

Marcopolo S.A.
Consolidated financial statements
as of December 31, 2005 and 2004
and report of independent auditors

Report of Independent Auditors

The Board of Directors and Stockholders of
Marcopolo S.A.

- 1 We have audited the accompanying consolidated balance sheet of Marcopolo S.A. and its subsidiaries (the "Company") as of December 31, 2005 and the related consolidated statements of income, of changes in stockholders' equity, and of cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit. The audits of the financial statements of: (a) Polomex S.A. de C.V, a subsidiary, which statements reflect total assets of 4.87% of the related consolidated total as of December 31, 2005, and total net sales of 17.31% of the related consolidated total for the year ended December 31, 2005, and (b) of Marcopolo Indústrias de Carroçarias S.A., a wholly-owned subsidiary, which statements reflect total assets of 2.61% of the related consolidated total as of December 31, 2005, and total net sales of 3.32% of the related consolidated total for the year ended December 31, 2005, were conducted by other auditors. Our opinion, insofar as it refers to the amounts included for these companies, is based solely on the reports of these other auditors.
- 2 We conducted our audit in accordance with auditing standards generally accepted in Brazil. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provide a reasonable basis for our opinion.
- 3 In our opinion, based on our audit and on the report of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Marcopolo S.A. and its subsidiaries as of December 31, 2005 and the consolidated results of their operations and their consolidated cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Marcopolo S.A.

- 4 The audit of the consolidated financial statements at and for the year ended December 31, 2004, presented for comparison purposes, was conducted by other auditors who issued a qualified opinion thereon dated March 15, 2005.

April 28, 2006

PricewaterhouseCoopers
Auditores Independentes
CRC 2SP000160/O-5 "F" RS

Carlos Biedermann
Contador CRC 1RS029321/O-4

MARCOPOLO S.A.
CONSOLIDATED BALANCE SHEETS
as of December 31, 2005 and 2004
(in thousands of U.S. Dollars, except number of shares)

ASSETS

	<u>Note</u>	<u>2005</u>	<u>2004</u>
Current assets			
	3.3 and		
Cash and cash equivalents	4	120,736	97,070
Short-term investments	5	49,889	
Unrealized gains on derivatives	20	2,180	
Trade accounts receivable, net	6	128,918	139,178
Inventories	7	86,308	82,178
Deferred income tax	18	14,674	9,883
Tax credits	8	44,221	32,745
Other		13,711	7,719
Total current assets		<u>460,637</u>	<u>368,773</u>
Non-current assets			
Property, plant and equipment, net	10	69,419	66,375
Equity investments	11	4,377	829
Investments at cost		408	390
Goodwill	12	6,574	5,796
Deferred income tax	18	3,203	8,296
Tax credits	8	8,232	
Trade accounts receivable, net	6	12,739	10,497
Judicial deposits	15.1	3,887	3,473
Other		1,900	2,088
Total assets		<u><u>571,376</u></u>	<u><u>466,517</u></u>

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

MARCOPOLO S.A.
CONSOLIDATED BALANCE SHEETS
as of December 31, 2005 and 2004
(in thousands of U.S. Dollars, except number of shares)

LIABILITIES	Note	2005	2004
Current liabilities			
Short-term debt	13	50,726	84,547
Current portion of long-term debt	14	35,060	16,435
Unrealized losses on derivatives	20	602	80
Accounts payable for purchase of goods		38,498	49,663
Other trade accounts payable		11,598	4,739
Payroll and related liabilities		21,609	17,663
Provision for contingencies	15	20,441	9,297
Income tax and other taxes payable		5,484	6,514
Commissions payable to sales representatives		8,616	6,102
Interest on equity payable	17	16,509	13,210
Other		19,830	12,827
Total current liabilities		<u>228,973</u>	<u>221,077</u>
Non-current liabilities			
Long-term debt, less current portion	13	131,402	66,050
Income tax and other taxes payable	18	1,895	1,799
Provision for contingencies	15		7,786
Accrued pension and other post retirement obligations	16	3,785	3,354
Other		1,379	3,719
Total non-current liabilities		<u>138,461</u>	<u>82,708</u>
Total liabilities		<u>367,434</u>	<u>303,785</u>
Minority interest		3,349	2,529
Shareholders' equity			
Preferred shares - no par value, 69,673,671 shares authorized and issued at December 31, 2005 and 2004	17	38,298	38,298
Common shares - no par value, 42,703,218 shares authorized and issued at December 31, 2005 and 2004		17,975	17,975
Treasury stock - 800,000 preferred shares at December 31, 2005 (2004- nihil)		(1,658)	
Legal reserve		14,768	11,510
Retained earnings		175,622	157,573
Cumulative other comprehensive loss		(44,412)	(65,153)
Total shareholders' equity		<u>200,593</u>	<u>160,203</u>
Total liabilities and shareholders' equity		<u><u>571,376</u></u>	<u><u>466,517</u></u>

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

MARCOPOLO S.A.
CONSOLIDATED STATEMENT OF INCOME
for the years ended December 31, 2005 and 2004
(in thousands of U.S. Dollars, except number of shares and earnings per share)

	2005	2004
Net sales	670,839	549,267
Cost of sales	(561,620)	(456,139)
Gross profit	109,219	93,128
Sales and marketing expenses	(43,399)	(32,226)
General and administrative expenses	(26,519)	(21,607)
Administrators and employees profit sharing	(2,152)	(2,179)
Other operating income (expense)	(2,326)	4,492
Operating income	34,823	41,608
Interest income (expense), net	132	(2,214)
Foreign exchange gains, net	12,608	2,494
Gains (losses) on derivatives, net	3,857	(1,356)
Equity in earnings of unconsolidated companies	1,051	
Other non-operating loss	(1,658)	(1,878)
Income before taxes on income and minority interest	50,813	38,654
Provision for taxes on income		
Current	(10,802)	(7,037)
Deferred	(1,453)	2,489
	(12,255)	(4,548)
Income before minority interest	38,558	34,106
Minority interest	(674)	(228)
Net income	37,884	33,878
Basic and diluted earnings per thousand shares - in US\$:		
Common shares	337.9	301.5
Preferred shares	337.9	301.5
Net income attributed to:		
Common shares	14,430	12,874
Preferred shares	23,454	21,004
	37,884	33,878
Number of weighted-average shares outstanding during the year		
Common shares	42,703,218	42,703,218
Preferred shares	69,410,271	69,673,671

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

MARCOPOLO S.A.
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
for the years ended December 31, 2005 and 2004
(in thousands of U.S. Dollars)

	<u>2005</u>	<u>2004</u>
Net income as reported in the consolidated statement of income	37,884	33,878
Foreign currency translation adjustments	<u>22,284</u>	<u>6,135</u>
Comprehensive income for the period	<u><u>60,168</u></u>	<u><u>40,013</u></u>

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

MARCOPOLO S.A.
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
for the years ended December 31, 2005 and 2004
(in thousands of U.S. Dollars, except dividends per share)

	<u>Preferred stock</u>	<u>Common stock</u>	<u>Treasury stock</u>	<u>Legal reserve</u>	<u>Retained earnings</u>	<u>Cumulative other comprehensive (loss)</u>	<u>Total</u>
Balances as of January 1, 2004	38,298	17,975		9,103	139,696	(70,483)	134,589
Net income				-	33,878		33,878
Appropriation of reserves				1,602	(1,602)		
Foreign currency translation adjustment						6,135	6,135
Other				805		(805)	
Interest on equity - \$128.1 per 1,000 common and preferred shares					(14,399)		(14,399)
Balances as of December 31, 2004	38,298	17,975		11,510	157,573	(65,153)	160,203
Net income					37,884		37,884
Appropriation of reserves				1,715	(1,715)		
Purchase of treasury preferred shares			(1,658)				(1,658)
Foreign currency translation adjustment						22,284	22,284
Other				1,543		(1,543)	
Interest on equity - \$161.6 per 1,000 common and preferred shares					(18,120)		(18,120)
Balances as of December 31, 2005	<u>38,298</u>	<u>17,975</u>	<u>(1,658)</u>	<u>14,768</u>	<u>175,622</u>	<u>(44,412)</u>	<u>200,593</u>

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

MARCOPOLO S.A.
CONSOLIDATED STATEMENT OF CASH FLOWS
for the years ended December 31, 2005 and 2004
(in thousands of U.S. Dollars)

	2005	2004
Cash from operations activities		
Net income	37,884	33,878
Adjustments to reconcile net income to cash flows from operating activities		
Depreciation	9,160	7,073
Equity earnings on unconsolidated companies	(1,051)	
Unrealized gains losses on derivatives, net	(1,493)	
Minority interest	674	288
Deferred income taxes	1,453	(8,015)
Losses (gains) on disposal of property, plant and equipment	3,448	(1,616)
Provision for doubtful accounts	3,517	1,271
Provision for contingencies	1,041	765
Pension plan expenses	(18)	(3,587)
Translation gains and losses, net		8,659
Changes in asses and liabilities		
(Increase) decrease in accounts receivable	23,468	(33,875)
(Increase) decrease in inventories	6,618	(26,934)
Increase in tax credits	(14,719)	(26,073)
Increase (decrease) in accounts payable and accrued liabilities	(11,145)	27,987
Increase in other assets net of other liabilities	11,044	22,080
Net purchases and sales of trading short-term investments	28,120	
Net cash provided by operating activities	98,001	1,901
Cash flows from investing activities		
Additions to property, plant and equipment	(7,380)	(10,226)
Proceeds from sales of property, plant and equipment	300	
Net cash used in investing activities	(7,080)	(10,226)

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

MARCOPOLO S.A.
CONSOLIDATED STATEMENT OF CASH FLOWS
for the years ended December 31, 2005 and 2004
(in thousands of U.S. Dollars)

	2005	2004
Cash flows from financing activities		
Interest on equity paid	(14,395)	(14,399)
Purchase of treasury shares	(1,658)	
Proceeds from short and long-term debt	334,921	193,160
Repayments of short and long-term debt	(297,564)	(206,045)
Net cash provided by (used in) financing activities	21,304	(27,284)
Effect of exchange rate changes on cash	(41,720)	
Increase (decrease) in cash and cash equivalents	70,505	(35,609)
Cash and cash equivalents at beginning of year	97,070	132,679
Adjustment to opening balance of cash and cash equivalents (Note 3.3)	(46,839)	
Adjusted cash and cash equivalents at beginning of the year	50,231	
Cash and cash equivalents at end of year	120,736	97,070
Supplemental cash flow data:		
Cash paid during the year for		
Interest	28,708	28,268
Income taxes		(5,142)
Non-cash transactions		
Income tax payable set off with tax credits	16,088	

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

MARCOPOLO S.A.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
for the years ended December 31, 2005 and 2004
(in thousands of U.S. Dollars, unless otherwise stated)

1 Operations

Marcopolo S.A. is a “*sociedade anônima*” incorporated as a limited liability company under the laws of the Federative Republic of Brazil. The principal business of Marcopolo S.A. (“Marcopolo”) in Brazil and of its subsidiaries in Portugal, South Africa and Mexico (collectively the “Company”) is the production of buses, vehicles, wagons, parts, agricultural and industrial machinery. Marcopolo also operates as technological provider and adviser for other companies in the same business.

2 Basis of presentation

2.1 Statutory records

The accompanying consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States (“U.S. GAAP”), which differ in certain aspects from the accounting practices adopted in Brazil (“Brazilian GAAP”) applied by the Company in the preparation of its statutory financial statements and for other legal and regulatory purposes. The consolidated financial statements for statutory purposes are prepared in Brazilian *reais*.

2.2 Currency translation

The Company has selected the United States dollar as its reporting currency. The U.S. dollar amounts have been translated, following the criteria established in Statement of Financial Accounting Standards (“SFAS”) No. 52, “Foreign Currency Translation” from the financial statements expressed in the local currency of the countries where the Company and each subsidiary operates.

The local currency is the functional currency for the operations of the Company and its subsidiaries. Their financial statements are translated from the functional currency into the United States dollar. Assets and liabilities are translated at the exchange rate in effect at the end of each year. Average exchange rates [for the year] are used for the translation of revenues, expenses, gains and losses in the statement of income. Capital contributions, treasury stock transactions and dividends are translated using the exchange rate as of the date of the transaction. Translation gains and losses resulting from the translation methodology described above are recorded directly in “Cumulative other comprehensive loss” within shareholders’ equity. Gains and losses on foreign currency denominated transactions are included in the consolidated statement of income.

The operations in Brazil have used the Brazilian currency (“Real”) as its functional currency as from January 1, 1998, when the Brazilian economy ceased to be hyperinflationary. As of January 1, 1998, we translated the U.S. dollar amounts of non-monetary assets and liabilities into Reais at the then current exchange rate, and those amounts became the new carrying bases for such assets and liabilities. Prior to January 1, 1998, when Brazil was a hiperinflationary economy the US dollar was used as the functional currency for the operations in Brazil.

MARCOPOLO S.A.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
for the years ended December 31, 2005 and 2004
(in thousands of U.S. Dollars, unless otherwise stated)

3 Summary of significant accounting policies and practices

The following is a summary of the significant accounting policies adopted in the preparation of the consolidated financial statements.

3.1 Consolidation

The consolidated financial statements include the financial statements of Marcopolo S.A. and all its wholly owned subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation. The subsidiary companies included in the consolidated financial statements are as follows:

	Percentage of interest (%)	
	2005	2004
Ciferal Indústria de Ônibus Ltda. (Brazil)	100%	100%
Ilmot International Corporation S.A. (Uruguay)	100	100
Laureano S.A. (Argentina)	100	100
Marcopolo Indústria de Carroçarias, S.A. (Portugal)	100	100
Marcopolo International Corporation (Virgin Island)	100	100
Marcopolo Latinoamérica S.A. (Argentina)	100	100
Marcopolo South África Pty Ltd (South Africa)	100	100
Marcopolo Trading S.A. (Brazil)	100	100
MVC Componentes Plásticos Ltda. (Brazil)	100	100
Polo Serviços em Plásticos Ltda. (Brazil)	100	100
Polomex S.A. de C.V. (Mexico)	74	74
Poloplast Componentes S.A. de C.V. (Mexico)	100	100
Syncroparts Comércio e Dist. Peças Ltda. (Brazil)	100	100

The consolidated financial statements include all the companies in which the Company has a controlling financial interest through direct or indirect ownership of a majority voting interest. The consolidated financial statements include, in addition to the operational companies presented in the table above, all the other companies that meet the criteria for consolidation under US GAAP, which consist of holding companies which invest in the operating companies and carry out financing transactions.

All significant intercompany balances and transactions have been eliminated on consolidation.

MARCOPOLO S.A.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
for the years ended December 31, 2005 and 2004
(in thousands of U.S. Dollars, unless otherwise stated)

3.2 Use of estimates

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities as of the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Significant estimates include, but are not limited to, the allowance for doubtful accounts, provisions for losses on inventories, impairment of goodwill and of long-lived assets, useful lives of long-lived assets, valuation allowances for income taxes, actuarial assumptions (utilized in the calculation of pension benefit obligations) and contingencies. Actual results could differ from those estimates.

3.3 Cash and cash equivalents

As of December 31, 2005, cash equivalents are considered to be all highly liquid temporary cash investments, mainly time deposits, with original maturity dates of three months or less.

In the consolidated statement of cash flows for the year ended December 31, 2004, the opening balance of cash and cash equivalent was adjusted to reclassify certain financial assets that do not meet the definition of cash and cash equivalent since they have original maturity dates of more than three months. Those reclassified balances include financial investments carried out by exclusive investment funds held by the Company: Fundo de Investimento Paradiso Multimercado, Fundo de Investimento Multimercado Double Deck, Fundo de Investimento Renda Fixa Andare e Gran-Vialle Fundo de Investimento Multimercado. As a result of such review, the opening balance of cash and cash equivalent as of January 1, 2005 was reduced by \$46,839, as follows:

Balance of cash and cash equivalents as reported as of December 31, 2004	97,070
Amounts reclassified from cash and cash equivalents:	
Investment funds	(14,804)
Brazilian government debt securities	(13,981)
Time deposits	(16,721)
Debt securities	(1,232)
Unrealized gains on derivatives	(101)
Adjusted opening balance of cash and cash equivalents as of January 1, 2005 for purposes of consolidated statement of cash flows	<u>50,231</u>

MARCOPOLO S.A.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
for the years ended December 31, 2005 and 2004
(in thousands of U.S. Dollars, unless otherwise stated)

3.4 Short-term investments

Short-term investments as of December 31, 2005 consist of bank certificates of deposit and trading securities comprised by Brazilian government debt securities and shares in investment funds managed by commercial banks. The certificates of deposit and trading debt securities have maturities ranging from four months to one year at the time of purchase. Certificates of deposit are stated at cost plus accrued interest. Trading securities are recorded at fair value with changes in fair value recognized in the consolidated statement of income.

3.5 Trade accounts receivable

Accounts receivable are stated at estimated realizable values. Allowances are provided, when necessary, in an amount considered by management to be sufficient to meet probable future losses related to uncollectible accounts.

3.6 Inventories

Inventories are valued at the lower of cost or replacement or realizable value. Cost is determined using the average cost method.

3.7 Property, plant and equipment

Property, plant and equipment are recorded at cost, including capitalized interest incurred during the construction phase of major new facilities. Interest capitalized on loans denominated in *reais* includes the effect of indexation of principal required by certain loan agreements. Interest capitalized on foreign currency borrowings excludes the effects of foreign exchange gains and losses.

Depreciation is computed under the straight-line method at rates which take into consideration the useful lives of the related assets: 25 years for buildings and improvements, 10 years for machinery and equipment, 10 years for furniture and fixtures, and 5 years for vehicles and computer equipment. Assets under construction are not depreciated until they are placed into service. Major renewals and improvements are capitalized. Expenditures for maintenance and repairs are charged to expense as incurred. Any gain or loss on the disposal of property plant and equipment is recognized on disposal.

The Company evaluates the carrying value of its property, plant and equipment for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The carrying value of a long-lived asset or group of such assets is considered impaired by the Company when the anticipated undiscounted cash flow from such asset(s) is separately identifiable and less than the carrying value. In that event, a loss would be recognized based on the amount by which the carrying value exceeds the fair market value of the long-lived asset. Fair market value would be determined primarily using discounted anticipated cash flows. No impairment losses have been recorded for any of the periods presented.

MARCOPOLO S.A.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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3.8 Equity investments

Investments in entities where the Company owns 20% to 50% of the voting interest or where the Company has the ability to exercise significant influence are accounted for under the equity method. As of December 31, 2005, the Company's equity investments are comprised of a 50% interest in the capital of Superpolo S.A. (Colombia) and a 40% interest in the capital of Webasto S.A. (Brazil).

As of December 31, 2005 and for the year then ended the Company accounts for its investment in Superpolo S.A. following the equity method. As of December 31, 2004 and for the year then ended the financial statements of Superpolo were proportionally consolidated considering the interest of 50% held by the Company.

3.9 Goodwill

The Company adopts SFAS No. 142 ("SFAS 142"), "Goodwill and Other Intangible Assets". Under this standard, goodwill, including goodwill recognized for business combinations consummated before initial application of the standard, is no longer amortized but is tested for impairment at least annually, using a two-step approach that involves the identification of "reporting units" and the estimation of fair value.

During the years ended December 31, 2005 and 2004 goodwill was tested for impairment and no impairment charges were recorded.

3.10 Pension benefits

The Company accrues its pension benefit obligations in accordance with SFAS No. 87, "Employers' Accounting for Pensions".

The cost of pension is actuarially determined using the projected unit credit method based on management's best estimates of expected investment performance, salary increases, and retirement ages of employees. Assets of pension plans are valued at fair value. The excess of the net actuarial gains or losses over 10% of the greater of the benefit obligation and the fair value of the assets is amortized over the average remaining service period of the active employees (corridor approach). Past service costs from plan amendments are amortized on a straight-line basis over the average remaining service period of the active employees.

3.11 Compensated absences

Compensated absences are accrued over the vesting period.

3.12 Revenue recognition

The Company recognizes revenue on sales when products are delivered and the customer takes ownership and assumes risk of loss.

MARCOPOLO S.A.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
for the years ended December 31, 2005 and 2004
(in thousands of U.S. Dollars, unless otherwise stated)

3.13 Income taxes

The Company accounts for income taxes in accordance with SFAS No. 109, "Accounting for Income Taxes", which requires the application of the liability method of accounting for income taxes. Under this method, a company is required to recognize a deferred tax asset or liability for all temporary differences and tax loss carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates in effect for the year in which those temporary differences are expected to be recovered or settled. Under SFAS No. 109, the effect on deferred tax assets and liabilities of changes in tax rates is recognized in income for the period that includes the enactment date.

Deferred tax assets are reduced through the establishment of a valuation allowance if, based on the weight of available evidence, it is more likely than not that the deferred tax asset will not be realized.

3.14 Earnings per share

Earnings per share is computed by dividing consolidated net income by the number of common and preferred shares outstanding of the Company during the relevant years. As mentioned in Note 17, preferred and common shares have the same dividends rights.

Earnings per share is disclosed in amounts per thousand shares, as a lot of one thousand shares which is the minimum number of shares of the Company that can be traded on the Brazilian stock exchanges.

The Company calculates earnings per share in accordance with SFAS No. 128, "Earnings Per Share".

3.15 Interest on own capital

Brazilian corporations are permitted to distribute interest on own capital, similar to a dividend distribution, but which is deductible for income tax purposes. The amount payable may not exceed 50% of the greater of net income for the year or retained earnings, as measured under Brazilian Corporate Law. It also may not exceed the product of the *Taxa de Juros Longo Prazo* ("TJLP") (long-term interest rate) and the balance of shareholders' equity, as measured under Brazilian Corporate Law.

Payment of interest on equity is beneficial to the Company when compared to making a dividend payment, since it recognizes a tax deductible expense on its income tax return for such amount. The related tax benefit is recorded in the consolidated statement of income. Income tax is withheld from the stockholders with respect to interest on equity at the rate of 15%.

MARCOPOLO S.A.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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(in thousands of U.S. Dollars, unless otherwise stated)

3.16 Environmental and remediation costs

Expenditures relating to ongoing compliance with environmental regulations, designed to minimize the environmental impact of the Company's operations, are capitalized or charged against earnings, as appropriate. Management believes that, at present, each of its facilities is in substantial compliance with the applicable environmental regulations.

3.17 Research, development and advertising costs

Research and development expenses and advertising expenses included in sales and marketing expenses were \$224 and \$425, respectively (2004 - \$951 and \$531), respectively. No research, development and advertising costs have been deferred.

3.18 Treasury stock

Common and preferred shares reacquired are recorded under "Treasury stock" within shareholders' equity at cost. Sales of treasury stock are recorded at the average cost of the shares in treasury held at such date. The difference between the sale price and the average cost is recorded as a reduction or increase in additional paid-in capital.

3.19 Derivative financial instruments

Derivative financial instruments that do not qualify for hedge accounting are recognized on the balance sheet at fair value with unrealized gains and losses recognized in the statement of income.

To qualify as a hedge, the derivative must be (i) designated as a hedge of a specific financial asset or liability at the inception of the contract, (ii) effective at reducing the risk associated with the exposure to be hedged, and (iii) highly correlated with respect to changes either in its fair value in relation to the fair value of the item being hedged or with respect to changes in the cash flows, both at inception and over the life of the contract.

The Company has not accounted for any derivative following hedge accounting during the years ended December 31, 2005 and 2004.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
for the years ended December 31, 2005 and 2004
(in thousands of U.S. Dollars, unless otherwise stated)

3.20 Recent accounting standards not yet adopted

In December 2004, the FASB issued its Statements of Financial Accounting Standards ("SFAS") No. 153, Exchanges of Non-monetary Assets, an amendment of APB Opinion No. 29, which eliminates the exception from fair value measurements for non-monetary exchanges of similar productive assets and replaces it with an exception for exchanges that do not have commercial substance. A non-monetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. SFAS no. 153 is effective for non-monetary asset exchanges occurring in fiscal periods beginning after June 15, 2005, with earlier adoption permitted. The company does not believe that the adoption of SFAS No. 153 will have a material impact on the company's consolidated financial position or results of operations.

On December 16, 2004, the FASB issued its SFAS No. 123 (revised 2004), Share-Based Payment (Statement 123R), which addresses the accounting for employee stock options and eliminates the alternative to use Option 25's intrinsic value method of accounting that was provided in Statement 123 as originally issued. This statement requires a public entity to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award. That cost will be recognized over the period during which an employee is required to provide service in exchange for the award (vested period). The grant-date fair value of employee share options and similar instruments will be estimated using option-pricing models adjusted to the unique characteristics of those instruments. The company does not believe that the adoption of SFAS No. 123R will have any impact on the company's consolidated financial position or results of operations since it does not currently have any shared-based instrument issued.

In November 2004, the FASB issued SFAS no. 151, Inventory Costs, an amendment of ARB no. 43, Chapter 4, which requires idle facility expenses, excessive spoilage, and double freight and rehandling costs to be treated as current period charges and also requires that the allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. Accounting Research Bulletin no. 43, Inventory Pricing, previously required such expenses to be treated as current period expenses only if they meet the criterion of "so abnormal", which was not a defined term. SFAS no. 151 is effective for inventory costs incurred during fiscal years beginning after June 15, 2005, with earlier adoption permitted. The company does not believe that the adoption of SFAS no. 151 will have a material impact on the company's consolidated financial position or results of operations.

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3.21 Reclassifications for comparability purposes

Certain reclassifications have been made to the financial statements for the year ended December 31, 2004 to the presentation in the current year as follows:

Balance sheet

	Balance originally presented as of and for the year ended December 31, 2004	Reclassifications	Reclassified balance as of and for the year ended December 31, 2004
Current assets			
Deferred income tax		9,883	9,883
Tax credits	42,628	(9,883)	32,745
Non-current assets			
Equity investments		829	829
Investments at cost		390	390
Other	3,307	(1,219)	2,088
Current liabilities			
Advances from costumers	5,579	(5,579)	
Other trade accounts payable		4,739	4,739
Provision for contingencies		9,297	9,297
Income tax and other taxes payable	15,811	(9,297)	6,514
Payroll and related charges	15,644	2,019	17,663
Profit sharing	2,019	(2,019)	
Other	11,987	840	12,827
Non-current liabilities			
Income tax payable and other tax payable		1,799	1,799
Deferred income tax	3,830	(3,830)	
Provision for contingencies	5,755	2,031	7,786

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4 Cash and cash equivalents

	2005	2004
Bank accounts	13,520	11,749
Over night investments	35,741	23,460
Quotas in investments funds		14,804
Brazilian government debt securities		13,981
Corporate debt securities		1,232
Time deposits	71,475	31,743
Unrealized gains on derivatives		101
	120,736	97,070

As described in the note 3.3 the open balance at January 1, 2006 was decreased by \$46,839 to eliminate short-term investments recorded as cash and cash equivalent as of December 31, 2004.

5 Short-term investments

The breakdown of short-term investments as of December 31, 2005 is presented below:

	2005
Quotas in investments funds	25,463
Brazilian government debt securities	14,597
Corporate debt securities	1,907
Time deposits	7,922
	49,889

6 Trade accounts receivable, net

	2005	2004
Trade accounts receivable	154,984	169,061
Less: Allowance for doubtful accounts	(13,327)	(19,386)
	141,657	149,675
Less: Current portion	128,918	139,178
Non-current portion	12,739	10,497

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The movement in the allowance for doubtful accounts for trade accounts receivable for the years ended December 31, 2005 and 2004 was as follows:

	<u>2005</u>	<u>2004</u>
Balance at the beginning of the year	19,386	18,115
Additions charged to bad debt expense	4,874	9,217
Write-downs charged against the allowance	(12,176)	(9,549)
Effect of exchange rate changes	1,243	1,603
Balance at the end of the year	13,327	19,386
Less: Current portion	(13,327)	(9,275)
Non-current portion	<u> </u>	<u>10,111</u>

7 Inventories

	<u>2005</u>	<u>2004</u>
Finished goods	36,582	17,403
Work in process	8,306	9,798
Raw materials and supplies	37,304	49,648
Advances to suppliers and other	4,116	5,329
	<u>86,308</u>	<u>82,178</u>

8 Tax credits

	<u>2005</u>	<u>2004</u>
Current assets		
Brazilian value-added on tax on sales and services - ICMS	9,926	14,587
Brazilian exercise tax - IPI	3,948	2,263
Brazilian withholding taxes	19,253	6,318
Brazilian tax for financing of social integration program - PIS	1,758	1,280
Brazilian tax for financing of social integration program - COFINS	7,773	5,000
Other	1,563	3,297
	<u>44,221</u>	<u>32,745</u>
	<u>2005</u>	<u>2004</u>
Non-current assets		
Brazilian value-added on tax on sales and services - ICMS	8,232	<u> </u>
	<u>8,232</u>	<u> </u>

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9 Related parties

Balances and transactions as at and for the year ended December 31, 2005 with related parties which were not eliminated in the consolidated financial statements are presented below:

	<u>Webasto S.A.</u>	<u>Superpolo S.A.</u>	<u>Total</u>
Trade accounts receivable		289	289
Loans receivable (presented within Other non-current assets)	818	35	853
Acquisitions of raw materials and supplies	4,241		4,241
Net sales		2,333	2,333
Interest income	62	3	65

10 Property, plant and equipment, net

	<u>2005</u>	<u>2004</u>
Buildings	26,327	24,383
Machinery and equipment	59,301	48,158
Premises	19,034	15,842
Furniture and fixtures	3,062	2,917
Vehicles	1,737	1,679
Data processing equipment and systems	7,610	6,013
Other	2,115	3,922
Total depreciable assets	<u>119,186</u>	<u>102,914</u>
Less: accumulated depreciation	(58,607)	(46,054)
Land	6,746	5,831
Construction in progress	2,094	3,684
Total	<u>69,419</u>	<u>66,375</u>

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11 Equity investments

	2005	2004
Webasto S.A.	1,329	829
Superpolo S.A.	3,048	
	4,512	829

As described in the note 3.8, the financial statements of Superpolo S.A. were proportionally consolidated in the consolidated financial statements of the Company as at and for the year ended December 31, 2004.

12 Goodwill

Goodwill is fully allocated to the reporting unit “Ciferal”, a component of the reportable segment “Urban”, which represents a reporting unit as defined by SFAS No. 142 “Goodwill and Intangible Assets”.

The balance of goodwill is presented net of impairment of \$3,922 recorded during 2001, 2002 and 2003.

	2005	2004
Balance at the beginning of the year	5,796	5,325
Effect on exchange rate changes	778	471
Balance at the end of the year	6,574	5,796

13 Short-term debt

Short-term debt consists of working capital loans mainly denominated in Brazilian Reais and export and import financing denominated U.S. dollars. The weighted-average interest rates are approximately 5.92% p.a. (2004 - 8.09% p.a.).

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14 Long-term debt

(a) Balances

	2005	2004
Long term debt denominated in foreign currencies		
Advances for export contracts with interest rates of 4.26% p.a. (US\$)	26,528	10,000
Pre-export loan agreements with interest rate of LIBOR plus 1.52% p.a. (US\$)	30,258	7,984
Working capital loan agreements with interest rates of 4,10% p.a. (US\$)	15,862	21,274
Working capital loan agreements with interest rates of 3.85% p.a. (Euros)	3,694	1,206
Long term debt denominated in Brazilian reais (*)		
Pre-export loan agreements with interest rates of TJLP plus 1.5% p.a.	68,511	20,146
Working capital loan agreements and other financing agreements with interest rates ranging from TJLP plus 1.5% p.a. to TJLP plus 4.46% p.a.	21,609	21,875
Total	166,462	82,485
Current liabilities	(35,060)	(16,435)
Long-term liabilities	131,402	66,050

(b) Financial covenants

The Company working capital loan agreement denominated in U.S. dollars with IFC - International Finance Corporation contains certain financial covenants which are required to be met by the Company depending on the specific terms of the loan.

As of December 31, 2005 and for the year then ended the Company was in compliance with the financial covenants described above.

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(c) Maturities of long-term debt

The long-term portion as of December 31, 2005 and 2004, of loans matures in the following years:

	<u>2005</u>	<u>2004</u>
2006		30,915
2007	70,306	12,519
2008	36,239	11,321
2009	12,429	11,295
2010	<u>12,428</u>	<u>-</u>
Total	<u>131,402</u>	<u>66,050</u>

15 Commitments and contingencies

15.1 Tax and legal contingencies

The Company is party to claims with respect to certain taxes, contributions and civil and labor claims. Management believes, based in part on advice from legal counsel, that the provision for contingencies is sufficient to meet probable and reasonably estimable losses in the event of unfavorable rulings.

The following table summarizes the provision for contingencies

<u>Claims</u>	<u>Contingencies</u>	
	<u>2005</u>	<u>2004</u>
Civil and labor claims	3,495	1,174
Tax matters	16,141	15,167
Other	<u>805</u>	<u>742</u>
	20,441	17,083
Less: current portion	<u>20,441</u>	<u>9,297</u>
Non-current portion	<u> </u>	<u>7,786</u>

Probable losses on claims, for which a provision was recorded

Provision for contingencies correspond to: (a) civil and labor claims due to overtime, health and risk premiums, among others; and b) tax matters mainly related to lawsuits regarding contributions for the Social Integration Program ("*Programa de Integração Social*" - PIS) and regarding the monetary corrections of State Value Added Tax ("*Imposto Sobre Circulação de Mercadorias e Serviços*" - ICMS).

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Possible losses on tax matters for which no provision was recorded

There are other contingent tax liabilities, for which the probability of losses are possible or remote and, therefore, are not recognized in the provision for contingencies. These claims amounts to approximately \$13,168 related to assessments from the Brazilian authorities questioning the application of transfer pricing rules and other income tax matters.

15.2 Vendor financing

The Company provides guarantees to third parties (financial entities) for them to financing sales to selected customers. These sales are recognized at the time the products are delivered. Under the vendor program, the Company is the secondary obligor to the bank. At December 31, 2005, customer guarantees provided by the Company totaled \$24,096 (2004 - \$31,783).

16 Pension Plan

The Company is the principal sponsor of Marcoprev - Sociedade de Previdência Privada, a civil, non-profit organization, formed in December 1995, whose main objective is to provide pension benefits complementing those of the government social security to all employees of the sponsor companies. The sponsor companies are: Marcopolo S.A., Syncroparts Comércio e Dist. Peças Ltda., Marcopolo Trading S.A., MVC Componentes Plásticos Ltda., Polo Serviços em Plásticos Ltda. and Fundação Marcopolo (a non-profit foundation supported by the Company). The benefits of the plan have a “defined benefit” component, where contributions are the exclusive responsibility of the sponsor and a “defined contribution” component with contributions made by the sponsor and the individual associate on an optional basis.

Net periodic pension cost relating to the defined benefit component of the plan was as follows:

	2005	2004
Service cost	1,129	656
Interest cost	3,591	2,389
Expected return on plan assets	(3,213)	(2,132)
Amortization of unrecognized transition obligation	331	275
Net pension expense	<u>1,838</u>	<u>1,188</u>

The funded status of the defined benefit component of the plan was as follows:

	2005	2004
Plan assets at fair value	29,395	20,956
Projected benefit obligation	<u>(40,011)</u>	<u>(29,730)</u>
Funded status	(10,616)	(8,774)
Unrecognized net transition obligation	2,669	2,657
Unrecognized net gains and losses	4,161	2,763
Amounts recognized in the balance sheet, net	<u>(3,786)</u>	<u>(3,354)</u>

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Additional information for the plan is as follows:

Change in benefit obligation	2005	2004
Benefit obligation at the beginning of the year	29,730	21,906
Service cost	1,129	656
Interest cost	3,591	2,389
Actuarial (gain) loss	2,559	3,250
Benefits paid	(1,334)	(1,033)
Plan participants contributions	106	77
Effect of exchange rate changes	4,230	2,485
Benefit obligation at the end of the year	<u>40,011</u>	<u>29,730</u>

Change in plan assets	2005	2004
Fair value of plan assets at the beginning of the year	20,956	16,036
Actual return on plan assets	4,784	2,911
Employer contributions	1,855	1,222
Plan participants contributions	106	77
Benefits paid	(1,334)	(1,033)
Effect of exchange rate changes	3,028	1,743
Fair value of plan assets at the end of the year	<u>29,395</u>	<u>20,956</u>

Expected benefit payments	
2006	3,398
2007	2,648
2008	3,990
2009	4,433
2010	5,296
2011-2015	36,724

The assumptions used for the defined benefit component of the plan are presented below. The rates presented below are nominal rates and consider an estimated annual inflation rate of 5%.

Assumptions used to determine benefit obligations (in % per year):

	2005	2004
Discount rate	10.25%	11.30%
Rate of increase in compensation	8.15%	8.15%

Assumptions used to determine net periodic benefit cost for the year (in % per year):

	2005	2004
Discount rate	11.30%	11.30%
Rate of increase in compensation	8.15%	8.15%
Long-term rate of return on plan assets	13.87%	13.87%

The plan asset return is the expected average return of each asset category weighted by target allocations. Asset categories' returns are based on long term macroeconomic scenarios.

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The asset allocation for the pension plan at the end of 2005 and 2004, and the target allocation for 2006, by asset category are presented as follows:

Asset category	Target allocation for	Percentage of plan assets at year ended	
	2006	2005	2004
Equity securities	15%	16%	18%
Debt securities	85%	84%	82%
Total	100%	100%	100%

The Company's investment policies and strategies for the pension benefits do not use target allocations for the individual asset categories. The Company's investment goals are to maximize returns subject to specific risk management policies. Its risk management policies permit investments in mutual funds, and prohibit direct investments in debt and equity securities and derivative financial instruments. The Company addresses diversification by the use of mutual fund investments whose underlying investments are in domestic and international fixed income securities and domestic and international equity securities. These mutual funds are readily marketable and can be sold to fund benefit payment obligations as they become payable.

17 Shareholder's equity

17.1 Share capital

As of December 31, 2005 and 2004 capital stock is represented by 42,703,218 common shares and 69,673,671 preferred shares; all without par value. The authorized capital of the Company is totally issued as of December 31, 2005 and 2004. Only the common shares are entitled to vote. Under the Company's bylaws, specific rights are assured to the nonvoting preferred shares. There is no redemption provisions associated with the preferred shares.

17.2 Legal reserve

Under Brazilian law, the Company is required to transfer up to 5% of annual net income, determined in accordance with Brazilian Corporate Law and based on the statutory financial statements prepared under Brazilian GAAP, to a legal reserve until such reserve equals 20% of paid-in capital. The legal reserve may be utilized to increase capital or to absorb losses, but cannot be used for dividend purposes.

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17.3 Distribution of net income

a) Distribution of dividends and legal reserve

Out of net income determined in accordance with accounting practices adopted in Brazil and adjusted as required by Brazilian corporate law, a minimum of 25% (twenty five percent) must be allocated to pay annual dividends on all of the Company's shares, as compulsory dividends.

The remaining balance of such net income will be allocated, in full, to form the following reserves:

b) Other reserves

The undistributed earnings after legal reserves are composed by:

Reserve for future capital increases, to be used for future capital increases, to be made up of 70% of the reserves for the year, and can not exceed 60% of capital;

Reserve to pay interim dividends, to be used to pay interim dividends provided under Paragraph 1 of Article 33 of the Statutes, to be formed up to 15% of the reserves for each year, and cannot exceed 10% of capital;

Reserve to purchase own shares, to be used to purchase shares issued by the Company, for cancellation, remaining in treasury and/or respective sale, to be formed up to 15% of the reserves for the year, and cannot exceed 10% of capital.

Reserve to future investments, to be used in future investments or future allocation based in the shareholders' decision, to be formed by the amount of the undistributed earnings after legal reserves and the other reserves described above.

17.4 Dividends - Interests on shareholders' equity

Brazilian law permits the payment of cash dividends from retained earnings calculated in accordance with the provisions of the Brazilian Corporate Law and as presented in the statutory accounting records. As of December 31, 2005, retained earnings in the statutory accounting records correspond to the balance of the statutory reserves described in Note 17.3 above which amounts in the statutory records of Marcopolo to \$90,788 (translated at the year-end exchange rate).

Allocation of interest on equity, declared by Marcopolo, is as follows:

	<u>2005</u>	<u>2004</u>
Common shares	6,902	5,472
Preferred shares	11,218	8,927
Total	<u>18,120</u>	<u>14,399</u>

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18 Income tax

18.1 Analysis of income tax expense

Income tax payable is calculated as required by the tax laws of the countries in which Marcopolo and its subsidiaries operate.

	<u>2005</u>	<u>2004</u>
Current tax expense		
Brazil	10,202	6,209
South Africa	-	11
México	600	510
Colombia	-	307
	<u>10,802</u>	<u>7,037</u>
Deferred tax expense (benefit)		
Brazil	1,543	(2,489)
	<u>1,453</u>	<u>(2,489)</u>
Income tax expense, net	<u>12,255</u>	<u>4,548</u>

18.2 Income tax reconciliation

A reconciliation of the income taxes in the statement of income to the income taxes calculated at the Brazilian statutory rates follows:

	<u>2005</u>	<u>2004</u>
Net income before taxes and minority interest	50,813	38,654
Brazilian composite statutory income tax rate	34%	34%
Income tax at statutory rates	17,276	13,142
Adjustments to effective rate:		
Benefit of deductible interest on equity paid to shareholders	(6,161)	(4,896)
Effect of equity in earnings of unconsolidated companies	(357)	
Effect of other permanent differences including foreign income having different statutory income tax rates	1,497	(3,698)
Income tax expense	<u>12,255</u>	<u>4,548</u>

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18.3 Tax rates

Tax rates in the principal geographical areas in which the Company operates are presented below:

	<u>2005</u>	<u>2004</u>
Brazil		
Federal income tax	25%	25%
Social contribution	9%	9%
Composite federal income tax rate	<u>34%</u>	<u>34%</u>
South Africa		
Federal income tax rate	<u>35%</u>	<u>35%</u>
Mexico		
Federal income tax	<u>35%</u>	<u>35%</u>

18.4 Analysis of deferred income tax balances

The composition of deferred tax assets and liabilities are presented below. Current assets and liabilities and non current assets and liabilities in the table below are presented net for each tax paying entity.

	<u>2005</u>	<u>2004</u>
<i>Deferred tax assets</i>		
Net operating loss carryforwards	5,284	6,992
Property, plant and equipment	1,002	1,712
Provision for contingencies not currently deductible	6,950	5,170
Other provision not currently deductible	<u>6,745</u>	<u>4,305</u>
Gross deferred income tax assets	19,981	18,179
<i>Deferred tax liabilities</i>		
Deferred tax liability on tax deductible goodwill	1,956	
Fair value of derivative instruments not currently deductible	148	
Other		
Gross deferred income tax liabilities	<u>2,104</u>	
Net deferred income tax assets	<u>17,877</u>	<u>18,179</u>
Less: Current-portion of deferred income tax asset	<u>14,674</u>	<u>9,883</u>
Non-current portion of deferred income tax asset	<u>3,203</u>	<u>8,296</u>

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In assessing the reliability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. Based upon the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax assets are deductible, management believes it is more likely than not that the Company will realize the benefits of these deductible differences. The amount of the deferred tax asset considered realizable, however, could be reduced if estimates of future taxable income are reduced.

Brazilian tax law allows tax losses to be carried forward indefinitely to be utilized to offset future taxable income, limited to 30% of taxable income in each year.

19 Fair value of financial instruments

Pursuant to SFAS No. 107, "Disclosures About Fair Value of Financial Instruments", the Company is required to disclose the fair value of financial instruments, including off-balance sheet financial instruments, when fair values can be reasonably estimated.

The carrying value of the Company's financial instruments approximates fair market value because of the short-term maturity or frequent re-pricing of these instruments. Based on borrowing rates currently available to the Company for bank loans with similar terms and average maturities, the fair market value of long-term debt at December 31, 2005 and 2004 is comparable to its carrying value.

Fair value estimates are made at a specific point in time, based on relevant market information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

20 Derivative instruments

The use of derivatives by the Company is limited. Derivative instruments are used to manage clearly identifiable foreign exchange risks arising out of the normal course of business.

Although such instruments mitigate the foreign exchange and interest rate risks, they do not necessarily eliminate them. The Company generally does not hold derivative instruments for trading purposes.

All derivative instruments have been recorded at fair value and realized and unrealized losses are presented in the consolidated statement of income under "Gain (losses) on derivatives, net".

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21 Business segments

The Company's reportable segments under SFAS No. 131 "Disclosures About Segments of an Enterprise and Related Information" correspond to the business units through which the Company manages its operations. The identifiable assets are trade accounts receivable, inventories and property, plant and equipment.

	Year ended December 31, 2005						Total
	Intercity	Urban	Microbus	Volares	Others	Adjustments	
Sales to customers	236,390	222,438	28,905	103,426	79,680		670,839
Intersegment sales	45,921	13,260	1,900	8,440	130,481	(200,002)	-
Net sales	282,311	235,698	30,805	111,866	210,161	(200,002)	670,839
Operating income	22,429	10,215	975	3,197	13,997		50,813
Identifiable assets	19,086	15,302	1,929	6,801	26,301		69,419
Capital expenditures	2,374	1,219	172	1,145	2,470		7,380
Depreciation	2,707	2,120	326	1,156	2,851		9,160

	Year ended December 31, 2004						Total
	Intercity	Urban	Microbus	Volares	Others	Adjustments	
Sales to customers	214,972	137,866	36,806	84,302	75,321		549,267
Intersegment sales	56,981	3,283	3,108	6,835	96,305	(166,512)	
Net sales	271,953	141,149	39,914	91,137	171,626	(166,512)	549,267
Operating income	14,767	2,063	1,876	6,990	12,958		38,654
Identifiable assets	19,828	12,730	3,522	6,639	23,656		66,375
Capital expenditures	4,478	3,183	800	1,598	167		10,226
Depreciation	2,329	1,435	376	781	2,152		7,073

Geographic information about the Company is as follows with revenues classified by the geographic region from where the products have been shipped, except for the Virgin Islands which corresponds to sales of goods produced in any of the other locations:

	Year ended December 31, 2005						Total	
	Brasil	Argentina and Uruguay	Portugal	Mexico	Colombia	South Africa		Virgin Islands
Net sales	452,503	24,974	22,182	116,070		22,331	32,779	670,839
Identifiable assets	53,692	3,170	1,061	8,742		2,744	10	69,419
Operating income	40,158	4,384	(1,811)	3,139		(1,579)	6,522	50,813

	Year ended December 31, 2004						Total	
	Brasil	Argentina and Uruguay	Portugal	Mexico	Colombia	South Africa		Virgin Islands
Net sales	350,259	23,325	17,894	76,628	17,402	29,700	34,059	549,267
Identifiable assets	50,372	1,386	1,138	8,131	2,482	2,826	40	66,375
Operating income	23,806	5,475	114	1,567	974	(1,066)	7,784	38,654

The Colombia region is represented by Superpolo which was proportionally consolidated in the the year ended December 31, 2004 and accounted under equity method for the year ended December 31, 2005.

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22 Concentration of credit risks

No single customer of the Company accounted for more than 10% of net sales and no single supplier accounted for more than 10% of purchases. Historically, the Company has not experienced significant losses on trade receivables.

* * *

