# ADMINISTRATION REPORT 2004

## 1. Company Profile

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

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

## 2. Economic and Financial Indicators

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

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

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

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

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

p.p = percentage points.

## 3. Highlights in the Bus Body Sector

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

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

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

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

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

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

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

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

## 4. Marcopolo Highlights

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

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

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

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

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

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

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

### 5.1 Consolidated Net Income

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

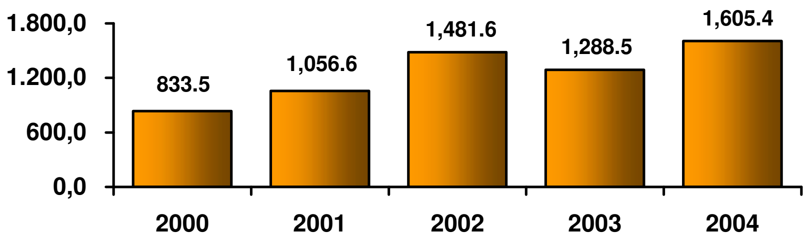
Income per product and market is listed in the chart below.

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

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

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

### Net Income (R$ million)

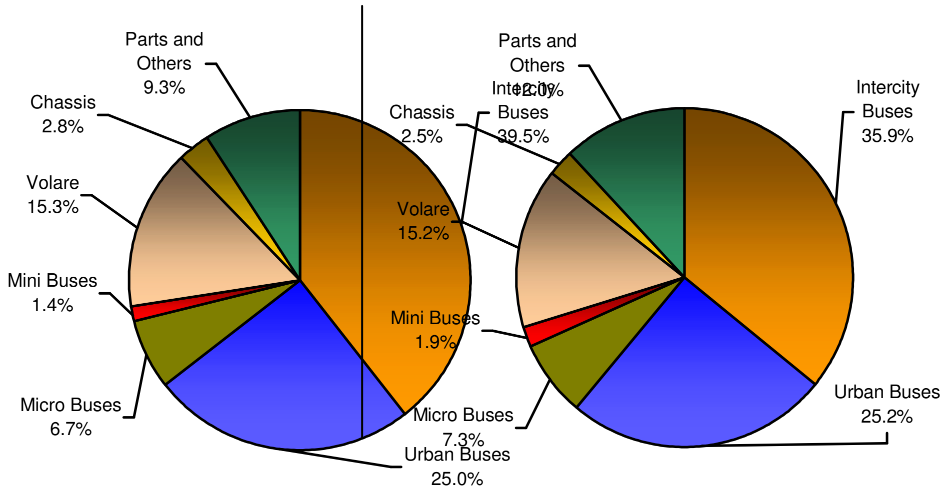



## 5.2 Breakdown of Consolidated Net Income (%)

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

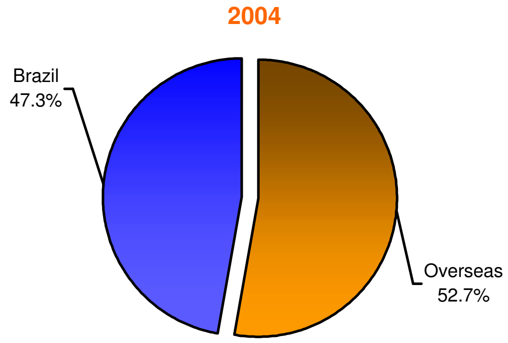
The graphs below show consolidated income per product line (%).

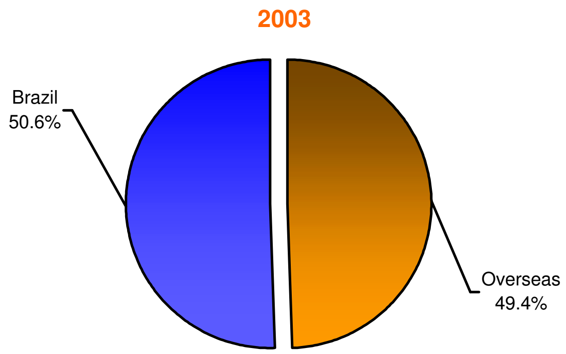
**2004** **2003**



## 5.3 Domestic/Overseas Market Breakdown (%)

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




## 6. Production, Sales and Market Share

### 6.1 Production and Sales

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

Global production is detailed in the charts below:

**MARCOPOLO - Consolidated Global Production**

**By Company (units)**

| Companies/Years | 2004 | 2003 | Variation (%) |
|---|---|---|---|
| **BRAZIL** | | | |
| Marcopolo [(1)] | 11,494 | 10,723 | 7.2% |
| Ciferal | 3,085 | 2,368 | 30.3% |
| **SUBTOTAL** | **14,579** | **13,091** | **11.4%** |
| KD exports not included [(2)] | 2,990 | 2,409 | 24.1% |
| **TOTAL IN BRAZIL** | **11,589** | **10,682** | **8.5%** |

| OVERSEAS | | | |
|---|---|---|---|
| Mexico | 2,102 | 1,687 | 24.6% |
| Portugal | 176 | 119 | 47.9% |
| South Africa | 406 | 399 | 1.7% |
| Colombia | 1,665 | 1,475 | 12.9% |
| **TOTAL OVERSEAS** | **4,349** | **3,680** | **18.2%** |
| **TOTAL** | **15,938** | **14,362** | **11.0%** |

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

## MARCOPOLO - Consolidated Global Production

### By Products and Markets (units)

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

Notes: (1) DM = Domestic Market; EM = External Market;
(2) External market production figures include KD units exported by the parent company. In 2004, 2,990 units were exported and 2,409 units were exported in 2003.

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

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

| **Years** | **2004** | | | **2003** | | |
|---|---|---|---|---|---|---|
| **Products/Markets (1)** | **DM** | **EM (3)** | **TOTAL** | **DM** | **EM (3)** | **TOTAL** |
| Intercity buses | 1,608 | 1,921 | **3,529** | 1,352 | 1,676 | **3,028** |
| Urban buses | 3,451 | 2,685 | **6,136** | 2,586 | 2,189 | **4,775** |
| Micro buses | 1,115 | 579 | **1,694** | 1,399 | 377 | **1,776** |
| Mini buses (LCV) | 217 | 15 | **232** | 452 | 12 | **464** |
| SUBTOTAL | 6,391 | 5,200 | **11,591** | 5,789 | 4,254 | **10,043** |
| Volare and Vans (2) | 2,498 | 490 | **2,988** | 2,903 | 145 | **3,048** |

| | | | | | | |
|---|---|---|---|---|---|---|
| **TOTAL PRODUCTION** | **8,889** | **5,690** | **14,579** | **8,692** | **4,399** | **13,091** |
| **TOTAL SALES** | **9,142** | **5,606** | **14,748** | **8,447** | **4,409** | **12,856** |

Notes: (1) DM = Domestic Market, EM = External Market;
(2) Volare and Van (LCV) units are included in Marcopolo's production charts to provide a better understanding of the company's extensive production line, production capacity and because they have been entered as part of net earnings. Production of these vehicles are not included in SIMEFRE and FABUS figures, nor in Marcopolo's market share figures or the sector's production figures;
(3) External market production figures include KD exports - 2,990 units in 2004 and 2,409 in 2003.

## 6.2 Market Share

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

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

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

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

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

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

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

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

## 8. Sales Costs

Sales costs totaled R$ 94.1 million - R$ 4.9 million less than the R$ 99.1 million registered in 2003. In 2003, R$ 17.8 million were set aside in the Reserve for Doubtful Credits because of the credit situation of clients in Argentina. In 2004, this reserve received R$ 2.4 million. Excluding the amounts set aside for this reserve in 2003 and 2004, sales costs would have totaled R$ 91.3 million in 2004 and R$ 81.3 million in 2003 - 5.7% and 6.3% of net income respectively. The increase in sales in 2004 was the result of increased revenue.

## 9. General and Administrative Costs

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

## 10. Net Financial results

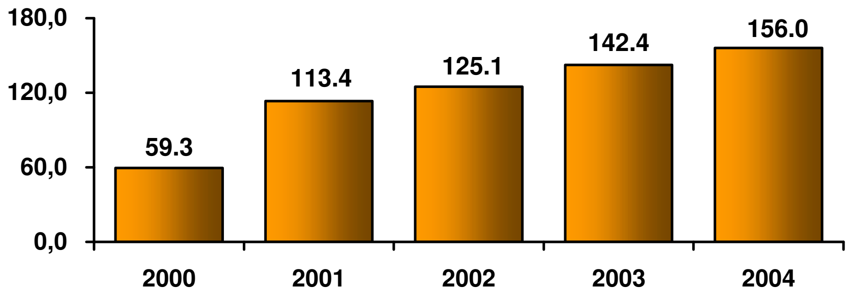
Despite the R$ 182.0 million of net financial liabilities posted at the end of 2004, the financial monitoring of commercial operations and the rational management of export credits and their impact on cash flow, allowed the Company to reduce financing costs to just R$ 2.2 million.

## 11. Operating Results and EBITDA

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

**Adjusted EBITDA**

**(R$ million)**



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

## 12. Other Operating Revenue and Expenses

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

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

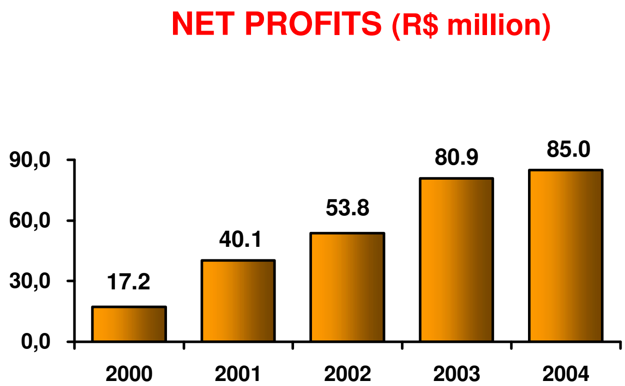
## 13. Non-Operating Results

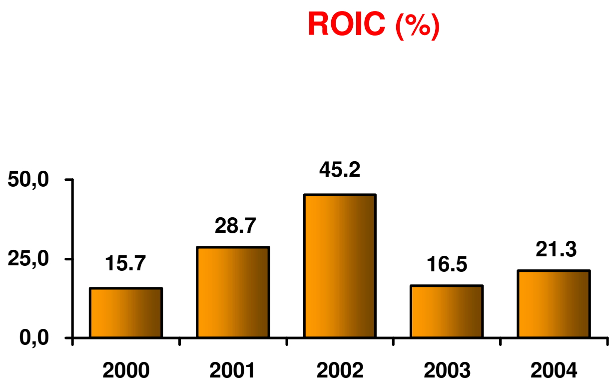
The R$ 7.1 million of expenses registered in 2004 were due to: (i) R$ 1.9 million of deferred assets written off in product research and development (ii) R$ 4.6 million relative to market value adjustments made on real estate holdings overseas; (iii) R$ 0.6 million relative to costs with fixed asset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

## 14. Net Profits/ROIC

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

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




## 15. Cash Generation

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

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

## 16. Performance of Subsidiaries

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

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

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

## 17. Corporate Governance

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

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

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

## 18. Intangible Assets

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

## 19. Independent Auditors

### 19.1 Change of Independent Auditors

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

### 19.2 CVM Instruction 381/03

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

## 20. Capital Markets

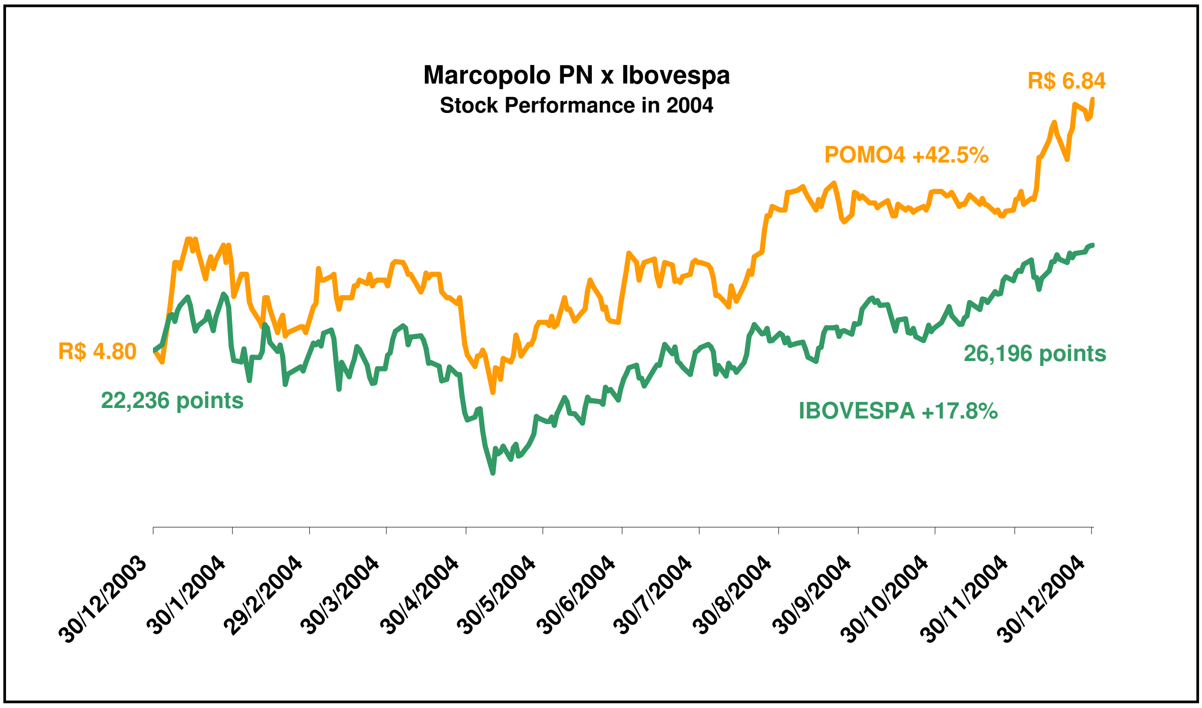
### 20.1 Capital Stock

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

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

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

Additional information can be found in the chart below.




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

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

## 21. Dividends/Interest on Capital

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

## 22. Investments/Fixed Assets

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

## 23. New Products

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

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

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

In 2003, MVC developed the "Wall-System," a set of structural panels made with reinforced plastic and fiberglass. Thanks to this system, which is used by the civil construction sector, MVC created a low-cost housing project called **"Casa**

**Pratica."** The program was approved by the Technology Research Institute (IPT) and its financing was approved by the Caixa Econômica Federal (Federal Loan and Savings Bank). MVC is offering this product to overseas markets and in fact in 2004 it shipped some units to Angola. The components (structural panels)) are manufactured by MVC and supplied directly to companies that assemble and deliver the housing unit directly to the client. The Company hopes to substantially increase the business volume of this subsidiary in 2005.

## 24. Environmental Management

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

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

## 25. Management of Value Added

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

## 26. Risk Factor Management

### 26.1 Macroeconomic Factors

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

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

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

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

### 26.2 Sectorial Factors

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

### 26.3 Internal Factors

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

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

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

## 27. People Management

### 27.1 Employee Satisfaction

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

### 27.2 Education and Training

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

### 27.3 Career and Succession

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

### 27.4 Remuneration and Recognition

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

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

### 27.5 Quality of Life

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

### 27.6 Social Responsibility

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

### 27.7 Personnel

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

Note: [1] Parent Company.

## 28. Certifications and Awards

### 28.1 Certifications

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

## 28.2 Awards

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

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

## 29. Outlook for 2005

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

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

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

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

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

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

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

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

## 30. Acknowledgements

The company thanks its entire staff for its efforts, dedication and commitment that have been fundamental to its success. It also wishes to thank its clients and

shareholders for their choice, fidelity and confidence and its suppliers, financial institutions, authorities and the community for their support.

Caxias do Sul, February 21, 2005.

The Administration.

## Report of the Fiscal Council

In the performance of their legal duties, the undersigned members of the Fiscal Council of **MARCOPOLO S.A.** have reviewed the Administration Report and Financial Statements regarding the fiscal year ended December 31, 2004, consisted of the Balance Sheet, Income Statement, Statement of Changes in Net Equity and Statements of Changes in Financial Position, including its Notes. Based on the reviews made and the information and clarifications obtained, as well as the unqualified opinion of KPMG Auditores Independentes, dated February 21, 2005, the members of the Fiscal Council have favorable opinion on the aforementioned documents, recommending the approval thereof by the Shareholders' Ordinary General Meeting.

Caxias do Sul, February 21, 2005.

**Egon Handel** **Francisco Sérgio Quintana da Rosa** **Roberto Lamb**

**Marcopolo S.A.**

# Financial statements
# December 31, 2004 and 2003

(A translation of the original report in Portuguese as published in Brazil containing financial statements prepared in accordance with accounting practices adopted in Brazil )

# Marcopolo S.A.

**Publicly-held Company**

# Financial statements

**December 31, 2004 and 2003**

## Contents

# *Independent auditors' report*

To
The Board of Directors and Shareholders
Marcopolo S.A.
Caxias do Sul - RS

We have examined the accompanying balance sheets of Marcopolo S.A. and the consolidated balance sheets of the Company and its subsidiaries as of December 31, 2004 and 2003 and the related statements of income, changes in shareholders' equity and changes in financial position for the years then ended, which are the responsibility of its management. Our responsibility is to express an opinion on these financial statements. The financial statements of the subsidiary Marcopolo Latinoamérica S.A. and the indirect subsidiary Laureano S.A., for the years ended December 31, 2004 and 2003 were audited by other independent auditors and our opinion with respect to the values of the investments and the results from these subsidiaries, is based on the report issued by these independent auditors.

Our examinations were conducted in accordance with auditing standards generally accepted in Brazil and included: (a) planning of the audit work, considering the materiality of the balances, the volume of transactions and the accounting systems and internal accounting controls of the Company and its subsidiaries; (b) verification, on a test basis, of the evidence and records which support the amounts and accounting information disclosed; and (c) evaluation of the most significant accounting policies and estimates adopted by Company management and its subsidiaries, as well as the presentation of the financial statements taken as a whole.

In our opinion, based on our examinations and the reports of the other independent auditors with respect to the subsidiaries reported in the first paragraph, the aforementioned financial statements present fairly, in all material respects, the financial position of Marcopolo S.A. and the consolidated financial position of the Company and its subsidiaries as of December 31, 2004 and 2003, and the results of its operations, changes in its shareholders' equity and changes in its financial position for the years then ended, in conformity with accounting principles generally accepted in Brazil.

Our examinations were performed with the objective of expressing an opinion on the financial statements taken as a whole. The statements of cash flows and added value are supplementary to the aforementioned financial statements, and have been included to facilitate additional analysis. This supplementary information was subject to the same audit procedures applied to the aforementioned financial statements and, in our opinion, is presented fairly, in all material respects, in relation to the financial statements taken as a whole.

February 21, 2005

KPMG Auditores Independentes
CRC SP014428/F-RS

Wladimir Omiechuk
CRC RS041241/0-2

Marcopolo S.A.

**Publicly-held Company**

## Balance Sheets

**December 31, 2004 and 2003**

*(In thousands of reais)*

| | Parent | | Consolidated | |
|---|---|---|---|---|
| **Assets** | **2004** | **2003** | **2004** | **2003** |
| **Current assets** | | | | |
| Bank and cash (Note 4) | 9.446 | 7.098 | 31.179 | 29.910 |
| Marketable securities (Note 4) | 169.445 | 292.779 | 226.408 | 353.320 |
| Trade accounts receivable (Note 5) | 284.910 | 170.011 | 313.822 | 213.376 |
| Inventories (Note 6) | 98.823 | 71.315 | 218.068 | 159.605 |
| Other receivables | 8.927 | 4.804 | 20.481 | 18.314 |
| Taxes recoverable | 71.224 | 29.810 | 86.893 | 47.817 |
| Deferred income tax and social contribution (Note 14) | 21.378 | 15.148 | 26.224 | 20.399 |
| | 664.153 | 590.965 | 923.075 | 842.741 |
| **Non current assets** | | | | |
| Related parties (Note 10) | 64.374 | 46.032 | - | - |
| Deferred income tax and social contribution (Note 14) | - | - | 18.708 | 15.098 |
| Legal deposits (Note 12) | 8.334 | 7.330 | 9.216 | 8.059 |
| Trade accounts receivable (Note 5) | 2.499 | 2.696 | 27.853 | 27.075 |
| Other accounts receivable | 5.210 | 440 | 5.542 | 650 |
| | 80.417 | 56.498 | 61.319 | 50.882 |
| **Permanent assets** | | | | |
| Investments (Note 7) | 173.404 | 151.331 | 3.233 | 2.366 |
| Property, plant and equipment (Note 8) | 79.802 | 71.201 | 181.714 | 169.052 |
| Deferred charges (Note 9) | - | 58 | 16.062 | 19.751 |
| | 253.206 | 222.590 | 201.009 | 191.169 |
| | 997.776 | 870.053 | 1.185.403 | 1.084.792 |

| | Parent | | Consolidated | |
|---|---|---|---|---|
| **Liabilities** | **2004** | **2003** | **2004** | **2003** |
| **Current liabilities** | | | | |
| Suppliers | 72.745 | 48.221 | 131.787 | 62.609 |
| Borrowings and financing (Note 11) | 163.780 | 220.203 | 212.899 | 310.648 |
| Salaries and vacation payable | 33.201 | 24.741 | 43.480 | 32.118 |
| Taxes and contributions payable | 8.395 | 16.008 | 5.129 | 15.235 |
| Contingent liabilities (Note 12) | 29.494 | 23.493 | 39.942 | 31.435 |
| Related parties (Note 10) | 12.411 | 1.607 | - | - |
| Advances from clients | 5.521 | 3.908 | 14.805 | 9.942 |
| Commissioned representatives | 14.286 | 11.972 | 16.193 | 22.387 |
| Anticpated billings | 2.473 | 2.970 | 2.681 | 3.278 |
| Interest on own capital (Note 16) | 35.054 | 27.906 | 35.054 | 27.906 |
| Manangement participations | 5.306 | 5.253 | 5.358 | 5.287 |
| Other accounts payable | 19.685 | 23.016 | 29.125 | 30.684 |
| | 402.351 | 409.298 | 536.453 | 551.529 |
| **Non current liabilities** | | | | |
| Borrowings and financing (Note 11) | 140.039 | 51.488 | 175.269 | 103.655 |
| Employee benefits (Note 13) | 19.332 | 20.047 | 18.986 | 20.047 |
| Other accounts payable | - | - | 20.058 | 21.974 |
| | 159.371 | 71.535 | 214.313 | 145.676 |
| **Minority interest** | - | - | 6.710 | 6.474 |
| **Shareholders' capital** | | | | |
| Capital (Note 15) | 226.000 | 226.000 | 226.000 | 226.000 |
| Capital reserves (Note 15) | 900 | 900 | 900 | 900 |
| Revenue reserves (Note 15) | 209.154 | 162.320 | 201.027 | 154.213 |
| | 436.054 | 389.220 | 427.927 | 381.113 |
| | 997.776 | 870.053 | 1.185.403 | 1.084.792 |

See the accompanying notes to the financial statements.

# Marcopolo S.A.

**Publicly-held Company**

## Statements of income

**Years ended December 31, 2004 and 2003**

*(In thousands of reais, except profit per share)*

| | Parent | | Consolidated | |
|---|---|---|---|---|
| | **2004** | **2003** | **2004** | **2003** |
| **Gross operational income** | 1.299.811 | 1.067.733 | 1.848.931 | 1.468.121 |
| **Sales deductions** | | | | |
| Taxes and returns | (161.469) | (133.714) | (243.486) | (179.598) |
| **Net sales income** | 1.138.342 | 934.019 | 1.605.445 | 1.288.523 |
| **Costs of goods sold and services provided** | (965.120) | (786.967) | (1.332.010) | (1.038.703) |
| **Gross profit** | 173.222 | 147.052 | 273.435 | 249.820 |
| **Other operational income (Expenses)** | | | | |
| Sales | (58.281) | (50.350) | (94.151) | (99.093) |
| Management remuneration | (5.655) | (5.562) | (6.434) | (6.706) |
| Administrative expenses | (35.817) | (32.421) | (61.062) | (59.632) |
| Financial expenses | (80.885) | (75.991) | (112.634) | (87.965) |
| Financial income | 89.264 | 100.467 | 110.419 | 114.596 |
| Equity interest in subsidiaries (note 7) | 21.227 | 12.249 | - | - |
| Other operational income (expenses) | 1.508 | 6.772 | 5.159 | (6.494) |
| **Operational profit** | 104.583 | 102.216 | 114.732 | 104.526 |
| Non operational results | (147) | (267) | (7.118) | (488) |
| **Profit before income tax, social contribution and statutory participations** | 104.436 | 101.949 | 107.614 | 104.038 |
| **Income tax and social contribution (note 14)** | (14.088) | (15.628) | (16.516) | (17.304) |
| **Management participation in profits** | (5.306) | (5.253) | (5.357) | (5.287) |
| **Profit for the year before minority interest** | 85.042 | 81.068 | 85.741 | 81.447 |
| **Minority interest** | - | - | (719) | (511) |
| **Net profit for the year** | 85.042 | 81.068 | 85.022 | 80.936 |
| **Profit per share - R$** | 0,757 | 0,721 | | |
| **Equity value per share - R$** | 3,880 | 3,464 | | |

See the accompanying notes to the financial statements.

Marcopolo S.A.

**Publicly-held Company**

# Statements of changes in shareholders' equity

**Years ended December 31, 2004 and 2003**

*(In thousands of reais)*

| | | Capital reserves | | Revenue reserves | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | **Capital** | **Allocation for investments** | **Gain from sale of shares in treasury** | **Legal** | **For future capital increase** | **For payment of intermediary dividends** | **For purchase of own shares** | **Retained earnings** | **Total** |
| **Balances at January 01, 2003** | 225.455 | 688 | 757 | 22.239 | 66.002 | 15.893 | 17.124 | - | 348.158 |
| Capital increase | | | | | | | | | |
| Payment by third parties | 545 | - | (545) | - | - | - | - | - | - |
| Net profit for the year | - | - | - | - | - | - | - | 81.068 | 81.068 |
| Allocations: | | | | | | | | | |
| Legal reserve | - | - | - | 4.053 | - | - | - | (4.053) | - |
| Interest on own capital - Law 9.249/95 | - | - | - | - | - | - | - | (40.006) | (40.006) |
| Reserve for future capital increase | - | - | - | - | 25.981 | - | - | (25.981) | - |
| Reserve for payment of dividend | - | - | - | - | - | 5.552 | - | (5.552) | - |
| Reserve for purchase of own shares | - | - | - | - | - | - | 5.476 | (5.476) | - |
| **Balances at December 31, 2003** | 226.000 | 688 | 212 | 26.292 | 91.983 | 21.445 | 22.600 | - | 389.220 |
| Net profit for the year | - | - | - | - | - | - | - | 85.042 | 85.042 |
| Allocations: | | | | | | | | | |
| Legal reserve | - | - | - | 4.252 | - | - | - | (4.252) | - |
| Interest on own capital - Law 9.249/95 | - | - | - | - | - | - | - | (38.208) | (38.208) |
| Reserve for future capital increase | - | - | - | - | 41.427 | - | - | (41.427) | - |
| Reserve for payment of dividend | - | - | - | - | - | 1.155 | - | (1.155) | - |
| **Balances at December 31, 2004** | 226.000 | 688 | 212 | 30.544 | 133.410 | 22.600 | 22.600 | - | 436.054 |

See the accompanying notes to the financial statements.

# Marcopolo S.A.

**Publicly-held Company**

## Statements of changes in financial position

**Years ended December 31, 2004 and 2003**

*(In thousands of reais)*

| | Parent | | Consolidated | |
|---|---|---|---|---|
| | **2004** | **2003** | **2004** | **2003** |
| **Origin of funds** | | | | |
| **From operations** | | | | |
| Net profit for the year | 85.042 | 81.068 | 85.022 | 80.936 |
| **Items not affecting working capital** | | | | |
| Depreciation and amortization | 11.640 | 10.403 | 28.928 | 24.623 |
| Equity interest in subsidiaries | (21.227) | (12.249) | - | - |
| Cost of fixed assets and investments written off or sold | 363 | 1.330 | 8.622 | 2.468 |
| Foreign exchange variation on overseas subsidiaries | - | - | 1.532 | 9.180 |
| Minority interests | - | - | 236 | (1.564) |
| **Funds originating from operations** | 75.818 | 80.552 | 124.340 | 115.643 |
| **From shareholders and third parties** | | | | |
| Dividends received | 134 | 42 | - | - |
| Decrease in long term assets | - | 18.948 | - | 52.258 |
| Increase in long term liabilities | 87.836 | - | 68.637 | - |
| | 163.788 | 99.542 | 192.977 | 167.901 |
| **Applications of funds** | | | | |
| Permanent investments in other companies | 980 | 14.250 | 1.250 | 1.250 |
| Purchases of fixed assets | 20.546 | 14.922 | 47.672 | 46.276 |
| Increase in long term assets | 23.919 | - | 10.437 | - |
| Interest on own capital - Law 9.249/95 | 38.208 | 40.006 | 38.208 | 40.006 |
| Decrease in non current liabilities | - | 87.127 | - | 101.697 |
| | 83.653 | 156.305 | 97.567 | 189.229 |
| **Increase (decrease) in net working capital** | 80.135 | (56.763) | 95.410 | (21.328) |
| **Statement of changes in net working capital** | | | | |
| At the start of the year | 181.667 | 238.430 | 291.212 | 312.540 |
| At the end of the year | 261.802 | 181.667 | 386.622 | 291.212 |
| **Increase (decrease) in net working capital** | 80.135 | (56.763) | 95.410 | (21.328) |

See the accompanying notes to the financial statements.

# Marcopolo S.A.

**Publicly-held Company**

# Notes to the financial statements

**Years ended December 31 2004 and 2003**

*(In thousand of Reais)*

## Operations

The Company manufactures and sells buses, vehicles, wagons, parts, agricultural and industrial machinery and imports and exports, and can also invest in other companies.

## Presentation of the financial statements

The financial statements were prepared in accordance with accounting practices derived from the Brazilian Corporation Law and rules of the Brazilian Securities Exchange Commission.

### *Description of significant accounting policies*

a. *Statement of Income*

Income and expenses are recognized on an accruals basis.

Revenue from the sale of goods is recognized in the statement of income when the significant risks and rewards of ownership have been transferred to the buyer. Revenue from services rendered is recognized in the statement of income when realized. Revenue is not recognized if there is significant uncertainties as to its recoverability.

*b. Accounting estimates*

The accounting estimates were based on objective and subjective factors, based on management's judgment for determining the appropriate amount to be registered in the financial statements. Significant items subject to these estimates and premises include the residual value of fixed assets, provision for doubtful debts, deferred income tax asset and inventories, provision for contingencies, valuation of derivative instruments and assets and liabilities related to employee benefits. The liquidation of transactions involving these estimates could result in significant differences given the inaccuracies inherent to the process for determining such. The Company reviews the estimates and premises at least once a year.

*c. Foreign currency*

Monetary assets and liabilities denominated in foreign currencies were translated into reais at the foreign exchange rate ruling at the balance sheet date. Foreign exchange differences arising on translation are recognized in the income statement. For the foreign companies, their non-monetary assets and liabilities, stated at their historical costs, were translated into reais at the foreign exchange rate ruling at the balance sheet date.

*d. Current and noncurrent assets*

- **Intererst earning bank deposits**

  Interest earnig bank deposits are recorded at cost plus income accrued to the balance sheet date, which does not exceed market value (Note 4).

- **Allowance for doubtful debts**

  The provision for doubtful debts was set up based on an individual evaluation of the whole accounts receivable file and the amount was considered sufficient by the administration to cover any eventual losses resulting from the non-realization of such receivables (Note 5).

- **Inventories**

  Inventories are stated at the lower of average cost or market value.

  The cost of inventories includes expenditure incurred from acquiring the inventories and bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of overheads based on normal operating capacity (Note 6).

- **Other current and non current assets**

  Presented at net realizable values.

e. *Permanent assets*

- **Investments**

Investments in subsidiaries were valued using the equity method plus positive goodwill or less negative goodwill, when applicable. The goodwill on the purchase of investments is being amortized based on the expected profitability of the investments.

Other investments were valued at cost, less a provision for devaluation, when applicable (Note 7).

- **Overseas investment**

  The criteria for calculating the results from the financial statements of overseas investments, when different from the accounting practices adopted in Brazil, were adjusted, considering the relevance of the information. These financial statements were translated to Reais according to the terms of CVM Ruling 28/86 (Note 7).

- **Property, plant and equipment**

  Property, plant and equipment are recorded at the cost of acquisition, formation or construction. Depreciation is calculated using the straight-line method at rates reported in note 8, which take into consideration the useful lives of the assets.

  Expenditure incurred to replace a component of an item of property, plant and equipment that is accounted for separately, including major inspection and overhaul costs, is capitalized. Other subsequent expenditures are capitalized only when it increases the future economic benefit of the item of property, plant and equipment. All other expenditures are recognized in the statement of income as an expense as incurred.

- **Deferred charges**

  Deferred charges are recorded at purchase and formation cost, less amortization, which is calculated using the straight-line method at rates that consider the useful life of the intangible assets. Deferred charges are recognized only when there is an increase in the economic benefits related to those assets.

  The over-price or goodwill, is supported by a formal report issued by an independent expert and is based on the expectation of future profitability of the operations purchased. The amortization of this goodwill based on the expected future profitability is being charged on the basis of projections which are being revised annually and which do not exceed the period of five years (Note 9).

*f. Current and noncurrent liabilities*

Stated at the known amounts or estimated, plus, when applicable, the corresponding charges and/or monetary and exchange variations incurred up to the balance sheet date (Notes 10,11, 12, 13 e 16).

*g. Provisions*

A provision is recognized in the balance sheet when the Company has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are recorded considering the best estimates of the risk specific to the liability (Note 12).

*h. Pension plans and post employment benefits to employees*

The sponsorship costs of the pension plan and benefits for employees are registered in accordance with CVM ruling 371 of December 13, 2000 (Note 13).

*i. Income and social contribution taxes*

Current and deferred income and social contribution taxes are calculated based on effective rates for income tax and social contribution on net profit and consider compensation of tax losses and the negative social contribution base, limited to 30% of adjusted profit.

The deferred tax assets resulting from tax losses, negative social contribution base and temporary differences were constituted in accordance with CVM Instruction 371 of June 27, 2002, and take into consideration past profitability and the expectation to generate future taxable profits based on a technical viability study.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the unused tax losses and credits can be utilized (Note 14).

*j. Statements of cash flows*

The Company has presented as supplementary information the statements of cash flows prepared in accordance with NPC 20 - Statement of Cash Flows, issued by IBRACON - Brazilian Institute of Independent Accountants.

*k. Statements of added value*

The Company has presented the statements of added value, prepared in accordance with the Circular-Notice/CVM/SNC/SEP/01/00, the purpose of which is to demonstrate the added worth generated by the Company and the distribution between the elements that contributed to create such.

All of the information presented was obtained from the Company and its subsidiaries' registers. Certain information contained in the traditional statement of income was reclassified, since in the statements of added value it was treated as distribution of the added value generated.

*(In thousand of Reais)*

## Consolidated financial statements

The accounting policies have been consistently adopted by all of the consolidated companies and are consistent with those used in the previous year.

The consolidated financial statements include the financial statements of Marcopolo S.A. and its subsidiaries, as listed below:

| | Investment interest (%) | | | |
|---|---|---|---|---|
| | 2004 | | 2003 | |
| | Direct | Indirect | Direct | Indirect |
| Syncroparts Comércio e Distribuição de Peças Ltda. | 99,99 | 0,01 | 99,99 | 0,01 |
| Marcopolo Trading S.A. | 99,99 | 0,01 | 99,99 | 0,01 |
| MVC Componentes Plásticos Ltda. | 99,99 | 0,01 | 99,99 | 0,01 |
| Marcopolo South Africa Pty Ltd (1) | - | 100,00 | - | 100,00 |
| Marcopolo International Corporation (1) | - | 100,00 | 100,00 | - |
| Ilmot International Corporation S.A. (1) | 100,00 | - | - | 100,00 |
| Marcopolo Indústria de Carroçarias S.A. (1) | - | 100,00 | - | 100,00 |
| Polo Serviços em Plásticos Ltda. | 99,00 | 1,00 | 99,00 | 1,00 |
| Marcopolo Latinoamérica S.A. (1) | 99,99 | 0,01 | 99,99 | 0,01 |
| Ciferal Industria de Ônibus Ltda. | 99,99 | 0,01 | 99,99 | 0,01 |
| Polomex S.A. de C.V. (1) | 3,61 | 70,39 | 3,61 | 70,39 |
| Laureano S.A. (1) | - | 100,00 | - | 100,00 |
| Superpolo S.A. (1) | - | 50,00 | - | 50,00 |
| Poloplast Componentes S.A. de C.V. (1) | - | 100,00 | - | - |

**(1)** *Overseas subsidiaries.*

*(In thousand of Reais)*

***Description of main consolidation procedures***

**a.** Elimination of intercompany asset and liability account balances;

**b.** Elimination of investment in the subsidiaries' capital, reserves and retained earnings;

**c.** Elimination of intercompany income and expense balances and unearned income arising from intercompany transactions. Unrealized losses are eliminated in the same way, but only when there is no evidence of recovering the related assets;

**d.** Elimination of tax charges on non realizable profit and presented as deferred taxes in the consolidated balance sheet; and

**e.** Identification of minority interests in the consolidated financial statements.

A reconciliation of the results for the year and shareholders' equity is presented below:

| | **Results** | | **Shareholders' equity** | |
|---|---|---|---|---|
| | **2004** | **2003** | **2004** | **2003** |
| Parent company | 85.042 | 81.068 | 436.054 | 389.220 |
| Realization of income earned by the Parent company in transactions with subsidiaries, net of income and social contribution taxes | 8.107 | 7.975 | - | - |
| Elimination of income earned by the Parent company in transactions with subsidiaries, net of income and social contribution taxes | ( 8.127) | ( 8.107) | ( 8.127) | ( 8.107) |
| Consolidated | 85.022 | 80.936 | 427.927 | 381.113 |

*(In thousand of Reais)*

## 4 Cash and banks

| | Parent company | | Consolidated | |
|---|---|---|---|---|
| | **2004** | **2003** | **2004** | **2003** |
| *Cash and banks* | | | | |
| *Local currency* | 9.446 | 7.098 | 10.798 | 11.306 |
| *Foreign currency* | - | - | 20.381 | 18.604 |
| *Interest earnings bank deposits* | | | | |
| *Local currency* | 169.445 | 292.779 | 181.535 | 299.482 |
| *Foreign currency* | - | - | 44.873 | 53.838 |
| | 178.891 | 299.877 | 257.587 | 383.230 |

Interest earnings bank deposits refer substantially to bank deposit certificates and fixed income funds, remunerated at rates that vary from 95% to 103,50% of CDI, resulting in an average weighted rate of 100,29% of CDI, and financial investments abroad, remunerated at the average rate of 1,90% per year, plus foreign exchange variation based on the U.S. dollar.

*(In thousand of Reais)*

## 5 Trade accounts receivable

| | Parent company | | Consolidated | |
|---|---|---|---|---|
| | **2004** | **2003** | **2004** | **2003** |
| ***Current:*** | | | | |
| *Local customers* | 123.052 | 106.512 | 162.210 | 140.570 |
| *Foreign customers* | 223.788 | 161.822 | 231.724 | 214.195 |
| *Less:* | | | | |
| *Export draft* | (55.501) | (91.553) | (55.501) | (94.024) |
| *Allowance for doubtful debts* | (6.429) | (6.770) | (24.611) | (47.365) |
| | 284.910 | 170.011 | 313.822 | 213.376 |
| ***Noncurrent:*** | | | | |
| *Foreign customers* | 2.499 | 2.696 | 54.686 | 32.034 |
| Less: | | | | |
| *Allowance for doubtful debts* | - | - | (26.833) | (4.959) |
| | 2.499 | 2,696 | 27.853 | 27.075 |
| | 287.409 | 172.707 | 341.675 | 240.451 |

*(In thousand of Reais)*

## 6 Inventories

| | Parent company | | Consolidated | |
|---|---|---|---|---|
| | **2004** | **2003** | **2004** | **2003** |
| *Finished goods* | 23.825 | 16.186 | 46.181 | 33.014 |
| *Work in process* | 13.029 | 7.963 | 26.000 | 21.247 |
| *Auxiliary and raw materials* | 60.939 | 43.712 | 130.143 | 96.240 |
| *Other goods* | 93 | 193 | 1.602 | 2.387 |
| *Advances to suppliers and other* | 937 | 3.261 | 14.142 | 6.717 |
| | 98.823 | 71.315 | 218.068 | 159.605 |

## 7 Investments

| | Parent company | | Consolidated | |
|---|---|---|---|---|
| | **2004** | **2003** | **2004** | **2003** |
| *In subsidiaries* | 170.224 | 149.131 | - | - |
| *Other investments* | 3.180 | 2.200 | 3.233 | 2.366 |
| | 173.404 | 151.331 | 3.233 | 2.366 |

# Notes to the financial statements

*(In thousands of Reais)*

Investments in subsidiaries are presented below:

| | Syncroparts Comércio e Distribuição de Peças Ltda. | Marcopolo Trading S.A. | Marcopolo Latino América S.A. | Polo Serviços em Plásticos Ltda. | Polomex S.A. De C.V. | Ilmot International Corporation | Marcopolo International Corporation | Ciferal Indústria de Ônibus Ltda. | MVC Componentes Plásticos Ltda. | Total 2004 | Total 2003 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | (1) | | (1) | (1) | (1) | | | | |
| **Information on investments** | | | | | | | | | | | |
| Capital | 4.000 | 1.000 | 1.793 | 500 | 19.883 | 40.865 | 4.001 | 79.000 | 35.000 | | |
| Adjusted shareholders' equity | 6.350 | 5.698 | 5.519 | 1.275 | 25.807 | 42.042 | 5.640 | 66.718 | 35.816 | | |
| Shares or quotas held | 1 | 3.450.103 | 4.000 | 1 | 3.011.659 | 50.000 | 50.000 | 499.953 | 1 | | |
| % of interest | 99,999 | 99,995 | 99,999 | 99,000 | 3,610 | 100,000 | 100,000 | 99,999 | 99,999 | | |
| Net profit (loss) for the year | 633 | 518 | 8.225 | 173 | 2.767 | 1.662 | 27.405 | 3.056 | (3.765) | | |
| **Movement on investments** | | | | | | | | | | | |
| Opening balances: | | | | | | | | | | | |
| At equity value | 5.717 | 5.314 | (685) | 1.092 | 901 | - | 33.737 | 63.660 | 39.395 | 149.131 | 123.963 |
| Capital payment | - | - | 4.356 | - | - | 48.751 | - | - | - | 53.107 | 13.000 |
| Dividends/pofits received | - | (134) | - | - | - | - | - | - | - | (134) | (81) |
| Equity interest in subsidiaries | 633 | 518 | 7.920 | 171 | 31 | (6.709) | 19.370 | 3.056 | (3.763) | 21.227 | 12.249 |
| Capital reduction | - | - | - | - | - | - | (53.107) | - | - | (53.107) | - |
| Closing balances | | | | | | | | | | | |
| At equity value | 6.350 | 5.698 | 11.591 | 1.263 | 932 | 42.042 | - | 66.716 | 35.632 | 170.224 | 149.131 |

**(1)** controlled Companies overseas

Corporate changes carried out by Marcopolo S.A. in controlled Companies overseas:

a) Capital increase of R$ 4.356 thousand in Marcopolo Latinoamérica S/A;

b) Capital increase of R$ 48.751 thousand in Ilmot International Corporation; and

c) Reduction in Capital of R$ 53.107 thousand in Marcopolo International Corp.

*(In thousand of Reais)*

## 8 Property, plant and equipment

| | Rate of depreciation p.a.% | Parent company | | | |
|---|---|---|---|---|---|
| | | 2004 | | | 2003 |
| | | Cost | Depreciation | Net | Net |
| Buildings | 4 | 41.436 | (20.232) | 21.204 | 14.925 |
| Machinery and equipment | 10 | 67.833 | (43.824) | 24.009 | 23.858 |
| Facilities | 10 | 32.710 | (21.859) | 10.851 | 9.807 |
| Furniture and fixtures | 10 | 4.622 | ( 2.546) | 2.076 | 1.855 |
| Vehicles | 20 | 2.046 | ( 1.632) | 414 | 445 |
| Computer equipment | 20 | 14.133 | ( 8.478) | 5.655 | 4.872 |
| Other fixed assets | 10 a 20 | 1.460 | (871) | 589 | 620 |
| Land | | 8.281 | - | 8.281 | 7.918 |
| Construction in progress | | 5.416 | - | 5.416 | 4.741 |
| Advances to suppliers | | 1.307 | - | 1.307 | 2.160 |
| | | 179.244 | (99.442) | 79.802 | 71.201 |

| | Rate of depreciation p.a.% | Consolidated | | | |
|---|---|---|---|---|---|
| | | 2004 | | | 2003 |
| | | Cost | Depreciation | Net | Net |
| Buildings | 4 | 79.997 | (28.995) | 51.002 | 47.859 |
| Machinery and equipment | 10 | 139.260 | (69.961) | 69.299 | 62.189 |
| Facilities | 10 | 44.392 | (25.187) | 19.205 | 15.211 |
| Furniture and fixtures | 10 | 7.734 | ( 4.171) | 3.563 | 3.028 |
| Vehicles | 20 | 4.639 | ( 2.806) | 1.833 | 2.063 |
| Computer equipment | 20 | 16.586 | ( 9.740) | 6.846 | 5.999 |
| Other fixed assets | 10 a 20 | 4.355 | ( 1.690) | 2.665 | 1.666 |
| Land | | 16.018 | - | 16.018 | 15.792 |
| Construction in progress | | 9.721 | - | 9.721 | 13.085 |
| Advances to suppliers | | 1.562 | - | 1.562 | 2.160 |
| | | 324.264 | (142.550) | 181.714 | 169.052 |

*(In thousand of Reais)*

## 9 Deferred charges

| | Amortization rate (p.a.%) | Parent company | | Consolidated | |
|---|---|---|---|---|---|
| | | **2004** | **2003** | **2004** | **2003** |
| Pre-operational expenses | 20 | 632 | 632 | 17.311 | 16.080 |
| Goodwill on investments | 20 | - | - | 24.172 | 24.172 |
| Accumulated amortization | | (632) | (574) | (25.421) | (20.501) |
| | | - | 58 | 16.062 | 19.751 |

### *a.* Goodwill

During the process to incorporate the investment interest in Polo Investimentos Ltda. by Ciferal Indústria de Ônibus Ltda., the balance of goodwill, originally recorded to investments, was transferred to deferred charges and continues to be amortized over the period and extent of the profitability forecasts that determined such, and does not exceed a maximum period of five years.

### *b.* Pre-operational expenses

The pre-operational expenses refer basically to the development and implantation of new units and are being deferred during the construction and development stages of the projects until these units start to operate normally. These expenses are being amortized over a period of five years.

*(In thousand of Reais)*

## 10 Related parties

The main asset and liability balances at December 31, 2004 and the transactions that affected the results for the year, with respect to related party transactions, refer to transactions between the parent company and its subsidiaries, which were undertaken under normal market conditions for the respective types of operations.

| | Syncro Parts Com.e Distri buição de Peças Ltda. | Marco polo S.A. | MVC Compo nentes Plásticos Ltda. | Ilmot Interna tional Corpo ration S.A. | Superpolo S.A. | Marco polo Indús Tria de Carro Çarias S.A. | Polo Servi ços em Plásti cos Ltda. | Marco Polo Interna Tional Corpo-ration | Marco polo South África (Pty) Ltda | Polomex S.A. De C.V. | Ciferal Indus tria de Ônibus Ltda. | Marco polo Latino américa S.A. | Total 2004 | Total 2003 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Asset (liability) balance from loan and current account | (215) | 3.434 | 22.954 | (16) | 86 | - | 247 | 37.108 | - | - | (12.180) | 545 | 51.963 | 44.425 |
| Accounts receivable from sales | - | - | 431 | 12.285 | 2.267 | 3.058 | - | 18.607 | 36.913 | 22.450 | 6.422 | 2.325 | 104.758 | 115.788 |
| Accounts payable for purchases | - | - | 983 | - | - | - | - | - | - | - | 17 | - | 1.000 | 1.455 |
| Purchase of products and services | - | - | 65.052 | - | - | - | 2.010 | - | - | - | 490 | - | 67.552 | 31.746 |
| Sales of products and services | - | - | 2.638 | 40.055 | 7.007 | 4.262 | - | 55.746 | 36.832 | 141.273 | 33.707 | 9.635 | 331.155 | 306.479 |
| Financial expenses | 18 | 313 | - | 1 | - | - | 24 | - | - | - | 732 | - | 1.088 | 1.392 |
| Financial income | - | 23 | 1.986 | - | 5 | - | 35 | 1.961 | - | - | 181 | 30 | 4.221 | 3.037 |

**Observations:**

a) The current account balances are subject to monetary correction based on the variation of the CDI.
b) Sales, purchase of products and/or service transactions are performed under the same prices and terms as those with unrelated third parties.

*(In thousand of Reais)*

## 11 Loans and financing

| | Parent company | | Consolidated | |
|---|---|---|---|---|
| | **2004** | **2003** | **2004** | **2003** |
| Local currency: | | | | |
| FINAME – TJLP plus interest of 3,65% to 4,5% p.a. | 1.451 | 886 | 2.937 | 886 |
| Bank loans - Interest of 1,15% to 7% p.a. | 43.437 | 34.468 | 48.594 | 43.014 |
| “Special pre-embarkation” – TJLP plus interest of 2,9% to 3% p.a. | 135.957 | 122.761 | 135.957 | 122.761 |
| Foreign currency: | | | | |
| Advances on foreign currency contracts of US$ 24,538 thousand – Interest of 2,86% to 4,5% p.a. | 62.960 | 6.818 | 65.115 | 9.496 |
| Pre payment of exports of US$ 10,006 thousand with Six monthly LIBOR, plus SPREAD of 1,45% to 3,5% p.a. | 26.551 | 66.433 | 26.551 | 66.433 |
| Financing of US$ 41,082 thousand with six month LIBOR plus SPREAD of 2% to 12,12% p.a. | 33.463 | 40.325 | 109.014 | 171.713 |
| | 303.819 | 271.691 | 388.168 | 414.303 |
| Current portion included in current liabilities | 163.780 | 220.203 | 212.899 | 310.648 |
| Noncurrent liabilities | 140.039 | 51.488 | 175.269 | 103.655 |

*(In thousand of Reais)*

The long-term installments have the following payment schedule:

| | Parent company | | Consolidated | |
|---|---|---|---|---|
| Maturity: | **2004** | **2003** | **2004** | **2003** |
| 2004 | - | 220.203 | - | 310.648 |
| 2005 | 163.780 | 7.291 | 212.899 | 25.031 |
| 2006 | 71.324 | 6.740 | 82.037 | 15.966 |
| 2007 | 30.997 | 37.457 | 33.217 | 62.658 |
| 2008 onwards | 37.718 | - | 60.015 | - |
| | 303.819 | 271.691 | 388.168 | 414.303 |

The FINAME financing is guaranteed by chattel mortgages over the financed assets of R$ 2.937 (R$ 886 in 2003) and there is a mortgage guarantee of R$ 29.456 (R$ 17.448 in 2003) for the FINEP bank loan. The average weighted rate for loans was 8,09% p.a.

*(In thousand of Reais)*

## 12 Provision for contingencies and judicial deposit

### *a. Contingent liabilities*

The Company and its subsidiaries are parties to judicial and administrative proceedings in various courts and governmental agencies, arising from the normal course of operations, involving tax, labor, civil and other issues.

Based on information from its legal advisors, analysis of the pending legal proceedings, and previous experience with regards to amounts claimed, management recorded provisions for amounts considered sufficient to cover probable losses from the current actions, as follows:

| Nature of the contingent liability | Parent company | | | Consolidated | | | Judicial deposit | |
|---|---|---|---|---|---|---|---|---|
| | Probable | Possible | Remote | Probable | Possible | Remote | Parent company | Consolidated |
| a) Civil | 2.534 | 1.787 | 1.281 | 2.738 | 1.946 | 1.343 | - | 258 |
| b) Tax | 26.379 | 9.940 | 18.835 | 27.197 | 9.940 | 22.890 | 8.144 | 8.317 |
| c) Labor | 581 | 572 | 211 | 1.292 | 855 | 211 | 190 | 641 |
| d) Social charge | - | - | 2.950 | 8.715 | 1.122 | 3.080 | - | - |
| | 29.494 | 12.299 | 23.277 | 39.942 | 13.863 | 27.524 | 8.334 | 9.216 |

a) Civil - compensations calculated on future agreements from service contracts;
b) Tax - refers basically to state and federal additional tax assessments which are being judged by the Upper Law Court and the Federal Supreme Court;
c) Labor - several labor claims related to compensation lawsuits;
d) Social charge – additional social charge assessment which is being judged by the Regional Federal Court of Appeals having had favorable decisions in the lower Courts.

### *b. Contingent assets*

We give below a detailed statement of the Contingent Assets as at December 2004 based on the opinion of the legal advisors:

*(In thousand of Reais)*

| Nature of the contingent asset | Consolidated | | |
|---|---|---|---|
| | **Probable** | **Possible** | **Remote** |
| a) Tax | 8.470 | 81.170 | 17.320 |
| b) Social charge | 1.600 | 3.720 | 15.550 |
| | 10.070 | 84.890 | 32.870 |

a) Tax - refers basically to State and Federal assessments which are being judged in the Upper Law Court and the Federal Supreme Court;

b) Social charge - Education Salary, Labor Accident Insurance and Social Contribution on payments made to self-employed persons.

The Company has not recorded contingent gains as it only books these once a favorable decision has been given by the courts, or the amount has been received.

## 13 Pension plan and post employment benefits to employees

The Company is the main sponsor for Marcoprev - Sociedade de Previdência Privada, a civil, non profit making company, constituted in December 1995, whose main purpose is to offer benefits complementary to those offered by the Social Security System to all of the sponsors' employees: Marcopolo S.A. (principal), Marcopolo Distribuidora de Peças Ltda., Marcopolo Trading S.A., MVC Componentes Plásticos Ltda., Polo Serviços em Plásticos Ltda., and Fundação Marcopolo. During the year, at consolidation level, a total of R$ 3.574 (R$ 3.611 in 2003) was paid as contributions. The actuarial system for determining the costs and contributions to the plan is based on the capitalization method. It is a mixed plan, comprising "defined benefits" whereby the contributions are the exclusive responsibility of the sponsor, and "defined contribution", whereby the contributions are made by the sponsor and the participate, on an optional basis. At December 31, 2004, the actuarial liability was R$ 55.609 (R$ 50.903 in 2003), which was calculated in accordance with the mathematical model established in the technical note to the plan, which is based on a collective capitalization system and is fully covered, therefore there is no liability to be recorded by the sponsor at December 31, 2004.

*(In thousand of Reais)*

As required by CVM Ruling 371, of December 13, 2000, the Company opted, based on an actuarial report, to record at the end of 2001 the actuarial deficit (excess) from the plan against retained earnings, to the account "prior year adjustments". The composition of the actuarial liability is presented below:

| | Parent company | | Consolidated | |
|---|---|---|---|---|
| **Actuarial liability** | **2004** | **2003** | **2004** | **2003** |
| Present value of actuarial liability | (78.122) | (62.158) | (78.891) | (62.158) |
| Fair value of plan's assets | 55.067 | 45.499 | 55.607 | 45.499 |
| Net value of losses (gains) not recognized in the balance sheet | 3.723 | ( 3.388) | 4.298 | ( 3.388) |
| Net liability in the balance sheet | (19.332) | (20.047) | (18.986) | (20.047) |

The movements in the net liability recognized in the balance sheet are demonstrated below:

| | **Parent company** | **Consolidated** |
|---|---|---|
| Liability at 01/01/2003 | (19.430) | (20.376) |
| Expenses for 2003 | ( 3.766) | ( 3.977) |
| Companies' contributions in 2003 | 3.149 | 3.611 |
| Effect from reduction in subsidiary | - | 869 |
| Net liability in balance sheet at 31/12/03 | (20.047) | (19.873) |
| Expenses for 2004 | (2.396) | (2.687) |
| Companies' contributions in 2004 | 3.111 | 3.574 |
| Net liability in the balance sheet | (19.332) | (18.986) |

*(In thousand of Reais)*

The main actuarial assumptions at the balance sheet date (expressed as weighted averages):

| | 2004 | 2003 |
|---|---|---|
| | % | % |
| Discount rate at December 31 | 11,30 | 11,30 |
| Expected return from assets in the plan at December 31 | 13,87 | 13,40 |
| Future salary increases | 8,15 | 8,15 |
| Inflation | 5,00 | 5,00 |

The fair values of the plan's assets were calculated based on market parameters existing at the balance sheet date or, when applicable, by projections of the future benefits derived from use of the assets, discounted to present value.

The actuarial liability at the end of the year was determined based on calculations prepared by an independent actuary, using the projected credit unit method.

## 14 Deferred income tax and social contribution

Deferred income and social contribution taxes are recognized to reflect future tax effects attributable to temporary differences between the tax bases of assets and liabilities and their book values.

In accordance with CVM Instruction 371, of June 27, 2002, the Company, based on expected future taxable profits, which were calculated based on a technical study approved by Management, also recognized the tax credits on tax losses and negative social contribution base from previous periods, which do not have a limitation period, with compensation limited to 30% of annual taxable profits. The accounting value of the deferred tax asset is revised annually by the Company and any adjustments have not been significant when compared to the management's original forecasts.

*(In thousand of Reais)*

The origin of deferred income and social contribution taxes is presented below:

| | Parent company | | Consolidated | |
|---|---|---|---|---|
| | **2004** | **2003** | **2004** | **2003** |
| Non current assets: | | | | |
| Provision for technical assistance | 3.250 | 5.348 | 3.419 | 5.443 |
| Provision for commissions | 1.922 | 1.544 | 2.146 | 1.806 |
| Provision for labor indemnities | 1.059 | 1.022 | 1.203 | 1.134 |
| Provision for doubtful debts | 615 | - | 1.223 | 169 |
| Provision for contingencies | 8.969 | 6.966 | 12.515 | 9.258 |
| Provision for foreign exchange variation realizable | - | ( 3.257) | - | ( 3.257) |
| Provision on sureties | 4.450 | 2.499 | 4.450 | 2.499 |
| Other provisions | 1.113 | 1.026 | 1.423 | 1.034 |
| Tax loss for income tax / Negative base for social contribution | - | - | 18.553 | 17.411 |
| | 21.378 | 15.148 | 44.932 | 35.497 |

*(In thousand of Reais)*

Based on a technical study of forecast taxable results calculated in accordance with CVM Instruction 371, the Company estimates to recover its tax credits in the following years:

| | ***Parent company*** | ***Consolidated*** |
|---|---|---|
| *2005* | *21.378* | *26.224* |
| *2006* | - | *8.733* |
| *2007* | - | *3.326* |
| *2008* | - | *3.293* |
| *2009* | - | *3.356* |

The estimates for recoverable tax credits were based on forecasts of taxable profits taking into consideration various financial and business premises considered at the end of the year. Consequently, the estimates may not be realized in the future given the uncertainties inherent to these forecasts.

The deferred income tax and social contribution tied to the tax losses originate from the subsidiary Ciferal Indústria de Ônibus Ltda. This deferment will be realized over a period of up to five years, consistent with the projections for taxable profits approved by the Board and Statutory Audit Committee, under the terms of CVM Instruction 371.

*(In thousand of Reais)*

The reconciliation between the tax expense calculated using the combined statutory rates and the income and social contribution tax expense charged to net income is presented below:

| | Parent company | | Consolidated | |
|---|---|---|---|---|
| | **2004** | **2003** | **2004** | **2003** |
| Accounting profit before income tax and social contribution | 104.436 | 101.949 | 107.614 | 104.038 |
| Combined tax rate | 34% | 34% | 34% | 34% |
| Income tax and social contribution: | | | | |
| At the combined tax rate | 35.508 | 34.663 | 36.589 | 35.373 |
| Permanent additions: | | | | |
| Non deductible expenses | 602 | 120 | 1.336 | 230 |
| Permanent exclusions: | | | | |
| Interest on own capital | 12.991 | 13.602 | 12.991 | 13.602 |
| Equity in income of subsidiaries | 7.217 | 4.165 | - | - |
| Tax incentives | 822 | 918 | 846 | 934 |
| Non taxable income | 992 | 470 | 7.572 | 3.763 |
| *Income and social contribution taxes* on the results for the year | 14.088 | 15.628 | 16.516 | 17.304 |
| *Effective rate* | *13,49%* | *15,33%* | *15,35%* | *16,63%* |

## 15 Shareholders' equity (Parent)

### *a. Capital*

The authorized capital comprises 2.000.000.000 shares, being 800.000.000 ordinary shares and 1.200.000.000 preference shares, nominative, with no par value. At December 31, 2004, capital, subscribed and paid in, was represented by 112.376.889 (112.376.889 in 2003) nominative shares, being 42.703.218 ordinary and 69.673.671 preference, with no par value.

### *b. Reserves*

- *Legal reserve*

  Constituted at the rate of 5% of net profit reported for each year, under the terms of article 193 of Law 6.404/76, up to a limit of 20% of capital.

- ***Statutory reserve***

  **a.** A minimum of 25% (twenty five percent) of the balance, to pay the dividend on all of the Company's shares, as compulsory dividends;

  **b.** The remaining balance for net profit will be allocated, in full, to form the following reserves:

  **Reserve for future capital increase,** to be used for future capital increases, to be made up of 70% of the remaining balance from net profit for the year, and can not exceed 60% of capital;

  **Reserve to pay interim dividends**, to be used to pay interim dividends provided under Paragraph 1 of Article 33 of the Statutes, to be formed by 15% of the remaining balance for net profit 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 by 15% of the remaining balance for net profit for each year, and cannot exceed 10% of capital.

## 16 Interest on own capital - Law 9.249/95

In accordance with the option available in Law 9.249/95, the Company calculated interest on own capital based on the Long Term Interest Rate (TJLP) in force during the year, of R$ 38.208 (R$ 40.006 in 2003) to be paid as from March 28, 2005, at the rate of R$ 0,34 for each share, for both registered ordinary shares and registered preferential shares. This interest was recorded as financial expenses, as required under tax legislation. For purposes of these financial statements, this interest was eliminated from financial expenses for the year and has been included in retained earnings as the corresponding entry for the current liability.

This interest on own capital was deducted from income and social taxes for the year, which, consequently, decreased by approximately R$ 12.991 (R$ 13.602 in 2003).

*(In thousand of Reais)*

Statement of minimum dividend calculation:

| | 2004 | 2003 |
|---|---|---|
| Net profit for the year | 85.042 | 81.068 |
| Legal reserve (5%) | (4.252) | (4.053) |
| Depreciation of revalued assets | 209 | 209 |
| Calculation base for the dividends | 80.999 | 77.224 |
| Value of minimum compulsory dividends (25%) | 20.250 | 19.306 |
| Interest on own capital included in dividend: | | |
| Gross value | 38.208 | 40.006 |
| Withholding tax (15%) | (5.731) | (6.001) |
| Withholding tax - Suspended retention | 2.486 | 2.014 |
| Net value credited | 34.963 | 36.019 |

This interest was included as part of the compulsory dividend declared in advance, for the current year, in accordance with item V of CVM Ruling 207/96.

## 17 Financial instruments

The estimated realizable values of the Company's financial assets and liabilities were determined based on information available on the market and appropriate evaluation methodologies. However, considerable judgment was required to interpret the market data to produce the most appropriate estimated realizable value. Consequently, the following estimates do not necessarily indicate the amounts that could be realized on the current exchange market. The use of different market methodologies could have a material effect on the estimated realizable values.

These instruments are managed by means of operational strategies aimed at liquidity, profitability and security. The control policy consists of accompanying, on a permanent basis, the rates contracted versus those in force on the market. The Company and its subsidiaries do not invest in derivatives or other risk asset of a speculative nature.

*(In thousand of Reais)*

### *a. Composition of balances*

In accordance with CVM Instruction 235/95, the accounting balances and market values of the financial instruments included in the balance sheet at December 31, 2004, are identified as follows:

| | Parent | | Consolidated | |
|---|---|---|---|---|
| **Description** | **Accounting balance** | **Market value** | **Accounting balance** | **Market value** |
| Cash and banks | 9.446 | 9.446 | 31.179 | 31.179 |
| Marketable securities | 169.445 | 169.445 | 226.408 | 226.408 |
| Loans receivable | 64.374 | 64.374 | - | - |
| Taxes recoverable | 71.224 | 71.224 | 86.898 | 86.898 |
| Investments: | | | | |
| Valued at cost: | | | | |
| Without exchange quotation | 3.180 | 3.180 | 3.233 | 3.233 |
| Valued at equity method: | | | | |
| Without exchange quotation | 170.224 | 170.224 | - | - |
| Loans and financing : | | | | |
| In national currency | 180.845 | 180.845 | 187.488 | 187.488 |
| In foreign currency | 122.974 | 122.541 | 200.680 | 200.247 |
| Deferred taxes | 21.378 | 21.378 | 44.932 | 44.932 |

### *b. Criteria, premises, and limitations used in calculating fair values*

*a. Cash and banks and marketable securities*

The fair values of balances held in current accounts in banks and marketable securities are identical to their carrying values.

*b. Loans receivable/payable*

The fair values are identical to their carrying values since there are no similar instruments and since these transactions are carried out with subsidiaries.

*c. Recoverable/deferred taxes*

Stated at carrying values since there are no parameters to determine their market values.

*d. Investments*

The fair values for all other investments are the same as their carrying values since there are no market quotations for these investments.

*e. Loans and financing*

The fair values of financing were calculated on the basis of their present value, determined by means of future cash flows, using interest rates applicable to instruments of a similar nature involving similar terms and risks; alternatively, they were based on market quotations for these securities.

The fair values for BNDES/FINAME loans are identical to their carrying values since there are no similar instruments with comparable due dates and interest rates.

*f. Derivatives*

It is the Company's policy to eliminate market risks by avoiding assuming positions exposed to variations in market values and by operating only with instruments which allow control of risks. The majority of derivative contracts are for swaps; all are registered with the BM&F and involve pre-fixed rates. BM&F dollar futures contracts are used mainly as a hedge against financing rates. The Company does not expect to incur any losses on these operations.

*g. Limitations*

The fair values were estimated at a specific time, based on relevant market information. Changes in the premises could affect the estimates presented.

### *c. Credit risk*

The sales policies of the Company and its subsidiaries are subordinated to the credit policies determined by management and aim to minimize any problems arising from defaults by clients. This objective is achieved by management by means of careful selection of the client portfolio which considers the ability to pay (credit analysis) and diversification of sales (spreading risk). The Company also has a provision for doubtful debts of R$ 6.429 (Parent company) and R$ 51.444 (Consolidated) (2003 - R$ 6.770 and R$ 52.324 respectively) representing 1,8% and 11,5%, respectively, of the trade accounts receivable balance for the Parent and Consolidated outstanding (2003 – 2,5% and 13,5%), to cover credit risk.

### *d. Foreign exchange rate risk*

The results of the Company and its subsidiaries may be subject to significant variations, since their liabilities are tied to the movement in the foreign exchange rate, mainly the North American dollar, which during 2004, reported a negative variation of 8,1% (18,2% in 2003).

As a strategy to prevent and reduce the effects from fluctuations in the foreign exchange rate, management has adopted a policy of natural hedges maintaining tied assets, also susceptible to the foreign exchange variation, as presented below:

| | Parent company | | Consolidated | |
|---|---|---|---|---|
| | 2004 | 2003 | 2004 | 2003 |
| A. Loans and financing in US$ thousand | 55.054 | 41.915 | 58.525 | 48.682 |
| B. Assets in US$ thousand | 84.523 | 43.139 | 90.163 | 49.350 |
| C. Financial "Swap" operations in US$ thousand | - | 5.000 | - | 5.000 |
| D. (Excess) deficit calculated (A-B-C) in US$ thousand | (29.469) | (6.224) | (31.638) | (5.668) |

The financial derivative operations (swaps) undertaken throughout the year have been summarized as follows:

| | **Parent company** | | **Consolidated** | |
|---|---|---|---|---|
| | **2004** | **2003** | **2004** | **2003** |
| Value - US$ thousand | - | 5.000 | - | 5.000 |
| Balance in other accounts payable recorded to current liabilities | - | 4.568 | - | 4.568 |
| Net financial (expenses) income | **(372)** | **(18.863)** | **(372)** | **(18.863)** |

**c.** ***Price risk***

Given that exports are equivalent to 43,0% of the parent and subsidiaries' income forecast for 2005, any fluctuations in the foreign exchange rate represents a real price risk, which could affect Management's planned results.

**d.** ***Risk from interest rates***

The results of the Company and those of its subsidiaries may be subject to significant variations resulting from financing and loan operations contracted with floating exchange rates.

The Company and its subsidiaries use financial derivative instruments to protect or reduce the financial costs from financing operations.

The objective of contracting financial derivative operations, such as swaps, is to minimize the risks from foreign currency financing and investment operations. Consistent with its financial polices, the Company has not undertaken operations involving financial instruments of a speculative nature.

**e.** ***Risk of changes in tax legislation***

The results of the Company and of its subsidiaries, are subject to changes which may result from alterations in tax legislation which may introduce new taxes, increase tax rates or restrict the realization of tax benefits, as has occurred with Decrees 43.532 of December 29, 2004 and 43.533 of December 30, 2004 issued by the Government of the State of Rio Grande do Sul, Law 11.051 of December 29, 2004 and Provisional Measure 232 of December 30, 2004 issued by the Federal Government.

The Company and its subsidiaries are actively engaged in the planning and monitoring of its activities in relation to changes in tax legislation aiming at minimizing any possible impact on its operations.

*(In thousand of Reais)*

## 18 Insurance coverage

At December 31, 2004, the Company had insurance coverage against fire and various risks on its fixed assets and inventories, for amounts deemed sufficient to cover possible losses.

The main insurance coverage is presented below:

| | **Risk covered** | **2004** | **2003** |
|---|---|---|---|
| Inventories and warehouse | Fire and various risks | 183.551 | 251.300 |
| Buildings and contents | Fire and various risks | 455.392 | 200.157 |
| Vehicles | Collision and civil liability | 1.694 | 1.302 |
| | | 640.637 | 452.759 |

## 19 Sureties and Guarantees

As at December 31, 2004 the Company had sureties and guarantees totaling R$ 55.579 (R$ 79.544 in 2003), and vendor operations in which it figures as guarantor totaling R$ 28.761 (R$ 24.806 in 2003), given to banks in financing transactions with its clients, which have as a counter-guarantee, the assets which are being guaranteed.

*(In thousand of Reais)*

## 20 Employees' participation in the profits and results

During 2004, in accordance with the ruling in law 10.101 of December 19, 2000, management decided to make six monthly payments, and in August 2004 it paid the first installment, with the balance being paid in February 2005.

The employees' participation was calculated in accordance with that established in the Marcopolo-EFIMAR Instrument for the Agreement for the Efficacy Goals Program, dated April 08, 2004, homologated by the union for the professional category.

The amounts have been classified to the results for the year as follows:

| | Parent company | | Consolidated | |
|---|---|---|---|---|
| | **2004** | **2003** | **2004** | **2003** |
| *Cost of products sold and services rendered* | *7.291* | *6.338* | *8.039* | *7.419* |
| *Sales expenses* | *1.810* | *2.346* | *1.817* | *2.453* |
| *Administrative expenses* | *1.581* | *1.787* | *1.592* | *1.923* |
| | *10.682* | *10.471* | *11.448* | *11.795* |

# Marcopolo S.A.
## Complementary information

## Statements of cash flows

**Years ended December 31, 2004 and 2003**

*(In thousands of Reais)*

| | Parent | | Consolidated | |
|---|---|---|---|---|
| | **2004** | **2003** | **2004** | **2003** |
| **Cashflows from operational activities** | | | | |
| **Results for the year** | 85.042 | 81.068 | 85.022 | 80.936 |
| Adjustments to reconcile the results to the bank and cash generated by operational activities: | | | | |
| Depreciation and amortization | 11.640 | 10.403 | 28.928 | 24.623 |
| Results from the sale of permanent assets | 363 | 1.330 | 8.622 | 2.468 |
| Equity interest in subsidiaries | (21.227) | (12.249) | - | - |
| Provision for credit risks | 987 | 1.169 | 2.873 | 17.803 |
| Deferred income tax and contributions | (6.230) | (7.108) | (9.279) | (10.301) |
| Interest and variations appropriated | 12.233 | (898) | 16.124 | (22.657) |
| Foreign exchange variation from overseas subsidiaries | - | - | 1.532 | 9.180 |
| Minority interest | - | - | 236 | (1.564) |
| **Profits and dividends received from subsidiaries** | 134 | 42 | - | - |
| **Variations in assets and liabilities** | | | | |
| (Increase) in trade accounts receivable | (79.634) | (10.040) | (65.574) | 94.410 |
| (Increase) decrease in other receivables | (50.485) | (11.150) | (47.448) | (29.567) |
| (Increase) in inventories | (27.508) | (15.541) | (58.463) | (42.622) |
| Increase (decrease) in suppliers | 24.524 | 2.765 | 69.178 | (17.510) |
| Increase (decrease) in accounts payable and provisions | 2.597 | 28.714 | 125 | 35.987 |
| Reduction in interest on own capital | (27.815) | (31.556) | (27.815) | (31.556) |
| **Net bank and cash generated from (invested in) operational activities** | (75.379) | 36.949 | 4.061 | 109.630 |
| **Cashflows from investment activities** | | | | |
| (Increase) in capital in subsidiaries | (980) | (14.250) | (1.250) | (1.250) |
| Fixed asset purchases | (20.546) | (14.922) | (47.672) | (46.276) |
| **Net bank and cash generated from (invested in) investment activities** | (21.526) | (29.172) | (48.922) | (47.526) |
| **Cashflows from financing activities** | | | | |
| (Increase) decrease in related parties | (7.924) | 3.358 | - | - |
| Borrowings obtained | 536.425 | 417.487 | 570.017 | 499.138 |
| Payment of borrowings | (508.329) | (349.498) | (600.517) | (482.908) |
| Interest paid on borrowings | (44.253) | (77.327) | (50.282) | (87.238) |
| **Net bank and cash generated from (invested in) financing activities** | (24.081) | (5.980) | (80.782) | (71.008) |
| **Statement of increase (decrease) in bank and cash** | | | | |
| At the start of the year | 299.877 | 298.080 | 383.230 | 392.134 |
| At the end of the year | 178.891 | 299.877 | 257.587 | 383.230 |
| **Increase (decrease) in bank and cash** | (120.986) | 1.797 | (125.643) | (8.904) |

# Complementary information

## Statements of added value

**Years ended December 31, 2004 and 2003**

*(In thousands of Reais)*

| | Parent | | Consolidated | |
|---|---|---|---|---|
| | **2004** | **2003** | **2004** | **2003** |
| **1. Income** | | | | |
| 1.1. Sales of goods and services | 1.264.573 | 1.023.548 | 1.795.181 | 1.411.733 |
| 1.2. Provision for doubtful debts | (987) | (1.169) | (2.783) | (17.803) |
| 1.3. Non operations | 216 | (267) | 2.276 | (488) |
| | 1.263.802 | 1.022.112 | 1.794.674 | 1.393.442 |
| **2. Supplies purchased from third parties (including ICMS and IPI)** | | | | |
| 2.1 Raw materials consumed | 889.347 | 686.994 | 1.155.868 | 823.147 |
| 2.2. Materials, energy, third party services and others | 98.228 | 98.418 | 170.369 | 195.610 |
| | 987.575 | 785.412 | 1.326.237 | 1.018.757 |
| **3. Gross added value (1-2)** | 276.227 | 236.700 | 468.437 | 374.685 |
| **4. Retentions** | | | | |
| 4.1. Depreciation and amortization | 11.640 | 10.403 | 28.928 | 24.623 |
| **5. Net added value produced by the Company (3-4)** | 264.587 | 226.297 | 439.509 | 350.062 |
| **6. Added value received in transfer** | | | | |
| 6.1. Equity interest in subsidiaries | 21.227 | 12.249 | - | - |
| 6.2. Financial income | 89.264 | 100.467 | 110.419 | 114.596 |
| | 110.491 | 112.716 | 110.419 | 114.596 |
| **7. Total added value to distribute (5+6)** | 375.078 | 339.013 | 549.928 | 464.658 |
| **8. Distribution of added value** | | | | |
| 8.1. Personnel and charges | 182.817 | 154.121 | 275.186 | 246.604 |
| 8.2. Taxes and contributions | 34.855 | 36.874 | 85.709 | 59.039 |
| 8.3. Interest and rents | 72.364 | 66.950 | 104.011 | 78.079 |
| 8.4. Interest on own capital and dividends | 38.208 | 40.006 | 38.208 | 40.006 |
| 8.5. Retained earnings | 46.834 | 41.062 | 46.814 | 40.930 |
| | 375.078 | 339.013 | 549.928 | 464.658 |