

Marcopolo S.A.

**Consolidated financial statements
as of December 31, 2006 and 2005
and for the year then ended
and report of independent auditors**

Report of independent auditors

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

- 1 We have audited the accompanying consolidated balance sheets of Marcopolo S.A. and its subsidiaries (together the "Company") as of December 31, 2006 and 2005, and the related consolidated statements of income, of comprehensive income, of changes in shareholders' equity and of cash flows for the years 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 audits. We did not audit the financial statements of: (a) Polomex S.A. de C.V, a subsidiary, which statements reflect total assets of 3.92% and 4.87% and net sales of 14.52% and 17.31% of the related consolidated totals as of and for the years ended December 31, 2006 and 2005, respectively, ; (b) Marcopolo Indústrias de Carroçarias S.A., a wholly-owned subsidiary, which statements reflect total assets of 1.77% and 2.61% and total net sales of 2.65% and 3.32% of the related consolidated totals as of and for the years ended December 31, 2006 and 2005, respectively, . The audit of the financial statements of those consolidated subsidiaries were conducted by other independent accountants and our opinion expressed herein, insofar as it relates to the amounts included in the consolidated financial statements of the Company for Polomex S.A. de C.V and Marcopolo Indústrias de Carroçarias S.A., is based solely on the report of these other auditors.
- 2 We conducted our audits in accordance with approved Brazilian auditing standards, which require that we perform the audit to obtain reasonable assurance about whether the financial statements are fairly presented in all material respects. Accordingly, our work included, among other procedures: (a) planning our audit taking into consideration the significance of balances, the volume of transactions and the accounting and internal control systems of the Company, (b) examining, on a test basis, evidence and records supporting the amounts and disclosures in the financial statements, and (c) assessing the accounting practices used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

- 3 In our opinion, based on our audit and on the reports 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 at December 31, 2006 and 2005 and the results of their operations and their cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

April 27, 2007

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

Carlos Biedermann
Contador CRC 1RS029321/O-4

MARCOPOLO S.A.
CONSOLIDATED BALANCE SHEETS
as of December 31, 2006 and 2005
(in thousands of U.S. Dollars, except number of shares)

ASSETS

	<u>Note</u>	<u>2006</u>	<u>2005</u>
Current assets			
Cash and cash equivalents	5	135,440	120,736
Short-term investments	6	69,966	49,889
Unrealized gains on derivatives	21	1,288	2,180
Trade accounts receivable, net	7	156,483	128,918
Inventories	8	84,157	86,308
Deferred income tax	19	21,184	14,674
Tax credits	9	55,234	44,221
Other		10,385	13,711
Total current assets		<u>534,137</u>	<u>460,637</u>
Non-current assets			
Property, plant and equipment, net	11	75,861	69,419
Equity investments	12	9,342	4,377
Investments at cost		377	408
Goodwill	13	7,198	6,574
Deferred income tax	19	1,709	3,203
Tax credits	9	395	8,232
Trade accounts receivable, net	7	36,752	12,739
Judicial deposits	16	2,002	3,887
Other		2,533	1,900
Total assets		<u>670,306</u>	<u>571,376</u>

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

MARCOPOLO S.A.
CONSOLIDATED BALANCE SHEETS
as of December 31, 2006 and 2005
(in thousands of U.S. Dollars, except number of shares)

LIABILITIES	Note	2006	2005
Current liabilities			
Short-term debt	14	41,433	50,726
Current portion of long-term debt	15	60,671	35,060
Unrealized losses on derivatives	21	316	602
Accounts payable for purchase of goods		42,450	38,498
Other trade accounts payable		4,384	11,598
Payroll and related liabilities		19,241	21,609
Provision for contingencies	16	19,149	20,441
Income tax and other taxes payable		6,378	5,484
Commissions payable to sales representatives		13,046	8,616
Interest on equity payable	18	23,592	18,120
Other		22,781	18,219
Total current liabilities		<u>253,441</u>	<u>228,973</u>
Non-current liabilities			
Long-term debt, less current portion	15	139,037	131,402
Income tax and other taxes payable		4,853	1,895
Accrued pension and other post retirement obligations	17	9,051	3,785
Other		2,372	1,379
Total non-current liabilities		<u>155,313</u>	<u>138,461</u>
Total liabilities		408,754	367,434
Minority interest		3,511	3,349
SHAREHOLDERS' EQUITY			
Preferred shares - no par value, 138,818,585 shares authorized and issued at December 31, 2006 (2005- 69,673,671)	18	102,661	38,298
Common shares - no par value, 85,406,436 shares authorized and issued at December 31, 2006 (2005- 42,703,218)		57,725	17,975
Treasury stock - 528,757 preferred shares at December 31, 2006 (2005- 800,000)		(1,051)	(1,658)
Legal reserve		2,820	14,768
Retained earnings		121,568	175,622
Cumulative other comprehensive loss		(25,682)	(44,412)
Total shareholders' equity		<u>258,041</u>	<u>200,593</u>
Total liabilities and shareholders' equity		<u>670,306</u>	<u>571,376</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, 2006 and 2005
 (in thousands of U.S. Dollars, except number of shares and earnings per share)

	<u>Note</u>	<u>2006</u>	<u>2005</u>
Net sales		838,004	670,839
Cost of sales		(691,190)	(561,620)
Gross profit		<u>146,814</u>	<u>109,219</u>
Sales and marketing expenses		(49,592)	(43,399)
General and administrative expenses		(33,696)	(26,519)
Administrators and employees profit sharing		(2,762)	(2,152)
Other operating expense, net		(1,857)	(2,326)
Operating income		<u>58,907</u>	<u>34,823</u>
Interest income, net		272	132
Foreign exchange gains, net		17,196	12,608
Gains on derivatives, net		1,284	3,857
Equity in earnings of unconsolidated companies		1,517	1,051
Other non-operating income (losses), net		36	(1,658)
Income before taxes on income and minority interest		<u>79,212</u>	<u>50,813</u>
Provision for taxes on income	19		
Current		(21,698)	(10,802)
Deferred		2,977	(1,453)
		<u>(18,721)</u>	<u>(12,255)</u>
Income before minority interest		<u>60,491</u>	<u>38,558</u>
Minority interest		(81)	(674)
Net income		<u>60,410</u>	<u>37,884</u>
Basic and diluted earnings per thousand shares - in US\$:			
Common shares		273.9	337.9
Preferred shares		273.9	337.9
Net income attributed to:			
Common shares		23,010	14,430
Preferred shares		37,400	23,454
		<u>60,410</u>	<u>37,884</u>
Number of weighted-average shares outstanding during the year			
Common shares		85,406,436	42,703,218
Preferred shares		138,818,585	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, 2006 and 2005
(in thousands of U.S. Dollars)

	<u>2006</u>	<u>2005</u>
Net income as reported in the consolidated statement of income	60,410	37,884
Foreign currency translation adjustments	<u>23,969</u>	<u>22,284</u>
Comprehensive income for the period	<u><u>84,379</u></u>	<u><u>60,168</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, 2006 and 2005
(in thousands of U.S. Dollars, except dividends per share)

	Preferred stock	Common stock	Treasury Stock	Legal reserve	Retained earnings	Cumulative other comprehensive	Total
Balances as of January 1, 2005	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	38,298	17,975	(1,658)	14,768	175,622	(44,412)	200,593
Net income	-	-	-	-	60,410	-	60,410
Capitalization of reserves	64,363	39,750	-	(16,061)	(88,052)	-	-
Sale of treasury preferred shares	-	-	607	-	-	-	607
Appropriation of reserves	-	-	-	2,820	(2,820)	-	-
Foreign currency translation adjustment	-	-	-	-	-	23,969	23,969
FAS 158 transition amount, net of tax of \$ 2,033	-	-	-	-	-	(3,946)	(3,946)
Other	-	-	-	1,293	-	(1,293)	-
Dividends - \$28.7 per 1,000 common and preferred shares	-	-	-	-	(6,280)	-	(6,280)
Interest on equity - \$77.4 per 1,000 common and preferred shares	-	-	-	-	(17,312)	-	(17,312)
Balances as of December 31, 2006	102,661	57,725	(1,051)	2,820	121,568	(25,682)	258,041

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, 2006 and 2005
(in thousands of U.S. Dollars)

	<u>2006</u>	<u>2005</u>
Cash from operations activities		
Net income	60,410	37,884
Adjustments to reconcile net income to cash flows from operating activities:		
Depreciation	10,956	9,160
Equity earnings on unconsolidated companies	(1,517)	(1,051)
Unrealized (gains) losses on derivatives, net	4,331	(1,493)
Minority interest	81	674
Deferred income taxes	(2,977)	1,453
Losses on disposal of property, plant and equipment	989	3,448
Provision for doubtful accounts	222	3,517
Provision (reversal of provision) for contingencies	(1,292)	1,041
Pension plan benefit	(1,062)	(18)
Translation gains and losses, net	312	194
Changes in asses and liabilities		
(Increase) decrease in accounts receivable	(51,800)	23,468
(Increase) decrease in inventories	(2,151)	6,618
Increase in tax credits	(3,176)	(14,719)
Increase (decrease) in accounts payable and accrued liabilities	3,952	(11,145)
Increase in other assets net of other liabilities	13,550	10,850
Net purchases and sales of trading short-term investments	20,077	28,120
Net cash provided by operating activities	<u>50,905</u>	<u>98,001</u>
Cash flows from investing activities		
Additions to property, plant and equipment	(18,387)	(7,380)
Proceeds from sales of property, plant and equipment	1,286	300
Net cash used in investing activities	<u>(17,101)</u>	<u>(7,080)</u>

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	2006	2005
Cash flows from financing activities		
Interest on equity and dividends paid	(7,083)	(14,395)
Sale and purchase of treasury shares, net	607	(1,658)
Proceeds from short and long-term debt	342,692	334,921
Repayments of short and long-term debt	<u>(309,732)</u>	<u>(297,564)</u>
Net cash provided by financing activities	<u>26,484</u>	<u>21,304</u>
Effect of exchange rate changes on cash	(45,584)	(41,720)
Increase in cash and cash equivalents	14,704	70,505
Cash and cash equivalents at beginning of year	<u>120,736</u>	<u>50,231</u>
Cash and cash equivalents at end of year	<u><u>135,440</u></u>	<u><u>120,736</u></u>
Supplemental cash flow data:		
Cash paid during the year for		
Interest	22,060	28,708
Income taxes	-	-
Non-cash transactions		
Income tax payable set off with tax credits	18,053	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, 2006 and 2005
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1 Operations

Marcopolo S.A. ("Marcopolo") is a "*sociedade anônima*" incorporated as a limited liability company under the laws of the Federative Republic of Brazil. The principal business of Marcopolo in Brazil and of its subsidiaries in Portugal, South Africa, Mexico, Dubai, China, Uruguay, Argentina and the Virgin Islands (together 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, except for Polomex S.A. de C.V. (a subsidiary located in Mexico) and Superpolo S.A. (an equity investments located in Colombia) which have the U.S. dollar as its functional currency. Their financial statements, except for those of subsidiaries that have the U.S. dollar as its functional currency, are translated from the functional currency into the U.S. dollar. Assets and liabilities are translated at the exchange rate in effect at the end of each year. Average exchange rates 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, except for Polomex S.A. de C.V. for which translation gains and losses are recognized in "Other non operating income (loss), net" within the statement of income. Gains and losses on foreign currency denominated transactions are included in the consolidated statement of income.

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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 hyperinflationary economy the U.S. dollar was used as the functional currency for the operations in Brazil.

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 and all the companies controlled by Marcopolo. All significant intercompany balances and transactions have been eliminated in consolidation. The subsidiary companies included in the consolidated financial statements are as follows:

	<u>Percentage of interest (%)</u>	
	<u>2006</u>	<u>2005</u>
Brasa Middle East FZE. (Dubai) (see Note 4)	100	-
Ciferal Indústria de Ônibus Ltda. (Brazil)	100	100
Ilmot International Corporation S.A. (Uruguay)	100	100
Laureano S.A. (Argentina)	100	100
Marcopolo Auto Components Co. (China) (see Note 4)	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

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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 U.S. 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.

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

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

3.4 Short-term investments

Short-term investments 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

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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.

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, 2006, the Company's equity investments are comprised of a 40% interest in the capital of Sferos S.A. (Brazil) and the following 50% owned joint-ventures: Superpolo S.A. (Colombia), Russkie Avtobusi Marcopolo (Russia), and Pólo Plastic Component (Russia).

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

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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, 2006 and 2005 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.

As of December 31, 2006 the Company adopted Statement on Financial Accounting Standards (“SFAS”) No. 158, “Employers’ Accounting for Defined Benefit Pension and Other Postretirement Plans – an amendment of FASB Statements No. 87, 88, 106 and 132(R),”. Under SFAS 158 the Company recognized the funded status of each of its defined pension and postretirement benefit plans as a net asset or liability in its balance sheet with an offsetting amount in accumulated other comprehensive income. As required by SFAS 158, its provisions of SFAS 158 were applied on a prospective basis as from December 31, 2006; therefore, prior periods presented have not been restated. At December 31, 2006, the Company recorded \$3,946, net of tax, in accumulated other comprehensive income related to the adoption of this statement.

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.

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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 18, 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". The Company has no dilutive instruments.

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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%.

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 \$71 and \$446, respectively (2005 - \$224 and \$425), 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.

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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, 2006 and 2005.

4 Joint-ventures and subsidiaries incorporated in 2006

In 2006 the Company incorporated two Joint Ventures (Russkie Avtobusi Marcopolo and Polo Plástico Component both in Russia) where they are expected to initiate bus production. Also, it has incorporated two subsidiaries: Auto Marcopolo Components Co. and Live Brasa Middle East FZE.

5 Cash and cash equivalents

	<u>2006</u>	<u>2005</u>
Bank accounts	18,021	13,520
Over night investments	-	35,741
Quotas in investments funds	-	-
Brazilian government debt securities	2,581	-
Time deposits	114,838	71,475
	<u>135,440</u>	<u>120,736</u>

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6 Short-term investments

	2006	2005
Quotas in investments funds	48,602	25,463
Brazilian government debt securities	1,122	14,597
Corporate debt securities	-	1,907
Time deposits	20,242	7,922
	69,966	49,889

7 Trade accounts receivable, net

	2006	2005
Trade accounts receivable	206,784	154,984
Less: Allowance for doubtful accounts	(13,549)	(13,327)
Trade accounts receivable, net	193,235	141,657
Less: Current portion	(156,483)	(128,918)
Non-current portion	36,752	12,739

8 Inventories

	2006	2005
Finished goods	17,129	36,582
Work in process	11,562	8,306
Raw materials and supplies	50,847	37,304
Advances to suppliers and other	5,515	4,116
Provision for loss on inventories	(896)	-
	84,157	86,308

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9 Tax credits

	<u>2006</u>	<u>2005</u>
Brazilian value-added on tax on sales and services - ICMS	14,503	18,158
Brazilian exercise tax - IPI	2,659	3,948
Brazilian withholding taxes	29,144	19,253
Brazilian tax for financing of social integration program - PIS	1,722	1,758
Brazilian tax for financing of social integration program - COFINS	5,698	7,773
Other	1,903	1,563
Total	<u>55,629</u>	<u>52,453</u>
Less: current portion	<u>(55,234)</u>	<u>(44,221)</u>
Non-current portion	<u>395</u>	<u>8,232</u>

10 Related parties

Balances and transactions as at and for the year ended December 31, 2006 with related parties which were not eliminated in the consolidated financial statements are presented below:

	<u>Spheros S.A.</u>	<u>Superpolo S.A.</u>	<u>Total</u>
Trade accounts receivable	-	112	112
Loans receivable (*)	-	38	38
Acquisitions of raw materials and supplies	5,956	-	5,956
Net sales		473	473
Interest income	7	3	10

(*) presented within "Other non-current assets".

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11 Property, plant and equipment, net

	<u>2006</u>	<u>2005</u>
Buildings	28,068	26,327
Machinery and equipment	69,069	59,301
Premises	21,551	19,034
Furniture and fixtures	3,427	3,062
Vehicles	2,301	1,737
Data processing equipment and systems	14,124	7,610
Other	1,901	2,115
Total depreciable assets	<u>140,441</u>	<u>119,186</u>
Less: accumulated depreciation	(73,412)	(58,607)
Land	7,061	6,746
Construction in progress	1,771	2,094
Total	<u>75,861</u>	<u>69,419</u>

12 Equity investments

	<u>2006</u>	<u>2005</u>
Sferos S.A.	2,281	1,329
Superpolo S.A.	5,194	3,048
Russkie	1,089	-
Polo Plastic	778	-
	<u>9,342</u>	<u>4,377</u>

13 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 \$3,960 (\$3,922 in 2005) recorded during 2001, 2002 and 2003.

	<u>2006</u>	<u>2005</u>
Balance at the beginning of the year	6,574	5,796
Effect on exchange rate changes	624	778
Balance at the end of the year	<u>7,198</u>	<u>6,574</u>

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14 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. (2005 - 5.92% p.a.).

15 Long-term debt

(a) Balances

	2006	2005
Long term debt denominated in foreign currencies		
Advances for export contracts with interest rates of 4.26% p.a. (US\$)	53,739	30,258
Pre-export loan agreements with interest rate of LIBOR plus 1.52% p.a. (US\$)	12,857	26,528
Working capital loan agreements with interest rates of 4,10% p.a. (US\$)	15,293	15,862
Working capital loan agreements with interest rates of 3.85% p.a. (Euros)	3,798	3,694
Long term debt denominated in Brazilian reais		
Pre-export loan agreements with interest rates of TJLP plus 1.5% p.a.	66,603	68,511
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.	47,418	21,609
Total	199,708	166,462
Less: Current portion	(60,671)	(35,060)
Non-current portion	139,037	131,402

TJLP (Taxa de Juros de Longo Prazo – “Long term interest rate”): Interest rate set by the Brazilian Government used to index long term loans granted by BNDES – Banco Nacional de Desenvolvimento Econômico e Social.

LIBOR (London Interbank Offered Rate): Interest rate set by the British Bankers Association to index long term loans.

(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. At December 31, 2006, the Company was in compliance with all of its debt covenants.

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(c) Maturities of long-term debt

	<u>2006</u>	<u>2005</u>
2007	-	70,306
2008	85,946	36,239
2009	27,219	12,429
2010	14,505	12,428
2011	<u>11,367</u>	<u>-</u>
Total	<u>139,037</u>	<u>131,402</u>

16 Commitments and contingencies

16.1 Tax and legal contingencies

The Company is party to claims with respect to certain taxes 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, and the ultimate resolution will not have significant effect on the consolidated financial position as of December 31, 2006, although it may have a significant effect on future results of operations or cash flows.

The following table summarizes the provision for contingencies and judicial deposits

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(a) 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).

<u>Claims</u>	<u>Contingencies</u>		<u>Judicial deposits</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Civil and labor claims	1,822	1,708	406	356
Tax matters	17,237	16,141	1,506	3,448
Other	90	2,592	90	83
	<u>19,149</u>	<u>20,441</u>	<u>2,002</u>	<u>3,887</u>
Less: current portion	<u>(19,149)</u>	<u>(20,441)</u>	<u>-</u>	<u>-</u>
Non-current portion	<u>-</u>	<u>-</u>	<u>2,002</u>	<u>3,887</u>

(b) Possible losses on claims for which no provision was recorded

There are other contingent liabilities, for which the probability of losses are possible and, therefore, are not recognized in the provision for contingencies. These claims are comprised by:

<u>Claims</u>	<u>Contingencies</u>	
	<u>2006</u>	<u>2005</u>
Civil and labor claims	1,480	1,663
Tax matters	<u>24,824</u>	<u>17,797</u>
	<u>26,304</u>	<u>19,460</u>

16.2 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, 2006, customer guarantees provided by the Company totaled \$25,316 (2005 - \$24,096).

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17 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.

As described in Note 3.10 the Company has adopted SFAS 158 at December 31, 2006. The adjustments for SFAS 158 affected our Consolidated Balance Sheet as follows:

	<u>2006</u>
Before application of SFAS 158	
Accrued benefit liability	(3,072)
Adjustments	
Accrued benefit liability	(5,979)
After application of SFAS 158	
Accrued benefit liability	(9,051)
Accumulated other comprehensive loss (net of tax of \$2,033)	(3,946)

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

	<u>2006</u>	<u>2005</u>
Service cost	1,291	1,129
Interest cost	4,333	3,591
Expected return on plan assets	(4,893)	(3,213)
Amortization of unrecognized transition obligation and net gains and losses	370	331
Net pension expense	<u>1,101</u>	<u>1,838</u>

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

	<u>2006</u>	<u>2005</u>
Plan assets at fair value	39,818	29,395
Projected benefit obligation	<u>(48,869)</u>	<u>(40,011)</u>
Funded status	(9,051)	(10,616)
Unrecognized net transition obligation	-	2,670
Unrecognized net gains and losses	-	4,161
Amounts recognized in the balance sheet, net	<u>(9,051)</u>	<u>(3,785)</u>

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Additional information for the plan is as follows:

Change in benefit obligation	2006	2005
Benefit obligation at the beginning of the year	40,011	29,730
Service cost	1,291	1,129
Interest cost	4,333	3,591
Actuarial (gain) loss	782	2,559
Benefits paid	(1,617)	(1,334)
Plan participants contributions	186	106
Effect of exchange rate changes	3,883	4,230
Benefit obligation at the end of the year	<u>48,869</u>	<u>40,011</u>

Change in plan assets	2006	2005
Fair value of plan assets at the beginning of the year	29,395	20,956
Actual return on plan assets	6,778	4,784
Employer contributions	2,153	1,855
Plan participants contributions	186	106
Benefits paid	(1,617)	(1,334)
Effect of exchange rate changes	2,923	3,028
Fair value of plan assets at the end of the year	<u>39,818</u>	<u>29,395</u>

Expected benefit payments

2007	1,671
2008	1,812
2009	1,916
2010	2,280
2011	2,568
2012-2016	17,879

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):

	2006	2005
Discount rate	9.20%	10.25%
Rate of increase in compensation	7.12%	8.15%

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

	<u>2006</u>	<u>2005</u>
Discount rate	10.25%	11.30%
Rate of increase in compensation	8.15%	8.15%
Long-term rate of return on plan assets	15.32%	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. The asset allocation for the pension plan at the end of 2006 and 2005, and the target allocation for 2007, by asset category are presented as follows:

<u>Asset category</u>	Target allocation for	Percentage of plan assets at year ended	
	<u>2007</u>	<u>2006</u>	<u>2005</u>
Equity securities	20%	18%	15%
Debt securities	80%	82%	85%
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.

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18 Shareholder's equity

18.1 Share capital

As of December 31, 2006, 85,406,436 shares of common stock and 138,818,585 shares of preferred stock had been issued. The share capital of the Company is comprised of common shares and preferred shares, all without par value. The authorized capital of the Company is comprised of 800,000,000 common shares and 1,200,000,000 preferred shares. Only the common shares are entitled to vote. There is no redemption provisions associated with the preferred shares. The preferred shares have preferences in respect of the proceeds on liquidation of the Company.

On August 25, 2006 the Board of Directors approved a capital increase with capitalization of reserves and retained earnings in the total amount of \$104,113 (\$ 64,363 for preferred shares and \$ 39,750 for common shares) as a result of such capitalization, 69,144,914 preferred shares and 42,703,218 common shares were issued.

At December 31, 2006, the Company held in treasury 528,757 preferred shares at a cost of \$1,051 (800,000 preferred shares at cost of \$ 1,658 in December 31, 2005).

18.2 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.

18.3 Distribution of net income and shareholders' equity

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;

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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.

c) Distribution of statutory net income

The distribution of net income in accordance with statutory accounting records is presented as follows:

	<u>2006</u>	<u>2005</u>
Net income reported in accordance with statutory accounting records	56,542	35,216
Distribution of statutory net income:		
Legal reserve	2,820	1,715
Interests on shareholders' equity	17,312	18,120
Dividends	6,280	-
Reserve for future capital increases	20,989	936
Reserve to pay interim dividends	4,497	-
Reserve to purchase own shares	4,497	-
Reserve to future investments	-	13,520
Other	147	925

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d) Composition of statutory shareholders' equity

The composition of shareholders' equity in accordance with statutory accounting records is presented as follows:

	<u>2006</u>	<u>2005</u>
Share capital	210,556	96,585
Legal reserve	2,820	14,768
Reserve for share	494	384
Reserve for future capital increases	20,989	57,951
Reserve to pay interim dividends	4,497	9,659
Reserve to purchase own shares	4,497	9,659
Reserve to future investments	-	13,520
Treasury stock	(1,181)	(1,632)
Other	<u>(2,644)</u>	<u>(5,548)</u>
 Total statutory shareholders' equity	 <u>250,787</u>	 <u>198,346</u>

18.4 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, 2006, retained earnings in the statutory accounting records correspond to the balance of the statutory reserves described in Note 18.3 above which amounts in the statutory records of Marcopolo to \$40,742 (translated at the year-end exchange rate).

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

	<u>2006</u>	<u>2005</u>
Common shares	6,594	6,902
Preferred shares	<u>10,718</u>	<u>11,218</u>
Total	<u>17,312</u>	<u>18,120</u>

On December 15, 2006, the Board of Directors approved the payment of dividends attributed to the results of the year ended December 31, 2006 in the amount of \$ 6,280 to be paid on March 30, 2007.

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

	<u>2006</u>	<u>2005</u>
Common shares	2,397	-
Preferred shares	<u>3,883</u>	<u>-</u>
Total	<u>6,280</u>	<u>-</u>

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19 Accounting for income tax

19.1 Analysis of income tax expense

Income tax payable is calculated as required by the tax laws of the countries in which the Company operates.

	<u>2006</u>	<u>2005</u>
Current tax expense		
Brazil	21,432	10,202
South Africa	-	-
Mexico	266	600
Colombia	-	-
	<u>21,698</u>	<u>10,802</u>
Deferred tax (benefit) expense		
Brazil	<u>(2,977)</u>	<u>1,453</u>
	<u>(2,977)</u>	<u>1,453</u>
Income tax expense, net	<u>18,721</u>	<u>12,255</u>

19.2 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>2006</u>	<u>2005</u>
Net income before taxes and minority interest	79,212	50,813
Brazilian composite statutory income tax rate	<u>34%</u>	<u>34%</u>
Income tax at Brazilian income tax rates	26,932	17,276
Adjustments to effective rate:		
Benefit of deductible interest on equity paid to shareholders	(5,886)	(6,161)
Deffered tax asset valuation allowance		
Effect of equity in earnings of unconsolidated companies	(516)	(357)
Effect of other permanent differences including foreign income having different statutory income tax rates	<u>(1,809)</u>	<u>1,497</u>
Income tax expense	<u>18,721</u>	<u>12,255</u>

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19.3 Tax rates

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

	<u>2006</u>	<u>2005</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>

19.4 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>2006</u>	<u>2005</u>
<i>Deferred tax assets</i>		
Net operating loss carryforwards	4,227	5,284
Valuation allowance on net operating loss carryforwards	(788)	-
Property, plant and equipment	698	1,002
Provision for contingencies not currently deductible	6,511	6,950
Provision for losses on inventories	896	-
Other provision not currently deductible	<u>13,743</u>	<u>6,745</u>
Gross deferred income tax assets	25,287	19,981
<i>Deferred tax liabilities</i>		
Deferred tax liability on tax deductible goodwill	1,956	1,956
Fair value of derivative instruments not currently deductible	438	148
Gross deferred income tax liabilities	<u>2,394</u>	<u>2,104</u>
Net deferred income tax assets	<u>22,893</u>	<u>17,877</u>
Less: Current-portion of deferred income tax asset	<u>(21,184)</u>	<u>(14,674)</u>
Non-current portion of deferred income tax asset	<u>1,709</u>	<u>3,203</u>

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As of December 31, 2006, the Company has total loss carryforwards for its operations amounting to \$10.116 for income tax, representing a deferred tax asset of \$ 3,439. The Company believes it is more likely than not that tax loss carryforwards will be realized based on future taxable income from operations, except for a portion of \$ 788 (related to the subsidiary located in South Africa which has incurred in losses during the last years) which was provided for a valuation allowance, due to lack of tax planning for use of those carryforwards losses existing in a South Africa operations. Those carryforward losses do not have a final expiry date.

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.

20 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, 2006 and 2005 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.

21 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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22 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.

	Year ended December 31, 2006						
	Intercity	Urban	Microbus	Volares	Others	Adjustments	Total
Sales to customers	292,672	245,724	37,238	137,685	124,685		838,004
Intersegment sales	73,580	1,821	2,618	4,173	122,368	(204,560)	-
Net sales	366,252	247,545	39,856	141,858	247,053	(204,560)	838,004
income before tax and minority interest	24,910	24,116	3,345	12,982	13,859		79,212
Property, plant and equipment	23,326	14,374	2,784	10,471	24,906		75,861
Capital expenditures	6,143	2,397	706	3,443	3,851		16,540
Depreciation	3,547	2,025	397	1,668	3,319		10,956

	Year ended December 31, 2005						
	Intercity	Urban	Microbus	Volares	Others	Adjustments	Total
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
income before tax and minority interest	22,429	10,215	975	3,197	13,997		50,813
Property, plant and equipment	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

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 and Uruguay which correspond to sales of goods produced in any of the other locations:

	Year ended December 31, 2006							
	Brasil	Argentina and Uruguay	Portugal	Mexico	China And Dubai	South Africa	Virgin Islands	Total
Net sales	522,739	27,998	20,916	120,992	455	24,545	120,359	838,004
Property, plant and equipment	62,923	2,417	778	7,264	77	2,394	8	75,861
income before tax and minority interest	76,173	3,407	(244)	228	70	(2,797)	2,375	79,212

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

MARCOPOLO S.A.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
for the years ended December 31, 2006 and 2005
(in thousands of U.S. Dollars, unless otherwise stated)

23 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.

24 Subsequent events

On March 5, 2007, the Company acquired 39.59% of the common shares of the San Marino Ônibus e Implementos Ltda, (“Neobus”). Neobus is an Brazilian entity located in the city of Caxias – RS and its principal business are the production of buses, vehicles, wagons and parts. In 2006, Neobus produced 2,784 buses. The final value of the investment will especially depend on the adjustments that will be carried through on the basis of “due diligence” and in rocking to be raised for this end.

* * *



Results of the fiscal year of 2006

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.

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 58th 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 four overseas units (Mexico, 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 US\$ million except for percentages and earnings per share)

CONSOLIDATED DATA	2006	2005	Variation (%)
Operational Performance			
Net operating income	838.0	670.8	24.9
- Income from operations in Brazil	443.5	303.1	46.3
- Income from operations overseas	394.5	367.7	7.3
Gross profit	146.8	109.2	34.4
Operational profit before financial results	58.9	34.8	69.2
<i>EBITDA</i>	71.4	45.0	58.5
Net income	60.4	37.9	59.5
Earnings per share ⁽¹⁾	273,9	337,9	(18.9)
Return on invested capital (ROIC) ⁽²⁾	16.5%	10.5%	6.0pp
Return on equity (ROE) ⁽³⁾	30.1%	23.6%	6.5pp
Investments in fixed assets	18.4	7.4	149.1
Financial Position			
Cash and cash equivalents	184.0	120.7	52.4
Short term financial liabilities	102.4	86.4	18.6
Long term financial liabilities	139.0	131.4	5,8
Net financial liabilities	57.4	97.0	(40.8)
Stockholders' equity	258.0	200.6	28.6
Net financial liabilities / Stockholders' equity	22.3%	48.4%	(26.1)pp
Net financial results	18.7	16.6	13.0

Margins and Indexes			
Gross margin	17.5%	16.3%	1.2pp
EBITDA margin	8.5%	6.7%	1.8pp
Operating margin (before financial results)	7.0%	5.2%	1.8pp
Net margin	7.2%	5.6%	1.6pp

Notes: ⁽¹⁾ Figures have been updated to reflect the 100% stock dividend agreed to during the 08.25.06 meeting of the Administrative Council;

⁽²⁾ ROIC (*Return on Invested Capital*) = $EBIT \div (\text{stocks} + \text{clients} + \text{fixed assets} - \text{X suppliers})$; X= Average;

⁽³⁾ ROE (*Return on Equity*);

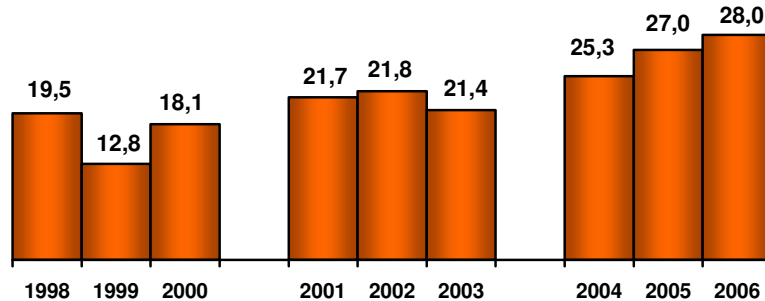
pp = percentage points.

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 ⁽³⁾	2006	2005 ⁽²⁾	2004 ⁽²⁾	2003 ⁽²⁾	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) ⁽¹⁾	643	717	1,228	1,463	1,789
TOTAL	27,952	26,983	25,280	21,381	21,787

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

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

⁽²⁾ 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;

⁽³⁾ 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
TOTAL	18,408	14,320	16,333	14,368	15,299

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
TOTAL	9,544	12,663	8,947	7,013	6,488

Sources: FABUS and SIMEFRE.

Note: See - Brazilian Bus Body Production – TOTAL.

4. Marcopolo Highlights

Consolidated net sales in 2006 totaled US\$ 838.0 million – 24.9% more than the US\$ 670.8 million in 2005. For a better understanding of net income see items 5.1, 5.2 and 5.3. \$ 150

Net income came to US\$ 60.4 million – 59.5% more than the US\$ 37.9 million posted the previous year. See item 13.

EBITDA totaled US\$ 69.9 million, against the US\$ 44.0 million of the previous year – 8.3% and 6.6% 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 US\$ 23.6 million 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 sales

Consolidated net income totaled US\$ 838.0 million – 24.9% higher than the US\$ 670.8 million posted in 2005. The domestic market accounted for US\$ 443.5 million, or 46.32% more than the US\$ 303.1 million registered the previous year, and for 52.9% of total net income (against 45.2% in 2005). Exports and overseas operations came to US\$ 394.5 million, or 47.1% of net income against US\$ 367.7 million, or 54.8% 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.

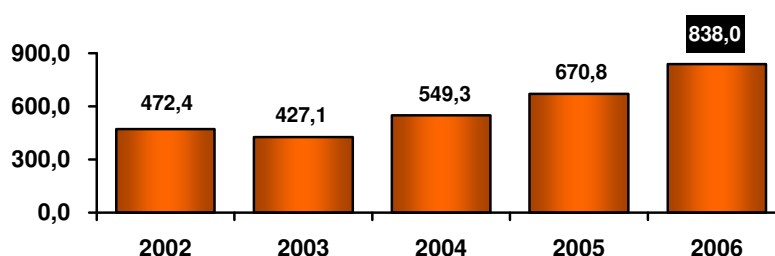
Income per product and market destination is listed in the table and chart below.

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

Products ⁽¹⁾	2006		2005		Total	
	DM	EM	DM	EM	2006	2005
Intercity buses	120.804	171.868	95.374	141.016	292,672	236,390
Urban buses	122.109	123.615	73.811	148.627	245,724	222,438
Micro buses	14.341	22.897	6.903	22.002	37,238	28,905
Subtotal bus bodies	257.254	318.380	176.089	311.644	575,634	487,733
Volares and Vans	128.347	9.338	94.178	9.248	137,685	103,426
Total b.bodies/Volare/Vans	128.347	9.338	94.178	9.248	713,319	591,159
Parts and others	57.925	66.760	32.846	46.834	124,685	79,680
Total parts and others	57.925	66.760	32.846	46.834	124,685	79,680
TOTAL	443.526	394.478	303.113	367.726	838,004	670,839

Notes: ⁽¹⁾ DM = Domestic Market; EM = External Market.

Net Sales (US\$ million)



5.2 Consolidated Net Income Breakdown (%)

Of total consolidated net income in 2006, 85.1% came from bus body sales and 14.9% 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 US\$ 140.4 million, or 46.3% more than in 2005. Also, exports and overseas operations registered increased to US\$ 26.8 million, or 7.3% more than in the previous year. As a result, the contribution of the operations in Brazil increased in 2006, going from 45.2% to 52.9% of consolidated net income, while the contribution of exports and overseas operations dropped, going from 54.8% to 47.1%.

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 (%)
BRAZIL			
Marcopolo ⁽¹⁾	10,576	11,301	(6.4)
Ciferal	3,243	3,123	3.8
SUBTOTAL	13,819	14,424	(4.2)
KD exports not included ⁽²⁾	3,244	3,586	(9.5)
TOTAL IN BRAZIL	10,575	10,838	(2.4)
OVERSEAS			
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)
TOTAL OVERSEAS	5,095	5,618	(9.3)
TOTAL	15,670	16,456	(4.8)

Notes: ⁽¹⁾ Includes production of Volares and Van models;

⁽²⁾ Partially or completely knocked down bus bodies.

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

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

Notes: ⁽¹⁾ DM = Domestic Market; EM = External Market;

⁽²⁾ 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;

⁽³⁾ 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)

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

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) ⁽¹⁾	18.5	27.8	18.9	31.7	43.8
TOTAL	39.2	42.8	45.8	47.0	49.8

Sources: FABUS and SIMEFRE.

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

7. Gross profit: Cost of Products Sold and Gross Profits

In 2006, the Cost of Products Sold, totaled US\$ 691.2 million, or 82.5% of net income against 83.7% registered the previous years. This 1.8 percentage point reduction increased gross profit by more than US\$ 37.6 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 and marketing expenses

Sales costs totaled US\$ 49.6 million, or US\$ 6.2 million more than the US\$ 43.4 million, disbursed in 2005. These figures represent 5.9% and 6.5% 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 US\$ 36.4 million, consumed 4.3% of net income in 2006, compared to the US\$ 27.7 million, or 4.3% of net income in 2005.

10. Net Financial Results

Net financial results amounted to US\$ 18.7 million, which was in line with the US\$ 16.6 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

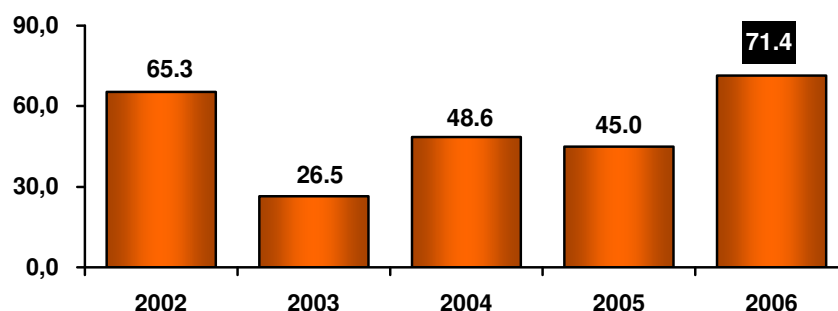
	12/31/2006	12/31/2005
	US\$ million	US\$ million
Accounts receivable from clients	65.246	98.853
Current Account – Oversea Subsidiaries	11.536	16.844
ASSETS	76.782	115.697
Advances on export contracts- ACE	900	29.328
Advances on exchange contracts (ACC) and pre-payment	30.893	34.189
Forward	62.200	99.000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

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

11. Operating Results and EBITDA

EBITDA in 2006 came to US\$ 71.4 million, against the US\$ 45.0 million, in 2005 – 8.5% and 6.7% of net income respectively.

EBITDA (US\$ million)



EBITDA (US\$ million)	2006	2005	2004	2003	2002
Operating income	58.9	34.8	41.6	20.6	59.9
Equity in earnings of unconsolidated companies	1.5	1.1	-	-	-
Depreciation/Amortization	11.0	9.1	7.0	5.9	5.4
EBITDA	71.4	45.0	48.6	26.5	65.3

12. Other Operating Expenses, net

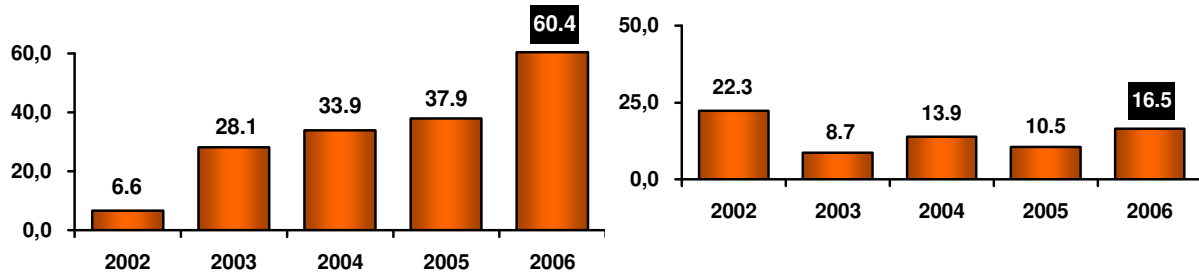
In 2006, the negative net balance of these accounts totaled US\$ 1.9 million, against the negative US\$ 2.3 million registered in 2005 – a 20.2% drop between one period and the other.

13. Net income / ROIC

Net profits in 2006 totaled US\$ 60.4 million – 59.5% more than the US\$ 37.9 million posted in 2005. The return on invested capital was 16.5%. The evolution of net profit and of the return on capital during the last five years is illustrated below.

NET PROFITS (US\$ million)

ROIC (%)



14. Cash Generation

In 2006, operating activities generated US\$ 50.9 million against the US\$ 98.0 million registered in 2005. Investments in fixed assets came to US\$ 17.1 million, while financial activities provided US\$ 26.5 million and the effect of exchange rate changes on cash consumed US\$ 45.6 million. As a result, the initial cash balance of US\$ 120.7 million increased to US\$ 135.4 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.

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 US\$ 44.9 million worth of senior quotas of the first FIDC series was contracted in May. During 2006, US\$ 19.8 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 US\$ 73,9 million were carried out (US\$ 7.0 million in 2005). On Dec.31, 2006, the loan and financing portfolio had a balance of US\$ 55.5 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 *Dharward*, 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 be 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 it 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 9th 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

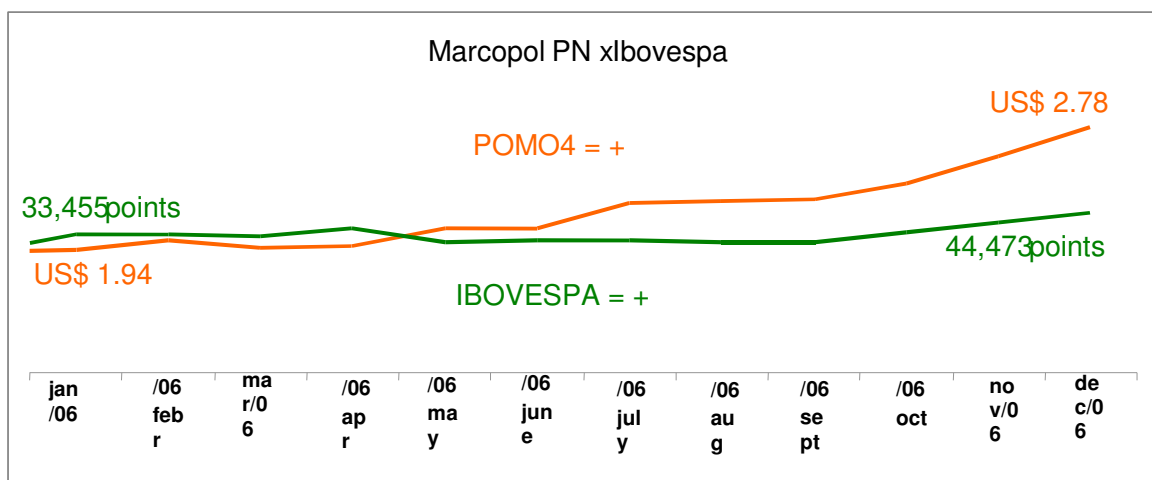
On August 25, 2006, the Administrative Council approved a US\$ 104.1 million increase in the Company's capital stock through the capitalization of the profit reserves and with stock dividend of 100.0%.

The Company's current capital totals US\$ 160.4 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 US\$ 1.24 per preferred share to US\$ 2.78 on 12.31.06, representing an appreciation of 124.2% 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) ^(*)	114.7	93.4	90.3	114.5	53.6
Value of transactions (US\$ million)	198.8	105.9	100.4	79.4	28.1
Market value (US\$ millions) ⁽¹⁾	623.3	435.0	289.3	186.1	134.5
Existing shares (millions) ^{(2) (*)}	224.2	224.2	224.2	224.2	224.2
Book value per share (US\$) ^(*)	1.15	0.89	0.71	0.60	0.43
Quotation (US\$/per preferred share) ^{(3) (*)}	2.78	1.94	1.29	0.83	0.60
Interest on capital (imputed to dividends) and dividends (US\$/per share) ^(*)	0.105	0.080	0.064	0.062	0.027

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

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

⁽³⁾ Preferred share quotation at the last trading session of the fiscal year;

^(*) 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 US\$ 23,592,147.63. Of this total, US\$ 17,312,072.84 will be paid as interest on capital, while US\$ 6,280,074.79 will be paid as anticipated dividends. Both payments refer to the fiscal year of 2006. Thus, gross remuneration reached US\$ 0.105278 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 39.1% of net income and is 30.2% more than the US\$ 18,120,098.22 distributed in the fiscal year of 2005.

21. Investments / Fixed Assets

In 2006, Marcopolo increased its capital investments substantially, earmarking US\$ 17.1 million to several units, compared to US\$ 7.1 million in 2005. Of the total invested, US\$ 9.2 million were used to purchase machinery and equipment; US\$ 5.1 million in computer equipment and software; and US\$ 2.8 million in industrial installations.

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 US\$ 4.4 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 US\$ 60,827 – 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, www.cvm.gov.br and 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
Total	10,541	10,959	10,556	9,379
Turnover rate (%) ⁽¹⁾	1.05	1.08	0.84	0.77

Note: ⁽¹⁾ 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 US\$ 885 million 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), Brazil's bus fleet stood at 335,000 units. In addition, there were 198,000 minibuses, 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.