ADMINISTRATION REPORT 2004

1. Company Profile

Marcopolo, which was founded August 6, 1949, is a company dedicated to the manufacturing bus bodies. At the end of 2004, it accounted for 47.0% of all the buses produced in Brazil. It is one the leading manufacturers in the world, responding for 6.0% to 7.0% of world production. It has a complete line of products that is composed of the *Paradiso, Viaggio and Andare* intercity bus models; the *Allegro, Viale and Torino* urban bus models; the *Sênior* midibus model; and the *Fratello and Viccino* mini bus models. Special mention must be made of the *Volare* model that constitutes a complete product family, meeting the specific needs of its own market niche. In Brazil, Marcopolo manufactures its products in three production units - two in Caxias do Sul, Rio Grande do Sul state and one in Duque de Caxias, Rio de Janeiro state. Overseas, the Company's bus factories are located in Argentina, Colombia, Mexico, Portugal and South Africa. It also owns MVC - Componentes Plásticos Ltda., a plastic components manufacturer located in São José dos Pinhais, Paraná state. This subsidiary operates two units in Brazil and one overseas.

Over the past 55 years, Marcopolo has produced more than 150,000 buses. With a total production capacity of 110 buses a day, Marcopolo employs 10,500 workers.

2. Economic and Financial Indicators

(In R$ million except for percentages and earnings per share)

CONSOLIDATED DATA	2004	2003	Variation(%)
Overall Performance			
Net operating income	1,605.4	1,288.5	24.6%
- Income from operations in Brazil	758.8	652.5	16.3%
- Income from operations overseas	846.6	636.0	33.1%
Net income	85.0	80.9	5.1%
Earnings per share	0.757	0.720	5.1%
Return on invested capital [1]	21.3%	16.5%	4.8pp
Return on equity [2]	22.3%	23.8%	(1.5)pp
Operational Performance			
Gross profit	273.4	249.8	9.4%
EBITDA (adjusted) [3]	156.0	142.4	9.5%
Operational profit (before financial results)	116.9	77.9	50.1%
Investments in fixed assets	48.9	47.5	2.9%
Financial Position			
Cash and cash equivalents	257.6	383.2	(32.8%)
Total assets	1,185.4	1.084.8	9.3%
Short term financial liabilities	268.4	404.7	(33.7%)
Long term financial liabilities	175.3	103.7	69.0%
Net financial liabilities	186.1	125.1	48.8%
Stockholders' equity	427.9	381.1	12.3%
Net financial liabilities / Stockholders' equity	43.5%	32.8%	10.7pp
Net financial results	(2.2)	26.6	(108.3%)
Margins and Indexes			
Gross margin	17.0%	19.4%	(2.4)pp
Adjusted *EBITDA* margin	9.7%	11.1%	(1.4)pp
Operating margin (before financial results)	7.3%	6.0%	1.3pp
Net margin	5.3%	6.3%	(1.0)pp

Notes: [1] ROIC *(Return on Invested Capital)* **=** **[***EBIT* (*Earnings Before Interest Taxes*) **/** **(**stocks **+** $\dot{X}$ clients **+** $\dot{X}$ fixed assets**-** $\dot{X}$ suppliers**)]**; $\dot{X}$ = Media;

[2] ROE (*Return on Equity)*;

[3] Adjusted *EBITDA* (*Earnings before interest, taxes, depreciation and amortization*) excludes gains or losses caused by exchange variations on investments and advances on exchange contracts;

p.p = percentage points.

3. Highlights in the Bus Body Sector

In production terms, 2004 was a very demanding year during which output totaled 24,676 units -15.4% more than in 2003. Production figures are higher if we include the Volare model, which brings total output to 27,664 units, or 13.2% higher than in 2003.

Each subgroup in the bus body industry has its own typical traits and different demand cycles. **Intercity** bus production in 2004 was the highest in years - output was 34.1% higher than in 2003, thanks mainly to exports. The renewal of fleets was the principal reason for the growth posted in the domestic market. Growth in important regions remained dependent on political issues related to the renewal of concessions. This created some uncertainties among operators.

Urban bus production in 2004 was 18.7% higher than in 2003. In 2004, exports of urban buses were nearly the same as in the previous year. The domestic market accounted for the growth in this sector. Fleet owners, more confident because urban transportation services in markets such as Sao Paulo, Goiania, Recife and Brasilia were regularized, resumed their purchases, mainly light urban models. Increased purchases also took place in the micro and mini bus segments.

Growth rates of **micro and mini buses**, which as of 1999 had been positing surprisingly high growth rate levels, to the detriment of urban bus models, slowed down in 2004. The production of 8,785 units was 3.7% less than the 9,124 units produced in 2003. The performance of micro and mini buses deserves special mention given that in a little more than five years they accounted for 32.0% of total bus production.

Brazilian Bus Body Production (Number of Units)

Products/Years (3)	2004	2003	2002 (2)	2001	2000
Intercity buses	6,251	4,662	5,140	5,834	5,776
Urban buses	12,628	10,643	11,528	11,758	8,923
Micro buses	4,747	4,613	3,330	3,078	3,400
SUBTOTAL	23,626	19,918	19,998	20,670	18,099
Mini buses (LCV) (1)	1,050	1,463	1,789	1,010	-
TOTAL	**24,676**	**21,381**	**21,787**	**21,680**	**18,099**

Sources: **FABUS** (Brazilian Association of Bus Coach Manufacturers) and SIMEFRE (Interstate Association of Rail and Highway Material and Equipment Industries)

Notes: (1) Production figures of mini buses (LCV - Light Commercial Vehicles) do not include production of complete units like the Volare and Van model;
(2) Since FABUS reported 2002 Irisar production figures, which were not registered that year, Brazilian bus body production figures for 2002 were revised and updated in 2003;
(3) Production figures started to include exports of knocked down (KD) units as of 2001.

4. Marcopolo Highlights

Consolidated net income in 2004 totaled R$ 1,605.4 million - 24.6% more than in 2003. For a better understanding of net income see items 5.1 and 5.2.

Net profits came to R$ 85.0 million - 5.1% higher than the R$ 80.9 million posted the previous year. See item 14.

Adjusted EBITDA in 2004 totaled R$ 156.0 million, compared to the R$ 142.4 million of the previous year - 9.7% and 11.1% of net income, respectively. For more details see item 11.

The company's **global production** in 2004 totaled 15,938 units - 12,950 conventional bus bodies and 2,988 Volare models. In 2003 production came to 14,362 units (11,314 conventional bus bodies and 3,048 Volare models). Special mention should be made of the performance and contribution of the Volare models buses. For more details see item 6.1.

Dividends/Interest on Capital. On December 17, 2004, the Administrative Council approved the distribution of R$ 38,208,142.26 as interest on capital, which was imputed for its net value to the dividends for the year. See item 21.

5. Marcopolo's Performance (Consolidated Data)

Marcopolo's administration had hoped that the country's monetary policy would less stringent in 2004 and that there would be greater availability of credit with declining interest rates These hoped-for developments together with municipal elections would have helped create the environment needed for a growth in employment levels, for an increase in real income and for a greater demand for buses in a scenario marked by low inflation rates. The expanding world economy created a favorable backdrop for increased exports and oversea business operations. The rhythm of production increased above originally expected levels, demanding additional efforts to ensure delivery. The year's final figures show that the number of units sold on the domestic market was 2.3% higher than in 2003, while the number of units exported rose 24.3%. The company's world production was 110% higher than that posted in 2003. Despite this positive performance, the results posted were not the expected ones due to significant and uncontrollable increases in the price of raw materials, the foreign exchange scenario and the resumption of rising interest rates. The first two variables in particular resulted in a perverse combination of factors that impacted the margins and profitability.

5.1 Consolidated Net Income

Consolidated net income in 2004 totaled R$ 1,605.4 million or 24.6% higher than in 2003. The domestic market accounted for R$ 758.8 million, or 16.3% higher than in 2003. Net income from overseas operations came to R$ 846.6 million - a 33.1% increase over the results posted in 2003.

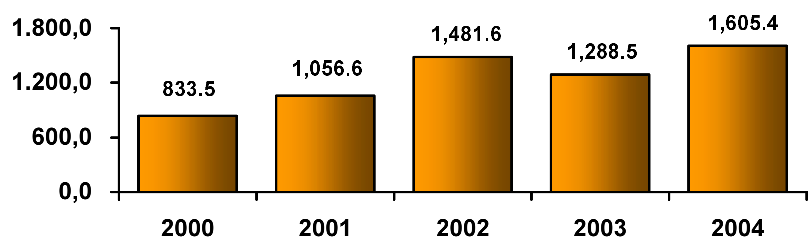
Income per product and market is listed in the chart below.

Total Consolidated Net Income - By Products and Market (R$ Million)

Products/Years [3]	2004		2003		Total	
	DM	EM	DM	EM	2004	2003
Intercity buses	218.070	416.517	163.468	298.672	634.587	462.140
Urban buses	195.452	206.236	144.233	180.698	401.688	324.931
Micro buses	49.446	57.723	60.061	34.763	107.169	94.824
Mini buses - LCV	12.418	10.142	14.570	9.522	22.560	24.092
Subtotal bus bodies	**475.386**	**690.618**	**382.332**	**523.655**	**1.166.004**	**905.987**
Volares and Vans [1]	202.044	43.089	181.774	13.706	245.133	195.480
Total B.Bodies/Volare/Vans	**677.430**	**733.707**	**564.106**	**537.361**	**1.411.137**	**1.101.467**
Chassis [2]	6.229	37.943	4.718	27.250	44.172	31.968
Parts and others	75.173	74.963	83.687	71.401	150.136	155.088
Total B.Bodies/parts/others	**81.402**	**112.906**	**88.405**	**98.651**	**194.308**	**187.056**
TOTAL	**758.832**	**846.613**	**652.511**	**636.012**	**1.605.445**	**1.288.523**

Notes: [1] Volare earnings include chassis;
[2] Earnings from chassis refer to other units sold, except Volare models;
[3] DM = Domestic Market; EM = External Market.

Net Income (R$ million)

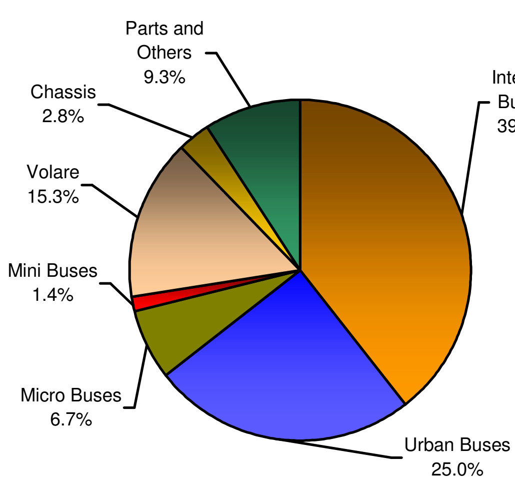


5.2 Breakdown of Consolidated Net Income (%)

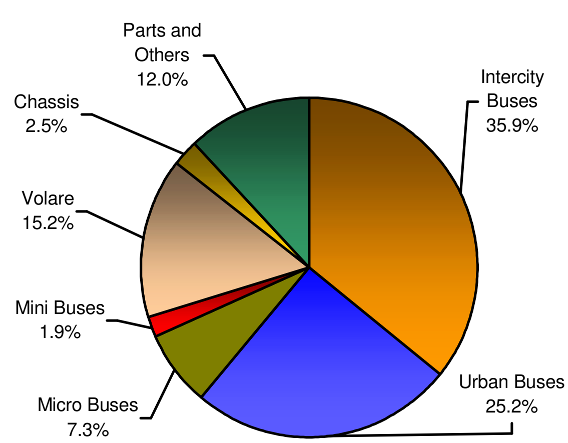
Of total consolidated net income in 2004, 87.9% came from bus body sales, 2.8% from the sale of chassis and 9.3% from the sale of parts and components.

The graphs below show consolidated income per product line (%).

2004

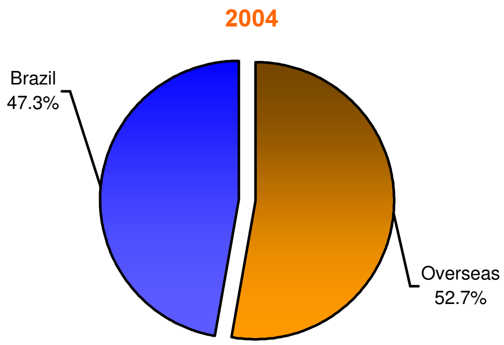


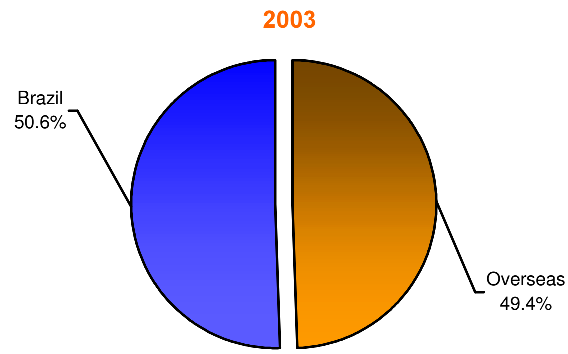
2003



5.3 Domestic/Overseas Market Breakdown (%)

In 2004, revenue from exports and overseas operations accounted for 52.7% of net consolidated income, compared to the 49.4% of the previous year.





6. Production, Sales and Market Share

6.1 Production and Sales

In 2004, Marcopolo registered an 11.0% increase in the global production of physical units. This result was mainly the result of: (i) a 22.0% increase in the production of intercity units; (ii) a 25.5% increase in the production of urban units. Production of micro buses remained stable. Production of mini buses and light commercial vehicles fell 10.0% due to entry in the market of new competitors

Global production is detailed in the charts below:

MARCOPOLO - Consolidated Global Production

By Company (units)

Companies/Years	2004	2003	Variation (%)
BRAZIL			
Marcopolo [1]	11,494	10,723	7.2%
Ciferal	3,085	2,368	30.3%
SUBTOTAL	**14,579**	**13,091**	**11.4%**
KD exports not included [2]	2,990	2,409	24.1%
TOTAL IN BRAZIL	**11,589**	**10,682**	**8.5%**
OVERSEAS			
Mexico	2,102	1,687	24.6%
Portugal	176	119	47.9%
South Africa	406	399	1.7%
Colombia	1,665	1,475	12.9%
TOTAL OVERSEAS	**4,349**	**3,680**	**18.2%**
TOTAL	**15,938**	**14,362**	**11.0%**

Notes: [1] Includes production of Volares and Van models;
[2] Partially of completely knocked down bus bodies.

MARCOPOLO - Consolidated Global Production

By Products and Markets (units)

Years	2004			2003		
Products/Markets [1]	**DM**	**EM** [2]	**TOTAL**	**DM**	**EM** [2]	**TOTAL**
Intercity buses	1,608	2,065	**3,673**	1,352	1,654	**3,006**
Urban buses	3,451	2,567	**6,018**	2,586	2,209	**4,795**
Micro buses	1,115	1,478	**2,593**	1,399	1,104	**2,503**
Mini buses (LCV)	217	449	**666**	452	558	**1,010**
SUBTOTAL	6,391	6,559	**12,950**	5,789	5,525	**11,314**
Volare and Vans	2,498	490	**2,988**	2,903	145	**3,048**
TOTAL	**8,889**	**7,049**	**15,938**	**8,692**	**5,670**	**14,362**

Notes: [1] DM = Domestic Market; EM = External Market;

[2] External market production figures include KD units exported by the parent company. In 2004, 2,990 units were exported and 2,409 units were exported in 2003.

Production and sales figures in Brazil are found in the chart below. The company's production is determined by confirmed orders. The difference between production and sales is due to the variation between initial and finial stocks at the end of each year.

Production and Sales in Brazil - Marcopolo/Ciferal (units)

Years	2004			2003		
Products/Markets [1]	**DM**	**EM** [3]	**TOTAL**	**DM**	**EM** [3]	**TOTAL**
Intercity buses	1,608	1,921	**3,529**	1,352	1,676	**3,028**
Urban buses	3,451	2,685	**6,136**	2,586	2,189	**4,775**
Micro buses	1,115	579	**1,694**	1,399	377	**1,776**
Mini buses (LCV)	217	15	**232**	452	12	**464**
SUBTOTAL	6,391	5,200	**11,591**	5,789	4,254	**10,043**
Volare and Vans [2]	2,498	490	**2,988**	2,903	145	**3,048**
TOTAL PRODUCTION	**8,889**	**5,690**	**14,579**	**8,692**	**4,399**	**13,091**
TOTAL SALES	**9,142**	**5,606**	**14,748**	**8,447**	**4,409**	**12,856**

Notes: [1] DM = Domestic Market, EM = External Market;

[2] Volare and Van (LCV) units are included in Marcopolo's production charts to provide a better understanding of the company's extensive production line, production capacity and because they have been entered as part of net earnings. Production of these vehicles are not included in SIMEFRE and FABUS figures, nor in Marcopolo's market share figures or the sector's production figures;

[3] External market production figures include KD exports - 2,990 units in 2004 and 2,409 in 2003.

6.2 Market Share

Market share by product group during the five-year period between 2000 and 2004 is shown in the chart below. The data shows that of every 100 **intercity** buses produced in the country in 2004, close to 56 units came from Marcopolo's assembly lines. This category includes large vehicles like the *Double Decker* models, the production of which demands much more time, but which for statistical reasons are considered one unit like urban and micro buses. The chart shows that Marcopolo's market share increased substantially in 2002 and 2003 - a period when some of the sector's other manufacturers reduced their output. The return of these companies to the market partially reduced the Company's market share, which nevertheless remained higher than posted in 2000 and 2001.

In the **urban bus** segment, market share increased in 2004 to 48.6%, a reflection of the success of the CITMAX model launched in September of 2003.

In 2000, the Company's market share in the **micro bus** segment was 46.0%. As a result of the entry of new competitors, this market share now stands at 35.7% - a figure the Company views as relevant and satisfactory.

Share in Brazilian Production - Marcopolo/Ciferal (%)

Products/Years	2004	2003	2002	2001	2000
Intercity buses	56.5	64.9	64.9	50.7	45.8
Urban buses	48.6	44.9	46.5	43.3	46.1
Micro buses	35.7	38.5	40.9	45.9	45.9
Mini buses (LCV)	22.1	31.7	43.8	34.7	-
TOTAL	**47.0**	**47.0**	**49.8**	**45.3**	**46.0**

Sources: FABUS and SIMEFRE

Note: [1] Volare and Vans are not included in market share figures.

7. Operating Results: Cost of Products Sold and Gross Profits

The substantial devaluation of Brazil's currency in 2002, benefited exports - that account for more than 50.0% of the Company's revenue - and had a positive impact in the operating results posted that year. But the strengthening of the real that began April 2003 and continued throughout 2004, together with the significant increases in the price of raw materials and other inputs - mainly steel products, oil derivatives, petrochemical products and freight - ruptured the revenue/cost balance reflected in the Company's gross margin. The Administration has been trying to reestablish this balance and minimize the impact of increased raw material prices and of the strengthening of the real through price adjustments, productivity management and cost-control measures. Gross margin shrank from 19.4% in 2003 to 17.1% in 2004.

8. Sales Costs

Sales costs totaled R$ 94.1 million - R$ 4.9 million less than the R$ 99.1 million registered in 2003. In 2003, R$ 17.8 million were set aside in the Reserve for

Doubtful Credits because of the credit situation of clients in Argentina. In 2004, this reserve received R$ 2.4 million. Excluding the amounts set aside for this reserve in 2003 and 2004, sales costs would have totaled R$ 91.3 million in 2004 and R$ 81.3 million in 2003 - 5.7% and 6.3% of net income respectively. The increase in sales in 2004 was the result of increased revenue.

9. General and Administrative Costs

Despite the 24.6% increase in net income, general and administrative costs in 2004 came to R$ 67.5 million - 4.2% of net income. In 2003, these costs totaled R$ 66.3 million - 5.2% of net income. Savings in other accounts neutralized the impact of the mandatory payroll adjustments, resulting from collective work contracts.

10. Net Financial results

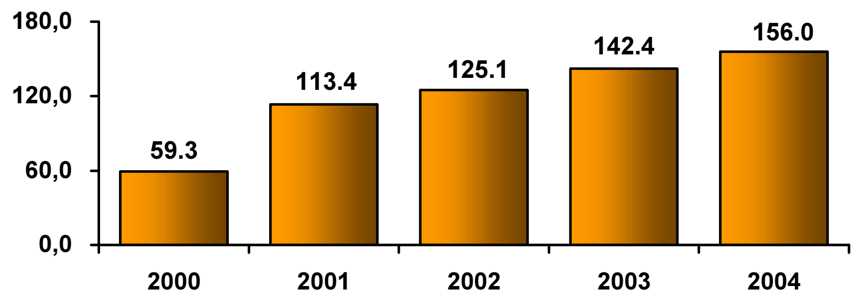
Despite the R$ 182.0 million of net financial liabilities posted at the end of 2004, the financial monitoring of commercial operations and the rational management of export credits and their impact on cash flow, allowed the Company to reduce financing costs to just R$ 2.2 million.

11. Operating Results and EBITDA

Adjusted EBITDA came to R$ 156.0 million, against the R$ 142.4 million in 2003 - 9.7% and 11.1% of net income respectively. The indexes presented have been adjusted to avoid distortions in the traditional methodology that does not properly reflect operating results in economies marked by high exchange volatility and, mainly, in companies in which exports and overseas operations account for a significant share of their income.

Adjusted EBITDA

(R$ million)



EBITDA (R$ million)	2004	2003	2002	2001	2000
Operating results	114.732	104.526	90.714	46.623	27.662
Financial results	(110.419)	(114.596)	(122.924)	(72.592)	(24.838)
Financial expenses	112.634	87.965	244.950	115.878	47.587
Depreciation/Amortization	28.928	24.623	24.983	21.549	19.256
EBITDA	145.875	102.518	237.723	111.458	69.667
Exchange variation without investments in subsidiaries	2.792	8.635	(37.545)	(3.555)	(6.215)
Exchange variation on advances on export contracts	7.298	31.295	(75.078)	5.460	(4.107)
EBITDA (adjusted)	155.965	142.448	125.100	113.363	59.345

12. Other Operating Revenue and Expenses

In 2004, the positive net balance of these accounts of R$ 5.2 million was due mainly to: (i) R$ 2.8 million in tax refunds; (ii) R$ 10.5 million obtained through the return of part of the reserves set aside for doubtful credits; (iii) R$ 2.8 million in losses due to the effect of exchange variation on investments in overseas subsidiaries (without affecting cash); (iv) R$ 4.9 million in premium amortization (also without affecting cash), linked to the acquisition of Ciferal; (v) R$ 0.4 million for tax and other operating expenses.

The negative R$ 6.5 million result of 2003 was due to: (i) R$ 7.9 million in tax refunds; (ii) R$ 8.6 million in losses due to the effect of exchange variations on investments in overseas subsidiaries (without affecting cash); (iii) R$ 4.9 million in premium amortization (also without affecting cash) linked to the acquisition of Ciferal; (iv) R$ 0.9 million from tax and other operating expenses.

13. Non-Operating Results

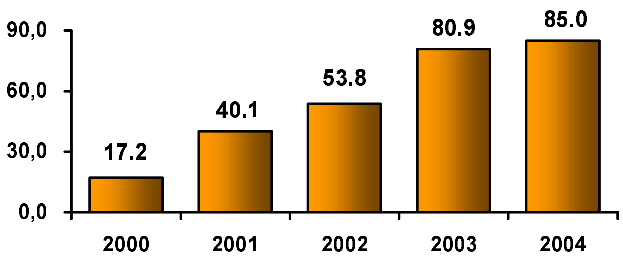
The R$ 7.1 million of expenses registered in 2004 were due to: (i) R$ 1.9 million of deferred assets written off in product research and development (ii) R$ 4.6 million relative to market value adjustments made on real estate holdings overseas; (iii) R$ 0.6 million relative to costs with fixed asset write-offs.

14. Net Profits/ROIC

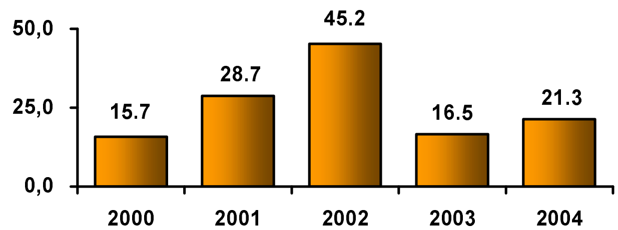
Net profits in 2004 totaled R$ 85.0 million - 5.1% percent more than the R$ 80.9 million registered in 2003. The return of invested capital (ROIC) was 21.3% in 2004 and 16.5% in 2003.

Despite the impact of the real’s strengthening and increased input and raw material costs, the Company improved its operating performance. Excluding net financial results obtained in 2004 (minus R$ 2.2 million) and in 2003 (plus R$ 26.6 million), operating results would have come R$ 116.9 million and R$ 77.9 million, respectively - 7.3% in 2004 and 6.0% in 2003.

NET PROFITS (R$ million)



ROIC (%)



15. Cash Generation

Operating activities generated R$ 4.1 million in 2004 compared to the R$ 109.6 million registered in 2003. Investments in fixed assets came to R$ 48.9 million, while financial activities consumed R$ 80.8 million in loan and interest payments. As a result, the initial cash balance of R$ 383.2 million at the start of the fiscal year dropped to R$ 257.6 million at the end of the year. Additional information on the management of financial resources can be found in the Cash Flow Statement.

This low cash generation was due mainly to increased sales that led to increased balances in customer accounts and stocks, which were impacted by a scarcity of containers and ships requised in Company’s exports. This in turn increased the operating cycle. Cash generation was also affected by the increase registered in the tax refund account, resulting from government restrictions on the refund and/or transfer of these credits.

16. Performance of Subsidiaries

Subsidiaries play an important strategic role in Marcopolo’s internationalization process. They operate in an integrated fashion, resorting to all of the competitive advantages available in the markets in which they operate, using components made in Brazil to make sales of determined products economically viable.

The company has five plants abroad. Three of them are in the Americas: Mexico (Polomex), Colombia (Superpolo) and Argentina (Marcopolo Latinoamerica); one in Europe: Portugal (Marcopolo Indústria de Carroçarias); and one in South Africa (Marcopolo South Africa).

In 2004, a total of 4,349 bus bodies were assembled overseas - 27.3% of the Company’s total production. Production of each subsidiary is detailed in the specific table in item 6.1. In Argentina, where its operations have been paralyzed, the Company has resumed direct exports to companies that pay in advance. Besides these subsidiaries in the bus segment, Marcopolo also controls MVC Componentes Plásticos, which is headquartered in the state of Paraná and with factories in Mexico and in the Brazilian states of Rio Grande do Sul and Goias. MVC uses modern plastic technologies like RTM - Resin Transfer Molding -, Vacuum Forming and Continuous Lamination that give the company a competitive edge in the automotive, civil construction, urban furniture and multimedia areas, among others. These processes are ideal for industries that use a large variety of components and have a moderate output like bus, truck, farm equipment and furniture manufacturers.

17. Corporate Governance

Marcopolo was the first company in Brazil's industrial sector to adhere to the standards and rules of the Sao Paulo Stock Exchange's (BOVESPA) Level 2 of Corporate Governance, thus committing itself to the principles of justice and to the interests of minority shareholders. Among other good corporate governance practices adopted by the Company are the Tag Along of 100% for minority shareholders with ordinary shares and of 80.0% for shareholders with preferred stock in the event of the sale of the controlling stake; and the right of shareholders with preferred stock to vote in specific matters. To stimulate the liquidity of its securities, the Company committed itself to free-float at least 25.0% of its shares on the market and to the transparency of the stock transactions conducted by its administrators and controllers.

To ensure total transparency and a responsible rendering of accounts, rigorous accounting procedures are followed in the elaboration of financial statements. Besides divulging an annual calendar of corporate events, the Company encourages the active participation of shareholders at stockholders' meetings. In 2004, as part of this principle, the Company held meetings in the cities of Sao Paulo and Porto Alegre with the Association of Capital Market Investment Analysts and Professionals (APIMEC). It also; held conference calls at the end of each quarter and participated in several *"small & mid cap day"* encounters organized by investment banks and institutions linked to the capital market. The Company's Investor Relations Division handles Marcopolo's relations with its shareholders. In 2004, the Company held meetings with Brazilian and foreign analysts and maintained numerous telephone contacts. The Company's Web site was overhauled, improving its content and the navigability of the Financial Statements, Relevant Facts and other information divulged by the Company.

The company's Administrative Council is comprised of six members. Controlling stockholders appoint two internal counselors and one external counselor, while minority shareholders, those with preferred stock and the controllers appoint one independent counselor each. The Fiscal Council, is comprised of three members, most of whom represent minority shareholders and owners of preferred stock. The controllers appoint just one of the members.

18. Intangible Assets

Marcopolo holds several registered trademarks in Brazil and in those countries in which it sells or plans to sell its products. It has more than 200 registrations and /or requests for registration of its brands in more than 20 countries. It also has more than 40 patent registrations and/or requests for patent registration. The Company's principal brands are: *Marcopolo, Volare, Ciferal, Paradiso, Viaggio, Andare, Allegro, Viale, Torino and Sênior.*

19. Independent Auditors

19.1 Change of Independent Auditors

On Dec. 17, 2004, the Administrative Council decided that as of 2005 *PRICEWATERHOUSECOOPERS* - Independent Auditors, with offices on Rua Mostardeiro, 800, 8th and 9th floors, Porto Alegre, Rio Grande do Sul state would be the Company's auditors. *PRICEWATERHOUSECOOPERS* will be replacing KPMG Independent Auditors.

19.2 CVM Instruction 381/03

As required by CVM Instruction 381/03, the company states that it did not contract KPMG Independent Auditors nor did it benefit from services unrelated to external auditing. The company's policies are based on internationally accepted principles that state that external auditors must not audit their own services, cannot exercise management functions nor promote the Company's interests.

20. Capital Markets

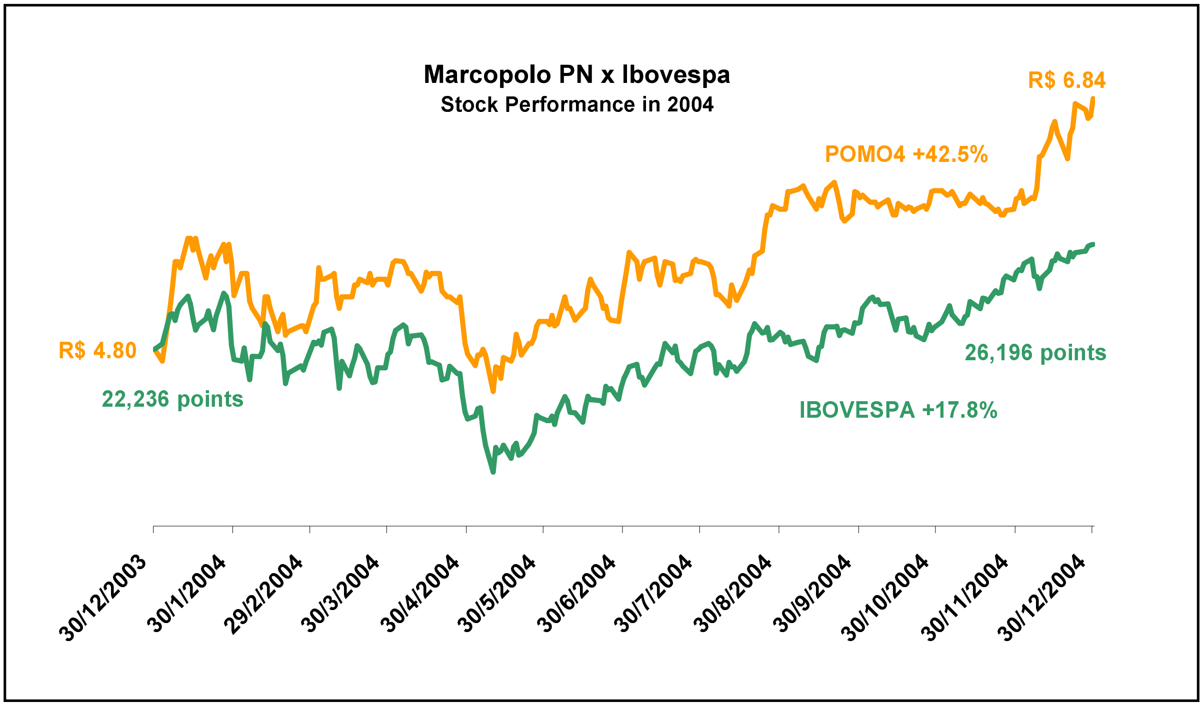
20.1 Capital Stock

The Company's current capital totals R$ 226.0 million and is composed of 112,376,889 shares - 42,703,218 ordinary shares (38.0%) and 69,673,671 preferential shares (62.0%) - all normative and book-entry shares without nominal value.

20.2 Performance of Marcopolo's Shares on the Bovespa

Over the past year the number of transactions with the Company's shares totaled 11,057. These involved 45,164,700 shares - more than 40.0% of capital stock and approximately 57.0% of the free float. The value of the transactions came to R$ 266.5 million - 16.0% more than the amount traded in 2003.

Additional information can be found in the chart below.



Indicators/Years	2004	2003	2002	2001	2000
Number of transactions	11,057	13,300	3,082	1,617	1,404
Shares negotiated (millions)	45.2	57.2	26.8	17.9	13.2
Value of transactions (R$ million)	266.5	229.2	99.4	47.8	32.2
Market value (R$ million) (1)	768.7	539.4	476.5	266.0	188.8
Existing shares (million) (2)	112.4	112.4	112.4	82.1	82.1
Book value per share (R$)	3.88	3.46	3.10	2.59	2.59
Quotation (R$ / per preferred share) (3)	6.84	4.80	4.24	3.24	2.30
Interest on capital imputed to dividends (R$/per share)	0.340	0.356	0.190	0.250	0.092

Notes: (1) The quotation of the year's last transaction of preferred shares (PE) multiplied by the total number of ordinary and preferred shares (OE+PE) at the end of the fiscal year was used to determine market value;
(2) The company's total number of shares at the end of the fiscal year;
(3) Preferred share quotation at the last trading session of the fiscal year.

21. Dividends/Interest on Capital

The Administrative Council approved, on Dec. 17, 2004, an R$ 38,208,142.26 payment of interest on capital - R$ 0.34 (thirty-four centavos) per share. The net value of R$ 34.962.958,53 was imputed to mandatory dividend payments. The value was entered in the individual accounts of each shareholder on Dec. 27, 2004 and payment will begin on March 28,2005. The distribution was the equivalent to 41.1% of consolidated net income.

22. Investments/Fixed Assets

In 2004 the Company invested R$ 48.9 million in several of its units. The investments were: (i) R$ 29.5 million in production equipment and machines and in a new layout; (ii) R$ 1.8 million in industrial installations; (iii) R$ 8.0 million in software systems, company holdings, vehicles, other fixed assets and development of new products; (iv) R$ 9.6 million in buildings and land.

23. New Products

During the year of 2004, the Company upgraded several bus body models, adapted product families to new chassis models and continued meeting the specific demands of clients. It also developed new products, notably those of the **VIALE EUROPA** family of urban buses, which are being assembled at the Coimbra unit in Portugal and which are competing for a piece of the European Union market. Marcopolo designed new bus body models to meet the technical specifications demanded for the fleet renewal of Chile's TRANSANTIAGO Project. The new models were: the **GRAN VIALE,** an urban bus for use in the system's feeding routes and the **GRAN VIALE ARTICULATED a *Low Entry and Low Floor*** urban bus with a large passenger capacity that will be used on the trunk lines. The new models were chosen and Marcopolo was asked to immediately supply 1,006 units worth about $ 53.0 million. To meet demands from other markets, Marcopolo designed and built the **VIALE DD SUNNY** model, a two-floor bus (the second floor is roofless) used mainly for city tours.

To complement the highly successful **CITMAX** family of buses produced at the Ciferal unit and launched September 2003, the Company developed a new family of smaller vehicles called **MINIMAX.** This family of buses, launched July of 2004, could be assembled on most of the chassis of up to 9 tons manufactured in Brazil.

The **VOLARE** business unit in Caxias do Sul, Rio Grande do Sul state developed and launched, in November, a new and special line of passenger buses. Mini buses underwent changes, including nomenclature. Once known by the initials A5, A6 and A8, these vehicles' initials are now V5, V6 and V8. The exception is the W8 that remained with the same initials. The new Volare started being equipped with electronic engines that became mandatory in 2005. MWM and Cummins, with its Euromec III, supply these engines. The Volare line is being sold in five different versions: Jitney, Urban, Executive, School and Vip. **VOLARE** is the minibus brand most sold in the domestic market, with more than 15,000 units produced since it was first launched six years ago.

In 2003, MVC developed the "Wall-System," a set of structural panels made with reinforced plastic and fiberglass. Thanks to this system, which is used by the civil construction sector, MVC created a low-cost housing project called **"Casa Pratica."** The program was approved by the Technology Research Institute (IPT) and its financing was approved by the Caixa Econômica Federal (Federal Loan and Savings Bank). MVC is offering this product to overseas markets and in fact in 2004 it shipped some units to Angola. The components (structural panels)) are manufactured by MVC and supplied directly to companies that assemble and deliver the housing unit directly to the client. The Company hopes to substantially increase the business volume of this subsidiary in 2005.

24. Environmental Management

In 2004, Marcopolo consolidated its Environmental Management System when it obtained ISO 4001 certification, whose initial auditing took place Jan. 2005. The importance of this certification is that it proves that the Company manages and controls all processes that could have an impact on the environment. It is also important because it helps maintain good relations with the community, satisfies the criteria of investors, improves access to capital and strengthens the Company's image and market share.

The Company also received the 2004 ABS Environment Award given to companies with successful environment protection programs and that promote the continuous improvement of their environmental management systems.

25. Management of Value Added

The company adopted the Management of Value Added (MVA) philosophy in 2001. The objective is to add value to the enterprise and its products. The MVA system, which was developed together with the Business Administration School of São Paulo's Getulio Vargas Foundation (EAESP), includes the training of personnel in the use of development instruments and in the measurement and monitoring of the achievement of goals established by the Strategic Planning Department. It facilitates the simulation and analysis of the efficiency of the management of working capital and of the effects of new investments on the company's profitability. The variable remuneration system used by the company also uses the MVA methodology to evaluate employee performance.

26. Risk Factor Management

26.1 Macroeconomic Factors

Brazil's economy is marked by instability, thus it is impossible to predict if this situation will improve or worsen. This instability that could have a negative impact on the Company's performance has to do with the exchange rate, which exerts a lot of importance on revenue and costs and which can pressure margins. Internally, recent price hikes of basic raw materials have also had negative effects on margins and costs. Revenue and consolidated results can also be significantly affected by exchange fluctuations in the markets in which the Company has business interests. To diminish the impact of these combinations, the Company adopted the following practices: (i) increased prices both on the domestic and external markets; (ii) reduced production costs and fixed costs.

Also of critical importance are the credit lines and financing facilities offered to clients for the purchase of products made by the company and the interest rates established by the government. The Company cannot guarantee that the credit lines and financing facilities will be available in the future. If the amount of credit available drops, or if there is a significant increase in interest rates, demand for products will be affected. To reduce its dependency on financing, the Company asked the Central Bank to create an institution to finance Marcopolo's products.

The economic growth rates of Brazil and overseas markets could have an impact on the demand for the products produced and sold by Marcopolo. The government exerts a preponderant influence on Brazil's economy. Changes in monetary, fiscal and tax policies could affect Marcopolo's business, financial condition and results. To reduce these impacts, the Company has diversified its markets and clients so that none represents more than 5.0% of sales.

Possible government support for a fleet renewal program, (ModerBus), similar to one adopted for the agricultural sector, could become an important tool to foster sales on the domestic market. To minimize the risks of dependency, the Company has adopted strategies and policies to attenuate the effects such dependency may have on results. These strategies involve a focus on exports and the installation of production units in important economic centers. Exports to these centers and the activities developed there represent more than 50% of the company's income. Brazilian ports, one of the bottlenecks of the country's infrastructure, are a real threat to exports. Not only are port installations saturated, there is also a shortage of containers.

26.2 Sectorial Factors

Urban, interstate and international public transportation services are subject to specific legislation. Keeping in mind that several of Marcopolo's clients provide public transportation services and are subject to legislation, eventual changes in the rules of the game could affect the demand for buses. Reduced fees for students and free transportation for the elderly, police, and justice officers, among others account for 35.0% of bus occupancy rates. This reduces income and the investment capacity of public transportation operators.

26.3 Internal Factors

The company's operational efficiency is the result of the use of its own technology, among other factors. The technology developed internally could be copied by competitors and consequently affect its competitiveness and results. Aware of this risk, the company has constantly been developing new security processes and systems to protect its technology.

Marcopolo's swap operations protect it against the effects exchange variations have on dollar-denominated liabilities. These operations are administered according to a pre-established strategy and are monitored by control systems. Swap contracts are done with top-of-the-line institutions. To limit credit risks involved in the financing offered to the client (seller operations), the Company sells its products with lien securities, real guarantees and personal sureties of the client. The company guarantees its export operations with letters of credit and/or other guarantees that ensure the operation's liquidity.

Besides the guarantees provided by the client, credit limits, both by country and individualized by client, are established. The Company always has in store a series of provisions for just about any kind of action that could have an unfavorable result - provisions for doubtful debts, technical assistance for products in the market and loss of stock. Marcopolo also has insurance policies for its products, buildings, equipment and installations, loss of profit, and product responsibility, as well as credit insurance.

27. People Management

27.1 Employee Satisfaction

In all of its Brazilian and overseas units, Marcopolo's people management practices are based on polices that result in employee satisfaction. Organizational climate surveys conducted during the year show an average employee satisfaction index of 82.3% in the Brazilian units and 71.5% in the overseas units. These indexes prove the efficiency of the policies and programs instituted in this area and help determine the improvements that need to be implemented. Thanks to these elevated employee satisfaction levels, Guia Exame included Marcopolo, for the sixth straight year, on its list of Best Companies to Work For in Brazil.

27.2 Education and Training

Marcopolo believes that education and training are instrumental in the development of its employees' full potential, both on a professional and personal level. Scholarships and technical courses prepare employees to execute their jobs properly. The first year of Trainees Overseas Program, which helps prepare professionals for the company's internationalization process, was a success. At the Marcopolo Corporate Education Center (CEMEC), 71 professionals concluded post-graduate Organizational Management courses administered by Sao Paulo's Getulio Vargas Foundation. In Mexico, 27 employees are concluding a similar program.

27.3 Career and Succession

The Company's career plan is based on the gradual acquisition of talents and abilities. Employees are oriented on professional growth opportunities .At all of the Company's industrial units, career opportunities are posted on murals and on the Intranet. The company prioritizes the use of its own staff for positions that become available. A Succession Process that identifies, evaluates and prepares professionals with the potential to be promoted is used to fill strategic functions in all of the companies.

27.4 Remuneration and Recognition

The wage system is composed by one part that is fixed and whose value is determined by each employee's function. The other part is variable, determined by the achievement of goals established jointly by the Company and its employees. Periodic wage surveys align values to local standards, thus ensuring the Company's competitiveness on the job market.

The Merit of Honor Award that recognizes the amount of time dedicated to the group and the Marcopolo Employee Day are ways of rewarding the contribution of all employees to the Company's success. At the overseas units, specific festivities are celebrated, valorizing local cultures like Halloween in Mexico and Christmas in South Africa.

27.5 Quality of Life

Marcopolo sponsors several leisure, sports and cultural programs that help improve the quality of life of its employees and relatives. The health programs offered by Marcopolo's Brazilian and overseas units take into consideration local conditions and needs and provide information and guidance on how to lead a healthy life.

27.6 Social Responsibility

With the motto, "Nossos Esforços se Projetam na Vida" (Our Efforts Are Projected in Life) the Company sponsors several activities in communities near its industrial units. These activities are mostly focused on the social development of underprivileged children and teenagers living in a socially vulnerable situation. Employees volunteer their time, dedication and care so that as many people as possible could take part in social-educational activities and receive some kind of help to improve their condition. In Brazil, the Recria art education project, which is supported by the Marcopolo Foundation, was successfully implemented in the Caxias do Sul region. This project gave close to 3,000 children and teenagers the chance to benefit from music, dance and theater workshops. The social projects developed by Marcopolo in Brazil earned the Company the Guia Exame's 2004 Good Corporate Citizenship award (Southern Region). This award is one of the country's most important.

27.7 Personnel

Number of Employees	2004	2003	2002	2001
Parent Company	5,460	4,969	5,055	4,541
Subsidiaries in Brazil	2,882	2,428	2,092	1,890
Subsidiaries Abroad	2,214	1,982	1,711	1,245
Total	**10,556**	**9,379**	**8,858**	**7,676**
Turnover Rate (%) [1]	0.84	0.77	0.77	0.63

Note: [1] Parent Company.

28. Certifications and Awards

28.1 Certifications

Marcopolo is one the first Brazilian companies recommended for certification of the norms that comprise the Integrated Management System, ISO 9.001, OHSAS 18.001, SA 8.000 and ISO 14.001.

28.2 Awards

In 2004, the Company once again received a large number of awards. Some of the most important were: "**The 100 Best Companies to Work for In Latin America",** granted by Brazil's Great Place to Work Institute; **"The 150 Best Companies to For"** from Exame Magazine; **"Top Human Being- Corporate Education"** from the Brazilian Human Resources Association; **"ABS Work and Environmental Safety and Health Award"** from Agência Brasil de Segurança (Brazil Safety Agency); **"The RH (Human Resources) Citizen Award"** from Gestão e RH Magazine. In the marketing and sales area it received the following distinctions: **"Export Prize**" from the Brazilian Association of Marketing and Sales Directors; **"300 Largest Exporters in the South"** from Editora Expressão; **"Foreign Trade Highlight**" from the Brazilian Foreign Trade Association; **"Brazilian Automotive Industry Leaders Award"** from the Jornal Automóveis e Caminhões (publication).

In the technological innovations area it received the following awards: **"The 4th Excellence Prize"** from Plástico Reforçado magazine; **"The Application of RTM Light in the Transportation Market**" awarded by the French and European Union Research Ministry**; "Bus Body Builder of the Year,"** from Autodata magazine. Others: **"Social Responsibility Certificate"** from the State Legislature of Rio Grande do Sul state; **"The Guia Exame Award for Good Corporate Citizenship"** from Exame magazine. The subsidiary, CIFERAL, received the **"Marketing Highlight Award"** from the Brazilian Marketing and Business Association.

29. Outlook for 2005

Marcopolo is facing the year 2005 with optimism, but also with some concern. The Company began the year with a solid portfolio of orders that was larger than historical levels. The plans presented by the units overseas show substantial increases both in production and revenue. On the domestic front, 2005 is expected to bring a moderate increase in demand and a more substantial expansion in exports.

The Company's growth strategy is based on investments in production - in Brazil and abroad - exports and the continuity of the internationalization process. Marcopolo continues studying new markets for its products in important regions of the world.

Profit expectations may be frustrated in the first quarter of the year, after which a gradual recovery of margins is expected due to a more aggressive price adjustment policy. The Administration knows it can count on the motivation and mobilization of its personnel to contribute to the Company's growth in the domestic market as well as to the expansion of its overseas operations. It also knows it can count on this motivation to improve performance and, through the disciplined application of the Management of Value Added (MVA) philosophy, generate the results that ensure a return higher than the average cost of the capital invested, thus adding value to shareholders' investments.

Considering the current economic scenario, the Administration approved a Consolidated Annual Budget that for 2005 forecasts gross income of R$ 2.00 billion and net income of R$ 1.74 billion. The achievement of these goals depends on political and economic stability and the maintenance of at least the same economic growth rates registered over the past few months.

The Administration has been closely monitoring the country's macroeconomic indexes. The country's economic recovery in 2004, which did not seem very robust or sustainable due to a lack of investments in capital goods during the first half of the year, now seems to be gaining strength. The Monthly Industrial Survey conducted by the Brazilian Geography and Statistics Institute (IBGE) detected a significant increase in these investments. The Institute for Industrial Development Studies (IEDI) and Brazil's Foreign Trade Association (AEB) are also forecasting increased imports of capital goods. The consensus is that 2005 will see increased imports of production machines and equipment due to plans to increase investments in local industries. Increased investments in capital goods point to an acceleration of economic activity, to the generation of new jobs, and to growth in the country's GDP and national income. While not the only ones, these factors determine the demand for new buses.

The price of raw material and the appreciation of the real top the list of our concerns. The Administration is extremely concerned with the unpredictability of the country's economic trajectory, resulting from the strengthening of the real and increased interest rates. Compensating with increased prices is an alternative that is limited, for it will reduce aggregate demand and, as a consequence, the demand for the Company's products.

Today, the growth of the bus body sector depends on exports, and the success of an export drive depends on a compatible foreign exchange rate. The government's current policy of controlling inflation by using the exchange rate and high interest rates could be a costly one in the medium term, leading to lower domestic demand and to a drop in exports. If the currency appreciation remains as it is, then bus exports will be unsustainable. The cost of money is relevant when it comes to financing capital goods. Recent interest rate increases and signs that new hikes could be implemented, seriously threaten the sector's performance

With the objective of obtaining the instruments needed to finance the purchase of its products, the Company asked the Central Bank for authorization to constitute a Financial Institution that would operate with Investment Portfolios, Commercial Leasing and Financing and Investment Credit.

30. Acknowledgements

The company thanks its entire staff for its efforts, dedication and commitment that have been fundamental to its success. It also wishes to thank its clients and shareholders for their choice, fidelity and confidence and its suppliers, financial institutions, authorities and the community for their support.

Caxias do Sul, February 21, 2005.

The Administration.