ADMINISTRATION REPORT 1999

Dear Shareholders,

In accordance with the legal and statutory provisions, Marcopolo S/A herewith presents for your appreciation, the Management Report, the Company's Financial Statements and Consolidated Financial Statements, together with the report of the independent auditors, for the financial year ended December 31, 1999.

1. Highlights and initial comments

In 1999, the company focussed on developing alternative policies as a means of counteracting the sharp fall in domestic business, a cyclical phenomenon that occurs at regular intervals every four or five years. The bus body-manufacturing sector experienced its poorest year since the inception of the Real Plan in 1994 with physical sales declining by 37.3%. The measures taken by management were successful in stemming this decline at the parent company to 31.6% as well as increasing market share from 39.3% to 42.8%. Marcopolo also reported an increase in consolidated net revenues of 4.7%, which reached R$ 464.6 million.

Consolidated Results (R$ millions)	1999	1998	%
Net operating revenues	464.6	443.7	4.7
Domestic market	268.1	289.7	(7.5)
Overseas market	196.5	154.0	27.7
Gross profit	91.1	91.6	(0.5)
Operating profit before net financial result	19.1	27.5	(30.5)
EBITDA	34.4	38.9	(11.6)
EBITDA margin (% of net revenues)	7.4	8.8	
Net income	10.1	30.1	(66.4)
Earnings per share (1)	0.142	0.367	(61.3)
Total Assets	488.9	378.4	29.2
Shareholders' Equity	202.9	196.7	3.1
Capital Expenditure	22.9	19.5	17.4

(1) Parent company result

Marcopolo's business strategy during the year was to launch new products while at the same time more aggressively attacking the international market. This strategy proved successful in consolidating the company's leadership of the sector, helped by its ability to rapidly detect new trends and meet the specific needs of its clients.

The company maintained its capital expenditure program for the year in spite of the business climate for the sector and the economy as a whole. Through the subsidiary, Polo Investimentos Ltda., some of these resources were used to subscribe to the capital of Ciferal, a bus body manufacturer based in Duque de Caxias, State of Rio de Janeiro

(RJ). Investments were also made in the constitution of the Mexican subsidiary, Polemics S/A, based in the city of Aguascalientes.

The devaluation of the Real in January 1999 impacted the financial liabilities by R$ 14.1 million, entirely recognized in the first quarter figures. However, on the positive side, the devaluation helped export revenues which grew by 27.7% in local currency terms.

The company has launched new models in each of the principal segments in which it operates. Outstanding among these new products were the Paradiso HD, a long distance bus which has obtained a major share of the market in its category both domestically and overseas, and the new version of the urban bus, the Torino. A vehicle with a hybrid propulsion characteristic (diesel and electric motors) has also been pioneered in partnership with Volvo and Eletra. The company consolidated its entry into the market for complete vehicles as opposed to bus bodies alone, by launching the Volare – a purpose-built minibus used for special transport systems – and its most recent version, the Escolarbus, designed for the schoolbus market.

2. Sector performance

In 1999, the Brazilian bus body sector reported its weakest performance in five years, with sales plummeting by 37.3% or from 19,291 to 12,098 units when compared with the previous year. In the domestic market alone, sector sales fell to 9,610 bus bodies, a reduction of 39.5% against the 15,883 units sold in 1998. This weak performance was due to four factors: the change in the Brazilian foreign exchange policy in January; the scarcity of credit combined with high interest rates; the lack of a clear policy for city and long distance public transport concessions; and finally, the uncontrollable growth in vans used for illegal public transport. All these aspects have had a direct impact on public transport carriers, resulting in the postponement of fleet renewal programs.

The crisis in Latin American markets, the principal export market, also hurt the sector's results: overseas sales fell from 3,408 units in 1998 to 2,488 in 1999, a decline of 27.0%.

Brazilian bus body production (in units)

Models/Years	1999	1998	1997	1996	1995
Long Distance	3,519	4,666	4,758	4,082	5,222
Urban	7,384	13,054	12,140	13,860	11,835
Microbuses	1,195	1,571	1,406	556	568
Total	12,098	19,291	18,304	18,498	17,625

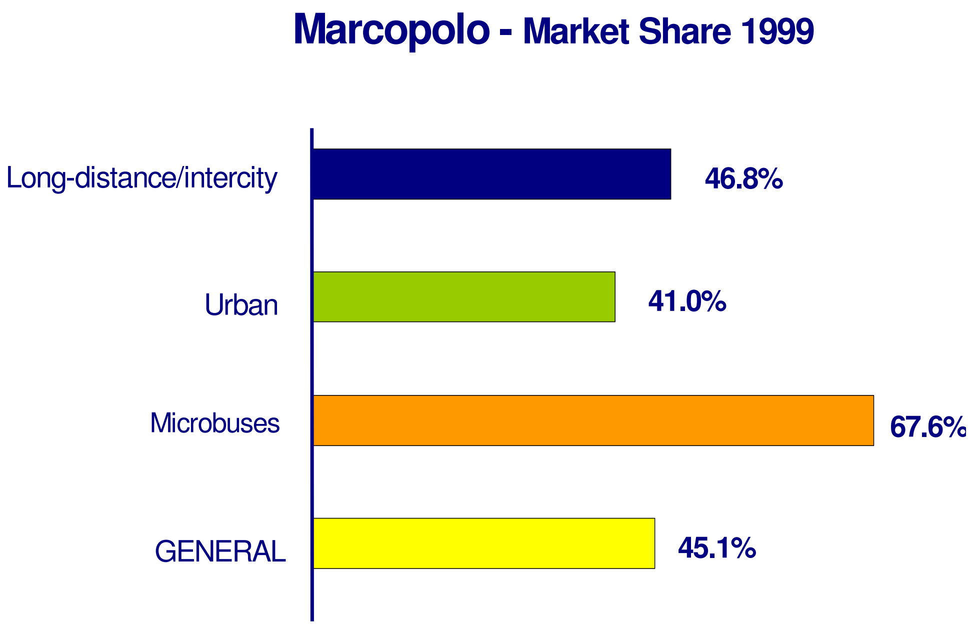
Source: FABUS –National Association of Bus Body Manufacturers

3. Marcopolo: Performance

The fall in Marcopolo's sales volume was 26.6% and therefore less than the 44.2% slump experienced by the other Brazilian bus body builders. Over the year, the company sold 5,183 units. If the 376 units (urban buses and microbuses) made by Ciferal – after the association with Marcopolo –, are included, consolidated sales in 1999 reached 5,559 units, raising market share to 45.9% of the domestic output.

Of the total number of bus bodies manufactured by the sector, urban buses represent the largest share. Of this segment, Marcopolo sold 3,235 units (2,861 itself and 374 produced by Ciferal). The domestic market took 72.0% of all the urban bus bodies sold, a decline of 3.4 percentage points compared with the figures for 1998. The drive to diversify markets was rewarded by the increase in exports to Mercosur, Mexico and Caribbean and African countries.

In 1999, the company launched its new generation of urban buses, which introduced innovations in layout and technology. This new line is also designed to satisfy market demand for greater passenger comfort and security and can also be adapted to the individual needs of the fleet operators. Marcopolo's market share of this segment is 41.7% of domestic market sales and 58.0% of overseas sales. *(Gráfico: Long distance/Urban/Microbuses/ Source: Fabus*



Source: Fabus – National Association of Bus Body Manufacturers.

Marcopolo sold 1,646 bus body units to the **long distance** market, of which 43.4% were exported. The company took a 46.8% share of total sector output.

The company sold 678 **microbus units** (676 and 2 made by Ciferal), of which 498 bus bodies went to the domestic market (73.4%) and 180 (26.6%) to the overseas market.

This represented 56.7% of total Brazilian sales, and a market share of 86.1% of all exports in this segment.

The successful launch of the Volare, the first vehicle to be entirely assembled by Marcopolo, made an important contribution towards offsetting the fall in demand for conventional bus bodies. The forecast for this year is that this model will continue to make a significant impact on the company's growth rate.

Production and Sales of Marcopolo and Ciferal (in units)

Models Units	Total		Marcopolo		Ciferal	
	1999	1998	1999	1998	1999	1998
Long Distance	1,646	2,434	1,646	2,434	0	0
Urban	3,235	6,117	2,861	4,203	374	1,914
Microbuses	678	1,278	676	935	2	343
Total	5,559	9,829	5,183	7,572	376	2,257

(1) Ciferal's production in 1999 was 1,050 units, of which 977 were urban buses and 73 microbuses. The quantities in the chart relate to only Ciferel's production from July onwards after the association with Marcopolo.
(2) The chart shows the number of bus bodies made by companies that are members of Fabus. As the Volare (1,156 units) is considered a completed vehicle as opposed to a bus body unit, it is not included in these figures.

4. Changes in the Company's Organization Structure

The company has reorganized its structure to fully realize the new opportunities and prospects for its business. Two Commercial Divisions, one Domestic and the other, International, have been set up to strengthen the sales area and provide clients with a service to meet their specific needs. A Strategy and Development Division has also been created to establish and direct the long term strategies and monitor the trends in the sector in relation to new markets and products. Finally, an Engineering and Procurement Division has been set up for technological development and to maintain the company's competitive edge at the forefront of the sector.

5. Economic and financial performance

5.1 Operating revenues and result

Marcopolo's consolidated net revenues were R$ 464.6 million, an increase of 4.7% compared with 1998. The fall of 7.5% in domestic sales was offset by a 27.7% growth in exports, equivalent to 42.3% of net revenues.

The company's operating result came under pressure from costs and expenses. Cash generation in 1999 expressed in terms of EBITDA, was R$ 34.4 million, 11.6% lower than 1998 (R$ 38.9 million).

5.2 Net financial result and debt

The financial result was a negative R$ 11.4 million against a positive R$ 11.9 million in 1998. This item was hit by the effects of the currency devaluation on the company's dollar borrowing in the amount of R$ 14.1 million, all of which was recognized in the 1999 financial year.

The company ended the year with a net debt of R$ 73.5 million, or 36.2% of stockholders' equity. Of total outstanding financial debt, 40.0% is long term, with maturities out to December 2003.

5.3 Net Income

Marcopolo reported net profits of R$ 10.1 million, 66.6% below the previous financial year. However, this can be considered to be very satisfactory when set against the performance of the Brazilian market, which was badly hit by the economic downturn, and given the sharp decline of 37.3% for the bus body sector as a whole. The company's earnings are also a reflection of its success in winning new markets and maintaining the same level of return for its shareholders.

5.4 Cash Flow

Cash Flow – Parent Company (R$ millions)	1999	1998
Net Income for the period	10.1	30.1
Non-cash expenses (revenues)		
Depreciation and amortization	15.3	11.3
Overseas subsidiaries: forex adjustments	(3.7)	(0.7)
Changes in working capital	(72.6)	(11.6)
Net operating cash flow	(50.9)	29.1
Investment Activities		
Permanent Assets	(22.9)	(19.5)
Investments in Subsidiary Companies	(1.5)	-
Sale of company's own shares	-	3.2
Distribution of interest on equity	(12.8)	(8.3)
Financing Activities		
Loans between subsidiary companies	(1.5)	-
Bank loans	96.1	58.9
Net change in cash balance:	6.6	63.4
Cash balance at the beginning of the period	120.9	57.5
Cash balance at the end of the period	127.5	120.9

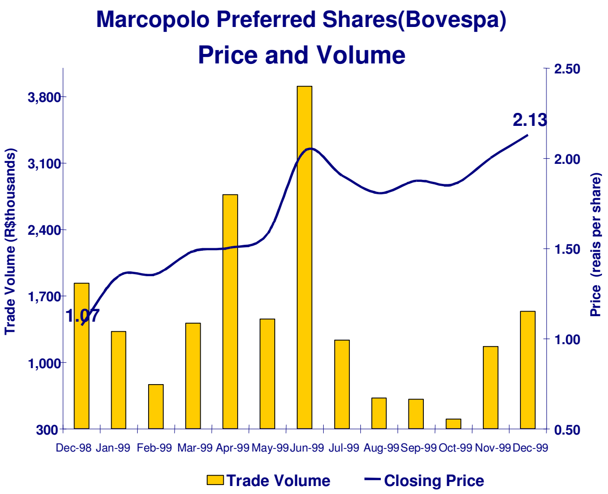
6. Capital markets

6.1 Performance of Marcopolo shares on the Bovespa

Items/ Years	1999	1998	1997	1996	1995
Number of transactions	1.384	856	1.280	641	505
Number of shares transactions (millions)	10,4	18,6	286,2	121,2	155,6
Value of transactions (US$ millions) (1)	10,1	26,6	51,3	23,2	24,5
Market Value (US$ millions)	98,7	74,8	92,1	140,3	122,3
Existing shares (millions) (2)	82,1	82,1	820,7	820,7	820,7

(1): The official buying rate for the dollar/R$ in force on the 15th of each month is used to calculated the transacted value in dollars. To determine the market value, the price of the preferred share must be multiplied by the total preferred and common shares outstanding at the end of each year. The resulting value is then converted at the official buying rate for the dollar on 31 December 1999.
(2): After the reverse split in April 1998.

The chart above shows that in 1999, there were 1,384 transactions with the company's shares, a growth of about 62% compared to the previous year. The preferred shares which account for the lion's share of the traded volume, appreciated by 98.2% over the year, with a total turnover of R$ 19.1 million. Marcopolo's preferred shares were traded on 78.0% of all the trading days that the São Paulo Stock Exchange (Bovespa) was open for business during 1999.



Marcopolo has a Level 1 ADR program, which dates from the second half of 1996. Each ADR certificate represents 10 preferred shares.

The ADR program guarantees foreign investors a higher degree of liquidity in the company's shares.

6.2 Dividends and interest on equity

On December, 27 1999, the company distributed interest on equity for a gross amount of R$ 3.9 million in lieu of the obligatory dividend payment and the additional payment of 10.0% on the preferred shares, both scheduled to be made on March,29 2000.

6.3 Breakdown of shareholding

The capital stock is R$ 130 million, made up of 82.1 million shares of which 38.5 million are common and 43.6 million preferred.

7. Capital Expenditures

Marcopolo's capital expenditures in 1999 were R$ 22.9 million, 17.4% higher than total capital expenditure of R$ 19.5 million for 1998. A significant part of the expenditure in 1999 went to the acquisition of other bus body builders or association with existing assembly plants.

In May, Polomex S/A de CV, was constituted in the city of Aguascalientes, México. The initial investment was approximately US$ 5.0 million. The unit was structured in accordance with the production and qualitative procedures of the controlling company. Based on the excellent market acceptance of the products and the current order book, the new company is assured of total success from 2000 when the plant is expected to assemble 1,200 bus bodies.

In June 1999, Polo Investimentos Ltda., a wholly owned subsidiary of Marcopolo acquired a 50% stake in the capital of Ciferal Comércio, Indústria e Participações S/A. The company is located in the city of Duque de Caxias, State of Rio de Janeiro, a strategic region for the business given its proximity to one of the main consuming centers in Brazil and one of the leading domestic chassis manufacturers. The initial investment was about R$ 5.0 million. The average annual production over the three years from 1996/1998, was approximately 2,000 urban bus and microbus bodies. The annual installed capacity is 3,000 units and this investment increases Marcopolo's total output capacity by about 60.0% in the urban bus body segment. The company has taken over the day-to-day management of the new acquisition and implemented the same production systems that already exist in the Caxias do Sul plant.

Also through the intermediary of Polo Investimentos, Marcopolo has two wholly owned subsidiaries, Dinaço Indústria e Comércio de Ferro e Aço Ltda. and MVC Componentes Plásticos Ltda., both of which are leaders in their market segments.

8. Human Resources and Community Activities

In 1999, Marcopolo had a head count of 5,400, of which 1,973 were employed in subsidiary companies. This number is 5.3% more than in 1998, largely due to the acquisition of Ciferal.

During the year, the efforts of the Human Resource area to motivate and integrate the employees were recognized. Marcopolo was included in the Exame magazine's "Guide to the Best Employers" *(Guia Exame – As Melhores Empresas para Trabalhar) and* also received the *Top Ser Humano* prize awarded by the Brazilian Association for Human Resources *(Associação Brasileira de Recursos Humanos).* The company was awarded the Company with Quality of Life (*Empresa com qualidade de vida*) certificate for the implementation of the Project Life (*Projeto Vida)* the object of which is the prevention of drugs in the workplace and at home. This award is made jointly by the United Nations and the Social Service for Industry (*Serviço Social da Indústria -Sesi).*

The Marcopolo model of human resource management comprises various initiatives to motivate and improve the technical qualification of its employees, especially a career plan, which encourages the development of new talents. In 1999, the company's profit sharing program distributed R$ 2.2 million among plant employees for achieving objectives agreed at the beginning of the financial year.

A total of R$ 1.2 million was invested in education and training during 1999. The company offers technical, functional and behavioral courses besides scholarships from elementary school to master's degree level. Through an agreement with the National Service for Industrial Training (*Serviço Nacional de Aprendizagem Industrial - Senai),* the company runs a Professional Training School *(Escola de Formação Profissional Marcopolo),* at the Caxias do Sul plant. The school was opened in 1991, and offers training courses for up to 50 students at a time. The students have the option of joining one of the companies in the group once they have completed their courses.

The company also runs programs for health, safety and benefits as part of the *Projeto Vida,* for both employees and the community at large.

Marcoprev – Sociedade de Previdência Privada provides a private pension plan scheme, which guarantees all employees benefits complementary to those of the federal social security system. As its principal sponsor, in 1999 Marcopolo contributed to the scheme with R$ 1.8 million in assets.

9. Outlook for 2000

The outlook for the current financial year looks very promising. A significant growth in consolidated net revenues is expected in spite of the recession in the Argentine market. Our estimates are for a growth of approximately 40%, taking into account the additional revenues from the new plants in Mexico (Polomex), at the Rio de Janeiro plant Ciferal, and other subsidiaries as well as from operations being negotiated in the African market.

10. Acknowledgements

The management of Marcopolo would like to thank the shareholders, clients, suppliers and partners for their support and the trust placed in the company. The company would also like to place on record its recognition of FABUS, ANTP, NTU, ABRATI and other representative bodies for the collaboration and support in the fight against illegal public transport systems as well as the incessant and permanent struggle to prioritize public over individual means of transport. Finally, management would like to give especial recognition to the employees for their dedication and endeavor, thanks to which, the company was able to achieve the results described above.

Caxias do Sul, March, 20 2000