations, including to register the transfer or exchange of Notes, replace stolen, lost or mutilated Notes, maintain paying agencies and hold moneys for payment in trust), or
- (2) need not comply with certain covenants of the Indenture

if the Issuer or the Company irrevocably deposits with the Trustee, in trust:

- money, or
- in certain cases, U.S. Government Obligations which through the payment of interest and principal in respect thereof in accordance with their terms will provide money in an amount, or
- a combination thereof,

in each case, sufficient to pay and discharge the principal of each installment of principal and interest and Additional Amounts, if any, on the outstanding Notes on the dates such payments are due, in accordance with the terms of the Notes, to and including the redemption date irrevocably designated by the Issuer and the Company pursuant to the final sentence of this section on the day on which payments are due and payable in accordance with the terms of the Indenture and of the Notes; and no Default or Event of Default (including by reason of such deposit) shall have occurred and be continuing on the date of such deposit or during the period ending on the 91st day after such date.

To exercise any such option, the Issuer and the Company are required to deliver to the Trustee:

- (a) an opinion of recognized U.S. counsel independent of the Issuer and the Company to the effect:
 - that the holders of the Notes will not recognize income, gain or loss for federal income tax purposes as a result of such deposit, defeasance and discharge of certain obligations, which in the case of clause (1) above must be based on a change in law or a ruling by the U.S. Internal Revenue Service; and
 - that the defeasance trust is not, or is not required to be registered as, an investment company under the Investment Company Act of 1940; and
- (b) an opinion of counsel and an Officers' Certificate as to compliance with all conditions precedent provided for in the Indenture relating to the satisfaction and discharge of the Notes.

If the Issuer or the Company has deposited or caused to be deposited money or U.S. Government Obligations to pay or discharge the principal of (and premium, if any) and interest, if any, on the outstanding Notes to and including a redemption date on which all of the outstanding Notes are to be redeemed, such redemption date shall be irrevocably designated by a resolution of the Board of Directors of each of the Issuer and the Company delivered to the Trustee on or prior to the date of deposit of such money or U.S. Government Obligations, and such resolutions shall be accompanied by an irrevocable request that the Trustee give notice of

such redemption in the name and at the expense of the Issuer and the Company not less than 30 nor more than 60 days prior to such redemption date in accordance with the Indenture.

Governing Law; Consent to Jurisdiction; Service of Process and Currency Indemnity

The Indenture and the Notes provide that they will be governed by, and construed in accordance with, the laws of the State of New York. The Issuer and the Company have each consented to the non-exclusive jurisdiction of the courts of the State of New York and the United States courts located in the Borough of Manhattan, New York, New York with respect to any action that may be brought in connection with the Indenture or the Notes and have irrevocably appointed CT Corporation System as agent for service of process.

If for the purpose of obtaining judgment in any court it is necessary to convert a sum due hereunder to the holder of a Note from U.S. dollars into another currency, the Issuer and the Company have each agreed, and each holder by holding such Note will be deemed to have agreed to the fullest extent that the Issuer, the Company and they may effectively do so, that the rate of exchange used shall be that at which in accordance with normal banking procedures such holder could purchase U.S. dollars with such other currency in New York, New York on the day two Business Days preceding the day on which final judgment is given.

The Issuer and the Company's obligation in respect of any sum payable by it to the holder of a Note shall, notwithstanding any judgment in a currency (the "judgment currency") other than U.S. dollars, be discharged only to the extent that on the Business Day following receipt by the holder of such Note of any sum adjudged to be so due in the judgment currency, the holder of such Note may, in accordance with normal banking procedures, purchase U.S. dollars with the judgment currency; if the amount of the U.S. dollars so purchased is less than the sum originally due to the holder of such Note in the judgment currency (determined in the manner set forth in the preceding paragraph), each of the Issuer and the Company agrees, as a separate obligation and notwithstanding any such judgment, to indemnify the holder of such Note against such loss, and if the amount of the U.S. dollars so purchased exceeds the sum originally due to the holder of such Note, such holder agrees to remit to the Issuer or the Company such excess; *provided* that such holder shall have no obligation to remit any such excess as long as the Issuer or the Company shall have failed to pay such holder any obligations due and payable under such Note, in which case such excess may be applied to the Issuer and the Company's obligations under such Note in accordance with the terms thereof.

Certain Definitions

Set out below is a summary of certain of the defined terms used in the Indenture. Reference is made to the Indenture for the full definition of all such terms as well as any other capitalized terms used herein for which no definition is provided. Unless the context otherwise requires, an accounting term not otherwise defined has the meaning assigned to it under and in accordance with GAAP.

"Additional Amounts" has the meaning given to it under "—Additional Amounts."

"Additional Assets" means:

(1) any property or assets (other than Indebtedness and Capital Stock) to be used by the Company or a Restricted Subsidiary in a Related Business;

(2) the Capital Stock of a Person that becomes a Restricted Subsidiary as a result of the acquisition of such Capital Stock by the Company or another Restricted Subsidiary; or

(3) Capital Stock constituting a minority interest in any Person that at such time is a Restricted Subsidiary;

provided, however, that any such Restricted Subsidiary described in clause (2) or (3) above is primarily engaged in a Related Business.

“Additional Notes” has the meaning given to it under “—General.”

“Affiliate Transaction” has the meaning given to it under “—Restrictive Covenants—Limitation on Transactions with Affiliates.”

“Affiliates” of any specified Person means any other Person, directly or indirectly, controlling or controlled by or under direct or indirect common control with such specified Person. For the purposes of this definition, “control,” when used with respect to any Person, means the power to direct the management and policies of such Person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise; and the terms “controlling” and “controlled” have meanings correlative to the foregoing. For purposes of the provisions described under “—Restrictive Covenants—Limitation on Transactions with Affiliates” only, “Affiliate” of any Person shall also mean any beneficial owner of shares representing 5% or more of the total voting power of the Voting Stock (on a fully diluted basis including all rights or warrants to purchase such Voting Stock (whether or not currently exercisable)) of such Person and any Person known to such Person who would be an Affiliate of any such beneficial owner pursuant to this sentence or the first sentence hereof.

“Asset Disposition” means any sale, lease, transfer or other disposition (or series of related sales, leases, transfers or dispositions) by the Company or any Restricted Subsidiary, including any disposition by means of a merger, consolidation, or similar transaction (each referred to for the purposes of this definition as a “disposition”), of:

(1) any shares of Capital Stock of a Restricted Subsidiary (other than directors’ qualifying shares or shares required by applicable law to be held by a Person other than the Company or a Restricted Subsidiary);

(2) all or substantially all the assets of any division or line of business of the Company or any Restricted Subsidiary; or

(3) any other assets of the Company or any Restricted Subsidiary outside of the ordinary course of business of the Company or such Restricted Subsidiary,

provided, however, that Asset Disposition will not include:

(a) a disposition by a Restricted Subsidiary to the Company or another Restricted Subsidiary or by the Company to a Restricted Subsidiary;

(b) for purposes of the provisions described under “—Restrictive Covenants—Limitation on Sales of Assets” only, a Restricted Payment or a Permitted Investment;

(c) a disposition of assets with a Fair Market Value of less than US\$3.0 million;

(d)(i) a disposition of obsolete equipment or other obsolete assets or other property which is uneconomical and no longer useful for the Company or any Restricted Subsidiary in the ordinary course of business; or (ii) a disposition of assets that are exchanged for or are otherwise replaced by comparable or superior assets within a reasonable period of time;

(e) the disposition of all or substantially all of the assets of the Company in a manner permitted under the covenant described under “—Restrictive Covenants—Consolidation, Merger, Conveyance, Sale or Lease”;

(f) the disposition of assets in a Sale-Leaseback Transaction, if permitted by the covenant described under “—Restrictive Covenants—Limitation on Sale and Lease-Back Transactions”;

(g) the Incurrence of any Lien permitted by the covenant described under “—Restrictive Covenants—Limitation on Liens”; or

(h) sales, transfers or other dispositions of assets for non-cash consideration at least equal to the Fair Market Value (as certificated in an Officers' Certificate) of such assets, to the extent that such non-cash consideration would constitute Additional Assets.

“Attributable Debt” means, with respect to a Sale and Lease-Back Transaction, as at the time of determination, the present value (discounted at the interest rate implicit in the Sale and Lease-Back Transaction) of the total obligations of the lessee for rental payments during the remaining term of the lease included in such Sale and Lease-Back Transaction (including any period for which such lease has been extended).

“Average Life” means, as of the date of determination, with respect to any Indebtedness or Preferred Stock, the quotient obtained by dividing:

- (1) the sum of the products of the numbers of years (rounding to the nearest one-twelfth of one year) from the date of determination to the dates of each remaining scheduled principal payment (including the payment at final maturity) of such Indebtedness or redemption or similar payment with respect to such Preferred Stock multiplied by the amount of such payment, by
- (2) the sum of all such payments.

“Board of Directors” means, with respect to any Person, the board of directors of such Person or any committee thereof duly authorized to act on behalf of the board of directors of such Person, or similar governing body of such Person, including any managing partner or similar entity of such Person.

“Brazil” means The Federative Republic of Brazil and any branch of power, ministry, department, authority or statutory corporation or other entity (including a trust) owned or controlled directly or indirectly by it or any of the foregoing or created by law as a public entity.

“Brazilian Corporate Law” means Law No. 6,404 of December 15, 1976, as amended.

“Brazilian Local Taxes” means any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or within Brazil or any political subdivision thereof or any authority therein or thereof having power to tax.

“Business Day” means each day that is not a Saturday, Sunday or other day on which banking institutions in New York, New York or São Paulo, Brazil are authorized or required by law to close.

“Capital Stock” of any Person means any and all quotas, shares, interests, rights to purchase, warrants, options, participations or other equivalents of or interests in (however designated) equity of such Person, including any Preferred Stock and partnership interests, but excluding any debt securities convertible into such equity.

“Capitalized Lease Obligation” means an obligation that is required to be classified and accounted for as a capitalized lease for financial reporting purposes in accordance with GAAP and the amount of Indebtedness represented by such obligation shall be the capitalized amount of such obligation; and the Stated Maturity thereof shall be the date of the last payment of rent or any other amount due under such lease prior to the first date upon which such lease may be prepaid by the lessee without payment of a penalty.

“Cayman Islands Local Taxes” means any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or within the Cayman Islands or any political subdivision thereof or any authority therein or thereof having power to tax.

“Central Bank” means the Brazilian Central Bank (*Banco Central do Brasil*).

“Change of Control” means the occurrence of any of the following events:

(a) any “person” or “group” (as such terms are used in Sections 13(d) and 14(d) of the Exchange Act) other than the Permitted Holders, is or becomes the “beneficial owner” (as defined in Rules 13d-3 and 13d-5 under the Exchange Act), directly or indirectly, of more than 45% of the voting power of the Company’s outstanding Voting Stock; or

(b) (i) the Company consummates any transaction (including, without limitation, any merger, consolidation, amalgamation or other combination) pursuant to which its outstanding Voting Stock is converted into or exchanged for cash, securities or other property, or (ii) the Company conveys, transfers, leases or otherwise disposes of, all or substantially all of its assets and those of the Restricted Subsidiaries, considered as a whole (other than a transfer of substantially all of such assets to one or more Restricted Subsidiaries), in each case to any Person other than in a transaction:

(x) where the Company’s outstanding Voting Stock is not converted or exchanged at all (except to the extent necessary to reflect a change in our jurisdiction of incorporation) or is converted into or exchanged for Voting Stock (other than redeemable Capital Stock) of the surviving or transferee corporation; and

(y) no “person” or “group” (as such terms are used in Sections 13(d) and 14(d) of the Exchange Act) other than the Permitted Holders is the “beneficial owner” (as defined in clause (a) above) directly or indirectly, of more than 45% of the total outstanding Voting Stock of the surviving or transferee corporation; or

(c) during any consecutive two-year period following the date of the Indenture, individuals who at the beginning of such period constituted the Company’s Board of Directors (together with any new members whose election to such Board of Directors, or whose nomination for election by our shareholders, was approved by a vote of at least a majority of the members of the Company’s Board of Directors then still in office who were either members at the beginning of such period or whose election or nomination for election was previously so approved) cease for any reason other than death or disability to constitute a majority of the members of the Company’s Board of Directors then in office; or

(d) the Company is liquidated or dissolved or adopts a plan of liquidation or dissolution other than in a transaction which complies with the provisions described under “—Certain Covenants Consolidation, Merger or Sale of Assets”; or

(e) any “person” or “group” (as such terms are used in Sections 13(d) and 14(d) of the Exchange Act) other than the Permitted Holders, is or becomes the “beneficial owner” (as defined in Rules 13d-3 and 13d-5 under the Exchange Act), directly or indirectly, of more than 20%, 25%, 30%, 35% or 40% of the voting power of the Company’s outstanding Voting Stock and a Ratings Event shall have occurred.

“Change of Control Offer” has the meaning given to it under “—Repurchases at the Option of the Holders of the Notes Upon Change of Control.”

“Change of Control Payment” has the meaning given to it under “—Repurchases at the Option of the Holders of the Notes Upon Change of Control.”

“Change of Control Payment Date” has the meaning given to it under “—Repurchases at the Option of the Holders of the Notes Upon Change of Control.”

“Clearstream” means Clearstream Banking, *société anonyme*, Luxembourg and any successor thereof.

“Closing Date” means May 29, 2008.

“Company” has the meaning given to it in the first paragraph of this Description of the Notes.

“Company Guarantee” has the meaning given to it under “—The Company Guarantee.”

“Consolidated EBITDA” means, for any period, the amount equal to the sum of the Company and its Restricted Subsidiaries’ Consolidated Net Income for such period determined in accordance with GAAP plus, to the extent deducted in calculating such Consolidated Net Income:

- (1) consolidated financial expenses, net for such period;
- (2) consolidated income and social contribution taxes for such period;
- (3) consolidated depreciation and amortization (including, without limitation, amortization of goodwill (*ágio*)) for such period;
- (4) consolidated non-operating results for such period;
- (5) consolidated minority interests for such period;
- (6) consolidated provisions recorded in such period relating to the potential application of the *Imposto sobre a Circulação de Mercadorias e Serviços* (Tax on the Circulation of Goods and Services, or “ICMS”) on imported goods;
- (7) any other non-cash charges, including any write-downs or write-offs, reducing Consolidated Net Income for such period;
- (8) any other nonrecurring gain or loss deducted pursuant to clause (3) of the definition of Consolidated Net Income; and
- (9) consolidated expenses or charges during such period relating to any acquisition, disposition or incurrence of Indebtedness permitted under the Indenture (including a refinancing thereof), including (i) fees and expenses for professional services relating to such transaction, (ii) expenses or charges relating to the termination of employment agreements, commercial agreements or other contracts in connection with such transaction or (iii) expenses of integration of businesses acquired into the Company or its Restricted Subsidiaries, in an aggregate amount for this clause (9) in any fiscal year not to exceed US\$5.0 million.

“Consolidated Net Income” means, for any period, consolidated net income (loss) for such period of the Company and its consolidated Restricted Subsidiaries, if any; *provided, however*, that there shall not be included in such Consolidated Net Income:

- (1) any net income of any Person (other than the Company) if such Person is not a Restricted Subsidiary, except that:
 - (a) subject to the limitations contained in clauses (2) through (6) below, the Company’s equity in the net income of a Person in which it has an ownership interest lower than required for such Person to be consolidated for such period shall be included to reflect the Company’s equity in such net income, but only to the extent that such Person actually distributes the Company’s equity in such Person’s net income to the Company; and
 - (b) the Company’s equity in the net loss of any such Person (other than an Unrestricted Subsidiary) for such period shall be included in determining such Consolidated Net Income to the extent such loss has been funded with cash from the Company or a Restricted Subsidiary;
- (2) any gain or loss realized upon the sale or other disposition of any asset of the Company or any Restricted Subsidiary (including pursuant to any Sale and Lease-Back Transaction) that is not sold or otherwise disposed of in the ordinary course of business and any gain (but not loss) realized upon the sale or other disposition by the Company or any Restricted Subsidiary of any Capital Stock of any Person;
- (3) any non-cash extraordinary or otherwise nonrecurring gain or loss;

(4) any unrealized gain or loss related to currency fluctuation;

(5) any amortization of goodwill (*ágio*);

(6) the non-cash effect of a change in accounting principles; and

(7) any net income (but not loss) of any Restricted Subsidiary if such Subsidiary is subject to restrictions, directly or indirectly, on the payment of dividends or the making of distributions by such Restricted Subsidiary, directly or indirectly, to the Company, except that:

(a) subject to the limitations contained in clauses (2) through (6) above, the Company's equity in the net income of any such Restricted Subsidiary for such period will be included in such Consolidated Net Income up to the aggregate amount of cash that such Restricted Subsidiary could have been distributed to the Company; and

(b) the Company's equity in a net loss of any such Restricted Subsidiary for such period will be included in determining such Consolidated Net Income to the extent such loss has been funded with cash from the Company or a Restricted Subsidiary.

"Consolidated Net Indebtedness" means consolidated indebtedness of the Company and its consolidated Restricted Subsidiaries, if any, as set forth on the most recent consolidated annual or quarterly balance sheet of the Company and its Restricted Subsidiaries, if any, *minus* the sum of cash and cash equivalents recorded as current assets in the Company's most recent consolidated annual or quarterly balance sheet and Temporary Cash Investments.

"Consolidated Net Tangible Assets" means the aggregate amount of total assets of the Company and its Restricted Subsidiaries minus (a) all current liabilities of the Company and its Restricted Subsidiaries and (b) all goodwill of the Company and its Restricted Subsidiaries, all determined on a consolidated basis in accordance with GAAP, based on the Company's most recent annual or quarterly balance sheet.

"Control" means, with respect to any Person, possession, directly or indirectly, of (a) at least a majority of all voting shares of capital stock of such Person, (b) the voting power to elect or cause the election of at least a majority of the board of directors of such Person and (c) the power to direct or cause the direction of the management or policies of a Person, whether through the ability to exercise voting power, by contract or otherwise. "Controlling" and "Controlled" have meanings correlative thereto.

"CVM" means the Brazilian Securities Commission (*Comissão de Valores Mobiliários*) or any successor agency from time to time regulating securities transactions in Brazil.

"Default" means any event which is an Event of Default or which, after notice or passage of time or both, would be an Event of Default.

"Disqualified Stock" means, with respect to any Person, any Capital Stock that by its terms (or by the terms of any security into which it is convertible or for which it is exchangeable or exercisable) or upon the happening of any event:

(1) matures or is mandatorily redeemable pursuant to a sinking fund obligation or otherwise;

(2) is convertible or exchangeable for Indebtedness or Disqualified Stock (excluding Capital Stock that is convertible or exchangeable solely at the option of the Company or a Restricted Subsidiary); or

(3) is redeemable at the option of the holder thereof, in whole or in part,

in each case on or prior to the date that is 91 days after the earlier of the date (a) of the Stated Maturity of the Notes or (b) on which there are no Notes outstanding; *provided, however*, that any Capital Stock that would not constitute Disqualified Stock but for provisions thereof giving holders thereof the right to require such Person to

repurchase or redeem such Capital Stock upon the occurrence of a “change of control” or an “asset sale” shall not constitute Disqualified Stock if the “asset sale” provisions applicable to such Capital Stock are not more favorable to the holders of such Capital Stock than the provisions of the Indenture.

“DTC” means The Depository Trust Company and any successor thereof.

“DTC Participants” has the meaning given to it under “—Form and Registration—Global Notes.”

“Equity Offering” means a public offering for cash by the Company of its ordinary shares, or options, warrants or rights with respect to its ordinary shares, other than (1) an issuance to any Subsidiary or (2) any offering of ordinary shares issued in connection with a transaction that constitutes a Change of Control.

“Euroclear” means Euroclear Bank, S.A./N.V. and any successor thereof.

“Event of Default” has the meaning given to it under “—Events of Default.”

“Exchange Act” means the United States Securities and Exchange Act of 1934, as amended.

“Fair Market Value” of any property, asset, share of Capital Stock, other security, Investment or other item means, on any date, the fair market value of such property, asset, share of Capital Stock, other security, Investment or other item on that date as determined in good faith by the management of the Company.

“Fitch” means Fitch Ratings Ltd. and its successors.

“Funded Debt” means Indebtedness of the Company, the Issuer (including the Notes) or any other Restricted Subsidiary maturing by the terms thereof more than one year after the original creation thereof.

“GAAP” means generally accepted accounting principles in Brazil as in effect from time to time and International Financial Reporting Standards as promulgated by the International Accounting Standards Board as in effect from time to time.

“Global Notes” has the meaning given to it under “—Form and Registration.”

“Guarantee” means any obligation, contingent or otherwise, of any Person directly or indirectly guaranteeing any Indebtedness or other obligation of any other Person and any obligation, direct or indirect, contingent or otherwise, of any Person:

(1) to purchase or pay (or advance or supply funds for the purchase or payment of) such Indebtedness or other obligation of such other Person (whether arising by virtue of partnership arrangements, or by agreement to keep-well, to purchase assets, goods, securities or services, to take-or-pay, or to maintain financial statement conditions or otherwise); or

(2) entered into for purposes of assuring in any other manner the obligee of such Indebtedness or other obligation of the payment thereof or to protect such obligee against loss in respect thereof (in whole or in part),

provided, however, that the term “Guarantee” shall not include endorsements for collection or deposit in the ordinary course of business. The term “Guarantee” used as a verb has a correlative meaning. The term “Guarantor” shall mean any Person Guaranteeing any obligation.

“Hedging Obligations” of any Person means the obligations of such Person under any agreement relating to any swap, option, forward sale, forward purchase, index transaction, cap transaction, floor transaction, collar transaction or any other similar transaction, in each case, for purposes of hedging or capping against Brazilian inflation, interest rates, or currency price fluctuations.

“Incur” means issue, assume, Guarantee, incur or otherwise become liable for; *provided, however*, that any Indebtedness or Capital Stock of a Person existing at the time such Person is merged or consolidated with the Company or becomes a Subsidiary of the Company (whether by merger, consolidation, acquisition or otherwise)

shall be deemed to be Incurred by such Person at the time of such merger or consolidation or at the time it becomes a Subsidiary of the Company. The term “Incurrence” when used as a noun shall have a correlative meaning. Neither the accretion of principal of a non-interest bearing or other discount security nor the capitalization of interest on Indebtedness shall be deemed the Incurrence of Indebtedness.

“Indebtedness” means, with respect to any Person on any date of determination (without duplication):

(1) the principal in respect of indebtedness of such Person for borrowed money;

(2) the principal and premium, if any, in respect of obligations of such Person evidenced by bonds, debentures, notes or other similar instruments;

(3) all reimbursement obligations of such Person in respect of the face amount of letters of credit or other similar instruments;

(4) all obligations of such Person to pay the deferred and unpaid purchase price of property or services (except trade payables and contingent obligations to pay earn-outs), which purchase price is due more than six months after the date of placing such property in service or taking delivery and title thereto or the completion of such services;

(5) all Capitalized Lease Obligations and all Attributable Debt of such Person;

(6) the amount of all obligations of such Person with respect to the redemption, repayment or other repurchase of any Disqualified Stock (but excluding, in each case, any accrued dividends);

(7) all Indebtedness of other Persons secured by a Lien on any asset of such Person, whether or not such Indebtedness is assumed by such Person; *provided, however*, that the amount of Indebtedness of such Person shall be the lesser of:

(a) the Fair Market Value of such asset at such date of determination; and

(b) the amount of such Indebtedness of such other Persons;

(8) to the extent not otherwise included in this definition, net obligations under all Hedging Obligations of such Person, to the extent such Hedging Obligations do not result from fluctuations in foreign currency exchange rates or interest rates or from changes in Brazilian inflation; and

(9) all obligations of the type referred to in clauses (1) through (8) above of other Persons and all dividends of other Persons for the payment of which, in either case, such Person is responsible or liable, directly or indirectly, as obligor, Guarantor or otherwise, including by means of any Guarantee.

Notwithstanding the foregoing clauses (1) through (9) above, the term “Indebtedness” will not include:

(i) any obligations of the Company or any Restricted Subsidiary with respect to the *Programa de Recuperação Fiscal (REFIS)*; the *Parcelamento Especial (PAES)*; the *Parcelamento Excepcional (PAEX)*; the *Instituto Nacional do Seguro Social (INSS)*; the *Imposto sobre Circulação de Mercadorias e Serviços (ICMS)*; the payments arising out of any court-approved settlement with respect to litigation related to the Bresser Plan; any other tax liabilities; and any unfunded pension obligations; or

(ii) any outstanding installment of the purchase price (contingent or otherwise) of any Subsidiary or other asset acquired by the Company or one of its Subsidiaries or purchase price adjustment for which a corresponding deposit has been recorded on the consolidated balance sheet of the Company.

The amount of Indebtedness of any Person at any date shall be the outstanding balance at such date of all unconditional obligations as described above and, with respect to any contingent obligations, the maximum liability, upon the occurrence of the contingency giving rise to the obligation, of such contingent obligations at such date.

“Indenture” has the meaning given to it in the first paragraph of this Description of the Notes.

“Initial Lien” has the meaning given to it under “—Restrictive Covenants—Limitation on Liens.”

“Interest Payment Date” means each May 29 and November 29 of each year, commencing on November 29, 2008.

“Investment” in any Person means any direct or indirect advance, loan (other than advances to customers or suppliers in the ordinary course of business that are recorded as accounts receivable, prepaid expenses or deposits on the balance sheet of the applicable lender) or other extension of credit (including by way of Guarantee or similar arrangement) or capital contribution to (by means of any transfer of cash or other property to others or any payment for property or services for the account or use of others), or any purchase or acquisition of Capital Stock, Indebtedness or other similar instruments issued by, such Person; *provided* that none of the following will be deemed to be an Investment: (1) Hedging Obligations entered into in the ordinary course of business and in compliance with the Indenture, (2) endorsements of negotiable instruments and documents in the ordinary course of business and (3) an acquisition of assets, Capital Stock or other securities by the Company or a Subsidiary for consideration to the extent such consideration consists of ordinary shares of the Company. For purposes of the definition of “Unrestricted Subsidiary” and the covenant described under “—Restrictive Covenants—Limitation on Restricted Payments”:

(1) Investment shall include the portion (proportionate to the Company’s equity interest in such Subsidiary) of the Fair Market Value of the net assets of any Subsidiary of the Company at the time that such Subsidiary is designated an Unrestricted Subsidiary; *provided, however*, that, upon a redesignation of such Subsidiary as a Restricted Subsidiary, the Company shall be deemed to continue to have a permanent “Investment” in an Unrestricted Subsidiary in an amount (if positive) equal to:

(a) the Company’s Investment in such Subsidiary at the time of such redesignation, *minus*

(b) the portion (proportionate to the Company’s equity interest in such Subsidiary) of the Fair Market Value of the net assets of such Subsidiary at the time of such redesignation; and

(2) any property transferred to or from an Unrestricted Subsidiary shall be valued at its Fair Market Value at the time of such transfer.

“Investment Grade Rating” means a rating equal to or higher than (a) BBB- by S&P or Fitch and (b) Baa3 by Moody’s.

“Issuer” has the meaning given to it in the first paragraph of this Description of the Notes.

“Lien” means any mortgage, pledge, security interest, encumbrance, lien or charge of any kind (including any conditional sale or other title retention agreement or lease in the nature thereof).

“Minimum Legally Required Dividend” means, for any Brazilian Person and any period, an amount equal to the sum of (a) the minimum dividend required to be distributed under applicable Brazilian law by such Person to holders of its Capital Stock during such period and (b) the minimum dividend required to be distributed to holders of Preferred Stock in such Person during such period so as to avoid such holders from acquiring or maintaining any voting rights under Brazilian law.

“Moody’s” means Moody’s Investors Service, Inc. and its successors.

“Net Available Cash” from an Asset Disposition means cash payments received (including any cash payments received by way of deferred payment of principal pursuant to a note or installment receivable or otherwise and proceeds from the sale or other disposition of any securities received as consideration, but only as and when received, but excluding any other consideration received in the form of assumption by the acquiring Person of Indebtedness or other obligations relating to the properties or assets that are the subject of such Asset Disposition or received in any other non-cash form) therefrom, in each case *minus*:

(1) all legal fees and expenses, title and recording tax expenses, accounting expenses, investment banking expenses, commissions and other fees and expenses Incurred, and all federal, state, provincial, foreign and local taxes required to be paid or accrued as a liability in accordance with GAAP, as a consequence of such Asset Disposition;

(2) all payments, including any prepayment premiums or penalties, made on any Indebtedness that is secured by any assets subject to such Asset Disposition, in accordance with the terms of any Lien upon or other security agreement of any kind with respect to such assets, or which must by its terms, or in order to obtain a necessary consent to such Asset Disposition, or by applicable law be repaid out of the proceeds from such Asset Disposition;

(3) all distributions and other payments required to be made to minority interest holders in Subsidiaries or joint ventures as a result of such Asset Disposition; and

(4) appropriate amounts to be provided by the seller as a reserve, in accordance with GAAP, against any liabilities associated with the property or other assets disposed of in such Asset Disposition and retained by the Company or any Restricted Subsidiary after such Asset Disposition.

“Net Cash Proceeds” with respect to any issuance or sale of Capital Stock or sale or other disposition of any Investment, means the cash proceeds of such issuance or sale net of attorneys’ fees, accountants’ fees, underwriters’ or placement agents’ fees, listing fees, discounts or commissions and brokerage, consultant and other fees and expenses actually Incurred in connection with such issuance or sale and net of taxes paid or payable in connection with such issuance, sale or disposition.

“Net Debt to EBITDA Ratio” means at any date (i) Consolidated Net Indebtedness divided by (ii) Consolidated EBITDA for the period of four consecutive fiscal quarters ending on or most recently prior to such date for which financial statements are available; *provided, however*, that:

(a) if, since the beginning of such period, the Company or any Restricted Subsidiary shall have made any Asset Disposition, the Consolidated EBITDA for such period shall be reduced by an amount equal to the Consolidated EBITDA (if positive) directly attributable to the assets that are the subject of such Asset Disposition for such period or increased by an amount equal to the Consolidated EBITDA (if negative) directly attributable thereto for such period;

(b) if, since the beginning of such period, the Company or any Restricted Subsidiary (by merger or otherwise) shall have made an Investment in any Person that is merged with or into the Company or any Restricted Subsidiary (or any Person that becomes a Restricted Subsidiary) or an acquisition of assets, including any acquisition of assets occurring in connection with a transaction causing a calculation to be made hereunder, which constitutes all or substantially all of an operating unit of a business, Consolidated EBITDA for such period shall be calculated after giving pro forma effect thereto (including the Incurrence of any Indebtedness) as if such Investment or acquisition occurred on the first day of such period;

(c) if, since the beginning of such period, any Person (that subsequently became a Restricted Subsidiary or was merged with or into the Company or any Restricted Subsidiary since the beginning of such period) shall have made any Asset Disposition or any Investment or acquisition of assets that would have required an adjustment pursuant to clause (a) or (b) above if made by the Company or a Restricted Subsidiary during such period, Consolidated EBITDA for such period shall be calculated after giving pro forma effect thereto as if such Asset Disposition, Investment or acquisition of assets occurred on the first day of such period; and

(d) if the Company or any Restricted Subsidiary has repaid, repurchased, defeased or otherwise discharged any Indebtedness since the beginning of such period or if any Indebtedness is to be repaid, repurchased, defeased or otherwise discharged (in each case, other than Indebtedness Incurred under any revolving credit facility unless such Indebtedness has been permanently repaid and has not been replaced) on the date of the transaction giving

rise to the need to calculate the Net Debt to EBITDA Ratio, Consolidated EBITDA for such period shall be calculated on a pro forma basis as if such discharge had occurred on the first day of such period and as if the Company or such Restricted Subsidiary has not earned the interest income actually earned during such period in respect of cash or Temporary Cash Investments used to repay, repurchase, defease or otherwise discharge such Indebtedness.

“Non-Recourse Debt” means Indebtedness of a Person:

(1) as to which neither the Company nor any Restricted Subsidiary (a) provides any Guarantee or credit support of any kind (including any undertaking, guarantee, indemnity, agreement or instrument that would constitute Indebtedness) or (b) is directly or indirectly liable (as a guarantor or otherwise);

(2) no default with respect to which (including any rights that the holders thereof may have to take enforcement action against an Unrestricted Subsidiary) would permit (upon notice, lapse of time or both) any holder of any other Indebtedness of the Company or any Restricted Subsidiary to declare a default under such other Indebtedness or cause the payment thereof to be accelerated or payable prior to its stated maturity; and

(3) the explicit terms of which provide there is no recourse against any of the assets of the Company or any Restricted Subsidiary.

“Notes” has the meaning given to it in the first paragraph of this Description of the Notes.

“Offer” has the meaning given to it under “—Restrictive Covenants—Limitation on Sales of Assets.”

“Officers’ Certificate” means a certificate signed by two Officers (as defined in the Indenture) of the Issuer, the Company or any other Restricted Subsidiary, as the case may be.

“Paying Agent” means any of the Principal Paying Agent, the Luxembourg Paying Agent and any other paying agent appointed by the Issuer or the Company to act as such.

“Permitted Holders” means (1) Pátria – Banco de Negócios, Assessoria, Gestão e Participação Ltda. and any investment funds managed by it or its Affiliates and (2) Dr. Caio Auriemo or any of his spouse, members of his immediate family or descendants or legal heirs, and any Affiliate of any thereof.

“Permitted Financial Institution” means any of Banco Alfa, Banco do Brasil, Banco Bradesco, HSBC, Banco Itaú BBA, Unibanco, Banco Santander or any other Brazilian bank with a local rating of A (or equivalent) or higher from S&P, Fitch or Moody’s.

“Permitted Investment” means:

(1) an Investment by the Company or any Restricted Subsidiary in the Company or any Restricted Subsidiary;

(2) an Investment by the Company or any Restricted Subsidiary in another Person if as a result of such Investment such other Person is merged or consolidated with or into, or transfers or conveys all or substantially all its assets to, the Company or a Restricted Subsidiary or becomes a Restricted Subsidiary; *provided, however*, that such Person’s primary business is a Related Business;

(3) Temporary Cash Investments;

(4) any Investment acquired from a Person which is merged with or into the Company or any Restricted Subsidiary, or any Investment of any Person existing at the time such Person becomes a Restricted Subsidiary and, in either such case, is not created as a result of or in connection with or in anticipation of any such transaction;

(5) stocks, obligations or securities received in settlement of (or foreclosure with respect to) debts created in the ordinary course of business and owing to the Company or any Restricted Subsidiary or in satisfaction of judgments;

(6) any Investment existing on the Closing Date;

(7) Hedging Obligations permitted under clause (2)(f) of the covenant described under “—Restrictive Covenants—Limitation on Indebtedness”;

(8) Guarantees of Indebtedness permitted under the covenant described under “—Restrictive Covenants—Limitation on Indebtedness”;

(9) Investments which are made exclusively with Capital Stock of the Company (other than Disqualified Stock);

(10) any acquisition and holding of (a) Brazilian federal and state tax credits acquired solely to pay amounts owed by the Company or any Restricted Subsidiary to Brazilian tax authorities and (b) discounted obligations of any Brazilian governmental authority acquired solely to pay tax amounts owed by the Company or any Restricted Subsidiary to such Brazilian governmental authority;

(11) Investments made as a result of the receipt of non-cash consideration from an Asset Disposition that was made in compliance with the covenant described in “—Restrictive Covenants—Limitation on Sales of Assets”;

(12) receivables owing to the Company or any Restricted Subsidiary created or acquired in the ordinary course of business and payable or dischargeable in accordance with customary trade terms; *provided, however*, that such trade terms may include such concessionary trade terms as the Company or any such Restricted Subsidiary deems reasonable under the circumstances;

(13) payroll, travel and similar advances to cover matters that are expected at the time of such advances ultimately to be treated as expenses for accounting purposes and that are made in the ordinary course of business; and

(14) loans or advances to employees of the Company and its Restricted Subsidiaries made in the ordinary course of business consistent with past practices of the Company or such Restricted Subsidiary in an aggregate amount at any one time outstanding not to exceed \$2.0 million (loans or advances that are forgiven shall continue to be deemed outstanding).

“Person” means any individual, corporation, partnership, limited liability company, joint venture, association, joint-stock company, trust, unincorporated organization, government or any agency or political subdivision thereof or any other entity.

“Preferred Stock,” as applied to the Capital Stock of any Person, means Capital Stock of any class or classes (however designated) that is preferred as to the payment of dividends, or as to the distribution of assets upon any voluntary or involuntary liquidation or dissolution of such Person, over shares of Capital Stock of any other class of such Person.

“Purchase Money Obligations” means Indebtedness:

(1) consisting of the deferred purchase price of an asset, conditional sale obligations, obligations under any title retention agreement and other purchase money obligations, in each case where the maturity of such Indebtedness does not exceed the anticipated useful life of the asset being financed; and

(2) Incurred to finance the acquisition by the Company or a Restricted Subsidiary of such asset, including construction, additions and improvements;

provided, however, that such Indebtedness is Incurred within 360 days before or after the acquisition by the Company or such Restricted Subsidiary of such asset.

“Rating Agency” means Fitch, Moody’s and S&P.

“Ratings Event” means the rating on the Notes is lowered by at least two of the three Rating Agencies and the Notes are rated below an Investment Grade Rating by at least two of the three Rating Agencies, in any case on any day during the period (which period will be extended so long as the rating of the Notes is under publicly announced consideration for a possible downgrade by any of the Rating Agencies) commencing 60 days prior to the first public notice of the occurrence of a Change of Control or the Company’s intention to effect a Change of Control and ending 60 days following consummation of such Change of Control.

“Real,” “Reais” or R\$” means the lawful currency of Brazil.

“Refinance” means, in respect of any Indebtedness, to refinance, extend (including pursuant to any defeasance or discharge mechanism), renew, refund, repay, replace, prepay, redeem, defease or retire, or to issue other Indebtedness in exchange or replacement for, such Indebtedness. “Refinanced” and “Refinancing” shall have correlative meanings.

“Refinancing Indebtedness” means Indebtedness that is Incurred to Refinance any Indebtedness of the Company or any Restricted Subsidiary existing on the Closing Date or Incurred in compliance with the Indenture (including Indebtedness that Refinances Refinancing Indebtedness); *provided, however*, that:

(1) the Refinancing Indebtedness has a Stated Maturity no earlier than the Stated Maturity of the Indebtedness being Refinanced;

(2) the Refinancing Indebtedness has an Average Life at the time such Refinancing Indebtedness is Incurred that is equal to or greater than the Average Life of the Indebtedness being Refinanced;

(3) such Refinancing Indebtedness is Incurred in an aggregate principal amount (or if issued with original issue discount, an aggregate issue price) that is equal to or less than the aggregate principal amount (or if issued with original issue discount, the aggregate accreted value) then outstanding of the Indebtedness being Refinanced (plus premiums, interest and reasonable expenses incurred in connection therewith); and

(4) if the Indebtedness being Refinanced is Subordinated Obligations, such Refinancing Indebtedness is subordinated in right of payment to the Notes at least to the same extent as the Indebtedness being Refinanced;

provided, further, that Refinancing Indebtedness shall not include Indebtedness of the Company or a Restricted Subsidiary that Refinances Indebtedness of an Unrestricted Subsidiary.

“Regulation S Global Notes” has the meaning given to it under “—Form and Registration.”

“Related Business” means any business conducted by the Company and the Restricted Subsidiaries on the Closing Date and any business related, ancillary or complementary thereto.

“Relevant Date” has the meaning given to it under “—Additional Amounts.”

“Restricted Global Notes” has the meaning given to it under “—Form and Registration.”

“Restricted Payment” has the meaning given to it under “—Restrictive Covenants—Limitation on Restricted Payments.”

“Restricted Subsidiary” means any Subsidiary of the Company other than an Unrestricted Subsidiary.

“S&P” means Standard & Poor’s Ratings Services, a division of The McGraw-Hill Companies Inc., and its successors.

“Sale and Lease-Back Transaction” means any arrangement with any Person (other than the Company or a Restricted Subsidiary), or to which any such Person is a party, providing for the leasing to the Company or a Restricted Subsidiary for a period of more than three years of any property or assets, which property or assets have been or are to be sold or transferred by the Company or such Restricted Subsidiary to such Person or to any other Person (other than the Company or a Restricted Subsidiary) to which funds have been or are to be advanced by such Person on the security of the leased property or assets.

“SEC” means the United States Securities and Exchange Commission or any successor agency from time to time.

“Securities Act” means the United States Securities Act of 1933, as amended.

“Senior Indebtedness” means all unsubordinated Indebtedness of the Company or of any Restricted Subsidiary, whether outstanding on the Closing Date or Incurred thereafter.

“Significant Subsidiary” means any Restricted Subsidiary that would be a “Significant Subsidiary” of the Company within the meaning of Rule 1-02(w) under Regulation S-X promulgated by the SEC calculated under GAAP; *provided* that if GAAP shall, at such time, mean generally accepted accounting principles in Brazil, then the calculation of the income test under such Rule 1-02(w) shall exclude the effect of amortization of goodwill (*ágio*).

“Significant Subsidiary Guarantee” means any Guarantee by a Significant Subsidiary of the Issuer’s obligations with respect to the Notes, executed pursuant to the provisions of the Indenture.

“Stated Maturity” means, with respect to any Indebtedness, the date specified in such Indebtedness as the fixed date on which the final payment of principal of such Indebtedness is due and payable, including, with respect to any principal amount which is then due and payable pursuant to any mandatory redemption provision, the date specified for the payment thereof (but excluding any provision providing for the repurchase of any such Indebtedness upon the happening of any contingency unless such contingency has occurred).

“Subordinated Obligation” means any Indebtedness that is subordinate or junior in right of payment to the Notes and Significant Subsidiary Guarantees pursuant to a written agreement.

“Subsidiary” means any corporation, association, partnership or other business entity of which more than 50% of the total voting power of shares of Capital Stock or other interests (including partnership interests) entitled (without regard to the occurrence of any contingency) to vote in the election of directors, managers or trustees thereof is at the time owned or controlled, directly or indirectly, by the Company or one or more Subsidiaries.

“Subsidiary Guarantor” means any Significant Subsidiary that has provided a Significant Subsidiary Guarantee.

“Successor Company” has the meaning given to it under “—Consolidation, Merger, Conveyance, Sale or Lease.”

“Temporary Cash Investments” means any of the following:

(1) any investment in direct obligations of the United States or any agency thereof or obligations Guaranteed or insured by the United States or any agency thereof;

(2) investments in time deposit accounts, certificates of deposit and money market deposits (collectively, “Deposit Accounts”) issued by a bank or trust company that is organized under the laws of the United States, any state thereof or any foreign country recognized by the United States (in all events not excluding Brazil) having capital, surplus and undivided profits aggregating in excess of US\$500.0 million (or the foreign currency equivalent thereof) and whose long-term debt is rated “A” (or such similar equivalent rating, including similar equivalent ratings in foreign countries) or higher by at least one nationally recognized statistical rating organization (as defined in Rule 436 under the Securities Act);

(3) repurchase obligations with a term of not more than 30 days for underlying securities of the types described in clause (1) above entered into with a bank meeting the qualifications described in clause (2) above;

(4) investments in commercial paper maturing not more than 180 days after the date of acquisition issued by a corporation (other than an Affiliate of the Company) organized and in existence under the laws of the United States, Brazil or any other foreign country recognized by the United States with a rating at the time as of which any investment therein is made of “P-1” (or higher) according to Moody’s or “A-1” (or higher) according to S&P (or such similar equivalent rating, including similar equivalent ratings in foreign countries);

(5) investments in securities with maturities of twelve months or less from the date of acquisition issued or fully Guaranteed by any state, commonwealth or territory of the United States, or by any political subdivision or taxing authority thereof, and rated at least “A” by S&P or “A” by Moody’s (or such similar equivalent rating);

(6) investments in securities with maturities of twelve months or less from the date of acquisition issued or fully Guaranteed by the Federative Republic of Brazil;

(7) certificates of deposit, banker’s acceptances and time deposits issued or guaranteed by or placed with, and money market deposit accounts issued or offered by, any Brazilian or United States office of any Permitted Financial Institution;

(8) certificates of deposit, banker’s acceptances and time deposits maturing within one year from the date of acquisition thereof issued or guaranteed by or placed with, and money market deposit accounts issued or offered by, any other Brazilian bank or Brazilian branch of an OECD Bank; *provided* that (i) the aggregate amount of investments permitted under this clause (8) with any single bank and its Affiliates does not at any time exceed US\$100.0 million, (ii) the aggregate amount of all investments permitted under this clause (8) does not at any time exceed US\$500.0 million and (iii) the local investment grade rating of such Brazilian bank or Brazilian branch of an OECD bank is AA or higher by S&P or Aa or higher by Moody’s; and

(9) investments in money market funds substantially all the assets of which are comprised of investments of the types described in clauses (1) through (8) above.

“Total Assets” means the total assets of the Company and its Restricted Subsidiaries on a consolidated basis determined in accordance with GAAP, as shown on the most recent annual or quarterly consolidated balance sheet of the Company.

“Trustee” has the meaning given to it in the first paragraph of this Description of the Notes.

“United States” means the United States of America.

“Unrestricted Subsidiary” means:

(1) any other Subsidiary of the Company that at the time of determination shall be designated an Unrestricted Subsidiary by the management of the Company in the manner provided below; and

(2) any Subsidiary of an Unrestricted Subsidiary.

The management of the Company may designate any Restricted Subsidiary of the Company (including any newly acquired or newly formed Subsidiary of the Company) to be an Unrestricted Subsidiary pursuant to clause (1) above unless such Subsidiary or any of its Subsidiaries owns any Capital Stock or Indebtedness of, or owns or holds any Lien on any property of, the Company or any Restricted Subsidiary of the Company that is not a Subsidiary of the Subsidiary to be so designated; *provided, however*, that either:

(a) the Subsidiary to be so designated has total consolidated assets of US\$1,000 or less; or

(b) if such Subsidiary has consolidated assets greater than US\$1,000, then such Investment and designation would be permitted under “—Restrictive Covenants—Limitation on Restricted Payments.”

The management of the Company may designate any Unrestricted Subsidiary to be a Restricted Subsidiary; *provided, however*, that immediately after giving effect to such designation:

(i) such designation shall be deemed an Incurrence of Indebtedness by a Restricted Subsidiary and such designation shall only be permitted if such Indebtedness is permitted under “—Restrictive Covenants—Limitation on Indebtedness”; and

(ii) no Event of Default shall have occurred and be continuing.

Any such designation of a Subsidiary as a Restricted Subsidiary, and any such designation of a Subsidiary as an Unrestricted Subsidiary pursuant to clause (1) above, by the management of the Company shall be evidenced to the Trustee by promptly filing with the Trustee an Officers’ Certificate certifying that such designation complied with the foregoing provisions. The Issuer shall at all times be a Restricted Subsidiary.

As of the Closing Date, DASA Real Estate Empreendimentos Imobiliários Ltda. will be an unrestricted subsidiary.

“U.S. Government Obligations” means direct obligations (or certificates representing an ownership interest in such obligations) of the United States (including any agency or instrumentality thereof) for the payment of which the full faith and credit of the United States is pledged and that are not callable or redeemable at the issuer’s option.

“Value” shall mean, with respect to a Sale and Lease-Back Transaction, as of any particular time, the amount equal to the greater of: (1) the net proceeds of the sale or transfer of the property leased pursuant to such Sale and Lease-Back Transaction or (2) the Fair Market Value of such property at the time of entering into such Sale and Lease-Back Transaction, in either case divided first by the number of full years of the term of the lease and then multiplied by the number of full years of such term remaining at the time of determination, without regard to any renewal or extension options contained in the lease.

“Voting Stock” of a Person means all classes of Capital Stock of such Person then outstanding that are entitled (without regard to the occurrence of any contingency) to vote in the election of the directors of such Person, but excluding such classes of Capital Stock or other interests that are entitled, as a group in a separate cast, to appoint one director of such Person as representative of the minority shareholders.

Certain ERISA Considerations

The following is a summary of certain considerations associated with the purchase of the notes by employee benefit plans that are subject to Title I of the U.S. Employee Retirement Income Security Act of 1974, as amended (“ERISA”), plans, individual retirement accounts and other arrangements that are subject to Section 4975 of the U.S. Internal Revenue Code of 1986, as amended (the “Code”) or provisions under any federal, state, local, non-U.S. or other laws or regulations that are similar to such provisions of the Code or ERISA (collectively, “Similar Laws”), and entities whose underlying assets are considered to include “plan assets” of any such plan, account or arrangement (each, a “Plan”).

Prohibited transaction issues

Section 406 of ERISA and Section 4975 of the Code prohibit Plans subject to Title I of ERISA or Section 4975 of the Code (“ERISA Plans”) from engaging in specified transactions involving plan assets with persons or entities who are “parties in interest,” within the meaning of ERISA, or “disqualified persons,” within the meaning of Section 4975 of the Code, unless an exemption is available. A party in interest or disqualified person who engaged in a non-exempt prohibited transaction may be subject to excise taxes and other penalties and liabilities under ERISA and the Code. In addition, the fiduciary of the ERISA Plan that engaged in such a non-exempt prohibited transaction may be subject to penalties and liabilities under ERISA and the Code. The acquisition and/or holding of notes by an ERISA Plan with respect to which we, the initial purchasers or DASA is considered a party in interest or a disqualified person may constitute or result in a direct or indirect prohibited transaction under Section 406 of ERISA and/or Section 4975 of the Code, unless the investment is acquired and is held in accordance with an applicable statutory, class or individual prohibited transaction exemption. In this regard, the U.S. Department of Labor (the “DOL”) has issued prohibited transaction class exemptions, or “PTCEs,” that may apply to the acquisition and holding of the notes. These class exemptions include, without limitation, PTCE 84-14 respecting transactions determined by independent qualified professional asset managers, PTCE 90-1 respecting insurance company pooled separate accounts, PTCE 91-38 respecting bank collective investment funds, PTCE 95-60 respecting life insurance company general accounts and PTCE 96-23 respecting transactions determined by in-house asset managers. In addition, Section 408(b)(17) of ERISA and Section 4975(d)(20) of the Code provide relief from the prohibited transaction provisions of ERISA and Section 4975 of the Code for certain transactions, provided that neither the issuer of the securities nor any of its affiliates (directly or indirectly) have or exercise any discretionary authority or control or render any investment advice with respect to the assets of any ERISA Plan involved in the transaction and provided further that the ERISA Plan pays no more than adequate consideration in connection with the transaction. There can be no assurance that all of the conditions of any such exemptions will be satisfied.

Governmental plans, certain church plans and non-United States plans, while not subject to the fiduciary responsibility provisions of ERISA or the provisions of Section 4975 of the Code, may nevertheless be subject to Similar Laws. Fiduciaries of any such Plans should consult with their counsel before purchasing any notes.

Because of the foregoing, the notes should not be purchased or held by any person investing “plan assets” of any Plan, unless such purchase and holding will not constitute a non-exempt prohibited transaction under ERISA and the Code or similar violation of any applicable Similar Laws.

Representation

Accordingly, by acceptance of a note, each purchaser and subsequent transferee of a note will be deemed to have represented and warranted that (i) either (a) no portion of the assets used by such purchaser or transferee to acquire or hold the notes constitutes assets of any Plan or (b) the acquisition and holding of the notes by such purchaser or transferee will not constitute a non-exempt prohibited transaction under Section 406 of ERISA or Section 4975 of the Code or similar violation under any applicable Similar Laws and (ii) it will not sell or otherwise transfer such notes, or any interest therein, without first obtaining from the transferee the same foregoing representations and covenants.

The foregoing discussion is general in nature and is not intended to be all inclusive. Due to the complexity of these rules and the penalties that may be imposed upon persons involved in non-exempt prohibited transactions, it is particularly important that fiduciaries, or other persons considering purchasing the notes on behalf of, or with the assets of, any Plan, consult with their counsel regarding the potential applicability of ERISA, Section 4975 of the Code and any Similar Laws to such investment and whether an exemption would be applicable to the acquisition and holding of the notes.

Taxation

BRAZIL

The following discussion is a general description of certain Brazilian tax aspects of the notes applicable to an individual, entity, trust or organization resident or domiciled outside Brazil (“Non-Brazilian Holder”) and does not purport to be a comprehensive description of the tax aspects of the notes. The earnings of foreign companies and persons not resident in Brazil, as a rule, are subject to income tax in Brazil when such earnings are paid or credited or otherwise made available by Brazilian sources or when the transaction giving rise to such earnings involves assets in Brazil.

The following discussion is based on the tax laws of Brazil as in effect on the date hereof, which are subject to change, possibly with retroactive effect and to differing interpretations. Any change in that law may change the consequences described below. The information set forth below is intended to be a general description only and does not address all possible tax consequences relating to an investment in the notes and is not applicable to all categories of investors, some of which may be subject to special rules. The discussion below does not address any tax consequences under the tax laws of any state or locality of Brazil.

PROSPECTIVE INVESTORS SHOULD CONSULT THEIR OWN TAX ADVISORS AS TO THE CONSEQUENCES OF PURCHASING THE NOTES, INCLUDING, WITHOUT LIMITATION, THE CONSEQUENCES OF THE RECEIPT OF INTEREST AND THE SALE, REDEMPTION OR REPAYMENT OF THE NOTES OR COUPONS.

Payments on the notes made by DASA Finance and gains on the notes

Generally, a Non-Brazilian Holder is taxed in Brazil only when income is derived from Brazilian sources or gains are realized on the disposition of assets located in Brazil.

Therefore, based on the fact that DASA Finance is considered, for tax purposes, as domiciled abroad, any income (including interest and other income, such as fees, discounts and commissions among others, if any) paid by DASA Finance in respect of the notes issued by it in favor of Non-Brazilian Holders is not subject to withholding or deduction in respect of Brazilian income tax or any other taxes, duties, assessments or governmental charges in Brazil, provided that such payments are made with funds held by DASA Finance outside of Brazil.

Capital gains generated outside Brazil as a result of a transaction between two non-residents of Brazil with assets located in Brazil are subject to income tax in Brazil, according to article 26 of Law No. 10,833, enacted on December 29, 2003. Based on the fact that the notes are issued and registered abroad and, thus, will not fall within the definition of assets located in Brazil for purposes of Law No. 10,833, gains on the sale or other disposition of the notes made outside Brazil by a Non-Brazilian Holder to another Non-Brazilian Holder are not subject to Brazilian taxes. Notwithstanding, considering the general and unclear scope of this legislation and the absence of judicial guidance in respect thereof, we cannot assure prospective investors that such interpretation of this law will prevail in the courts of Brazil. As a result, gains realized by a Non-Brazilian Holder, from the sale or other disposition of the notes to a Brazilian resident or even to a non-Brazilian resident in the event the courts determine that the notes would constitute assets located in Brazil, may be subject to income tax in Brazil at a rate of 15%, or 25% if such Non-Brazilian Holder is located in a tax haven jurisdiction (i.e., a country or locality which does not impose any income tax or which imposes it at a maximum rate lower than 20% or where the laws of that country or locality impose restrictions on the disclosure of shareholding composition or the ownership of the investment).

Payments on the notes made by DASA as guarantor

If, by any chance, a Brazilian source—such as DASA, as guarantor—is required to make any payments in respect to the notes to a Non-Brazilian Holder, the Brazilian tax authorities could impose withholding income tax at a rate of 15% or 25% (depending on the nature of the payment and the location of the respective Non-Brazilian Holder). However, in this circumstance, another income tax rate may apply, if provided for in any applicable tax treaty between Brazil and the country of the beneficiary.

Other taxes

Until December 31, 2007, generally, most fund transfers in connection with financial transactions in Brazil were subject to the Temporary Contribution on Financial Transactions (“CPMF”), which was levied at a rate of 0.38% on any withdrawals or debits from bank accounts maintained with Brazilian financial institutions.

However, as of January 1st, 2008, the CPMF tax is no longer in force, and should not be levied on any debit to bank accounts carried out after that. The Brazilian government may attempt to reestablish the CPMF, by submitting a new proposal to the Brazilian Congress. In the event CPMF is reestablished, it will apply only after a period of 90 (ninety) days have elapsed after enactment of the respective introductory legislation (“vacatio legis”) and only in regard with prospective triggering events.

Pursuant to Decree No. 6,306, of December 14, 2007, conversion into Brazilian currency (*reais*) of proceeds received in foreign currency by a Brazilian entity and the conversion into foreign currency of proceeds received in *reais* are subject to the Tax on Foreign Exchange Transactions (“IOF/Exchange”). Currently, for most exchange transactions, including those related to payments made by DASA, as guarantor, to a non-Brazilian holder, the IOF/Exchange is assessed at a rate of 0.38%, although other rates may apply to particular operations and the Brazilian government may increase this rate at any time up to 25%, but only with respect to future foreign exchange transactions.

UNITED STATES

United States Federal Income Taxation

To ensure compliance with Internal Revenue Service Circular 230, you are hereby notified that any discussion of U.S. federal income tax matters set forth in this offering memorandum was written in connection with the promotion or marketing of the transactions or matters addressed herein and was not intended or written to be used, and cannot be used by any prospective investor, for the purpose of avoiding tax-related penalties under federal, state or local tax law. Each prospective investor should seek advice based on its particular circumstances from an independent tax advisor.

The following is a summary of certain United States federal income tax consequences of the purchase, ownership and disposition of notes as of the date hereof. Except where noted, this summary deals only with notes that are held as capital assets by a U.S. holder (as defined below) who acquire the notes upon original issuance at their initial offering price.

A “U.S. holder” means a person that is for United States federal income tax purposes a beneficial owner of the notes and any of the following:

- an individual citizen or resident of the United States;
- a corporation (or any other entity treated as a corporation for United States federal income tax purposes) created or organized in or under the laws of the United States, any state thereof or the District of Columbia;
- an estate the income of which is subject to United States federal income taxation regardless of its source; or

- a trust if it (1) is subject to the primary supervision of a court within the United States and one or more United States persons have the authority to control all substantial decisions of the trust or (2) has a valid election in effect under applicable United States Treasury regulations to be treated as a United States person.

This summary is based upon provisions of the Internal Revenue Code of 1986, as amended (the “Code”), and regulations, rulings and judicial decisions as of the date hereof. Those authorities may be changed, perhaps retroactively, so as to result in United States federal income tax consequences different from those summarized below. This summary does not address all aspects of United States federal income taxes and does not deal with foreign, state, or local or other tax considerations that may be relevant to you in light of your personal circumstances. In addition, it does not represent a detailed description of the United States federal income tax consequences applicable to you if you are subject to special treatment under the United States federal income tax laws. For example, this summary does not address:

- tax consequences to holders who may be subject to special tax treatment, such as dealers in securities or currencies, traders in securities that elect to use the mark-to-market method of accounting for their securities, financial institutions, regulated investment companies, real estate investment trusts, partnerships or other pass-through entities for United States federal income tax purposes, tax-exempt entities or insurance companies;
- tax consequences to persons holding the notes as part of a hedging, integrated, constructive sale or conversion transaction or a straddle;
- tax consequences to holders of the notes whose “functional currency” is not the United States dollar;
- alternative minimum tax consequences, if any; or
- any state, local or foreign tax consequences.

If a partnership holds the notes, the tax treatment of a partner will generally depend upon the status of the partner and the activities of the partnership. If you are a partner of a partnership holding the notes, you should consult your tax advisors.

If you are considering the purchase of notes, you should consult your own tax advisors concerning the particular United States federal income tax consequences to you of the ownership of the notes, as well as the consequences to you arising under the laws of any other taxing jurisdiction.

Payments of Interest

Interest on a note will generally be taxable to you as ordinary income at the time it is paid or accrued in accordance with your method of accounting for tax purposes. In addition to interest on the notes (which includes any Cayman Islands or Brazilian tax withheld from the interest payments you receive), you will be required to include in income any additional amounts paid in respect of such Cayman Islands or Brazilian tax withheld. You may be entitled to deduct or credit this tax, subject to certain limitations (including that the election to deduct or credit foreign taxes applies to all of your foreign taxes for a particular tax year). Interest income (including any additional amounts) on a note generally will be considered foreign source income and, for purposes of the United States foreign tax credit, generally will be considered passive category income. You will generally be denied a foreign tax credit for foreign taxes imposed with respect to the notes where you do not meet a minimum holding period requirement during which you are not protected from risk of loss. The rules governing the foreign tax credit are complex. You are urged to consult your tax advisors regarding the availability of the foreign tax credit under your particular circumstances.

Sale, Exchange and Retirement of Notes

Upon the sale, exchange, retirement or other disposition of a note, you will recognize gain or loss equal to the difference between the amount you realize thereon (less an amount equal to any accrued interest, which will be taxable as interest to the extent not previously included in income) and your adjusted tax basis in the note. Your adjusted tax basis in a note will, in general, be your cost for that note. Any gain or loss you recognize will be capital gain or loss and will generally be treated as United States source gain or loss. Consequently, you may not be able to claim a credit for any Brazilian tax imposed upon a disposition of a note unless that credit can be applied (subject to applicable limitations) against tax due on other income treated as derived from foreign sources. Capital gains of non-corporate U.S. holders derived in respect of capital assets held for more than one year are eligible for reduced rates of taxation. The deductibility of capital losses is subject to limitations.

Backup Withholding and Information Reporting

Generally, information reporting requirements will apply to all payments on the notes and the proceeds from a sale of a note paid to you, unless you are an exempt recipient such as a corporation. Additionally, if you fail to provide your taxpayer identification number, or in the case of interest payments, fail either to report in full dividend and interest income or to make certain certifications, you may be subject to backup withholding.

Any amounts withheld under the backup withholding rules will be allowed as a refund or a credit against your United States federal income tax liability, provided the required information is furnished to the Internal Revenue Service.

Plan of Distribution

We intend to offer the notes through the initial purchasers. Under the terms and subject to the conditions contained in a purchase agreement dated May 21, 2008, among us and the initial purchasers, we and the issuer have agreed to sell to the initial purchasers, for whom Credit Suisse Securities (USA) LLC and Merrill Lynch, Pierce, Fenner & Smith Incorporated are acting as representatives, and the initial purchasers severally have agreed to purchase from us, the following principal amount of the notes listed opposite their names below.

<u>Initial Purchaser</u>	<u>Principal Amount</u>
Credit Suisse Securities (USA) LLC	US\$125,000,000
Merrill Lynch, Pierce, Fenner & Smith Incorporated	US\$125,000,000
Total	<u>US\$250,000,000</u>

The purchase agreement provides that the initial purchasers are obliged to purchase all of the notes if any of these notes are purchased. If an initial purchaser defaults, the purchase agreement provides that the purchase commitments of the non-defaulting initial purchasers may be increased or the purchase agreement may be terminated.

The initial purchasers have advised us that they propose initially to offer the notes at the offering price set forth on the cover page of this offering memorandum and may also offer the notes to selling group members at the offering price less a selling concession. After the initial offering, the offering price may be changed.

We and the issuer have agreed to indemnify the initial purchasers against certain liabilities, including liabilities under the Securities Act, or to contribute to payments the initial purchasers may be required to make in respect of those liabilities.

The initial purchasers are offering the notes, subject to prior sale, when, as and if issued to and accepted by it, subject to approval of legal matters by their counsel, including the validity of the notes, and other conditions contained in the purchase agreement, such as, but not limited to, the receipt by the initial purchasers of officers' certificates and legal opinions. The initial purchasers reserve the right to withdraw, cancel or modify offers to investors and to reject orders in whole or in part.

The expenses of the offering, not including the initial purchasers' discount, are estimated to be R\$3.5 million (or US\$2.0 million calculated based on the dollar selling rate on March 31, 2008 published by the Central Bank on its electronic information system, SISBACEN, using transaction PTAX 800, option 5) and are payable by us.

Notes are not being registered

The initial purchasers propose to offer the notes for resale in transactions not requiring registration under the Securities Act or applicable state securities laws, including sales pursuant to Rule 144A or Regulation S. The initial purchasers will not offer or sell the notes except:

- to persons they reasonably believe to be qualified institutional buyers; or
- pursuant to offers and sales to non-U.S. persons that occur outside the United States within the meaning of Regulation S.

Notes sold pursuant to Regulation S may not be offered or resold in the United States or to U.S. persons (as defined in Regulation S), except under an exemption from the registration requirements of the Securities Act or under a registration statement declared effective under the Securities Act.

In addition, until 40 days following the commencement of this offering, an offer or sale of notes within the United States by a dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act unless the dealer makes the offer or sale in compliance with Rule 144A or another exemption from registration under the Securities Act.

Each purchaser of the notes will be deemed to have made acknowledgments, representations and agreements as described under “Transfer Restrictions.”

Each of the initial purchasers severally represents and agrees that:

- it has not offered or sold and prior to the expiry of a period of six months from the closing date, will not offer or sell any notes to persons in the United Kingdom except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995;
- it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000 (the “FSMA”)) received by it in connection with the issue or sale of any notes in circumstances in which section 21(1) of the FSMA does not apply to us or the issuer; and
- it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the notes in, from or otherwise involving the United Kingdom.

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a Relevant Member State), each initial purchaser represents and agrees that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the Relevant Implementation Date) it has not made and will not make an offer of notes to the public in that Relevant Member State prior to the publication of a prospectus in relation to the notes which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, all in accordance with the Prospectus Directive, except that it may, with effect from and including the Relevant Implementation Date, make an offer of notes to the public in that Relevant Member State at any time:

- to legal entities which are authorized or regulated to operate in the financial markets or, if not so authorized or regulated, whose corporate purpose is solely to invest in securities;
- to any legal entity which has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than €43,000,000 and (3) an annual net turnover of more than €50,000,000, as shown in its last annual or consolidated accounts; or
- in any other circumstances which do not require the publication by us of a prospectus pursuant to Article 3 of the Prospectus Directive.

For the purposes of this provision, the expression an “offer of notes to the public” in relation to any notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the notes to be offered so as to enable an investor to decide to purchase or subscribe the notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression Prospectus Directive means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

No sale of similar securities

We have agreed, with exceptions, that we, including the issuer and any of our subsidiaries, will not sell or transfer any long-term debt securities for 90 days after the date of this offering memorandum without first obtaining the written consent of Credit Suisse Securities (USA) LLC and Merrill Lynch, Pierce, Fenner & Smith Incorporated. Specifically, we and the issuer have agreed not to directly or indirectly (subject to certain exceptions):

- offer, pledge, sell, or contract to sell any long-term debt securities;

- sell any option or contract to purchase any long-term debt securities;
- purchase any option or contract to sell any long-term debt securities;
- grant any option, right or warrant for the sale of any long-term debt securities;
- file a registration statement for any long-term debt securities; or
- lend or otherwise dispose of or transfer any long-term debt securities.

This lockup provision applies to long-term debt securities or any securities convertible into or exercisable or exchangeable for long-term debt securities.

Issue of new notes

The notes are a new issue of securities with no established trading market. We do not intend to apply for listing of the notes on any U.S. securities exchange or for quotation of the notes on any automated dealer quotation system. The initial purchasers have advised us that they presently intend to make a market in the notes after completion of this offering as permitted by applicable law. However, they are under no obligation to do so and may discontinue any market-making activities at any time, at their sole discretion, without any notice.

Application has been made to admit the notes to listing on the Official List of the Luxembourg Stock Exchange and to trading on the Euro MTF market.

The notes are eligible for trading in the PORTAL market, the Financial Industry Regulatory Authority's, or "FINRA's," market for designated securities through an automated quotation and communication system that facilitates private offerings, resales, trading, clearing and settlement of securities eligible for resale under Rule 144A. However, that does not ensure that a liquid or active public trading market for the notes will develop. If an active trading market for the notes does not develop, the market price and liquidity of the notes may be adversely affected. If the notes are traded, they may trade at a discount from their offering price, depending on prevailing interest rates, the market for similar securities, our performance and other factors.

Credit Suisse Securities (USA) LLC will make the notes available for distribution on the Internet through a proprietary Web site and/or a third-party system operated by MarketAxess Corporation, an Internet-based communications technology provider. MarketAxess Corporation is providing the system as a conduit for communications between Credit Suisse Securities (USA) LLC and its customers and is not a party to any transactions. MarketAxess Corporation, a registered broker-dealer, will receive compensation from Credit Suisse Securities (USA) LLC based on transactions conducted through the system. Credit Suisse Securities (USA) LLC will make the notes available to its customers through the Internet distributions, whether made through a proprietary or third-party system, on the same terms as distributions made through other channels.

We expect that delivery of the notes will be made against payment therefor on or about the closing date specified on the cover page of this offering memorandum, which will be the fifth business day following the date of this offering memorandum (this settlement cycle being referred to as "T+5"). Under Rule 15c6-1 under the U.S. Securities Exchange Act of 1934 as amended (the "Exchange Act"), trades in the secondary market generally are required to settle in three business days, unless the parties to any such trade expressly agree otherwise. Accordingly, purchasers who wish to trade the notes on the date of this offering memorandum or the next two succeeding business days will be required, by virtue of the fact that the notes initially will settle in T+5, to specify an alternate settlement cycle at the time of any such trade to prevent a failed settlement. Purchasers of the notes who wish to trade the notes on the date hereof or the next two succeeding business days should consult their own advisor.

Price stabilization and short positions

The initial purchasers may engage in over-allotment, stabilizing transactions, covering transactions and penalty bids in accordance with Regulation M under the Exchange Act.

- Over-allotment involves sales in excess of the offering size, which creates a short position for the initial purchasers.
- Stabilizing transactions permit bids to purchase the underlying security so long as the stabilizing bids do not exceed a specified maximum.
- Covering transactions involve purchases of the notes in the open market after the distribution has been completed in order to cover short positions.
- Penalty bids permit the initial purchasers to reclaim a selling concession from a broker/dealer when the notes originally sold by such broker/dealer are purchased in a stabilizing or covering transaction to cover short positions.

These stabilizing transactions, covering transactions and penalty bids may cause the price of the notes to be higher than it would otherwise be in the absence of these transactions. These transactions, if commenced, may be discontinued at any time.

Other relationships

The initial purchasers and their affiliates have engaged in, and may in the future engage in, investment banking and other commercial dealings in the ordinary course of business with us. They have received or will receive customary fees and commissions for these transactions.

Funds managed by affiliates of Credit Suisse Securities (USA) LLC, referred to as the “Hedging Griffon” funds, held an aggregate of 9.1% of our shares as of March 31, 2008.

Funds managed by affiliates of Merrill Lynch, Pierce, Fenner & Smith Incorporated held an aggregate of 2.7% of our shares as of March 31, 2008.

On or before the closing date of the offering, we will enter into one or more currency hedges with affiliates of the initial purchasers with a total notional amount equal to the total principal amount of the notes outstanding on the closing date. These currency hedges will hedge against currency fluctuations with respect to the interest payments on the notes for the first five years of the notes so long as the *real* does not depreciate against the U.S. dollar beyond a specified level.

Stamp taxes

Purchasers of any notes sold outside the United States may be required to pay stamp taxes and other charges in accordance with the laws and practices of the country of purchase in addition to the offering price paid by such purchasers for such notes.

Notice to Canadian Residents

Resale restrictions

The distribution of the notes in Canada is being made only on a private placement basis exempt from the requirement that we prepare and file a prospectus with the securities regulatory authorities in each province where trades of notes are made. Any resale of the notes in Canada must be made under applicable securities laws which will vary depending on the relevant jurisdiction, and which may require resales to be made under available statutory exemptions or under a discretionary exemption granted by the applicable Canadian securities regulatory authority. Purchasers are advised to seek legal advice prior to any resale of the notes.

Representations of purchasers

By purchasing notes in Canada and accepting a purchase confirmation a purchaser is representing to us and the dealer from whom the purchase confirmation is received that:

- the purchaser is entitled under applicable provincial securities laws to purchase the notes without the benefit of a prospectus qualified under those securities laws,
- where required by law, that the purchaser is purchasing as principal and not as agent,
- the purchaser has reviewed the text above under Resale Restrictions, and
- the purchaser acknowledges and consents to the provision of specified information concerning its purchase of the notes to the regulatory authority that by law is entitled to collect the information.

Further details concerning the legal authority for this information is available on request.

Rights of action—Ontario purchasers only

Under Ontario securities legislation, certain purchasers who purchase a security offered by this offering memorandum during the period of distribution will have a statutory right of action for damages, or while still the owner of the notes, for rescission against us in the event that this offering memorandum contains a misrepresentation without regard to whether the purchaser relied on the misrepresentation. The right of action for damages is exercisable not later than the earlier of 180 days from the date the purchaser first had knowledge of the facts giving rise to the cause of action and three years from the date on which payment is made for the notes. The right of action for rescission is exercisable not later than 180 days from the date on which payment is made for the notes. If a purchaser elects to exercise the right of action for rescission, the purchaser will have no right of action for damages against us. In no case will the amount recoverable in any action exceed the price at which the notes were offered to the purchaser and if the purchaser is shown to have purchased the securities with knowledge of the misrepresentation, we will have no liability. In the case of an action for damages, we will not be liable for all or any portion of the damages that are proven to not represent the depreciation in value of the notes as a result of the misrepresentation relied upon. These rights are in addition to, and without derogation from, any other rights or remedies available at law to an Ontario purchaser. The foregoing is a summary of the rights available to an Ontario purchaser. Ontario purchasers should refer to the complete text of the relevant statutory provisions.

Enforcement of legal rights

All of our directors and officers as well as the experts named herein may be located outside of Canada and, as a result, it may not be possible for Canadian purchasers to effect service of process within Canada upon us or those persons. All or a substantial portion of our assets and the assets of those persons may be located outside of Canada and, as a result, it may not be possible to satisfy a judgment against us or those persons in Canada or to enforce a judgment obtained in Canadian courts against us or those persons outside of Canada.

Taxation and eligibility for investment

Canadian purchasers of notes should consult their own legal and tax advisors with respect to the tax consequences of an investment in the notes in their particular circumstances and about the eligibility of the notes for investment by the purchaser under relevant Canadian legislation.

Transfer Restrictions

The notes have not been registered, and will not be registered, under the Securities Act or any other applicable securities laws, and the notes may not be offered or sold except pursuant to an effective registration statement or pursuant to transactions exempt from, or not subject to, registration under the Securities Act. Accordingly, the notes are being offered and sold only:

- in the United States to qualified institutional buyers (as defined in Rule 144A) in reliance on Rule 144A under the Securities Act; and
- outside of the United States to certain persons, other than U.S. persons, in offshore transactions meeting the requirements of Rule 903 of Regulation S under the Securities Act.

Each purchaser of notes (other than the initial purchasers in connection with the initial issuance and sale of notes), each subsequent transferee and each owner of any beneficial interest therein will be deemed, by its acceptance or purchase thereof, to have represented and agreed as follows:

- (1) It is purchasing the notes for its own account or an account with respect to which it exercises sole investment discretion, and it and any such account is either (a) a qualified institutional buyer and is aware that the sale to it is being made in reliance on Rule 144A or (b) a non-U.S. person that is outside the United States.
- (2) It acknowledges that the notes have not been registered under the Securities Act or with any securities regulatory authority of any jurisdiction and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except as set forth below.
- (3) It understands and agrees that notes initially offered in the United States to qualified institutional buyers will be represented by one or more global notes and that notes offered outside the United States in reliance on Regulation S will also be represented by one or more global notes.
- (4) It will not resell or otherwise transfer any of such notes except (a) to DASA or any of its subsidiaries, (b) within the United States to a qualified institutional buyer in a transaction complying with Rule 144A under the Securities Act, (c) outside the United States in compliance with Rule 903 or 904 under the Securities Act, (d) pursuant to the exemption from registration provided by Rule 144 under the Securities Act (if available) or (e) pursuant to an effective registration statement under the Securities Act.
- (5) It agrees that it will give to each person to whom it transfers the notes notice of any restrictions on transfer of such notes.
- (6) It acknowledges that prior to any proposed transfer of notes (other than pursuant to an effective registration statement or in respect of notes sold or transferred either pursuant to (a) Rule 144A or (b) Regulations S and listed on the Luxembourg Stock Exchange), the holder of such notes may be required to provide certifications relating to the manner of such transfer as provided in the indenture.
- (7) It acknowledges that the trustee, registrar or transfer agent for the notes will not be required to accept for registration transfer of any notes acquired by it, except upon presentation of evidence satisfactory to us and the trustee, registrar or transfer agent that the restrictions set forth herein have been complied with.
- (8) (i) Either (a) no portion of the assets used by such purchaser to acquire or hold the notes constitutes assets of any “employee benefit plan” within the meaning of Section 3(3) of the U.S. Employee Retirement Income Security Act of 1974, as amended (“ERISA”), plan, individual retirement account or other arrangement that is subject to Section 4975 of the U.S. Internal Revenue Code of 1986, as amended (the “Code”) or provisions under any federal, state, local, non-U.S. or other laws or regulations that are similar to such provisions of ERISA or the Code (collectively, “Similar Laws”), or entity whose underlying assets are considered to include “plan assets” of any such plan, account or arrangement or (b) the acquisition and holding of the notes by such purchaser will not constitute a

non-exempt prohibited transaction under Section 406 of ERISA or Section 4975 of the Code or a similar violation under any applicable Similar Laws and (ii) it will not sell or otherwise transfer such notes, or any interest therein, without first obtaining from the transferee the same foregoing representations and covenants.

- (9) It acknowledges that we, the initial purchasers and other persons will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements and agrees that if any of the acknowledgements, representations and agreements deemed to have been made by its purchase of the notes are no longer accurate, it will promptly notify us and the initial purchasers. If it is acquiring the notes as a fiduciary or agent for one or more investor accounts, it represents that it has sole investment discretion with respect to each such account and it has full power to make the foregoing acknowledgements, representations, and agreements on behalf of each account.

The following is the form of restrictive legend which will appear on the face of the Rule 144A global note, and which will be used to notify transferees of the foregoing restrictions on transfer:

This Note has not been registered under the U.S. Securities Act of 1933, as amended (the “Securities Act”), or any other securities laws. The holder hereof, by purchasing this Note, agrees that this Note or any interest or participation herein may be offered, resold, pledged or otherwise transferred only (i) to Diagnósticos da América S.A. or any of its subsidiaries, (ii) so long as this Note is eligible for resale pursuant to Rule 144A under the Securities Act (“Rule 144A”), to a person who the seller reasonably believes is a qualified institutional buyer (as defined in Rule 144A) in accordance with Rule 144A, (iii) in an offshore transaction in accordance with Rule 903 or 904 of Regulation S under the Securities Act, (iv) pursuant to an exemption from registration under the Securities Act afforded by Rule 144 under the Securities Act (if available) or (v) pursuant to an effective registration statement under the Securities Act, and in each of such cases in accordance with any applicable securities laws of any state of the United States or other applicable jurisdiction. The holder hereof, by purchasing this Note, represents and agrees that it will notify any purchaser of this Note from it of the resale restrictions referred to above. The foregoing legend may be removed from this Note on satisfaction of the conditions specified in the indenture referred to herein.

The following is the form of restrictive legend which will appear on the face of the Regulation S global note and which will be used to notify transferees of the foregoing restrictions on transfer:

This Note has not been registered under the U.S. Securities Act of 1933, as amended (the “Securities Act”), or any other securities laws. The holder hereof, by purchasing this Note, agrees that neither this Note nor any interest or participation herein may be offered, resold, pledged or otherwise transferred in the absence of such registration unless such transaction is exempt from, or not subject to, such registration.

The foregoing legend may be removed from this Note after 40 days beginning on and including the later of (a) the day on which the Notes are offered to persons other than distributors (as defined in Regulation S under the Securities Act) and (b) the original issue date of this Note.

For further discussion of the requirements (including the presentation of transfer certificates) under the indenture to effect exchanges or transfers of interest in global notes and certificated notes, see “Description of the Notes—Form and Registration.”

Legal Matters

Mattos Filho, Veiga Filho, Marrey Jr. e Quiroga Advogados, our Brazilian counsel, will pass on the validity of the notes. Simpson Thacher & Bartlett LLP, our U.S. counsel, will pass on certain legal matters for us. Pinheiro Neto Advogados, Brazilian counsel to the initial purchasers, and Milbank, Tweed, Hadley & McCloy LLP, U.S. counsel to the initial purchasers, will pass on certain legal matters for the initial purchasers.

Independent Auditors

Our consolidated financial statements as of and for the years ended December 31, 2007, 2006 and 2005 have been audited by KPMG Auditores Independentes, independent accountants, as stated in their report appearing herein. The report of KPMG Auditores Independentes with respect thereto contains an emphasis paragraph stating that the statements of cash flows were included as supplementary information, are not required under accounting practices adopted in Brazil and were subject to the same audit procedures applied to the aforementioned financial statements.

Listing and General Information

1. The notes have been accepted for clearance through DTC, Euroclear and Clearstream. The CUSIP and ISIN numbers and the Common Code for the notes are as follows:

	Restricted Global Note	Regulation S Global Note
CUSIP	23303A AA1	G26593 AA4
ISIN	US23303AAA16	USG26593AA40
Common Code	036665807	036663146

2. Copies of our latest audited annual financial statements in English may be obtained during normal business hours at our executive offices, the offices of the trustee and any paying agent, including the Luxembourg paying agent and principal paying agent. Copies of our bylaws (*estatuto social*) in English, as well as the indenture (including forms of the notes), will be available during normal business hours for inspection at our executive offices, the offices of the trustee and any paying agent, including the Luxembourg paying agent and principal paying agent.
3. Except as disclosed in this offering memorandum, there has been no material adverse change in the financial position of DASA Finance or our company since December 31, 2007, the date of the latest audited financial statements included in this offering memorandum.
4. Except as disclosed in this offering memorandum, neither DASA Finance nor our company has been involved in any governmental, legal or arbitration proceedings during the twelve-month period immediately preceding the date of this offering memorandum that had or may reasonably be expected to have any material adverse effect on the financial position and results of operations of DASA Finance or our company.
5. Application has been made to list the notes on the Official List of the Luxembourg Stock Exchange and to trading on the Euro MTF Market of the Luxembourg Stock Exchange.
6. The creation and issuance of the notes were authorized by the resolution of DASA Finance's board of directors on May 21, 2008. The creation and issuance of the guarantee of DASA were authorized by the resolution of DASA's board of directors on May 21, 2008.

Index to Financial Statements

Consolidated financial statements of Diagnósticos da América S.A. at December 31, 2005, 2006 and 2007 and for the three years in the period ended December 31, 2007:

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Unaudited consolidated financial statements of Diagnósticos da América S.A. at and for the three months ended March 31, 2007 and 2008:

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Independent Auditors' Report

To
The Board of Directors and Shareholders
Diagnósticos da América S.A.
São Paulo—SP

1. We have audited the consolidated balance sheets of Diagnósticos da América S.A. (the “Company”) and its subsidiaries as of December 31, 2007, 2006 and 2005 and the related statements of income, changes in shareholders' equity and changes in financial position for each of the years in the three-year period ended December 31, 2007, which are the responsibility of its management. Our responsibility is to express an opinion on these financial statements.
2. Our audits were conducted in accordance with auditing standards generally accepted in Brazil and included:
(a) planning of the audit work, considering the materiality of the balances, the volume of transactions and the accounting systems and internal accounting controls of the Company and its subsidiaries;
(b) verification, on a test basis, of the evidence and records which support the amounts and accounting information disclosed; and (c) evaluation of the most significant accounting policies and estimates adopted by management of the Company and its subsidiaries, as well as the presentation of the financial statements taken as a whole.
3. In our opinion, the aforementioned 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, 2006 and 2005, and the results of its operations, changes in its shareholders' equity and changes in its financial position for each of the years in the three-year period ended December 31, 2007, in conformity with accounting practices adopted in Brazil and regulations issued by the Brazilian Securities Commission (CVM).
4. Our audits were performed with the objective of expressing an opinion on the consolidated financial statements taken as a whole. The statements of cash flows are supplementary to the aforementioned financial statements and have been included to facilitate additional analysis. This supplementary information, not mandatory according to accounting practices adopted in Brazil, was subject to the same audit procedures as applied to the aforementioned financial statements and, in our opinion, are presented fairly, in all material respects, in relation to the financial statements as of December 31, 2007, 2006 and 2005 taken as a whole.

February 12, 2008

KPMG Auditores Independentes
CRC 2SP014428/O-6

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

Diagnósticos da América S.A.
Consolidated balance sheets
December 31, 2007, 2006 and 2005
(in thousands of Reais)

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Assets			
Current assets			
Cash and cash equivalents	22,971	7,172	4,452
Marketable securities	23,398	325,490	48,171
Trade accounts receivable, net	205,275	138,615	116,405
Inventories	33,475	20,717	18,161
Recoverable and deferred taxes	37,843	16,749	16,253
Other accounts receivable	11,132	6,325	3,793
Prepaid expenses	1,678	5,217	848
	<u>335,772</u>	<u>520,285</u>	<u>208,083</u>
Noncurrent assets			
Noncurrent assets			
Marketable securities	80,720	28,225	16,272
Deferred taxes	48,529	—	—
Prepaid expenses	2,249	12	10
Judicial deposits	7,243	2,123	3,031
	<u>138,741</u>	<u>30,360</u>	<u>19,313</u>
Permanent assets			
Investments	247,442	120,860	78,936
Propety, plant, equipament and intangible assets, net	426,637	289,494	213,841
Deferred charges	69,864	57,680	62,226
	<u>743,943</u>	<u>468,034</u>	<u>355,003</u>
	<u>1,218,456</u>	<u>1,018,679</u>	<u>582,399</u>
Liabilities and shareholders' equity			
Current liabilities			
Accounts payable to suppliers	52,790	34,038	26,982
Loans and financing	97,968	59,210	75,385
Taxes and contributions payable	9,899	5,195	3,966
Income tax and social contribution	6,587	969	1,074
Salaries, social security charges and vacation payable	35,549	26,058	21,176
Payment of tax in installments	6,778	5,532	5,558
Accounts payable from acquisition of subsidiaries	9,688	18,107	8,704
Debentures	5,511	6,557	—
Dividends payable	13,447	527	—
Other accounts payable	17,231	13,257	10,729
	<u>255,448</u>	<u>169,450</u>	<u>153,574</u>
Noncurrent liabilities			
Noncurrent liabilities			
Loans and financing	100,310	73,444	78,299
Payment of tax in installments	15,083	16,974	16,384
Provision for contingencies	81,417	55,891	33,108
Accounts payable from acquisition of subsidiaries	50,630	31,214	34,704
Debentures	202,500	202,500	—
	<u>449,940</u>	<u>380,023</u>	<u>162,495</u>
Minority interests	688	—	354
Shareholders' equity			
Capital	402,091	402,091	216,136
Capital reserve	65,427	65,427	64,136
Profit reserve	2,942	111	—
Retained earnings (accumulated losses)	41,920	1,577	(14,296)
	<u>512,380</u>	<u>469,206</u>	<u>265,976</u>
	<u>1,218,456</u>	<u>1,018,679</u>	<u>582,399</u>

See accompanying notes to the consolidated financial statements.

Diagnósticos da América S.A.
Consolidated statements of income
Years ended December 31, 2007, 2006 and 2005
(in thousands of Reais)

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Gross revenue			
Services rendered	930,687	729,682	576,940
Deductions from gross revenue			
Sales taxes	(52,573)	(40,803)	(33,101)
Discounts	(19,294)	(18,429)	(15,559)
	<u>(71,867)</u>	<u>(59,232)</u>	<u>(48,660)</u>
Net operating revenues	858,820	670,450	528,280
Cost of services provided	(584,594)	(443,476)	(362,411)
Gross profit	<u>274,226</u>	<u>226,974</u>	<u>165,869</u>
Other operating income (expenses)			
General and administratives	(171,587)	(151,061)	(88,733)
Financial expenses, net	(22,482)	(10,772)	(21,031)
Goodwill amortization	(53,255)	(30,105)	(35,711)
Other operating income	3,624	1,725	761
	<u>(243,700)</u>	<u>(190,213)</u>	<u>(144,714)</u>
Operating income	30,526	36,761	21,155
Non-operating (loss)	(1,525)	(795)	(488)
Net income for the year before taxes	29,001	35,966	20,667
Income tax and social contribution expense	28,031	(19,380)	(10,394)
Net income before minority interests	57,032	16,586	10,273
Minority interest	(411)	(75)	(116)
Net income for the year	<u>56,621</u>	<u>16,511</u>	<u>10,157</u>
Net income per share—R\$	0.99	0.29	0.19
Number of shares at the end of the year	57,402,935	57,402,935	53,607,935

See accompanying notes to the consolidated financial statements.

Diagnósticos da América S.A.

Consolidated statements of changes in shareholders' equity

Years ended December 31, 2007, 2006 and 2005

(in thousands of Reais)

	<u>Capital</u>	<u>Capital reserve</u>	<u>Profit reserve</u>	<u>Retained earnings (accumulated losses)</u>	<u>Total</u>
Balances at January 1, 2005	216,136	52,579	—	(24,453)	244,262
Goodwill amortization	—	11,557	—	—	11,557
Net income for the year	—	—	—	10,157	10,157
Balances at December 31, 2005	216,136	64,136	—	(14,296)	265,976
Capital increase from subscription of new shares	185,955	—	—	—	185,955
Goodwill amortization	—	1,291	—	—	1,291
Net income for the year	—	—	—	16,511	16,511
Legal reserve	—	—	111	(111)	—
Dividends	—	—	—	(527)	(527)
Balances at December 31, 2006	402,091	65,427	111	1,577	469,206
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>402,091</u>	<u>65,427</u>	<u>2,942</u>	<u>41,920</u>	<u>512,380</u>

See accompanying notes to the consolidated financial statements

Diagnósticos da América S.A.

Consolidated statements of changes in financial position

Years ended December 31, 2007, 2006 and 2005

(in thousands of Reais)

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Sources of funds			
From operations			
Net income for the year	56,621	16,511	10,157
Items not affecting working capital			
Depreciation and amortization	73,283	59,769	41,143
Goodwill amortization from deferred charges	53,255	28,814	24,154
Goodwill amortization from shareholders' equity	—	1,291	11,557
Deferred taxes	(48,529)	—	—
Residual cost from permanent assets written off	2,741	6,552	98
Minority interest	411	75	116
	<u>137,782</u>	<u>113,012</u>	<u>87,225</u>
From shareholders'			
Capital increase	—	185,955	—
From third parties			
Increase in noncurrent liabilities	70,194	217,099	—
	<u>207,976</u>	<u>516,066</u>	<u>87,225</u>
Applications of funds			
Acquisition of property, plant, equipment and intangible assets	185,760	127,742	69,608
Additions in deferred charges	29,437	13,938	9,982
Increase in investments	171,374	62,348	82,926
Decrease in noncurrent liabilities	—	—	4,986
Increase in noncurrent assets	59,852	11,047	14,526
Permanent assets from acquisition of investees	18,617	4,138	13,709
Dividends	13,447	527	—
	<u>478,487</u>	<u>219,740</u>	<u>195,737</u>
Increase (decrease) in net working capital	<u>(270,511)</u>	<u>296,326</u>	<u>(108,512)</u>
Changes in net working capital			
Current assets at the beginning of the year	520,285	208,083	274,379
Current assets at the end of the year	<u>335,772</u>	<u>520,285</u>	<u>208,083</u>
Changes in current assets	(184,513)	312,202	(66,296)
Current liabilities at the beginning of the year	169,450	153,574	111,358
Current liabilities at the end of the year	<u>255,448</u>	<u>169,450</u>	<u>153,574</u>
Change in current liabilities	85,998	15,876	42,216
Increase (decrease) in net working capital	<u>(270,511)</u>	<u>296,326</u>	<u>(108,512)</u>

See accompanying notes to the consolidated financial statements.

Diagnósticos da América S.A.
Consolidated statements of cash flows
Years ended December 31, 2007, 2006 and 2005
(in thousands of Reais)

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Cash flows from operating activities			
Net income for the year	56,621	16,511	10,157
Adjustments to reconcile net income to cash provided by operating activities			
Depreciation and amortization	126,538	89,874	76,854
Loss on disposal on write-off of permanent assets	2,741	6,548	98
Minority interest	411	75	116
Interest and unrealized exchange rates	3,675	20,089	22,080
Interest on debentures	24,152	21,712	—
Deffered income taxes	<u>(57,850)</u>	<u>—</u>	<u>—</u>
	<u>156,288</u>	<u>154,809</u>	<u>109,305</u>
(Increase) in operating assets			
Trade accounts receivable	(66,660)	(22,210)	(12,296)
Inventories	(12,758)	(2,556)	(3,036)
Other	<u>(72,893)</u>	<u>(18,444)</u>	<u>(9,163)</u>
Increase in operating liabilities			
Accounts payable to suppliers	18,752	7,056	6,153
Accounts payable and provisions	23,916	18,543	13,117
Income tax and social contribution	5,618	(105)	191
Others noncurrent liabilities	<u>43,328</u>	<u>19,454</u>	<u>—</u>
Net cash provided by operating activities	<u>95,591</u>	<u>156,547</u>	<u>104,271</u>
Cash flows from investing activities			
Acquisition of property, plant, equipment and intangible assets	(185,760)	(127,742)	(69,608)
Acquisition of permanent assets in the acquisition of subsidiaries	(18,617)	(4,138)	(13,709)
Additions in investments	(171,374)	(62,344)	(82,926)
Additions in deferred charges	<u>(29,437)</u>	<u>(13,938)</u>	<u>(9,982)</u>
Net cash used in investing activities	<u>(405,188)</u>	<u>(208,162)</u>	<u>(176,225)</u>
Cash flows from financing activities			
Capital increase	—	185,955	—
Dividends paid	(13,447)	(527)	—
Proceeds from debentures	—	202,500	—
Interest paid on loans—debentures	(25,197)	(15,155)	—
Long and short-term debt issuances	243,949	110,368	105,694
Principal payments on loans	(172,177)	(140,437)	(98,483)
Interest paid on loans	<u>(9,824)</u>	<u>(11,050)</u>	<u>(8,792)</u>
Net cash provided from (used in) financing activities	<u>23,304</u>	<u>331,654</u>	<u>(1,581)</u>
Net increase in cash and cash equivalents			
Cash and cash equivalents at beginning of year	332,662	52,623	126,158
Cash and cash equivalents at end of year	<u>46,369</u>	<u>332,662</u>	<u>52,623</u>
Net increase (decrease) in cash and cash equivalents	<u>(286,293)</u>	<u>280,039</u>	<u>(73,535)</u>

See the accompanying notes to the consolidated financial statements.

Diagnósticos da América S.A.
Notes to the consolidated financial statements
Years Ended December 31, 2007, 2006 and 2005
(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 has been listed on 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, and through contracted laboratories; and (ii) diagnostic medicine, through specialized clinics, including in the following areas: 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 2005 allowed the Company to enter into new segment of market in environmental analysis, genetically modified organisms and toxicological analysis, the acquisition of Laboratório Alvaro S.A. in December, 2005 allowed the Company to enter the lab to lab business (support laboratories), and the acquisition of CientíficaLab Produtos Laboratoriais e Sistemas Ltda. in July of 2007 allowed the Company to begin to offer services in the public health sector. The Company may also invest in other entities. The Company ended the year with 296 operational units(*):

<u>Brands</u>	<u>Locality</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
Delboni Auriemo	São Paulo	35	32	29
Lavoisier	São Paulo	64	53	53
Bronstein	Rio de Janeiro	44	39	35
Lâmina	Rio de Janeiro	17	16	16
Santa Casa	Paraná	8	8	8
Delboni Paraná	Paraná	—	—	7
Pasteur	Brasília	23	15	13
Frischmann	Paraná	28	25	17
Image	Bahia	2	2	2
Laboratório Álvaro	Paraná	15	14	12
LabPasteur	Ceará	18	16	—
MedLabor	Brasília, Tocantins and Goiás	2	10	—
Vita	Santa Catarina	1	2	—
Atalaia	Goiás	14	12	—
Exame	Brasília	17	—	—
MedImagem	Rio de Janeiro	8	—	—
		<u>296</u>	<u>244</u>	<u>192</u>

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(*).

CientíficaLab operates in the public healthcare segment, its major source of revenue is customers contracts in the public healthcare sector. This operation is analyzed by management in terms of the number of customers assisted instead of the number of operating units.

(*) Unaudited.

(*) All non-financial data is not part of the audit of the financial statements.

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CientíficaLab, the leading privately-owned service provider in the public healthcare sector, served 36 clients when it was acquired and now has 44 clients, 36 of which are medium sized (up to 150,000 tests processed per month) and 8 of which are large (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, CientíficaLab 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;
- Inpatient: refers to patient service, test collection, local collection for emergency tests, transport and central processing for the other exams.

2. Presentation of financial statements

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

The Company voluntarily presents the statements of cash flow as supplementary information to the consolidated financial statements. This Statement was prepared in accordance with NPC 20 -, issued by IBRACON (Brazilian Institute of Independent Auditors).

1. Statement of cash flows

The Statement of cash flows are prepared in accordance with NPC 20, issued by IBRACON (Brazilian Institute of Independent Auditors). There were certain reclassifications compared to the original financial statements issued for the fiscal years ended 2007 and 2006 as follows:

- Capital increase and dividends paid were reclassified from operating activities to financing activities for fiscal years 2007 and 2006.

Description of significant accounting policies

a. Statement of income

Income and expenses are recognized on an accrual basis.

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

b. Accounting estimates

The preparation of the financial statements in accordance with accounting practices adopted in Brazil requires that Management uses its judgment in determining and recording accounting estimates. Significant assets and liabilities subject to these estimates and assumptions include the estimated

(*) Unaudited.

(*) All non-financial data is not part of the audit of the financial statements.

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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 and 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 in 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 (U.S. Dollar) were translated into Brazilian Reais at the foreign exchange rate of R\$ 1.7713 in 2007 (R\$ 2.1380 in 2006 and R\$ 2.3407 in 2005) prevailing at the balance sheet date.

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 securities**

Marketable **securities** 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 average cost, not exceeding the market value. Inventories are used in the performance of clinical and imaging exams and for diagnostics by imaging. An 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.

e. *Permanent*

- **Investments**

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. Amortization of goodwill is being recorded using the straight-line method at rates calculated based on the projections over a period which does not exceed ten years and which is reviewed annually.

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Notes to the consolidated financial statements—(Continued)

(in thousands of Reais)

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

Property, plant, equipment and intangible assets are stated at acquisition, formation or construction cost. Plant and equipment held under capital leases are stated at the present value of minimum lease payments upon inception of the corresponding lease agreement. 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. Plant and equipment held under capital leases are amortized on a straight-line basis over the shorter of the lease term or estimated useful life of the asset.

- **Deferred charges**

Pre-operating expenses refer to expenditures relating to the establishment of new facilities and the acquisition of businesses, with the amortization period varying between five and ten years. The goodwill calculated from the mergers of acquired companies is supported by future profitability of operations undertaken by the subsidiaries acquired in accordance with profitability forecasts prepared by Management projected over 5 years.

f. Current and noncurrent liabilities

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

g. Provision for contingencies

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

h. Goodwill from the merger of the parent Company

The goodwill recorded previously by the controlling company Platypus Holdings Ltda. was classified after its merger against the capital reserve account in the shareholders' equity of the Company that resulted from the merger. Later, the amortization of goodwill, for a maximum of five years, has been credited to this capital reserve account, with the corresponding entry recorded as expense for the year. This procedure was supported by tax legislation, article 11 of Law 9718 of November 27, 1998. The amortization ended in February, 2006.

i. Deferred income tax and social contribution

Income and social contribution taxes for 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 carryforwards and negative basis of social contribution tax, 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 profits.

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.

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Notes to the consolidated financial statements—(Continued)

(in thousands of Reais)

3. Consolidated financial statements

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

	% of interest		
	2007	2006	2005
Laboratório Frischmann Aisengart S.A.	100.00%	100.00%	92.92%
Image Memorial S.A.	100.00%	100.00%	100.00%
Laboratório Alvaro S.A.	100.00%	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%	—	—

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; and
- c. Identification of minority interests in the consolidated financial statements.

4. Marketable securities

	2007	2006	2005
Marketable securities	104,118	353,715	64,443
Classified as current assets	(23,398)	(325,490)	(48,171)
Classified as noncurrent assets	<u>80,720</u>	<u>28,225</u>	<u>16,272</u>

The marketable securities classified as current assets as of December 31, 2007 are fixed income funds bearing average interest rates of 99.9% of CDI (inter-bank) (99.8% and 101.1% of CDI at December, 31 2006 and 2005, respectively).

Long-term marketable securities in the amount of R\$ 80,720 (R\$ 28,225 and R\$ 16,272 on December 31, 2006 and 2005, respectively) in the consolidated figures, earn interest at an average rate of 100.8% of the CDI rate on December 31, 2007 (99.9% of CDI on December 31, 2006 and 2005) of which R\$ 48,771 (R\$ 27,796 and R\$ 16,272 on December 31, 2006 and 2005 respectively) serve as collateral for payments of obligations assumed in connection with the acquisition of a number of laboratories (Note 16), and R\$ 31,470 on December 31, 2007 guarantee the payments of the 2nd to the 8th installments of the acquisition price of CientíficaLab (Note 8a).

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(in thousands of Reais)

An amount of R\$ 479 on December 31, 2007 (R\$ 429 on December 31, 2006) relates to investment funds in the form of CDBs (Bank certificate of depositary) in Banco do Nordeste do Brasil S.A., this amount is from the subsidiary Image Memorial S.A. and bears interest at a rate of 100.0% of CDI to guarantee a commercial bank note classified under Bank loans and financing (Note 12).

5. Trade accounts receivable

	2007	2006	2005
Current assets			
Trade notes receivable:			
Not due	115,474	77,830	57,662
Overdue	104,992	95,962	90,640
	220,466	173,792	148,302
Other accounts receivable:			
Checks in collection	1,722	1,063	1,208
Credit cards	3,853	2,730	2,213
Returned checks	3,806	3,449	2,086
	9,381	7,242	5,507
Less:			
Provision for disallowances and for doubtful accounts	(20,883)	(39,480)	(35,346)
Provision for losses from returned checks	(3,689)	(2,939)	(2,058)
	205,275	138,615	116,405

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, contribute to the average recovery period for payments being different from the periods defined in the contracts.

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

All overdue receivables up to 360 days are in collection proceedings or under negotiation, Management does not expect significant losses, and 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 31, 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 and R\$ 23,000 in 2005), 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.

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Notes to the consolidated financial statements—(Continued)

(in thousands of Reais)

6. Inventories

	<u>2007</u>	<u>2006</u>	<u>2005</u>
National clinical analysis and diagnostic imaging materials	19,385	11,437	11,748
Imported clinical analysis and diagnostic imaging materials	7,241	3,951	4,821
National secondary clinical analysis and diagnostic imaging materials	3,227	3,335	—
Consumption material	2,471	1,819	1,669
Inventories held by third parties	1,914	1,013	399
Provision for obsolescence	<u>(763)</u>	<u>(838)</u>	<u>(476)</u>
	<u>33,475</u>	<u>20,717</u>	<u>18,161</u>

7. Recoverable and deferred taxes

a. Recoverable taxes

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Withholding income tax (IRRF)	5,473	6,255	4,166
Income tax recoverable	7,523	1,253	2,231
Social contribution recoverable	6,167	3,732	4,142
COFINS (Tax for social security financing) and PIS (Social integration program) tax withheld	7,377	5,033	5,611
Others	<u>1,982</u>	<u>476</u>	<u>103</u>
Classified as current assets	<u>28,522</u>	<u>16,749</u>	<u>16,253</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, in 2007 the Company based on its profitability history and expectation of generating future taxable income based on a technical viability study approved by management, recognized tax credits on income tax loss carry-forwards and the accumulated negative basis 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.

In 2007, 2006 and 2005, the Company and its subsidiaries had tax losses carryforwards, negative basis of social contribution and temporary differences at the balance sheet date. In 2006 and 2005 the Company did not and in 2007, 2006 and 2005 its subsidiaries did not meet the conditions included in CVM Instruction 371 to record deferred tax assets, including presentation of taxable income in three of the last five years.

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(in thousands of Reais)

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

	<u>2007</u>	<u>2006</u>	<u>2005</u>
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	15,089	—	—
	<u>57,850</u>	<u>—</u>	<u>—</u>
Classified as current assets	<u>(9,321)</u>	<u>—</u>	<u>—</u>
Classified as noncurrent assets	<u>48,529</u>	<u>—</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.

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

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(in thousands of Reais)

8. Investments

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Goodwill from acquired shares:			
Laboratório Frischmann Aisengart S.A.	31,843	31,843	26,873
Image Memorial S.A.	31,638	31,638	30,926
Laboratório Alvaro S.A.	32,694	28,811	25,127
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.	46,623	—	—
CientíficaLab Produtos Laboratoriais e Sistemas Ltda.	80,107	—	—
Med Imagem Ultra-Sonografia e Radiologia Ltda.	40,760	—	—
	<u>316,664</u>	<u>145,291</u>	<u>82,926</u>
Accumulated amortization			
Laboratório Frischmann Aisengart S.A.	(14,970)	(8,602)	(2,615)
Image Memorial S.A.	(13,948)	(7,620)	(1,263)
Laboratório Alvaro S.A.	(11,139)	(5,161)	(135)
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.	(2,717)	—	—
	<u>(69,339)</u>	<u>(24,456)</u>	<u>(4,013)</u>
Others	117	25	23
	<u>247,442</u>	<u>120,860</u>	<u>78,936</u>

Frischmann—On July 05, the Company acquired 21,371,573 ordinary shares of Laboratório Frischmann Aisengart S.A., located in Curitiba (Paraná), for R\$ 30,000 representing 92.92% of the 23,000,000 shares which make up its capital, being R\$ 27,000 paid in cash on July 06, 2005 and R\$ 3,000 retained in a deposit account for up to 6 years. From this acquisition, the Company calculated goodwill in the amount of R\$ 26,873.

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

Image—On October 17, 2005, the Company acquired all the quotas of Image Memorial S.A. Empreendimentos e Participações Hospitalares, located in Salvador (Bahia), for the amount of R\$ 33,237, being R\$ 21,000 paid in cash on October 17, 2005 and R\$ 8,050 retained in a deposit account for up to 6 years. The remaining R\$ 4,187 was paid on February 15, 2006. From this acquisition the Company calculated goodwill in the amount of R\$ 31,638.

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Notes to the consolidated financial statements—(Continued)

(in thousands of Reais)

Alvaro—On December 21, 2005, the Company acquired all the shares of Laboratório Alvaro S.A., located in Cascavel (Paraná), for the amount of R\$ 25,675 corresponding to the fixed part of the acquisition price, being R\$ 24,375 paid in cash on December 21, 2005 and R\$ 1,300 retained in a deposit account for up to 6 years. From this acquisition, the Company calculated goodwill in the amount of R\$ 25,127. In addition to the fixed payment for the acquisition, the Company has a commitment to make a variable payment as part of the acquisition price, to the previous shareholders of Laboratório Alvaro S.A. to be paid annually, as from 2006, for three consecutive years. On December 2006 and 2007, the Company recorded R\$ 3,683 and R\$ 3,883 respectively, as additional installment of the purchase price of Laboratório Álvaro S.A., as part of the contingent payment provided in the purchase agreement entered into between the Company and the former shareholders. In 2008, additional contingent payments may be paid based on achievement of certain goals.

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

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

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

Atalaia—On October 26, 2006, the Company acquired all the quotas representing the capital of Laboratório Atalaia Ltda., for the amount of R\$25,000, of which R\$22,500 was paid in cash and R\$2,500 is held in an escrow account for up to 6 years from the closing date of December 31, 2006, to cover possible contingencies arising out in the future. In this acquisition, the Company recorded goodwill of R\$28,329.

Exame—On May 24, 2007, the Company acquired 6,370,374 quotas, representing 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 was R\$ 56,000, of which R\$ 46,286 was 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 the 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. In this acquisition, the Company recorded goodwill of R\$ 46,623. The acquisition of Exame was submitted to the approval of Conselho Administrativo de Defesa Econômica (CADE).

CientificaLab—On July 19, 2007 the Company acquired 11 million quotas representing 100% of the capital stock of CientificaLab, 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

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(in thousands of Reais)

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 installment 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 has gathered 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. The transaction was approved at a Company Board of Directors meeting held on July 19, 2007. In this acquisition, the Company recorded goodwill of R\$ 80,107. The acquisition of CientíficaLab 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, representing 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 was 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 is withheld in an escrow account for six years. Med Imagem is the largest imaging company in Niterói (RJ), founded in 1992 and with eight units, of which six are in Niterói, one in São Gonçalo, and one in Copacabana (RJ). The transaction was approved at a Company Board of Directors meeting held on August 29, 2007. In this acquisition, the Company recorded goodwill of R\$ 40,760. The acquisition of Med Imagem was submitted to the approval of Conselho Administrativo de Defesa Econômica (CADE).

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(in thousands of Reais)

9. Property, plant, equipment and intangible assets

	Average depreciation	2007			2006	2005
	rate % p.a.	Cost	Accumulated Depreciation	Net	Net	Net
Property, plant and equipment						
Buildings	4	12,879	(1,160)	11,719	11,002	609
Leasehold improvements	12	190,511	(96,823)	93,688	69,953	68,223
Machinery and equipment	10	324,395	(114,734)	209,661	139,606	93,512
Furniture and fixture	10	33,622	(14,412)	19,210	14,298	13,044
Facilities	10	5,294	(3,227)	2,067	1,235	1,323
IT equipment	20	48,089	(25,459)	22,630	14,788	11,904
Vehicles	20	5,495	(1,907)	3,588	1,455	503
Library	10	118	(62)	56	57	98
Land		1,685	—	1,685	1,685	2,550
Other fixed assets		—	—	—	—	125
Construction in process		39,777	—	39,777	21,974	12,542
		<u>661,865</u>	<u>(257,784)</u>	<u>404,081</u>	<u>276,053</u>	<u>204,433</u>
Intangible assets						
Software	20	39,550	(17,201)	22,349	13,349	9,318
Commercial rights of use	20	137	(18)	119	—	—
Trademarks and patents		88	—	88	81	81
Telephone lines		—	—	—	11	9
		<u>39,775</u>	<u>(17,219)</u>	<u>22,556</u>	<u>13,441</u>	<u>9,408</u>
		<u>701,640</u>	<u>(275,003)</u>	<u>426,637</u>	<u>289,494</u>	<u>213,841</u>

Cost movement

	2005	Movement in the year				2006
		Additions	Write-offs	Transfers	Other(a)	
Property, plant and equipment						
Buildings	867	10,713	(646)	750	—	11,684
Leasehold improvements	123,103	21,012	—	(75)	(533)	143,507
Machinery and equipment	154,484	60,895	(2,985)	10,151	492	223,037
Furniture and fixture	21,564	3,850	(126)	218	19	25,525
Facilities	3,505	647	(344)	—	30	3,838
IT equipment	24,254	9,782	(364)	(303)	98	33,467
Vehicles	867	1,509	(66)	(14)	155	2,451
Library	145	7	—	—	(42)	110
Land	2,550	1,685	(1,800)	(750)	—	1,685
Construction in process	125	—	—	14	(139)	—
Buildings	12,542	14,675	(1,270)	(9,991)	6,018	21,974
	<u>344,006</u>	<u>124,775</u>	<u>(7,601)</u>	<u>—</u>	<u>6,098</u>	<u>467,278</u>
Intangible assets						
Software	17,703	5,280	(39)	—	2,424	25,368
Trademarks and patents	81	—	—	—	—	81
Telephone lines	9	11	(9)	—	—	11
	<u>17,793</u>	<u>5,291</u>	<u>(48)</u>	<u>—</u>	<u>2,424</u>	<u>25,460</u>
	<u>361,799</u>	<u>130,066</u>	<u>(7,649)</u>	<u>—</u>	<u>8,522</u>	<u>492,738</u>

Diagnósticos da América S.A.

Notes to the consolidated financial statements—(Continued)

(in thousands of Reais)

	2006	Movement in the year				2007
		Additions	Write-offs	Transfers	Other(a)	
Property, plant and 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
	<u>467,278</u>	<u>200,589</u>	<u>(4,239)</u>	<u>(2,004)</u>	<u>241</u>	<u>661,865</u>
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	11	—	(11)	—	—	—
	<u>25,460</u>	<u>12,352</u>	<u>(54)</u>	<u>2,004</u>	<u>13</u>	<u>39,775</u>
	<u>492,738</u>	<u>212,941</u>	<u>(4,293)</u>	<u>—</u>	<u>254</u>	<u>701,640</u>

(a) Other—relates to transfers of deferred pre-operating expenses.

10. Deferred charges

	End of amortization	Amortization rate % p.a.	2007			2006	2005
			Cost	Amortization	Net	Net	Net
Preoperating expenses:							
Implementation of new units		20	68,856	(27,922)	40,934	21,647	19,161
Acquisition of participation		20	18,469	(6,287)	12,182	9,106	6,018
Project Deployment System	Dec/10	20	9,043	(3,615)	5,428	7,236	8,985
Goodwill on merger of subsidiary:							
Lab.de Patologia Clínica Curitiba							
S/C	Jan/08	20	2,785	(2,739)	46	603	1,160
Centro Radiológico da Lagoa							
Ltda.	Nov/08	20	9,280	(7,579)	1,701	3,558	5,413
Elkis e Furlanetto C.D.A.C. Ltda . . .	May/09	20	21,130	(15,336)	5,794	10,020	14,246
Elkis e Furlanetto L.M. S/C Ltda. . . .	May/09	20	778	(564)	214	369	525
Lab. Pasteur Patologia Clínica S/S							
Ltda.	Apr/10	20	7,883	(4,318)	3,565	5,141	6,718
			<u>138,224</u>	<u>(68,360)</u>	<u>69,864</u>	<u>57,680</u>	<u>62,226</u>

Diagnósticos da América S.A.

Notes to the consolidated financial statements—(Continued)

(in thousands of Reais)

Cost movement

	2005	Movement in the year			2006
		Additions	Write-offs	Other(a)	
Preoperating expenses:					
Implementation of new units	36,079	16,819	—	(8,522)	44,376
Acquisition of participation	6,694	5,228	—	—	11,922
Project Deployment System	8,985	58	—	—	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.	7,883	—	—	—	7,883
	<u>93,614</u>	<u>22,105</u>	<u>—</u>	<u>(8,522)</u>	<u>107,197</u>

	2006	Movement in the year			2007
		Additions	Write-offs	Other(a)	
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.	7,883	—	—	—	7,883
	<u>107,197</u>	<u>31,735</u>	<u>(454)</u>	<u>(254)</u>	<u>138,224</u>

(a) Other—relates to transfers of tangible and intangible fixed assets.

11. Accounts payable to suppliers

	2007	2006	2005
Domestic suppliers	47,370	29,735	23,670
Foreign suppliers	5,420	4,303	3,312
	<u>52,790</u>	<u>34,038</u>	<u>26,982</u>

The balance of foreign suppliers of US\$3,060 thousand (US\$2,013 and US\$1,415 thousand at December 31, 2006 and 2005, respectively) refers to the purchase of imported materials used in clinical exams.

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Notes to the consolidated financial statements—(Continued)

(in thousands of Reais)

12. Loans and financing

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Local currency			
Loans guaranteed accounts	22,684	20,974	18,707
Bank loans	65,756	14,054	48,077
Leasing under local currency agreements	12,764	5,133	4,096
Foreign currency			
Bank loans	8,708	14,403	23,342
Financing of equipment	20,344	33,492	47,842
Leasing of imported equipment	68,022	44,598	11,297
Other	—	—	323
	<u>198,278</u>	<u>132,654</u>	<u>153,684</u>
Portion to amortize in the short term classified in current liabilities	<u>(97,968)</u>	<u>(59,210)</u>	<u>(75,385)</u>
Noncurrent liabilities	<u>100,310</u>	<u>73,444</u>	<u>78,299</u>

The bank loan and financing agreements do not have any restrictive covenants.

<u>Description</u>	<u>Banks</u>	<u>Value In Reais</u>	<u>Final</u>	<u>Average interest rate</u>	<u>Guarantors</u>
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	Other	2,542	2010	1.6% p.m.	(2)
		<u>65,756</u>			
Leasing	Other	12,764	2011	CDI + 1.5% p.a.	—

<u>Description</u>	<u>Financial institutions/ Suppliers</u>	<u>Value in US\$</u>	<u>Value In Reais</u>	<u>Swap</u>	<u>Total In Reais</u>	<u>Final</u>	<u>Average interest rate</u>	<u>Guarantors</u>
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 the Company (bonds and surety), especially in agreements to acquire diagnostic imaging equipment, bank financing and real estate leases, the company is seeking to

Diagnósticos da América S.A.

Notes to the consolidated financial statements—(Continued)

(in thousands of Reais)

replace the guarantees that were provided by the merged subsidiaries with guarantees from the Company's subsidiary DASA Real Estate Empreendimentos Imobiliários Ltda.

- (2) DASA Real Estate Empreendimentos Imobiliários Ltda.
- (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:

<u>Year at Maturity</u>	<u>Amount</u>
2009	38,498
2010	27,409
2011	10,525
2012	8,718
2013	6,933
2014	3,432
	<u>95,515</u>
“Swap”(a)	<u>4,795</u>
	<u><u>100,310</u></u>

- (a) Company has invested cash (assets) in swap transactions in Reais in order to protect its exposure to 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 (R\$ 24,328 and R\$ 37,983 for December 31, 2006 and 2005, respectively) nominal value and resulted in accrued losses in the amount of R\$ 4,795 (R\$ 10,640 and R\$ 14,532 for December 31, 2006 and 2005, respectively).

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

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

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Notes to the consolidated financial statements—(Continued)

(in thousands of Reais)

Laboratório Atalaia Ltda.	Unibanco S.A.	360
Exame Laboratórios de Patologia Clínica Ltda.	Banco do Brasil S.A.	51
CientíficaLab Produtos Lab. e Sistemas Ltda.	Banco Alfa S.A.	5,065
	Banco Bradesco S.A.	4,800
	Banco Itaú S.A.	1,000
	Unibanco S.A.	15
		<u>40,071</u>

13. Debentures

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Non-convertible debentures	202,500	202,500	—
Compensation interest	5,511	6,557	—
	<u>208,011</u>	<u>209,057</u>	—
Portion to amortize in the short term classified in current liabilities	(5,511)	(6,557)	—
Noncurrent liabilities	<u>202,500</u>	<u>202,500</u>	—

In a Board of Directors' Meeting held on April 7, 2006, the Board approved 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 R\$ 202,500, was approved with the date of issuance at April 1, 2006. The maturity of the debentures is five years, from the date of issuance, with compensation interest of 103.6% per year of the DI rate. The payment of the compensation interest is semi-annual, to be held always on the first day of April and October, and the debit from the bank account of the Company occurs one day prior to the due date.

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

<u>Maturity date:</u>	<u>Amount</u> <u>(R\$)</u>
April 01, 2009	67,500
April 01, 2010	67,500
April 01, 2011	67,500
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 balance sheet, the Company was in compliance with these covenants.

Additional debentures may be issued pursuant to the same contract no later than two years following the filling of the debentures with the CVM in an aggregate amount, together with the debentures outstanding, not exceed R\$ 400.0 million.

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Notes to the consolidated financial statements—(Continued)

(in thousands of Reais)

14. Salaries, social security charges and provision for vacation payable

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Salaries payable	5,844	4,047	3,058
Social security charges payable	5,846	4,350	3,503
Provision for vacation, 13th salary and social security charges	18,834	13,406	11,614
Provision for the profit sharing and equity income	4,176	4,037	2,448
Others	849	218	553
	<u>35,549</u>	<u>26,058</u>	<u>21,176</u>

15. Payment of tax in installments

	<u>End of amortization</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
PPI—REFIS Municipal(a)	2011	3,484	3,957	4,715
PAES Program(b)	2013	8,983	8,024	8,707
COFINS (tax for social security financing)(c)	2010	1,122	1,583	1,921
PIS (social integration program)(c)	2008	286	415	184
INSS (Brazilian National Institute of Social Security)(c)	2009	1,901	3,633	5,461
ISS(c)	2007	11	11	480
INSS (Brazilian National Institute of Social Security)—Vita(d) . . .	2018	1,072	1,536	—
PIS (social integration program) /COFINS (tax for social security financing)—Vita(d)	2018	1,210	1,326	—
ISS—Vita(d)	2009	147	252	—
ISS—Atalaia(e)	2018	1,405	1,550	—
PAES Program—INSS ((Brazilian National Institute of Social Security)(f)	2013	1,799	—	—
Others		441	219	474
		<u>21,861</u>	<u>22,506</u>	<u>21,942</u>
Short-term unamortized installment classified in				
Current Liabilities		<u>(6,778)</u>	<u>(5,532)</u>	<u>(5,558)</u>
Noncurrent liabilities		<u>15,083</u>	<u>16,974</u>	<u>16,384</u>

(a) On August 29, 2006, the Company joined the PPI -Installment Incentive Program, created by the government of the city of São Paulo, with the enactment of Law no. 14,129 dated January 11, 2006, regulated by Decree no. 47,165 dated April 6, 2006. The tax debts which were part of the Tax Recovery Program- REFIS, created by Law no. 13,092 dated December 7, 2000, adhered to by the Company on January 26, 2001, were included in the PPI. The debt amount included in the PPI program shall be amortized in 60 monthly installments and accrues 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.

(b) On July 29, 2003, the Company adhered to the PAES program (Law 10,684), declaring tax debts related to PIS and COFINS which were being discussed judicially. The consolidated amount of the debt is divided into 120 monthly installments and updated using the long-term interest rate (TJLP). Payment of these installments extends to June 2013, considering that the Company does not make any payment based

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on gross revenue neither has utilized such tax credits to amortize fines and interest. The tax debt included 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 (Note 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 subsidiary companies, incorporated at August 1, 2005, which have been formalized with the competent government agencies.
- (d) **INSS**—Installment program created by Provisional Measure (MP) 303: In September 2006, the Company adhered to the installment program created by Provisional Measure no. 303 of June 29, 2003, stating the debts to the Brazilian Social Security system (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 debts 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 Provisional Measure (MP) 303:

In September 2006, the Company adhered to the installment program created by Provisional Measure no. 303 of June 29, 2006, declaring debts 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 debts 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 using the TJLP rate, totaling R\$ 610 at December 31, 2007.

ISS

In 2006, the Company scheduled ISS debts with the Municipality of Florianópolis, resulting in 3 (three) proceedings, stated as follows: (i) Proceeding no.005407/06 of July 7, 2006, to be paid according to a 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, to be paid according to a 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, to be paid according to a 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 using the TJLP rate, totaling R\$ 1,405 December 31, 2007; the amortizations shall be made until 2018.
- (f) In May, 2003, Laboratório Exame adhered to the PAES program (Law n° 10,684), declaring tax debts related to INSS. The consolidated amount of the debt is divided into 120 monthly installments and updated using the long-term interest rate (TJLP). Amortizations will occur until June 2013, and the Company does not make the payment based on gross revenue, and neither used nor uses tax credits for the amortization of fines and interest.

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Notes to the consolidated financial statements—(Continued)

(in thousands of Reais)

16. Accounts payable from acquisition of subsidiaries

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Bio-Ciência Lavoisier de Análises Clínicas S.A.(a)	1,787	1,643	3,581
Laboratório Bronstein S.A.(b)	1,758	7,042	6,294
Lâmina—Laboratório de Análises Médicas e Investigações			
Anátomo-Patológicas S.A.(c)	—	5,431	7,005
Laboratório de Patologia Clínica			
Curitiba S/C Ltda.(d)	456	423	406
Centro Radiológico da Lagoa (CRL) e			
Presmedi Rio Serviços Médicos Ltda.(e)	64	341	328
Elkis e Furlanetto C.D.A.C. Ltda.(f)	7,822	7,773	7,305
Laboratório Pasteur Patologia Clínica S/S Ltda.(g)	453	626	1,741
Laboratório Frischmann Aisengart S.A.(h)	2,986	3,210	3,206
Image Memorial S.A.(i)	9,227	8,320	12,238
Laboratório Alvaro S.A.(j)	5,454	5,155	1,304
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	—
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 Ltda.(q)	3,147	—	—
Med Imagem Ultra-Sonografia e Radiologia Ltda.(r)	14,860	—	—
	<u>60,318</u>	<u>49,321</u>	<u>43,408</u>
Installments to amortize in the short term classified under			
the current liabilities	<u>(9,688)</u>	<u>(18,107)</u>	<u>(8,704)</u>
Noncurrent liabilities	<u>50,630</u>	<u>31,214</u>	<u>34,704</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 debts are updated, and fall 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 the debit 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.

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- (e) **CRL and 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.
- (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 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 2007 the Company 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 Aisengart (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.
- (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 is R\$14,860, part of which 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 the 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.

Diagnósticos da América S.A.

Notes to the consolidated financial statements—(Continued)

(in thousands of Reais)

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

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

17. Other accounts payable

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Rentals	3,070	2,570	2,052
Third-party services	5,686	4,203	2,918
Provision for specialized medical services	2,498	777	3,009
Franchisee commission payable	434	632	518
Other accounts payable	5,543	5,075	2,232
	<u>17,231</u>	<u>13,257</u>	<u>10,729</u>

18. Provision for contingencies

	<u>2007</u>			<u>2006</u>	<u>2005</u>
	<u>Provision</u>	<u>Judicial deposit</u>	<u>Net</u>	<u>Net</u>	<u>Net</u>
(a) ICMS on imports	59,374	1,889	57,485	36,719	20,084
(b) Provision for labor contingencies	5,157	183	4,974	4,229	3,383
(c) Provision for civil contingencies	4,196	27	4,169	2,399	2,193
(d) Provision for tax contingencies	31,223	16,434	14,789	12,544	7,448
	<u>99,950</u>	<u>18,533</u>	<u>81,417</u>	<u>55,891</u>	<u>33,108</u>

(a) ICMS on imports

The Company, based on the opinion of its legal advisors, has not paid ICMS on the imports of goods inputs 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 transactions. For ICMS amounts to be paid on imports arising after the issuance of Complementary Law nº 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 is R\$ 59,374 (R\$ 37,578 and R\$ 21,302 on December 31, 2006 and 2005 respectively), with related judicial deposits in the amount of R\$ 1,889 at December 31, 2007 (R\$ 859 and R\$ 1,218 at December 31, 2006 and 2005 respectively). The amount of R\$ 22,458 (R\$ 11,193 and R\$ 2,334 on December 31, 2006 and 2005 respectively) 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

Diagnósticos da América S.A.

Notes to the consolidated financial statements—(Continued)

(in thousands of Reais)

advisors 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, provision was maintained.

(b) Provision for labor contingencies

At December 31, 2007, the Company is party of 266 labor lawsuits (211 and 174 on December 31, 2006 and 2005 respectively). Based on information provided by its legal advisors, the Company has recorded an amount of R\$ 5,157 (R\$ 4,285 and R\$ 3,566 on December 31, 2006 and 2005 respectively), and the Company does not expect any losses from lawsuits beyond amounts already recorded.

(c) Provision for civil contingencies

At December 31, 2007, the Company is party of 273 civil administrative and judicial lawsuits (228 and 157 on December 31, 2006 and 2005 respectively). Based on information provided by its legal advisors, the Company has recorded an amount of R\$ 4,196 (R\$ 2,414 and R\$ 2,205 on December 31, 2006 and 2005 respectively), and the Company does not expect any losses from lawsuits beyond amounts already recorded.

(d) Provision for tax contingencies

Provisions for tax contingencies relate to challenges for increases in rates that are the basis for calculation of taxes and alleged to be unconstitutional of the law. Such challenges relate basically to PIS, COFINS, INSS and FGTS contributions. Of the total amount of R\$ 31,223, R\$ 9,518 relate 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 and R\$ 14,297 on December 31, 2006 and 2005 respectively), and does not expect any losses beyond amounts already recorded.

Movement in provisions

	<u>2005</u>	<u>Movement in the period</u>				<u>2006</u>
	<u>Opening balance</u>	<u>Addition to provision</u>	<u>Utilization</u>	<u>Monetary restatement</u>	<u>Transfer(a)</u>	<u>Closing balance</u>
ICMS on imports	21.302	13.321	(359)	3.314	—	37.578
Provision for labor contingencies . . .	3.566	503	(144)	360	—	4.285
Provision for civil contingencies	2.205	97	(78)	190	—	2.414
Provision for tax contingencies	14.297	5.343	(795)	4.220	2.263	25.328
	<u>41.370</u>	<u>19.264</u>	<u>(1.376)</u>	<u>8.084</u>	<u>2.263</u>	<u>69.605</u>

(a) Transfer from acquisition of subsidiaries accounts payable of Lavoisier, related to debit tax notification released by Brazilian National Institute of Social Security (INSS). Company has made a judicial deposit for this operation.

Diagnósticos da América S.A.

Notes to the consolidated financial statements—(Continued)

(in thousands of Reais)

	<u>2006</u>	<u>Movement in the period</u>			<u>2007</u>
	<u>Opening balance</u>	<u>Addition to provision</u>	<u>Utilization</u>	<u>Monetary Restatement</u>	<u>Closing balance</u>
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	25,328	11,955	(8,149)	2,089	31,223
	<u>69,605</u>	<u>31,778</u>	<u>(9,063)</u>	<u>7,630</u>	<u>99,950</u>

19. Shareholders' equity

a. Capital

The Company's capital of R\$ 402,091 is represented by 57,402,935 (Fifty-Seven Million, Four Hundred and Two Thousand, Nine Hundred and Thirty-Five) common shares, all nominative, without certificate and with no par value, with the exclusion of rights 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.

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 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 the Company 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.

Diagnósticos da América S.A.

Notes to the consolidated financial statements—(Continued)

(in thousands of Reais)

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.

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

Dispersion share before restructuring approved at the corporate AGE from 06th July 2007

<u>Shareholders</u>	<u>Shares ON (Unit)</u>	<u>%</u>	<u>Total Shares (Unit)</u>	<u>%</u>
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%
	22.168.459	38,62%	22.168.459	38,62%
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

<u>Shareholders</u>	<u>Shares ON (Unit)</u>	<u>%</u>	<u>Total Shares (Unit)</u>	<u>%</u>
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>

b. Dividends

In accordance with the Company's By-laws, net income has the following destination: (i) 5% for the legal reserve up to the limit of 20% of share 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.

Diagnósticos da América S.A.

Notes to the consolidated financial statements—(Continued)

(in thousands of Reais)

The dividend 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	<u>53,790</u>
Dividends (25% minimum mandatory)	<u><u>13,447</u></u>

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 and R\$ 4,756 in 2005).

20. Income tax and social contribution

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

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Income before income and social contribution taxes	<u>29,001</u>	<u>35,966</u>	<u>20,667</u>
Combined statutory rates	34%	34%	34%
Income and social contribution taxes calculated at the statutory rates	(9,860)	(12,229)	(7,027)
Permanent (additions) exclusions, net	267	(840)	(2,648)
Temporary (additions) exclusions, net	(4,529)	(11,554)	(4,651)
Tax loss carryforward	290	4,428	3,909
Deferred tax initially recognized	37,685	—	—
Adjustment for tax calculated base on presumed profit	3,556	548	—
Other adjustments	<u>622</u>	<u>267</u>	<u>23</u>
Income and social contribution taxes of the year	<u><u>28,031</u></u>	<u><u>(19,380)</u></u>	<u><u>10,394</u></u>
Effective rate	<u><u>- 97%</u></u>	<u><u>54%</u></u>	<u><u>50%</u></u>

In 2007, 2006 and 2005, the Company and its subsidiaries had tax losses carryforward, negative basis of social contribution and temporary differences at the balance sheet date. In 2006 and 2005 the Company and in 2007, 2006 and 2005 its subsidiaries did not meet the conditions provided in CVM Instruction 371 to record deferred tax assets.

Diagnósticos da América S.A.

Notes to the consolidated financial statements—(Continued)

(in thousands of Reais)

21. General and administrative expenses

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Personnel expenses	70,986	52,326	41,024
Services and utilities	52,385	36,208	23,414
Depreciation	15,582	11,980	5,052
Taxes	2,132	1,084	2,293
Sundry provisions	5,531	8,463	4,393
Public offering expenses	—	14,875	942
Expenses with issuance of debentures	958	639	—
General expenses	24,013	25,486	11,615
	<u>171,587</u>	<u>151,061</u>	<u>88,733</u>

22. Tax loss carryforwards

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

Tax losses carryforwards	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.

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 that permit control over risks. Most contracts involving derivatives are “*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”. Changes in the assumptions may significantly affect the estimates presented.

The management of these instruments is undertaken through operating strategies, aimed at liquidity, profitability and security. The control policy includes monitoring the rates contracted versus those in force in the market. The Company does not invest in derivatives or any other risk assets on a speculative basis.

Diagnósticos da América S.A.

Notes to the consolidated financial statements—(Continued)

(in thousands of Reais)

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:

<u>Description</u>	<u>Book value</u>	<u>Market value</u>
Cash and cash equivalent	22,971	22,971
Marketable securities	23,398	23,398
Recoverable taxes	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>

b. Criteria, premises 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 securities, the market value was calculated based on the market quotations of these securities.

Recoverable taxes

Recoverable and deferred taxes are presented at book value, since there is no information to determine their market value.

Marketable securities

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 uses only derivative instruments aimed at protecting against foreign exchange variations and does not use derivatives for speculative purposes.

Diagnósticos da América S.A.

Notes to the consolidated financial statements—(Continued)

(in thousands of Reais)

Limitations

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

c. Exchange rate risk

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

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 up to 66.3% of the aggregate principal amount outstanding. For indebtedness related to leases 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.

<u>Liabilities</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
Bank loans	8,708	14,403	23,342
Equipment suppliers	20,344	33,492	47,842
Leasing of imported equipment	68,022	44,598	11,297
Foreign suppliers	5,420	4,303	3,312
	<u>102,494</u>	<u>96,796</u>	<u>85,793</u>

24. Insurance coverage

The Company has a 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 earnings (R\$ 9,500), torts (R\$ 1,000), torts of Officers and Administrators (R\$ 20,000), windstorm and smoke (R\$ 1,500), and electrical damages (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.

25. Related party transactions

Our By-laws require related party transactions to be performed in arms-length basis. Additionally, any transaction or transactions 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.

Diagnósticos da América S.A.

Notes to the consolidated financial statements—(Continued)

(in thousands of Reais)

During the year ended at December 31, 2007, 2006 and 2005, the Company maintained transactions in the context of its regular business with related parties, as follows (consolidated):

	2007		
	Expenses	Permanent assets	Prepaid expenses
Terra Molhada Participações Ltda.(a)	3,602	—	—
Parkbem Multiserviços S/C Ltda.(b)	6,466	150	—
Patrimônio Investimentos e Participações Ltda.(c)	179	—	—
RMA Construtora Ltda.(d)	3,631	10,709	—
Touch Tecnologia e Informática Ltda(e)	854	2,780	—
Pátria—Banco de Negócios Assessoria, Gestão e Participação Ltada(f)	447	4,071	—
Refazenda Participações Ltda.(g)	566	—	—
DA Produções Artísticas Ltda.(h)	36	—	12
Pátria Assessoria Financeira Ltda.(i)	1,514	—	—
	<u>17,295</u>	<u>17,710</u>	<u>12</u>
	2006		
	Expenses	Permanent assets	Prepaid expenses
Terra Molhada Participações Ltda.(a)	3,599	—	—
Parkbem Multiserviços S/C Ltda.(b)	6,687	83	—
Patrimônio Investimentos e Participações Ltda.(c)	439	—	—
RMA Construtora Ltda.(d)	1,374	6,560	—
Touch Tecnologia e Informática Ltda(e)	—	2,737	—
Pátria—Banco de Negócios Assessoria, Gestão e Participação Ltada(f)	1,806	1,344	—
Refazenda Participações Ltda.(g)	452	830	—
DA Produções Artísticas Ltda.(h)	93	—	10
Pátria Assessoria Financeira Ltda.(i)	—	—	—
	<u>14,450</u>	<u>11,554</u>	<u>10</u>
	2005		
	Expenses	Permanent assets	
Terra Molhada Participações Ltda.(a)	3,355	—	
Parkbem Multiserviços S/C Ltda.(b)	6,093	39	
Patrimônio Investimentos e Participações Ltda.(c)	1,747	2,995	
RMA Construtora Ltda.(d)	1,791	3,719	
Touch Tecnologia e Informática Ltda(e)	—	1,984	
	<u>12,986</u>	<u>8,737</u>	

(a) Terra Molhada Participações Ltda.

The Company leases three real estate properties (central laboratory and headquarters and service units on Av. Brasil and Rua Baluarte, in São Paulo) from Terra Molhada Participações Ltda., controlled by Renato Magnanini Auriemo, Ricardo Magnanini Auriemo, Adriana Auriemo Miglorancia and Guilherme Magnanini Auriemo, sons and daughter of Dr. Caio Roberto Chimenti Auriemo, Chairman of the Board

Diagnósticos da América S.A.

Notes to the consolidated financial statements—(Continued)

(in thousands of Reais)

of Directors of the Company and controlling shareholder of Balu 460 Participações S.A., which controls DASA Participações S.A., holder of general control of the Company. The lease agreements related to the three properties were renewed in May 2004 for an additional period of 10 years.

(b) Parkbem Multiserviços S/C Ltda.

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

(c) Patrimônio Investimentos e Participações Ltda.

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

(d) RMA Construtora Ltda.

Construction company owned by Renato Magnanini Auriemo, Dr. Caio Auriemo's 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's son, provides software development services.

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

Fund management Company, 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 Dr. Caio Auriemo (and, prior to the Company's 2007 corporate restructuring, controlled by Balu 460 Participações S.A., which controlled DASA Participações S.A., which in 2006 was the 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.

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.

Diagnósticos da América S.A.

Notes to the consolidated financial statements—(Continued)

(in thousands of Reais)

26. Leases

Local currency lease

The Company is a lessee of data processing equipment (*hardware*) machinery and equipment with a purchase option, totaling a payable balance until 2011 and an outstanding amount of R\$ 12,764, of which R\$ 5,595 is classified under current liabilities and R\$ 7,169 in the non-current liabilities. The average term of the agreements is 36 months and interest rates bearing from CDI rate plus 1.59 % per annum to CDI rate plus 3.20 % per annum.

The accounts payable related to leasing contracts matures as follows:

2008	5,595
2009	4,793
2010 & 2011	<u>2,376</u>
	<u>12,764</u>

The equipment related to these contracts is recorded as property, plant and equipment as machinery and equipment, of which R\$ 15,180 is cost and R\$ 1,680 is 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. The payment term is 84 months, and the first installment must be paid six months after the date of the agreement, with the other installments payments to be paid on a quarterly and semi-annual basis. Quarterly and semi-annual installments set in U.S. Dollars are converted into Reais at the market price on the payment date, plus interest which varies from 7.20% per year to 8.35% per year, with a total payable balance through 2014 in the amount of R\$ 68,022, of which R\$ 14,873 is classified under the current liabilities and R\$ 53,149 under noncurrent liabilities.

The accounts payable related to leasing matures as follows:

	<u>Consolidated</u>
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 is recorded as property , plant and equipment, as machinery and equipment of which R\$91,315 is cost and R\$ 7,888 is accumulated depreciation.

Diagnósticos da América S.A.

Notes to the consolidated financial statements—(Continued)

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

Diagnósticos da América S.A.
Consolidated balance sheets
March 31, 2008 and December 31, 2007
(in thousand of Reais)

	<u>03/31/2008</u>	<u>12/31/2007</u>
Assets		
Current assets		
Cash and cash equivalents	16,181	26,196
Marketable securities	32,718	20,173
Trade accounts receivable, net	221,678	205,275
Inventories	31,708	33,475
Recoverable and deferred taxes	44,832	37,843
Other accounts receivable	8,398	11,132
Prepaid expenses	4,369	1,678
	<u>359,884</u>	<u>335,772</u>
Noncurrent assets		
Noncurrent assets		
Marketable securities	82,645	80,720
Deferred taxes	55,211	48,529
Prepaid expenses	2,009	2,249
Judicial deposits	7,514	7,243
	<u>147,379</u>	<u>138,741</u>
Permanent assets		
Investments	231,432	247,442
Property, plant, equipment and intangible assets, net	454,168	426,637
Deferred charges	63,151	69,864
	<u>748,751</u>	<u>743,943</u>
	<u>1,256,014</u>	<u>1,218,456</u>
Liabilities and shareholders' equity		
Current liabilities		
Accounts payable to suppliers	41,421	52,790
Loans and financing	102,233	97,968
Taxes and contributions payable	12,606	9,899
Income tax and social contribution	13,760	6,587
Salaries, social security charges and vacation payable	40,657	35,549
Payment of taxes in installments	5,807	6,778
Accounts payable from acquisition of subsidiaries	10,788	9,688
Debentures	—	5,511
Dividends payable	13,447	13,447
Other accounts payable	21,372	17,231
	<u>262,091</u>	<u>255,448</u>
Noncurrent liabilities		
Noncurrent liabilities		
Loans and financing	117,564	100,310
Payment of taxes in installments	14,159	15,083
Provision for contingencies	86,367	81,417
Accounts payable from acquisition of subsidiaries	51,651	50,630
Debentures	202,500	202,500
	<u>472,241</u>	<u>449,940</u>
Minority interests	1,049	688
Shareholders' equity		
Capital	402,091	402,091
Capital reserves	65,427	65,427
Profit reserve	2,942	2,942
Retained earnings	50,173	41,920
	<u>520,633</u>	<u>512,380</u>
	<u>1,256,014</u>	<u>1,218,456</u>

See accompanying notes to quarterly financial information.

Diagnósticos da América S.A.
Consolidated statements of income
Three-month period ended March 31, 2008 and 2007
(in thousand of Reais)

	<u>03/31/2008</u>	<u>03/31/2007</u>
Gross revenue	280,055	206,201
Deductions from gross revenue		
Sales taxes	(16,889)	(11,553)
Discounts	(6,418)	(5,750)
	<u>(23,307)</u>	<u>(17,303)</u>
Net operating revenues	256,748	188,898
Cost of services provided	(170,859)	(124,368)
Gross profit	<u>85,889</u>	<u>64,530</u>
Other operating income (expenses)		
General and administratives	(43,407)	(36,918)
Financial expenses	(16,656)	(15,008)
Financial income	5,590	12,595
Goodwill amortization	(18,012)	(9,408)
Other operating income	697	293
	<u>(71,788)</u>	<u>(48,446)</u>
Operating income	14,101	16,084
Non-operating loss	(1,756)	(535)
Income before income taxes	12,345	15,549
Income and social contribution expense	(3,731)	33,439
Net income before minority interests	8,614	48,988
Minority interest	(361)	—
Net income for the period	<u>8,253</u>	<u>48,988</u>
Net income per share—R\$	0.14	0.85
Number of shares at the end of the period	57,402,935	57,402,935

See accompanying notes to quarterly financial information.

Diagnósticos da América S.A.
Consolidated statements of cash flows
Three-month period ended March 31, 2008 and 2007
(In thousand of Reais)

	<u>03/31/2008</u>	<u>03/31/2007</u>
Cash flows from operating activities:		
Net income for the period	8,253	48,988
Adjustments to reconcile net income to cash provided by operating activities		
Depreciation and amortization	22,293	15,525
Amortization of goodwill	18,012	9,408
Loss on disposal of permanent assets	2,081	1,568
Interest and unrealized exchange rates	3,793	1,300
Interest on debentures	5,557	6,559
Deferred income taxes	(5,671)	(47,530)
Minority interest	361	—
Decrease (increase) in operating assets		
Trade accounts receivable	(16,403)	(14,489)
Inventories	1,767	(279)
Other current assets	(7,957)	(7,851)
Other noncurrent assets	(1,955)	(2,074)
Increase (decrease) in operating liabilities		
Account payable to suppliers	(11,369)	(6,560)
Accounts payable and provisions	12,085	2,258
Income tax and social contribution	7,173	5,800
Others noncurrent liabilities	5,046	12,862
Net cash provided by operating activities	<u>43,066</u>	<u>25,485</u>
Cash flows from investing activities:		
Acquisition to property, plant, equipment and intangible assets	(40,357)	(30,914)
Additions in investments	(2)	—
Additions in deferred charges	(6,835)	(3,512)
Net cash used in investing activities	<u>(47,194)</u>	<u>(34,426)</u>
Cash flow from financing activities		
Interest paid on loans—debentures	(11,068)	(13,115)
Proceeds from loans and financing	76,440	33,029
Principal payments on loans	(55,552)	(44,285)
Interest paid on loans	(3,162)	(2,376)
Net cash provided from (used in) financing activities	<u>6,658</u>	<u>(26,747)</u>
Net increase (decrease) in cash and cash equivalents		
Cash and cash equivalents at beginning of period	46,369	332,662
Cash and cash equivalents at end of period	48,899	296,974
Net increase (decrease) in cash and cash equivalents	<u>2,530</u>	<u>(35,688)</u>

See the accompanying notes to the quarterly financial information.

Diagnósticos da América S.A.

Notes to the consolidated quarterly financial statements

Periods ended March 31, 2008 and 2007

(in thousands of Reais)

1. Operational

The Company is a public corporation with its registration granted by the Brazilian Securities Exchange Commission—CVM on November 5, 2004, and has been listed on 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, and through contracted laboratories; (ii) diagnostic medicine, through specialized clinics, including in the following areas: 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; and (iii) environmental analysis, genetically modified organisms and toxicological analysis. The acquisition of Laboratório Alvaro S.A. in December, 2005 allowed the Company to enter the lab to lab business (support laboratories), and the acquisition of CientíficaLab Produtos Laboratoriais e Sistemas Ltda. in July of 2007 allowed the Company to begin to offer services in the public health sector. The Company may also invest in other entities. The Company ended the year with 297 operational units(*):

<u>Brands</u>	<u>Locality</u>	<u>03/31/08</u>	<u>12/31/07</u>	<u>03/31/07</u>
Delboni Auriemo	São Paulo	36	35	32
Lavoisier	São Paulo	64	64	60
Bronstein	Rio de Janeiro	44	44	40
Lâmina	Rio de Janeiro	17	17	16
Santa Casa	Paraná	8	8	8
Pasteur	Brasília	23	23	16
Frischmann	Paraná	28	28	25
Image	Bahia	2	2	2
Laboratório Álvaro	Paraná	15	15	14
LabPasteur	Ceará	18	18	17
MedLabor	Brasília, Tocantins e Goiás	2	2	9
Vita	Santa Catarina	1	1	2
Atalaia	Goiás	14	14	12
Exame	Brasília	17	17	—
MedImagem	Rio de Janeiro	8	8	—
		<u>297</u>	<u>296</u>	<u>253</u>

On March 31, 2008, the Club DA brand had 21 units, with 18 units annexed to the Delboni Auriemo brand and 3 units under the Lâmina brand(*).

CientíficaLab operates in the public healthcare segment, its major source of revenue being customer contracts in the public healthcare sector. This operation is analyzed by management in terms of the number of customers assisted instead of the number of operating units.

CientíficaLab, the leading privately-owned service provider in the public healthcare sector, served 36 clients when it was acquired and now has 47 clients, 39 of which are medium sized (up to 150,000 tests processed per month) and 8 of which are large (over 150,000 tests processed per month) (*).

(*) All non-financial data are not part of the auditors' review of the quarterly information.

Diagnósticos da América S.A.

Notes to the consolidated quarterly financial statements—(Continued)

(in thousands of Reais)

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, CientíficaLab 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;
- Inpatient: refers to patient service, test collection, local collection for emergency tests, transport and central processing for the other exams.

2. Presentation of quarterly financial information

The consolidated quarterly financial information were prepared in accordance with accounting practices derived from the Brazilian Corporation Law and the rules of the Brazilian Securities Commission (CVM).

Description of significant accounting policies

a. Statement of income

Income and expenses are recognized on an accrual basis.

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

b. Accounting estimates

The preparation of the quarterly financial information 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 and 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 in 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 (U.S. Dollar) were translated into Brazilian Reais at the foreign exchange rate of R\$ 1,7491 in the closeout date and the differences resulting from the currency conversion were recognized in the balance sheet date.

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 (note nº 12).

• **Marketable securities**

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

Diagnósticos da América S.A.

Notes to the consolidated quarterly financial statements—(Continued)

(in thousands of Reais)

- **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 average cost, not exceeding the market value. Inventories are used in the performance of clinical and imaging exams and for diagnostics by imaging. An 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.

e. *Permanent*

- **Investments**

The investments in subsidiaries are evaluated by the patrimonial equivalence 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. Amortization of goodwill is being recorded using the straight-line method at rates calculated based on the projections over a period which does not exceed ten years and which is reviewed annually.

- **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. Plant and equipment held under capital leases are stated at the present value of minimum lease payments upon inception of the corresponding lease agreement. Leasehold improvements are amortized over the lower of the remaining lease term or the useful life of the improvement. Plant and equipment held under capital leases are amortized on a straight-line basis over the shorter of the lease term or estimated useful life of the asset.

- **Deferred charges**

Pre-operating expenses refer to expenditures relating to the establishment of new facilities and the acquisition of businesses, with the amortization period varying between five and ten years. The goodwill calculated from the mergers of acquired companies is supported by future profitability of operations undertaken by the subsidiaries acquired in accordance with profitability forecasts prepared by Management projected over 5 years.

f. *Current and noncurrent liabilities*

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

Diagnósticos da América S.A.

Notes to the consolidated quarterly financial statements—(Continued)

(in thousands of Reais)

g. Provision for contingencies

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

h. Deferred income tax and social contribution

Income and social contribution taxes for 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\$ 60 for income tax and 9% on the taxable income for social contribution on net income, and consider the offsetting of tax loss carryforwards and negative basis of social contribution tax, limited to 30% of the taxable income, with the exception of the DASA Real Estate Empreendimentos Imobiliários Ltda., which opted for collecting income taxes based on presumed profits.

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 Quarterly Financial Information

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

	<u>% of interest</u>	
	<u>03/31/08</u>	<u>12/31/07</u>
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 Ltda.—LabPasteur	99.99%	99.99%
DASA Real Estate Empreendimentos Imobiliários Ltda.	99.99%	99.99%
Laboratório Imuno Ltda.—MedLabor	99.99%	99.99%
Clínica Médica Vita S.A.	100.00%	100.00%
Laboratório Atalaia Ltda.	99.99%	99.99%
Exame Laboratórios de Patologia Clínica Ltda.	85.71%	85.71%
CientíficaLab Produtos Laboratoriais e Sistemas Ltda.	99.99%	100.00%
Med Imagem Ultra-Sonografia e Radiologia Ltda.	99.99%	100.00%
DASA Finance Corporation	100.00%	—

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; and
- c.** Identification of minority interests in the consolidated quarterly financial information.

Diagnósticos da América S.A.

Notes to the consolidated quarterly financial statements—(Continued)

(in thousands of Reais)

4. Marketable securities

	<u>03/31/08</u>	<u>12/31/07</u>
Marketable securities	115,363	104,118
Classified as current assets	<u>(32,718)</u>	<u>(23,398)</u>
Classified as noncurrent assets	<u>82,645</u>	<u>80,720</u>

The marketable securities classified as current assets as of March 31, 2008 are fixed income funds bearing average interest rates of 100.6% of CDI (inter-bank) (99.9% of CDI on December 31, 2007).

Long-term marketable securities in the amount of R\$ 82,645 (R\$ 80,720 on December 31, 2007) in the consolidated figures, earn interest at an average rate of 100.8% of the CDI rate on March 31, 2008 (100.8% of CDI on December 31, 2007) of which R\$ 49,855 (R\$ 48,771 on December 31, 2007) serve as collateral for payments of obligations assumed in connection with the acquisition of a number of laboratories (Note n° 16), and R\$ 32,299 (R\$ 31,470 on December 31, 2007) guarantee the payments of the 2nd to the 8th installments of the acquisition price of CientificaLab (Note n° 8a).

An amount of R\$ 491 on March 31, 2008 (R\$ 479 on December 31, 2007) relates to investment funds in the form of CDBs (Certificate of Banking Deposit) in Banco do Nordeste do Brasil S.A., this amount is from the subsidiary Image Memorial S.A. and bears interest at a rate of 100% of CDI to guarantee a commercial bank note classified under Bank loans and financing (Note n°12).

5. Trade accounts receivable

	<u>03/31/08</u>	<u>12/31/07</u>
Current assets		
Trade notes receivable:		
Not due	138,064	115,474
Overdue	<u>97,493</u>	<u>104,992</u>
	235,557	220,466
Other accounts receivable:		
Checks in collection	2,857	1,722
Credit cards	4,523	3,853
Returned checks	<u>3,711</u>	<u>3,806</u>
	11,091	9,381
Less:		
Provision for disallowances and for doubtful accounts	(21,259)	(20,883)
Provision for losses from returned checks	<u>(3,711)</u>	<u>(3,689)</u>
	<u>221,678</u>	<u>205,275</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, contribute to the average recovery period for payments being different from the periods defined in the contracts.

Diagnósticos da América S.A.

Notes to the consolidated quarterly financial statements—(Continued)

(in thousands of Reais)

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.

All overdue receivables up to 360 days are in collection proceedings or under negotiation, Management does not expect significant losses, and 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 litigious process of collection.

On March 31, 2008 the balances for more than 360 days in arrears, net of an allowance for doubtful accounts, approximate to R\$ 13,000 (R\$ 14,000 in 2007), of which R\$ 9,300 (R\$ 5,000 on December 31, 2007) 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

	<u>03/31/08</u>	<u>12/31/07</u>
National clinical analysis and diagnostic imaging materials	16,360	19,385
Imported clinical analysis and diagnostic imaging materials	8,148	7,241
National secondary clinical analysis and diagnostic imaging materials	4,001	3,227
Consumption material	2,606	2,471
Inventories held by third parties	1,634	1,914
Provision for obsolescence	<u>(1,041)</u>	<u>(763)</u>
	<u>31,708</u>	<u>33,475</u>

7. Recoverable and deferred taxes

a. Recoverable taxes

	<u>03/31/08</u>	<u>12/31/07</u>
Withholding income tax (IRRF)	2,149	5,473
Income tax recoverable	14,423	7,523
Social contribution recoverable	8,683	6,167
COFINS (Tax for social security financing) and PIS (Social integration program) tax withheld	7,884	7,377
Others	<u>3,382</u>	<u>1,982</u>
Classified as current assets	<u>36,521</u>	<u>28,522</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.

Diagnósticos da América S.A.

Notes to the consolidated quarterly financial statements—(Continued)

(in thousands of Reais)

In accordance with CVM Instruction 371, the Company based on its profitability history and in the expectation of generating future taxable income based on a technical viability study approved by management, recognized tax credits on income tax loss carry-forwards and the accumulated negative basis 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.

In March 31, 2008 and December 31, 2007, the Company and its subsidiaries had tax loss carry-forwards, negative basis of social contributions differences in the balance sheet date. In March 31, 2008 and December 31, 2007 its subsidiaries did not meet the conditions included in CVM Instruction 371 to record deferred tax assets, including presentation of taxable income in three of the last five years.

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

	<u>03/31/08</u>	<u>12/31/07</u>
Tax loss carryforward and negative basis	3,898	4,803
Provision for disallowances and for doubtful accounts	6,446	6,500
Obsolete items—Inventories	239	220
Goodwill amortization	34,456	29,351
Provision for specialized medical services	974	444
Other provisions	1,525	1,443
Provision for contingencies	15,984	15,089
	<u>63,522</u>	<u>57,850</u>
Classified as current assets	<u>(8,311)</u>	<u>(9,321)</u>
Classified as noncurrent assets	<u>55,211</u>	<u>48,529</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.

2008	8,310
2009	5,651
2010	3,909
2011	7,105
2012 to 2014	20,415
2015 to 2016	18,132
	<u>63,522</u>

Diagnósticos da América S.A.

Notes to the consolidated quarterly financial statements—(Continued)

(in thousands of Reais)

8. Investments

	<u>03/31/08</u>	<u>12/31/07</u>
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.	32,694	32,694
Laboratório Louis Pasteur Patologia Clínica 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.	46,623	46,623
CientíficaLab Produtos Laboratoriais e Sistemas Ltda.	80,107	80,107
Med Imagem Ultra-Sonografia e Radiologia Ltda.	40,760	40,760
	<u>316,664</u>	<u>316,664</u>
Accumulated amortization		
Laboratório Frischmann Aisengart S.A.	(16,562)	(14,970)
Image Memorial S.A.	(15,530)	(13,948)
Laboratório Alvaro S.A.	(12,952)	(11,139)
Laboratório Louis Pasteur Patologia Clínica Ltda.—LabPasteur	(4,878)	(4,181)
Laboratório Imuno Ltda.—MedLabor	(1,989)	(1,690)
Clínica Médica Vita S.A.	(1,430)	(1,192)
Laboratório Atalaia Ltda.	(8,026)	(6,610)
Exame Laboratórios de Patologia Clínica Ltda.	(8,548)	(6,216)
CientíficaLab Produtos Laboratoriais e Sistemas Ltda.	(10,681)	(6,676)
Med Imagem Ultra-Sonografia e Radiologia Ltda.	(4,755)	(2,717)
	<u>(85,351)</u>	<u>(69,339)</u>
Others	<u>119</u>	<u>117</u>
	<u>231,432</u>	<u>247,442</u>

Establishment of a subsidiary company in the period

In a meeting held on February 20, 2008 by the Board of Directors, it was approved the establishment of a wholly owned subsidiary abroad named DASA Finance Corporation. The corporate purpose of this company will be the performance of any activities allowed by Cayman Islands' rules, including financial operations.

Diagnósticos da América S.A.

Notes to the consolidated quarterly financial statements—(Continued)

(in thousands of Reais)

9. Property, plant, equipment and intangible assets

	Average depreciation rate % p.a.	03/31/08			12/31/07
		Cost	Accumulated Depreciation	Net	Net
Property, plant and equipment					
Buildings	4	12,879	(1,287)	11,592	11,719
Leasehold improvements	12	210,722	(104,084)	106,638	93,688
Machinery and equipment	10	333,043	(119,428)	213,615	209,661
Furniture and Fixture	10	35,376	(15,180)	20,196	19,210
Facilities	10	5,209	(3,313)	1,896	2,067
IT equipment	20	48,997	(26,653)	22,344	22,630
Vehicles	20	5,799	(2,118)	3,681	3,588
Library	10	121	(64)	57	56
Land		1,685	—	1,685	1,685
Construction in process		49,490	—	49,490	39,777
		<u>703,321</u>	<u>(272,127)</u>	<u>431,194</u>	<u>404,081</u>
Intangible assets					
Software	20	41,552	(18,781)	22,771	22,349
Commercial rights of use	20	137	(25)	112	119
Trademarks and patents		91	—	91	88
		<u>41,780</u>	<u>(18,806)</u>	<u>22,974</u>	<u>22,556</u>
		<u>745,101</u>	<u>(290,933)</u>	<u>454,168</u>	<u>426,637</u>

Cost Movement

	12/31/07	Movement in the period				03/31/08
		Additions	Write-offs	Transfers	Other(a)	
Property, plant and equipment						
Buildings	12,879	—	—	—	—	12,879
Leasehold improvements	190,511	5,696	—	6,120	8,395	210,722
Machinery and equipment	324,395	11,082	(4,457)	1,844	179	333,043
Furniture and fixture	33,622	674	(7)	1,022	65	35,376
Facilities	5,294	140	—	(225)	—	5,209
IT equipment	48,089	1,086	(670)	492	—	48,997
Vehicles	5,495	397	(93)	—	—	5,799
Library	118	3	—	—	—	121
Land	1,685	—	—	—	—	1,685
Construction in process	39,777	19,420	(15)	(9,685)	(7)	49,490
	<u>661,865</u>	<u>38,498</u>	<u>(5,242)</u>	<u>(432)</u>	<u>8,632</u>	<u>703,321</u>
Intangible						
Software	39,550	1,856	(286)	432	—	41,552
Commercial rights of use	137	—	—	—	—	137
Trademarks and patents	88	3	—	—	—	91
	<u>39,775</u>	<u>1,859</u>	<u>(286)</u>	<u>432</u>	<u>—</u>	<u>41,780</u>
	<u>701,640</u>	<u>40,357</u>	<u>(5,528)</u>	<u>—</u>	<u>8,632</u>	<u>745,101</u>

(a) Other—relates to transfers of deferred pre-operating expenses.

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Notes to the consolidated quarterly financial statements—(Continued)

(in thousands of Reais)

10. Deferred charges

	End of Amortization	Amortization Rate % p.a.	03/31/08		12/31/07	
			Cost	Accumulated Amortization	Net	Net
Pre-operating expenses:						
Implementation of new units		20	65,725	(29,418)	36,307	40,934
Acquisition of participation		20	19,802	(7,255)	12,547	12,182
Project Deployment System	Dec/10	20	9,043	(4,066)	4,977	5,428
Goodwill on merger of subsidiary:						
Lab. de Patologia Clínica Curitiba						
S/C	Jan/08	20	2,785	(2,785)	—	46
Centro Radiológico da Lagoa						
Ltda.	Nov/08	20	9,280	(8,043)	1,237	1,701
Elkis e Furlanetto C.D.A.C. Ltda.	May/09	20	21,130	(16,393)	4,737	5,794
Elkis e Furlanetto L.M. S/C Ltda.	May/09	20	778	(603)	175	214
Lab. Pasteur Patologia Clínica S/S						
Ltda.	Apr/10	20	7,883	(4,712)	3,171	3,565
			<u>136,426</u>	<u>(73,275)</u>	<u>63,151</u>	<u>69,864</u>

Cost movement

	12/31/07	Movement in the period			03/31/08
		Additions	Write-offs	Other(a)	
Pre-operating expenses:					
Implementation of new units	68,856	5,501	—	(8,632)	65,725
Acquisition of participation	18,469	1,333	—	—	19,802
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.	7,883	—	—	—	7,883
	<u>138,224</u>	<u>6,834</u>	<u>—</u>	<u>(8,632)</u>	<u>136,426</u>

(a) Other—relates to transfers of tangible and intangible fixed assets.

11. Accounts payable to suppliers

	03/31/08	12/31/07
Domestic suppliers	37,499	47,370
Foreign suppliers	3,922	5,420
	<u>41,421</u>	<u>52,790</u>

The balance of foreign suppliers of US\$ 2,242 thousand (US\$ 3,060 thousand on December 31, 2007) refers to the purchase of imported materials used in clinical exams.

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Notes to the consolidated quarterly financial statements—(Continued)

(in thousands of Reais)

12. Loans and financing

	<u>03/31/08</u>	<u>12/31/07</u>
Local currency		
Loans guaranteed accounts	34,935	22,684
Bank loans	71,559	65,756
Leasing under local currency agreements	16,003	12,764
Foreign Currency		
Bank loans	8,945	8,708
Financing of equipment	17,482	20,344
Leasing of imported equipment	70,873	68,022
	<u>219,797</u>	<u>198,278</u>
Portion to amortize in the short term classified in current liabilities	<u>(102,233)</u>	<u>(97,968)</u>
Noncurrent liabilities	<u>117,564</u>	<u>100,310</u>

The loan and financing agreements do not have any restrictive covenants.

<u>Description</u>	<u>Banks</u>	<u>Value in Reais</u>	<u>Final</u>	<u>Average interest rate</u>	<u>Guarantors</u>			
Local currency								
Guaranteed accounts	Other	34,935	—	105.0% of CDI	(2)			
Bank loans	Banco Votorantin S.A.	7,858	2009	110.9% of CDI	(3)			
Bank loans	Banco Safra S.A.	11,647	2008	105.0% of CDI	(3)			
Bank loans	Banco do Brasil S.A.	36,134	2010	105.0% of CDI	(2)			
Bank loans	HSBC Bank Brasil S.A.	15,294	2010	105.6% of CDI	(3)			
Bank loans	Various	626	2010	1.6% per month	(2)			
		<u>71,559</u>						
Leasing	Other	16,003	2011	CDI + 1.5% a.a.				
Foreign currency								
Bank loans ..	Banco Itaú—BBA	2,228	3,897	5,048	8,945	2009	VC+13.06% per month	(3)
Equipment suppliers ..	G.E.	5,196	9,089	8,393	17,482	2011	VC+7.5% to 8.5% per month	(1)
Leasing	G.E. Siemens, Philips and Oni Medical	40,520	70,873	—	70,873	2014	VC+7.20% to 9% per month	(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 in a meeting of shareholders held on July 6th, 2007, which provided fidejussory guarantees in financial transactions involving the Company (bonds and surety), especially in agreements to acquire diagnostic imaging equipment, banking financing and real estate leases, the company is seeking to replace the guarantees that were provided by the merged subsidiaries with guarantees from the Company's subsidiary DASA Real Estate Empreendimentos Imobiliários Ltda.

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Notes to the consolidated quarterly financial statements—(Continued)

(in thousands of Reais)

- (2) DASA Real Estate Empreendimentos Imobiliários Ltda.
- (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:

<u>Year of Maturity</u>	<u>Amount</u>
2009	45,263
2010	34,055
2011	11,968
2012	9,567
2013	7,883
2014	4,169
2015	358
	<u>113,263</u>
“Swap”(a)	4,301
	<u><u>117,564</u></u>

- (a) In order to protect its exposure to liabilities indexed in foreign currencies, the Company has contracted “swap” transactions in Reais, for the same amounts and maturities. On March 31, 2008, these derivative transactions provided cover for the R\$ 11,426 nominal value and resulted in accrued losses in the amount of R\$ 4,301.

The company granted guarantees on behalf of its subsidiaries as follows:

Laboratório Frischmann Aisengart S.A.	Banco Alfa S.A.	3,245
	Banco Bradesco S.A.	1,500
	Banco HSBC Bank Brasil	4,367
Image Memorial S.A.	Banco Alfa S.A.	2,810
	Banco Bradesco S.A.	1,000
	Banco do Brasil S.A.	2,067
	Banco Itaú S.A.	2,000
Laboratório Alvaro S.A.	Banco Alfa S.A.	1,334
	Banco do Brasil S.A.	350
	Banco Itaú S.A.	2,300
	Unibanco S.A.	682
Laboratório Louis Pasteur Patologia Clínica Ltda.— LabPasteur	Banco Alfa S.A.	311
	Banco Bradesco S.A.	500
Laboratório Imuno Ltda.—MedLabor	Banco Bradesco S.A.	1,500
Clínica Médica Vita S.A.	Banco Alfa S.A.	3,618
	Banco Bradesco S.A.	1,500
	Banco Itaú S.A.	1,500
Laboratório Atalaia Ltda.	Unibanco S.A.	360

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Notes to the consolidated quarterly financial statements—(Continued)

(in thousands of Reais)

Exame Laboratórios de Patologia Clínica Ltda.	Banco do Brasil S.A.	51
CientíficaLab Produtos Lab. e Sistemas Ltda.	Banco Alfa S.A.	7,235
	Banco Bradesco S.A.	8,000
	Banco Itaú S.A.	3,000
	Unibanco S.A.	15
Med Imagem Ultra-Sonografia e Radiologia Ltda. . . .	Unibanco S.A.	291
		<u>49,536</u>

13. Debentures

	<u>03/31/08</u>	<u>12/31/07</u>
Non-convertible debentures	202,500	202,500
Compensation interest	—	5,511
	<u>202,500</u>	<u>208,011</u>
Portion to amortize in the short term classified in current liabilities	—	(5,511)
Noncurrent liabilities	<u>202,500</u>	<u>202,500</u>

In a Board of Directors' Meeting held on April 7, 2006, the Board approved 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, totalizing R\$ 202,500, was approved with the date of issuance on April 1, 2006. The maturity of the debentures is five years, from the date of issuance, with compensation interest of 103.6% per year of the DI rate. The payment of compensation interest is semi-annual, to be held always on the first day of April and October, and the debit from the bank account of the Company occurs one day prior to the due date.

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

<u>Maturity date:</u>	<u>Amount (R\$)</u>
April 01, 2009	67,500
April 01, 2010	67,500
April 01, 2011	67,500
Total	<u>202,500</u>

The debentures have covenants setting forth maximum levels of indebtedness and leverage, based on quarterly consolidated information. At the end of the quarter, the Company was in compliance with these covenants.

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Notes to the consolidated quarterly financial statements—(Continued)

(in thousands of Reais)

14. Salaries, social securities charges and provision for vacation payable

	<u>03/31/08</u>	<u>12/31/07</u>
Salaries payable	6,982	5,844
Social Security charges payable	5,725	5,846
Provisions for vacation, 13th salary and social security charges	22,102	18,834
Provision for the profit sharing and equity income	4,344	4,176
Others	<u>1,504</u>	<u>849</u>
	<u>40,657</u>	<u>35,549</u>

15. Payment of taxes in installments

	<u>End of amortization</u>	<u>03/31/08</u>	<u>12/31/07</u>
PPI—REFIS Municipal(a)	2011	3,259	3,484
PAES Program(b)	2013	8,167	8,983
COFINS—tax for social security financing(c)	2010	990	1,122
PIS (social integration program)(c)	2008	250	286
INSS (Brazilian National Institute of Social Security)(c)	2009	1,525	1,901
ISS(c)	2007	11	11
INSS—(Brazilian National Institute of Social Security) Vita(d) ...	2018	1,043	1,072
PIS (Social Integration Program) /COFINS (Tax for Social Security Financing)—Vita(d)	2018	1,169	1,210
ISS—Vita(d)	2009	120	147
ISS—Atalaia(e)	2018	1,368	1,405
PAES Program—INSS (Brazilian National Institute of Social Security)—Exame(f)	2013	1,743	1,799
Others		<u>321</u>	<u>441</u>
		19,966	21,861
Short-term unamortized installment classified in current liabilities		<u>(5,807)</u>	<u>(6,778)</u>
Noncurrent liabilities		<u>14,159</u>	<u>15,083</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 n° 14,129 dated on January 11, 2006, regulated by Decree n° 47,165 dated on April 6, 2006. The tax debts which were part of the Tax Recovery Program (REFIS), created by Law n° 13,092 dated on December 7, 2000, adhered to by the Company on January 26, 2001, were included in the PPI program. The debt amount included in the PPI program shall be amortized in 60 monthly installments, and accrues interest at the SELIC rate. The amortizations shall take place up to August 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.

(b) On July 29, 2003, the Company adhered to the PAES program (Law 10,684), declaring tax debts related to PIS and COFINS which were being discussed judicially. The consolidated amount of the debt is divided into 120 monthly installments and updated using 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

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(in thousands of Reais)

tax debt included 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 (Note 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 subsidiary companies, incorporated at August 1, 2005, which have been formalized with the competent government agencies.
- (d) **INSS**—Installment program created by Provisional Measure (MP) 303: In September 2006, the subsidiary Vita adhered to the installment program created by Provisional Measure no. 303 of June 29, 2003, declaring debts to the Brazilian Social Security system (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\$ 314 on March 31, 2008 and the debts 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\$ 729 on March 31, 2008.

PIS/COFINS Installment program created by Provisional Measure (MP) 303:

In September 2006, the subsidiary Vita adhered to the installment program created by Provisional Measure no. 303 of June 29, 2006, declaring debts 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\$ 584 on March 31, 2008 and the debts 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 using the TJLP rate, totaling R\$ 585 on March 31, 2008.

ISS

In 2006, the subsidiary Vita scheduled ISS debts with the Municipality of Florianópolis, resulting in 3 (three) proceedings, stated as follows: (i) Proceeding no.005407/06 of July 7, 2006, to be paid according to a schedule of 24 monthly installments with interest at 1% per month, totaling R\$ 4 on March 31, 2008; (ii) Proceeding no. 005408/06 of July 7, 2006, to be paid according to a schedule of 24 monthly installments with interest at 1% per month, totaling R\$ 3 on March 31, 2008; and (iii) Proceeding n° 009476/06 of August 24, 2006, to be paid according to a schedule of 36 monthly installments with interest at 1% per month, totaling R\$ 113 on March 31, 2008.

- (e) The subsidiary Atalaia 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 using the TJLP rate, totaling R\$ 1,368 on March 31, 2008, the amortizations shall be made until 2018.
- (f) In May, 2003, the subsidiary Exame adhered to the PAES program (Law n° 10684), declaring tax debts related to INSS. The consolidated amount of the debt is divided into 120 monthly installments and updated using the long-term interest rate (TJLP). Amortizations will occur until June 2013, and the Company does not make the payment based on gross revenue, and neither used nor uses tax credits for the amortization of fines and interest.

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Notes to the consolidated quarterly financial statements—(Continued)

(in thousands of Reais)

16. Accounts payable from acquisition of subsidiaries

	<u>03/31/08</u>	<u>12/31/07</u>
Bio-Ciência Lavoisier de Análises Clínicas S.A.(a)	1,817	1,787
Laboratório Bronstein S.A(b)	1,814	1,758
Laboratório de Patologia Clínica Curitiba S/C Ltda.(c)	466	456
Centro Radiológico da Lagoa (CRL) e Presmedi Rio Serviços Médicos Ltda.(d)	66	64
Elkis e Furlanetto C.D.A.C. Ltda.(e)	8,023	7,822
Laboratório Pasteur Patologia Clínica S/S Ltda.(f)	460	453
Laboratório Frischmann Aisengart S.A.(g)	3,049	2,986
Image Memorial S.A.(h)	9,421	9,227
Laboratório Alvaro S.A.(i)	6,351	5,454
Laboratório Frischmann Aisengart S.A. (Minority)(j)	2,047	2,108
Laboratório Louis Pasteur Patologia Clínica Ltda—LabPasteur(k)	4,027	3,925
Laboratório Imuno Ltda.—MedLabor(l)	789	769
Clínica Médica Vita S.A.(m)	679	662
Laboratório Atalaia Ltda.(n)	2,864	2,801
Exame Laboratórios de Patologia Clínica Ltda.(o)	2,092	2,039
CientíficaLab Produtos Laboratoriais e Sistemas Ltda.(p)	3,230	3,147
Med Imagem Ultra-Sonografia e Radiologia Ltda.(q)	15,244	14,860
	<u>62,439</u>	<u>60,318</u>
Installments to amortize in the short term classified under the current liabilities	(10,788)	(9,688)
Noncurrent liabilities	<u>51,651</u>	<u>50,630</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 debts are updated, and fall 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) **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.
- (d) **CRL and 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.
- (e) **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.

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Notes to the consolidated quarterly financial statements—(Continued)

(in thousands of Reais)

- (f) **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 the pre-acquisition period.
- (g) **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.
- (h) **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.
- (i) **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 2007 the Company calculated and recorded the contingent payment of the purchase price as mentioned in Note 8 (a). This portion will be settled in May 2008.
- (j) **Frischmann Aisengart (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.
- (k) **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.
- (l) **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.
- (m) **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.
- (n) **Atalaia**—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) **Exame**—Updated using the same rates of the investment funds, managed by financial institutions, as reported in Note 4 and will be liquidated in December 2012.
- (p) **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.
- (q) **MedImagem**—The total amount of debt is R\$14,860, part of which 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 the 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

With no maturity date—See Note 16 (a) and (b)	3,631
2009	251
2010	251
2011	22,301
2012	10,702
2013 to 2016	14,515
Total	51,651

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Notes to the consolidated quarterly financial statements—(Continued)

(in thousands of Reais)

17. Other accounts payable

	<u>03/31/08</u>	<u>12/31/07</u>
Rentals	3,698	3,070
Third-party services	5,880	5,686
Provision for specialized medical services	3,991	2,498
Franchisee commission payable	565	434
Other accounts payable	<u>7,238</u>	<u>5,543</u>
	<u>21,372</u>	<u>17,231</u>

18. Provision for contingencies

	<u>03/31/08</u>		<u>12/31/07</u>	
	<u>Provision</u>	<u>Judicial Deposit</u>	<u>Net</u>	<u>Net</u>
(a) ICMS on imports	63,630	(1,889)	61,741	57,485
(b) Provision for labor contingencies	4,979	(183)	4,796	4,974
(c) Provision for civil contingencies	4,245	(27)	4,218	4,169
(d) Provision for tax contingencies	<u>32,401</u>	<u>(16,789)</u>	<u>15,612</u>	<u>14,789</u>
	<u>105,255</u>	<u>(18,888)</u>	<u>86,367</u>	<u>81,417</u>

(a) ICMS on imports

The Company, based on the opinion of its legal advisors, has not paid ICMS on the imports of goods inputs 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 transactions. For ICMS amounts to be paid on imports arising after the issuance of Complementary Law n° 114, effective on December 16, 2002, external legal advisors believe that the chances of loss are probable. At March 31, 2008, amounts recorded regarding imports from January 1, 2003 onwards is R\$ 63,630 (R\$ 59,374 on December 31, 2007), with related judicial deposits in the amount of R\$ 1,889. The amount of R\$ 24,817 (R\$ 22,458 on December 31, 2007) 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 advisors of the Company consider 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, a provision was maintained.

(b) Provision for labor contingencies

At March 31, 2008, the Company is party of 265 labor lawsuits (266 on December 31, 2007). Based on information provided by its legal advisors, the Company has recorded an amount of R\$ 4,979 in the consolidated (R\$ 5,157 on December 31, 2007), and the Company does not expect any losses from lawsuits beyond amounts already recorded.

(c) Provision for civil contingencies

At March 31, 2008, the Company is part of 278 civil administrative and judicial lawsuits (273 on December 31, 2007). Based on information provided by its legal advisors, the Company has recorded an amount of R\$ 4,245 (R\$ 4,196 on December 31, 2007), and the Company does not expect any losses from lawsuits beyond amounts already recorded.

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Notes to the consolidated quarterly financial statements—(Continued)

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(d) Provision for tax contingencies

Provisions for tax contingencies relate to (i) challenges for increases in rates, (ii) basis for calculation of taxes and (iii) collection alleged to be unconstitutional of the law. Such challenges relate basically to PIS, COFINS, INSS and FGTS contributions. Of the total amount of R\$ 32,401, R\$ 12,359 relate to taxes and contributions challenged by the acquired companies. Management, based on legal advisors opinion, has recorded provisions in the amount of R\$ 32,401 (R\$ 31,223 on December 31, 2007), and does not expect any losses beyond amounts already recorded.

Movement in provisions

	<u>12/31/07</u>	<u>Movement in the period</u>			<u>03/31/08</u>
	<u>Opening balance</u>	<u>Addition to provision</u>	<u>Utilization</u>	<u>Monetary Restatement</u>	<u>Closing balance</u>
ICMS on imports	59,374	3,249	(183)	1,190	63,630
Provision for labor contingencies	5,157	—	(258)	80	4,979
Provision for civil contingencies	4,196	—	(3)	52	4,245
Provision for tax contingencies	<u>31,223</u>	<u>464</u>	<u>(9)</u>	<u>723</u>	<u>32,401</u>
	<u>99,950</u>	<u>3,713</u>	<u>(453)</u>	<u>2,045</u>	<u>105,255</u>

19. Shareholders' equity

a. Capital

The Company's capital of R\$ 402,091 is represented by 57,402,935 (Fifty-Seven Million, Four Hundred and Two Thousand, Nine Hundred and Thirty-Five) common shares, all nominative, without certificate and with no par value, with the exclusion of rights 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 consolidated quarterly financial statements—(Continued)

(in thousands of Reais)

b. Dividends

In accordance with the Company's By-laws, net income has the following destination: (i) 5% for the legal reserve up to the limit of 20% of share 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

At the Special and Annual General Meeting held on March 25, 2008, the destination of the result of the fiscal year 2007 in the amount of R\$ 13,447 was approved by unanimity. Therefore, the payment of dividends (in the amount of R\$ 0,2342668101 for each common share issued by the Company) shall be made on May 20, 2008.

c. Management remuneration

The management remuneration in the period was R\$ 2,428 (R\$ 1,332 in the 1st quarter, 2007).

20. Income tax and social contribution expense

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

	<u>03/31/08</u>	<u>03/31/07</u>
Income before income and social contribution taxes	12,345	15,549
Combined statutory rates	34%	34%
Income and social contribution taxes calculated at the statutory rates	(4,197)	(5,287)
Equivalent Net Worth	—	—
Permanent (additions), net	(195)	(87)
Temporary exclusions, net	542	—
Tax loss carryforward	86	—
Deferred Income tax initially recognized	—	38,603
Adjustment for tax calculated base on presumed profit	47	419
Other adjustments	<u>(14)</u>	<u>(209)</u>
Income and social contribution taxes	<u>(3,731)</u>	33,439
Effective rate	30%	-215%

21. General and administrative

	<u>03/31/08</u>	<u>03/31/07</u>
Personnel expenses	20,228	16,143
Services and utilities	10,798	11,381
Depreciation	4,893	3,041
Taxes	496	328
Sundry provisions	860	563
Expenses with issuance of debentures	240	240
General Expenses	<u>5,892</u>	<u>5,222</u>
	<u>43,407</u>	<u>36,918</u>

Diagnósticos da América S.A.

Notes to the consolidated quarterly financial statements—(Continued)

(in thousands of Reais)

22. Tax loss carryforwards

At March 31, 2008, the Company had tax loss carryforwards on the following base values:

Tax Loss Carryforwards	10,535
Negative social contribution base	14,051

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

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 that permit control over risks. Most contracts involving derivatives are “*swap*” transactions involving pre-fixed rates. The Company does not expect to have losses from these operations, besides those already disclosed in the quarterly information.

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

The management of these instruments is undertaken through operating strategies, aimed at liquidity, profitability and security. The control policy includes monitoring the rates contracted 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 quarterly information at March 31, 2008 are shown below:

<u>Description</u>	<u>Book Value</u>	<u>Market Value</u>
Cash and cash equivalent	16,181	16,181
Marketable securities	32,718	32,718
Recoverable taxes	44,832	44,832
Investments	231,313	231,313
Assets	<u>325,044</u>	<u>325,044</u>
Loans and financing:		
Local currency	122,497	122,497
Foreign currency	83,859	89,149
Derivatives (Swap)	13,441	13,006
Liabilities	<u>219,797</u>	<u>224,652</u>

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

Cash, banks and marketable securities

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

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Notes to the consolidated quarterly financial statements—(Continued)

(in thousands of Reais)

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

Recoverable taxes

Recoverable and deferred taxes are presented at book value, since there is no information to determine their market value.

Investments

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

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 uses only derivative instruments aimed at protecting against foreign exchange variations and does not use derivatives for speculative purposes.

Limitations

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

c. Exchange rate risk

The Company’s income is subject to significant variations, as liability is 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 up to 66.3% of the aggregated principal amount outstanding. For indebtedness related to leases 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.

<u>Liabilities</u>	<u>03/31/08</u>	<u>03/31/07</u>
Bank loans	8,945	8,708
Equipment suppliers	17,482	20,344
Leasing of imported equipment	70,873	68,022
Foreign suppliers	3,922	5,420
	<u>101,222</u>	<u>102,494</u>

Diagnósticos da América S.A.

Notes to the consolidated quarterly financial statements—(Continued)

(in thousands of Reais)

24. Insurance coverage

The Company has a 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 earnings (R\$ 9,500), torts (R\$ 1,000), torts of Officers and Administrators (R\$ 20,000), windstorm and smoke (R\$ 1,500), and electrical damages (1,500), for amounts considered sufficient to cover any losses.

The risk assumptions, due to their nature, are out of the scope of the auditors' review information, and therefore were not reviewed by our independent auditors.

25. Related party transactions

Our By-laws require related party transactions to be performed in arms-length basis. Additionally, any transaction or transactions 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 periods ended at March 31, 2008, 2007, the Company maintained transactions in the context of its regular business with related parties, as follows:

	03/31/2008	
	Expenses	Permanent Assets
Terra Molhada Participações Ltda.(a)	935	—
Parkbem Multiserviços S/C Ltda.(b)	1,614	29
RMA Construtora Ltda.(c)	903	2,055
Touch Tecnologia e Informática Ltda.(d)	235	645
Refazenda Participações Ltda.(f)	155	—
DA Produções Artísticas Ltda.(g)	51	—
Pátria Assessoria Financeira Ltda.(e)	127	—
Família Chimenti Auriemo(h)	34	—
	4,054	2,729
	03/31/2007	
	Expenses	Permanent Assets
Terra Molhada Participações Ltda.(a)	875	—
Parkbem Multiserviços S/C Ltda.(b)	1,649	25
RMA Construtora Ltda.(c)	339	1,932
Touch Tecnologia e Informática Ltda.(d)	341	637
Pátria—Banco de Negócios Assessoria, Gestão e Participação Ltda.(e)	194	—
Refazenda Participações Ltda.(f)	132	—
DA Produções Artísticas Ltda.(g)	36	—
Família Chimenti Auriemo(h)	32	—
	3,598	2,594

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Notes to the consolidated quarterly financial statements—(Continued)

(in thousands of Reais)

(a) Terra Molhada Participações Ltda.

The Company leases four real estate properties (central laboratory and headquarters of the Company in Barueri, service units at Av. Brasil 762 and Rua Cardoso de Melo, 214 in São Paulo and offices at Rua Cardoso de Melo, 221 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.

(b) Parkbem Multiserviços S/C Ltda.

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

(c) RMA Construtora Ltda.

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

(d) Touch Tecnologia e Informática Ltda.

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

(e) Pátria—Banco de Negócios Assessoria, Gestão e Participação Ltda.

Fund management Company, indirect shareholders of the Company, connected to Patrimônio Investimentos e Participações Ltda and to Pátria Assessoria Financeira Ltda, which provides financial consulting services for the assistance of the Company in mergers and acquisitions.

(f) Refazenda Participações Ltda.

Company that manages its own assets and business, controlled by Dr. Caio Auriemo (and, prior to the Company's 2007 corporate restructuring, controlled by Balu 460 Participações S.A., which controlled DASA Participações S.A., which in 2006 was the holder of general control of the Company).

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.

(g) 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 to infantile recreation.

(h) Família Chimenti Auriemo.

The Company leases a property of Auriemo's family, including 5% of the property of Dr. Caio Auriemo, located at Avenida Brigadeiro Luiz Antônio, 3717, in São Paulo city.

26. Leases

Local currency lease

The Company is a lessee of data processing equipment (*hardware*) machinery and equipment with a purchase option, totaling a payable balance until 2011 and an outstanding amount of R\$ 16,003, of which R\$ 7,209 is

Diagnósticos da América S.A.

Notes to the consolidated quarterly financial statements—(Continued)

(in thousands of Reais)

classified under current liabilities and R\$ 8,794 in the noncurrent liabilities. The average term of the agreements is 36 months and interest rates bearing from CDI rate plus 1.59 % per annum to CDI rate plus 3.20 % per annum.

The accounts payable related to leasing contracts matures as follows:

	<u>Amount</u>
2008	5,740
2009	6,389
2010 and 2011	3,874
	<u>16,003</u>

The equipment related to these contracts is recorded as property, plant and equipment as machinery and equipment, of which R\$ 16,951 is cost and R\$ 2,392 is 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. The payment term is 84 months, and the first installment must be paid six months after the date of the agreement, with the other installments payments to be paid on a quarterly and semi-annual basis. Quarterly and semi-annual installments set in U.S. Dollars are converted into Reais at the market price on the payment date, plus interest which varies from 7.20% per year to 8.35% per year, with a total payable balance through 2014 in the amount of R\$ 70,873, of which R\$ 14,889 is classified under the current liabilities and R\$ 55,984 under noncurrent liabilities.

The accounts payable related to leasing matures as follows:

	<u>Amount</u>
2008	12,242
2009	12,261
2010	13,235
2011	11,222
2012	9,503
2013	7,883
2014	4,169
2015	358
	<u>70,873</u>

The equipment related to these contracts is recorded as property, plant and equipment, as machinery and equipment of which R\$112,118 is cost and R\$ 16,395 is accumulated depreciation.

27. Changes in the Brazilian corporate law 6.404/76

On December 28, 2007, Law 11638 was enacted modifying Law 6404/76 in the chapter related to the disclosure and preparation of Financial Statements, which modifies, among other aspects, the recognition criteria and valuation of assets and liabilities. These changes in the accounting practices become effective as from the year begun January 1, 2008 and, taking into account the normal operations and businesses of the

Diagnósticos da América S.A.

Notes to the consolidated quarterly financial statements—(Continued)

(in thousands of Reais)

Company and its subsidiaries and CVM's instruction no. 469 of May 2, 2008, the ones we consider may have more effect on the Quarterly Information can be briefly summarized as follows:

- (i) long-term prefixed financial assets and liabilities can be adjusted at present value when these effects are significant. No significant effect is expected, though;
- (ii) assets acquired in the process of acquisition of companies' share control, between independent parties, start being valued at their fair value in the acquiring company. No operation was performed that fits this change. Future acquisitions will have to be recorded in accordance with this new criterion from now on;
- (iii) the equity in income of subsidiaries and associated companies will start being recorded according to the significant influence and in companies that are part of the same group or that are under the same parent company. None of the investments fits within this modification;
- (iv) financial leasing transactions will have to be recorded in the balance sheet. The Company records its financial leasing transactions in accordance with international rules.

The effects of the application of the new Law on the quarterly information of the Company and its subsidiaries were analyzed based on the prevailing regulatory law and rules on this date, and may be modified due to regulation to be issued by the competent agencies. Thus, as a new regulation determines the application of these new accounting practices, the Company will reevaluate the possible arising impacts.

28. Stock option plan

In an Extraordinary General Meeting held on March 25, the shareholders approved the Stock Option Plan for Diagnósticos da América management and employees. The effectiveness term of the plan is five (5) years as of its approval, as prior conditions announced to the shareholders. The granting date of options is in 2009. The information about the plan was announced to the market on 03/25/08 at the CVM website (www.cvm.gov.br).

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Annex A—Description of Certain Differences Between Brazilian GAAP and U.S. GAAP

Our financial statements for the years ended December 31, 2005, 2006 and 2007 and for the three months ended March 31, 2007 and 2008 included in this offering memorandum are prepared and presented in accordance with Brazilian GAAP, which differs in certain respects from U.S. GAAP. Set forth below is a brief discussion of certain differences between Brazilian GAAP and U.S. GAAP relevant to our financial information. This description is not an exhaustive or comprehensive discussion of these differences and does not identify all of the differences between Brazilian GAAP and U.S. GAAP. Investors should also consider the following in analyzing our financial statements and financial information included in this offering memorandum:

- the effect of future differences between Brazilian GAAP and U.S. GAAP as the result of prescribed changes in accounting standards on our financial statement presentation; and
- the effect of future differences between Brazilian GAAP and U.S. GAAP that may affect the financial statements as a result of transactions or events that may occur in the future.

In making an investment decision, you must rely upon your own examination of our company, the terms of the offering and the financial information included in this offering memorandum. Potential investors should consult their own advisors for an understanding of the differences between Brazilian GAAP and U.S. GAAP and how those differences might impact the financial information contained herein.

This description is subject to and qualified in its entirety by reference to the respective pronouncements of accounting professional bodies in Brazil and the United States. The matters described cannot necessarily be expected to reveal all differences between Brazilian GAAP and U.S. GAAP applicable to us.

Business combinations, purchase accounting and goodwill

Under Brazilian GAAP, accounting standards do not specifically address business combinations and purchase accounting. The purchase method is applied based on book values. Goodwill or negative goodwill on the acquisition of a company is computed as the difference between the cost of acquisition and its underlying book value. The excess of cost over the net book value of an acquired company is recorded as goodwill based on either a step-up in basis of the assets, future profitability or other factors, and the resulting goodwill is amortized depending on its nature. Normally the amortization is straight-line amortization between five and ten years.

For U.S. GAAP purposes, all business combinations, except those involving entities under common control, are accounted for using the purchase method. The combination of entities under common control is accounted for in a manner similar to a pooling of interest.

The purchase method is applicable for a business combination in which one company acquires an unrelated company. Under U.S. GAAP, the acquiring company records as its cost, the assets acquired less liabilities assumed. The acquired company's assets and liabilities are adjusted to give effect to their fair value. After the assets (including certain intangibles) and liabilities of the acquired companies are adjusted to their fair values at the acquisition date, if the purchase price exceeds the amount of such fair value, the excess is recorded as goodwill (an intangible asset) on the books of the acquiring company pursuant to detailed guidelines, and other intangible assets with indefinite lives are not amortized. The amount of goodwill is evaluated for impairment at least annually, and in the case of impairment, its recorded value is adjusted accordingly. If any balance remains, after noncurrent assets are reduced to zero, such remaining balance is recognized as an extraordinary gain in the statement of operations. Under the purchase method, the financial statements of the acquiring company for periods prior to the acquisition are not restated. U.S. GAAP requires the presentation of pro forma results of operations for the last full fiscal year and any interim period, generally until the results of operations have been reflected in the financial statements of the acquiring company for a full fiscal year.

Capitalization of interest related to construction in progress

Under Brazilian GAAP, companies are not required to capitalize the interest cost of borrowed funds as part of the cost of the related asset being constructed, as long as these interests are not directly financing the asset. Under U.S. GAAP, interest incurred on borrowings is capitalized to the extent that borrowings do not exceed construction in progress and is amortized over the estimated useful life of the related asset. The amount of interest capitalized excludes foreign exchange gains and losses on foreign currency borrowings and charges resulting from foreign currency derivatives contracts.

Share issuance costs

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

Transactions between entities under common control

Under Brazilian GAAP, transactions between entities under common control are recorded based on the values agreed between the parties, normally based on market value and are subject to disclosure as related parties transactions. Under U.S. GAAP, transactions between entities under common control are normally accounted for at the historical book values of the entities.

Financial derivative instruments

Under Brazilian GAAP any differential to be paid or received under financial derivative instruments 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, a company accounts for its derivative contracts in accordance with SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." SFAS No. 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 No. 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 No. 133 must be applied to (a) derivative instruments and (b) certain derivative instruments embedded in hybrid contracts.

Restatement of financial statements due to general price-level changes

Under Brazilian GAAP, because of the highly inflationary conditions that have prevailed in the past, a form of inflation accounting, referred to as monetary correction, has been in use for many years to minimize the impact of the distortions in financial statements caused by inflation. However, as from January 1, 1996, no inflation accounting adjustments are permitted for financial statements prepared under Brazilian GAAP. Under U.S. GAAP, in most cases, the price level restatement of financial statements is not permitted. However, for companies operating in hyper-inflationary environments in which inflation has exceeded 100% over the last three years and which report in local currency, restatements of financial statements for general price level changes is permitted. As from a date between July 1, 1997 and January 1, 1998, the Brazilian economy is no longer considered highly inflationary as the increase in the general price index was less than 100% over the past three years.

Capital leases

Under Brazilian GAAP, capital leases are usually recorded as expenses upon payment of each installment of the financing by the lessee, and the residual purchase price is capitalized. Neither the asset nor the liability is entirely recognized. Footnote disclosure is required for scheduled lease installments. Under U.S. GAAP, capital

leases are capitalized at the beginning of the lease term at fair value on that date, and a liability is recognized accordingly; interest must be recognized as financial expenses are incurred.

Organizational and start-up costs

Under Brazilian GAAP, organizational and start up costs may be recognized as assets under “Deferred charges” and deferred over the expected period of benefit, generally between five and ten years. Under U.S. GAAP, organizational and start-up costs are expensed as incurred, on an accrual basis.

Equity method of accounting

Under Brazilian GAAP, a company is required to record an original investment in the equity of another entity at cost, which is thereafter periodically adjusted to recognize the investor’s share of the investee’s earnings or losses after the date of original investment. A Brazilian parent company is required to use the equity method of accounting to record investments: (a) in its subsidiaries (companies that are controlled by the parent company) on its stand-alone financial statements, and (b) in its affiliates (companies in which the parent company owns at least 10.0% of the issued share capital without controlling it) over whose management it exerts influence or in which it owns 20.0% or more of the capital, if the aggregate book value of all such investments is equal to or greater than 15.0% of the shareholders’ equity of the parent company or if the book value of an investment in any single subsidiary or affiliate is equal to or greater than 10.0% of the shareholders’ equity of the parent company. Brazilian GAAP establishes certain factors that are indicative of the fact that the company exerts influence.

Under U.S. GAAP, the equity method of accounting is used for investments in which the company has an interest in voting stock that gives it the ability to exercise significant influence over operating and financial policies of an investee even though the investor holds 50.0% or less of the voting stock. There is a presumption that an investment (direct or indirect) of 20.0% or more of the voting stock of an investee indicates that the company exercises significant influence over the investee, and an investment of less than 20.0% of the voting stock indicates that the company does not have the ability to exercise such significant influence. If an investor does not exercise a significant influence, such investments are carried at cost and evaluated for impairment, except for securities accounted for under Statement of Financial Accounting Standards (“SFAS”) No. 115, “Accounting for certain investments in debt and equity securities.”

Cash equivalents

Cash equivalents are not defined under Brazilian GAAP. U.S. GAAP defines cash equivalents as short-term, highly liquid investments that are both readily convertible to known amounts of cash and so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. Generally, only investments with original maturities of three months or less qualify under that definition.

Investments in debt and equity securities

Under Brazilian GAAP, marketable debt and equity securities are generally stated at the lower of amortized cost (debt), cost (equity) or market value, for non-financial enterprises. Although not specifically established by Brazilian GAAP, allowances may be recorded to reflect risks that may affect the valuation of such securities such as the risk of future price fluctuation. Gains and losses are recognized in earnings. Additionally, certain specific investments, such as mutual fund investments, were carried at market value.

Under U.S. GAAP, accounting and reporting for investments in equity securities that have readily determinable fair values and for all investments in debt securities is as follows:

- debt securities that the enterprise has the intent and ability to hold to maturity are classified as “held-to-maturity” and reported at amortized cost;

- debt and equity securities that are bought and held principally for the purpose of selling them in the near term are classified as “trading securities” and reported at fair market value, with unrealized gains and losses included in income; and
- debt and equity securities not classified as either “held-to-maturity” or “trading securities” are classified as available-for-sale securities and reported at fair value, with unrealized gains and losses excluded from income and reported in a separate component of shareholders’ equity, net of tax effects, until realized.

Under U.S. GAAP, equity instruments for which sale is restricted by governmental or contractual requirements (restricted stock) are not considered to have readily determinable fair value, and therefore, are not subject to the provisions of SFAS No. 115.

Financial instruments and concentration of credit risk

Under Brazilian GAAP, there are detailed requirements regarding the disclosure of information on financial instruments not reflected on the balance sheet or on concentration of financial instruments with credit risk. CVM Instruction 235 requires disclosure of market value and carrying value for all financial instruments at each balance sheet date. Under U.S. GAAP, the applicable accounting practice for financial instruments depends on management’s intention for their disposition and may require adjustments to their market or fair values. In addition, U.S. GAAP requires more detailed disclosures. With certain exceptions, U.S. GAAP requires disclosure of the following in regard to financial instruments with off-balance-sheet risk as follows:

- the face value of the contract or the notional principal amount;
- the nature and terms, including (i) credit and market risk, (ii) cash requirements and (iii) applicable accounting policy; and
- the amount of loss, if any party to the financial instrument fails to perform, and the policy as to requiring collateral.

With respect to concentration of credit risk arising from all financial instruments, including accounts receivable, U.S. GAAP requires information about the activity, region or other characteristic that identifies the concentration, the amount of loss if parties to the concentrated risk fail to completely perform and the applicable policy relating to the posting of collateral. U.S. GAAP also requires disclosures of the amounts, nature and terms of derivative financial instruments that do not result in off-balance sheet risk of accounting loss. Derivative financial instruments include futures, forward, swap or option contracts. U.S. GAAP establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts (collectively referred to as derivatives) and for hedging activities. An entity must recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. If certain conditions are met, a derivative may be specifically designated as (a) a hedge of the exposure to changes in the fair value of a recognized asset or liability or an unrecognized firm commitment, (b) a hedge of the exposure to variable cash flows of a forecasted transaction, or (c) a hedge of the foreign currency exposure of a net investment in a foreign operation, an unrecognized firm commitment, and available-for-sale security, or a foreign-currency-denominated forecasted transaction. The accounting for changes in the fair value of a derivative (that is, gains and losses) depends on the intended use of the derivative and the resulting designation.

Income taxes

Under Brazilian GAAP, the methods adopted for the recording of income taxes are similar to U.S. GAAP, but their practical application may lead to different results in certain circumstances. The recognition of tax credits derived from temporary differences and tax losses is an area that requires, within Brazilian GAAP, considerable judgment. In general, tax credits are recognized when there is evidence of future realization in a continuous operation. Generally tax credits can be accounted only if (a) the loss has been caused by identified and unusual events and the probability of new and similar events is unlikely; (b) there is an expectation of generating taxable

income for subsequent periods, as well as generation of tax liabilities to permit the realization of tax credits, properly verified through a technical analysis, or (c) there are tax obligations accounted for as liabilities, up to the limit and corresponding to the same period, in order to apply the tax credit. Tax credit recognition rules prohibit keeping the tax credit whenever there has been a tax loss for the last three-year period or available evidence indicates that realization is unlikely. Also, some additional requirements should be met for a public company, such as (i) an additional supporting analysis to recognize deferred tax assets, (ii) a condition to the recognition of deferred tax assets that there be a history of profitability presenting taxable income in three out of five fiscal years (including the year being reported), (iii) a prohibition on the recognition of deferred tax assets if it is expected that they will be realized in more than ten years as from the reporting date.

Under U.S. GAAP, the liability method is used to calculate the income tax provision. Under the liability method, deferred tax assets or liabilities are recognized with a corresponding charge or credit to income for differences between the financial and tax basis of assets and liabilities to each year/period end. Deferred taxes are computed based on the income tax rate. Tax loss carry-forwards are recognized as assets. A valuation allowance is recognized as a deferred tax asset if, based on the weight of available evidence, it is more likely than not that some portion or all of the deferred tax asset will not be realized.

Earnings per share

Under Brazilian GAAP, disclosure of earnings per share is computed based on the number of shares outstanding at the end of the year, although a weighted-average basis is acceptable. Additionally, earnings per share data do not have to be adjusted for all periods presented in the financial statements to reflect the new number of shares that result from a stock split or a reverse stock split.

Under U.S. GAAP, SFAS No. 128, "Earnings per Share," public companies are required to present earnings per share, including earnings per share from continuing operations and net income per share, on the face of the income statement and are required to present the per share effect of changes in accounting principles, discontinued operations and extraordinary items either on the face of the income statement or in a footnote. SFAS No. 128 also requires dual presentation of earnings per share, basic and diluted. Companies should base computations of basic and diluted earnings per share on the weighted average number of common shares outstanding during each period presented. Diluted earnings per share is calculated on the same basis, except that effect is given to all outstanding potentially dilutive common shares. In accordance with SFAS No. 128, earnings per share data must be adjusted for all periods presented in the financial statements to reflect the new number of shares that result from a stock split or a reverse stock split.

Segment information

Under Brazilian GAAP, there is no requirement for disclosing information about operating segments.

U.S. GAAP, SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information," requires public companies to report both financial and descriptive information about their reportable operating segments. Reportable operating segments are defined as those about which separate financial information is available and is regularly evaluated by the chief operating decision maker. Generally, financial information to be reported will be on the basis used internally for evaluating segment performance. Financial information to be disclosed includes segment profit or loss, certain specific revenue and expense items and segment assets, and a reconciliation of total segment revenues, profit or loss and assets to the corresponding amounts in the financial statements.

Additional financial statement notes disclosures

Brazilian GAAP in general requires less information to be disclosed in financial statement footnotes than U.S. GAAP. Disclosures required under U.S. GAAP not typically found in Brazilian GAAP financial statements include, but are not limited to, the following:

- general business, political and economic risks;
- off-balance sheet risks and commitments, concentration of credit risk and major customers;
- irrevocable commitments such as take-or-pay or minimum sales contracts;
- advertising expense and assets;
- research and development costs;
- environmental related costs, liabilities and proceedings;
- analysis of sales by geographical area;
- financing facilities and terms; and
- footnote disclosure of summarized financial statements of affiliated companies which meet certain tests of significance.

Brazilian GAAP generally requires more disclosure than U.S. GAAP with respect to insurance coverage, parent company financial statements and details of investments in affiliated and subsidiary companies.

Statements of cash flows

Brazilian GAAP requires a company to present a statement of changes in its financial position, which depicts the sources and uses of funds in terms of the movement in working capital. The presentation of the statement of cash flows is not mandatory. However, listed companies whose shares are traded on a special segment of the BOVESPA are required to prepare a statements of cash flows.

U.S. GAAP requires the presentation of a statement of cash flows depicting a company's cash flows from operating, financing and investing activities. SFAS No. 95, "Statement of Cash Flows," also establishes specific presentation requirements and requires additional disclosures, such as the amount of interest and income taxes paid and non-cash financing and investing transactions, such as acquisition of property, plant and equipment through capital leases, utilization of escrow deposits in settlement of liabilities and debt for equity conversions, among others.

Reclassifications in the statements of operations

Under Brazilian GAAP, items such as gains or losses on disposal of property, plant and equipment are presented as non-operating items, while interest income and interest expenses are presented as operating items in the statements of operations. Under U.S. GAAP, gains or losses on disposal of property, plant and equipment are presented as operating expenses, while interest income and interest expenses are presented as non-operating items in the statements of operations.

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