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 US$ thousands except for percentages and earnings per share)

CONSOLIDATED DATA	2004	2003	Variation(%)
Overall Performance			
Net operating income	549,3	427,1	28,6%
- Income from operations in Brazil	259,9	213,8	21,5%
- Income from operations overseas	289,5	213,3	35,7%
Net income	33,9	25,6	32,4%
Earnings per share	0,301	0,228	32,2%
Return on invested capital (1)	18,3%	11,6%	6,7pp
Return on equity (2)	25,7%	26,9%	(1,2)pp
Operational Performance			
Gross profit	93,1	81,4	14,4%
EBITDA (3)	46,8	26,5	76,6%
Operational profit (before financial results)	39,7	20,6	92,7%
Investments in fixed assets	10,2	12,7	(19,7)%
Financial Position			
Cash and cash equivalents	97,1	132,7	(26,8%)
Total assets	466,5	408,2	14,3%
Short Term financial liabilities	100,9	138,5	(27,1%)
Long Term financial liabilities	66,1	35,9	84,1%
Net financial liabilities	69,9	41,7	67,6%
Stockholders' equity	160,2	132,1	21,3%
Net financial liabilities / Stockholders' equity	43,6%	31,6%	12,0pp
Net financial results	(1,1)	10,4	(110,7%)
Margins and Indexes			
Gross margin	16,9%	19,1%	(2,2)pp
EBITDA margin	8,5%	6,2%	2,3pp
Operating margin (before financial results)	7,2%	4,9%	2,3pp
Net margin	6,2%	6,0%	0,2pp

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

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

(3) *EBITDA* (*Earnings before interest, taxes, depreciation and amortization*);

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 US$ 549,3 thousands – 28,6% more than in 2003. For a better understanding of net income see items 5.1 and 5.2.

Net profits came to US$ 33,9 thousands – 32,4% higher than the US$ 25,6 Thousands posted the previous year. See item 14.

Adjusted EBITDA in 2004 totaled US$ 46,8 thousands, compared to the US$ 26,5 thousands of the previous year – 8,5% and 6,2% 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 US$ 14,398,606.52 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 revenues in 2004 totaled US$ 549,3 thousands or 28,6% higher than in 2003. The domestic market accounted for US$ 259,8 thousands, or 21,7% higher than in 2003. Net income from overseas operations came to US$ 289,5 thousands - a 35,7% increase over the results posted in 2003. Income per product group is shown below.

Total Consolidated Net Income - By Products (US$ Thousands)

Products/Years [3]	TOTAL	
	2004	**2003**
Intercity buses	214,972	97,961
Urban buses	137,866	100,703
Micro buses	36,806	35,484
Subtotal bus bodies	**389,644**	**234,148**
Volares and Vans [1]	84,302	65,559
Total B.Bodies/Volare/Vans	**473,946**	**299,707**
Parts and others	75,321	127,390
TOTAL	**549,267**	**427,097**

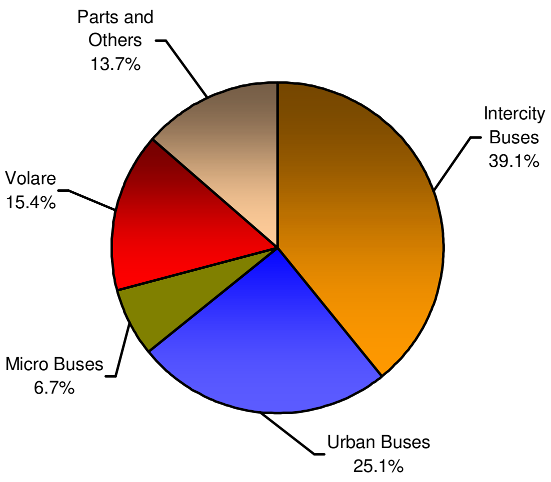
Notes: [1] Volare earnings include chassis;
[2] Earnings from chassis refer to other units sold, except Volare models;
[3] DM = Domestic Market; EM = External Market.

5.2 Breakdown of Consolidated Net Income (%)

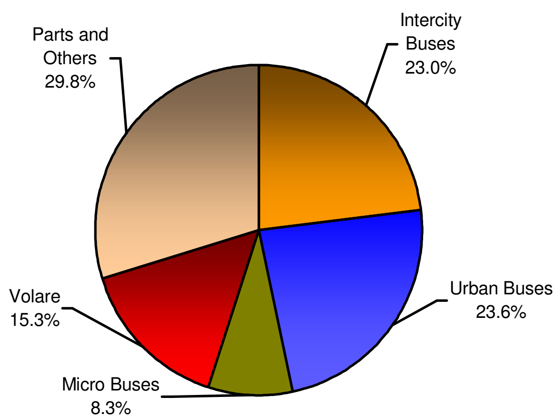
Of total consolidated net income in 2004, 86,3% came from bus body sales and 13,7% from the sale of parts and components.

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

2004

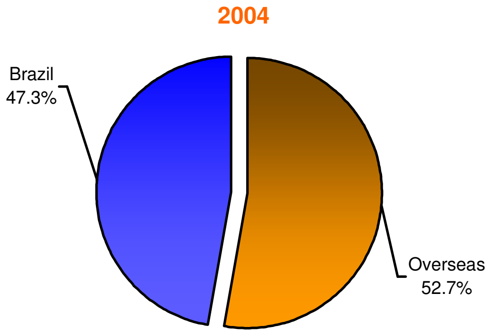


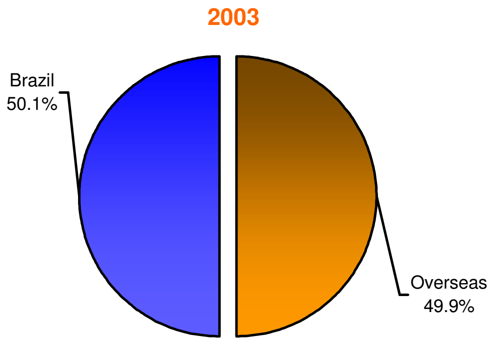
2003



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 49,9% 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 17,0% in 2003 to 19,6% in 2004.

8. Sales Costs

Sales costs totaled US$ 32,2 thousands - US$ 1,4 thousands less than the US$ 33,6 thousands registered in 2003. In 2003, US$ 6,2 thousands were set aside in the Reserve for Doubtful Credits because of the credit situation of clients in Argentina. In 2004, this reserve received US$ 1,1 thousands. Excluding the amounts set aside for this reserve in 2003 and 2004, sales costs would have totaled US$ 31,1 thousands in 2004 and US$ 27,4 thousands in 2003 – 5,7% and 6,4% of net income respectively. The increase in sales in 2004 was the result of increased revenue.

9. General and Administrative Costs

Despite the 28,6% increase in net income, general and administrative costs in 2004 came to US$ 23,8 thousands – 4,3% of net income. In 2003, these costs totaled US$ 26,3 thousands – 6,2% 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 US$ 69,9 thousands 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 US$ 1,1 thousands.

11. Operating Results and EBITDA

EBITDA came to US$ 46,8 thousands, against the US$ 26,5 thousands in 2003 – 8,5% and 6,2% 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.

EBITDA (US$ Thousands)	**2004**	**2003**
Operating results	38,654	31,026
Financial results	(38,768)	(37,629)
Financial expenses	39,844	27,202
Depreciation/Amortization	7,073	5,913
EBITDA	**46,803**	**26,512**

12. Other Operating Revenue and Expenses

In 2004, the positive net balance of these accounts of US$ 4,5 thousands was due mainly to: (i) US$ 1,1 thousands in tax refunds; (ii) US$ 3,9 thousands obtained through the return of part of the reserves set aside for doubtful credits; (iii) US$ 0,5 thousands for tax and other operating expenses.

13. Non-Operating Results

The US$ 1,9 thousands of expenses registered in 2004 were due to: (i) US$ 1,7 thousands relative to market value adjustments made on real estate holdings overseas; (ii) US$ 0.2 thousands relative to costs with fixed asset write-offs.

14. Net Profits/ROIC

Net profits in 2004 totaled US$ 33,9 thousands – 32,4% percent more than the US$ 25,6 thousands registered in 2003. The return of invested capital (ROIC) was 18,3% in 2004 and 11,6% 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 US$ 1,1 thousands) and in 2003 (plus US$ 10,4 thousands), operating results would have come US$ 39,7 thousands and US$ 20,6 thousands, respectively – 7,2% in 2004 and 4,8% in 2003.

15. Cash Generation

Operating activities generated US$ 1,9 thousands in 2004 compared to the US$ 40,9 thousands registered in 2003. Investments in fixed assets came to US$ 10,2 thousands while financial activities consumed US$ 27,3 thousands in loan and interest payments. As a result, the initial cash balance of US$ 132,7 thousands at the start of the fiscal year dropped to US$ 97,1 thousands 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

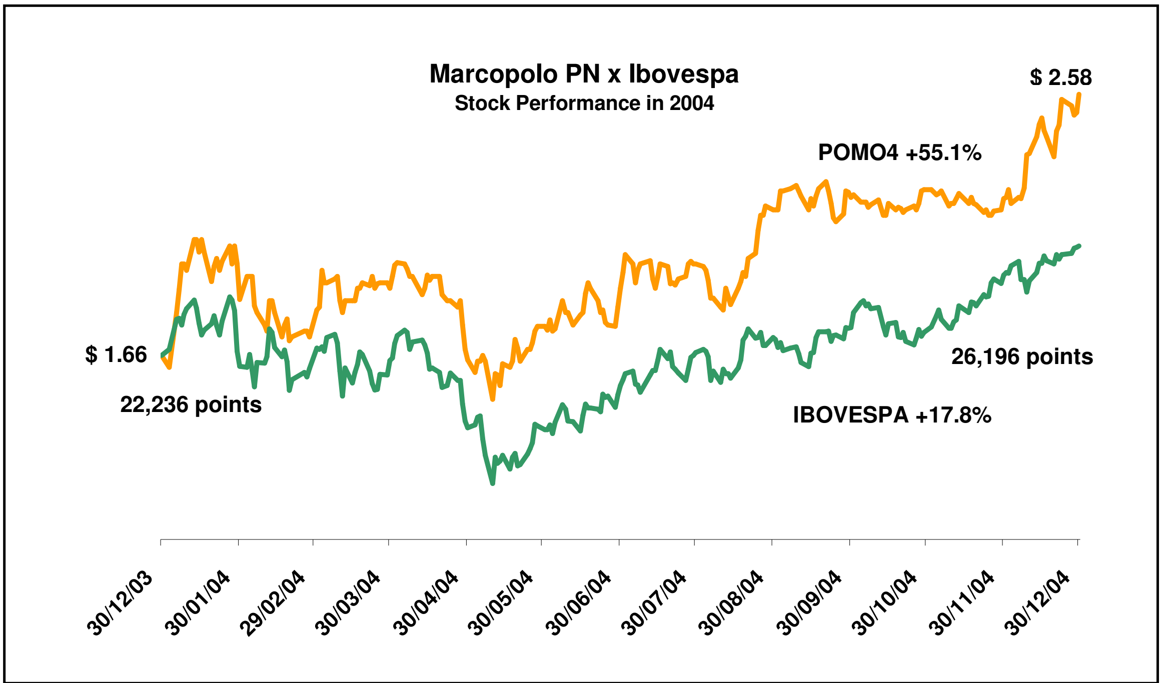
The Company's current capital totals US$ 160,2 thousands and is composed of 112,376,889 shares - 42,703,218 ordinary shares (38.0%) and 69,673,671 preferential shares (62.0%) - all normative and book-entry shares without nominal value.

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

US$ 91,6 thousands – 19,9% more than the amount traded in 2003.

Additional information can be found in the chart below.



Indicators/Years	2004	2003
Number of transactions	11,057	13,300
Shares negotiated (millions)	45,2	57,2
Value of transactions (US$ thousands)	91,6	76,4
Market value (US$ thousands) (1)	289,9	186,5
Existing shares (million) (2)	112.4	112.4
Book value per share (US$)	1,43	1,18
Quotation (US$ / per preferred share) (3)	2,58	1,66
Interest on capital imputed to dividends (US$/per share)	0,128	0,123

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 US$ 14,398,606.52 payment of interest on capital - US$ 0.13 (thirteen cents) per share. The net value of US$ 13,175,670.23 was imputed to mandatory dividend payments. The value was credited 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 38,9% of consolidated net income.

22. Investments/Fixed Assets

In 2004 the Company invested US$ 10,2 thousands in several of its units. The investments were: (i) US$ 5,3 thousands in production equipment and machines and in a new layout; (ii) US$ 0,4 thousands in industrial installations; (iii) US$ 1,4 thousands in software systems, company holdings, vehicles, other fixed assets and development of new products; (iv) US$ 3,1 thousands 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 US$ 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 for 2005 with a forecasted gross revenues of US$ 750,0 thousands and net revenues of US$ 650,0 thousands. 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.

Marcopolo S.A. and Subsidiaries

Consolidated financial statements December 31, 2004 and 2003 (with Independent auditors' report thereon)

Marcopolo S.A. and Subsidiaries

Consolidated financial statements

December 31, 2004 and 2003

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Independent auditors' report

The Board of Directors and Stockholders
Marcopolo S.A.

We have audited the accompanying consolidated balance sheets of Marcopolo S.A. and subsidiaries as of December 31, 2004 and 2003, and the related consolidated statements of income, shareholders' equity and comprehensive income and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

The information provided by subsidiary companies, Marcopolo Latinoamérica S.A. and Laureano S.A., for the years ended December 31, 2004 and 2003 were reviewed by other independent auditors. These auditors' reports were given to us and the result of our review, in respect of the amounts of the investments and results of these companies, was based solely on the reports of these independent auditors.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Marcopolo S.A. and subsidiaries as of December 31, 2004 and 2003, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

March 15, 2005

Marcopolo S.A. and Subsidiaries

Consolidated balance sheets

December 31, 2004 and 2003

(In thousands of United States dollars)

	2004	2003
Assets		
Current assets		
Cash and cash equivalents	97,070	132,679
Trade accounts receivable, net (Note 3)	139,178	106,426
Inventories (Note 4)	82,178	55,244
Taxes recoverable	42,628	16,555
Others	7,719	6,340
	368,773	317,244
Noncurrent assets		
Property, plant and equipment (Note 6)	66,375	56,149
Deferred income tax (Note 9)	8,296	16,311
Judicial deposits	3,473	2,790
Trade accounts receivable, net (Note 3)	10,497	9,374
Other noncurrent assets	3,307	1,044
Goodwill, less accumulated amortization (Note 16)	5,796	5,325
	97,744	90,993
	466,517	408,237

Liabilities	2004	2003
Current liabilities		
Short-term debt (Note 7)	84,547	72,519
Current portion of long-term debt (Note 8)	16,435	66,001
Derivative financial instruments and hedging activities (Note 5)	0,080	1,582
Accounts payable – trade	49,663	21,676
Advances from customers	5,579	3,442
Payroll and related charges	15,644	8,959
Taxes payable, other income taxes	15,811	6,925
Sales commissions	6,102	7,751
Profit sharing	2,019	5,031
Interest on share capital	13,210	9,661
Other accounts payable	11,987	11,757
	221,077	215,304
Noncurrent liabilities		
Long-term debt, less current portion (Note 8)	66,050	35,887
Deferred income tax (Note 9)	3,830	2,805
Provision for commitments and contingencies (Note 13)	5,755	8,193
Pension plan (Note 10)	3,354	3,115
Other noncurrent liabilities	3,719	6,103
	82,708	56,103
Minority interest	2,529	2,241
	2,529	2,241
Shareholders' equity (Note 11)		
Common shares – no par value		
42,703,218 shares authorized and outstanding	17,975	17,975
Preferred shares – no par value		
69,673,671 shares authorized and outstanding	38,298	38,298
Earnings - restricted	11,510	9,103
Earnings - unrestricted	157,573	139,696
Accumulated other comprehensive income	(65,153)	(70,483)
	160,203	134,589
	466,517	408,237

See the accompanying notes to the financial statements.

Marcopolo S.A. and Subsidiaries

Consolidated statements of income

Years ended December 31, 2004 and 2003

(In thousands of United States dollars)

	2004	2003
Net sales	549,267	427,097
Cost of sales	(456,139)	(345,690)
Gross profit	93,128	81,407
Sales and marketing expenses	(32,226)	(33,593)
General and administrative expenses	(21,607)	(22,438)
Administrators and employees interest	(2,179)	(3,903)
Other operating (expense)	4,492	(874)
Operating income	41,608	20,599
Interest expense	(39,844)	(27,202)
Interest income	38,768	37,629
Other non – operating income	(1,878)	3,826
Income (loss) before income taxes and minority interest	38,654	34,852
Provision for income taxes (Note 9)		
Current	(7,037)	(5,923)
Deferred	2,489	(520)
Minoririty interest	(228)	(268)
Net income	33,878	28,141
Earnings per thousand shares – US$:		
Common shares	301.5	250.4
Preferred shares	301.5	250.4
Number of outstanding shares:		
Common shares	42.703.218	42.703.218
Preferred shares	69.673.671	69.673.671

See the accompanying notes to the financial statements.

Marcopolo S.A. and Subsidiaries

Consolidated statements of stockholder’s equity and comprehensive income

Years ended December 31, 2004 and 2003

(In thousands of United States dollars)

	Common stock	Preferred stock	Retained earnings restricted	Retained earnings unrestricted	Accumulated other comprehensive income	Total
Balances as of December 31, 2002	17,906	38,185	6,295	126,809	(93,822)	95,373
Translation adjustments	-	-	1,587	-	23,339	24,926
Issued capital	69	113	(182)	-	-	-
Net income	-	-	-	28,141	-	28,141
Transfer to legal reserve	-	-	1,403	(1,403)	-	-
Interest on share capital accrued ($102.17 per 1,000 common shares and $112.39 per 1,000 preferred shares)	-	-	-	(13,851)	-	(13,851)
Balances as of December 31, 2003	17,975	38,298	9,103	139,696	(70,483)	134,589
Translation adjustments	-	-	805	-	5,330	6,135
Net income	-	-	-	33,878	-	33,878
Transfer to legal reserve	-	-	1,602	(1,602)	-	-
Interest on share capital accrued ($53.79 per 1,000 common shares and $53.79 per 1,000 preferred shares)	-	-	-	(14,399)	-	(14,399)
Balances as of December 31, 2004	17,975	38,298	11,510	157,573	(65,153)	160,203

See the accompanying notes to the financial statements.

Marcopolo S.A. and Subsidiaries

Consolidated statements of cash flows

Years ended December 31, 2004 and 2003

(In thousands of United States dollars)

	2004	**2003**
Cash from operations activities		
Net income	33,878	28,141
Adjustments to reconcile net income to cash flows		
Depreciation	7,073	5,913
Deferred income taxes	(8,015)	5,653
Cost of dispositions of property, plant and equipment	(1,616)	(1,392)
Allowance for doubtful accounts	1,271	(4,539)
Provision for contingencies	765	(3,426)
Loan interest accrued	5,510	(7,688)
Pension plan	(3,587)	1,141
Minority interests	288,000	49
Translation gains and losses, net	8,659	15,192
Changes in asses and liabilities		
(Increase) decrease in accounts receivable	(33,875)	6,309
Increase in inventories	(26,934)	(22,138)
(Increase) decrease in taxes recoverable	(26,073)	8,505
Decrease (increase) in other current assets	6,689	(7,654)
Decrease in other noncurrent assets	4,625	671
Increase (decrease) in accounts payable and accrued liabilities	27,987	(703)
Increase in other current liabilities	8,202	13,044
(Decrease) increase in other noncurrent liabilities	(2,946)	3,798
Net cash provided by operating activities	1,901	40,876
Cash flows from investing activities		
Additions to property, plant and equipment	(10,226)	(12,674)
Net cash used in investing activities	(10,226)	(12,674)
Cash flows from financing activities		
Cash dividends paid or accrues	(14,399)	(13,851)
Proceeds from short-term debt	193,160	165,953
Proceeds from long-term dept	-	3,190
Debt payments	(206,045)	(156,078)
Net cash provided by (used in) financing activities	(27,284)	(786)
(Decrease) increase in cash and cash equivalents	(35,609)	27,416
Cash and cash equivalents at beginning of year	132,679	105,263
Cash and cash equivalents at end of year	97,070	132,679
Supplental cash flow data:		
Cash paid during the year for		
Interest	17,184	28,268
Income taxes	(4,548)	(6,443)

See the accompanying notes to the financial statements.

Marcopolo S.A. and Subsidiaries

Notes to Consolidated financial statements

Years ended December 31, 2004 and 2003

(All amounts in thousands of United States dollars, except share data)

1 Nature of operations

Marcopolo S.A. "the Company" is a publicly held corporation, duly organized and existing under the laws of the Federative Republic of Brazil.

The Company and its subsidiaries manufacture and sell buses, vehicles, wagons, parts, agricultural and industrial machinery in the domestic market and overseas. The Company may also invest in other companies.

2 Summary of significant accounting policies and practices

A summary of the significant accounting policies used in the preparation of the accompanying financial statements follows:

a. Principles of consolidation

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

(All amounts in thousands of United States dollars, except share data)

Subsidiary	Ownership percentage	
	Direct	**Indirect**
Syncroparts Comércio e Dist. Peças Ltda.	99.99	0.01
Marcopolo Trading S.A.	99.99	0.01
MVC Componentes Plásticos Ltda.	99.99	0.01
Marcopolo South África Pty Ltd (1)	0	100
Marcopolo International Corporation (1)	0	100
Ilmot International Corporation S.A. (1)	100	0
Marcopolo Indústria de Carroçarias, S.A. (1)	0	100
Polo Serviços em Plásticos Ltda.	99	1
Marcopolo Latinoamérica S.A. (1)	99.99	0.01
Ciferal Indústria de Ônibus Ltda	99.99	0.01
Polomex S.A. de C.V. (1)	3.61	70.39
Laureano S.A. (1)	-	100
Superpolo S.A. (1)	-	50
Poloplast Componentes S.A. de C.V. (1)	-	100

(1) Foreign subsidiary.

b. Revenue recognition

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

c. Use of estimates

The preparation of the consolidated financial statements requires management of the Company to make a number of estimates and assumptions relating to the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the period. Significant items subject to such estimates and assumptions include the carrying amount of property, plant and equipment, intangibles and goodwill; valuation allowances for receivables, inventories and deferred income tax assets; environmental liabilities; valuation of derivative instruments; and assets and obligations related to employee benefits. Actual results could differ from those estimates.

d. Cash and cash equivalents

Cash and cash equivalents of $ 97,070 and $ 132,679 at December 31, 2004 and 2003, respectively, include cash on hand, deposits in banks and short-term investments with original maturities of three months or less. For purposes of the consolidated statements of cash flows, the Company considers all highly liquid debt instruments with original maturities of three months or less to be cash equivalents.

e. Trade accounts receivable

Trade accounts receivable are recorded at the invoiced amount and do not bear interest. The allowance for doubtful accounts is the Company's best estimate of the amount of probable credit losses in the Company's existing accounts receivable. The Company determines the allowance based on historical write-off experience by industry and national economic data. The Company's customers in the automotive and airline industries are affected by decreased corporate and consumer spending. The Company reviews its allowance for doubtful accounts monthly. Past due balances over 90 days and over a specified amount are reviewed individually for collectibility. All other balances are reviewed on a pooled basis by industry. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. The Company does not have any off-balance-sheet credit exposure related to its customers.

f. Inventories

Inventories are stated at the lower of cost or market. Cost is determined using the weighted average method for all inventories other than maintenance supplies, which are valued at cost.

g. Property, plant and equipment

Property, plant and equipment are recorded at cost.

Depreciation is computed under the straight-line method at rates which take into consideration the useful lives of the related assets: principally, 25 years for building and improvements, ten years for machinery and equipment, ten years for furniture and fixtures and five years for vehicles and computer equipment. Expenditures for maintenance and repairs are charged to expense as incurred. Any gain or loss on the disposal of property and equipment is recognized in the year of disposal. Total depreciation for the years ended December 31, 2004 and 2003 was $ 7,073 and $ 5,913, respectively, of which 83.11% was recorded in inventory and 16.89% was recorded in selling, general, and administrative expense each year

h. Currency remeasurement

Local currencies are considered the functional currencies for most of the Company's subsidiaries. Where the local currency is the functional currency, assets and liabilities are translated into U.S. dollars at the rate of exchange in effect at balance sheet date, and revenue and expenses are translated using the average monthly exchange rate during the year. Resulting translation gain/loss is classified as "Accumulated Other Comprehensive Income (Loss)" within shareholders' equity.

Translation into U.S. dollars

Following the requirements of Statement of Financial Accounting Standard ("SFAS") 52 - Foreign Currency Translation - we have used the Brazilian currency ("Real") as our functional currency as from January 1, 1998 when we concluded that the Brazilian economy was no longer highly-inflationary. Therefore, at January 1, 1998, we translated the U.S. dollar amounts of non-monetary assets and liabilities into Reais at the current exchange rate, and those amounts became the new accounting bases for such assets and liabilities. The resulting deferred taxes of US$ 7,732 associated with the differences between the new functional currency bases and the tax bases, including those relating to subsidiaries, were reflected in the cumulative translation adjustments component of shareholders' equity. Prior to January 1, 1998 we used the US dollar as our functional currency. As from that date we defined the US dollar to be our reporting currency.

The translation criteria adopted as from January 1, 1998, comprise the following:

- Assets and liabilities were translated by using the official exchange rate at the balance sheet date (R$ 2,6544 and R$2.8892 to US$1.00 at December 31, 2004 and 2003, respectively);

- Revenues, expenses, gains and losses were translated by using the weighted average exchange rate for each of the years in the two-year period ended December 31, 2004;

- The translation gain or losses for each of the years in the two-year period ended December 31, 2004 were reported separately as a component of shareholders' equity.

i. Impairment or Disposal of Long-Lived Assets

In accordance with Statement 144, long-lived assets, such as property, plant, and equipment, and purchased intangibles subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of would be separately presented in the balance sheet and reported at the lower of the carrying amount or fair value less costs to sell, and are no longer depreciated. The assets and liabilities of a disposal group classified as held for sale would be presented separately in the appropriate asset and liability sections of the balance sheet.

Goodwill is tested annually for impairment, and is tested for impairment more frequently if events and circumstances indicate that the asset might be impaired. An impairment loss is recognized to the extent that the carrying amount exceeds the asset's fair value. This determination is made at the reporting unit level and consists of two steps. First, the Company determines the fair value of a reporting unit and compares it to its carrying amount. Second, if the carrying amount of a reporting unit exceeds its fair value, an impairment loss is recognized for any excess of the carrying amount of the reporting unit's goodwill over the implied fair value of that goodwill. The implied fair value of goodwill is determined by allocating the fair value of the reporting unit in a manner similar to a purchase price allocation, in accordance with FASB Statement No. 141, *Business Combinations*. The residual fair value after this allocation is the implied fair value of the reporting unit goodwill.

j. Research , development and advertising

Research and development and advertising costs are expensed as incurred. Research and development costs amounted to \$ 959 and \$ 531 in 2004 and 2003, respectively. Advertising costs amounted to \$ 539 and \$ 762 in 2004 and 2003, respectively.

k. Income tax

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

l. Pension plan

The Company has a defined benefit pension plan covering substantially the majority of its employees. The benefits are based on years of service and the employee's compensation during the five years before retirement. The cost of this program is being funded currently.

m. Dividends and interest on share capital

The Company's Articles of Incorporation requires the payment its common and preferred shareholders annual dividends in the amount of 25% of net income calculated in accordance with the provisions of the Brazilian Corporation Law. The payment of such dividends is approved during the Company's Annual General Meeting, which must be held on or before April 30 of each year.

Effective January 1, 1996, companies are allowed to declare and distribute tax deductible interest on equity, determined utilizing the Taxa de Juros de Longo Prazo – "TJLP" (long-term interest rate) to a maximum of 50% of net income, as calculated in accordance with the Brazilian Corporation Law, or 50% of retained earnings. Such interest payments are reflected in these financial statements as dividends and are charged to retained earnings upon payment.

Income tax is withheld from the shareholders relative to interest at the rate of 15%, except for interest due to entities exempt from tax withholdings.

n. Compensated absences

The Company fully accrues the liability for future compensation to employees for vacations vested during the year.

o. Earnings per share

Earnings per share is computed by dividing consolidated net income by the number of common and preferred shares outstanding of the Company during the relevant years. Under Company by-law, no differences are required between common and preferred shares in respect of dividends.

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

p. Environmental and remediation costs

Liabilities for loss contingencies, including environmental remediation costs, arising from claims, assessments, litigation, fines and penalties and other sources are recorded when it is probable that a liability has been incurred and the amount of the assessment and/or remediation can be reasonably estimated.

The Company accrues for losses associated with environmental remediation obligations when such losses are probable and reasonably estimable. Accruals for estimated losses from environmental remediation obligations generally are recognized no later than completion of the remedial feasibility study. Such accruals are adjusted as further information develops or circumstances change. Costs of future expenditures for environment remediation obligations are not discounted to their present value.

Management believes that, at present, each of its facilities is in substantial compliance with the environmental regulations applicable.

q. Derivative Instruments and Hedging Activities

The Company accounts for derivatives and hedging activities in accordance with FASB Statement No. 133, Accounting for Derivative Instruments and Certain Hedging Activities, as amended, which requires that all derivative instruments be recorded on the balance sheet at their respective fair values.

On the date a derivative contract is entered into, the Company designates the derivative as either a hedge of the fair value of a recognized asset or liability or of an unrecognized firm commitment (fair value hedge), a hedge of a forecasted transaction or the variability of cash flows to be received or paid related to a recognized asset or liability (cash flow hedge), a foreign-currency fair-value or cash-flow hedge (foreign currency hedge), or a hedge of a net investment in a foreign operation. For all hedging relationships the Company formally documents the hedging relationship and its risk-management objective and strategy for undertaking the hedge, the hedging instrument, the item, the nature of the risk being hedged, how the hedging instrument’s effectiveness in offsetting the hedged risk will be assessed, and a description of the method of measuring ineffectiveness. This process includes linking all derivatives that are designated as fair-value, cash-flow, or foreign-currency hedges to specific assets and liabilities on the balance sheet or to specific firm commitments or forecasted transactions. The Company also formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items. Changes in the fair value of a derivative that is highly effective and that is designated and qualifies as a fair-value hedge, along with the loss or gain on the hedged asset or liability or unrecognized firm commitment of the hedged item that is attributable to the hedged risk, are recorded in earnings. Changes in the fair value of a derivative that is highly effective and that is designated and qualifies as a cash-flow hedge are recorded in other comprehensive income to the extent that the derivative is effective as a hedge, until earnings are affected by the variability in cash flows of the designated hedged item. Changes in the fair value of derivatives that are highly effective as hedges and that are designated and qualify as foreign-currency hedges are recorded in either earnings or other comprehensive income, depending on whether the hedge transaction is a fair-value hedge or a cash-flow hedge. However, if a derivative is used as a hedge of a net investment in a foreign operation, its changes in fair value, to the extent effective as a hedge, are recorded in the cumulative translation adjustments account within other comprehensive income. The ineffective portion of the change in fair value of a derivative instrument that qualifies as either a fair-value hedge or a cash-flow hedge is reported in earnings. Changes in the fair value of derivative trading instruments are reported in current period earnings.

The Company discontinues hedge accounting prospectively when it is determined that the derivative is no longer effective in offsetting changes in the fair value or cash flows of the hedged item, the derivative expires or is sold, terminated, or exercised, the derivative is dedesignated as a hedging instrument, because it is unlikely that a forecasted transaction will occur, a hedged firm commitment no longer meets the definition of a firm commitment, or management determines that designation of the derivative as a hedging instrument is no longer appropriate.

In all situations in which hedge accounting is discontinued, the Company continues to carry the derivative at its fair value on the balance sheet and recognizes any subsequent changes in its fair value in earnings. When hedge accounting is discontinued because it is determined that the derivative no longer qualifies as an effective fair-value hedge, the Company no longer adjusts the hedged asset or liability for changes in fair value. The adjustment of the carrying amount of the hedged asset or liability is accounted for in the same manner as other components of the carrying amount of that asset or liability. When hedge accounting is discontinued because the hedged item no longer meets the definition of a firm commitment, the Company removes any asset or liability that was recorded pursuant to recognition of the firm commitment from the balance sheet, and recognizes any gain or loss in earnings. When hedge accounting is discontinued because it is probable that a forecasted transaction will not occur, the Company recognizes immediately in earnings gains and losses that were accumulated in other comprehensive income

r. Recently Issued Accounting Standards

In December 2004, the FASB issued FASB Statement No. 123 (revised 2004), Share-Based Payment, which addresses the accounting for transactions in which an entity exchanges its equity instruments for goods or services, with a primary focus on transactions in which an entity obtains employee services in share-based payment transactions. This Statement is a revision to Statement 123 and supersedes APB Opinion No. 25, Accounting for Stock Issued to Employees, and its related implementation guidance. For nonpublic companies, this Statement will require measurement of the cost of employee services received in exchange for stock compensation based on the grant-date fair value of the employee stock options. Incremental compensation costs arising from subsequent modifications of awards after the grant date must be recognized. This Statement will be effective for the Company as of January 1, 2006.

In December 2004, the FASB issued FASB Statement No.151, Inventory Costs, which clarifies the accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage). Under this Statement, such items will be recognized as current-period charges. In addition, the Statement requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. This Statement will be effective for the Company for inventory costs incurred on or after January 1, 2006.

In December 2004, the FASB issued FASB Statement No. 153, Exchanges of Nonmonetary Assets, which eliminates an exception in APB 29 for nonmonetary exchanges of similar productive assets and replaces it with a general exception for exchanges of nonmonetary assets that do not have commercial substance. This Statement will be effective for the Company for nonmonetary asset exchanges occurring on or after January 1, 2006.

s. Recently Adopted Accounting Standards

In June 2001, FASB Statement No. 143, Accounting for Asset Retirement Obligations, was issued. Statement 143 requires the Company to record the fair value of an asset retirement obligation as a liability in the period in which it incurs a legal obligation associated with the retirement of tangible long-lived assets that result from the acquisition, construction, development, and/or normal use of the assets. The Company also would record a corresponding asset that is depreciated over the life of the asset. Subsequent to the initial measurement of the asset retirement obligation, the obligation would be adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation. The Company was required to adopt Statement 143 on January 1, 2003. The adoption of Statement 143 had no effect on the Company's financial statements.

In December 2002, FASB Statement No. 148, Accounting for Stock-Based Compensation – Transition and Disclosure, an amendment of FASB Statement No. 123, was issued. This Statement amends FASB Statement No. 123, Accounting for Stock-Based Compensation, to provide alternative methods of transition for a voluntary change to the fair value method of accounting for stock-based employee compensation. In addition, Statement 148 amends the disclosure requirements of Statement 123 to require prominent disclosures in both annual and interim financial statements. The adoption of Statement 148 had no effect on the Company's financial statements.

In May 2003, FASB Statement No. 150, Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity, was issued. This Statement establishes standards for the classification and measurement of certain financial instruments with characteristics of both liabilities and equity. The Statement also includes required disclosures for financial instruments within its scope. For the Company, the Statement was effective for instruments entered into or modified after May 31, 2003 and otherwise became effective as of January 1, 2004, except for certain mandatorily redeemable financial instruments. For certain mandatorily redeemable financial instruments, the Statement will be effective for the Company on January 1, 2005. The effective date has been deferred indefinitely for certain other types of mandatorily redeemable financial instruments. The Company currently does not have any financial instruments that are within the scope of this Statement.

In December 2003, FASB Statement No. 132 (revised), Employers' Disclosures about Pensions and Other Postretirement Benefits, was issued. Statement 132 (revised) prescribes employers' disclosures about pension plans and other postretirement benefit plans; it does not change the measurement or recognition of those plans. The Statement retains and revises the disclosure requirements contained in the original Statement 132. It also requires additional disclosures about the assets, obligations, cash flows, and net periodic benefit cost of defined benefit pension plans and other postretirement benefit plans. The new annual disclosure requirements became effective for the Company as of the year ended December 31, 2004. The Company's disclosures in note 10 incorporate the requirements of Statement 132 (revised).

In December 2003, the FASB issued FASB Interpretation No. 46 (revised December 2003), Consolidation of Variable Interest Entities, which addresses how a business enterprise should evaluate whether it has a controlling financial interest in an entity through means other than voting rights and accordingly should consolidate the entity. The Company applies FIN 46R to variable interests in VIEs created after December 31, 2003. For variable interests in VIEs created before January 1, 2004, the Interpretation will be applied beginning on January 1, 2005. For any VIEs that must be consolidated under FIN 46R that were created before January 1, 2004, the assets, liabilities and noncontrolling interests of the VIE initially would be measured at their carrying amounts with any difference between the net amount added to the balance sheet and any previously recognized interest being recognized as the cumulative effect of an accounting change. If determining the carrying amounts is not practicable, fair value at the date FIN 46R first applies may be used to measure the assets, liabilities and noncontrolling interest of the VIE. The adoption of FASB Interpretation No. 46 had no effect on the Company's financial statements.

(All amounts in thousands of United States dollars, except share data)

3 Trade accounts receivable, net

	2004	2003
Current assets		
Trade accounts receivable	148,453	122,824
Less: allowance for doubtful accounts	(9,275)	(16,398)
	139,178	106,426
Noncurrent assets		
Trade accounts receivable	20,608	11,091
Less: allowance for doubtful accounts	(10,111)	(1,717)
	10,497	9,374

The movement in the allowance for doubtful accounts for Trade Accounts Receivable for the years ended December 31, 2004 and 2003 was as follows:

	2004	2003
Current assets		
Allowance for doubtful accounts at beginning of year	(16,398)	(11,859)
Additions charged to bad debt expense	(9,217)	(8,539)
Reclassification to noncurrent assets	8,395	-
Write-downs charged against the allowance	7,945	3,998
Allowance for doubtful accounts at end of year	(9,275)	(16,398)
Noncurrent assets		
Allowance for doubtful accounts at beginning of year	(1,717)	(893)
Reclassification from current assets	(8,395)	
Additions charged to bad debt expense	-	(249)
Write-downs charged against the allowance	153	-
Translation effects	(152)	(575)

Allowance for doubtful accounts at end of year	(10,111)	(1,717)

(All amounts in thousands of United States dollars, except share data)

4 Inventories

	2004	2003
Finished goods	17,403	11,430
Work in process	9,798	7,356
Raw materials and supplies	49,648	34,132
Advances to suppliers and other	5,329	2,326
	82,178	55,244

5 Derivative instruments and hedge activities

The Company enters into interest-rate related derivative instruments solely to hedge its exposure on debt instruments. That is, the Company does not speculate using derivative instruments.

By using derivative financial instruments to hedge exposures to changes in interest rates, the Company exposes itself to credit risk and market risk. Credit risk is the failure of the counterparty to perform under the terms of the derivative contract. When the fair value of a derivative contract is positive, the counterparty owes the Company, which creates credit risk for the Company. When the fair value of a derivative contract is negative, the Company owes the counterparty and, therefore, it does not possess credit risk. The Company minimizes the credit risk in derivative instruments by entering into transactions with high-quality counterparties.

Market risk is the adverse effect on the value of a financial instrument that results from a change in interest rates, currency exchange rates, or commodity prices. The market risk associated with interest-rate is managed by establishing and monitoring parameters that limit the types and degree of market risk that may be undertaken.

The Company uses variable-rate and debt to finance its operations. The debt obligations expose the Company to variability in interest payments due to changes in interest rates. Management believes it is prudent to limit the variability of a portion of its interest payments. To meet this objective, management enters into interest rate swap agreements to manage fluctuations in cash flows resulting from interest rate risk. These swaps change the variable-rate cash flow exposure on the debt obligations to fixed- cash flows. Under the terms of the interest rate swaps, the Company receives variable interest rate payments and makes fixed interest rate payments, thereby creating the equivalent of fixed-rate debt.

The Company accounts for the swap transactions by calculating the unrealized gain or loss at each balance sheet date and the realized gain or loss at the maturity date of the contract. The gain or loss for each period is recorded in that period. These contracts do not meet the criteria to qualify as a hedge of an exposure to price or interest rate risk and changes in the fair value of interest rate swaps are reported as financial income/expense.

As a result of swap transactions entered into during 2004, a net loss of $ 1,356 ($ 6,112 loss in 2003) for the period from inception of the contracts through the balance sheet date, which was recorded as financial expense.

The main market risk associated with these contracts results from the changes in Brazilian certificate of deposit rates versus changes in the exchange rate. The Company does not believe there is any material credit risk on these contracts, as both the counterparties meet the regulatory capital requirements in Brazil.

(All amounts in thousands of United States dollars, except share data)

The dollar currency position as of December 31 was as follows:

	2004	**2003**
Current assets:		
Cash and Cash equivalents	19,970	22,716
Trade accounts receivable	154,538	90,162
Other	8,703	7,865
Noncurrent assets:		
Trade accounts receivable	12,948	15,759
Current liabilities:		
Short-term debt	30,734	54,395
Current portion of long-term debt	51,904	49,949
Other	32,579	16,673
Noncurrent liabilities:		
Debt	21,452	26,601
Net asset position in foreign currency	59,490	(11,116)

(All amounts in thousands of United States dollars, except share data)

6 Property, plant and equipment, net

	2004	2003
Buildings	24,383	21,254
Machinery and equipment	48,158	39,409
Premises	15,842	12,462
Furniture and fixtures	2,917	2,234
Vehicles	1,679	1,862
EDP equipment and systems	6,013	5,606
Other	3,922	2,565
	102,914	85,392
Less: accumulated depreciation	(46,054)	(37,751)
Land	5,831	4,875
Construction in progress	3,684	4,633
Total	66,375	56,149

7 Short-term debt

The Company's short-term borrowings are principally from commercial banks. At December 31, 2004 and 2003 approximately $ 30,734 and $ 54,395 of such borrowings related to export and import financing and are indexed to the U.S. dollar.

Overnight borrowings and working capital financing carry finance charges based on inflation, plus additional percentage points that vary with market conditions. Average annual nominal interest rates on short-term borrowings were approximately 8.09% at December 31, 2004 and 7.98% at December 31, 2003.

(All amounts in thousands of United States dollars, except share data)

8 Long-term debt

	2004	2003
Foreign currency		
U.S. dollar denominated borrowings bearing interest between 1.5 % to 9.9% per year.	40,464	42,942
Local currency bearing interest up to 4.3 % per year plus, mainly, TJLP (*) variation	42,021	58,946
Total	82,485	101,888
Current liabilities	16,435	66,001
Long-term liabilities	66,050	35,887

(*) TJLP – Long-term interest rate

The long-term portion as of December 31, 2004 and 2003, of loans matures in the following years:

	2004	2003
2005	-	14,194
2006	30,915	13,655
2007	12,519	2,109
2008	11,321	5,929
2009	11,295	-
Total	66,050	35,887

(All amounts in thousands of United States dollars, except share data)

9 Income tax

Income tax payable is calculated separately for Marcopolo and each of its subsidiaries as required by the tax laws of the countries in which Marcopolo and its subsidiaries operate. Income tax expense for the fiscal year ended December 31 consists of the following:

	2004	**2003**
Current tax expense		
Brazil	6,209	5,769
South Africa	11	48
México	510	-
Colombia	307	106
	7,037	5,923
Deferred tax expense (benefit)		
Brazil	(2,489)	(1,781)
Mexico	-	(301)
	(2,489)	(2,082)
Income tax expense	4,548	6,443

A reconciliation of the income tax expense and expected income taxes at the Brazilian statutory rates follows:

	2004	**2003**
Net income before taxes and minority interest	38,654	34,852
Income tax rate	34%	34%
Income tax at statutory rates	13,142	11,850
Adjustments to effective rate:		
Nondeductible expenses	503	80
Benefit from lower tax rate applied to interest on capital paid to shareholders	(4,896)	(4,709)
Exemplt revenue	(2,853)	-
Other	(1,348)	(778)
Income tax expense	4,548	6,443

(All amounts in thousands of United States dollars, except share data)

Tax rates

Tax rates in the principal geographical areas in which the Company operates, for the years ended December 31, are as follows:

	2004	2003
Brazil		
Federal income tax	25%	25%
Social contribution	9%	9%
Composite federal income tax rate	34%	34%
Portugal		
Federal income tax	34%	34%
Social contribution	2.72%	2.72%
Composite federal income tax rate	36.72%	36.72%
Argentina		
Composite federal income tax rate	35%	35%
Mexico		
Federal income tax	35%	35%

Deferred income tax

The tax effects of temporary differences that give rise to significant portions of the deffered tax assets and deferred tax liabilities at December 31, 2004 and 2003 are presented below:

	2004	2003

Deferred tax assets		
Property, plant and equipment	159	544
Accrued pension costs	-	1,903
Provision for legal proceedings	4,716	3,205
Provision for sales commissions	809	625
Provision for technical assistance	1,288	1,884
Deferred charges	1,246	38
Tax loss carry forward	-	6,028
Provision for guarantee	-	865
Other	78	1,219
Gross deferred income tax assets	8,296	16,311
Deferred tax liabilities		
Pension plan	3,830	1,301
Deferred income taxable in future years	-	1,504
Gross deferred income tax liabilities	3,830	2,805
Net deferred income tax assets	4,466	13,506

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. In order to fully realize the deferred tax asset, the Company will need to generate future taxable income of approximately $ 51,728 prior to the expiration of the net operating loss carryforwards in 2011. Taxable income for the years ended December 31, 2004 and 2003 was $ 38,654 and $ 34,852, respectively. Based upon the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax assets are deductible, management believes it is more likely than not that the Company will realize the benefits of these deductible differences, net of the existing valuation allowances at December 31, 2004. The amount of the deferred tax asset considered realizable, however, could be reduced in the near term if estimates of future taxable income during the carryforward period are reduced.

(All amounts in thousands of United States dollars, except share data)

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

Deferred tax accounts

	2004	2003
Deferred tax assets – noncurrent	8,296	16,311
Deferred tax liabilities – noncurrent	3,830	2,805

10 Pension Plan

The Company is the principal sponsor of Marcoprev - Sociedade de Previdência Privada, a civil, non-profit organization, formed in December 1995, whose chief objective is to provide benefits complementing those of the Social Security Authorities to all employees of the sponsor companies, as follows: Marcopolo S.A. (principal), Marcopolo Distribuidora de Peças Ltda., Marcopolo Trading S.A., MVC Componentes Plásticos Ltda., Polo Serviços em Plásticos Ltda., Fundação Marcopolo, and Marcopolo Personnel Association. The total outlay for the year in contributions amounted to $ 1,347 ($ 1,250 in 2003). The plan's actuarial costs and contributions are recognized based on an actuarial funding method. This is a mixed "defined benefits" plan, where contributions are the exclusive responsibility of the sponsor and "defined contributions" where the contributions are made by the sponsor and the individual associate on an optional basis. At December 31, 2004, the actuarial liability amounted to $ 29,730 ($ 21,906 in 2003), calculated based on the mathematical model defined in the plan's technical notes, a collective and fully covered funding system. Accordingly, no liability is recorded by the sponsor company as at December 31, 2004.

(All amounts in thousands of United States dollars, except share data)

The plan's status and amounts recognized in the accompanying consolidated financial statements are as follows:

	2004	**2003**
Present value of actuarial liability	(29,730)	(21,906)
Fair value of plan assets	20,956	16,035
Unrecognized net transition obligation, being recognized over 17 years from December, 1995	2,657	2,720
Unrecognized net loss (gain)	2,763	36
Unfunded accumulated benefits	(3,354)	(3,115)

The changes on the net liability recognized on balance sheet can be demonstrated as follow:

	2004	**2003**
Liability as of December 31	(3,115)	(6,781)
Expenses	(918)	(1,377)
Sponsor's contribuitions for the year	1,063	1,250
Unrecognized net transition obligation, being recognized over 17 years from December, 1995	(275)	(275)
Unrecognized net loss (gain)	(2,470)	2,436
Translation effects	2,361	1,632
Unfunded accumulated benefits Liability as of December 31	(3,354)	(3,115)

The main actuarial bases at the date of the balance sheet (expressed in weighted averages) are as follows:

	%
Discount rate at December 31	11.30
Expected rate of yield on plan assets at December 31	13.87
Future salary increases	8.15

The fair value of the plan assets was computed based on current market rates at the end of the year or, where applicable, by projecting future benefits deriving from the utilization of the assets, discounted at present value.

The year-end actuarial liability was computed based on the calculations of an independent actuary utilizing the projected credit unit method.

The Company's overall expected long-term rate of return on assets is 13.87 percent. The expected long-term rate of return is based on the portfolio as a whole and not on the sum of the returns on individual asset categories. The return is based exclusively on historical returns, without adjustments.

Plan Assets

The weighted-average asset allocation of the Company's pension benefits and postretirement benefits at December 31, 2004 and 2003 were as follows:

(All amounts in thousands of United States dollars, except share data)

	Pension benefits Plan Assets At December 31	
	2004	**2003**
Assets Category		
Equity securities	18%	19%
Debt secutities	82%	81%
Total	100%	100%

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

Cash Flows

The Company expects to contribute $ 4.783 to its pension plan in 2005.

The benefits expected to be paid from the pension plan in each year 2005-2009 are $ 3.315, $ 3.394, $ 3.492, $ 3.660, and $ 3.930, respectively. The aggregate benefits expected to be paid in the five years from 2010-2014 are $ 27.089. The expected benefits are based on the same assumptions used to measure the company's benefit obligation at December 31 and include estimated future employee service.

11 Shareholder's equity

As of December 31, 2004 capital stock is represented by 42,703,218 common shares (42,703,218 as of December 31, 2003) and 69,673,671 preferred shares (69,673,671 as of December 31, 2002).; all without par value. Only the common shares are entitled to vote. Under the Company's bylaws, specific rights are assured to the nonvoting preferred shares. There are no redemption provisions associated with the preferred shares.

Appropriated retained earnings

Under the Brazilian corporation law and according to its by-laws, the Company is required to maintain a "legal reserve" to which it must allocate 5% of its net income, less accumulated losses as determined in accordance with Brazilian GAAP for each fiscal year until the amount of the reserve equals 20% of paid-in capital. Accumulated losses, if any, may be charged against the legal reserve. The legal reserve can only be used to increase the capital of the Company. The legal reserve is subject to approval by the shareholders voting at the annual shareholders meeting and may be transferred to capital but is not available for the payment of dividends in subsequent years. At December 31, 2004, the allocation of retained earnings related to the legal reserve was US$1,602.

Unappropriated retained earnings

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.

Dividends and interest on share capital

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 $ 14,399 ($ 13,851 in 2003) to be paid as from March 28, 2005, at the rate of $ 0.13 for each share, for both registered ordinary shares and registered preferential shares. This dividends payable are included in current liabilities and ratification for payment will be made at the annual shareholders' meeting.

12 Fair value of financial instruments

The carrying value of the Company's financial instruments approximates fair market value because of the short-term maturity or frequent repricing of these instruments. With respect to foreign currency debt, issuances at the end of 2004 and 2003 indicate that the recorded amounts of previously issued debt are similar to current fair values.

Based on borrowing rates currently available to the Company for bank loans with similar terms and average maturities, the fair market value of long-term debt at December 31, 2004 and 2003 is comparable to its carrying value.

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

(All amounts in thousands of United States dollars, except share data)

13 Commitments and contingencies

Legal proceedings

The Company is party to claims with respect to certain taxes, contributions and labor. Management believes, based in part on advice from legal counsel, that the reserve for contingencies is sufficient to meet probable and reasonably estimable losses in the event of unfavorable rulings, and that the ultimate resolution will not have a significant effect on the consolidated financial position as of December 31,2004 and 2003 or the results of future operations or cash flows.

Probable losses, provided as liabilities on the advice of external legal counsel, are summarized below:

	2004	**2003**
Labor claims	1,174	2,545
Tax matters (*)	3,839	4,765
Other	742	883
	5,755	8,193

(*) Mainly related to ICMS (Value-Added Tax on Sales and Services) and COFINS (Tax for Social Security Financing).

Guarantees

As at December 31, 2004 the Company guaranteed $ 20,944 ($ 27,539 in 2003) on borrowings for commercial banks in financing transactions with its clients, which have as a counter-guarantee, the assets which are being guaranteed. Pursuant to the requirements of FASB Interpretation No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others* the Company accrued its stand ready obligation under the guarantee arrangement, which is being amortized over the term of the guarantee. The balance of the accrual, which is included in other liabilities, was $ 4,929 as of December 31, 2004. No amount have been accrued as a loss contingency related to this guarantee because payment by the Company is not probable.

(All amounts in thousands of United States dollars, except share data)

14 Business segments

The company operates in four major business segments, as indicated below:

2004

	Intercity	Urban	Microbus	Volares	Others	Adjustments	Consolidated
Sales to unaffiliated customers	214,972	137,866	36,806	84,302	75,321	-	549,267
Intersegment sales	56,981	3,283	3,108	6,835	96,305	(166,512)	-
Total	271,953	141,149	39,914	91,137	171,626	(166,512)	549,267
Operating income	14,847	2,063	1,876	6,990	12,958		38,734
Identifiable assets	19,828	12,730	3,522	6,639	23,656		66,375
Capital expenditures	4,478	3,183	800	1,598	5,204		15,264
Depreciation	2,329	1,435	376	781	2,151		7,073

2003

	Intercity	Urban	Microbus	Volares	Others	Adjustments	Consolidated
Sales to unaffiliated customers	97,961	100,703	35,484	65,559	127,390	-	427,097
Intersegment sales	123,715	23,356	-	-	27,661	(174,732)	-
Total	221,676	124,059	35,484	65,559	155,051	(174,732)	427,097
Operating income	12,798	3,334	2,756	5,149	6,989		31,026
Identifiable assets	21,611	7,437	1,882	4,585	20,634		56,149
Capital expenditures	2,678	1,403	532	1,297	6,763		12,675
Depreciation	2,433	924	265	645	1,646		5,913

(i) As certain operating units do not separate identifiable assets, capital expenditures and depreciation, amounts were allocated based on worked hours.

(All amounts in thousands of United States dollars, except share data)

Information about the Company's operations in different geographic locations is shown below:

2004

	Brasil	**Argen-ina**	**Portugal**	**Uru-uai**	**México**	**Colombia**	**África**	**Is. Virgins**	**Total**
Net Sales	350,259	5,431	17,894	19,543	76,628	17,402	29,700	32,410	549,267
Identifiable assets	48,588	248	1,138	2,922	8,131	2,482	2,826	40	66,375
Operating income	23,806	5,361	114	(977)	1,567	974	(1,066)	8,955	38,734

2003

	Brasil	**Argen-ina**	**Portugal**	**Uru-uai**	**México**	**Colombia**	**África**	**Is. Virgins**	**Total**
Net Sales	263,345	1,252	12,799	15,608	61,672	10,865	23,434	38,122	427,097
Identifiable assets	39,940	453	789	4,532	7,171	2,049	1,215	-	56,149
Operating income	26,176	1,260	(61)	1,387	(570)	809	(1,104)	3,129	31,026

15 Concentration of credit risks

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

(All amounts in thousands of United States dollars, except share data)

16 Goodwill

The following table reconciles previously reported net income as if the provisions of Statement No. 142 were in effect in 2004:

Reported net income	$	12,301
Add back: Goodwill amortization	$	1,237
Adjusted net income	$	13,538

The changes in the carrying amount of goodwill for the year ended December 31, 2004 are as follows:

Balance as of January 1, 2003	$	5,325
Translation adjustments	$	471
Balance as of December 31, 2003	$	5,796

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