



## Results of the fiscal year of 2006

Brazilian Corporate Legislation

To our shareholders:

In accordance to corporate provisions, we are submitting the Administration Report, Balance Sheet and other Financial Reports of Marcopolo S.A. pertaining to the fiscal year ending Dec.31, 2006. These are accompanied by the opinions of independent auditors and of the Fiscal Council. Except when otherwise indicated, operational and financial data are consolidated and expressed in Reais in accordance to Brazilian Corporate Legislation.

### 1. Operational Context

Headquartered in Caxias do Sul, Rio Grande do Sul state, Marcopolo is a publicly traded corporation that manufactures bus bodies and components. Founded August 6, 1949, the company commemorates this year its 58<sup>th</sup> anniversary of uninterrupted activities.

Its product line – the most complete and diversified in the market – includes a wide variety of intercity, urban, micro and mini buses, as well as the Volare line, all of which come in several versions the client can pick from.

With a production capacity of close to 110 buses per day Marcopolo is Brazil's market leader in its field of activity and one of the world's biggest bus body manufacturers. In 2006, Marcopolo accounted for approximately 39.0% of the bus bodies produced in Brazil. This percentage increases to 44.9% if the production of Volare type mini buses is included in total output figures. The company also accounts for 6.0% to 7.0% of world production. Since its foundation, the company has produced close to 176,000 units that are currently circulating in Brazil and in more than 100 other countries.

The company is technologically autonomous and its bus bodies are designed and produced in accordance to the legal technical norms required in the markets in which its products are sold. Marcopolo's bus bodies are also manufactured in accordance to the individual specifications of the companies that operate different public transportation systems.

Marcopolo's products are manufactured in three units in Brazil (two in Caxias do Sul, Rio Grande do Sul state and one in Duque de Caxias, Rio de Janeiro state) and in five overseas units (Mexico, Colombia, Portugal, South Africa and Argentina (temporarily shut down)). Marcopolo's subsidiary, MVC – Components Plásticos Ltda that produces high tech plastic components is located in São José dos Pinhais, Paraná state. It has two production units in Brazil and one in Mexico. The company also owns Banco Moneo that finances the purchase of Marcopolo products. See item 15. At the end of 2006, Marcopolo had 10,541 employees (10,959 in 12.31.05).

## 2. Summary Chart

During the fiscal year of 2006, Marcopolo's economic and financial performance improved. The indices in the chart below and subsequent commentaries illustrate the progress achieved.

### Economic and Financial Indicators

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

CONSOLIDATED DATA	2006	2005	Variation (%)
<b>Operational Performance</b>			
Net operating income	1,750.3	1,709.1	2.4
- Income from operations in Brazil	929.5	760.8	22.2
- Income from operations overseas	820.8	948.3	(13.4)
Gross profit	329.7	257.2	28.2
Operational profit before financial results	134.1	81.8	63.8
EBITDA (adjusted) <sup>(1)</sup>	206.3	150.9	36.7
Net income	120.8	82.4	46.6
Earnings per share <sup>(2)</sup>	0.540	0.370	45.9
Return on invested capital (ROIC) <sup>(3)</sup>	21.2%	13.6%	7.6pp
Return on equity (ROE) <sup>(4)</sup>	26.0%	19.3%	6.8pp
Investments in fixed assets	40.4	24.8	62.9
<b>Financial Position</b>			
Cash and cash equivalents	440.5	404.5	8.9
Short term financial liabilities	223.2	209.9	6.4
Long term financial liabilities	303.9	310.0	(2.0)
Net financial liabilities	86.5	115.4	(25.0)
Stockholders' equity	536.0	464.1	15.5
Net financial liabilities / Stockholders' equity	16.1%	24.9%	(8.7)pp
Net financial results	38.3	37.1	3.4

<b>Margins and Indexes</b>			
Gross margin	18.8%	15.1%	3.8pp
Adjusted EBITDA margin	11.8%	8.8%	3.0pp
Operating margin (before financial results)	7.7%	4.8%	2.9pp
Net margin	6.9%	4.8%	2.1pp

Notes: <sup>(1)</sup> Adjusted *EBITDA* excludes gains or losses caused by exchange variations on investments and advances on exchange contracts;

<sup>(2)</sup> Figures have been updated to reflect the 100% stock dividend agreed to during the 08.25.06 meeting of the Administrative Council;

<sup>(3)</sup> ROIC (*Return on Invested Capital*) =  $EBIT \div (\text{stocks} + \text{clients} + \text{fixed assets} - \bar{X} \text{ suppliers})$ ;  $\bar{X}$ = Average;

<sup>(4)</sup> ROE (*Return on Equity*);

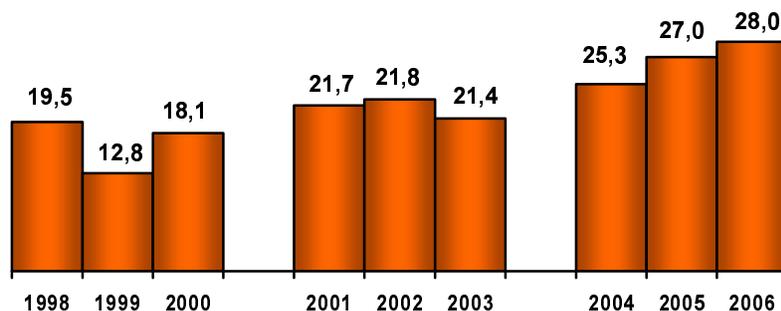
pp = percentage points.

### 3. Performance of Brazil's Bus Body Sector

According to SIMEFRE (the Interstate Association of Rail and Highway Material and Equipment Industries), the sector produced, in 2006, a total of 27,952 units – 3.6% more than the 26,983 units manufactured in 2005. Output, including Volare models came to 30,807 units – 3.2% more than the 29,862 units manufactured in the previous year. The increase in local production was limited, however one must keep in mind that during the 2005 fiscal year that serves as a comparison base, output was 6.7% higher than in 2004. The domestic market, relatively stagnated since 2002, posted a more vigorous performance due mainly to greater demand for urban buses – 28.5% more than in 2005. The 24.6% drop in exports was due mainly to: (i) loss of competitiveness in determined markets as a result of the appreciation of the Real; and (ii) the lack of special orders like those made in 2005 by Chile for the Transantiago Project.

Extending the analysis over a longer period of time, which technically is a more appropriate approach to evaluate sectors linked to the production of high value capital itens, we notice that over the past nine years demand has increased steadily and significantly. During the 1998/2000 triennium, annual production averaged 16,800 units. Year to year variations were insignificant except for 1999 due to exchange rate bands. Output rose to an annual average of 21,600 bus bodies during the following 2001/2003 triennium A substantial increase in demand during the last triennium of 2004/2006 increased the annual production average to 26,800 bus bodies. Thus, average production for the 2004/2006 triennium was 24.1%, higher than that posted during the 2001/2003 period, which in turn was 28.6% higher than the 1998/2000 triennium. This trend can be better visualized in the chart below.

## BRAZILIAN PRODUCTION /TRIENNIUMS (thousand)



Analyzing total production we can see that that in 2006, product mix and the number of units manufactures were consistent with figures posted in 2005. The number of intercity buses produced was 1.0% less, with a small decline in domestic sales and an increase in exports. Purchases by local clients, that normally absorb half of what is produced, continued to be limited by two factors: (i) financing conditions; and (ii) by the Transportation Ministry's indecision on issues pertaining to contracts to exploit interstate and international passenger transportation services as per Decree No. 2.521, of March 1998. As a result, companies postponed their fleet renewal and expansion decisions. Acquisitions were also affected by the terrible conditions and poor maintenance of a large part of the country's highway network. Exports remained stable. The 3,625 units shipped abroad were just 99 less than those exported in 2005.

Urban bus models posted an excellent performance on the domestic market mainly because of:(i) the growing use of new electronic engines that are more economical and less polluting; (ii) lower input price increases; (iii) expanded credit lines; and iv) passenger volume growth. On the other hand, however, exports were substantially lower, going from 7,311 units to 4,150 units. The exchange factor deprived companies of some markets, which had been conquered after a lot of hard work - mainly markets in the Middle East. The non-repetition of special orders also contributed to the drop in exports.

The micro and mini bus subgroup that accounts for 17.4% of the total market registered the best performance. The 16.0% increase in output was due to the rise in domestic demand, which can be explained by the regularization of alternative means of transportation in some Brazilian cities.

Without downplaying the importance of the growth in annual output registered during recent years, or the growing use of other means of transportation like

airplanes, automobiles, vans, motorcycles and subways, Marcopolo feels that the production of buses should have been larger for reasons explained in “Outlook for 2007” found at the end of this report.

The charts that follow contain data on the production of Brazilian bus bodies and their destination during the last five-year period.

### Brazilian Bus Body Production (Number of Units)

Products <sup>(3)</sup>	2006	2005 <sup>(2)</sup>	2004 <sup>(2)</sup>	2003 <sup>(2)</sup>	2002
Intercity buses	6,937	6,989	6,251	4,662	5,140
Urban buses	16,155	15,804	12,727	10,643	11,528
Micro buses	4,217	3,473	5,074	4,613	3,330
SUBTOTAL	27,309	26,266	24,052	19,918	19,998
Mini buses (LCV) <sup>(1)</sup>	643	717	1,228	1,463	1,789
<b>TOTAL</b>	<b>27,952</b>	<b>26,983</b>	<b>25,280</b>	<b>21,381</b>	<b>21,787</b>

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

Notes: <sup>(1)</sup> Production figures of mini buses (LCV - Light Commercial Vehicles) do not include production of complete units like the Volare and Van models;

<sup>(2)</sup> Since Mascarello Carrocerias e Ônibus, a new manufacturer, associated itself to FABUS, 604 units produced in 2004 but not registered that year, were included as were 849 units produced in 2005. The 2002 production figures for Irizar that were not registered that year's were also adjusted in 2003;

<sup>(3)</sup> Production figures started to include exports of knocked down (KD) units as of 2001.

### Market Destination for Brazilian Bus Body Production

#### DOMESTIC MARKET (Number of Units)

Products	2006	2005	2004	2003	2002
Intercity buses	3,312	3,463	2,635	2,053	2,597
Urban buses	12,005	8,493	9,338	7,619	8,299
Micro buses	2,452	1,734	3,211	3,248	2,620
SUBTOTAL	17,769	13,690	15,184	12,920	13,516
Mini buses (LCV)	639	630	1,149	1,448	1,783
<b>TOTAL</b>	<b>18,408</b>	<b>14,320</b>	<b>16,333</b>	<b>14,368</b>	<b>15,299</b>

Sources: FABUS and SIMEFRE.

Note: See - Brazilian Bus Body Production – TOTAL.

## EXTERNAL MARKET (Number of Units)

Products	2006	2005	2004	2003	2002
Intercity buses	3,625	3,526	3,616	2,609	2,543
Urban buses	4,150	7,311	3,389	3,024	3,229
Micro buses	1,765	1,739	1,863	1,365	710
SUBTOTAL	9,540	12,576	8,868	6,998	6,482
Mini buses (LCV)	4	87	79	15	6
<b>TOTAL</b>	<b>9,544</b>	<b>12,663</b>	<b>8,947</b>	<b>7,013</b>	<b>6,488</b>

Sources: FABUS and SIMEFRE.

Note: See - Brazilian Bus Body Production – TOTAL.

### 4. Marcopolo Highlights

**Consolidated net income** in 2006 totaled R\$ 1,750.3 million – 2.4% more than the R\$ 1,709.1 million in 2005. For a better understanding of net income see items 5.1, 5.2 and 5.3.

**Net profits** came to R\$ 120.8 million – 46.6% more than the R\$ 82.4 million posted the previous year. See item 13.

**Adjusted EBITDA** totaled R\$ 206.3 million, against the R\$ 150.9 million of the previous year – 11.8% and 8.8% of net income, respectively. For more details see item 11.

Marcopolo's **global production** in 2006 totaled 15,670 units – 12,815 conventional bus bodies and 2,855 Volare models. In 2005, production came to 16,456 units (13,577 conventional bus bodies and 2,879 Volare models). For more details see item 6.1.

**Dividends/Interest on Capital.** On December 15, 2006, the Administrative Council approved the payment to shareholders of R\$ 50,421,137.91 in interest on capital and anticipated dividends for the fiscal year of 2006. For more details see item 20.

### 5. Marcopolo's Operational Performance (Consolidated Data)

In planning for 2006, the Administration based a large part of the company's performance on a set of fundamental factors: (i) the exchange rate, which would determine export efforts; (ii) the growth of the country's economy in an election

year; (iii) availability of funds for financing at declining interest rates; (iv) resumption of public investments in highway infrastructure; and (v) the tax burden. The expectation was that if these factors evolved as expected, aggregate demand would grow and, as a result, so would employment. This would lead to an increase in the number of passengers transported and stimulate demand for buses. At the same time, the continued expansion of the world economy and the expectation for some kind of exchange rate recovery during the year led to favorable perspectives in terms of Marcopolo's exports and its overseas businesses. An improvement in margins was also expected.

A more favorable foreign exchange rate failed to materialize and the real appreciated 8.7% during the fiscal year. Initial projections and calculations indicate a Gross Domestic Product (GDP) growth well below the most conservative estimates. This kept aggregate demand in check and limited the expansion of most industrial sectors. Public investments in highway infrastructure, which in the 1970s came to 3.0% of GDP, maintained their downward trend. In 2006 these investments represented 0.5% of GDP, worsening the deficiencies and deterioration of the highway network. Measures implemented by the government in the second half of 2006 improved this situation. There was also no sign that taxes would be lowered. Expectations for greater access to financing resources were postponed to 2007, which is why the measures announced by Brazil's National Development Bank (BNDES) in the second half of the year have still not produced the expected results. Therefore the improvement in all of Marcopolo's 2006 financial and economic fundamentals, as illustrated in the initial chart, is due to its sound business practices, the hard work, effort and dedication of our staff and to the continued loyalty of our traditional clients.

### **5.1 Consolidated Net Income**

Consolidated net income totaled R\$ 1,750.3 million – 2.4% higher than the R\$ 1,709.1 million posted in 2005. The domestic market accounted for R\$ 929.5 million, or 22.0% more than the R\$ 760.8 million registered the previous year, and for 53.1% of total net income (against 44.5% in 2005). Exports and overseas operations came to R\$ 820.8 million, or 46.9% of net income against R\$ 948.3 million, or 55.5% of the previous year's net income. The real's appreciation during the year had a negative impact on the company's performance and penalized export volumes and revenue, margin and overall performance, as well as other profitability indicators of the company.

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

## Total Consolidated Net Income - By Products and Markets (R\$ Million)

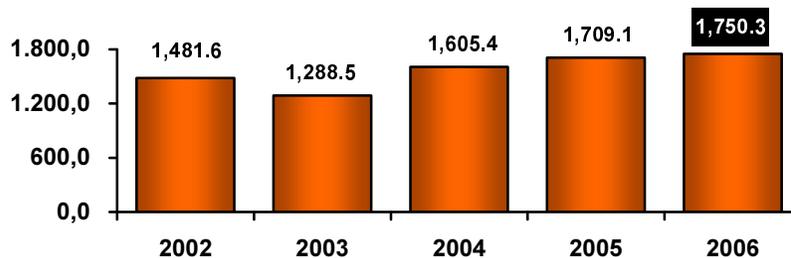
Products <sup>(3)</sup>	2006		2005		Total	
	DM	EM	DM	EM	2006	2005
Intercity buses	250.417	356.270	239.564	354.208	606.687	593.772
Urban buses	268.069	271.376	180.033	362.517	539.445	542.550
Micro buses	34.298	51.371	20.213	66.014	85.669	86.227
Minis buses- LCV	6.556	13.854	6.776	20.003	20.410	26.779
<b>Subtotal bus bodies</b>	<b>559.340</b>	<b>692.871</b>	<b>446.586</b>	<b>802.742</b>	<b>1.252.211</b>	<b>1.249.328</b>
Volares and Vans <sup>(1)</sup>	276.551	20.121	227.780	22.368	296.672	250.148
<b>Total b.bodies/Volare/Vans</b>	<b>835.891</b>	<b>712.992</b>	<b>674.366</b>	<b>825.110</b>	<b>1.548.883</b>	<b>1.499.476</b>
Chassis <sup>(2)</sup>	1.090	24.237	4.225	48.018	25.327	52.243
Parts and others	92.475	83.600	82.179	75.180	176.075	157.359
<b>Total chassis/parts/others</b>	<b>93.565</b>	<b>107.837</b>	<b>86.404</b>	<b>123.198</b>	<b>201.402</b>	<b>209.602</b>
<b>TOTAL</b>	<b>929.456</b>	<b>820.829</b>	<b>760.770</b>	<b>948.308</b>	<b>1.750.285</b>	<b>1.709.078</b>

Notes: <sup>(1)</sup> Volare earnings include chassis;

<sup>(2)</sup> Earnings from chassis refer to other units sold, except Volare models;

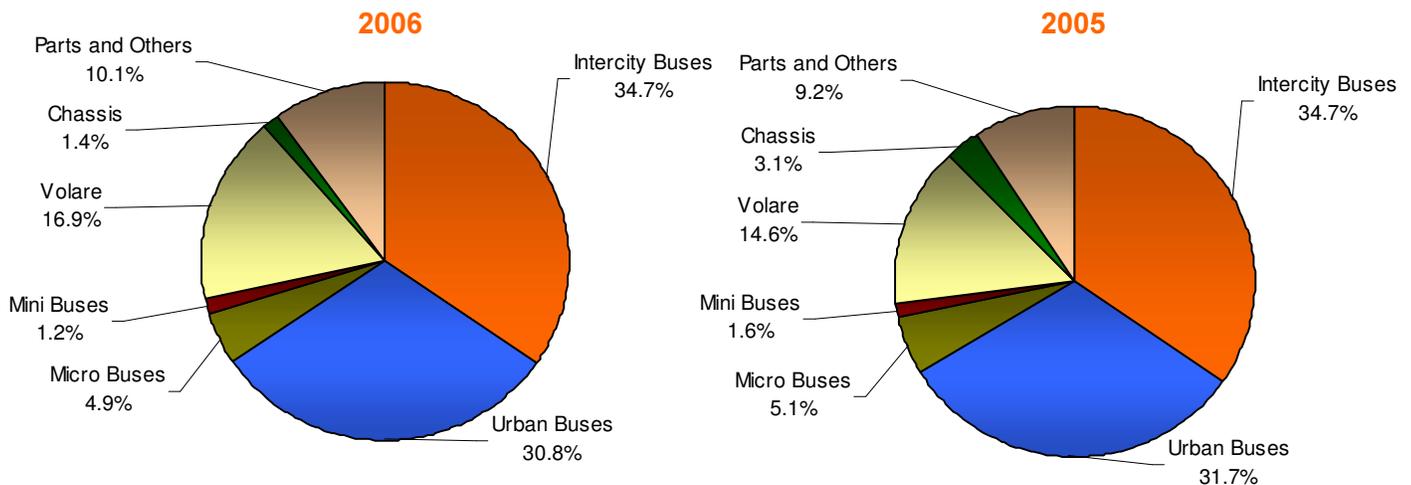
<sup>(3)</sup> DM = Domestic Market; EM = External Market.

### Net Income (R\$ million)



### 5.2 Consolidated Net Income Breakdown (%)

Of total consolidated net income in 2006, 88.5% came from bus body sales, 1.4% from the sale of chassis and 10.1% from the sale of parts and components and the Banco Moneo. The graphs below show in more detail the origin of consolidated income per product line (%).



### 5.3 Domestic/Overseas Market Income Breakdown (%)

The rise in domestic demand registered in 2006, increased income by R\$ 168.7 million, or 22.2% more than in 2005. However, exports and overseas operations registered a drop of close to R\$ 127.5 million, or 13.4% less than in the previous year. The lack of overseas orders, the conversion to reais of dollar denominated income at decreasing rates, and lower sales volumes by the subsidiaries, that saw their competitiveness suffer because of the increased prices of imports from the parent company, explains the difference in the income obtained between one year and the other. As a result, the contribution of the operations in Brazil increased in 2006, going from 44.5% to 53.1% of consolidated net income, while the contribution of exports and overseas operations dropped, going from 55.5% to 46.9%.

## 6. Production, Sales and Market Share Data

### 6.1 Production and Sales

Production in 2006 totaled 15,670 units, or 4.8% less than the 16,456 units manufactured in 2005. After deducting – for consolidation purposes – the units exported to subsidiaries, the total was 263 units less than that of the previous year. If the nearly 1,000 units of the special order for Chile, which were produced in 2005, were to be deducted, the physical volume would be considered satisfactory. At the overseas subsidiaries, a total of 5,095 units were made - 523 less than the 5,618 produced in 2005. A large part of this decrease was registered in the Mexican market, where Brazilian manufacturers in general lost competitiveness because of the foreign exchange rate there and here. The subsidiary in Colombia produced 201 units less than it did in 2005, but this reduction is only apparent because the mix includes a number of larger size vehicles. Global production is detailed in the charts below:

#### MARCOPOLO – Consolidated Global Production By Company (units)

Companies	2006	2005	Variation (%)
<b>BRAZIL</b>			
Marcopolo <sup>(1)</sup>	10,576	11,301	(6.4)
Ciferal	3,243	3,123	3.8
<b>SUBTOTAL</b>	<b>13,819</b>	<b>14,424</b>	<b>(4.2)</b>
KD exports not included <sup>(2)</sup>	3,244	3,586	(9.5)
<b>TOTAL IN BRAZIL</b>	<b>10,575</b>	<b>10,838</b>	<b>(2.4)</b>

<b>OVERSEAS</b>			
Mexico	2,898	3,200	(9.4)
Portugal	190	224	(15.2)
South Africa	314	300	4.7
Colombia	1,693	1,894	(10.6)
<b>TOTAL OVERSEAS</b>	<b>5,095</b>	<b>5,618</b>	<b>(9.3)</b>
<b>TOTAL</b>	<b>15,670</b>	<b>16,456</b>	<b>(4.8)</b>

Notes: <sup>(1)</sup> Includes production of Volares and Van models;

<sup>(2)</sup> Partially or completely knocked down bus bodies.

### **MARCOPOLO – Consolidated Global Production By Product and Market (units)**

<b>Products/Markets <sup>(1)</sup></b>	<b>2006</b>			<b>2005</b>		
	<b>DM</b>	<b>EM <sup>(2)</sup></b>	<b>TOTAL</b>	<b>DM</b>	<b>EM <sup>(2)</sup></b>	<b>TOTAL</b>
Intercity buses	1,615	1,956	<b>3,571</b>	1,559	1,925	<b>3,484</b>
Urban buses	3,690	3,086	<b>6,776</b>	2,809	4,689	<b>7,498</b>
Micro buses	558	1,276	<b>1,834</b>	347	1,576	<b>1,923</b>
Mini buses (LCV)	117	517	<b>634</b>	161	511	<b>672</b>
<b>SUBTOTAL</b>	<b>5,980</b>	<b>6,835</b>	<b>12,815</b>	<b>4,876</b>	<b>8,701</b>	<b>13,577</b>
Volare and vans	2,607	248	<b>2,855</b>	2,435	444	<b>2,879</b>
<b>TOTAL</b>	<b>8,587</b>	<b>7,083</b>	<b>15,670</b>	<b>7,311</b>	<b>9,145</b>	<b>16,456</b>

Notes: <sup>(1)</sup> DM = Domestic Market; EM = External Market;

<sup>(2)</sup> External market production figures include KD units exported by the parent company. In 2006, 3,244 units were exported and 3,586 units were exported in 2005;

<sup>(3)</sup> 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.

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

<b>Products/Markets <sup>(1)</sup></b>	<b>2006</b>			<b>2005</b>		
	<b>DM</b>	<b>EM <sup>(2)</sup></b>	<b>TOTAL</b>	<b>DM</b>	<b>EM <sup>(2)</sup></b>	<b>TOTAL</b>
Intercity buses	1,615	1,603	<b>3,218</b>	1,559	1,739	<b>3,298</b>
Urban buses	3,690	2,988	<b>6,678</b>	2,809	4,419	<b>7,228</b>
Micro buses	558	391	<b>949</b>	347	473	<b>820</b>
Mini buses (LCV)	117	2	<b>119</b>	161	38	<b>199</b>
<b>SUBTOTAL</b>	<b>5,980</b>	<b>4,984</b>	<b>10,964</b>	<b>4,876</b>	<b>6,669</b>	<b>11,545</b>
Volare and vans <sup>(3)</sup>	2,607	248	<b>2,855</b>	2,435	444	<b>2,879</b>
<b>TOTAL PRODUCTION</b>	<b>8,587</b>	<b>5,232</b>	<b>13,819</b>	<b>7,311</b>	<b>7,113</b>	<b>14,424</b>
<b>TOTAL SALES</b>	<b>8,618</b>	<b>5,280</b>	<b>13,898</b>	<b>7,224</b>	<b>7,056</b>	<b>14,280</b>

Note: See notes in chart "Consolidated Global Production – By Product and Market".

## 6.2 Market Share

In recent years, the increase in domestic demand and the conquest of new markets have led to the emergence of new manufacturers that increased the sector's installed capacity and began competing with traditional companies.

This affected the market share of Marcopolo that preferred to continue with its fair price policy, adjusting results to capital remuneration and to the profitability needed to ensure the subsistence and expansion of its business activities. The company lost some market share points, yet nevertheless ended the year with good results. Item 2 of this report compares economic and financial indicators of the last two fiscal years only, but analyzing previous periods, the company's performance stands out even more.

### Share in Brazilian Production - Marcopolo/Ciferal (%)

Products	2006	2005	2004	2003	2002
Intercity buses	46.4	47.2	56.4	64.9	64.9
Urban buses	41.3	45.7	48.2	44.9	46.5
Micro buses	22.5	23.6	33.4	38.5	40.9
Mini buses (LCV) <sup>(1)</sup>	18.5	27.8	18.9	31.7	43.8
<b>TOTAL</b>	<b>39.2</b>	<b>42.8</b>	<b>45.8</b>	<b>47.0</b>	<b>49.8</b>

Sources: FABUS and SIMEFRE.

Note: <sup>(1)</sup> Volare and Vans are not included in market share figures.

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

In 2006, the Cost of Products Sold, totaled R\$ 1,420.5 million, or 81.2% of net income against 85.0% registered the previous years. This 3.98 percentage point reduction increased gross profit by more than R\$ 72.5 million. This was due to: (i) a greater proportion of revenue in the domestic market; (ii) lower operating costs; (iii) the effect in 2006 of price adjustments made at the end of 2005; and (iv) input price stability. The results were further enhanced by greater exchange rate stability that allowed export margins to come in close to those forecasted when orders were priced.

## 8. Sales Costs

Sales costs totaled R\$ 112.0 million, or R\$ 15.7 million more than the R\$ 96.3 million, disbursed in 2005. These figures represent 6.4% and 5.6% of each year's net income, respectively. The nominal increase of sales costs was the result of increased expenses with commissions.

## 9. General and Administrative Costs

General and administrative costs that totaled R\$ 72.8 million, consumed 4.2% of net income in 2006, compared to the R\$ 61.7 million, or 3.6% of net income in 2005.

## 10. Net Financial Results

Net financial results amounted to R\$ 38.3 million, which was in line with the R\$ 37.1 million of 2005. The financial gains can be attributed to the fact that Marcopolo, a major exporter, is able to obtain foreign currency loans, without risk, thanks to its natural hedge based on its export revenue. These loans block export revenue and if at product-delivery time the real has appreciated, the Company obtains a financial gain that has as a counterpart less income and gross margin. Additionally, loans strengthen cash flow and are invested at high interest rates, generating results that complement those obtained by exports. In 2006, the results of these investments plus favorable exchange variations allowed the Company to cover all net financial liability costs and still generate a significant positive result.

To better understand Marcopolo's strategy, these comments should be read together with the following chart.

### POSITION IN US\$ SUBJECT TO EXCHANGE VARIATIONS

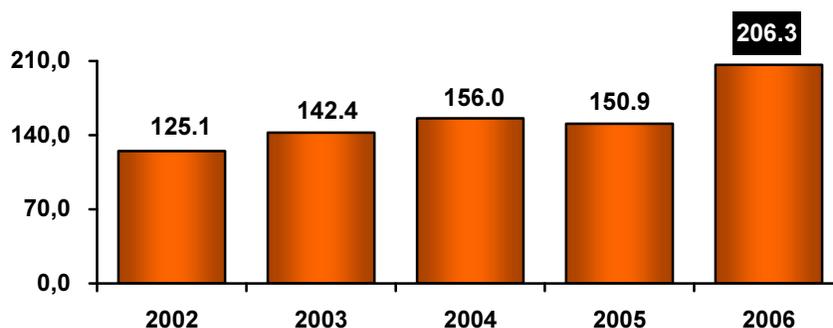
	12/31/2006	12/31/2005
	US\$ million	US\$ million
Accounts receivable from clients	65.246	98.853
Current Account – Oversea Subsidiaries	11.536	16.844
<b>ASSETS</b>	<b>76.782</b>	<b>115.697</b>
Advances on export contracts- ACE	900	29.328
Advances on exchange contracts (ACC) and pre-payment	30.893	34.189
Forward	62.200	99.000
Loans in foreign currency	8.501	9.795
Commissions and other obligations	5.212	6.310
<b>LIABILITIES</b>	<b>107.706</b>	<b>178.622</b>
<b>NET FINANCIAL BALANCE</b>	<b>(30.924)</b>	<b>(62.925)</b>
Investments overseas	27.413	23.376
<b>TOTAL NET POSITION IN US\$</b>	<b>(3.511)</b>	<b>(39.549)</b>

Note: The Company's policy as of 2005 is to protect its order portfolio.

## 11. Operating Results and EBITDA (adjusted)

Adjusted EBITDA in 2006 came to R\$ 206.3 million, against the R\$ 150.9 million, in 2005 – 11.8 % and 8.8% 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)	2006	2005	2004	2003	2002
Operating results	172.404	118.905	114.732	104.526	90.714
Financial results	(186.357)	(167.807)	(110.419)	(114.596)	(122.924)
Financial expenses	148.025	130.733	112.634	87.965	244.950
Depreciation/Amortization	29.863	29.413	28.928	24.623	24.983
EBITDA	163.935	111.244	145.875	102.518	237.723
Exchange variation on investments in subsidiaries	4.255	9.118	2.792	8.635	(37.545)
Exchange variations linked to exports	38.146	30.574	7.298	31.295	(75.078)
<b>EBITDA (adjusted)</b>	<b>206.336</b>	<b>150.936</b>	<b>155.965</b>	<b>142.448</b>	<b>125.100</b>

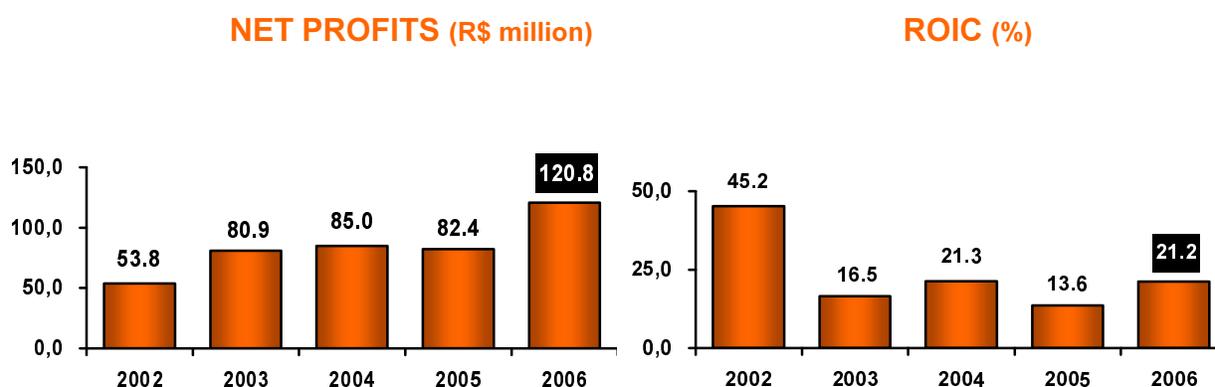
## 12. Other Operating Revenue and Expenses

In 2006, the negative net balance of these accounts totaled R\$ 12.3 million, against the negative R\$ 18.3 million registered in 2005 – a 32.8% drop between one period and the other. The negative values pertain mainly to accounting entries made to adjust historic values in view of exchange variations, but do not represent

effective losses or cash outflows in either period. The balance of 2006 was comprised of: (i) R\$ 4.2 million in losses due to the effect of exchange variations on investments in overseas subsidiaries; (ii) R\$ 1.9 million in premium amortization linked to the acquisition of Ciferal; (iii) R\$ 3.5 million set aside as provisions for judicial litigations; and (iv) R\$ 2,7 million for tax and other operating expenses.

### 13. Net Profits / ROIC

Net profits in 2006 totaled R\$ 120.8 million – 46.6% more than the R\$ 82.4 million posted in 2005. The return on invested capital was 21.2%. The evolution of net profit and of the return on capital during the last five years is illustrated below.



### 14. Cash Generation

In 2006, operating activities generated R\$ 135.1 million against the R\$ 123.3 million registered in 2005. Investments in fixed assets came to R\$ 40.5 million, while financial activities consumed R\$ 56.7 million. As a result, the initial cash balance of R\$ 402.6 million increased to R\$ 440.5 million at the end of the year. The cash flow statement can be found together with the other financial statements

### 15. Growth: Performance of Subsidiaries. Projects in India and Russia

The growth of the company is closely tied to its international operations that are expected to play an important strategic role. In 2006, overseas units produced 5,095 buses – 32.5% of the company’s consolidated production.

**POLOMEX**, which is located in Mexico, is the subsidiary that currently has the biggest output. It also contributes the most income. While its 2006 production of 2,898 units was 302 less than what was produced in 2005, it nevertheless surpassed initial forecasts that reflected uncertainties linked to the presidential elections of that country. The subsidiary ended the fiscal year with a small negative

result due to the devaluation of the peso and to the difficulties of incorporating in its prices the cost increases associated to imports from Brazil. Its staff is composed of 857 workers.

**SUPERPOLO**, which is located in Colombia, is currently the second most important unit. In 2006, it produced 1,693 units, 172 of which were exported to markets the Andean Pact. Compared to 2005, revenues increased 18.1% in 2006. The results posted by this subsidiary, which has 31.0% of domestic market share, were positive. During the second quarter of 2007, its operations will be transferred to a new industrial plant, which started being built in July of 2006. At the new installations, where it will have a greater installed capacity, more efficient processes and lower costs, the subsidiary will be able to produce more competitive products of higher quality that will help it increase its market share. Its staff is composed of 975 workers.

**PORTUGAL and AFRICA**. Together, the units located in Portugal and Africa produced a little more than 500 buses, an insufficient volume for them to achieve financial equilibrium. Business operations and the expansion of the activities in Portugal are complex issues because of the level of competition in the European market. The Administration is studying the redefinition of its strategy as well as the most suitable ways to conduct its business in that region. The operational perspectives in Africa are better. A better understanding of the seasonal behavior of demand and of the logistics needed to use port facilities in Africa and Brazil, the consolidation of production and sales activities, and the structuring of a technical assistance service in the country allows us to forecast an increase in demand. This demand could be stimulated by the major sporting event that will take place in the country in 2010. Production scale will grow and sales will reach profit-making levels. The exchange factor remains one of the variables that should influence the design of the operational strategy for the African market. Together, the two units employ close to 490 workers.

**BANCO MONEO S.A.** Having begun its activities on July of 2005, the bank works with credit portfolios, financing, and commercial and credit leasing. In April of 2006, the Credit Rights Investment Fund (FIDC) was registered with the Securities Commission (CVM). The coordination, structuring, placement and subscription of R\$96.0 million worth of senior quotas of the first FIDC series was contracted in May. During 2006, R\$42.4 million was ceded to the fund, ending the first series on Jan.2, 2007.

Also in May of 2006, Banco Moneo was accredited by Brazil's National Development Bank (BNDES) as a fund transfer agent of Finame funds and started

providing its clients with FINAME and FINAME LEASING credit lines (Finame is a government fund that finances the purchase of machinery and equipment). In 2006, loans and financing operations worth R\$158.0 million were carried out (R\$16.3 million in 2005). On Dec.31, 2006, the loan and financing portfolio had a balance of R\$118.7 million, excluding the amount ceded to the FIDC fund. The Administration hopes to transform Banco Moneo into an important credit and financing instrument for Marcopolo products.

**MIC and ILMOT (Trading Companies).** The *Marcopolo International Corp.* (MIC) and *Ilmot International Corporation S. A.* are subsidiaries that play an important role in the expansion of international business operations. Their main functions are: (i) sell products made by the company and by third parties; (ii) maintain, coordinate and expand the international network of commercial representatives; (iii) provide technical and post-sales assistance; (iv) organize the participation in fairs and expositions; (v) handle product homologation in different countries; (vi) obtain funds to invest in stakes in other companies overseas; (vii) centralize the process of obtaining and administrating international financial resources; and (viii) mitigate the corporation's political and exchange risks.

Honoring its traditional entrepreneurial spirit, Marcopolo is expanding its activities to markets in the Orient. The first steps in this venture are being taken in Russia and India.

**RUSSIA.** In the first two weeks of Jan.2007, the "*RUSSIAN BUSES MARCO*" joint venture concluded the re-adaptation of the assembly lines, the electrical, lighting and compressed air installations, and the settling of the *jigs* and production equipment in the city of *Golitsin*, where it will produce buses. A group of Marcopolo engineers and technicians is in Russia training local personnel. The *try-out* began in the second half of January. The initial output estimate of 100 units in 2007 was increased to 175 buses.

**INDIA.** The "*TATA MARCOPOLO MOTORS LIMITED*", joint venture located in *Dhanward*, could become a major overseas operation, once production is in full swing. The first models of the buses to be produced have already been defined, including the "*low entry*" buses that will be used during the Commonwealth Games to be held in New Delhi in 2010. Production of urban transportation and school buses is expected to being toward the end of 2007, or early 2008, after the factory's installations are concluded. At Marcopolo, close to 50 collaborators are working full-time on the project. TATA has also provided 20 highly qualified workers.

## 16. Corporate Governance

### 16.1 Practices

The evolution of Marcopolo's Corporate Governance model determined the activities and responsibilities of the Administrative Council, the Board of Directors and the Fiscal Council. To help, provide opinions and support the company's management, the Administrative Council created, in March of 2006, the Executive Committee as well as these other committees: (i) Auditing and Risks; (ii) Human Resources and Ethics; and (iii) Strategy and Innovation. These committees have technical and advisory functions that do not fall under the jurisdiction of the Executive Committee. At the start of each year, the Administrative Council defines an agenda in which the themes to be discussed during the year are scheduled.

The company's Administrative Council is comprised of six members. Three of these members are external independent counselors, one of who is appointed by minority shareholders, another by those with preferred stock and the third by the controllers. The Fiscal Council is comprised of three members, one of who is appointed by minority shareholders, another by those with preferred stock and the third by the controllers. The tasks of each organ are clearly defined in the Social Statute that was reformulated on March 23, 2006. The company treats all shareholders equally. It uses high standards of transparency when releasing information in order to strengthen the healthy relationship in maintains with its investors. The company's policies are in tune with the best good corporate governance practices, especially with those of Level 2 of the Sao Paulo Stock Exchange's (BOVESPA), which Marcopolo adhered to in 2002. The financial statements in which the company renders accounts regarding equity and results are prepared in accordance to rigorous technical standards and in accordance to accounting practices adopted in Brazil and which are based on the Corporation Law and the norms and statements of CVM and IBRACON (The Institute of Independent Auditors of Brazil). To improve the information provided to the market in general and to foreign shareholders in particular, the Financial Statements are also divulged in accordance to *USGAAP* standards. To stimulate the liquidity of its shares, the company divulges, at the start of each year, an annual calendar of corporate events and encourages the active participation of shareholders at stockholders' meetings. In 2006, the Company held meetings in the cities of Sao Paulo, Rio de Janeiro and Porto Alegre with the Association of Capital Market Investment Analysts and Professionals (APIMEC). It also holds conference calls at the end of each quarter and the company's executives frequently take part in the so-called "*small & mid cap day*" encounters organized by investment banks and institutions linked to the capital market. The Investor Relations Division handles

Marcopolo's relations with its shareholders and potential investors. In 2006, the Company held meetings with Brazilian and foreign analysts and maintained numerous telephone contacts. The Company's Web site was overhauled, increasing and improving its content and the navigability of the Financial Statements, Relevant Facts and other information divulged by the Company.

## **16.2 Remuneration and Recognition**

Employee remuneration is comprised of one part that is fixed and linked to competencies and abilities and another part that is variable and is determined by the achievement of goals established in the Company's Profit Sharing Program. Periodic wage surveys are conducted to evaluate if salaries are aligned to regional standards, thus ensuring the company's competitiveness on the job market.

## **16.3 Council of Heirs**

In light of considerations made by the Brazilian Institute of Corporate Governance (IBGC), the Administrative Council, on May 20, 2005, approved the creation of Council of Heirs aimed at preparing the Company for the succession process. In 2006, the members of the Council of Heirs participated in improvement events sponsored by IBMEC Educacional, IBGC and the FBN (*Family Business Network*).

## **17. Intangible Assets**

Among the many competitive factors responsible for Marcopolo's performance, we must highlight the company's human capital - its employees, who because of their technical abilities, experience, know-how, dedication and loyalty represent an extremely important competitive differential in an industry in which artisanship is very much present. The technological production processes developed internally – unique in the sector – complement the company's efficiency and production cost advantages. A vast network of representatives in Brazil and abroad and a market of more than 103 countries help explain the strength of the company's sales. The MARCOPOLO brand is an extremely valuable one thanks to the company's stability, leadership, internationalization, and, especially, the guaranteed resale value of its products. Marcopolo detains several registered trademarks in Brazil and in the principal countries where it sells, or plans to sell its products. There are more than 200 registered trademarks and/or trademark registration requests in more than 20 countries. The company also has more than 40 patent registration and/or patent registration requests. The company's principal brands are: *Marcopolo, Volare, Ciferal, Paradiso, Viaggio, Andare, Ideale, Viale, Torino and Sênior*. These factors have a difficult-to-measure economic value and as such are not listed in the company's assets.

## 18. Independent Auditors

### 18.1 Independent Auditors

In accordance to a legal disposition, the company changed auditors in 2005 and contracted *PRICE WATERHOUSE COOPERS* – Independent Auditors, with offices on Rua Mostardeiro, 800, 8th and 9<sup>th</sup> floors, in Porto Alegre, Rio Grande do Sul state. *PRICE WATERHOUSE COOPERS* replaced KPMG Independent Auditors.

### 18.2 CVM Instruction 381/03

As required by CVM Instruction 381/03 – paragraphs I to IV of article 2 - Marcopolo states that it has signed no other contracts with its Independent Auditors unrelated to the auditing of the company's financial statements that are divulged and delivered to the CVM (Securities Exchange Commission). This practice is based on internationally accepted principles, according to which external auditors must not audit their own services, hold any kind of managerial position or promote the interests of the company.

## 19. Capital Markets

### 19.1 Capital Stock

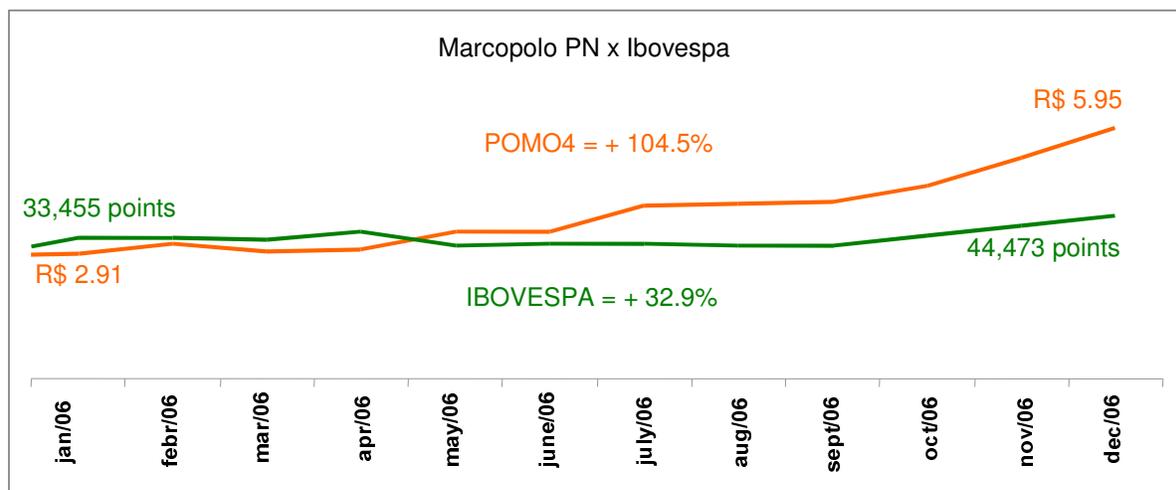
On August 25, 2006, the Administrative Council approved a R\$ 226.0 million increase in the Company's capital stock through the capitalization of the profit reserves and with stock dividend of 100.0%.

The Company's current capital totals R\$ 450.0 million and is composed of 85,406,436 ordinary shares (38.1%) and 138,818,585 preferential shares (61.9%) – all nominative book-entry shares without nominal value.

### 19.2 Performance of Marcopolo's Shares on the Bovespa

Thanks to the market's consensus regarding the company's potential and favorable outlook, the performance of Marcopolo's shares was superior to that of Ibovespa's. The quotation of preferred stock (POMO4) adjusted by the stock dividend evolved from R\$ 2.91 per preferred share to R\$ 5.95 on 12.31.06, representing an appreciation of 104.5% for the period. Foreign investors also consider the company's shares as a good investment alternative. As a result of the purchase of Marcopolo's shares by foreigners during the year, part of preferred stock liquidity was transferred overseas. These foreigners increased their share of Marcopolo's preferred stock from 31.8% at the start of the year to 51.9% at the end of 2006.

During the year, the number of transactions with the company's shares totaled 20,319 – 71.1% more than the 11,878 registered in 2005. These transactions involved 114.7 million shares – 51.2% of capital stock and about 72.0% of free float. Additional information can be found in the chart below.



Indicators	2006	2005	2004	2003	2002
Number of transactions	20,319	11,878	11,057	13,300	3,082
Shares negotiated (millions) <sup>(*)</sup>	114.7	93.4	90.3	114.5	53.6
Value of transactions (R\$ million)	424.8	247.8	266.5	229.2	99.4
Market value (R\$ millions) <sup>(1)</sup>	1.334.1	654.0	768.7	539.4	476.5
Existing shares (millions) <sup>(2) (*)</sup>	224.2	224.2	224.2	224.2	224.2
Book value per share (R\$) <sup>(*)</sup>	2.42	2.10	1.94	1.73	1.55
Quotation (R\$ /per preferred share) <sup>(3) (*)</sup>	5.95	2.91	3.42	2.40	2.12
Interest on capital (imputed to dividends) and dividends (R\$/per share) <sup>(*)</sup>	0.225	0.190	0.170	0.178	0.095

Notes: <sup>(1)</sup> 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;

<sup>(2)</sup> The company's total number of shares at the end of the fiscal year (Ddec.31,2006), came to 528,757 preferred shares of this total are in treasury for reasons mentioned in item 19.3;

<sup>(3)</sup> Preferred share quotation at the last trading session of the fiscal year;

<sup>(\*)</sup> Data has been updated to reflect the 100% dividend on stock, which was agreed to in the Aug.25, 2006 meeting of the Administration Council.

### **19.3 Repurchase of Shares**

On May 23, 2005, the Administrative Council approved the repurchase, during a one-year-period, of up to 5.0% of the company's shares circulating in the market. The objective of this measure was to offer stock options to the company's administrators and employees and/or their cancellation. By December 31, 2005, a total of 800,000 preferred shares had been acquired. These represented 1.0% of the shares in circulation that on that day were in treasury. New acquisitions did not take place during the year of 2006 and due to the results posted in 2005, a total of 271,243 shares were sold to the participants of the Stock Option Plan. On Dec. 31, 2006 there were 528,757 shares remaining in treasury.

### **20. Dividends/Interest on Capital**

On Dec. 15, 2006, the Administrative Council approved an interest on capital and dividend payment of R\$ 50.421.137,91. Of this total, R\$ 36,999,362.07 will be paid as interest on capital, while R\$ 13,421,775.84 will be paid as anticipated dividends. Both payments refer to the fiscal year of 2006. Thus, gross remuneration reached R\$ 0.225 per share. The value was entered in the individual accounts of each shareholder on Dec. 21, 2006 and payment will begin on March 30, 2007. The distribution was the equivalent to 41.8% of net income and is 18.9% more than the R\$42,399,217.82 distributed in the fiscal year of 2005.

### **21. Investments / Fixed Assets**

In 2006, Marcopolo increased its capital investments substantially, earmarking R\$ 40.4 million to several units, compared to R\$ 24.7 million in 2005. Of the total invested, R\$ 23.5 million were used to purchase machinery and equipment; R\$ 10.9 million in computer equipment and software; and R\$ 6.0 million in industrial installations - R\$ 3.8 million of which was invested in the new plant in Colombia, R\$ 1.7 million in the factory in Russia and the remainder in other subsidiaries.

#### **21.1 Information Technology**

The corporation's rapid growth required a decision-making system capable of generating up-to-date, on-line and real time information. These demands led the company to opt for the SAP system that will allow it to have an integrated vision of the business, unify the language between headquarters and all the units in Brazil and abroad, and provide better management conditions. By December, a total of R\$10.9 million had been invested in the purchase of computer equipment and software. The Nucleus/SAP Project, initiated in April 2006, is nearing completion and its operational startup is scheduled the end of the first quarter of 2007.

## **22. Environmental Management**

Marcopolo's Environmental Management System continues ISO14001/2004 certified. Promoting environmental preservation awareness is of fundamental importance for the company. In 2006, the company received the Highlight in Water Savings certificate at the Second Environment and Rio Grand do Sul Industry Survey promoted by the Environment Council (CODEMA) of Fiergs and Expressão Magazine. It also received, for the fourth year in a row, the "Partner Company" Certificate of the Municipal Environmental Affairs Department. This certificate is granted to companies that take part in Environment Week projects in Caxias do Sul.

## **23. Management of Value Added**

Marcopolo continues committed to the creation of value for its shareholders, always trying to identify and invest in projects that provide a return higher than the weighted average capital cost.

Marcopolo has also adopted BSC (Balanced Score Card) concepts that translate each unit's strategy into objectives, goals and plans of action that are monitored and managed frequently. Besides being used to measure operational performance and strategy management efficiency, the MVA/BSC tools are the basis of the Variable Remuneration Plan for executives.

## **24. Risk Factor Management**

The company's several units are exposed to a series of risks that are inevitably linked to their business operations:

### **24.1 Macroeconomic Factors**

In the past, Brazil's economy has been marked by periods of political and economic instability, and today it is impossible to predict if this situation will continue. The continued appreciation of the real could have a negative impact on the company's performance because a significant part of Marcopolo's operations is conducted with, or on the international market. For this reason, equity structure is exposed to exchange fluctuations, mainly in cash flow, accounts receivable, loans and foreign currency denominated operating results.

The company's several units are also exposed to variations in the prices of raw materials, parts and components purchased from third parties in different markets. These variations could have a negative impact on costs and margins. To reduce the risks of the economic/financial variables existing in the markets in which it operates, the company adopted the following practices: (i) increase prices

whenever justified by increased costs of inputs; (ii) prioritize global sourcing operations to minimize input costs; (iii) closely monitor the social, political and economic conditions of those markets with the highest risk levels; (iv) continue with the strict control of all cost and expense categories. Credit at adequate rates is essential to the Company's sustainable growth. In Brazil, credit availability has always been a problematic issue. Although recently there has been some improvement, the availability of resources for long term financing for goods produced by the Company is still critical and interest rates continue very high. The Company cannot guarantee that current 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 could be affected. To reduce the eventual risk of reduced credit, the Company created Banco Moneo S.A. Details are found in item 15 of his report.

The Administration has been developing strategies aimed at minimizing the risks inherent in market concentration, especially the domestic market. Increased exports and the installation of production units in major economic centers are important risk pulverization mechanisms. Exports to more than 100 countries together with operations in markets in which the Company has production units have been accounting for between 45.0% and 55.0% of net consolidated income.

The economic growth rates of those markets to which the company exports, or operates in, could have an impact on the demand for the products produced and sold by Marcopolo. The government exerts a strong influence on Brazil's economy and as such, changes in monetary, fiscal and tax policies could affect Marcopolo's businesses, financial conditions and results. To reduce these possible impacts, the company has diversified its markets and revenue sources so that no client represents more than 5.0% of sales.

Because of their saturated installations and non-competitive costs, Brazilian ports - one of the bottlenecks of the country's infrastructure - are a real threat to exports.

## **24.2 Sectorial Factors**

Urban, interstate and international public transportation services are subject to specific legislation. Keeping in mind that most 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. In Brazil, 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, profitability and the investment capacity of public transportation operators.

### **24.3 Internal Factors**

Marcopolo's operational efficiency is the result, among other things, of the use of technologies, methods and processes developed by the company itself. This knowledge and know-how could be copied by competitors and consequently affect the company's competitiveness and performance. Aware of this risk, the company has been constantly 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.

The sales policies of Marcopolo's units are subordinated to the credit norms established by the Administration to minimize problems caused by defaulting clients. This objective is achieved by selecting clients according to their capacity to pay and by diversifying accounts receivable (risk pulverization).

To limit credit risks involved in the financing offered to the client, 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 client portfolio is diversified and, geographically very well distributed. There are provisions for doubtful debts, technical assistance for products sold and for loss of stock. Banco Moneo's operations follow the same criteria in terms of its credit policies.

Marcopolo also has insurance policies for its products, buildings, equipment and installations, product responsibility, as well as credit insurance.

### **24.4 Tax, Labor and Civil Risks**

The Company and its subsidiaries are involved in legal actions of a tax, labor and civil nature. These actions, which are still pending a final court decision, represent ordinary and routine complaints. However, there is always a chance that the court could rule against the Company, which could mean additional costs and cash outflows. Marcopolo normally makes provisions for legal actions that could end unfavorably for the Company. The Administration believes that any disbursement resulting from these legal actions will not have a material or permanent effect on the Company's assets, finances or results.

## 24.5 General Risks

The Administration does not foresee any other risks that could threaten the continuity of the company's business activities or its existence.

## 25. Social Responsibility

Through activities coordinated by the Marcopolo Foundation, the company and its employees take part in a series of social actions. The *VidaConvida (Life with Life)* Program, aimed at improving the quality of life of employees and their families promoted a series of events in 2006. This program includes the *Todos na Escola e Aluno Nota 10 (Everyone in School and Straight-A Students) Project*, that encourages employees to enroll their children in the public school network and monitor their performance. The students receive school supplies, and awards are given to those students with the best grades. Created in 2001, the *Projeto Escolas (School Project)*, sponsors two community schools. In one of them, this sponsorship included the installation of an information technology laboratory and teacher training programs. Activities aimed at improving the lives of children and adolescents in situations of personal and social vulnerability benefited the community. Employees and their families also enjoy the sporting, cultural and recreational activities provided by the Marcopolo Foundation at its club-like facilities in the countryside. In terms of health, the company offered vaccination campaigns, educational lectures, medical check-ups, pregnancy support services and alcohol and drug prevention programs.

Participating in the *Superação (Super Action)* Program, approximately 270 volunteers worked in six institutions, benefiting close to 800 children and 90 elderly people. The *Um Dia Feliz (A Happy Day)* event, which has been taking place for five years, provided an afternoon of social and cultural activities to children from institutions attended by the volunteers. Meals were distributed and the revenue from the event was set aside for the construction of the Pediatric Oncology Wing of the General Hospital. The Marcopolo Foundation also made monthly contributions to the community's health and educational institutions.

Funds from the Rouanet Law were earmarked to the *Recria – Fazendo Arte Educação* Program (an art education project) and the *Bruno Segalla* Project, both of which are aimed at developing the artistic talents of children and adolescents in Caxias do Sul. Marcopolo and Ciferal transferred 1.0% of owed income tax to the Municipal Children and Adolescents Rights Fund of the cities of Caxias do Sul (RS) and Duque de Caxias (RJ), where the company has production units. The educational campaign held internally resulted in the allocation of 6.0% of the

Income Tax of 56 employees – approximately R\$ 130,000 – for use in Industrial Apprenticeship programs for adolescents of the Recria – Rede Caxiense de Atenção à Criança e ao Adolescente (an outreach program for Caxias do Sul teenagers).

## **26. People Management**

### **26.1 Employee Satisfaction**

Since it began its activities in 1949, Marcopolo has been developing and implementing a series of management programs, policies and practices that focus on the company's employees in Brazil and abroad. Proving that the company was right in adopting these policies is the fact that for the eighth consecutive year Exame magazine and FIA (SP) named Marcopolo as one of the "Best Companies to Work for in Brazil."

### **26.2 Education and Training**

The company, managers and employees share Marcopolo's training and education responsibilities. Operational, administrative and technical training programs are offered to all employees according to their needs. Staff members in leadership positions participate in constant qualification and recycling programs. The company also grants scholarships for all educational levels and for the study of foreign languages, thus providing employees with an opportunity to further improve their personal and professional lives. Created in 1990, the Marcopolo Professional Training School, offers youths in Caxias do Sul (RS) and Duque de Caxias (RJ), industrial apprenticeship courses, a benefit plan and their first job with access to the company's career plan.

### **26.3 Career and Succession**

The Company's career plan is structured to promote the professional growth of its employees through the gradual acquisition of competencies and the mastering of new abilities. Besides training and guidance on how the career plan works, employees receive detailed information on company positions and career opportunities at kiosks located throughout the production units and on the company's Intranet. The company prioritizes its own employees for positions that become available, and to this end it uses its Internal Recruitment Program. A Succession Process identifies, evaluates and prepares professionals with the potential to occupy strategic functions in all of Marcopolo's companies.

## 26.4 Stock Option or Share Subscription Plan

An extraordinary stockholders' assembly held Dec.22, 2005 approved the Stock Option Plan in accordance to the regulations that are available in the [www.marcopolo.com.br](http://www.marcopolo.com.br), [www.cvm.gov.br](http://www.cvm.gov.br) and [www.bovespa.com.br](http://www.bovespa.com.br) websites.

The main objectives of the plan, whose participants are the executives of the Company and its subsidiaries and non-controlling statutory directors are: (i) align the interests of the participants with those of the shareholders; (ii) commit the participants to the Company's short, medium and long-term results; (iii) motivate and stimulate the participants' sense of property and (iv) attract and retain talents. The Administrative Council monitors the plan.

## 26.5 Quality of Life & Citizenship

In each Marcopolo unit there are specific programs aimed at improving the health and well being of employees and their families. In Africa, for example there are AIDS prevention programs. In Brazil, the Programa Vida (Life Program), which is present in schools and the community, teaches the dangers of using drugs. The Marcopolo Foundation offers several leisure, sports and cultural activities that help improve quality of life. In the cities where the Company has industrial units, Marcopolo also sponsors a series of activities aimed at fostering the social inclusion of children and teenagers in underprivileged communities.

## 27. Personnel

Number of Employees	2006	2005	2004	2003
Parent company	5,269	5,549	5,460	4,969
Subsidiaries in Brazil	2,936	3,015	2,882	2,428
Subsidiaries abroad	2,336	2,395	2,214	1,982
<b>Total</b>	<b>10,541</b>	<b>10,959</b>	<b>10,556</b>	<b>9,379</b>
Turnover rate (%) <sup>(1)</sup>	1.05	1.08	0.84	0.77

Note: <sup>(1)</sup> Parent Company.

## 28. Certifications

Marcopolo has the certifications of the norms that comprise the Integrated Management System, ISO 9,001, OHSAS 18,001, SA 8,000 and ISO 14,001.

## 29. Outlook for 2007

According to initial forecasts for 2007, the country's economy will post pretty much the same performance it registered over the past few years. The world economy continues growing at an accelerated rate. Exchange rate forecasts are not very encouraging for Brazilian exporting companies, which is why Marcopolo is approaching the year 2007 with only moderate optimism. The annual consolidated budget calls for a net income of R\$ 1.850 billion and the production of 16,800 bus bodies – an increase of 5.7% and 7.2%, respectively over the figures posted the previous year. These forecasts are reviewed during the year, if and when they are warranted by prevailing conditions.

In evaluating the potential of the markets that are most important for the sector, the Administration has noticed the low fleet renewal rates in Latin American countries that are supplied only by Brazilian buses. At the end of 2006, according to the National Vehicle Registration Service (DENATRAN – [www.denatran.gov.br](http://www.denatran.gov.br)), Brazil's bus fleet stood at 335,000 units. In addition, there were 198,000 microbuses, which means there are more than 500,000 public transportation vehicles circulating in Brazil. Over the past five-year period, just 15,000 to 18,000 units produced per year remained in Brazil while all the other vehicles were exported. These figures make it clear that the country's bus fleet is aging because it is not being renewed at the necessary pace. Passenger transportation companies hope to revert this situation in 2007, using the improved financing conditions that are now available. They are also expecting an enlargement of the contracts they have with concession-granting agencies, as well as a substantial improvement of Brazilian highways as a result of the government's Accelerated Growth Program (PAC). This alone helps explain the market's potential. The other Latin American markets also have considerable bus fleets, considering the number of buses that have been exported to those countries, where vehicle conservation standards are inferior to those found in Brazil. Should this trend continue, in few more years the average age of the bus fleets in Brazil and in other Latin America countries will reach levels of degradation incompatible with passenger transportation safety standards. The technological advancements found in today's new vehicles, the aging of the fleet, the vegetative growth of the population, the need to lessen traffic congestions and the pollution caused by an excessive amount of vehicles used for individual transportation in the big cities, are just some of the problems that over time will demand solutions if the well-being and the quality of life of populations is to be ensured. The measures adopted to this end should increase demand for mass transportation vehicles, which in turn will stimulate production. To help it define its 2007 export strategy, Marcopolo sought the opinion of financial institutions and specialists regarding foreign exchange. The

opinions obtained suggest that export forecasts should be modest. But the Administration will not accept the idea that a growing domestic market compensates a drop in exports.

Growth is one of Marcopolo's long-term objectives. To sustain the organic growth process, the company has adopted the strategy of maintaining and increasing the services it provides to all of its traditional clients and at the same time strengthen its internationalization program aimed at markets with high population density and low purchasing power – markets in which buses will be the preferred mass transportation means for a long time. The expansion into the Indian and Russian markets will reduce the effects of demand oscillations in markets currently served by the company. As such, the Administration will continue pursuing its growth strategy linked to the generation of value for its shareholders and remain confident in the perpetuation of its activities.

### **30. Acknowledgements**

The company thanks its entire staff for its efforts, dedication and commitment that in 2006 once again served as the main pillars of support for the results achieved. 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.

The Administration.