

*(Convenience Translation into English from
the Original Previously Issued in Portuguese)*

Dixie Toga S.A. and Subsidiaries

*Financial Statements for the Years Ended
December 31, 2004 and 2003 and
Independent Auditors' Report*

Deloitte Touche Tohmatsu Auditores Independentes

(Convenience Translation into English from the Original Previously Issued in Portuguese)

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Dixie Toga S.A.
São Paulo - SP

1. We have audited the accompanying individual (Company) and consolidated balance sheets of Dixie Toga S.A. and subsidiaries as of December 31, 2004 and 2003, and the related statements of income, changes in shareholders' equity, and changes in financial position for the years then ended, all expressed in Brazilian reais and prepared under the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements.
2. Our audits were conducted in accordance with auditing standards in Brazil and comprised: (a) planning of the work, taking into consideration the significance of the balances, volume of transactions, and the accounting and internal control systems of the Company and its subsidiaries, (b) checking, on a test basis, the evidence and records that support the amounts and accounting information disclosed, and (c) evaluating the significant accounting practices and estimates adopted by management, as well as the presentation of the financial statements taken as a whole.
3. In our opinion, the financial statements referred to in paragraph 1 present fairly, in all material respects, the individual and consolidated financial positions of Dixie Toga S.A. and subsidiaries as of December 31, 2004 and 2003, and the results of their operations, the changes in shareholders' equity, and the changes in their financial positions for the years then ended in conformity with Brazilian accounting practices.
4. The accompanying financial statements have been translated into English for the convenience of readers outside Brazil.

São Paulo, February 16, 2005

DELOITTE TOUCHE TOHMATSU
Auditores Independentes

Agenor N. Yamamoto
Engagement Partner

(Convenience Translation into English from the Original Previously Issued in Portuguese)

DIXIE TOGA S.A. AND SUBSIDIARIES

BALANCE SHEETS AS OF DECEMBER 31, 2004 AND 2003

(In thousands of Brazilian reais)

| <u>ASSETS</u> | <u>Company</u> | | <u>Consolidated</u> | | <u>LIABILITIES AND SHAREHOLDERS' EQUITY</u> | <u>Company</u> | | <u>Consolidated</u> | |
|---|----------------|----------------|---------------------|----------------|--|----------------|----------------|---------------------|----------------|
| | <u>2004</u> | <u>2003</u> | <u>2004</u> | <u>2003</u> | | <u>2004</u> | <u>2003</u> | <u>2004</u> | <u>2003</u> |
| CURRENT ASSETS | | | | | CURRENT LIABILITIES | | | | |
| Cash and banks | 2.593 | 699 | 8.882 | 7.159 | Trade accounts payable | 41.753 | 24.944 | 114.843 | 85.551 |
| Temporary cash investments | 391 | 93 | 77.863 | 95.526 | Loans and financing | 38.477 | 27.904 | 63.405 | 81.722 |
| Trade accounts receivable | 47.161 | 35.299 | 169.090 | 107.508 | Taxes payable | 9.965 | 5.033 | 27.598 | 22.008 |
| Discounted exchange receivables | - | (125) | - | (125) | Payroll and related charges | 11.848 | 7.258 | 23.526 | 16.869 |
| Allowance for doubtful accounts | (232) | (161) | (4.419) | (2.290) | Other payables | 6.834 | 9.880 | 11.643 | 10.069 |
| Inventories | 29.549 | 18.816 | 104.489 | 77.686 | Related parties | 21.853 | 6.931 | - | - |
| Related parties | 10.414 | 2.854 | - | - | Dividends payable | <u>10.859</u> | <u>8.853</u> | <u>10.859</u> | <u>8.853</u> |
| Dividends receivable from subsidiary | 7.245 | 3.279 | - | - | | <u>141.589</u> | <u>90.803</u> | <u>251.874</u> | <u>225.072</u> |
| Recoverable taxes | 5.608 | 7.952 | 13.592 | 26.616 | | | | | |
| Other receivables | <u>2.519</u> | <u>4.098</u> | <u>9.278</u> | <u>11.471</u> | LONG-TERM LIABILITIES | | | | |
| | <u>105.248</u> | <u>72.804</u> | <u>378.775</u> | <u>323.551</u> | Loans and financing | 26.544 | 29.358 | 46.508 | 58.763 |
| | | | | | Securities issued abroad - eurobonds | 180.552 | 222.468 | 180.552 | 222.468 |
| LONG-TERM ASSETS | | | | | Securities issued abroad - subsidiary's portfolio | - | - | (180.552) | (194.790) |
| Deferred income and social contribution taxes | 9.414 | 7.761 | 33.072 | 35.303 | Deferred income and social contribution taxes on revaluation | 9.187 | 9.837 | 13.391 | 14.556 |
| Related parties | 1.979 | 19.972 | - | - | Taxes payable | 29.229 | 31.827 | 82.749 | 88.264 |
| Escrow and other deposits | <u>10.743</u> | <u>12.161</u> | <u>24.000</u> | <u>23.357</u> | Reserve for contingencies | 28.177 | 20.884 | 40.034 | 31.676 |
| | <u>22.136</u> | <u>39.894</u> | <u>57.072</u> | <u>58.660</u> | Other payables | <u>120</u> | <u>-</u> | <u>120</u> | <u>-</u> |
| | | | | | | <u>273.809</u> | <u>314.374</u> | <u>182.802</u> | <u>220.937</u> |
| PERMANENT ASSETS | | | | | MINORITY INTEREST | | | | |
| Investments: | | | | | | <u>-</u> | <u>-</u> | <u>127.758</u> | <u>103.585</u> |
| In subsidiaries and affiliates | 410.016 | 370.180 | 776 | 1.014 | SHAREHOLDERS' EQUITY | | | | |
| Other | <u>571</u> | <u>571</u> | <u>625</u> | <u>625</u> | Capital | 144.575 | 144.575 | 144.575 | 144.575 |
| | 410.587 | 370.751 | 1.401 | 1.639 | Revaluation reserve | 34.748 | 35.858 | 34.748 | 35.858 |
| Property, plant and equipment | 117.387 | 128.991 | 348.932 | 349.691 | Profit reserves | 62.509 | 30.847 | 62.509 | 30.847 |
| Deferred charges | <u>1.872</u> | <u>3.048</u> | <u>15.797</u> | <u>25.351</u> | Treasury shares | - | (969) | - | (969) |
| | 529.846 | 502.790 | 366.130 | 376.681 | Accumulated deficit | <u>-</u> | <u>-</u> | <u>(2.289)</u> | <u>(1.013)</u> |
| | | | | | | <u>241.832</u> | <u>210.311</u> | <u>239.543</u> | <u>209.298</u> |
| TOTAL ASSETS | <u>657.230</u> | <u>615.488</u> | <u>801.977</u> | <u>758.892</u> | TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | <u>657.230</u> | <u>615.488</u> | <u>801.977</u> | <u>758.892</u> |

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

(Convenience Translation into English from the Original Previously Issued in Portuguese)

DIXIE TOGA S.A. AND SUBSIDIARIES

STATEMENTS OF INCOME

FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003

(In thousands of Brazilian reais, except for earnings per thousand shares)

| | <u>Company</u> | | <u>Consolidated</u> | |
|--|------------------|------------------|---------------------|------------------|
| | <u>2004</u> | <u>2003</u> | <u>2004</u> | <u>2003</u> |
| GROSS SALES | | | | |
| Sales of products and services | 385.311 | 326.089 | 1.303.673 | 1.032.154 |
| Returns, discounts and taxes on sales | <u>(92.027)</u> | <u>(79.114)</u> | <u>(301.713)</u> | <u>(228.002)</u> |
| | 293.284 | 246.975 | 1.001.960 | 804.152 |
| COST OF SALES | <u>(213.194)</u> | <u>(193.474)</u> | <u>(742.530)</u> | <u>(635.795)</u> |
| GROSS PROFIT | <u>80.090</u> | <u>53.501</u> | <u>259.430</u> | <u>168.357</u> |
| OPERATING EXPENSES | | | | |
| Selling | (14.374) | (14.354) | (42.779) | (33.448) |
| General and administrative | (23.601) | (21.467) | (53.005) | (40.928) |
| Management compensation | (4.228) | (2.185) | (6.114) | (6.055) |
| Other, net | <u>(2.599)</u> | <u>(586)</u> | <u>(10.422)</u> | <u>(4.075)</u> |
| | (44.802) | (38.592) | (112.320) | (84.506) |
| INCOME BEFORE FINANCIAL ITEMS, RESTRUCTURING EXPENSES AND EQUITY IN SUBSIDIARIES | 35.288 | 14.909 | 147.110 | 83.851 |
| FINANCIAL ITEMS | | | | |
| Monetary and exchange variations, net | 6.146 | 23.425 | (16.580) | (21.130) |
| Financial expenses | (18.327) | (5.946) | (32.461) | (33.071) |
| Financial income | <u>1.668</u> | <u>2.151</u> | <u>16.627</u> | <u>11.372</u> |
| | (10.513) | 19.630 | (32.414) | (42.829) |
| RESTRUCTURING EXPENSES | - | (549) | - | (549) |
| EQUITY IN SUBSIDIARIES | | | | |
| Equity in subsidiaries and affiliates | 28.545 | (10.298) | - | - |
| Amortization of goodwill and negative goodwill, net | <u>(237)</u> | <u>(237)</u> | <u>(237)</u> | <u>(237)</u> |
| | 28.308 | (10.535) | (237) | (237) |
| INCOME FROM OPERATIONS | <u>53.083</u> | <u>23.455</u> | <u>114.459</u> | <u>40.236</u> |
| NONOPERATING INCOME (EXPENSES), NET | <u>3.131</u> | <u>13.724</u> | <u>(148)</u> | <u>10.965</u> |

(Continues)

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DIXIE TOGA S.A. AND SUBSIDIARIES

STATEMENTS OF INCOME

FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003

(In thousands of Brazilian reais, except for earnings per thousand shares)

(Continuation)

| | <u>Company</u> | | <u>Consolidated</u> | |
|--|----------------|---------------|---------------------|---------------|
| | <u>2004</u> | <u>2003</u> | <u>2004</u> | <u>2003</u> |
| INCOME BEFORE TAXES ON INCOME, EMPLOYEE PROFIT SHARING AND MINORITY INTEREST | 56.214 | 37.179 | 114.311 | 51.201 |
| INCOME AND SOCIAL CONTRIBUTION TAXES | | | | |
| Current | (4.121) | (1.568) | (31.409) | (12.986) |
| Deferred | <u>2.304</u> | <u>384</u> | <u>(1.066)</u> | <u>16.935</u> |
| | (1.817) | (1.184) | (32.475) | 3.949 |
| INCOME BEFORE EMPLOYEE PROFIT SHARING AND MINORITY INTEREST | 54.397 | 35.995 | 81.836 | 55.150 |
| EMPLOYEE PROFIT SHARING | (9.842) | (747) | (15.538) | (3.023) |
| INCOME BEFORE MINORITY INTEREST | <u>44.555</u> | <u>35.248</u> | <u>66.298</u> | <u>52.127</u> |
| MINORITY INTEREST | - | - | (23.292) | (16.879) |
| NET INCOME | <u>44.555</u> | <u>35.248</u> | <u>43.006</u> | <u>35.248</u> |
| EARNINGS PER THOUSAND SHARES - R\$ | <u>150,00</u> | <u>117,76</u> | | |

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

(Convenience Translation into English from the Original Previously Issued in Portuguese)

DIXIE TOGA S.A.

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (COMPANY)
FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003
(In thousands of Brazilian reais)

| | <u>Capital</u> | Revaluation <u>reserve</u> | <u>Profit reserves</u> | | Treasury <u>shares</u> | Accumulated <u>deficit</u> | <u>Total</u> |
|--|----------------|-------------------------------|------------------------|------------------|---------------------------|-------------------------------|----------------|
| | | | <u>Legal</u> | <u>retention</u> | | | |
| BALANCES AS OF DECEMBER 31, 2002 | 144.575 | 37.784 | 628 | 9.979 | - | - | 192.966 |
| Realization of revaluation reserve | - | (1.926) | - | - | - | 1.926 | - |
| Purchase of treasury shares | - | - | - | - | (8.122) | - | (8.122) |
| Cancellation of treasury shares | - | - | - | (7.153) | 7.153 | - | - |
| Net income | - | - | - | - | - | 35.248 | 35.248 |
| Legal reserve | - | - | 1.762 | - | - | (1.762) | - |
| Additional dividends for 2002 approved by annual shareholders' meeting | - | - | - | (928) | - | - | (928) |
| Proposed dividends | - | - | - | - | - | (8.853) | (8.853) |
| Reserve for profit retention | - | - | - | 26.559 | - | (26.559) | - |
| BALANCES AS OF DECEMBER 31, 2003 | <u>144.575</u> | <u>35.858</u> | <u>2.390</u> | <u>28.457</u> | <u>(969)</u> | <u>-</u> | <u>210.311</u> |
| Realization of revaluation reserve | - | (1.110) | - | - | - | 1.110 | - |
| Purchase of treasury shares | - | - | - | - | (2.175) | - | (2.175) |
| Cancellation of treasury shares | - | - | - | (3.144) | 3.144 | - | - |
| Net income | - | - | - | - | - | 44.555 | 44.555 |
| Legal reserve | - | - | 2.228 | - | - | (2.228) | - |
| Proposed dividends | - | - | - | - | - | (10.859) | (10.859) |
| Reserve for profit retention | - | - | - | 32.578 | - | (32.578) | - |
| BALANCES AS OF DECEMBER 31, 2004 | <u>144.575</u> | <u>34.748</u> | <u>4.618</u> | <u>57.891</u> | <u>-</u> | <u>-</u> | <u>241.832</u> |

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

(Convenience Translation into English from the Original Previously Issued in Portuguese)

DIXIE TOGA S.A. AND SUBSIDIARIES

STATEMENTS OF CHANGES IN FINANCIAL POSITION
FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003
(In thousands of Brazilian reais)

| | <u>Company</u> | | <u>Consolidated</u> | |
|---|-----------------|------------------|---------------------|------------------|
| | <u>2004</u> | <u>2003</u> | <u>2004</u> | <u>2003</u> |
| SOURCES OF FUNDS | | | | |
| From operations: | | | | |
| Net income | 44.555 | 35.248 | 43.006 | 35.248 |
| Minority interest | - | - | 23.292 | 16.879 |
| Items not affecting working capital: | | | | |
| Depreciation and amortization | 12.964 | 14.947 | 56.037 | 47.372 |
| Loss on merged investment | - | - | - | 803 |
| Monetary variations on long-term items | (11.167) | (54.446) | 9.305 | (52.917) |
| Equity in subsidiaries and affiliates | (28.545) | 10.298 | - | - |
| Equity in subsidiaries and affiliates - nonoperating | (916) | (972) | - | - |
| Amortization of goodwill and negative goodwill | 237 | 237 | 237 | 237 |
| Deferred income and social contribution taxes | (2.303) | (384) | 1.066 | (20.055) |
| Net book value of permanent assets written off | 2.724 | 479 | 3.396 | 815 |
| Reserve for tax and labor contingencies | 908 | 2.423 | 1.469 | 4.382 |
| Provision for losses on property, plant and equipment | - | - | 245 | - |
| Capital gain from change in equity interest in subsidiary | - | (12.237) | - | - |
| Dividends receivable/received from subsidiaries | 8.805 | 3.279 | - | - |
| | <u>27.262</u> | <u>(1.128)</u> | <u>138.053</u> | <u>32.764</u> |
| From third parties: | | | | |
| Increase in long-term liabilities, net | 8.372 | 10.173 | 47.397 | 41.248 |
| Decrease in long-term assets, net | 20.754 | - | - | - |
| Capital decrease in subsidiary | 1.479 | - | - | - |
| Transfer from long-term/permanent to current assets | 1.285 | 2.063 | - | 350 |
| Increase in minority interest | - | - | - | 26.803 |
| Total sources | <u>59.152</u> | <u>11.108</u> | <u>185.450</u> | <u>101.165</u> |
| USES OF FUNDS | | | | |
| Increase in long-term assets, net | - | 3.917 | 357 | 7.107 |
| Increase in investments | 22.180 | 122.767 | - | - |
| Additions to property, plant and equipment | 2.897 | 3.453 | 49.327 | 32.001 |
| Increase in deferred charges | 11 | - | 38 | 1.371 |
| Transfer from long-term to current liabilities | 39.372 | 20.428 | 91.985 | 56.842 |
| Purchase of treasury shares | 2.175 | 8.122 | 2.175 | 8.122 |
| Purchase of eurobonds for portfolio | - | - | 2.287 | 191.799 |
| Proposed dividends | 10.859 | 8.853 | 10.859 | 8.853 |
| Additional dividends for 2002 | - | 928 | - | 928 |
| Total uses | <u>77.494</u> | <u>168.467</u> | <u>157.028</u> | <u>307.023</u> |
| INCREASE (DECREASE) IN WORKING CAPITAL | <u>(18.342)</u> | <u>(157.359)</u> | <u>28.422</u> | <u>(205.858)</u> |
| REPRESENTED BY | | | | |
| Current assets: | | | | |
| At beginning of year | 72.804 | 215.946 | 323.551 | 514.713 |
| At end of year | <u>105.248</u> | <u>72.804</u> | <u>378.775</u> | <u>323.551</u> |
| | <u>32.444</u> | <u>(143.142)</u> | <u>55.224</u> | <u>(191.162)</u> |
| Current liabilities: | | | | |
| At beginning of year | 90.803 | 76.586 | 225.072 | 210.376 |
| At end of year | <u>141.589</u> | <u>90.803</u> | <u>251.874</u> | <u>225.072</u> |
| | <u>50.786</u> | <u>14.217</u> | <u>26.802</u> | <u>14.696</u> |
| INCREASE (DECREASE) IN WORKING CAPITAL | <u>(18.342)</u> | <u>(157.359)</u> | <u>28.422</u> | <u>(205.858)</u> |

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

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DIXIE TOGA S.A. AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003
(Amounts in thousands of Brazilian reais, unless otherwise indicated)

1. OPERATIONS

The Company's primary activity is the production of rigid packages, cartridge-type packages, labels and disposable products for the food, beverage, hygiene and cleaning industry, intended to industrial and consumer users.

In addition, the Company has direct investments in subsidiaries, in Brazil and abroad, with related activities, such as the manufacturing and sale of plastic laminates and flexible packages printed by the rotogravure and flexographic processes.

2. PRESENTATION OF FINANCIAL STATEMENTS AND SUMMARY OF SIGNIFICANT ACCOUNTING PRACTICES

The financial statements have been prepared in accordance with Brazilian accounting practices and supplementary instructions of the Brazilian Securities Commission (CVM).

The following is a summary of the significant accounting practices adopted in the preparation of these financial statements:

a) Temporary cash investments

Stated at cost plus income earned to the balance sheet dates, adjusted to market value, when applicable.

b) Allowance for doubtful accounts

Recognized based on an analysis of receivables, in an amount considered sufficient by management to cover possible losses on the realization of receivables.

c) Inventories

Stated at average acquisition or production cost, which does not exceed replacement cost or realizable value. Imports in transit are stated at each import's accumulated cost.

d) Investments

Investments in subsidiaries and affiliates are carried under the equity method of accounting. Other investments are stated at cost, monetarily restated to December 31, 1995. Goodwill resulting from the acquisition of investments is amortized on a straight-line basis over a period of ten years from January 1, 1996. Negative goodwill resulting from the acquisition of investments is amortized based on the realization of the assets of the subsidiary that originated the negative goodwill. 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, were prepared or adjusted, as applicable, in accordance with Brazilian accounting practices adopted by the Company, in U.S. dollars, and were translated into Brazilian reais at the exchange rates prevailing on December 31, 2004 and 2003.

e) Property, plant and equipment

Recorded at acquisition or construction cost, monetarily restated to December 31, 1995, including interest on related loans and partial revaluation. Depreciation is calculated under the straight-line method based on the estimated useful lives of the assets, at the annual rates set forth in Note 7.

f) Deferred charges

Recorded at cost, monetarily restated to December 31, 1995, and are represented by preoperating costs, systems installation costs and goodwill on the acquisition of investments by subsidiary, amortized over a period of five to ten years, as indicated in Note 8.

g) Income and social contribution taxes

Determined using the applicable tax rates on book income, adjusted in accordance with prevailing tax legislation. The Company recognizes tax credits on tax loss carryforwards and temporary differences between income for tax purposes and that determined in accordance with Brazilian accounting practices, pursuant to CVM Resolution No. 273, of August 20, 1998, and Instruction No. 371, of June 27, 2002, as indicated in Note 6.

h) Assets and liabilities denominated in foreign currencies or subject to monetary variation

Receivables and payables, legally or contractually subject to monetary variation, are restated to the balance sheet dates. Assets and liabilities denominated in foreign currencies are translated into Brazilian reais at the exchange rates prevailing on the balance sheet dates. Exchange and monetary variations are recognized in income.

i) Reserve for contingencies

Refers to labor, tax and civil issues and is recorded in accordance with the risk assessment performed by management and legal counsel, inclusive with respect to its classification in long-term liabilities.

j) Earnings per share

Computed based on the number of shares outstanding at the balance sheet dates.

3. CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements have been prepared in accordance with the accounting practices described in Note 2 and include the financial statements of the Company and the following subsidiaries: Itap Bemis Ltda., Impressora Paranaense S.A., Dixie Toga Nordeste S.A., Insit Embalagens Ltda., Laminor S.A. (jointly-owned subsidiary), Dixie Toga Centro Oeste Embalagens S.A., American Plast S.A., American Packaging S.A. and Dixie Toga International Ltd. The principal consolidation criteria adopted are as follows: (a) elimination of balances between consolidated companies; (b) elimination of investments in consolidated companies against the respective shareholders' equity of the investee; (c) elimination of revenues and expenses resulting from transactions between consolidated companies; (d) elimination of inventory profit from sales between consolidated companies, when applicable; and (e) determination of minority interest in consolidated shareholders' equity and income.

Reconciliation of shareholders' equity and net income, Company and consolidated, for the years ended December 31, 2004 and 2003 is as follows:

| | <u>2004</u> | | <u>2003</u> |
|--|---------------------------------------|-----------------------------|---------------------------------------|
| | <u>Shareholders'</u> <u>equity</u> | <u>Net</u> <u>income</u> | <u>Shareholders'</u> <u>equity</u> |
| Company | 241,832 | 44,555 | 210,311 |
| Unrealized profit on sale of property, plant and equipment to subsidiaries | <u>(2,289)</u> | <u>(1,549)</u> | <u>(1,013)</u> |
| Consolidated | <u>239,543</u> | <u>43,006</u> | <u>209,298</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 S.A., the main information on which is as follows:

Dixie Toga S.A.'s ownership interest - % 50

Proportional balance sheet amounts:

Current:

Assets 10,915

Liabilities 14,970

Long term:

Assets 182

Liabilities 9,890

Permanent assets 17,224

Shareholders' equity 3,461

Proportional income statement amounts:

Net sales 39,673

Gross profit 6,457

Operating expenses, net (2,528)

Financial expenses, net (3,474)

Income and social contribution taxes (242)

Employee profit sharing (83)

Net income 130

4. INVENTORIES

| | <u>Company</u> | | <u>Consolidated</u> | |
|-----------------------------|----------------|---------------|---------------------|---------------|
| | <u>2004</u> | <u>2003</u> | <u>2004</u> | <u>2003</u> |
| Finished goods | 7,754 | 5,610 | 29,527 | 21,105 |
| Work in process | 3,357 | 2,126 | 20,552 | 16,811 |
| Raw materials and packaging | 16,598 | 7,483 | 46,385 | 28,428 |
| Other | <u>1,840</u> | <u>3,597</u> | <u>8,025</u> | <u>11,342</u> |
| | <u>29,549</u> | <u>18,816</u> | <u>104,489</u> | <u>77,686</u> |

5. INVESTMENTS IN SUBSIDIARIES AND JOINTLY-OWNED SUBSIDIARY

5.1. Significant information on subsidiaries and jointly-owned subsidiary

| | Number of shares held (in thousands) | Capital | Shareholders' equity (deficit) | Percentage | Company's interest | |
|--|--|---------|--------------------------------------|------------|--|----------------------------|
| | | | | | In shareholders' equity (deficit) | In net income (loss) |
| In 2004: | | | | | | |
| Itap Bemis Ltda. | 131,684 | 239,426 | 260,424 | 55.00 | 143,233 | 26,731 |
| Goodwill on acquisition of Itap Bemis Ltda. | - | - | - | - | 907 | - |
| Impressora Paranaense S.A. | 3,631,614 | 14,512 | 28,781 | 100.00 | 28,781 | 2,803 |
| Negative goodwill on acquisition of Impressora Paranaense S.A. | - | - | - | - | (702) | - |
| Dixie Toga Nordeste S.A. | 4,590 | 2,987 | 21,589 | 100.00 | 21,589 | 14,271 |
| Insit Embalagens Ltda. | 9 | 10 | (1,246) | 90.00 | - | 1,285 |
| Laminor S.A. (jointly-owned subsidiary) | 8 | 10,031 | 6,921 | 50.00 | 3,461 | 130 |
| Dixie Toga Centro Oeste Embalagens S.A. | 1 | 10 | 265 | 100.00 | 265 | - |
| American Plast S.A. (foreign investment) | 2,843 | 4,542 | 26,958 | 60.35 | 16,269 | 1,957 |
| American Packaging S.A. (foreign investment) | 2,343 | 2,353 | 173 | 98.05 | 170 | (433) |
| Dixie Toga International Ltd. (foreign investment) | 1 | 1 | 196,043 | 100.00 | <u>196,043</u> | <u>(18,199)</u> |
| | | | | | <u>410,016</u> | <u>28,545</u> |
| In 2003: | | | | | | |
| Itap Bemis Ltda. | 131,684 | 239,426 | 211,822 | 55.00 | 116,502 | 25,478 |
| Goodwill on acquisition of Itap Bemis Ltda. | - | - | - | - | 1,307 | - |
| Impressora Paranaense S.A. | 3,631,614 | 14,512 | 31,214 | 100.00 | 31,214 | 766 |
| Negative goodwill on acquisition of Impressora Paranaense S.A. | - | - | - | - | (864) | - |
| Dixie Toga Nordeste S.A. | 4,590 | 2,987 | 10,065 | 100.00 | 10,065 | 6,465 |
| Insit Embalagens Ltda. | 9 | 10 | (2,673) | 90.00 | - | 1,886 |
| Laminor S.A. (jointly-owned subsidiary) | 8 | 10,031 | 6,531 | 50.00 | 3,266 | (1,750) |
| American Plast S.A. (foreign investment) | 2,843 | 4,542 | 21,415 | 60.35 | 12,924 | 5,994 |
| American Packaging S.A. (foreign investment) | 2,343 | 2,353 | 2,093 | 98.05 | 2,052 | (302) |
| Dixie Toga International Ltd. (foreign investment) | 1 | 1 | 193,714 | 100.00 | <u>193,714</u> | <u>(48,835)</u> |
| | | | | | <u>370,180</u> | <u>(10,298)</u> |

In 2004 and 2003, the Company recognized a reserve of 100% of its interest in Insit Embalagens Ltda.'s shareholders' deficit, recorded under "Other payables" in current liabilities.

- a) Itap Bemis Ltda. - The principal activity of the company is the manufacture of flexible packages using machinery with flexographic and rotogravure printing technologies.

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.

On July 1, 2004 negotiations between Itap Bemis Ltda. and Alcoa Alumínio S.A. (subsidiary of Alcoa Inc.) for the acquisition of certain assets of the flexible packaging business were concluded. This business unit, which manufactures aluminum and paper packaging for the food and tobacco industries, is located in São Paulo. The acquired net assets are as follows:

| | |
|---------------------|---------------|
| Current assets | 14,526 |
| Current liabilities | (3,400) |
| Permanent assets | <u>18,338</u> |
| Acquired net assets | <u>29,464</u> |

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

On July 31, 2003, this subsidiary joined a program (PAES) that, according to Law No. 10,684/03, permits paying tax debts to the Federal Revenue Service in installments. The total debt, in the amount of R\$9,750, related to litigation waived 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 under the caption "Taxes payable", on the maturity dates.

On April 30, 2004, the Annual and Extraordinary Shareholders' Meeting of this subsidiary approved the payment of dividends proposed by management as of December 31, 2003, in the amount of R\$1,744, and additional dividends of R\$1,559. The amount of R\$2,000 was paid in the second quarter of 2004 and R\$1,303 was paid in the third quarter of 2004.

Based on 2004 results as of December 31, 2004 this subsidiary proposed payment of dividends to the Company, in the amount of R\$3,677, in 2005.

- c) 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 30, 2004, the Annual Shareholders' Meeting of this subsidiary approved the payment of dividends proposed by management as of December 31, 2003, in the amount of R\$1,535, which was paid in full in the third quarter of 2004.

Based on the results obtained in 2004, as of December 31, 2004 this subsidiary proposed payment of dividends to the Company, in the amount of R\$3,568, in 2005.

- d) Insit Embalagens Ltda. - A subsidiary whose main activity is the production, manufacture and sale of packaging. The company started its activities in July 2002.
- e) Laminor S.A. - A jointly-owned subsidiary established in December 2002 with capital of R\$10,031, 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 plastic laminates to be used for the manufacture of packaging for personal hygiene, medication and cleaning products. The company started its activities in November 2003.
- f) 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. The company is in preoperating stage.
- g) American Plast S.A. - A publicly-held corporation based in Argentina and leader in the market for rigid packaging and products for fast food restaurants.

In the first quarter of 2004, the subsidiary received from its parent company Dixie Toga S.A., as advance for future capital increase, the amount of R\$1,493 (equivalent, on the transaction date, to \$1,500,000 Argentine pesos), R\$1,244 of which was recorded in a specific caption in shareholders' equity, to be used for future capital increase. This amount arises from the transfer to Dixie Toga S.A. of the amount that the subsidiary owed to the affiliated company American Packaging S.A. as explained in item h) of this note.

- h) American Packaging S.A. - A subsidiary established in 2001 whose main activity is the manufacture and sale of paper, cardboard and carton packages and labels and other similar products. This company was established through the partial spin-off of American Plast S.A.'s assets and liabilities. On February 17, 2004, based on an Assignment of Credit instrument, the advance for future capital increase, in the amount of \$1,500,000 Argentine pesos (recorded in the subsidiary's shareholders' equity), which had been approved by the subsidiary's Extraordinary Shareholders' Meeting, was repaid through the transfer to the majority shareholder, Dixie Toga S.A., of credits that the subsidiary had with the affiliated company American Plast S.A.

- i) Dixie Toga International Ltd. - A wholly-owned subsidiary, based in Grand Cayman, in the Cayman Islands, whose principal activity is managing the Company's foreign investments.

In 2004, the subsidiary received from its parent company Dixie Toga S.A., as advance for future capital increase, the amount of R\$20,528 (equivalent, on the transaction date, to US\$7,001,916), which was recorded in a specific caption in shareholders' equity, since this amount may only be used for this purpose.

5.2. Related-party transactions

Balances and transactions with related parties for the years ended December 31, 2004 and 2003 are summarized below:

| <u>2004</u> | <u>Dividends receivable</u> | <u>Accounts receivable</u> | <u>Other receivables</u> | <u>Accounts payable</u> | <u>Other payables</u> | <u>Income</u> | <u>Expenses</u> |
|-------------------------------------|---------------------------------|--------------------------------|------------------------------|-----------------------------|---------------------------|---------------|-----------------|
| Itap Bemis Ltda. | - | 91 | - | 3,463 | 17,170 | 2,015 | 2,542 |
| Impressora Paranaense S.A. | 3,677 | 42 | 36 | 46 | - | 138 | 210 |
| Dixie Toga Nordeste S.A. | 3,568 | 3,485 | 367 | 729 | - | 4,287 | 1,825 |
| Insit Embalagens Ltda. | - | 6,421 | 12 | 445 | - | 6,842 | 399 |
| Laminor S.A. | - | - | 1,564 | - | - | 265 | - |
| American Plast S.A. | - | 375 | - | - | - | 665 | 455 |
| Dixie Toga International Ltd. | - | - | - | - | - | 277 | - |
| Balances as of December 31, 2004 | <u>7,245</u> | <u>10,414</u> | <u>1,979</u> | <u>4,683</u> | <u>17,170</u> | <u>14,489</u> | <u>5,431</u> |
| <u>2003</u> | <u>Dividends receivable</u> | <u>Accounts receivable</u> | <u>Other receivables</u> | <u>Accounts payable</u> | <u>Other payables</u> | <u>Income</u> | <u>Expenses</u> |
| Itap Bemis Ltda. | - | 50 | - | 1,839 | 159 | 318 | 1,848 |
| Impressora Paranaense S.A. | 1,744 | 35 | - | 91 | 2,469 | 1,208 | 109 |
| Dixie Toga Nordeste S.A. | 1,535 | 361 | - | 624 | 1,355 | 2,351 | 1,002 |
| Insit Embalagens Ltda. | - | 2,242 | 8,810 | 258 | - | 3,367 | 238 |
| Laminor S.A. | - | - | 1,856 | - | - | 82 | - |
| American Plast S.A. | - | 166 | 27 | 136 | - | 74 | 864 |
| Dixie Toga International Ltd. | - | - | 9,279 | - | - | 124 | - |
| Balances as of December 31, 2003 | <u>3,279</u> | <u>2,854</u> | <u>19,972</u> | <u>2,948</u> | <u>3,983</u> | <u>7,524</u> | <u>4,061</u> |

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

The balances of the captions "Other receivables" and "Other payables" are represented principally by loan agreements, subject to financial charges based on the average rate of return on the Company's financial investments (interbank deposit rate (CDI) variation or LIBOR variation plus interest of 3% to 5% per year in 2004 and CDI variation plus interest of 1% per year or LIBOR variation plus interest of 5% per year in 2003).

6. INCOME AND SOCIAL CONTRIBUTION TAXES

In compliance with the provisions of CVM Resolution No. 273/98 and CVM Instruction No. 371/02, the Company recognized deferred tax credits from tax loss carryforwards and temporary differences related to the Company and its subsidiaries and jointly-owned subsidiary. These credits are recorded in long-term assets considering their expected realization based on future profitability projections of those companies and on the 30% annual offset limit in accordance with current legislation.

In order to calculate the deferred income tax amount to be recorded, the management of the Company, 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. As a result of these analyses, management recognized a provision for tax credits whose expected realization exceeds five years.

In 2004, based on a new management's assessment of future results, the Company reversed the previously recognized provision for tax credits whose expected realization exceeded five years.

a) Nature of tax credits

| | <u>Company</u> | | <u>Consolidated</u> | |
|--|----------------|----------------|---------------------|----------------|
| | <u>2004</u> | <u>2003</u> | <u>2004</u> | <u>2003</u> |
| Long-term deferred tax assets: | | | | |
| Provisions deductible for tax purposes only when the expense is actually paid | (1,384) | (1,489) | 6,751 | 2,065 |
| Tax loss carryforwards | 11,957 | 14,360 | 27,480 | 38,348 |
| Accelerated depreciation with tax incentive | <u>(1,159)</u> | <u>(1,501)</u> | <u>(1,159)</u> | <u>(1,501)</u> |
| | 9,414 | 11,370 | 33,072 | 38,912 |
| Provision for tax credits | <u>-</u> | <u>(3,609)</u> | <u>-</u> | <u>(3,609)</u> |
| | <u>9,414</u> | <u>7,761</u> | <u>33,072</u> | <u>35,303</u> |
| Long-term deferred tax liabilities: | | | | |
| Revaluation of property, plant and equipment | <u>9,187</u> | <u>9,837</u> | <u>13,391</u> | <u>14,556</u> |

b) Expected realization of tax credit on tax loss carryforwards

Based on future taxable income projections, management expects that credits on nondeductible provisions and tax loss carryforwards will be realized in five years or within the settlement period of temporary differences, especially those related to tax and labor contingencies.

c) Reconciliation of income and social contribution taxes

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

| | <u>Company</u> | | <u>Consolidated</u> | |
|--|----------------|----------------|---------------------|----------------|
| | <u>2004</u> | <u>2003</u> | <u>2004</u> | <u>2003</u> |
| Income before taxes on income, employee profit sharing and minority interest | 56,214 | 37,179 | 114,311 | 51,201 |
| Employee profit sharing | <u>(9,842)</u> | <u>(747)</u> | <u>(15,538)</u> | <u>(3,023)</u> |
| | 46,372 | 36,432 | 98,773 | 48,178 |
| Official tax rates - % | 34 | 34 | 34 | 34 |
| Income and social contribution tax expenses at official tax rates | (15,766) | (12,387) | (33,582) | (16,381) |
| Adjustments to the effective tax rate: | | | | |
| Operating provisions and nondeductible expenses | (253) | (175) | (658) | (1,132) |
| Equity in subsidiaries | 9,705 | (3,501) | - | - |
| Effect of change in equity interest in subsidiary | - | 4,211 | - | - |
| Recognition of Curwood Itap Ltda. tax credits | - | - | 2,085 | - |
| Tax credits not recorded in foreign subsidiaries | - | - | (5,311) | (9,502) |
| Reversal of provision for tax credits | 3,609 | 8,738 | 3,833 | 27,778 |
| Other adjustments | <u>704</u> | <u>1,888</u> | <u>556</u> | <u>2,986</u> |
| Income and social contribution tax charge before tax benefits | (2,001) | (1,226) | (33,077) | 3,749 |
| Tax benefits: | | | | |
| Workers' meal program (PAT) and Rouanet Law | <u>184</u> | <u>41</u> | <u>602</u> | <u>200</u> |
| Income and social contribution tax charge in the statement of income | <u>(1,817)</u> | <u>(1,184)</u> | <u>(32,475)</u> | <u>3,949</u> |

7. PROPERTY, PLANT AND EQUIPMENT

| | Annual depreciation rates - % | Company | | Consolidated | |
|---|-------------------------------------|----------------|----------------|----------------|----------------|
| | | 2004 | 2003 | 2004 | 2003 |
| Buildings and construction | 4 | 55,879 | 55,872 | 112,850 | 113,691 |
| Machinery and equipment | 10 and 20 | 155,315 | 158,926 | 545,955 | 520,242 |
| Industrial facilities | 10 | 16,156 | 15,774 | 28,803 | 26,443 |
| Furniture, fixtures and IT equipment | 10 and 20 | 12,605 | 11,510 | 23,875 | 21,560 |
| Vehicles | 20 | 807 | 1,738 | 1,830 | 2,710 |
| Other | 10 and 20 | 1,341 | 2,100 | 7,813 | 8,209 |
| | | <u>242,103</u> | <u>245,920</u> | <u>721,126</u> | <u>692,855</u> |
| Accumulated depreciation | - | (147,453) | (139,964) | (415,043) | (379,222) |
| Land | - | 20,915 | 20,915 | 30,543 | 30,186 |
| Construction in progress | - | 1,770 | 2,069 | 10,554 | 5,676 |
| Advances to suppliers | - | 52 | 51 | 1,752 | 196 |
| | | <u>117,387</u> | <u>128,991</u> | <u>348,932</u> | <u>349,691</u> |

In prior years, the Company recorded partial revaluations of its property, plant and equipment, principally land, buildings, construction, and machinery and equipment, based on valuations prepared by independent appraisers, with a corresponding entry in a specific caption in shareholders' equity, net of income and social contribution taxes.

The balance of the revaluation of the Company's property, plant and equipment items as of December 31, 2004 is R\$33,851 (R\$35,334 in 2003).

8. DEFERRED CHARGES

| | Company | | Consolidated | |
|--|----------------|-----------------|-----------------|-----------------|
| | 2004 | 2003 | 2004 | 2003 |
| Goodwill on acquisition of merged investment | - | - | 30,655 | 30,655 |
| Installation of systems | 1,662 | 3,303 | 2,257 | 3,898 |
| Preoperating costs | - | 3,052 | 12,151 | 15,176 |
| Other | <u>7,496</u> | <u>7,982</u> | <u>16,513</u> | <u>17,001</u> |
| | 9,158 | 14,337 | 61,576 | 66,730 |
| Accumulated amortization | <u>(7,286)</u> | <u>(11,289)</u> | <u>(45,779)</u> | <u>(41,379)</u> |
| | <u>1,872</u> | <u>3,048</u> | <u>15,797</u> | <u>25,351</u> |

The amount of R\$30,655 refers to goodwill calculated upon the acquisition by Curwood Itap Ltda. of the controlling interest in Viskase Ltda. on August 31, 2000, recognized by subsidiary Itap Bemis Ltda. This goodwill is being amortized on a straight-line basis over a period of five years, based on expected future results, supported by an appraisal report prepared by a specialized company, whose expense, as of December 31, 2004, in the amount of R\$6,131, is recorded in the "Other, net" caption in the consolidated statement of income.

9. LOANS AND FINANCING

| <u>Financial institution</u> | <u>Financial charges</u> | <u>Amortization</u> | <u>Final maturity</u> | <u>Current</u> | <u>Long term</u> |
|---|---|---|----------------------------|----------------|------------------|
| Company: | | | | | |
| BNDES | TJLP (**) + 3.5% to 4% p.y. | Monthly | May 2005 | 445 | - |
| Working capital | 104.5% to 107% of CDI | Monthly and end of agreement | March, May and August 2005 | 10,051 | - |
| Other (*) | Exchange variation + LIBOR + 5% p.y. | Quarterly (interest) and end of agreement (principal) | April 2007 | 561 | 26,544 |
| Eurobonds | See Note 10 | Semiannual | March 2005 | 24,514 | - |
| Compror operations | 103.5% of CDI p.m. | End of agreement | January 2005 | <u>2,906</u> | - |
| Total Company | | | | <u>38,477</u> | <u>26,544</u> |
| Subsidiaries: | | | | | |
| Itap Bemis Ltda.: | | | | | |
| BNDES | TJLP + 4% p.y. | Monthly | July 2006 | 1,934 | 559 |
| Insit Embalagens Ltda.: | | | | | |
| BNDES | TJLP + 4.7% p.y. | Quarterly | September 2007 | 1,427 | 2,465 |
| EDC loan | Exchange variation + LIBOR + 4.25% p.y. | Semiannual | December 2007 | 3,939 | 5,869 |
| Laminor S.A.: | | | | | |
| BNDES | TJLP + 10.8% p.y. | Monthly | November 2009 | 2,152 | 7,236 |
| Working capital | 107% of CDI or CDI + 0.15% to 0.25% p.m. | End of agreement | December 2005 | 2,647 | - |
| FINIMP | 112.5% of CDI | End of agreement | March 2005 | 865 | - |
| Prepayment operation | Exchange variation (US\$) + LIBOR + 3% p.y. | Quarterly | December 2006 | 2,667 | 2,655 |
| Accrued losses on financial instruments (Note 16) | | | | 328 | - |
| American Plast S.A.: | | | | | |
| IFC | LIBOR + 4% p.y. | Semiannual | November 2005 | 5,324 | - |
| Other | Various | Monthly | Various | <u>3,645</u> | <u>1,180</u> |
| Total consolidated | | | | <u>63,405</u> | <u>46,508</u> |

(*) This balance is substantially comprised of the loan agreement signed in 2002 with Banco do Brasil S.A., in the amount of US\$10,000,000 (equivalent to R\$26,544 as of December 31, 2004), maturing in April 2007, subject to LIBOR plus 5% per year, payable quarterly starting from the date of disbursement, containing restrictive covenants including, among other limitations, indebtedness level, sale, assignment, transfer, or lease of substantial assets and transactions with subsidiaries and affiliates.

(**) Brazilian long-term interest rate.

Loans and financing are secured by liens on assets, mortgages on the Company's real estate and promissory notes.

10. EUROBONDS

In March 1997, the Company placed bonds in the European market in the gross amount of US\$77,000,000 (equivalent to R\$204,389 as of December 31, 2004 and R\$222,468 as of December 31, 2003) maturing in March 2009, subject to annual interest of 9.5625%, payable semiannually starting September 1997. These bonds contain restrictive covenants including, among other limitations, restrictions to provide guarantees for loans on assets or revenues in excess of the amount borrowed, acquisition or merger of the Company if the resulting shareholders' equity is less than US\$200,000,000, sale, assignment, transfer, or lease of substantial assets, indebtedness of the subsidiaries, and transactions with affiliated companies.

In March 2003, upon the approval of the majority of their holders, these bonds were divided into two categories, in accordance with such holders: (i) global bonds - refer to securities that are held in the open market, whose conditions and yield are those previously described; and (ii) 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.

Holders of these bonds are entitled to request that the Company repurchase them in March 2005. As it is expected that some of these bond holders will make use of such rights, the Company's management decided to reclassify to current liabilities the amount of US\$8,980,000 (equivalent to R\$23,837 plus interest in the amount of R\$677) related to the eurobonds placed in the market.

In prior years, the subsidiary Dixie Toga International Ltd. made partial purchases of the above-mentioned eurobonds, equivalent to US\$67,420,000, which were held in portfolio. In the first quarter, the subsidiary sold in the market the equivalent to US\$200,000 of these bonds for US\$209,296. The gain of US\$9,296 is recorded as financial income in the consolidated statement of income. In the third quarter, the subsidiary made a new partial purchase of these eurobonds, the face value of which on the date of the transaction was R\$2,287 (equivalent to US\$800,000). The amount paid for these bonds was R\$2,384, which generated a premium on the operation of R\$97, recognized as financial expense in the consolidated statement of income. Accordingly, as of December 31, 2004, the subsidiary has in portfolio US\$68,020,000 (equivalent to R\$180,552) of these bonds.

As a better form of presentation to the market, Dixie Toga International Ltd.'s bonds held in portfolio were recorded in the consolidated balance sheet as a reduction of the original debt under a specific caption in long-term liabilities.

11. TAXES PAYABLE

The Company and its subsidiaries Itap Bemis Ltda. and Insit Embalagens Ltda. participate in production investment support programs - “Bom Emprego” and “Paraná Mais Emprego” (later replaced by the Paraná Development Program - PRODEPAR), respectively, 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 employment rate in that State. 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 Ltda., and will begin in 2007 for the subsidiary Insit Embalagens Ltda.

As of December 31, 2004, the balances payable to these Programs are R\$37,269 (Company) and R\$90,503 (consolidated), of which R\$8,240 (Company) and R\$16,759 (consolidated) are recorded in current liabilities under the caption “Taxes payable” and R\$29,029 (Company) and R\$73,744 (consolidated) are recorded under the same caption in long-term liabilities.

12. CONTINGENCIES

The Company and its subsidiaries are parties to pending labor, tax and civil lawsuits before various courts. For these lawsuits, the Company and its subsidiaries have filed administrative or judicial defenses. Management and its legal counsel believe that the companies are likely to succeed in most of the lawsuits. The Company reserved the amounts of R\$28,177 (R\$20,884 in 2003) and R\$40,034 (R\$31,676 in 2003) in the consolidated balance sheets as of December 31, 2004 to cover lawsuits for which an unfavorable outcome is considered probable, summarized as follows:

| | <u>Company</u> | | <u>Consolidated</u> | |
|----------------------------|----------------|---------------|---------------------|---------------|
| | <u>2004</u> | <u>2003</u> | <u>2004</u> | <u>2003</u> |
| Nature of the contingency: | | | | |
| Tax (a) | 25,081 | 18,511 | 33,932 | 26,616 |
| Labor/civil (b) | <u>3,096</u> | <u>2,373</u> | <u>6,102</u> | <u>5,060</u> |
| | <u>28,177</u> | <u>20,884</u> | <u>40,034</u> | <u>31,676</u> |

(a) Ordinary proceeding through which the Company and its subsidiaries legally question the system introduced by Law No. 9,718/98, which increased the calculation basis of PIS and COFINS (taxes on revenue), and also increased the COFINS rate.

(b) 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’s management believes that there are no significant future risks not covered by sufficient reserves in its financial statements.

13. CAPITAL

a) Capital and type of shares

As of December 31, 2004, the subscribed and paid-up capital is represented by 297,036,730 (300,341,433 as of December 31, 2003) registered shares without par value, of which 191,100,116 are common shares and 105,936,614 (109,241,317 as of December 31, 2003) are preferred shares. Authorized capital as of December 31, 2004 and 2003 is limited to R\$600,000.

b) Treasury shares

The Company maintains a policy initiated in 1996 consisting in acquiring its own shares not reaching the 10% limit in accordance with CVM Instruction No. 10/80 and its amendment as per CVM Instruction No. 268/97. In the first and third quarters of 2004, the Company acquired in the stock market 760,000 and 1,524,703, respectively, preferred shares, in the amount of R\$2,175, which were held in treasury. On December 2, 2004, a Board of Directors' meeting approved the cancellation of 3,304,703 preferred shares, in the amount of R\$3,144, which the Company held in treasury.

14. PROPOSED DIVIDENDS AND ALLOCATION OF NET INCOME

Holders of common shares are entitled to a dividend of no less than 25% of net income, adjusted under the law. Preferred shares are entitled to dividends 10% higher than the dividends paid on the common shares.

Preferred shares do not have voting rights, but have priority in the redemption of capital, as well as participation in capital increases resulting from capitalization of profit reserves, on an equal basis with the common shares.

Dividends for 2004 were calculated based on net income, as shown below:

| | |
|--|---------------|
| | <u>R\$</u> |
| Net income | 44,555 |
| Legal reserve | (2,228) |
| Net effect of realization of revaluation reserve | <u>1,110</u> |
| Net income available | <u>43,437</u> |
| Minimum mandatory dividends (25% of the calculation basis) proposed by management | <u>10,859</u> |

The financial statements were prepared on the assumption that this proposal will be approved by the shareholders.

The remaining balance of retained earnings as of December 31, 2004, in the amount of R\$32,578, is being transferred, as proposed by management, to the "Profit reserve" account, assuming that it will be approved by the Annual Shareholders' Meeting, together with the financial statements for the year then ended. This proposal is based on the need to maintain working capital, as well as to meet the requirements of the business expansion and growth project established in the investment plan (called "Capital Budget").

15. PROFIT SHARING

During the year ended December 31, 2004, the Company and its subsidiaries recognized a provision for profit sharing in the total amount of R\$9,842 (Company) and R\$15,538 (consolidated), of which R\$9,131 (Company) and R\$14,526 (consolidated) relate to the performance for 2004 and R\$711 (Company) and R\$1,012 (consolidated) are supplement of the payment of the provision for employee profit sharing for 2003, approved by management. This profit sharing was defined based on indicators and operating performance goals and is not linked to the results of operations reported by the Company and its subsidiaries.

16. FINANCIAL INSTRUMENTS

a) Risk management

Company

As of December 31, 2004, the Company had derivative financial instruments in order to protect its liabilities against exchange rate risks, consisting in contracts for the foreign currency future contracts (U.S. dollar), equivalent to US\$25,000,000. These operations generated net losses for the Company, in 2004, in the amount of R\$13,699, which were recognized directly in income.

Jointly-owned subsidiary

For the same purpose, jointly-owned subsidiary Laminor S.A. carried out foreign currency future transactions (U.S. dollar) in the form of nondeliverable forward, in the amount equivalent to US\$5,500,000. As of December 31, 2004, this operation generated losses for the subsidiary in the total amount of R\$655, recorded under the caption "Loans and financing" (proportionally to the interest held by the Company in the subsidiary), with a corresponding entry under the caption "Financial expenses" in the statement of income.

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 - exchange variation exposure

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

Exchange variation exposure is mainly linked to U.S. dollars, as follows:

| | <u>2004</u> | |
|---------------------------------------|------------------|---------------------|
| | <u>Company</u> | <u>Consolidated</u> |
| Assets: | | |
| Financial assets | 276 | 208,521 |
| Trade accounts receivable | 1,440 | 24,797 |
| Investments | 196,043 | - |
| Other assets | <u>-</u> | <u>1,638</u> |
| | <u>197,759</u> | <u>234,956</u> |
| Liabilities: | | |
| Loans and financing | (27,105) | (42,235) |
| Trade accounts payable | (10,513) | (21,269) |
| Eurobonds | <u>(205,066)</u> | <u>(205,066)</u> |
| | <u>(242,684)</u> | <u>(268,570)</u> |
| Liabilities, net - R\$ | <u>(44,826)</u> | <u>(33,614)</u> |
| Liabilities, net - equivalent to US\$ | <u>(16,925)</u> | <u>(12,663)</u> |

The exchange variation exposure above is backed by foreign currency futures contracts (U.S. dollar).

d) Temporary cash investments

The Company and its subsidiaries are subject to credit risk related to their investments. This risk is mitigated by the policy of investing available funds only with prime financial institutions. As of December 31, 2004, the balance of investments in local and foreign currencies, Company and consolidated, refers to investments in fixed-income securities, as follows:

| | <u>2004</u> | | <u>2003</u> | |
|-------------------------|----------------|---------------------|----------------|---------------------|
| | <u>Company</u> | <u>Consolidated</u> | <u>Company</u> | <u>Consolidated</u> |
| Bank deposit rate - CDB | 115 | 49,894 | - | 60,974 |
| In US\$ | <u>276</u> | <u>27,969</u> | <u>93</u> | <u>34,552</u> |
| | <u>391</u> | <u>77,863</u> | <u>93</u> | <u>95,526</u> |

e) Estimated fair values

For the other financial instruments, there are no significant differences between the fair values and the amounts shown in the Company and consolidated financial statements as of December 31, 2004 and 2003, originating from transactions involving financial instruments as of that date that would require specific disclosure.

17. INSURANCE

The Company and its subsidiaries maintain insurance coverage in amounts considered sufficient by management to cover risks on its assets and/or obligations.

MANAGEMENT REPORT

To the Shareholders,

In compliance with law and Company by laws, the management of Dixie Toga S.A. submits for your appreciation the Financial Statements, together with the Independent Auditors' Report for the year ended December 31, 2004.

1. Operations

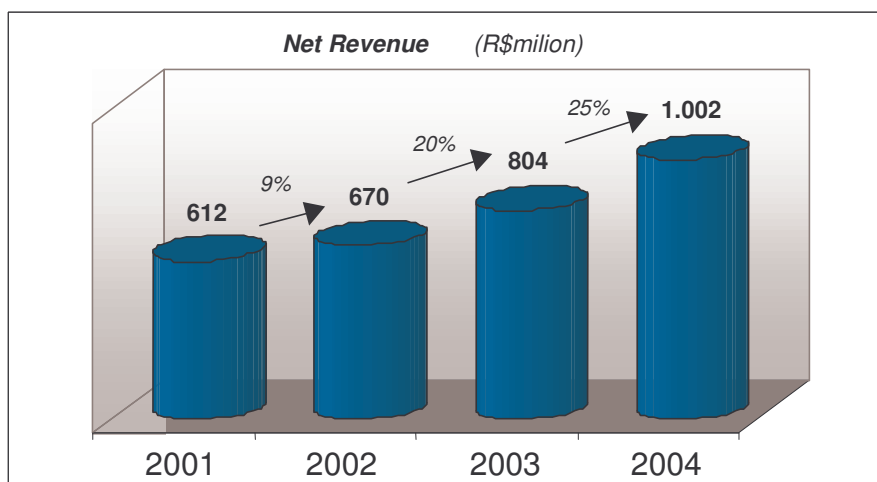
Dixie Toga's financial statements showed significant growth of its operations and further strengthening of its financial structure as compared with 2003. Various factors contributed to this performance:

- organic growth, increasing its share with old customers and winning space with new customers.
- increase in volumes exported, both directly and indirectly through our exporting customers.
- incorporation of new technologies
- a continued strategy of growth through mergers, acquisitions and combinations

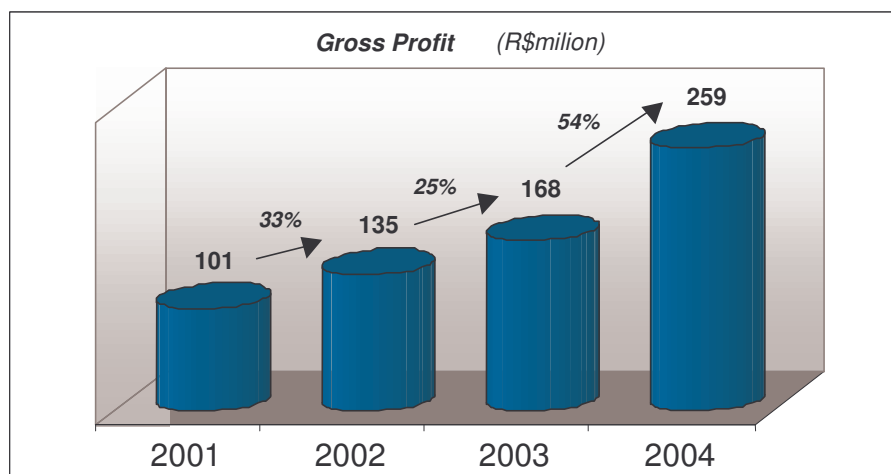
During 2004, three new business were merged into the Group:

- *Laminor*: operations started in November 2003. It is a joint venture between Dixie Toga and Huhtamaki to manufacture special laminated film used in paste tubes for the personal hygiene and pharmaceutical industries.
- *Curwood Itap Ltda*: merged into subsidiary Itap Bemis Ltda on 12.31.03. Manufacturer of shrinkable flexible packaging for the meat and cheese markets.
- *Itaipava*: flexible packaging business unit purchased from Alcoa Alumínio, a subsidiary of Alcoa Inc., on 07.01.04. It operates in the market of flexible aluminum foil and paper packaging for the chocolate, sweets, dairy products, cigarette, label, concentrated broth and thermosealing cover.

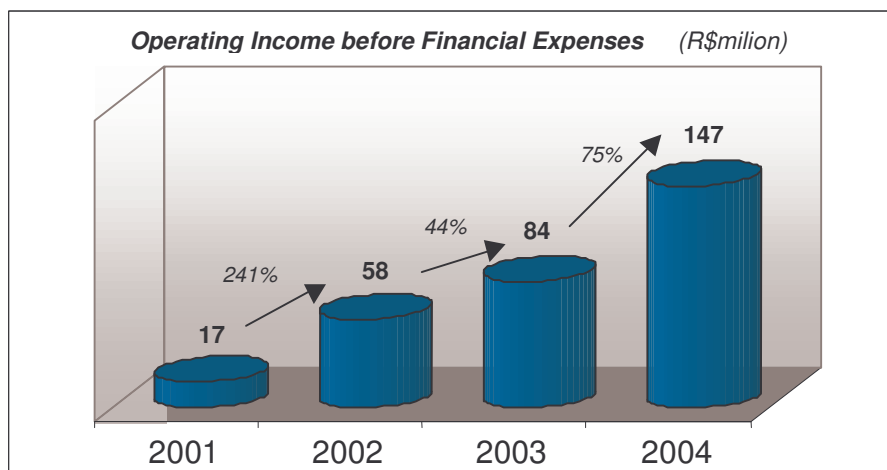
An additional factor that has contributed to the increase in operating revenues was the updating of prices, which was required to adjust, at least partially, the significant increase in the price of raw materials in 2004.



Gross profit was maintained, as the Company continued in 2004 focusing on in-house programs aimed at improving productivity and industrial efficiency, while exerting strict control over expenses. In addition to these efforts, it also continued investing in market, customer and product development, as well as in new technologies, logistics process improvements and labor training.



Operating expenses in 2004 were higher than in 2003 as a result of the strong growth of the group. However, also as a consequence of this growth and of the new acquisitions, the operating margin went up from 10.4% in 2003 to 14.7% in 2004.



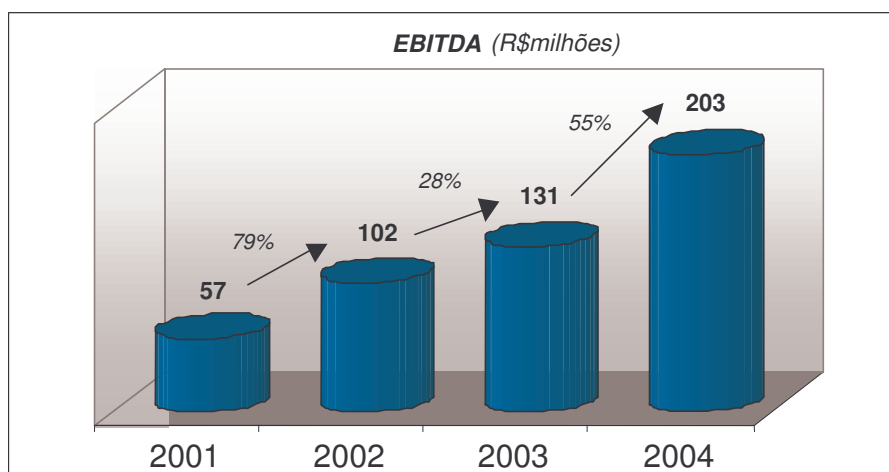
2. Finance

In addition to the strict expense control mentioned before, management has focused its efforts in cash generation and working capital management.

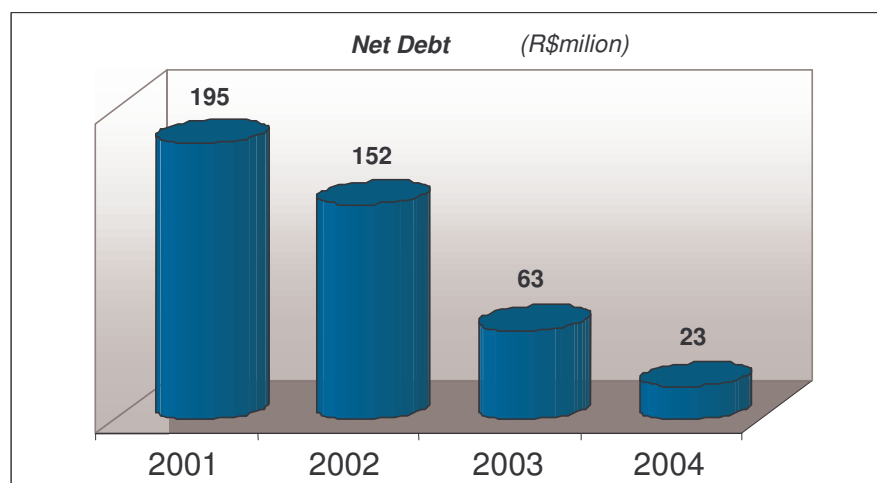
The Company's cash generation increased from R\$ 131 million in 2003, to R\$ 203 million in 2004, as shown below.

EBITDA Calculation

| | Consolidated | |
|-------------------------------|----------------|----------------|
| | 2004 | 2003 |
| OPERATING INCOME | 114.459 | 40.236 |
| Depreciation and amortization | 56.274 | 47.609 |
| Financial items | 32.414 | 42.829 |
| | 203.147 | 130.674 |



As a consequence of the group's cash generation, net indebtedness was reduced from R\$ 63 million to R\$ 23 million by the end of 2004, notwithstanding the investments in the period of about R\$ 49 million.



The Company has used hedge instruments to provide full coverage to its exchange rate variation exposure, both on the short and on the long terms due to the great volatility of exchange rates in Brazil.

3. Additional Information

On 01/05/2005, Bemis Company Inc., a U.S. company focused mainly in the manufacturing of flexible packaging and adhesive coating materials, acquired definitely, directly and indirectly, 191,098,613 registered common shares and 45,038,364 registered preferred nonvoting shares, representing almost all of common shares and 42.5% of the preferred nonvoting shares issued by Dixie Toga S.A., and that jointly compose approximately 79.5% of the total number of shares issued by this Company.

This change in the Company's equity control strengthens Dixie Toga's strategy, which continues operating under the same guidelines and executive board. In 2005, management will continue focusing on generating operating cash, increasing sales and reducing working capital.

In compliance with Instruction CVM No. 381/03 we inform that our independent accountants have not provided other services to the audited companies.

Management is grateful to each one of its employees for his/her efforts, faithfulness and creativity during 2004; we also thank our customers, shareholders, suppliers and financial institutions for their confidence and contribution shown during the year.

São Paulo, March 29, 2005

The Management