

(A free translation of the original in Portuguese)

**Dixie Toga S.A. and
Subsidiaries**
**Financial Statements at
December 31, 2006 and 2005**
And Report of Independent Auditors

(A free translation of the original in Portuguese)

Report of Independent Auditors

To the Board of Directors and Stockholders
Dixie Toga S.A.

- 1 We have audited the accompanying balance sheet of Dixie Toga S.A. and the consolidated balance sheet of Dixie Toga S.A and its subsidiaries as of December 31, 2006, and the related statements of income, of changes in stockholders' equity and of changes in financial position of Dixie Toga S.A, as well as the related consolidated statements of income and of changes in financial position, for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements.
- 2 We conducted our audit in accordance with approved Brazilian auditing standards, which require that we perform the audit to obtain reasonable assurance about whether the financial statements are fairly presented in all material respects. Accordingly, our work included, among other procedures: (a) planning our audit taking into consideration the significance of balances, the volume of transactions and the accounting and internal control systems of the Companies, (b) examining, on a test basis, evidence and records supporting the amounts and disclosures in the financial statements, and (c) assessing the accounting practices used and significant estimates made by management, as well as evaluating the overall financial statement presentation.
- 3 In our opinion, the financial statements audited by us present fairly, in all material respects, the financial position of Dixie Toga S.A. and of Dixie Toga S.A. and its subsidiaries at December 31, 2006, and the results of operations, the changes in stockholders' equity and the changes in financial position of Dixie Toga S.A., as well as the consolidated results of operations and of changes in financial position, for the year then ended, in accordance with accounting practices adopted in Brazil.

Dixie Toga S.A.

- 4 The audit of the financial statements for the year ended December 31, 2005, presented for comparison purposes, was conducted by other independent auditors, who issued an unqualified opinion thereon dated February 7, 2006.

São Paulo, February 27, 2007

PricewaterhouseCoopers
Auditores Independentes
CRC 2SP000160/O-5

Carlos Alberto de Sousa
Contador CRC 1RJ056561/O-0 "S" SP

Dixie Toga S.A. and Subsidiaries

Balance Sheets at December 31

In thousands of reais

(A free translation of the original in Portuguese)

Assets	Parent company		Consolidated		Liabilities and stockholders' equity	Parent company		Consolidated	
	2006	2005 (Reclassified)	2006	2005 (Reclassified)		2006	2005 (Reclassified)	2006	2005 (Reclassified)
Current assets					Current liabilities				
Cash and banks	4,822	3,949	9,521	9,366	Suppliers (Note 10)	33,732	24,660	102,540	91,967
Financial investments (Note 18(d))	458	257	131,376	99,183	Loans and financing (Note 11)	99,517	77,309	136,150	129,087
Customers (Note 4)	82,527	73,942	182,350	189,138	Securities issued abroad - "eurobonds" (Note 12)	254	391	254	391
Inventories (Note 5)	47,981	37,562	152,344	127,772	Taxes and contributions payable (Note 13)	10,441	15,539	36,885	40,500
Accounts receivable from subsidiaries (Note 6(c))	3,965	15,260			Salaries, payroll charges and contributions	11,301	12,469	21,422	22,745
Dividends receivable from subsidiaries (Note 6(c))	6,063	8,714			Other accounts payable	6,970	3,636	14,020	13,395
Taxes recoverable	10,749	6,565	23,172	20,300	Accounts payable to subsidiaries (Note 6(c))	24,691	74,454		
Other accounts receivable	8,939	2,262	27,303	7,758	Other liabilities with related parties (Note 6(c))	29,308			
					Dividends payable	20,112	18,359	20,112	18,359
	<u>165,504</u>	<u>148,511</u>	<u>526,066</u>	<u>453,517</u>					
						<u>236,326</u>	<u>226,817</u>	<u>331,383</u>	<u>316,444</u>
Long-term receivables					Long-term liabilities				
Deferred income tax and social contribution (Note 7(a))	107,883	101,201	124,189	118,041	Loans and financing (Note 11)	2,252	23,407	37,860	73,493
Other accounts receivable from subsidiaries (Note 6(c))	655	324			Securities issued abroad - "eurobonds" (Note 12)	164,626	180,234	12,571	13,763
Judicial deposits	26,443	25,740	39,376	38,202	Deferred income tax and social contribution on revaluation (Note 7(a))	7,761	8,549	10,948	12,244
Taxes recoverable	3,989	2,059	9,263	7,921	Deferred income tax and social contribution (Note 7(a))	119,481	101,380	128,059	101,430
Other accounts receivable	2,637	2,906	6,452	6,289	Taxes and contributions payable (Note 13)	27,542	25,911	70,957	80,188
	<u>141,607</u>	<u>132,230</u>	<u>179,280</u>	<u>170,453</u>	Provision for contingencies (Note 14)	20,826	29,654	32,728	43,467
					Other accounts payable	120	120	276	579
Permanent assets						<u>342,608</u>	<u>369,255</u>	<u>293,399</u>	<u>325,164</u>
Investments					Minority interest			175,500	149,561
In subsidiaries and jointly-owned subsidiary (Note 6(a))	408,410	438,303	(268)	539	Stockholders' equity (Note 15)				
Other investments	571	571	625	625	Capital (Note 15(a))	144,575	144,575	144,575	144,575
	<u>408,981</u>	<u>438,874</u>	<u>357</u>	<u>1,164</u>	Revaluation reserve (Note 15(b))	31,521	33,290	31,521	33,290
Property, plant and equipment (Note 8)	144,094	120,451	367,547	398,665	Revenue reserves (Note 15(c))	106,451	71,300	106,451	71,300
Deferred charges (Note 9)	622	1,158	7,808	10,782	Treasury shares (Note 15(d))	(673)	(4,013)	(673)	(4,013)
					Accumulated deficit			(1,098)	(1,740)
	<u>553,697</u>	<u>560,483</u>	<u>375,712</u>	<u>410,611</u>		<u>281,874</u>	<u>245,152</u>	<u>280,776</u>	<u>243,412</u>
Total assets	<u>860,808</u>	<u>841,224</u>	<u>1,081,058</u>	<u>1,034,581</u>	Total liabilities and stockholders' equity	<u>860,808</u>	<u>841,224</u>	<u>1,081,058</u>	<u>1,034,581</u>

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

Dixie Toga S.A. and Subsidiaries

Statements of Income Years Ended December 31

In thousands of reais, except net income per thousand shares (A free translation of the original in Portuguese)

	Parent company		Consolidated	
	2006	2005 (Reclassified)	2006	2005 (Reclassified)
Gross sales				
Domestic market	505,330	464,617	1,265,185	1,329,256
Foreign market	43,972	23,719	132,907	118,182
	<u>549,302</u>	<u>488,336</u>	<u>1,398,092</u>	<u>1,447,438</u>
Deductions from gross sales				
Taxes on sales	(128,455)	(115,747)	(287,321)	(303,098)
Returns and rebates	(11,636)	(8,668)	(26,305)	(28,337)
	<u>(140,091)</u>	<u>(124,415)</u>	<u>(313,626)</u>	<u>(331,435)</u>
Net sales	<u>409,211</u>	<u>363,921</u>	<u>1,084,466</u>	<u>1,116,003</u>
Cost of products sold	<u>(327,770)</u>	<u>(279,347)</u>	<u>(856,816)</u>	<u>(855,932)</u>
Gross profit	<u>81,441</u>	<u>84,574</u>	<u>227,650</u>	<u>260,071</u>
Operating expenses				
Selling	(21,733)	(15,754)	(51,495)	(47,482)
General and administrative	(35,459)	(27,063)	(54,608)	(50,850)
Management fees	(3,432)	(2,931)	(4,131)	(3,383)
Recovered and operating income and (expenses)	9,757	(831)	13,277	828
	<u>(50,867)</u>	<u>(46,579)</u>	<u>(96,957)</u>	<u>(100,887)</u>
Operating profit before Profit sharing and Financial results	<u>30,574</u>	<u>37,995</u>	<u>130,693</u>	<u>159,184</u>
Equity in subsidiaries				
Equity in the earnings of subsidiaries and jointly-owned subsidiary (Note 6(a))	29,510	24,780		
Amortization of goodwill and negative goodwill on investments, net	(237)	(237)	(237)	(237)
	<u>29,273</u>	<u>24,543</u>	<u>(237)</u>	<u>(237)</u>

Dixie Toga S.A. and Subsidiaries

Statements of Income Years Ended December 31

In thousands of reais, except net income per thousand shares

(continued)

	Parent company		Consolidated	
	2006	2005 (Reclassified)	2006	2005 (Reclassified)
Financial result				
Monetary and exchange rate variations, net	5,448	13,276	(16,543)	(21,365)
Financial expenses	(10,203)	(12,615)	(24,885)	(20,866)
Financial income	5,734	1,074	36,820	15,219
	979	1,735	(4,608)	(27,012)
Operating profit	60,826	64,273	125,848	131,935
Non-operating results				
Non-operating income	1,302	1,863	834	811
Non-operating expenses	(565)	(8,063)	(1,150)	(17,763)
	737	(6,200)	(316)	(16,952)
Profit before income tax, social contribution and minority interest	61,563	58,073	125,532	114,983
Income tax and social contribution				
Current	300	(5,387)	(30,758)	(34,074)
Deferred	(12,241)	(8,956)	(19,189)	(15,314)
	(11,941)	(14,343)	(49,947)	(49,388)
Profit before minority interest	49,622	43,730	75,585	65,595
Minority interest			(25,963)	(21,865)
Net income for the year	49,622	43,730	49,622	43,730
Net income per thousand shares - R\$	180.81	159.13		

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

Dixie Toga S.A.

Statements of Changes in Stockholders' Equity (Parent Company)

In thousands of reais

(A free translation of the original in Portuguese)

	<u>Capital</u>	<u>Revaluation reserve</u>	<u>Revenue reserves</u>		<u>Treasury shares</u>	<u>Retained earnings</u>	<u>Total</u>
			<u>Legal</u>	<u>Retention of profits</u>			
At December 31, 2004	144,575	34,748	4,618	57,891			241,832
Realization of revaluation reserve		(1,458)				1,458	
Purchase of treasury stock					(30,496)		(30,496)
Cancellation of treasury stock				(25,116)	25,116		
Sale of treasury stock					1,367		1,367
Result on sale of treasury stock				(531)			(531)
Net income for the year						43,730	43,730
Appropriation of net income							
Constitution of legal reserve			2,187			(2,187)	
Dividends proposed						(10,750)	(10,750)
Constitution of retention of profits reserve				32,251		(32,251)	
	<u>144,575</u>	<u>33,290</u>	<u>6,805</u>	<u>64,495</u>	<u>(4,013)</u>	<u>1,769</u>	<u>245,152</u>
At December 31, 2005	144,575	33,290	6,805	64,495	(4,013)		245,152
Realization of revaluation reserve		(1,769)				1,769	
Purchase of treasury stock (Note 15(d))					(673)		(673)
Cancellation of treasury stock (Note 15(d))				(4,013)	4,013		
Net income for the year						49,622	49,622
Appropriation of net income							
Constitution of legal reserve			2,481			(2,481)	
Dividends proposed (Note 16)						(12,227)	(12,227)
Constitution of retention of profits reserve				36,683		(36,683)	
	<u>144,575</u>	<u>31,521</u>	<u>9,286</u>	<u>97,165</u>	<u>(673)</u>	<u></u>	<u>281,874</u>
At December 31, 2006	<u>144,575</u>	<u>31,521</u>	<u>9,286</u>	<u>97,165</u>	<u>(673)</u>	<u></u>	<u>281,874</u>

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

Dixie Toga S.A. and Subsidiaries

Statements of Changes in Financial Position Years Ended December 31

In thousands of reais

(A free translation of the original in Portuguese)

	Parent company		Consolidated	
	2006	2005 (Reclassified)	2006	2005 (Reclassified)
Financial resources were provided by				
Operations				
Net income for the year	49,622	43,730	49,622	43,730
Minority interest			25,963	21,865
Expenses (income) not affecting working capital				
Depreciation and amortization	14,285	12,929	53,990	52,480
Monetary and exchange rate variations on long-term assets and liabilities	(17,450)	(32,347)	(2,553)	(1,775)
Equity in the earnings of subsidiaries and jointly-owned subsidiary	(29,510)	(24,780)		
Investment not consolidated in prior years			570	
Loss in the investment of subsidiary	219			
Tax incentives in subsidiaries	(590)	(1,468)		
Amortization of goodwill and negative goodwill on investments	237	237	237	237
Deferred income tax and social contribution	12,241	8,956	19,237	15,314
Residual value of permanent assets disposal	645	230	3,443	2,525
Provision for tax and labor contingencies	(8,828)	231	(10,739)	846
Capital gain on change of participation in subsidiary		(61)		
	20,871	7,657	139,770	135,222
Third parties				
Capital decrease in subsidiary	11,107			
Dividends receivable from subsidiaries	1,174	5,037		
Net increase in long-term liabilities		42,279	30,870	106,814
Transfer from permanent to current		8,961	5,416	17,672
	12,281	56,277	36,286	124,486
	33,152	63,934	176,056	259,708
Merger of subsidiaries	19,060			
Total funds provided	52,212	63,934	176,056	259,708

Dixie Toga S.A. and Subsidiaries

Statements of Changes in Financial Position Years Ended December 31

In thousands of reais

(continued)

	Parent company		Consolidated	
	2006	2005 (Reclassified)	2006	2005 (Reclassified)
Financial resources were used for				
Increase in long-term receivables	2,609	18,130	2,438	28,229
Net decrease in long-term liabilities	(8,323)			
Additions to permanent assets				
Investments		8,372		
Property, plant and equipment	8,727	23,259	30,626	119,977
Deferred charges	379	91	634	1,896
Transfer from long-term to current liabilities	28,436	15,638	71,848	50,590
Purchase of treasury stock	673	30,496	673	30,496
Result on sale of treasury stock		(837)		(837)
Purchase of "eurobonds" for portfolio				8,372
Dividends proposed	12,227	10,750	12,227	10,750
Decrease in minority interest				63
Total funds used	<u>44,728</u>	<u>105,899</u>	<u>118,446</u>	<u>249,536</u>
Increase (decrease) in working capital	<u>7,484</u>	<u>(41,965)</u>	<u>57,610</u>	<u>10,172</u>
Changes in working capital				
Current assets				
At the beginning of the year	148,511	105,248	453,517	378,775
At the end of the year	<u>165,504</u>	<u>148,511</u>	<u>526,066</u>	<u>453,517</u>
	<u>16,993</u>	<u>43,263</u>	<u>72,549</u>	<u>74,742</u>
Current liabilities				
At the beginning of the year	226,817	141,589	316,444	251,874
At the end of the year	<u>236,326</u>	<u>226,817</u>	<u>331,383</u>	<u>316,444</u>
	<u>9,509</u>	<u>85,228</u>	<u>14,939</u>	<u>64,570</u>
Increase (decrease) in working capital	<u>7,484</u>	<u>(41,965)</u>	<u>57,610</u>	<u>10,172</u>

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

(A free translation of the original in Portuguese)

Dixie Toga S.A. and Subsidiaries

Notes to the Financial Statements at December 31, 2006 and 2005

In thousands of reais, unless otherwise indicated

1 Operations

Dixie Toga S.A. ("Company") is a limited liability company headquartered in the municipality of São Paulo and its main parent company is Bemis Inc. The Company shares the structures and corporate, managerial and operating costs with its subsidiaries.

The Company is engaged in the manufacturing and sale of packages, cartridges, labels and dischargeable products, mainly for the food, drink, personal hygiene and cleaning products industries, both in the domestic and foreign markets.

In addition, the Company has direct investments in subsidiaries, in Brazil and abroad, which have complementary activities, such as the manufacturing and sale of plastic laminates and of flexible packaging utilizing rotogravure and flexography printing technologies.

2 Significant Accounting Practices

The financial statements have been prepared and are presented in accordance with accounting practices adopted in Brazil, based on the provisions of Corporate Law and the Brazilian Securities Commission - CVM regulations.

The preparation of financial statements requires the use of estimates to record certain assets, liabilities and other transactions. The financial statements of the Company, therefore, include various estimates related to the selection of the useful lives of property, plant and equipment, necessary provisions for contingent liabilities, determination of provisions for taxes and others. Actual results may differ from the estimates.

(a) Determination of net income

Net income is determined on the accrual basis of accounting. The provision for income tax is constituted with the inclusion of the tax incentives portion. Deferred taxes are recorded considering the effective rates for income tax and social contribution on tax losses and temporary differences, to the extent that their realization is considered to be probable (Note 7).

Dixie Toga S.A. and Subsidiaries

Notes to the Financial Statements at December 31, 2006 and 2005

In thousands of reais, unless otherwise indicated

(b) Current assets and long-term receivables

The allowance for doubtful accounts is calculated based on the losses considered to be probable, the amount of which is considered sufficient to cover losses in the realization of accounts receivable.

Inventories are stated at average acquisition or production cost, adjusted to market value, when applicable. Imports in transit are stated at the accumulated cost of each import.

Other assets are stated at cost or realizable value, including, when applicable, accrued earnings and monetary and exchange rate variations.

(c) Permanent assets

Permanent assets are stated at cost monetarily restated to 1995, combined with the following aspects:

- . Equity in the results of subsidiaries evaluated on the equity method, plus/less unamortized goodwill/negative goodwill and less a provision for losses, when applicable.
- . Capitalization of financial charges, when applicable, incurred during the construction period of property, plant and equipment.
- . Depreciation of property, plant and equipment, calculated on the straight-line method, at the annual rates listed in Note 8.
- . Revaluation of property and equipment, based on the appraisal of independent experts.
- . Amortization of deferred charges for a period of 5 to 10 years, as from the commencement of operating activities based on the expectation of the recovery of the assets. Deferred charges are written-off when fully amortized.

(d) Current and long-term liabilities

These liabilities are shown at known or estimated amounts, including accrued charges and monetary and exchange rate variations incurred, when applicable.

Dixie Toga S.A. and Subsidiaries

Notes to the Financial Statements at December 31, 2006 and 2005

In thousands of reais, unless otherwise indicated

(e) Swap and forward operations

The Company maintains derivative instruments with the purpose of hedging its exposure to raw material prices, currency risks, indices and interest considering the redemptions scheduled to occur in accordance with the final maturity of the respective liabilities denominated in foreign currency. These operations, designated in the accounting records as the object of hedges, are stated at cost calculated based on contractual conditions established between the Company and third parties (paper curve) and their net results are recorded under "Monetary/exchange rate variations, net" with a corresponding entry to "Loans and financing" for swap operations and "Cash and banks" for forward operations carried out at the Brazilian Mercantile and Futures Exchange (BM&F).

(f) Profit per share

The profit per share is calculated based on the number of outstanding shares at the balance sheet date.

(g) Reclassifications

Certain reclassifications have been carried out in the financial statements at December 31, 2005, with the objective of improving their comparison with the financial statements for December 31, 2006. The main changes were as follows:

- . In 2005, the provision for contingencies was presented net of the related judicial deposits. In 2006, the judicial deposits are being presented in long-term receivables.
- . In 2005, deferred income tax and social contribution were presented net. In 2006, they are being presented in assets and long-term liabilities in accordance with their nature.

3 Consolidated Financial Statements

The consolidated financial statements have been prepared in accordance with the above mentioned accounting practices and include the financial statements of the Company and its subsidiaries and jointly-owned subsidiary - Itap Bemis Ltda. and subsidiaries, Impressora Paranaense S.A., Insit Embalagens Ltda., Laminor S.A. (jointly-owned subsidiary), American Plast S.A., American Packaging S.A. and Dixie Toga International Ltd. - and have been prepared in accordance with following criteria:

Dixie Toga S.A. and Subsidiaries

Notes to the Financial Statements at December 31, 2006 and 2005

In thousands of reais, unless otherwise indicated

- (a) Elimination of balances between consolidated companies.
- (b) Elimination of investments in consolidated companies against the respective stockholders' equity of the investee.
- (c) Elimination of revenues and expenses resulting from transactions between consolidated companies.
- (d) Elimination of profit in inventory, when applicable, arising from sales between the consolidated companies.
- (e) Determination of minority interest in consolidated stockholders' equity and income.

The financial statements of the subsidiaries American Plast S.A. and American Packaging S.A. based in Argentina, and Dixie Toga International Ltd., based in Grand Cayman, have been prepared in US dollars in accordance with accounting practices substantially identical to those adopted by the Company and translated into Brazilian reais at the exchange rate prevailing at the end of periods.

The reconciliation of stockholders' equity, Company and consolidated, for the years ended December 31, 2006 and 2005, is as follows:

	<u>Stockholders' equity</u>	
	<u>2006</u>	<u>2005</u>
Balance - parent company	281,874	245,152
Unrealized profit on sale of property, plant and equipment to subsidiaries	<u>(1,098)</u>	<u>(1,740)</u>
Consolidated	<u>280,776</u>	<u>243,412</u>

As provided for in article 32 of CVM Instruction no. 247/96, the Company has made the proportional consolidation of the financial statements of the jointly-owned subsidiary Laminor, the main information on which is as follows:

Dixie Toga S.A. and Subsidiaries

Notes to the Financial Statements at December 31, 2006 and 2005

In thousands of reais, unless otherwise indicated

	<u>2006</u>	<u>2005</u>
Dixie Toga S.A. ownership interest - %	<u>50</u>	<u>50</u>
Proportional balance sheet amounts		
Current		
Assets	17,192	15,706
Liabilities	(20,523)	(14,135)
Long -term		
Receivables	73	162
Liabilities	(4,922)	(11,383)
Permanent assets	<u>13,683</u>	<u>15,433</u>
Stockholders' equity	<u>(5,503)</u>	<u>(5,783)</u>
Consolidated proportional statement of income amounts		
Net sales	53,669	52,399
Gross profit	7,360	8,246
Operating expenses, net	(1,821)	(2,588)
Financial expenses, net	(2,275)	(2,987)
Non-operating result, net	15	
Income tax and social contribution	(523)	(653)
Employee profit sharing	<u>(34)</u>	<u>(26)</u>
Net income for the year	<u>2,722</u>	<u>1,992</u>

4 Customers

	<u>Parent company</u>		<u>Consolidated</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Local customers	71,743	62,903	147,495	152,559
Foreign customers	12,340	11,509	41,855	42,655
Allowance for doubtful accounts	<u>(1,556)</u>	<u>(470)</u>	<u>(7,000)</u>	<u>(6,076)</u>
	<u>82,527</u>	<u>73,942</u>	<u>182,350</u>	<u>189,138</u>

Dixie Toga S.A. and Subsidiaries

Notes to the Financial Statements at December 31, 2006 and 2005

In thousands of reais, unless otherwise indicated

5 Inventories

	Parent company		Consolidated	
	2006	2005	2006	2005
Finished products	13,736	10,176	42,916	28,959
Work in process	3,695	2,851	22,295	21,810
Raw materials and packaging	23,394	18,100	71,819	58,807
Provision for loss on realization of inventories	(1,137)		(2,616)	(779)
Other	8,293	6,435	17,930	18,975
	<u>47,981</u>	<u>37,562</u>	<u>152,344</u>	<u>127,772</u>

6 Investments in Subsidiaries and Jointly-owned Subsidiary

(a) Significant information on subsidiaries and jointly-owned subsidiary

	Number of shares held - in thousands	Capital	Stockholders' equity (net capital deficiency)	Percentage - total and voting capital	Participation	
					In stockholders' equity (net capital deficiency)	In net income (loss)
At December 31, 2006						
Itap Bemis Ltda.	131,684	239,426	367,492	55.00	202,121	32,051
Goodwill on acquisition of Itap Bemis Ltda.					108	
Impressora Paranaense S.A.	3,631,614	14,512	32,001	100.00	32,001	1,104
Negative goodwill on acquisition of Impressora Paranaense S.A.					(377)	
Dixie Toga Nordeste S.A.				100.00		12,729
Insit Embalagens Ltda.	9	10	(411)	90.00	(370)	(515)
Laminor S.A. (jointly-owned subsidiary)	8	10,031	11,006	50.00	5,503	(22)
American Plast S.A.	4,512	15,420	25,797	60.58	15,628	(309)
American Packaging S.A.	2,343	4,098	1	98.05	1	(29)
Dixie Toga International Ltd.	72,383	154,755	153,795	100.00	153,795	(15,499)
					<u>408,410</u>	<u>29,510</u>

Dixie Toga S.A. and Subsidiaries

Notes to the Financial Statements at December 31, 2006 and 2005

In thousands of reais, unless otherwise indicated

					<u>Participation</u>	
	Number of shares held - in thousands	Capital	Stockholders' equity (net capital deficiency)	Percentage - total and voting capital	In stockholders' equity (net capital deficiency)	In net income) (loss)
At December 31, 2005						
Itap Bemis Ltda.	131,684	239,426	309,217	55.00	170,069	26,836
Goodwill on acquisition of Itap Bemis Ltda.					508	
Impressora Paranaense S.A.	3,631,614	14,512	31,406	100.00	31,406	3,767
Negative goodwill on acquisition of Impressora Paranaense S.A.					(538)	
Dixie Toga Nordeste S.A.	4,590	2,987	34,060	100.00	34,060	15,228
Insit Embalagens Ltda.	9	10	426	90.00	383	1,505
Laminor S.A. (jointly-owned subsidiary)	8	10,031	11,565	50.00	5,783	1,992
Dixie Toga Centro Oeste Embalagens S.A.	1	10	265	100.00	265	
American Plast S.A.	2,843	5,290	26,307	60.58	15,937	(394)
American Packaging S.A.	2,343	1,845	30	98.05	29	(141)
Dixie Toga International Ltd.	1	1	180,401	100.00	180,401	(24,013)
					<u>438,303</u>	<u>24,780</u>

(i) Itap Bemis Ltda.

The principal activity of the company is the manufacture of flexible packaging using machinery with flexography and rotogravure printing technologies. Additionally, Itap Bemis has direct investments in subsidiaries in Brazil (Itap Bemis Centro Oeste Indústria e Comércio de Embalagens Ltda.) and abroad (Curwood Itap Chile Ltda. and Itap Bemis Argentina), with complementary activities, such as the manufacture of printed flexible packaging.

Goodwill resulting from the acquisition of the controlling interest in this company is being amortized on a straight-line basis over a period of ten years from January 1998, based on future profit projections prepared at the time of the acquisition.

(ii) Impressora Paranaense S.A.

A privately-held company which manufactures cartridge-type packages and labels for the food, hygiene and cleaning industries at its operating facilities located in Curitiba, State of Paraná. Negative goodwill arising from the acquisition of this company is being amortized in proportion to the realization of its assets.

On April 28, 2006, the Ordinary General Meeting of the subsidiary approved the distribution of dividends proposed by the Board of Directors at December 31, 2005, in the amount of R\$ 1,142.

Dixie Toga S.A. and Subsidiaries

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At December 31, 2006 the subsidiary proposed the distribution of dividends to the parent company Dixie Toga S.A., based on the results obtained in 2006, in the amount of R\$ 509, which will be paid in 2007.

(iii) Dixie Toga Nordeste S.A.

A wholly-owned subsidiary established to meet regional demand through the manufacture of packaging for the food and personal hygiene industries.

On April 28, 2006, the Ordinary General Meeting of the subsidiary, approved the distribution of dividends proposed by Management at December 31, 2005, in the amount of R\$ 3,807.

On October 31, 2006, the Extraordinary General Meeting approved the merger of the subsidiary Dixie Toga Nordeste S.A. by its parent company Dixie Toga S.A. The merged balances are summarized as follows:

Assets	
Current	124,777
Long-term receivables	3,299
Permanent	<u>28,676</u>
Total assets	<u><u>156,752</u></u>
Liabilities	
Current	(105,728)
Long-term liabilities	(4,033)
Stockholders' equity	<u>(46,991)</u>
Total liabilities and stockholders' equity	<u><u>(156,752)</u></u>

(iv) Insit Embalagens Ltda.

A subsidiary whose main activity is the production, manufacture and sale of packaging. The company started its activities in July 2002.

(v) Laminor S.A.

A jointly-owned subsidiary, as a joint venture between Dixie Toga S.A. and Huhtamaki Finance B.V. (based in the Netherlands), whose main activity is the manufacture, sale and export of

Dixie Toga S.A. and Subsidiaries

Notes to the Financial Statements at December 31, 2006 and 2005

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plastic laminates to be used for the manufacture of tubes for personal hygiene, medication and cleaning products. The company started its activities in November 2003.

On March 21, 2006, the Ordinary General Meeting of the jointly-owned subsidiary approved the distribution of dividends proposed by the Board of Directors at December 31, 2005, in the amount of R\$ 88.

At December 31, 2006 the subsidiary proposed the distribution of dividends to the jointly-owner parent company Dixie Toga S.A., based on the results obtained in 2006, in the amount of R\$ 646, which will be paid in 2007.

(vi) Dixie Toga Centro Oeste Embalagens S.A.

A wholly-owned subsidiary established in July 2004, whose main activity is the production, manufacture and sale of packaging.

On May 19, 2006, at the Extraordinary General Stockholders Meeting, the merger of the subsidiary DTCO into the parent company was approved.

The merged balances are summarized as follows:

Assets	
Current	10
Permanent	<u>255</u>
Total assets	<u><u>265</u></u>
Liabilities	
Stockholders' equity	<u>(265)</u>
Total liabilities and stockholders' equity	<u><u>(265)</u></u>

(vii) American Plast S.A.

A publicly-traded company based in Argentina which is a leader in the market for rigid packaging and products for fast food restaurants.

(viii) American Packaging S.A.

A subsidiary constituted in 2001 in Argentina, as a result of the partial spin-off of the assets and liabilities of the subsidiary American Plast S.A. Its main activity is the manufacture and sale of paper, cardboard and carton packages and labels, and other similar products. The company's operations are currently suspended.

Dixie Toga S.A. and Subsidiaries

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(ix) Dixie Toga International Ltda.

A wholly-owned subsidiary, based in Grand Cayman, in the Cayman Islands, whose principal activity is managing foreign investments.

In 2006, a capital subscription in the amount of R\$ 171,924 (equivalent at the transaction date to US\$ 77,582,916), was effected. At December 31, 2005 this amount was recorded in a specific account of "advance for future capital increase" in stockholders' equity.

On January 31, 2006, the subsidiary approved a capital decrease in the amount of R\$ 11,107, (equivalent at the transaction date to US\$ 5,200,000), through the disposal and transfer of assets, at book value, to the controlling stockholder Dixie Toga S.A. The present capital is R\$ 154,755 (R\$ 1 at December 31, 2005) divided into 72,383 nominative common shares.

Dixie Toga S.A. and Subsidiaries

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In thousands of reais, unless otherwise indicated

**(b) Additional information on investments in subsidiaries
and jointly-owned subsidiary**

										2006	2005
Investments movement	Itap Bemis (i)	Impressora (ii)	DTNE (ii)	Insit (i)	Laminor (ii)	DTCO (ii)	American Plast (iii)	American Packaging (iii)	DTI (i)	Total	Total
Balances at the beginning of the year	170,577	30,868	34,060	383	5,783	265	15,937	29	180,401	438,303	408,957
Equity in the results	32,051	1,104	12,729	(515)	(22)		(309)	(28)	(15,499)	29,510	24,780
Capital gain with addition of tax incentives on income tax (IRPJ) and other			202		388					590	1,468
Dividends proposed		(509)		(19)	(646)					(1,174)	(5,037)
Loss on investment				(219)						(219)	
Amortization of goodwill/negative goodwill	(399)	162								(237)	(237)
Incorporation of investment			(46,991)							(47,256)	
(Decrease) increase in capital						(265)			(11,107)	(11,107)	8,372
Balances at the end of the year	<u>202,229</u>	<u>31,624</u>	<u></u>	<u>(370)</u>	<u>5,503</u>	<u></u>	<u>15,628</u>	<u>1</u>	<u>153,795</u>	<u>408,410</u>	<u>438,303</u>

(i) Legal nature: limited liability partnership.

(ii) Legal nature: closely-held company.

(iii) Legal nature: publicly-traded company.

Dixie Toga S.A. and Subsidiaries

Notes to the Financial Statements at December 31, 2006 and 2005

In thousands of reais, unless otherwise indicated

(c) Balances and transactions with related parties

	Current assets		Long-term receivables	Current liabilities		Results	
	Dividends receivable	Accounts receivable	Other receivables	Accounts payable	Other payables	Income	Expenses
Itap Bemis Ltda.		197	68	6,691	29,308	976	2,014
Impressora Paranaense S.A.	5,328	296	56	7,416		448	649
Dixie Toga Nordeste S.A.						9,400	75,031
Insit Embalagens Ltda.		3,050	531	1,269		1,071	1,128
Laminor S.A.	735	80		9,315		36	10,890
American Plast S.A.		342				403	
Balances/amounts at December 31, 2006	<u>6,063</u>	<u>3,965</u>	<u>655</u>	<u>24,691</u>	<u>29,308</u>	<u>12,334</u>	<u>89,712</u>

	Current assets		Long-term receivables	Current liabilities		Results	
	Dividends receivable	Accounts receivable	Other receivables	Accounts payable	Other payables	Income	Expenses
Itap Bemis Ltda.		1,073	261	5,132		940	4,842
Impressora Paranaense S.A.	4,818	195	15	441		61	407
Dixie Toga Nordeste S.A.	3,807	11,454	4	67,945		10,601	52,637
Insit Embalagens Ltda.		1,865	38	483		2,721	151
Laminor S.A.	89		6	404		213	6,820
American Plast S.A.		673		49		38	361
Balances/amounts at December 31, 2005	<u>8,714</u>	<u>15,260</u>	<u>324</u>	<u>74,454</u>		<u>14,574</u>	<u>65,218</u>

Transactions classified as trade accounts receivable and trade accounts payable are commercial in nature and refer to the acquisition/sale of products directly related to the Company's operating activities.

The balances of "Other receivables" and "Other payables" are represented by loan agreements, subject to financial charges based on the average remuneration of the Company's financial investments (Interbank Deposit rate (CDI) variation or LIBOR variation plus interest of 3% to 5% per year in 2006 and 2005).

(d) Sureties and guarantees granted to subsidiaries

Total sureties and guarantees granted by the Company on behalf of the subsidiaries at December 31, 2006 totaled R\$ 36,633 (2005 - R\$ 51,778).

Dixie Toga S.A. and Subsidiaries

Notes to the Financial Statements at December 31, 2006 and 2005

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7 Income Tax and Social Contribution

In accordance with CVM Resolution no. 273/98 and CVM Instruction no. 371/02, the Company recognized deferred tax credits on tax loss carryforwards and temporary differences related to the Company, its subsidiaries and jointly-owned subsidiary. These tax credits are recorded in long-term assets/long-term liabilities considering their expected realization.

In order to calculate the deferred income tax amount to be recorded, the management of the Company, its subsidiaries and jointly-owned subsidiary used projections of future results and assessed, on a consistent basis, the realizability of these credits based on estimated future taxable income.

(a) Nature of deferred taxes

	<u>Parent company</u>		<u>Consolidated</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Assets				
Temporarily nondeductible provisions	97,901	91,371	113,128	101,629
Tax losses	5,355	5,183	6,039	9,681
Negative basis of social contribution	<u>4,627</u>	<u>4,647</u>	<u>5,022</u>	<u>6,731</u>
	<u>107,883</u>	<u>101,201</u>	<u>124,189</u>	<u>118,041</u>
Liabilities				
Revenues with deferred taxation	(118,938)	(100,564)	(127,516)	(100,614)
Accelerated depreciation with tax incentive	<u>(543)</u>	<u>(816)</u>	<u>(543)</u>	<u>(816)</u>
	<u>(119,481)</u>	<u>(101,380)</u>	<u>(128,059)</u>	<u>(101,430)</u>
Revaluation of property, plant and equipment	<u>(7,761)</u>	<u>(8,549)</u>	<u>(10,948)</u>	<u>(12,244)</u>
	<u>(127,242)</u>	<u>(109,929)</u>	<u>(139,007)</u>	<u>(113,674)</u>

Dixie Toga S.A. and Subsidiaries

Notes to the Financial Statements at December 31, 2006 and 2005

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(b) Expected realization of tax credits on tax loss carryforwards

Based on future taxable income projections, management expects that credits on non-deductible provisions and tax loss and the negative basis of social contribution carryforwards will be realized in five years or upon the settlement of temporary differences, especially those related to tax and labor contingencies. However, it is not possible to estimate with reasonable accuracy the years in which the tax credits and temporary differences will be realized.

(c) Reconciliation of income tax and social contribution

The recorded amounts for income and social contribution taxes are reconciled to the amounts determined at the official tax rates as follows:

	Parent company		Consolidated	
	2006	2005	2006	2005
Income before taxes, employees profit sharing and minority interest	65,054	62,798	130,227	121,242
Employees profit sharing	(3,491)	(4,725)	(4,695)	(6,259)
	<u>61,563</u>	<u>58,073</u>	<u>125,532</u>	<u>114,983</u>
Nominal tax rates - %	34	34	34	34
Income tax and social contribution tax expenses at nominal tax rates	(20,931)	(19,745)	(42,681)	(39,094)
Adjustment to the effective tax rate				
Non deductible provisions, net	(553)	(1,043)	(1,630)	(967)
Equity in earnings of subsidiaries	10,033	8,425		
Tax credits not recorded in national/foreign subsidiaries			(6,417)	(8,663)
Other	(482)	(2,068)	282	(881)
	<u>(11,933)</u>	<u>(14,431)</u>	<u>(50,446)</u>	<u>(49,605)</u>
Income and social contribution tax charge before tax benefits				
Tax benefits				
Workers' meal program (PAT) and Rouanet Law	(8)	88	499	217
	<u>(11,941)</u>	<u>(14,343)</u>	<u>(49,947)</u>	<u>(49,388)</u>
Income tax and social contribution charge in the statement of income				

Dixie Toga S.A. and Subsidiaries

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8 Property, Plant and Equipment

	Parent company				Annual depreciation rates - %
	2006		2005		
	Cost	Accumulated depreciation	Net	Net	
Land	22,192		22,192	20,915	
Buildings and construction	58,630	(21,023)	37,607	36,953	4.0
Machinery and equipment	186,336	(112,968)	73,368	48,434	10.0
Industrial facilities	15,869	(9,938)	5,931	3,368	10.0
Furniture, fixtures and IT equipment	8,401	(5,486)	2,915	1,736	20.0
Vehicles	1,225	(431)	794	104	20.0
Other	2,308	(1,021)	1,287	8,941	20.0
	<u>294,961</u>	<u>(150,867)</u>	<u>144,094</u>	<u>120,451</u>	
Consolidated					
	2006		2005		Annual depreciation rates - %
	Cost	Accumulated depreciation	Net	Net	
Land	29,068		29,068	30,257	
Buildings and construction	124,981	(41,991)	82,990	88,012	4.0
Machinery and equipment	560,315	(338,198)	222,117	209,367	10.0
Industrial facilities	27,532	(14,407)	13,125	12,954	10.0
Furniture, fixtures and IT equipment	16,770	(10,761)	6,009	4,258	20.0
Vehicles	1,913	(878)	1,035	508	20.0
Other	20,925	(7,722)	13,203	53,309	20.0
	<u>781,504</u>	<u>(413,957)</u>	<u>367,547</u>	<u>398,665</u>	

The Company recorded, prior to 1999, a partial revaluation of its property, plant and equipment, mainly land, buildings, construction and machinery and equipment, based on appraisals prepared by independent experts, the corresponding entry for which was recorded in a specific account of stockholders' equity, net of income tax and social contribution. As from the disclosure of CVM Resolution 288, the Company opted for the adoption of restated cost in the valuation of its assets, maintaining the amounts of the previous revaluations, for being in compliance with reasonable market values on that occasion.

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The balance of the above mentioned revaluations on property, plant and equipment of the Company at December 31, 2006 was R\$ 31,521 (R\$ 33,290 in 2005).

9 Deferred Charges

	<u>Parent company</u>		<u>Consolidated</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Implementation of systems	1,672	1,672	2,267	2,267
Pre-operating expenses	2,208		13,996	13,956
Lalekla Merger	3,742	3,742	3,742	3,742
Restructuring	3,312	3,312	3,312	3,312
Kraft contract			7,414	7,414
Other	442	442	2,045	2,045
	11,376	9,168	32,776	32,736
Accumulated amortization	(10,754)	(8,010)	(24,968)	(21,954)
	<u>622</u>	<u>1,158</u>	<u>7,808</u>	<u>10,782</u>

The pre-operating expenses in 2006 in the parent company arise from the merger of the subsidiary Dixie Toga Nordeste.

10 Suppliers

	<u>Parent company</u>		<u>Consolidated</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Local	20,709	13,756	74,174	67,743
Foreign	13,023	10,904	28,366	24,224
	<u>33,732</u>	<u>24,660</u>	<u>102,540</u>	<u>91,967</u>

Dixie Toga S.A. and Subsidiaries

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11 Loans and Financing

(a) Composition of loans and financing

	Parent company		Consolidated	
	2006	2005	2006	2005
Foreign currency				
For working capital subject to LIBOR plus 5% per year (*)	21,856	23,853	21,856	23,853
For working capital subject to exchange variation plus interest of 3.92% and 5.23% per year	69,598	68,920	82,563	99,339
For the acquisition of raw materials and permanent assets, with an average maturity of 180 days, subject to U.S. dollars exchange variations and LIBOR plus spread from 3% to 4% per year			1,589	7,271
Local currency				
For working capital - Resolution 2770	5,401	5,415	5,401	5,415
Provision for losses on swap operations	1,929	2,447	2,720	4,018
For the acquisition of fixed assets, with funds from the National Economic and Social Development Bank (BNDES), subject to the variation of the Brazilian long-term interest rate (URTJLP) plus interest of 6% and spread of 3.5% per year and part based on the BNDES (UMC) basket of currencies index plus interest of 10.5% per year	2,848		18,213	21,107
For the acquisition of fixed assets, with Workers' Support Fund (FAT) subject to interest of 14% per year			36,575	30,746
Others	137	81	5,093	10,831
	101,769	100,716	174,010	202,580
Long-term liabilities	(2,252)	(23,407)	(37,860)	(73,493)
Current liabilities	99,517	77,309	136,150	129,087

(*) The Company has a loan agreement with Banco do Brasil S.A., in the amount of US\$ 10 million (equivalent to R\$21,856, including interest of R\$ 479, as of December 31, 2006) maturing in April 2007, with interest payable quarterly, containing restrictive covenants including, among other limitations, indebtedness level, sale, assignment, transfer or lease of substantial assets and transactions with subsidiaries. The Company was compliant with all the existing contractual clauses related to this loan agreement as of December 31, 2006.

(b) Maturities

The maturities of long-term loans and financing are as follows:

Dixie Toga S.A. and Subsidiaries

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Year	2006		2005	
	Parent company	Consolidated	Parent company	Consolidated
2007			23,407	37,875
2008	661	12,448		13,750
2009	733	6,310		5,406
2010	764	5,325		4,849
2011	94	4,655		3,871
2012		4,561		3,871
2013		4,561		3,871
	<u>2,252</u>	<u>37,860</u>	<u>23,407</u>	<u>73,493</u>

Financing is guaranteed as follows:

	2006
Trade notes receivable	22,592
Property, plant and equipment (net value)	
Mortgaged/lien	<u>54,126</u>
	<u>76,718</u>

12 Securities Issued Abroad ("Eurobonds")

In March 1997, the Company placed bonds in the European market in the gross amount of US\$ 77 million, equivalent to R\$ 164,880 as of December 31, 2006 (R\$ 180,625 - December 31, 2005) maturing in March 2009, subject to annual interest of 9.5625%, payable semiannually since September 1997. These bonds have restrictive covenants including, among other limitations, restrictions on providing guarantees for loans of assets, goods or revenues in excess of the amount borrowed, acquisition or merger of the Company if the resulting stockholders' equity is less than US\$ 200 million; sale, assignment, transfer, or lease of substantial assets; indebtedness of the subsidiaries and transactions with affiliated companies.

The interest provided for semi-annually, which will be paid by the Company in a subsequent period, amounted to US\$ 119 thousand, equivalent to R\$ 254 at December 31, 2006 (R\$ 391 - December 31, 2005) and is classified in current liabilities under "Securities issued abroad - "Eurobonds".

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The Company was compliant with all existing contractual clauses related to the Eurobonds as of December 31, 2006.

In March 2003, upon the approval by the majority of their holders, these bonds were divided into two categories, in accordance with its holders: (a) global bonds - refer to securities that are held in the open market, whose conditions and yield are those previously described, and (b) reset global bonds - refer to securities owned by the Dixie Toga Group affiliated companies, whose yield is currently zero, a percentage which will be maintained until it is agreed otherwise.

In previous periods, the subsidiary DTI made partial purchases of Eurobonds, which are held in portfolio. Consequently, as of December 31, 2006, the subsidiary held US\$ 71,120,000, equivalent to R\$ 152,055 (R\$ 166,471 - December 31, 2005).

13 Taxes and Contributions Payable

	<u>Parent company</u>		<u>Consolidated</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Short term				
Value-added Tax on Sales and Services (ICMS)	7,368	11,846	27,117	28,584
Excise Tax (IPI)	2,059	1,471	3,016	2,154
Corporate Income Tax (IRPJ) and Social Contribution on Net Income (CSLL)	330	912	4,319	5,923
Social Integration Program (PIS) and Social Contribution on Revenues (COFINS)	282	1,043	1,313	3,146
Withheld Income Tax (IRRF)	336	203	675	417
Other	<u>66</u>	<u>64</u>	<u>445</u>	<u>276</u>
	<u>10,441</u>	<u>15,539</u>	<u>36,885</u>	<u>40,500</u>
Long term				
Value-added Tax on Sales and Services (ICMS)	27,542	25,822	62,925	72,122
Corporate Income Tax (IRPJ) and Social Contribution on Net Income (CSLL)			8,032	7,977
Other		<u>89</u>		<u>89</u>
	<u>27,542</u>	<u>25,911</u>	<u>70,957</u>	<u>80,188</u>
	<u>37,983</u>	<u>41,450</u>	<u>107,842</u>	<u>120,688</u>

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The Company and its subsidiaries Itap Bemis and Insit participate in production investment support programs - Good Employment and More Employment in Paraná (later replaced by the Paraná Development Program - PRODEPAR), granted by the Paraná State Government, for the purpose of supporting the implementation and expansion of companies, as well as the technological modernization and increase in the employment rate in that State. In accordance with the conditions of these programs, the companies may defer the payments of ICMS amounts generated by their operations for a 4 year period. The amortization of the amounts, monetarily restated based on the ICMS (State VAT) restatement index (FCA), started in 2003 for the Company, in 2004 for the subsidiary Itap Bemis, and will begin in 2007 for the subsidiary Insit.

As of December 31, 2006, the balances payable relating to these Programs were R\$ 34,820 (Company) and R\$ 88,813 (consolidated), of which R\$ 7,278 (Company) and R\$ 26,318 (consolidated) were recorded in current liabilities under the caption "Taxes payable" and R\$ 27,542 (Company) and R\$ 62,495 (consolidated) were recorded under the same caption in long-term liabilities.

On July 31, 2003, the subsidiary joined a program (PAES) introduced by Law no. 10,684/03 which permits the payment of tax debts to the Federal Revenue Service in installments. The total debt, in the amount of R\$ 8,163 (R\$ 9,750 - original amount), related to litigation discontinued by the subsidiary, was calculated and informed to the program's regulatory agencies through the "PAES Statement" form on October 23, 2003. Since July 31, 2003, the subsidiary has been regularly paying this debt, classified in current and long-term liabilities according to its maturity dates.

14 Provision for Contingencies

The Company and its subsidiaries are parties to pending labor, tax and civil lawsuits in various courts. For these lawsuits, the Company and its subsidiaries have filed administrative or judicial defenses. Management and its legal counsel believe that the Company and its subsidiaries are likely to succeed in most of the lawsuits. The Company and its subsidiaries have constituted provisions to cover any probable losses resulting from adverse final decisions, the final balances of which are summarized as follows:

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	<u>2006</u>	<u>2005</u> (Reclassified)	<u>2006</u>	<u>2005</u> (Reclassified)
Nature of the contingency				
Tax (i)	18,089	26,411	25,974	36,772
Labor/civil (ii)	<u>2,737</u>	<u>3,243</u>	<u>6,754</u>	<u>6,695</u>
Provision for contingencies	<u>20,826</u>	<u>29,654</u>	<u>32,728</u>	<u>43,467</u>

- (i) Ordinary proceeding through which the Company and its subsidiaries legally question the system introduced by Law no. 9718/98, which increased the calculation basis of PIS and COFINS (taxes on revenue) and also increased the COFINS rate.

During 2006, the Company and its subsidiaries Itap Bemis Ltda., Impressora Paranaense S.A. and Insit Embalagens Ltda. obtained favorable final decisions related to the lawsuits that questioned PIS and COFINS on other revenues (extension of calculation basis- Law 9718/98), which resulted in the reversal of provisions amounting to R\$ 8,335 in the parent company and R\$ 10,721 in consolidated.

- (ii) Represented, mainly, by labor claims and social security charges, and claims for damages arising from on-the-job accidents and consumption relations not supported by insurance coverage

The Company also has other ongoing lawsuits that are not significant, which are considered as risks of possible loss and for which no provision has been recognized.

The Company is questioning assessments imposed by the Municipality of São Paulo related to the supposed incidence of Service Tax (ISS) on its activities, because of the understanding that its products are subject exclusively to the incidence of Value-added Tax on Sales and Services (ICMS). Based on the opinion of its legal advisors, the Company has not recognized any provision related to these assessments.

15 Stockholders' Equity

(a) Capital

At December 31, 2006 subscribed and paid-up capital was represented by 274,810,038 (278,116,301 at December 31, 2005) registered shares with no par value, of which 191,100,116 were common shares and 83,709,922 (87,016,185 at December 31, 2005) preferred shares. At December 31, 2006 and 2005, authorized capital was R\$ 600,000.

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(b) Revaluation reserve (prior to 1999)

The revaluation reserve is realized based on the depreciation, write-offs or disposals of the respective revalued assets, and is transferred to retained earnings, also considering the tax effects of the provisions recognized.

(c) Revenue reserves

These reserves refer to the retention of the balance remaining from retained earnings, to meet the business growth project established in the investment plan, pursuant to the capital budget proposed by the Company's management, to be approved at the General Meeting in compliance with article 196 of Corporate Law.

The following matters were approved at the General and Extraordinary Stockholders' Meeting of April 28, 2006:

- (i) Distribution of dividends to the stockholders, in the amount of R\$ 10,750, at the ratio of R\$ 37.96 per thousand common shares and R\$ 41.76 per thousand preferred shares. The dividends were paid to the stockholders during the course of May 2006;
- (ii) The constitution of a retention of profits reserve, in the amount of R\$ 32,251, in accordance with management's proposal for application in a capital investment plan, including the amount of R\$ 1,457 related to the amortization of the revaluation reserve.

(d) Treasury shares

The Company maintains a policy initiated in 1996 to acquire its own shares, observing the 10% limit defined in CVM Instruction no. 10/80 and its amendment by CVM Instruction no. 268/97. During 2006, the following changes occurred in this account:

- . Acquisition in the market of 374,000 preferred shares of its capital, in the amount of R\$ 673.
- . Cancellation of 3,306,263 preferred shares in the amount of R\$ 4,013, approved at the Board of Directors' meeting.

Consequently, considering the above mentioned changes, at December 31, 2006 the Company held in treasury 374,000 preferred shares in the amount of R\$ 673.

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Notes to the Financial Statements at December 31, 2006 and 2005

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16 Dividends Proposed

Under the terms of the Company's by-laws, holders of common shares are entitled to a minimum dividend of 25% of net income adjusted as established in the law. Preferred shares are entitled to dividends 10% higher than the dividends paid on the common shares.

Preferred shares have no voting right, but have priority in the redemption of capital, as well as participation in the capital increases arising from the capitalization of revenue reserves, on an equal basis with the common shares.

In 2006, dividends were calculated based on corporate net income as follows:

Net income for the year	49,622
Legal reserve	(2,481)
Net effect of the realization of the revaluation reserve	<u>1,769</u>
Available net income	<u><u>48,910</u></u>
Mandatory minimum dividends (25% on the calculation basis) and proposed by Management	<u>12,227</u>
Estimated dividends per thousand shares - R\$	
Common	43.24
Preferred	<u><u>47.56</u></u>

The financial statements have been prepared on the assumption that this deliberation will be approved by the stockholders.

The remaining balance of retained earnings at December 31, 2006, in the amount of R\$ 36,683, is being transferred, as proposed by Management, to the account "Revenue reserve", on the assumption of the approval by the Ordinary General Meeting of the investment plan related to the expansion project and growth of business.

17 Profit Sharing

During the year ended December 31, 2006, the Company, its subsidiaries and the jointly-owned subsidiary recognized a provision for profit sharing in the amount of R\$ 3,491 - Company (R\$ 4,725 at December 31, 2005) and R\$ 4,695 in consolidated (R\$ 6,259 at December 31, 2005), related to the performance obtained in 2006. This profit sharing was defined based on operating performance indicators and goals and is not linked only to the results of operations reported by the Company, its subsidiaries and the jointly-owned subsidiary.

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18 Financial Instruments

(a) Overall considerations

(i) Parent company

As of December 31, 2006, the Company had derivative financial instruments in order to hedge all of its assets and liabilities against exchange rate risks, consisting of the following operations:

- . Foreign currency future purchase contracts (U.S. dollar), equivalent to US\$ 14 million. As of December 31, 2006, these operations generated net losses for the Company in the amount of R\$ 5,354, which were fully recognized in the results.
- . Foreign currency swap contracts equivalent to US\$ 32,141,684 (R\$ 69,364) to ensure the exchange of foreign currency risk for 104.67% of the Interbank Deposit Certificate (CDI) and interest rate swap equivalent to R\$ 5,319 to ensure the exchange of 12.67% p.a. for 104.6% of CDI. As of December 31, 2006, these operations generated losses for the Company, which were recognized in the results, in the total amount of R\$ 11,172, recorded under the caption "Loans and financing".

(ii) Jointly-owned subsidiary

With the same objective as that of the Company, the jointly-owned subsidiary Laminor carried out foreign currency future purchase transactions (U.S. dollar) in the form of non-deliverable forwards, in the amount equivalent to US\$ 3 million. As of December 31, 2006, this operation generated losses for the subsidiary, which were recognized in the results, in the total amount of R\$ 1,265, recorded under the caption "Loans and financing".

(iii) Subsidiaries

In the same manner, the subsidiary Itap Bemis Ltda. carried out foreign currency future sale transactions (U.S. dollar) in the amount equivalent to US\$ 8 million, which generated a gain for the subsidiary in the amount of R\$ 2,573, fully recognized in the result.

The subsidiary Impressora Paranaense carried out swap transactions equivalent to US\$ 5,945,960 which assured the exchange rate variation plus spread, guaranteeing 104.86% of CDI. These operations generated losses for the subsidiary which were recognized in the result in the total amount of R\$ 2,077, the corresponding entry of which was recorded under the caption "Loans and financing".

Dixie Toga S.A. and Subsidiaries

Notes to the Financial Statements at December 31, 2006 and 2005

In thousands of reais, unless otherwise indicated

(b) Credit risk - concentration

The Company and its subsidiaries are potentially subject to credit risk in connection with accounts receivable due to the large concentration in the customer portfolio, which is inherent in the packaging sector. The Company has a sales policy consisting of strict credit management and procedures for monitoring customers' balances.

(c) Exchange rate risk - foreign currency exposure

The indebtedness and the results of operations of the Company and its subsidiaries are significantly affected by currency devaluations. The policy adopted by the Company is primarily to reduce the indebtedness in foreign currency and use financial instruments, as previously described, to hedge foreign currency exposure.

Foreign currency exposure is mainly linked to U.S. dollars, as follows:

	2006		2005	
	<u>Parent company</u>	<u>Consolidated</u>	<u>Parent company</u>	<u>Consolidated</u>
Assets				
Financial assets	241	609	257	13,523
Customers	12,340	41,855	11,510	40,492
Investments	<u>153,795</u>		<u>180,401</u>	
	<u>166,376</u>	<u>42,464</u>	<u>192,168</u>	<u>54,015</u>
Liabilities				
Loans and financing	(91,454)	(106,008)	(92,773)	(130,463)
Suppliers	(13,023)	(28,366)	(10,904)	(22,668)
"Eurobonds"	<u>(164,880)</u>	<u>(12,825)</u>	<u>(180,625)</u>	<u>(14,154)</u>
	<u>(269,357)</u>	<u>(147,199)</u>	<u>(284,302)</u>	<u>(167,285)</u>
Liabilities, net - R\$	<u>(102,981)</u>	<u>(104,735)</u>	<u>(92,134)</u>	<u>(113,270)</u>
Liabilities, net - equivalent to US\$	<u>(48,167)</u>	<u>(48,987)</u>	<u>(39,362)</u>	<u>(48,392)</u>

The above foreign currency exposure is hedged through U.S. dollar future purchase contracts and swap agreements.

Dixie Toga S.A. and Subsidiaries

Notes to the Financial Statements at December 31, 2006 and 2005

In thousands of reais, unless otherwise indicated

(d) Financial investments

The Company and its subsidiaries are subject to credit risk related to their financial investments. This risk is mitigated by the policy of investing available funds only with prime financial institutions. At December 31, 2006 and 2005, the balance of investments in local and foreign currencies, Company and consolidated, referred to fixed-income securities, as follows:

	2006		2005	
	Parent company	Consolidated	Parent company	Consolidated
Bank Deposit Certificate - CDB	217	130,767		85,661
In US\$	241	609	257	13,522
	458	131,376	257	99,183

(e) Estimated fair values

The book values of the financial instruments do not present significant differences compared with their fair values, and were obtained by calculating their present values, considering the interest rates currently practiced in the market for operations of similar terms and risk. As regards the financing, the characteristics of which are disclosed in Note 11, the book values approximate the fair values.

19 Insurance

The Company adopts a risk management program to limit the risks, searching for coverage compatible with its size and operations. The coverage was contracted at amounts considered sufficient by management to cover possible losses, considering the nature of its activities, risks involved in its operations and the opinion of its insurance advisors.

At December 31, 2006, the Company had the following main insurance policies:

	Consolidated
Robbery/theft	250
Property, plant and equipment and inventories	
Vehicles	573
Industrial facilities, machinery, equipment and inventories	608,570
	609,393

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Dixie Toga S.A. and Subsidiaries

Management Report

To the Stockholders,

In compliance with the legal and statutory provisions, the Board of Directors of Dixie Toga S.A. presents for your appreciation the financial statements for the year ended December 31, 2006, with the report of independent auditors.

1 Operations

The year 2006 in the Dixie Toga Group was marked by the consolidation of businesses that had been incorporated in prior years, by the operational maturity of the new packaging plant built in 2005 and by the continuity of the operational development of all the business units of the group.

The direct exports of the group continued growing in volume, representing 12% of net sales in 2006 in comparison to 11% in 2005, despite the exchange rate devaluation from one year to another. Also to be highlighted is the increase of more than 40% in sales of the packaging division, which involves the meat and cheese markets, resulting from the commencement of operations of the new unit located in Rondonópolis - MT.

Despite these increases, overall net sales decreased 2.8% in relation to 2005, negatively affected by the strong appreciation in the value of the local currency which affected both the amount of our exports and, indirectly, the amount of our domestic sales.

The prices of the main thermoplastic resins such as polyethylene and polypropylene, two of the main raw materials consumed by our Group, ended the year high. Market data indicate that they presented average quotations of 20% and 15%, respectively, higher than 2005 and ended the year with quotations of 22% and 19% higher.

The pressure to contain and reduce sales prices and the increase in the costs of raw material have negatively affected the gross profit and, to reduce the impact, the Group endeavored to reduce expenses, continuing with quality programs, training of manpower and redesigning the processes. Consequently, the gross margin in relation to net invoicing reduced from 23% in 2005 to 21% in 2006 and the operating margin reduced from 14.3% in 2005 to 12.0% in 2006.

Dixie Toga S.A. and Subsidiaries

Management Report

	December (Accumulated)	
	2006	2005
Net revenue (millions of reais)	1,084.5	1,116.0
Gross profit (millions of reais)	227.7	260.1
Gross margin - %	21.0	23.3
Operating result before financial (millions of reais)	130.7	159.2
Operating margin - %	12.0	14.3
Net income for the period (millions of reais)	49.6	43.7
Net income - %	4.6	3.9

2 Finances

Despite the reduction in the operating margin, the Group obtained a slight increase in net income which, in relation to the net invoicing, changed from 3.9% in 2005 to 4.6% in 2006. This effect arose mainly from the strong generation of operating cash, which, despite being lower than that presented in 2005 due to the above mentioned effects, reached R\$ 185 million in 2006.

	2006	2005
Cash generation - EBITDA (million reais)	<u>184.7</u>	<u>211.7</u>
Net indebtedness - short term	4.5	(20.9)
Net indebtedness - long term	(50.4)	(87.3)
Net indebtedness (millions of reais)	<u>(45.9)</u>	<u>(108.2)</u>
Net indebtedness (millions of U.S. dollars)	<u>(21.5)</u>	<u>(46.2)</u>

At the end of the two periods under analysis, the Group net indebtedness was reduced from R\$ 108 million in 2005 to R\$ 46 million in 2006.

The Group continues with a conservative focus in relation to liabilities in foreign currency, using hedge instruments to protect against the exchange exposure.

Dixie Toga S.A. and Subsidiaries

Management Report

3 Additional Information

In compliance with CVM Instruction 381/03, we inform that our independent auditors did not render any other services to the audited companies.

Management would like to thank each of the Group's employees for their dedication and creativity during 2006; as well as our customers, stockholders, suppliers and financial institutions for their trust and contribution during this year.

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