MARCOPOLO S/A

CNPJ Nº 88.611.835/0001-29

CVM – 00845-1 / NIRE 43300007235

FINANCIAL STATEMENTS 2016

2016 EARNINGS - Management Report

Dear Shareholders:

The management of Marcopolo S.A. ("Marcopolo" or "Company") submits for your appreciation the Management Report and Financial Statements for the year ended December 31, 2016, accompanied by the independent auditors' report.

The financial information is presented in accordance with accounting practices adopted in Brazil and International Financial Reporting Standards (IFRS) established by the IASB - International Accounting Standards Board.

1. REPORTING ENTITY

Marcopolo is a publicly-traded corporation headquartered in Caxias do Sul, State of Rio Grande do Sul, that was founded on August 6, 1949 and has as its main objective the manufacture of buses, bus bodies and components.

The line of products includes a wide variety of models, composed of the groups of intercity, city, and micro buses, as well as the Volare family (complete bus, with chassis and body).

The buses are manufactured in seventeen manufacturing facilities, five in Brazil (three in Caxias do Sul - RS, one in Duque de Caxias - RJ and one in São Mateus – ES) and twelve abroad, including one in South Africa, three in Australia, one in China, one in Mexico, two in Argentina, one in Colombia, one in Egypt and two in India.

Marcopolo also holds a 40.0% interest in the company Spheros (ventilation and air conditioning), a 30.0% interest in WSul (foam for seats), a 65.0% interest in Apolo (plastic solutions) and a 10.8% interest in Canada's New Flyer Industries.

Marcopolo also has full control of Banco Moneo S.A., which was established to provide financing for the Company's products.

2. PERFORMANCE INDICATORS

The table below lists some indicators relevant to management of the business and analysis of the Company's performance in 2016.

CONSOLIDATED FIGURES

(R$ million and percentage variance, unless stated otherwise).

Operating Performance	2016	2015	Change %
Net operating revenue	2,574.1	2,739.1	(6.0)
Revenue in Brazil	788.3	1,263.5	(37.6)
Brazil export revenue	950.0	746.0	27.3
Overseas revenue	835.8	729.6	14.6
Gross Profit	325.8	476.0	(31.6)
EBITDA [1]	353.6	212.5	66.4
Net Income	222.5	89.1	149.7
Net income per share in R$	0.248	0.100	148.0
Return on Invested Capital – ROIC [2]	11.9%	6.3%	5.6pp
Return on Equity – ROE [3]	12.2%	5.4%	6.8pp
Investment	73.5	156.2	(52.9)
Shareholders' Equity	1,836.4	1,828.1	0.5
Financial Position: Industrial Segment			
Cash and Cash Equivalents and Short-term investments [4]	1,414.0	1,346.0	5.1
Short-term Financial Liabilities	651.5	691.5	(5.8)
Long-term Financial Liabilities	994.9	1,065.1	(6.6)
Net Financial Liabilities	232.4	410.6	(43.4)
Financial Position: Industrial and Financial Segments			
Cash and Cash Equivalents and Financial Investments	1,458.9	1,365.2	6.9
Short-term Financial Liabilities	925.6	966.1	(4.2)
Long-term Financial Liabilities	1,374.2	1,509.7	(9.0)
Net Financial Liabilities	840.8	1,110.6	(24.3)
Margins			
Gross Margin	12.7%	17.4%	(4.7)pp
EBITDA margin	13.7%	7.8%	5.9pp
Net Margin	8.6%	3.3%	5.3pp

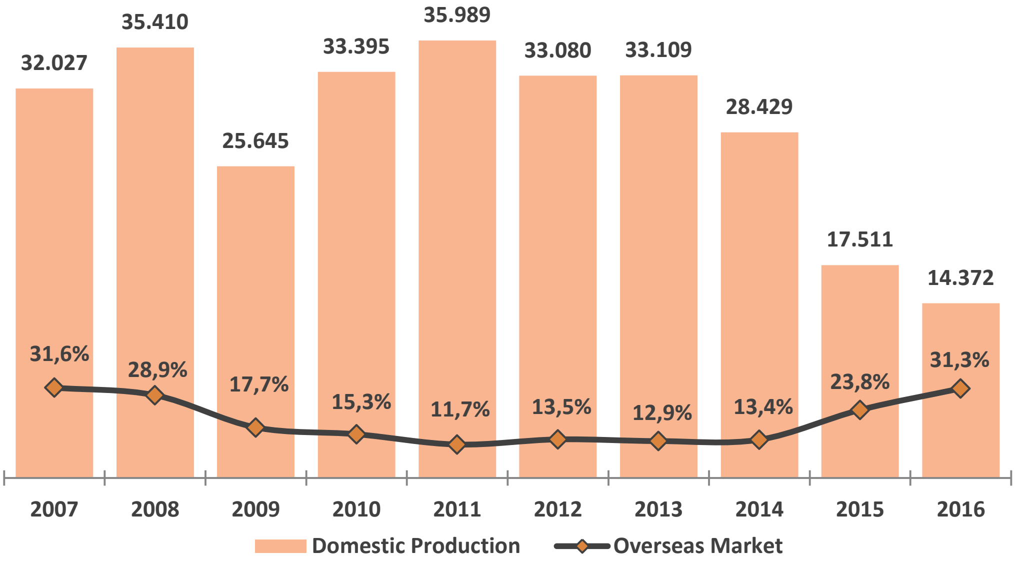
Notes: [1] EBITDA (Earnings before Interest, Taxes, Depreciation and Amortization); [2] ROIC (Return on Invested Capital) = EBIT (inventories + trade receivables + fixed assets - suppliers); [3] ROE (Return on Equity) = Net profit/Initial equity; ([4] The amount includes the account "financial assets measured at fair value through profit or loss"; pp = percentage points.

3. BUS SECTOR PERFORMANCE IN BRAZIL

14,372 units were produced for the Brazilian market in 2016, down by 17.9% on the 17,511 units produced in 2015. Volare is not included in the Brazilian output of bodies due to the fact that it is sold as a complete vehicle. If the output of VOLARE vehicles were considered, then Brazilian output would have been 15,613 units in the year, against 19,367 units in 2015.

The demand in the domestic market reached 9,869 units, a contraction of 26.1% over 2015, while 4,503 units were produced for export, 8.3% more than the exports for the previous year.

Data on Brazilian bus body production for the last ten years is presented in the chart below:



TOTAL BRAZILIAN BUS BODY PRODUCTION (in units)

PRODUCTS [1]	2012	2013	2014	2015	2016
Intercity	9,117	10,216	7,977	5,679	4,185
Urban	18,944	17,938	16,836	9,593	7,929
Micros	5,019	4,955	3,616	2,239	2,258
TOTAL	**33,080**	**33,109**	**28,429**	**17,511**	**14,372**

Sources: FABUS (National Association of Bus Manufacturers) and SIMEFRE (Interstate Syndicate of the Industrial of Rail and Road Materials and Equipment).
Notes: [1] Includes units exported in KD (knocked down).

BRAZILIAN BUS BODY PRODUCTION – DOMESTIC MARKET (in units)

PRODUCTS [1]	2012	2013	2014	2015	2016
Intercity	6,970	7,666	5,644	3,382	1,654
Urban	17,752	17,011	15,861	8,291	6,796
Micros	3,900	4,150	3,123	1,679	1,419
TOTAL	**28,622**	**28,827**	**24,628**	**13,352**	**9,869**

Note: [1] See table notes – Total Brazilian Bus Body Production.

BRAZILIAN BUS BODY PRODUCTION – FOREIGN MARKET (in units)

PRODUCTS [1]	2012	2013	2014	2015	2016
Intercity	2,147	2,550	2,333	2,297	2,531
Urban	1,192	927	975	1,302	1,133
Micros	1,119	805	493	560	839
TOTAL	**4,458**	**4,282**	**3,801**	**4,159**	**4,503**

Note: [1] See table notes – Total Brazilian Bus Body Production.

4. MARCOPOLO'S PERFORMANCE

To mitigate the impact of another year of economic and political instability in Brazil, in the course of 2016 Marcopolo adopted important measures to deal with the adverse situation.

At the start of 2016, the Company introduced flexitime at its manufacturing plants in Caxias do Sul, and temporarily suspended employment contracts (layoff) at the Marcopolo Rio plant, in Duque de Caxias/RJ, in order to minimize the effects of the crisis on jobs to the greatest extent possible.

The Company also implemented a series of projects with a view to exploiting opportunities, above all the Conquest project, which aimed to boost exports by strengthening our presence both in established markets in Latin America as well as in new markets overseas and by expanding our portfolio of overseas clients. During the year more than 65 countries were visited resulting in a 54.6% increase in the physical volume exported and an increase in export revenue.

In April 2016, the Company launched the Brasil Ponta a Ponta program, focused on the Brazilian market. In the second half, numerous visits were made to clients across Brazil, making it possible to bolster the brand and customer relations.

In the Volare segment, the Company launched the *Negócio a Negócio* project which by visiting transportation companies resulted in an expansion of the client portfolio and reduction in inventory at the factory and concession operators, from 567 units in December 2015 to 148 at the end of the year.

In addition to these projects, Marcopolo adopted other measures to mitigate the effects of the economic downturn on its operating income, working to cut indirect costs and expenses, increasing operational efficiency by implementing LEAN concepts and freeing up working capital by diminishing inventory and receivables. In the year, the Company also intensified the quality program, expanding the post sales service in order to assure client loyalty.

The overseas subsidiaries of Polomex, in Mexico, and Volgren, in Australia, recorded net revenue growth of 28.0% and 13.3% respectively. The result delivered by the Mexico plant primarily derives from the increased sales of coaches through exports from Brazil, under the new business model which enables Polomex to body coaches using other chassis brands. At the Australian plant, the 10.1% increase in physical units invoiced explains the revenue growth.

In 2016 the Company launched new products, the main ones being two new intercity coaches for the Mexican market, including MP 180 MX, MP 135 MX, MP 120 MX, MP 105 MX and the urban MX 60 BRS. In the Volare segment, the Volare Cinco model was launched on April 27. Following the development of this complete product, which also includes production of the chassis, Marcopolo entered a new market niche known as compact buses.

In a Special General Meeting on August 3rd, shareholders approved the acquisition of L&M Incorporadora Ltda., the direct parent of San Marino Ônibus Ltda. ("Neobus"), via the issuance of 12,108,151 new preferred shares. Several measures were implemented after the acquisition in order to capitalize on synergies, with a unified financial management and sharing of facilities.

On September 22 the Company sold 4.5 million shares held by Marcopolo in New Flyer Industries, equal to a 7.4% interest in the Canadian company's share capital, generating a net cash inflow of R$ 339.9 million.

Lastly, on November 7, 2016 Marcopolo's Board of Directors approved a capital increase within the authorized capital limit. The capital increase was ratified by the Board of Directors on December 23, 2016, through the issuance of 16,187,774 new preferred shares, amounting to a total capitalization of R$ 43.7 million.

4.1 Units Recorded in Net Revenue

9,212 units were recorded in net revenue in 2016. Of this volume, 4,425 units were registered in Brazil (48.0% of the total), 2,753 units exported from Brazil (29.9%) and 2,034 units produced overseas (22.1%), as shown in the following table:

OPERATIONS (in units) [(1)]	**2016**	**2015**	**Change %**
BRAZIL			
- Domestic Sales	4,425	7,126	(37.9)
- Overseas Sales	2,929	1,915	53.0
SUBTOTAL	**7,354**	**9,041**	**(18.7)**
Exclusion of exported KDs [(2)]	176	134	31.3
TOTAL IN BRAZIL	**7,178**	**8,907**	**(19.4)**
ABROAD			
- South Africa	362	343	5.5
- Australia	471	428	10.1
- Mexico	1,201	1,492	(19.5)
TOTAL INTERNATIONAL	**2,034**	**2,263**	**(10.1)**
OVERALL TOTAL	**9,212**	**11,170**	**(17.5)**

Notes: [(1)] Neobus units are only computed in the table above from August 2016; [(2)] KD (Knock Down) = Partially or entire dismantled bodies;

4.2 Production

In 2016, the consolidated output of Marcopolo totaled 8,810 units, 20.4% less than the 11,072 units manufactured in 2015. Of this total, 77.6% were produced in Brazil and 22.4% abroad. Details about Marcopolo's worldwide production are presented in the following tables:

MARCOPOLO – CONSOLIDATED WORLDWIDE PRODUCTION

OPERATIONS (in units) [1]	**2016**	**2015**	**Change %**
BRAZIL [2]			
- Domestic Sales	4,070	7,052	(42.3)
- Overseas Sales	3,111	1,934	60.9
SUBTOTAL	**7,181**	**8,986**	**(20.1)**
Exclusion of exported KDs [3]	341	168	103.0
TOTAL IN BRAZIL	**6,840**	**8,818**	**(22.4)**
ABROAD			
- South Africa	298	334	(10.8)
- Australia	471	428	10.1
- Mexico	1,201	1,492	(19.5)
TOTAL INTERNATIONAL	**1,970**	**2,254**	**(12.6)**
OVERALL TOTAL	**8,810**	**11,072**	**(20.4)**

Notes: [1] Neobus units are only computed in the table above from August 2016; [2] Includes production of the Volare model, as well as production from Marcopolo Rio; [3] KD (Knock Down) = Partially or totally unassembled.

MARCOPOLO - CONSOLIDATED WORLDWIDE PRODUCTION BY MODEL

PRODUCTS/MARKETS [1] (in units)	**2016**			**2015**		
	DS	**OS** [2]	**TOTAL**	**DS**	**OS** [3]	**TOTAL**
Intercity	877	1,925	**2,802**	2,032	1,149	**3,181**
Urban	1,963	2,005	**3,968**	2,999	2,403	**5,402**
Micros	415	384	**799**	419	214	**633**
SUBTOTAL	**3,255**	**4,314**	**7,569**	**5,450**	**3,766**	**9,216**
Volares [4]	815	426	**1,241**	1,602	254	**1,856**
TOTAL PRODUCTION	**4,070**	**4,740**	**8,810**	**7,052**	**4,020**	**11,072**

Notes: [1] Neobus units are only computed in the table above from August 2016;[2] DS = Domestic Sales; OS = Overseas Sales;[3] Total production of OM includes units exported in KD (bodies partially or completely knocked down), which totaled 341 units in 2016 compared with 168 units in 2015; [4] The production of Volares is not part of the data from SIMEFRE and from FABUS, Marcopolo's or the sector's production.

MARCOPOLO - PRODUCTION IN BRAZIL

PRODUCTS/MARKETS [1] (in units)	**2016**			**2015**		
	DS	**OS**	**TOTAL**	**DS**	**OS**	**TOTAL**
Intercity	877	1,880	**2,757**	2,032	1,094	**3,126**
Urban	1,963	423	**2,386**	2,999	372	**3,371**

Micros	415	382	**797**	419	214	**633**
SUBTOTAL	**3,255**	**2,685**	**5,940**	**5,450**	**1,680**	**7,130**
Volares [(2)]	815	426	**1,241**	1,602	254	**1,856**
TOTAL PRODUCTION	**4,070**	**3,111**	**7,181**	**7,052**	**1,934**	**8,986**

Notes: [(1)] Neobus units are only computed in the table above from August 2016; [(2)] The production of Volares is not part of the data from SIMEFRE and from FABUS, or the sector's production.

4.3 Market Share

The Company maintained its leading position in the Brazilian market, with a market share of 41.3%. Despite Brazilian bus production shrinking by 17.9% in 2016, the Company's overall market share rose by 0.6 percentage points over 2015, mainly driven by the coach segment, which expanded by 10.9%.

If the total Neobus production in the period is disregarded, Marcopolo's market share in 2016 is 37.4%. Marcopolo's market share was affected by selective vacations implemented at the Ana Rech plant in January 2016 and the layoff at the Marcopolo Rio plant in the course of the first five months of the year.

The table below shows in detail the Company's market share by line of product.

SHARE IN THE BRAZILIAN MARKET (%)

PRODUCTS [(1)]	2012	2013	2014	2015	2016
Intercity	58.9	56.0	57.0	55.0	65.9
Urban	34.6	34.7	34.0	35.1	30.1
Micros	22.8	24.9	27.4	28.3	35.3
TOTAL	**39.5**	**39.8**	**39.6**	**40.7**	**41.3**

Source: FABUS and SIMEFRE
Note: [(1)] Volare is not included for the purposes of computing market share.

5. CONSOLIDATED NET REVENUE

Consolidated net revenue amounted to R$ 2,574.1 million in 2016, 6.0% less than the R$ 2,739.1 million in FY 2015. The result was partially offset by the 27.3% growth in export revenue and revenue deriving from overseas units, especially the performance of the units in Mexico and Australia.

Sales in the domestic market generated revenues of R$ 788.3 million or 30.6% of total net revenue (46.1% in 2015). Exports and overseas business totaled R$ 1,785.8 million or 69.4% of the total (53.9% in 2015).

Revenue by product and market are presented in the table below:

TOTAL CONSOLIDATED NET REVENUE BY PRODUCT AND MARKET (R$ million)

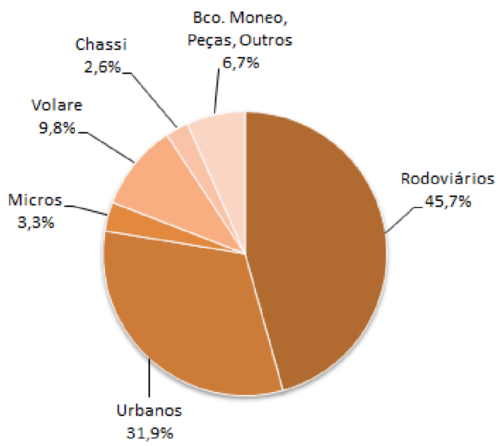
PRODUCTS/MARKETS [1]	2016			2015		
	DS	OS	TOTAL	DS	OS	TOTAL
Intercity	238.0	938.1	1,176.1	469.5	577.8	1,047.3
Urban	232.2	588.1	820.3	313.6	599.6	913.2
Micros	46.8	39.0	85.8	45.3	31.6	76.9
Subtotal bodies	**517.0**	**1,565.2**	**2,082.2**	**828.4**	**1,209.0**	**2,037.4**
Volares [2]	178.1	75.3	253.4	306.1	49.4	355.5
Chassis	9.5	58.2	67.7	27.2	66.4	93.6
Bco. Moneo Bank, Parts & Others	83.7	87.1	170.8	101.8	150.8	252.6
OVERALL TOTAL	**788.3**	**1,785.8**	**2,574.1**	**1,263.5**	**1,475.6**	**2,739.1**

Notes: [1] DS = Domestic Sales; OS = Overseas Sales; [2] Revenues from Volares includes the chassis.

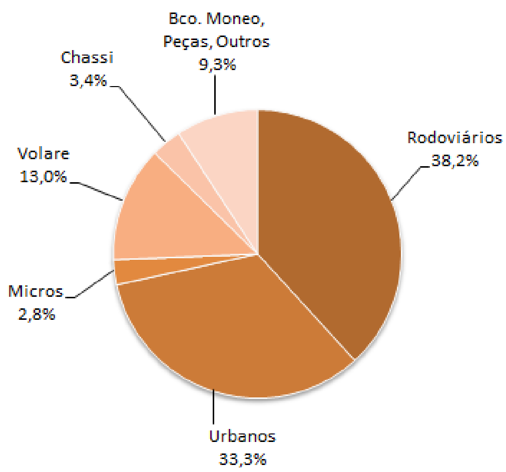
Of the total consolidated net revenue in 2016, 80.9% originated from sales of bodies, 9.8% from the sales of Volares and 9.3% from sales of parts and from Moneo Bank and chassis.

The charts below show in further detail the origin of consolidated revenues (in %):

2016



2015



6. GROSS PROFIT AND MARGINS

In 2016, gross profit amounted to R$ 325.8 million, or 12.7% of net revenue. Gross profit was impacted by the lower volume of domestic sales, difficulties in passing through increases in prices, the appreciation of the Brazilian real against the US dollar, the consolidation of Neobus since August and the increase in the provision for technical warranties to expand post-sales services in order to ensure client loyalty.

7. SELLING EXPENSES

Selling expenses totaled R$ 140.9 million in 2016 or 5.5% of net revenue, against R$ 164.8 million or 6.0% of revenue in 2015. The decrease in absolute value was basically due to lower expenditure on sales commission.

8. GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses totaled R$ 165.3 million in 2016 and R$ 158.5 million in 2015, representing 6.4% and 5.8% of net revenue, respectively. The increase here is mainly due to the incorporation of Neobus since August.

9. OTHER OPERATING INCOME/EXPENSES

In 2016, R$ 190.4 million was recorded as "Other Operating Revenue". This result is primarily explained by the sale of 4.5 million shares issued by New Flyer Industries, generating income of R$ 268.1 million. Against this a provision was made of R$ 32.7 million to restructure the sales network both in Brazil and overseas, R$ 21.6 million for labor claims and settlements, R$ 11.8 million for the temporary suspension of employment contracts (layoff) at the Marcopolo Rio plant, R$ 6 million for impairment associated with the consolidation of the Neobus operation and R$ 5.6 million for other expenses.

10. EQUITY INCOME

Equity income in 2016 was income of R$ 94.0 million versus the income of R$ 33.0 million in 2015. The main contributions came from New Flyer Industries, of R$ 54.6 million, and net exchange variance income on investments made of R$ 41.0 million.

The equity income figures can be seen in detail in Note 12 to the financial statements.

11. NET FINANCIAL INCOME

Net financial income was made in 2016 of R$ 66.3 million compared with a loss of R$ 38.4 million in 2015. This result is due to exchange variance on liabilities denominated in US dollars and yields on short-term investments.

The finance income figures can be seen in detail in Note 29 to the financial statements.

12. EBITDA

The EBITDA reached R$ 353.6 million in 2016, with a margin of 13.7% versus R$ 212.5 million and a margin of 7.8% in 2015. The improved margin is primarily due to the partial sale of the investment in New Flyer Industries in 3Q16.

The table below shows the accounts that make up the EBITDA:

(R$ millions)	2016	2015
Result before IR and CS	370.2	127.7
Financial Revenue	(577.5)	(449.1)
Financial Expenses	511.2	487.5
Depreciation / Amortization	49.7	46.4
EBITDA	**353.6**	**212.5**

13. NET INCOME

The net income in 2016 amounted to R$ 222.5 million with a net margin of 8.6%. The net income was also boosted by the partial sale of shares in New Flyer Industries and the net financial income.

14. FINANCIAL INDEBTEDNESS

The net financial debt amounted to R$ 840.8 million as of 12/31/2016 (R$ 1,110.6 million as of 12/31/2015). Of this total, R$ 608.4 million is related to the financial segment while the industrial segment had net liabilities of R$ 232.4 million.

It is important to point out that the financial sector debt derives from the consolidation of the activities of Banco Moneo and should be analyzed separately since it has different characteristics from that of the Company's industrial activities. Banco Moneo's financial liability is charged to the account "Trade accounts receivable" in the bank's assets. The credit risk is properly provisioned for. Because it is a FINAME onlending transaction, each disbursement by the National Economic and Social Development Bank - BNDES has an exact offset in the customer receivables of Banco Moneo both in terms of maturity and fixed rate. See Note 31 to the Financial Statements.

On December 31, the net financial indebtedness of the industrial segment represented 0.7x EBITDA for the last 12 months.

15. CASH PROVIDED BY OPERATIONS

In 2016, the operating activities generated cash of R$ 170.9 million. Investing activities generated R$ 356.1 million and financing activities consumed R$ 431.5 million, corresponding to R$ 358.6 million net for issuances and repayments of loans and financing, R$ 118.4 million consumed in the payment of dividends and interest on capital, R$ 43.7 million through share issuance and R$ 1.8 million referring to the sale of treasury stock. Consequently, the opening balance of cash of R$ 1,365.2 million, including restricted short-term investments and not including the R$ 1.8 million equal to the difference between the exchange variance and variance in accounts relating to the restricted short-term investments, increased to R$ 1,458.9 million at the end of the year. The statement of cash flows for the industrial and financial segments is presented in detail in Note 32 to the Financial Statements.

16. PERFORMANCE OF SUBSIDIARY AND ASSOCIATED COMPANIES

16.1 Overseas subsidiaries

In 2016, the subsidiaries abroad produced 1.970 units. This volume represented 22.4% of Marcopolo's consolidated output. The main highlights of subsidiaries abroad are described below:

MARCOPOLO CHINA (MAC) – MAC has a sourcing department, production of parts and bus body components and disassembled vehicle bodies and the production of complete buses in PKD for export. MAC's strategy is to continue increasing its strategic placement of the Marcopolo brand in Asia and Oceania, serving as a base for customer relations. For 2017 exports are expected to increase, especially as result of its qualification for the Changzhou Export Processing Zone.

MARCOPOLO SOUTH AFRICA (MASA) – In 2016, MASA, located in Johannesburg, produced 298 units, (334 units in 2015). For 2017, the unit will pursue greater efficiency by implementing the LEAN methodology and growing through new partnerships. Sales of the Volare imported from Brazil have started.

POLOMEX – Located in Monterrey, Mexico, Polomex produced 1,201 units in 2016 (1,492 in 2015). For 2017, the Mexican market is expected to recover, with an increase in Polomex's market share, especially in the coach segment, both by continuing the existing partnership with Mercedes and through new opportunities to body other chassis brands.

VOLGREN – Headquartered in Melbourne – Australia, Volgren produced 471 units in 2016, a 10.1% increase over production in 2015. For 2017 Volgren remains engaged in enhancing its earnings and cutting fixed costs. Growth is expected over the results obtained in 2016.

16.2 Overseas subsidiaries

GB POLO – Marcopolo's joint venture in Egypt, located in the city of Suez, produced 693 units in 2016 (1,190 units in 2015). Due to the economic and political situation in the country, the company's operating earnings continue to disappoint.

METALPAR/METALSUR – Located in Argentina, Metalpar and Metalsur produced 1,606 units in 2016 (1,886 units in 2015). The city bus segment, served by Metalpar, struggled because of the reduction in government subsidies for bus purchases, although its market share held steady. Metalsur, in turn, enjoyed a positive performance, driven by the sale of Double Deckers.

NEW FLYER INDUSTRIES – New Flyer Industries, a company in which Marcopolo has an interest of 10.8%, is the leading manufacturer of city buses in the USA and Canada.

Headquartered in Winnipeg, Canada, the company is a technology leader and offers a comprehensive range of products, including vehicles running on clean diesel, natural gas, diesel-electric hybrids and electric vehicles. In 2016 New Flyer Industries' earnings benefited from the consolidation of Motor Coach Industries International – MCI and it is expected to continue reporting consistent earnings figures in 2017.

SUPERPOLO – Located in Colombia, Superpolo produced 1,160 units in 2016 (1,542 units in 2015). The launch of the new Senior model helped leverage earnings. For 2017, the unit will seek to implement operational efficiency improvements by adopting LEAN concepts.

TATA MARCOPOLO MOTORS (TMML) – In 2016, TMML's consolidated production amounted to 9,192 units (11,655 units in 2015). For 2017 TMML remains focused on improving operational efficiency and increasing its market share for products of higher added value. From 2017 Marcopolo will begin to body other chassis brands and export them from India.

16.3 Banco Moneo

Banco Moneo S.A. started up in July 2005 for the purpose of financing Marcopolo products. The Bank is authorized to operate portfolios for commercial leasing and credit, financing and investments. In 2016 the bank's profit was R$ 7.3 million. Loans and endorsements amounted to R$ 845.5 million as of 12/31/2016 compared with R$ 925.9 million as of 12/31/2015. The Bank maintained its policy of prioritizing the quality of its loans portfolio, through a rigorous credit assessment and approval system.

17. CORPORATE GOVERNANCE

Marcopolo pursues the best Corporate Governance practices, following the principles of transparency, equity, accountability and corporate responsibility. Its shares have been listed in Level 2 of BM&FBovespa Corporate Governance since 2002. The Company is bound to arbitration at the Market's Arbitration Chamber, as per the arbitration clause in its Bylaws.

The management of Marcopolo is based on the distinction between the functions and responsibilities of the Board of Directors, the Statutory Audit Board and the Executive Board. The Board of Directors is composed of seven members, four of which are external and independent, one elected by minority stockholders, one elected by the preferred stockholders and one by the controlling stockholders. The Chairman of the Board of Directors is not an executive officer. The Board of Directors has permanent access to a statutory, advisory, technical committee, called the Executive Committee, which assists in, provides opinions about and supports the management of the business. The responsibilities of each board are defined in the Company's bylaws. Furthermore, to assist, provide opinions and support the management of the business, the Board of Directors has established the following committees: (i) Audit and Risks; (ii) Human Resources and Ethics; and (iii) Strategy and Innovation. Each of these committees' support roles can be seen on the Company's site: http://ri.marcopolo.com.br, in the menu Governança Corporativa/ Regimento Interno dos Comitês.

The Statutory Audit Board is composed of three members, one indicated by minority stockholders, one by preferred stockholders and one by the controlling stockholders. The responsibilities of each board are defined in the Company's bylaws.

The Company provides fair and equal treatment to minorities, whether stockholders or other stakeholders. In the disclosure of information, it adopts highly transparent standards, seeking to establish an atmosphere of confidence, both internally and in relation to third parties. In order to comply with legal provisions and improve the information presented to the market in general and especially to foreign stockholders, the Financial Statements are disclosed in conformity with International Financial Reporting Standards (IFRS). In 2016, the Company held meetings with the Association of Capital Market Analysts and Investment Professionals (APIMEC) in São Paulo and Porto Alegre, as well as non-deal road shows in Brazil and abroad. Marcopolo's relationship with its stockholders and potential investors is handled by the Investor Relations department. In 2016, Brazilian and foreign analysts were received personally and various contacts were made by telephone. Marcopolo's Investor Relations website (http://ri.marcopolo.com.br) is constantly updated and contains relevant information for investors.

18. COMPLIANCE PRACTICES

In line with good risk management and governance practices, in 2014 Marcopolo created its compliance practice, whose structure includes: an advisory committee consisting of statutory officers, the chairman of the Board of Directors, the compliance officer, a compliance analyst and internal agents. The Company has revised its code of conduct to include integrity provisions, has trained all staff and representatives, intensified internal and external communication and hotline channels, created an integrity policy, now includes compliance clauses in all contracts entered into by the company and conducts integrity due diligences on partners and third parties, amongst other practices. The Compliance team has also been participating in external training and benchmarking events.

19. INDEPENDENT AUDITORS

19.1 Change of Independent Auditors

In 2012, the Company changed its auditors, contracting KPMG Auditores Independentes, established in Porto Alegre, RS, Av. Borges de Medeiros 2.233, 8º floor, replacing PricewaterhouseCoopers - Auditores Independentes.

The independent auditors will again be rotated in 2017, when KPMG Auditores Independentes will be replaced by PricewaterhouseCoopers Auditores Independentes.

19.2 CVM Instruction 381/03

In compliance with CVM Instruction No. 381/03, items I through IV of article 2, Marcopolo declares that it has contracts with its Independent Auditors other than those related to the audit of the Company's financial statements. During 2016, KPMG Auditores Independentes were engaged to provide additional due diligence services, and the related fees were equivalent to R$ 334.3 thousand. Management is responsible for defining the procedures to be performed and their application. Therefore, both the Company and its external auditors understand that such services do not compromise professional independence.

20. CAPITAL MARKETS

20.1 Share Capital

The Company's share capital is R$ 1,264,622,468, represented by 341,625,744 common shares (36.9%) and 583,570,265 preferred shares (63.1%), totaling 925,196,009 shares, all registered book-entry shares without a par value.

20.2 Performance of Marcopolo's shares in BM&FBovespa

In 2016, there were 1,265.0 thousand transactions involving Marcopolo shares and 898.8 million shares were traded. Trading in Marcopolo shares amounted to R$ 2.3 billion in the year. The share of foreign investors in Marcopolo's capital at 12/31/2016, totaled 58.3% of the preferred shares and 38.7% of the total capital.

The following table shows the performance of the main indicators related to the capital market:

INDICATORS	2016	2015
Number of trades (thousands)	1,265.0	1,407.2
Shares traded (millions)	898.8	1,065.8
Trading volume (R$ million)	2,338.3	2,497.8
Market value (R$ millions) (1)(2)	2,535.0	1,659.3
Equity value per share (R$)	1.98	2.04
POMO4 Price (Last business day)	2.74	1.85
Interest on Own Capital and Dividends by share (R$/share)	0.131	0.048

Notes: (1) Price of the last trade for the period for Registered Preferred shares (PE), multiplied by the total number of shares (OE + PE) during the same period. (2) Of this total, 4,949,901 were preferred shares in the treasury at 12/31/2016.

21. DIVIDENDS/INTEREST ON CAPITAL

On November 7, 2016 the Board of Directors approved the payment of interest on shareholders' equity in the gross amount of R$ 118.4 million, at the rate of R$ 0.131 per share or 53.9% of the Company's net income, constituting a yield (dividend per share/share price at the end of the year) of 4.7%.

Lastly, due to the ongoing difficulties and the aforesaid JCP distribution, at a meeting held February 21, 2017 the Board of Directors resolved not to pay out supplementary dividends for FY 2016 and to suspend the payment of interest on equity in 2017.

22. INVESTMENTS

In 2016, Marcopolo invested R$ 73.5 million, of which R$ 8.7 million was spent by the parent company and allocated as follows: R$ 4.1 million on machinery and equipment; R$ 1.2 million on computer equipment and software and R$ 3.4 million on other fixed assets. Investments in the subsidiaries were R$ 50.9 million for Volare Espírito Santo; R$ 5.3 million in Polomex, R$ 3.9 million in Volgren; R$ 1.9 million in Neobus; R$ 1.4 million in Marcopolo and R$ 1.4 million in the other units. The net balance of investments in the subsidiaries, discounting the R$ 23.7 million received as dividends, was R$ 356.1 million, which includes R$ 405.9 million from the partial sale of the interest in New Flyer Industries.

23. SOCIAL AND ENVIRONMENTAL RESPONSIBILITY

Through the adoption of practices that contribute toward economic development, Marcopolo aims to simultaneously improve the quality of life of its employees and their families, as well as society as a whole. The Marcopolo Solidarity Production System (SIMPS) promotes industrial growth aiming at growth, market leadership, productivity, quality, improvement in the working environment and profitability of products and services. The systems provide conditions for continuously improving the quality of products, processes and services, by controlling the hazards for the environment, health and safety of employees, eliminating waste wherever it can be found, and maintaining a fully integrated value chain. Marcopolo is still certified under ISO 14001 - Environment, ISO 9001 - Quality and OHSAS 18001 - Health and Safety.

23.1 Social Responsibility

Marcopolo and its employees engage in social responsibility under the coordination of the Marcopolo Foundation. Noteworthy among the projects that focus on the community is the Schools Project, whose purpose is to help improve the educational environment and the relationships of the school community as well as provide training in the area of civic responsibility. The Schools Project provides a variety of activities during off-school hours, such as music classes, choir, orchestra, sports and a recycling workshop. The Marcopolo Foundation also makes monthly contributions to community institutions in the areas of health and education.

The Everyone at School program, also coordinated by the Marcopolo Foundation, aims to support children in education of their children, helping families save money by spending less on school material by delivering notebook kits. The program serves children and teenagers aged between five and eighteen at junior or high school. Some 21 thousand personalized notebooks were delivered in 2016.

Marcopolo Foundation also stimulates and facilitates the allocation of 6.0% of individual Income Tax of its employees, by way of the Destine Você Também project, to the Municipal Fund for the Rights of Children and Adolescents in the cities of Caxias do Sul (RS) and Duque de Caxias (RJ), creating benefits in professionalization projects for around 1,500 young people exposed to social and personal risks.

23.2 Employee Satisfaction

Employee satisfaction at Marcopolo is measured via the Internal Organizational Climate Survey, which takes place every two years. The last survey was conducted in 2016, with average satisfaction of 75% for the plants in Caxias do Sul and 80% for the Rio de Janeiro plant. These results are considered excellent by Brazilian standards. The action plan is structured in conjunction with representatives from several departments of the Company, with periodic monitoring. The company also provides internal and external ombudsman channels for employees to send comments, criticisms, ideas and suggestions on different issues involving their work or related to guidelines of the code of conduct and compliance standards, with specific segregation for hotline issues.

23.3 Education and Training

Marcopolo encourages its employees to constantly enhance their qualifications. The training offered focuses on nurturing the skills at all professional levels, with an annual average of 82 hours per employee.

Management training in 2016 focused on introducing the LEAN philosophy, in pursuit of improvements in processes and team performance. As a means of disseminating these concepts, 205,950 hours of training were given to employees from all departments, including new recruits.

Marcopolo also provides training to clients at both the Training Centre and workshops and representations in the vicinity of the companies. In 2016 there were a total of 1,032 participants from the internal market and 744 participants from the external market.

The Marcopolo Vocational Training School (EFPM) continued its industrial apprenticeship courses for young people in partnership with SENAI, the University of Caxias do Sul and the Social Assistance Foundation (FAS). One of the main functions at EFPM is the preparation of professionals for placement in the labor market, with their first paid job and access to a company career plan.

Since 1981 the company has also been running an Encouraging Education Program, granting scholarships for secondary education, technical, graduation, post-graduation and foreign language courses for employees approved in a selection process.

23.4 Quality of Life

The life quality programs intended for employees and their families are coordinated by the Marcopolo Foundation, and include educational, leisure, cultural and sporting activities. The units in Caxias do Sul and Duque de Caxias have their own structure, such as locations for events, courts and kiosks.

23.5 Environment

Marcopolo permanently maintains its commitment to programs concerned with environmental issues. It continually invests in new technologies to minimize and control the environmental impacts of its activities. In 2016, the process began of migrating from ISO 14001 to the new version published in 2015, NBR ISO 14001:2015.

23.6 Compensation

Employee remuneration comprises a fixed amount, linked to competences and skills, and a variable amount, based on achievement of goals of the Profit Sharing Program. Periodic salary surveys are carried out to evaluate whether the salaries paid are within regional standards, so that the Company maintains its competitiveness in the labor market.

23.7 Stock Option Plan

The shareholders approved the regulations of the stock options purchase and subscription plan at the Extraordinary General Meeting held December 22, 2005, amended by the Annual/Extraordinary General Meeting held March 23, 2006 and the Board of Directors at meetings held in 2006, 2007, 2011, 2012 and 2013. Executives of the Company and its subsidiaries (except for directors of the parent company) participate in this plan, which has the following main objectives: (i) align the interests of participants and stockholders; (ii) encourage the commitment of the participants to the Company's short, medium and long-term results; (iii) encourage and stimulate a sense of ownership; and (iv) attract and retain talents. The Plan is monitored by the Human Resources and Ethics Committee and it is approved by the Board of Directors.

The company also has a long-term incentive plan with restrictive shares proposed by the Board of Directors on February 12, 2015 and approved by the General Meeting on March 26, 2015. The plan aims to create the compensation package of the company's main executives, remain competitive with the market, attract and retain the best talent and align the interests of the executives and shareholders.

24. D&O COMPENSATION

The annual overall fixed remuneration is set by the General Meeting and distributed to management as established by the Board of Directors. The highest individual annual fixed remuneration of the members of the Executive Committee/Board of Directors was R$ 4,047.7 thousand in 2016, the average remuneration was R$ 1,001.9 thousand and the lowest R$ 407.0 thousand. For the statutory directors, the highest individual remuneration was R$ 4,410.1 thousand in 2016, the average was R$ 3,028.2 thousand and the lowest was R$ 2,337.1 thousand. For the Fiscal Board, the highest individual remuneration was R$ 215.8 thousand in 2016, the average was R$ 186.3 thousand and the lowest was R$ 171.6 thousand.

25. EMPLOYEES

NO. OF EMPLOYEES	2016	2015	2014	2013	2012
Parent company	6,125	6,236	7,883	8,158	8,204
Subsidiaries in Brazil	2,135	1,369	2,776	2,554	2,617
Subsidiaries Abroad	1,921	1,666	1,889	2,105	1,680
Associated companies	2,632	3,200	4,270	5,699	3,834
TOTAL (1)	**12,813**	**12,471**	**16,818**	**18,516**	**16,335**
OVERALL TOTAL (2)	**15,749**	**16,125**	**21,435**	**21,002**	**20,508**

Notes: (1) Includes employees of subsidiaries/associates proportionately to the Company's interest; (2) Relates to total interest in subsidiaries/associates.

26. EXPECTATIONS FOR 2017

2017 has begun with signs that this will be another challenging year for the capital goods sector in Brazil, especially in this first quarter. The most optimistic prospects regarding economic activity in Brazil, according to the latest inflation figures published and interest-rate decreases, will enable the Company to estimate a gradual return in demands for buses, especially from the second half onwards.

Marcopolo is striving to adopt measures to cut indirect costs and expenses, to increase operational efficiency by adopting LEAN concepts and to enhancing working capital by reducing inventory and receivables. Since 2015, the Company has been adopting mechanisms to reduce the impact of lower demand on its employees, which include selective vacations, collective vacations, extended vacations by offsetting hours and flexitime. In January 2017 Marcopolo introduced collective vacations at its plants in Caxias do Sul. In addition to the collective vacations in January, at Marcopolo Rio, in Duque de Caxias/RJ, a flexible working week was adopted of 4 days in the month of February.

Domestic demand in the coach segment will be strengthened by the accessibility regulations, which demand that new vehicles produced from July 2017 be equipped with elevators and the obligation to reduce the average age of the fleet, which pursuant to Resolution 4770 issued by the National Land Transportation Agency (ANTT) regarding interstate and international lines, require this be reduced to 8 years as from year two, i.e. 2017. Non-compliance with the resolution could lead to the revoking of the permit awarded to transportation carriers to operate their respective lines, which is why renewal is mandatory.

In the city bus segment, the federal program Refrota, announced on December 13, 2016, which authorizes banks to use FGTS funds for the urban mobility and transportation infrastructure program (Pró-Transporte) could foster new investments.

The program aims to provide a credit facility in the total amount of R$ 3 billion for the renewal of up to 10 thousand buses. Rate increases, even if one-off, in important capitals and countless other smaller cities could boost sales due to renewal and modernization of municipal fleets.

The FINAME TJLP is still in force, permitting that small and middle market companies can finance up to 80.0% of the item at TJLP plus 1.6% p.a. plus the spread of the onlending bank. Corporations can also finance up to 80.0%, where of this total 70.0% is via TJLP plus 2.0% p.a. and 30.0% at the Selic base interest rate plus 2.48% p.a., plus the spread of the onlending bank. The confirmation of successive cuts in the Selic base interest rate could therefore galvanize domestic demand.

The Company believes exports will continue to boom, by maintaining traditional clients and breaking into new markets. Marcopolo will continue dedicating substantial resources overseas. With a view to this, on February 1, 2017 it began restructuring its Sales department - Overseas, integrating it with the International Business department. The aim is to maximize business in all regions and enhance integration between exports from Brazil and Marcopolo's international operations.

The outlook for 2017 in general is positive for overseas units, with improving productivity and efficiency indicators and consequently better performance. The operation should also be favored by the aforesaid integration project, with the joint development of markets and specific products for each region the units operate in.

Marcopolo continues to have faith in the requirement for urban mobility systems in countries it operates in and the renewal of the Brazilian bus fleet, which has been stagnated because of the economic contraction in recent years. The Company will continue striving to restore its historic performance levels and to do so will continue implementing new projects and enhancing those in progress, especially those related to increasing operational efficiency, strengthening operations in overseas markets, pursuing synergies and optimizing its manufacturing plants.

27. ACKNOWLEDGMENTS

Marcopolo is honored to thank its customers, suppliers, representatives, shareholders, financial institutions, government agencies, the community and, in particular, its employees for their effort, dedication and commitment to overcome this extremely challenging time.

Caxias do Sul, February 21, 2017.

Management.

Marcopolo S.A.

Financial statements

December 31, 2016 and 2015

Contents

INDEPENDENT AUDITOR'S REPORT ON THE INDIVIDUAL AND CONSOLIDATED FINANCIAL STATEMENTS

To the shareholders of Marcopolo S.A.
Caxias do Sul - RS

Opinion

We have audited the individual and consolidated financial statements of the company Marcopolo S.A. ("Company"), identified as parent company and consolidated respectively, which comprise the statement of financial position as at December 31, 2016 and the related statements of income, the comprehensive statements of income, the statement of changes in shareholders' equity and statements of cash flows for the year then ended, including significant accounting policies and other explanatory information.

In our opinion, the aforementioned financial statements present fairly, in all material respects, the individual and consolidated financial position of the Company as of December 31, 2016, and the individual and consolidated performance of its operations and individual and consolidated cash flows for the financial year then ended, in conformity with accounting practices adopted in Brazil, International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB).

Basis for opinion

We conducted our audit in accordance with Brazilian and international auditing standards. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the individual and consolidated financial statements section of our report. We are independent of the Company and its subsidiaries in accordance with the ethical requirements set out in the Professional Code of Ethics for Accountants and the Professional Standards issued by the Federal Accounting Council, and we have fulfilled our ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the individual and consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Impairment testing of goodwill - Consolidated

As described in notes 2.11 (a) and 15, as of December 31, 2016, the Company's consolidated assets included goodwill from prior-year acquisitions, which must be reviewed annually for impairment. Our review and determination of whether a provision for impairment should be recognized are supported by estimates of future profitability based on the business plan and budget prepared by the Company and approved at its governance levels. Due to the relevance of goodwill estimates, the element of judgment involved in estimating future cash flows at present value, the impact that any changes in assumptions such as discount rates and sales growth in the projection period and in perpetuity could have on the amounts recorded in the consolidated financial statements, and the potential impacts affecting the value of the investment recorded using the equity method in the financial statements of the parent company, we consider this matter to be material to our audit.

How the matter was addressed in our audit

Our audit included, among other procedures, testing the design, implementation and operational effectiveness of internal controls related to the preparation and review of the business plan, budgets and impairment reviews provided by the Company. With the assistance of our corporate finance specialists, we reviewed all significant assumptions and the methodologies used by the Company, including discount and sales growth rates in the projection period and in perpetuity, and evaluated the consistency of the calculations by comparing them with available market data, actual performance and previous projections. We also performed an independent sensitivity analysis to identify situations in which the discounted cash flows would result in recoverable amounts equal to or lower than the carrying amount. We also evaluated the adequacy of the Company's disclosures.

Provisions for civil, labor and tax contingencies - Parent company and consolidated

As described in notes 2.16 and 18 the Company and its subsidiaries are party to civil, labor and tax proceedings and lawsuits arising from their operations. The measurement, recognition of provisions for and disclosure of contingencies related to these administrative proceedings and lawsuits rely on the judgment of the Company and its legal advisors. Changes in the assumptions used by the Company in making these material judgments or changes in external conditions, including the positions taken by authorities on civil, labor and tax matters, could materially affect the amount of provision recognized in the consolidated financial statements and the value of the investment recorded by the equity method in the financial statements of the parent company.

How the matter was addressed in our audit

Our audit included, among other procedures, evaluating the accounting policies applied by the Company in classifying losses, including an evaluation of judgments in measuring the amounts of provisions to be recognized for tax, civil and labor risks and the proper application and consistency of judgments used during all periods under consideration. We analyzed the sufficiency of recognized provisions and the amounts of contingencies disclosed based on assessments prepared by the Company's internal and external legal advisors and a comparison with existing case law for the most significant cases. We obtained evidence about the risks of loss assumed by the Company for significant proceedings, claims and tax positions, including available documentation, legal opinions and reports prepared by internal and external tax and/or legal advisors, as well as external confirmation from the Company's legal advisors on the current status and risk classification of the most significant cases. For the most significant and/or critical amounts, our tax specialists assisted us in reviewing the documentation supporting the legal opinions furnished and the legal and tax aspects of Brazilian law in order to gain an understanding of the merits and rationale relied on by the Company and its subsidiaries in classifying losses and measuring the relevant amounts, which were then recalculated by us. We also evaluated the adequacy of the Company's disclosures.

Allowance for doubtful accounts - Parent company and consolidated
As described in Notes 2.8 and 9, estimation of allowances for doubtful accounts involves significant judgment by the Company. The allowance for doubtful accounts is determined using criteria and methods that are documented in internal policies and require, due to their nature, the use of judgment and assumptions by the Company, including analyses of external factors and general economic conditions, as well as internal factors such as debtors' history of payments and considerations about financial settlements. Due to the element of judgment involved in determining the allowance for doubtful accounts and the impact that any changes in assumptions used in determining the allowance for doubtful accounts could have on the consolidated financial statements and on the value of the investment recorded using the equity method in the financial statements of the parent, we consider this matter do be significant for our audit.

How the matter was addressed in our audit
Our audit included, among other procedures, evaluating the design, implementation and operational effectiveness of internal controls related to the identification and recognition of accounts receivable. We tested on a sampling basis the sufficiency of the criteria, assumptions and data used by the Company to determine the levels of default, taking into consideration the existence of any guaranties and the policies in place for collection of bad debt in comparison with historical data, and we recalculated the provision balance based on the aging of accounts receivable. We also determined whether the provisions made by the Company have historically materialized and compared this historical data with the assumptions used by the Company for the provision recorded for the period, and evaluated the adequacy of the disclosures made by the Company.

Business combination - Parent company and consolidated
As detailed in note 3, in July 2016 the Company concluded the acquisition of a controlling interest in L&M Incorporadora Ltda., the parent of San Marino Ônibus Ltda., an associate that operates substantially in the same business segments as the Company. The acquisition was a staged process, with the Company previously owning a 45% interest in the acquiree, and was accounted for using the acquisition method. The use of the acquisition method requires, among other procedures, that the Company determine the date on which the acquirer obtained control of the acquiree, the fair value of the consideration transferred, the fair value of the assets acquired and the liabilities assumed, and goodwill or gain on a bargain purchase. These procedures typically involve a high degree of judgment and require fair-value estimates to be made based on calculations and assumptions related to the future performance of the acquired business, which are subject to a high degree of uncertainty. Due to the high degree of judgment involved, and the impact that any changes in assumptions could have on the financial statements, we consider this to be a significant matter for our audit.

How the matter was addressed in our audit
Our audit included, among other procedures, reviewing the documents formalizing the transaction, such as agreements and minutes, and obtaining evidence underlying the determination of the acquisition date and the determination of the fair value of the consideration transferred, including market quotes for the transferred equity instruments and fair-value valuation of the investment previously held, prepared by independent specialists. With the assistance of our corporate finance specialists, we reviewed the methodology used to measure the fair value of the previously held

interest, the assets acquired and the liabilities assumed, and evaluated the reasonableness of the assumptions used and the calculations made by comparison with market data, to the extent available, and we evaluated the sensitivity analysis of the key assumptions used and the impacts of any changes in those assumptions on fair-value determinations and their relevance to the financial statements as a whole. Based on the information analyzed, we also recalculated the determination of goodwill and evaluated the adequacy of the disclosures presented by the Company.

Other Matters

Statements of added value

The individual and consolidated statements of added value (DVA) for the financial year ended December 31, 2016, which are the responsibility of Company Management and are presented as supplementary information under IFRS, were subject to audit procedures conducted in conjunction with the audit of the Company's financial statements. To form our opinion, we evaluated whether the statements have been reconciled against the financial statements and accounting records, as applicable, and whether their form and content comply with the criteria set out in CPC Technical Pronouncement 09 - Statements of Added Value. In our opinion, these statements of added value have been adequately prepared, in all material respects, in accordance with this Technical Pronouncement and are consistent with the individual and consolidated financial statements taken as a whole.

Other information accompanying the individual and consolidated financial statements and auditor's report

Management is responsible for the other information. The other information comprises the Management Report.

Our opinion on the individual and consolidated financial statements does not cover the Management Report and we do not express any form of assurance conclusion thereon.

In connection with our audit of the individual and consolidated financial statements, our responsibility is to read the Management Report and, in doing so, consider whether the report is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work that we have performed, we conclude that there is a material misstatement of this Management Report, then we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the individual and consolidated financial statements

Management is responsible for the preparation and fair presentation of the individual and consolidated financial statements in accordance with the accounting practices adopted in Brazil and the IFRS issued by the International Accounting Standards Board (IASB), and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the individual and consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company and its subsidiaries or to cease operations, or has no realistic alternative but to do so.

Those charged with governance of the Company and its subsidiaries are responsible for overseeing the financial reporting process.

Auditors' responsibilities for the audit of the individual and consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the individual and consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. 'Reasonable assurance' is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Brazilian auditing standards and ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Brazilian auditing standards and ISAs, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the individual and consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company and its subsidiaries' internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company and its subsidiaries' ability to continue as a going concern. If we conclude that a material uncertainty exists, then we are required to draw attention in our auditors' report to the related disclosures in the individual and consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company and its subsidiaries to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the individual and consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the individual and consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Porto Alegre, February 21, 2017

KPMG Auditores Independentes
CRC SP014428/F-7

Cristiano Jardim Seguecio
CRC SP-244525/O-9 T-RS

Marcopolo S.A.

Statements of financial position as of December 31, 2016 and 2015

In thousands of reais

		Parent Company		Consolidated	
Assets	**Note**	**2016**	**2015**	**2016**	**2015**
Current					
Cash and cash equivalents	8	916,995	923,243	1,209,459	1,131,162
Financial assets stated at fair value through profit and loss	8	222,997	184,866	224,151	184,866
Derivative financial instruments	6 and 8	4,908	329	6,498	1,803
Trade receivables	9	430,715	551,232	900,816	1,032,600
Inventories	10	212,116	226,532	472,057	437,774
Taxes and contributions recoverable	11	86,262	73,341	164,033	118,386
Other accounts receivable		18,270	32,725	79,724	82,328
		1,892,263	1,992,268	3,056,738	2,988,919
Non-current					
Financial assets stated at fair value through profit and loss	8	24,966	114,878	18,817	47,345
Trade receivables	9	-	-	481,643	538,215
Taxes and contributions recoverable	11	444	629	19,895	907
Deferred income and social contribution taxes	20	51,577	40,345	69,779	62,136
Judicial deposits	18	8,764	5,428	19,585	12,427
Other accounts receivable		-	6	839	848
		85,751	161,286	610,558	661,878
Investments	12	1,219,929	1,385,629	309,074	516,129
Investment property	13	-	-	48,941	-
Property, plant and equipment	14	209,571	221,892	708,269	561,340
Intangible assets	15	4,031	5,574	234,689	310,597
		1,433,531	1,613,095	1,300,973	1,388,066
		1,519,282	1,774,381	1,911,531	2,049,944
Total assets		3,411,545	3,766,649	4,968,269	5,038,863

		Parent Company		Consolidated	
Liabilities and shareholders' equity	**Note**	**2016**	**2015**	**2016**	**2015**
Current					
Trade accounts payable		173,278	163,337	251,454	249,138
Loans and financing	17	397,447	582,682	925,062	965,139
Derivative financial instruments	6	432	174	492	921
Salaries and vacation payable		96,152	55,752	127,534	78,803
Taxes and contributions payable		22,099	26,624	105,275	62,817
Customer advances		20,546	44,337	44,365	64,193
Representatives on commission		28,181	39,437	33,249	45,386
D&O profit shares		7,915	6,720	7,915	6,720
Provision for warranties		19,375	24,214	21,512	43,390
Other accounts payable		45,239	32,715	144,866	75,667
		810,664	975,992	1,661,724	1,592,174
Non-current					
Loans and borrowings	17	734,178	937,049	1,374,172	1,509,707
Provisions	18	30,294	25,523	35,345	27,341
Other accounts payable		-	-	28,511	47,458
		764,472	962,572	1,438,028	1,584,506
Total liabilities		1,575,136	1,938,564	3,099,752	3,176,680
Shareholders' equity attributable to controlling shareholders	21				
Capital		1,264,622	1,200,000	1,264,622	1,200,000
Capital reserves		6,982	(2,321)	6,982	(2,321)
Profit reserves		502,955	401,999	502,955	401,999
Equity appraisal adjustments		84,807	255,882	84,807	255,882
Treasury stock		(22,957)	(27,475)	(22,957)	(27,475)
		1,836,409	1,828,085	1,836,409	1,828,085
Minority interests		-	-	32,108	34,098
		1,836,409	1,828,085	1,868,517	1,862,183
Total liabilities and shareholders' equity		3,411,545	3,766,649	4,968,269	5,038,863

See the accompanying notes to the financial statements.

Marcopolo S.A.

Statements of income
Years ended December 31, 2016 and 2015
In thousands of Reais, unless stated otherwise

	Note	Parent Company 2016	Parent Company 2015	Consolidated 2016	Consolidated 2015
Operations					
Net revenue from sales and services	26	1,582,183	1,707,658	2,574,093	2,739,132
Cost of goods sold and services rendered	27	(1,380,882)	(1,361,529)	(2,248,335)	(2,263,165)
Gross profit		201,301	346,129	325,758	475,967
Sales expenses	27	(87,214)	(127,260)	(140,920)	(164,841)
Administrative expenses	27	(94,894)	(88,632)	(165,262)	(158,483)
Other net operating income (expenses)	28	(65,417)	(23,828)	190,356	(19,570)
Equity in income of associates	12	237,669	21,550	94,011	32,996
Operating income		191,445	127,959	303,943	166,069
Financial revenue	29	527,882	403,803	577,534	449,181
Finance costs	29	(447,378)	(439,813)	(511,240)	(487,533)
Finance income		80,504	(36,010)	66,294	(38,352)
Profit before income and social contribution taxes		271,949	91,949	370,237	127,717
Income and social contribution taxes	20				
Current		(61,743)	(13,658)	(142,369)	(44,268)
Deferred charges		9,182	8,658	(5,322)	5,634
Net income for the year		219,388	86,949	222,546	89,083
Attributable to:					
Controlling shareholders		219,388	86,949	219,388	86,949
Minority interests		-	-	3,158	2,134
		219,388	86,949	222,546	89,083
Net income per share attributable to the controlling shareholder in the year (stated in R$ per share)					
Basic	30	0.2445	0.0976	0.2481	0.1000
Diluted	30	0.2432	0.0969	0.2467	0.0993

See the accompanying notes to the financial statements.

Marcopolo S.A.

Comprehensive statements of income
Years ended December 31, 2016 and 2015
In thousands of reais

	Parent Company		Consolidated	
	2016	2015	2016	2015
Net income for the year	219,388	86,949	222,546	89,083
Foreign-exchange differences on translation of offshore operations	(171,075)	179,186	(176,223)	187,720
Total comprehensive income	48,313	266,135	46,323	276,803
Comprehensive income attributable to:				
Controlling shareholders	48,313	266,135	48,313	266,135
Minority interests	-	-	(1,990)	10,668
Total comprehensive income	48,313	266,135	46,323	276,803

See the accompanying notes to the financial statements.

Marcopolo S.A.

Statements of changes in shareholders' equity
Years ended December 31, 2016 and 2015
In thousands of reais

	Attributable to controlling interests											
		Reserve Capital	Profit reserves									
	Capital	Gain(loss) on sale of own stock	Legal reserve	For future capital increase	For payment of interim dividends	To purchase own stock	Equity appraisal adjustments	Treasury shares	Retained losses	Total shareholders' equity	Minority interest	Total shareholders' equity
December 31, 2014	1,200,000	325	34,014	220,257	74,599	74,599	76,696	(32,909)	-	1,647,581	23,430	1,671,011
Comprehensive income for the year												
Net income for the year	-	-	-	-	-	-	-	-	86,949	86,949	2,134	89,083
Exchange variance on overseas investments	-	-	-	-	-	-	179,186	-	-	179,186	8,534	187,720
Total comprehensive income	-	-	-	-	-	-	179,186	-	86,949	266,135	10,668	276,803
Contributions from shareholders and distribution to shareholders												
Sale of treasury shares	-	(2,646)	-	-	-	-	-	5,434	-	2,788	-	2,788
Payment of additional dividends	-	-	-	(45,117)	-	-	-	-	-	(45,117)	-	(45,117)
Distributions												
Legal reserve	-	-	4,347	-	-	-	-	-	(4,347)	-	-	-
Minimum mandatory dividend	-	-	-	-	-	-	-	-	(20,650)	(20,650)	-	(20,650)
Additional dividend proposed	-	-	-	-	-	-	-	-	(22,652)	(22,652)	-	(22,652)
Transfer amongst reserves	-	-	-	27,510	5,895	5,895	-	-	(39,300)	-	-	-
Total contributions from shareholders and distribution to shareholders	-	(2,646)	4,347	(17,607)	5,895	5,895	-	5,434	(86,949)	(85,631)	-	(85,631)
December 31, 2015	1,200,000	(2,321)	38,361	202,650	80,494	80,494	255,882	(27,475)	-	1,828,085	34,098	1,862,183

Marcopolo S.A.

Statements of changes in shareholders' equity
Years ended December 31, 2016 and 2015
In thousands of reais

	Attributable to controlling interests												
		Capital reserves		Profit reserves									
	Capital	Gain(loss) on sale of own stock	Capital transactions reserve	Legal reserve	For future capital increase	For payment of interim dividends	To purchase own stock	Equity appraisal adjustments	Treasury shares	Retained losses	Total shareholders' equity	Minority interest	Total shareholders' equity
December 31, 2015	1,200,000	(2,321)	-	38,361	202,650	80,494	80,494	255,882	(27,475)	-	1,828,085	34,098	1,862,183
Comprehensive income for the year													
Net income for the year	-	-	-	-	-	-	-	-	-	219,388	219,388	3,158	222,546
Exchange variance on overseas investments	-	-	-	-	-	-	-	(171,075)	-	-	(171,075)	(5,148)	(176,223)
Total comprehensive income	-	-	-	-	-	-	-	(171,075)	-	219,388	48,313	(1,990)	46,323
Contributions from shareholders and distribution to shareholders													
Share issuance	43,707	-	-	-	-	-	-	-	-	-	43,707	-	43,707
Share issuances relating to business combination	20,915	-	12,019	-	-	-	-	-	-	-	32,934	-	32,934
Sale of treasury shares	-	(2,716)	-	-	-	-	-	-	4,518	-	1,802	-	1,802
Distributions													
Legal reserve	-	-	-	10,969	-	-	-	-	-	(10,969)	-	-	-
Minimum mandatory dividend	-	-	-	-	-	-	-	-	-	(52,105)	(52,105)	-	(52,105)
Additional dividend proposed and paid	-	-	-	-	-	-	-	-	-	(66,327)	(66,327)	-	(66,327)
Transfer amongst reserves	-	-	-	-	62,991	13,498	13,498	-	-	(89,987)	-	-	-
Total contributions from shareholders and distribution to shareholders	64,622	(2,716)	12,019	10,969	62,991	13,498	13,498	-	4,518	(219,388)	(39,989)	-	(39,989)
December 31, 2016	1,264,622	(5,037)	12,019	49,330	265,641	93,992	93,992	84,807	(22,957)	-	1,836,409	32,108	1,868,517

See the accompanying notes to the financial statements.

Marcopolo S.A.

Statements of cash flows - indirect method
Years ended December 31, 2016 and 2015
In thousands of reais

		Parent Company		Consolidated	
	Note	2016	2015	2016	2015
Cash flows from operating activities					
Net income for the year		219,388	86,949	222,546	89,083
Reconciliation of income (loss) to cash provided by operating activities					
Depreciation and amortization	13 and 14	21,752	22,721	49,691	46,437
Gain (loss) on sale of investment assets, property, plant and equipment and intangible assets		6,812	1,278	(198,659)	2,901
Equity in net income of subsidiaries	12	(237,669)	(21,550)	(94,011)	(32,996)
Allowance for doubtful accounts	9	(3,142)	4,144	22,629	(4,643)
Current and deferred income and social contribution taxes		52,561	5,000	147,691	38,634
Interest and exchange variance appropriated		(116,630)	129,645	(40,194)	160,095
Minority interests		-	-	3,158	2,134
Changes in assets and liabilities					
Decrease in trade accounts receivable		123,659	139,811	252,309	168,653
Decrease (increase) in securities		47,460	(27,223)	(13,859)	39,012
Inventory decrease		14,416	50,669	1,399	64,251
(Increase) in other accounts receivable		(12,843)	(28,543)	(13,551)	(29,562)
Increase (decrease) in trade payables		9,941	(45,473)	(29,480)	(56,318)
Increase in other accounts payable		23,661	50,249	3,687	47,835
Cash provided by operations		149,366	367,677	313,356	535,516
Taxes on profit paid		(61,743)	(13,658)	(142,369)	(44,268)
Net cash provided by operating activities		87,623	354,019	170,987	491,248
Cash flows from investment activities					
Investments		(91,969)	6,727	4,127	(128)
Dividends from subsidiaries, joint ventures and associated companies		351,170	32,518	19,559	28,621
Additions to property, plant and equipment		(8,383)	(19,353)	(72,274)	(158,265)
Acquisition of intangible assets		(315)	(1,548)	(1,270)	(1,734)
Receipt on sale of investments, property, plant and equipment and intangible assets		25	475	405,950	3,922
Net cash provided by (used in) investment activities		250,528	18,819	356,092	(127,584)
Cash flows from financing activities					
Treasury shares		1,802	2,788	1,802	2,788
Share issuance		43,707	-	43,707	-
Loans secured from unrelated parties		276,991	360,279	641,263	767,717
Payment of loans – principal		(471,435)	(122,983)	(878,397)	(525,072)
Payment of loans – interest		(77,032)	(36,305)	(121,464)	(65,158)
Payment of interest in shareholders' equity and dividends		(118,432)	(86,935)	(118,432)	(86,935)
Net cash (used in) provided by financing activities		(344,399)	116,844	(431,521)	93,340
Exchange variance on cash and cash equivalents		-	-	(17,261)	31,543
(Decrease) increase in cash and cash equivalents		(6,248)	489,682	78,297	488,547
Cash and cash equivalents at beginning of year		923,243	433,561	1,131,162	642,615
Cash and cash equivalents at the end of the year		916,995	923,243	1,209,459	1,131,162

See the accompanying notes to the financial statements.

Marcopolo S.A.

Statements of Added Value
Years ended December 31, 2016 and 2015
In thousands of reais

	Parent Company		Consolidated (*)	
	2016	**2015**	**2016**	**2015**
Statements of Added Value				
Revenue	**1,737,559**	**1,905,157**	**3,000,735**	**3,028,181**
Sales of goods, products and services	1,731,039	1,884,267	2,760,232	2,987,201
Other revenue	3,378	25,034	263,132	36,337
Allowances for doubtful accounts	3,142	(4,144)	(22,629)	4,643
Consumables acquired from third parties (including ICMS and IPI)	**(1,359,232)**	**(1,366,358)**	**(2,094,842)**	**(2,110,037)**
Cost of goods sold and services provided	(1,147,429)	(1,146,250)	(1,809,401)	(1,800,192)
Materials, energy, outsourced services and other	(143,008)	(171,246)	(212,665)	(253,938)
Loss of asset values	(68,795)	(48,862)	(72,776)	(55,907)
Gross added value	**378,327**	**538,799**	**905,893**	**918,144**
Depreciation and amortization	(21,752)	(22,721)	(49,691)	(46,437)
Net added value produced by the company	**356,575**	**516,078**	**856,202**	**871,707**
Transferred added value	**765,551**	**425,353**	**671,545**	**482,177**
Equity in income of associates	237,669	21,550	94,011	32,996
Financial revenue	527,882	403,803	577,534	449,181
Total added value to be distributed	**1,122,126**	**941,431**	**1,527,747**	**1,353,884**
Distribution of added value	**1,122,126**	**941,431**	**1,527,747**	**1,353,884**
Personnel	447,911	455,031	668,766	737,381
Direct compensation	352,886	354,101	544,375	598,227
Benefits	67,516	59,307	93,286	84,835
Government Severance Indemnity Fund for Employees (FGTS)	27,509	41,623	31,105	54,319
Taxes	4,115	(47,286)	103,406	8,827
Federal	49,387	(9,344)	144,739	79,409
State	(46,340)	(38,781)	(43,231)	(72,013)
Municipal	1,068	839	1,898	1,431
Interest expenses	450,712	446,737	533,029	518,593
Finance costs	447,378	439,813	511,240	487,533
Rent	3,334	6,924	21,789	31,060
Profits for the year, interest on shareholders’ equity and dividends	219,388	86,949	222,546	89,083
Interest on shareholders' equity	118,432	43,302	118,432	43,302
Retained earnings for the year	100,956	43,647	104,114	45,781

(*) The consolidated statement of added value is not required as part of the consolidated financial statements under IFRS.

See the accompanying notes to the financial statements.

1 Reporting Entity

Marcopolo S.A. ("Marcopolo") is a publicly held company, having its registered office in Caxias do Sul, Rio Grande do Sul state. The Company's individual and consolidated financial statements for the financial year ended December 31, 2016 embrace Marcopolo and its subsidiaries, joint ventures and investments in associated companies (referred to as "Company").

Marcopolo's core activity is the manufacturing and sale of buses, automobiles, wagons, parts, agricultural and industrial machinery, and imports and exports, and may also acquire equity interests in other companies.

Marcopolo's stock is traded under the symbols “POMO3” and “POMO4” on the São Paulo Stock Exchange – BM&FBOVESPA.

2 Description of significant accounting practices

The main accounting policies used to prepare these financial statements are as follows. These accounting policies were applied consistently to all the years presented in these individual and consolidated financial statements.

2.1 Basis of preparation

(a) Statement of compliance

The Company's individual and consolidated financial statements have been prepared and are being presented in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and accounting practices adopted in Brazil (BR GAAP), consisting of the pronouncements, guidelines and interpretations issued by the Accounting Pronouncements Committee (CPC), as approved by the Brazilian Securities Commission (CVM) and the provisions of Brazilian Corporation Law.

Company Management affirms that all material information related to the financial statements and that alone is being disclosed, which corresponds to that used by it in its management.

The Board of Directors approved the issuance of the individual and consolidated financial statements on February 21, 2017.

(b) Reporting basis

The individual and consolidated financial statements have been prepared on the historical cost basis, except for the following material items recognized in the balance sheets:

- derivative financial instruments are measured at fair value
- the non-derivative financial instruments stated at fair value through profit and loss are measured at fair value
- available-for-sale financial assets are measured at their fair value.
- the liabilities for share-based payments settled in cash are measured at fair value;
- the benefit's net asset or liability is recognized as the fair value of the plans' assets, less the present value of the defined-benefit obligation.

(c) Use of judgment and estimates

Preparing the individual and consolidated financial statements requires Management to make judgments, estimates and assumptions that affect the application of the Company's accounting policies and the reported values of assets, liabilities, revenue and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized prospectively.

Information about judgements in applying accounting policies and uncertainties in the assumptions and estimates that pose a significant risk of an adjustment in the next financial year have been included in the following notes:

- Note 2.2 (a, ii) – Subsidiaries;
- Note 2.2 (a, iv) – Investments in Joint ventures – Joint operations;
- Note 3 – Business combination - acquisition of subsidiary;
- Note 9 - Allowance for doubtful accounts
- Note 15 (c) – Goodwill impairment test
- Note 18 - Provision for civil, labor and tax contingencies
- Note 20 – Deferred taxes.

(d) Statement of added value

The Company prepared individual and consolidated statements of added value (DVA) in accordance with technical pronouncement CPC 09 – Statement of Added Value, which are presented as an integral part of the financial statements in BRGAAP applicable to publicly held companies, while consisting of supplementary information under IFRS.

2.2 Basis of consolidation

(a) Consolidated financial statements

The following accounting policies are applied in the preparation of the consolidated financial statements.

(i) Minority interest

The Company elected to measure the minority interest in the investee according to the proportional interest in the net assets identifiable at the acquisition date.

Changes in the Company's ownership interest in a subsidiary that do not result in loss of control are accounted for within equity.

(ii) Subsidiaries

Subsidiaries are all entities (including the specific purpose companies) over which the Company has the power to determine the financial and operating policies, and in which it generally holds over half the voting rights (voting stock). The existence and the effect of possible voting rights currently exercisable or convertible are taken into account when evaluating whether the Company controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Company. They are deconsolidated from the date that control ceases.

The Company uses the acquisition method to record business combinations. The amount transferred to acquire a subsidiary is the fair value of the transferred assets, liabilities incurred and equity instruments issued by the Company.

The amount transferred includes the fair value of a given asset or liability resulting from a contingent payment contract when applicable. Acquisition costs are expensed in the income statement for the year as and when incurred. The identifiable assets acquired and the liabilities and the contingent liabilities undertaken in a business combination are initially measured at fair value as of the acquisition date. The minority interest to be recognized is measured on the date of each acquisition.

Any excess amount transferred and the fair value at the acquisition date of any previous equity interest in the acquired party in relation to the fair value of the Company's interest in net identifiable assets acquired is recorded as goodwill. In acquisitions where the Company attributes fair value to minority shareholders, the goodwill determined also includes the value of any minority interest in the acquired party, and the goodwill is determined based on the Company and the minority interests. If the amount transferred is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in the income statement for the year (Note 2.11).

(iii) Transactions eliminated on consolidation

Intra-company balances and transactions, and any unrealized income and expenses arising from intra-company transactions, are eliminated. Unrealized gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Company's interest in the investee Unrealized losses are eliminated the same way as unrealized gains, but only to the extent to which there is no evidence of impairment losses.

(iv) Investments in Joint ventures – Joint operations)

Business combinations can be classified as a joint operation or the joint venture.

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement and consequently accounts for the investment by the equity income method.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement and accounts for the investment by the equity income method.

(v) Loss of control

When control is lost, the Company derecognizes the subsidiary's assets and liabilities, any noncontrolling interest and other components recorded under shareholders' equity related to this subsidiary. Any surplus or deficit arising on the loss of control is recognized in profit or loss. If the Company retained any interest in the former subsidiary, this interest is measured at fair value on the date the control was lost. This interest is subsequently recorded by the equity method in associated companies or at cost or fair value in an available-for-sale asset, depending on the level of influence retained.

(vi) Associated companies

Associated companies are all the entities over which the Company exercises significant influence but does not control, in which it generally holds an equity interest of between 20% and 50% of the voting rights.

Investments in associated companies are recorded by the equity income method and recognized initially at cost. The Company's investment in associated companies include the goodwill identified in the acquisition, net of any accumulated impairment loss. See Note 2.11 about impairment of nonfinancial assets, including goodwill.

The Company's interest in the profits or losses of its associated companies post-acquisition is recognized in the income statement and its interest in the changes in post-acquisition reserves is recognized in the reserves. Accrued changes post-acquisition are adjusted against the book value of the investment. When the Company's interest in the losses of an associated company is equal to or greater than its interest in that company, including any other receivables, the Company does not recognize additional losses, unless it has incurred on obligations or makes payments on behalf of the associated company.

Unrealized gains on transactions between the Company and its associated companies are eliminated in proportion to the Company's interest in the associated companies. Unrealized losses are also eliminated, unless the transaction provides evidence of impairment of the asset transferred. Accounting policies of associated companies have been changed where necessary to ensure consistency with the policies adopted by the Company.

If the equity interest in the associated company diminishes but significant influence is maintained, only a proportional part of the amount previously recognized in other comprehensive income shall be reclassified in the income statement, where appropriate.

Gains and losses resulting from dilutions occurring in interests in associated companies are recognized in the income statement.

2.3 Segment reporting

Operating segments are reported consistently with the internal reports provided to the main operating decision takers. The main taker of operating decisions, responsible for allocating funds and evaluating the performance of operating segments, is the Board of Directors, which is also responsible for taking the Company's strategic decisions.

2.4 Functional currency and reporting currency

The consolidated financial statements are presented in Reais (R$), which is Marcopolo's functional currency and the Company's reporting currency. All balances have been rounded off to the nearest thousand, except where specified otherwise.

The items included in each of the company's entities' financial information are measured by using the currency of the main economy in which the company operates ("functional currency").

Each entity's functional currency can be seen below:

Subsidiary	Denomination	Functional currency	Country
Apolo Soluções em Plásticos Ltda.	Apolo	Reais	Brazil
Banco Moneo S.A.	Banco Moneo	Reais	Brazil
Ciferal Indústria de Ônibus Ltda.	Ciferal	Reais	Brazil
Ilmot International Corporation.	Ilmot	US Dollar	Uruguay
Marcopolo Auto Components Co.	MAC	Renminbi	China

Marcopolo Austrália Holdings Pty Ltd.	MP Austrália	Australian Dollar	Australia
Pologren Austrália Pty Ltd.	Pologren	Australian Dollar	Australia
Volgren Austrália Pty Ltd.	Volgren	Australian Dollar	Australia
Marcopolo Canadá Holdings Corp.	MP Canada	Canadian Dollar	Canada
Marcopolo International Corp.	MIC	US Dollar	Virgin Islands
Marcopolo Latinoamérica S.A.	Mapla	Argentine Peso	Argentina
Marcopolo South África Pty Ltd.	Masa	Rand	South Africa
Marcopolo Trading S.A.	Trading	Reais	Brazil
Moneo Investimentos S.A.	Moneo	Reais	Brazil
Neobus Chile SPA.	Neobus Chile	Chilean Peso	Chile
NewRoad México S.A. de C.V.	NewRoad	Mexican Peso	Mexico
Rotas do Sul Logística Ltda.	Rotas do Sul	Reais	Brazil
San Marino Bus de México S.A. de C.V.	San Marino México	Mexican Peso	Mexico
San Marino Ônibus Ltda.	San Marino	Reais	Brazil
Syncroparts Comércio e Distribuição de Peças Ltda.	Syncroparts	Reais	Brazil
Polomex S.A. de C.V.	Polomex	US Dollar	Mexico
Volare Veículos Ltda.	Volare Veículos	Reais	Brazil
Volare Comércio e Distribuição de Veículos e Peças Ltda.	Volare Comércio	Reais	Brazil
Volare Del Peru S.A.C.	Volare Peru	Novo Sol	Peru

Joint subsidiaries	**Denomination**	**Functional currency**	**Country**
GB Polo Bus Manufacturing S.A.E.	GB Polo	Egyptian Pound	Egypt
Kamaz Marco LLC.	Kamaz	Rouble	Russia
Loma Hermosa S.A.	Loma	Argentine Peso	Argentina
Metalpar S.A.	Metalpar	Argentine Peso	Argentina
Metalsur Carrocerias S.R.L.	Metalsur	Argentine Peso	Argentina
Marcopolo Argentina S.A.	Marsa	Argentine Peso	Argentina
Superpolo S.A.	Superpolo	Colombian Peso	Colombia
Tata Marcopolo Motors Limited.	TMML	Rupee	India

Associated companies	**Denomination**	**Functional currency**	**Country**
Mercobus S.A.C.	Mercobus	Soles	Peru
New Flyer Industries Inc.	New Flyer	Canadian Dollar	Canada
Setbus Soluções Automotivas Ltda.	Setbus	Reais	Brazil
Spheros Climatização do Brasil S.A.	Spheros	Reais	Brazil
Spheros México S.A. de C.V.	Spheros México	Mexican Peso	Mexico
Spheros Thermosystems Colômbia Ltda.	Spheros Colômbia	Colombian Peso	Colombia
WSul Espumas Indústria e Comércio Ltda.	WSul	Reais	Brazil

2.5 Foreign currency

(a) Foreign-currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Company's entities at exchange rates at the dates of the transactions

Monetary assets and liabilities denominated and determined in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. Non-monetary assets and liabilities that are measured at fair value in a foreign currency are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Foreign currency differences arising on translation are generally recognized in profit or loss.
However, foreign currency differences arising from the retranslation of the following items are recognized in other comprehensive income:

- available-for-sale equity investments (except on impairment in which case foreign currency differences that have been recognized in other comprehensive income are reclassified to profit or loss);

- a financial liability designated as a hedge of the net investment in a foreign operation to the extent that the hedge is effective; or

- qualifying cash flow hedges to the extent the hedge is effective.

(b) Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to the Real at exchange rates at the reporting date. The income and expenses of foreign operations are translated to the Real at exchange rates at the dates of the transactions.

Foreign currency differences arising on translation to the reporting currency are recognized in other comprehensive income and accrued in equity appraisal adjustments in shareholders' equity. However, if the subsidiary is a non-wholly owned subsidiary, then the relevant proportion of the translation difference is allocated to non-controlling interests.

When a foreign operation (subsidiary, associated company or joint subsidiary) is disposed the cumulative amount in the equity appraisal adjustments is reclassified to profit or loss as part of the gain or loss on disposal. When the Group disposes of only part of its interest in a subsidiary that includes a foreign operation while retaining control, the relevant proportion of the cumulative amount is reattributed to non-controlling interests. In any other partial disposals overseas, the portion corresponding to the sale is reclassified to profit and loss.

2.6 Financial instruments

The Company classifies non-derivative financial assets into the following categories: financial assets measured at fair value through profit and loss, held-to-maturity investments, loans and receivables and available-for-sale financial assets.

The Company classifies non-derivative financial liabilities into the following categories: financial liabilities measured at fair value through profit or loss and other financial liabilities.

2.6.1 Nonderivative financial assets and financial liabilities - recognition and derecognition

The Company initially recognizes loans and receivables and debt instruments on the date they were originated. All other financial assets and liabilities are recognized on the trade date, which is the date that the entity becomes a party to the contractual provisions of the instrument.

The Company derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in such transferred financial assets that is created or retained by the Company is recognized as a separate asset or liability.

The Group derecognizes a financial liability when its contractual obligations are discharged, cancelled or expire.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company has a legal right to offset the amounts and intends either to settle them on a net basis or to realize the asset and settle the liability simultaneously

2.6.2 Nonderivative financial assets - measurement

(a) Financial assets at fair value through profit or loss

A financial asset is classified as at fair value through profit or loss if it is classified as held-for-trading or is designated as such on initial recognition. Attributable transaction costs are recognized in profit or loss as incurred. They are measured at fair value and changes therein, which takes into account any dividend income, are recognized in profit or loss.

(b) Held-to-maturity financial assets

Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition held-to-maturity financial assets were measured at amortized cost using the effective interest method.

(c) Loans and Receivables

Such assets were recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method.

(d) Cash and Cash Equivalents

Cash and cash equivalents comprise cash balances and call deposits with maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value, and are used by the Company in the management of its short-term commitments.

(e) Available-for-sale financial assets

Available-for-sale financial assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at fair value and changes in the fair value of these assets, other than impairment losses and foreign currency differences on debt instruments, are recognized in other comprehensive income and presented in the fair value reserve in equity. When an investment is derecognized, the gain or loss accumulated in equity is reclassified to profit or loss.

2.6.3 Nonderivative financial liabilities - measurement

A financial liability is classified as at fair value through profit or loss if it is classified as held-for-trading or is designated as such on initial recognition. Attributable transaction costs are recognized in profit or loss as incurred. Financial liabilities at fair value through profit or loss are measured at fair value and changes therein, which takes into account any dividend income, are recognized in profit or loss.

Such nonderivative financial liabilities are recognized initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortized cost using the effective interest method.

2.6.4 Repurchase and reissue of share capital (treasury shares)

When share capital recognized as equity is repurchased, the amount of the consideration paid, which includes directly attributable costs, is recognized as a deduction from equity. Repurchased shares are classified as treasury shares and are presented in the reserve for own shares. When treasury shares are sold or reissued subsequently, the amount received is recognized as an increase in equity, and the resulting surplus or deficit on the transaction is presented in share premium.

2.6.5 Impairment

(a) Nonderivative financial assets (including receivables)

A financial asset not classified as at fair value through profit or loss, including an interest in an equity-accounted investee, is assessed at each reporting date to determine whether there is objective evidence that it is impaired.

Objective evidence that financial assets are impaired includes:

- default or delinquency by a debtor
- restructuring of an amount due to the Company on terms that the Company would not consider otherwise,
- indications that a debtor or issuer will enter bankruptcy/judicial reorganization;
- adverse changes in the payment status of borrowers or issuers.
- the disappearance of an active market for that financial asset because of financial difficulties; or
- observable data indicating a measurable decrease in the estimated future cash flows from a group of financial assets.

(b) Financial assets measured at amortized cost

The Company considers evidence of impairment for financial assets measured at amortized cost at both a specific asset and collective level. All individually significant assets are assessed for specific impairment. Those found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Assets that are not individually significant are collectively assessed for impairment by grouping together assets with similar risk characteristics.

In assessing collective impairment, the Company uses historical trends of the timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or lesser than suggested by historical trends.

An impairment loss is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in profit or loss and reflected in an allowance account. The amounts are written off when the Company believes there are no reasonable prospects of recovering them. When an event occurring after the impairment was recognized causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

(c) Assets classified as "available-for-sale"

Impairment losses on available-for-sale financial assets are recognized by reclassifying the losses accumulated in the fair value reserve in equity to profit or loss. The reclassified loss is the difference between the acquisition cost, net of any principal repayment and amortization, and the current fair value, less any impairment loss recognized previously in profit or loss. If the fair value of an impaired available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognized, then the impairment loss is reversed, with the amount of the reversal recognized in profit or loss. Impairment losses recognized in profit or loss for equity instruments classified as available-for-sale are not reversed.

(d) Investees recorded by the equity income method

Impairment of an investee valued by the equity method is measured by comparing the recoverable value of the investment against its carrying amount. An impairment loss is recognized in net income and reversed if there is a favorable change in the estimates used to determine the recoverable value.

(e) Non-financial assets

The carrying amounts of the Company's non-financial assets, other than inventory and deferred income and social contribution taxes, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill and indefinite-lived intangible assets are tested annually for impairment.

Impairment losses are recognized in the income statement. Recognized losses on Cash Generating Units (UGC) are initially allocated to reduce any goodwill allocated to this unit (or group of units), and then to the reduction of the book value of other assets of this unit (or group of UGCs), on a *pro rata* basis.

An impairment loss in respect of goodwill is not reversed. Impairment losses for other assets are only reversed if the book value of the asset does not exceed the book value that would have been determined, net of depreciation or amortization, had the impairment not been recognized.

2.7 Derivatives measured at fair value through profit or loss

Derivative instruments procured do not qualify for hedge accounting. The changes in the fair value of any of the derivative instruments are immediately recognized in the income statement under "financial revenue (expenses)".

2.8 Trade accounts receivable

Trade receivables are amounts due from customers for property sold or services performed in the ordinary course of the Company's business. If collection is expected in one year or less (or other term compatible with the normal cycle of the Company's operations), they are classified as current assets. If not, they are presented as non-current assets.

Trade receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less a provision for impairment.

2.9 Inventories

Inventories are measured at the lower of cost and net realizable value. Inventory is recorded at average cost and includes expenses incurred on the acquisition of inventory, production and transformation costs and other costs incurred to bring the inventories to their current status and location. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity.

Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and estimated costs necessary to make the sale.

2.10 Property, plant and equipment

Recognition and measurement

Items of property, plant and equipment are measured at the historic cost of acquisition or construction, less accumulated depreciation and impairment.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the following:

- The cost of materials and direct labor,

- Any other costs to bring the asset to its location and condition necessary so it can be operated as intended by Management.

- The disassembly costs, and the restoration of the site where these assets are located, and

- Loan costs on qualifiable assets.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Any gain or loss on disposal of an item of property, plant and equipment is recognized in profit or loss.

Subsequent costs

Subsequent expenditure is capitalized only when it is probable that the future economic benefits associated with the expenditure will flow to the Company. Ongoing repairs and maintenance are expensed as incurred.

Depreciation
Items of property, plant and equipment are depreciated by the straight-line method in the income statement for the year, based on the estimated useful economic life of each component. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Company will obtain ownership by the end of the lease term. Land is not depreciated.

Items of property, plant and equipment are depreciated from the date they are installed and are available for use, or in the case of internally constructed assets, on the date construction is completed and the asset is available for use.

The estimated useful lives for the current and comparative years are as follows:

	Year
Buildings	40-60
Machinery	10-15
Vehicles	5
Furniture, fixtures and equipment	5-12

The depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted when necessary.

Reclassification to investment property
When the owner ceases to occupy the property and begins using it for investment purposes, the property is remeasured at fair value and reclassified as investment property. Any gain resulting from this remeasurement is recognized in the income statement as and when the gain reverts to a previous loss due to impairment of a specific property, with any remaining gain recognized in other comprehensive income in the equity appraisal adjustments reserve. Any loss is immediately recognized in the income statement.

2.11 Intangible assets and goodwill

(a) Goodwill

The goodwill consists of the positive difference between the amount paid or payable and the net amount of the acquired entity's assets and liabilities at fair value. Goodwill resulting from the acquisition of subsidiaries is recorded as intangible assets. If the acquirer determines goodwill, the amount should be recorded as a gain in the net income for the period, on the acquisition date. Goodwill is tested annually to check for probable impairment and recorded at cost value less accumulated impairment losses, which are not reversed. The gains and losses from selling an entity include the book value of the goodwill related to the sold entity.

The goodwill is allocated to the UGCs for impairment testing. This allocation is made to the UGCs or groups of UGCs that should benefit from the business combination generating the goodwill, duly segregated by operational segment.

(b) Registered trademarks and licenses

Registered trademarks and licenses acquired separately are stated at historic cost. Registered trademarks and licenses acquired in a business combination are recognized at fair value on the acquisition date, as they have a defined useful live and are recorded at cost value minus accumulated amortization. Amortization is calculated by the straight-line method to allocate the cost of registered trademarks and licenses over their estimated useful life of 10 to 20 years.

(c) Software

Software licenses acquired are capitalized based on costs incurred to acquire the software and render it ready for use. These costs are amortized during their estimated useful life of up to 5 years.

The costs associated with software maintenance are expensed when incurred. Development costs directly related to the design and tests of identifiable and exclusive software products, controlled by the Company are recognized as intangible assets in the following situations:

. it is technically feasible to complete the software so it is available for use

. management intends to conclude the software and use it or sell it

. the software can be sold or used

. the software will generate probable future economic rewards, which can be demonstrated

. technical and financial resources and other suitable resources are available to conclude the development and use or sell the software, and

. the expense attributable to the software during development can be measured reliably.

Costs directly attributable, which are capitalized as part of the software product, include costs incurred on employees allocated to software development and a suitable portion of the direct relevant expenses. The costs also include financing costs related to the acquisition of the software.

Other development expenses that do not meet these criteria are expensed, as and when incurred. Development costs previously recognized as expenses are not recognized as an asset in a subsequent period.

Software development costs recognized as assets are amortized during the estimated useful life, not exceeding 5 years.

(d) Research and development

Expenditure on research activities is recognized in profit or loss as incurred.

Development expenditure is capitalized only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Company intends to and has sufficient resources to complete development and to use or sell the asset The expenditure capitalized includes the cost of materials, direct labor, overhead costs that are directly attributable to preparing the asset for its intended use, and capitalized borrowing costs. Other development expenditure is recognized in profit or loss as incurred.

Subsequent to initial recognition, capitalized development expenditure is measured at cost less accumulated amortization and accumulated impairment losses.

(e) Other intangible assets

Other intangible assets that are acquired by the Company and have finite useful lives are measured at cost less accumulated amortization and any accumulated impairment losses.

(f) Subsequent expenditure

Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenses, including expenses on goodwill generated internally and trademarks are recognized in the statement as and when they are incurred.

(g) Amortization

Except for goodwill, amortization is recognized in income statement by the straight line method in relation to the estimated useful lives of intangible assets, as from the date they are available for use.

2.12 Investment property

Investment property is stated at cost.
Any gain or loss on disposal of an investment property (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognized in profit or loss.
When an investment property that was previously classified as property, plant and equipment is sold, any related amount included in the revaluation reserve is transferred to retained earnings.

2.13 Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less. (or the normal business cycle, even if it is longer). If not, they are presented as non-current liabilities.

Trade payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest rate method. In practice, they are usually recognized at the amount of the related invoice.

2.14 Loans and financing

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortized cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the statement of income during the period the loans and financing are in progress, using the effective interest rate method.

Loans and financing are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

2.15 Determining the adjustment to present value

The items discounted to present value are:

- Trade accounts receivable consisting of the credit sale to Company clients with low credit risk. The discount rate used by Management to discount these items to present value is 100% of the monthly CDI rate for domestic clients and the market rate for advances on export contracts for offshore clients. The interest rate assigned to a sale transaction is determined upon the initial registration of the transaction and is not subsequently adjusted, and

- Accounts payable to Company suppliers for credit purchases. The Company calculates the present value the same way as it does for accounts receivable.

2.16 Provisions

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as finance cost.

2.17 Provisions for warranties

A provision for warranties is recognized when the underlying products or services are sold. The provision is based on historical warranty data and weighed against all possible results in relation to the associated probabilities.

2.18 Income and social contribution taxes

The income and social contribution taxes, both current and deferred, are calculated based on the rates of 15% plus a surcharge of 10% on taxable income in excess of R$ 240 thousand for income tax and 9% on taxable income for social contribution on net income in the year, and consider the offsetting of tax loss carryforwards and negative basis of social contribution limited to 30% of the taxable income.

Income tax expense comprises current and deferred tax. Current tax and deferred tax is recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

(a) Income tax and social contribution expenses - current

Current tax expense is the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to tax payable in respect of previous years. The amount of current tax payable or receivable is recognized in the statement of financial position as tax assets or liabilities to better estimate the expected value of taxes to be paid or received, reflecting the uncertainties inherent to their calculation, if applicable. It is measured based on the rates that have been decreed by the reporting date.

Deferred tax assets and liabilities are offset only if certain criteria have been met.

(b) Income tax and social contribution expenses - deferred

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The changes in deferred tax assets and liabilities in the year are recognized as a deferred income and social contribution tax expense. Deferred tax is not recognized for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss
- temporary differences related to investments in subsidiaries, associates and jointly controlled entities to the extent that the Company is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future, and

- taxable temporary differences arising on the initial recognition of goodwill.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted at the reporting date.

The measurement of deferred tax assets and liabilities reflects the tax consequences that would follow the manner in which the Company expects to recover or settle its assets and liabilities.
Deferred tax assets and liabilities are offset only if certain criteria have been met.

2.19 Pension and post-employment benefits

The Company recognizes its obligations related to employee benefit plans and related costs, net of plan assets, in accordance with the following practices:

(i) The cost of pension and other post-employment benefits provided to employees is actuarially determined using the projected unit credit method and management's best estimate of expected investment performance for funded plans, salary increases, retirement age of employees and expected healthcare costs. The discount rate used for determining future benefit obligations is an estimate of the interest rate in effect at the balance sheet date;

(ii) Pension plan assets are stated at market value

(iii) Past service costs arising from plan adjustments are amortized on a straight-line basis over the remaining service period of active employees at the date of the adjustment;

(iv) Actuarial gains and losses are immediately recognized in comprehensive income for the year;

(v) A plan curtailment results from significant changes in the expected service period of active employees. A net curtailment loss is recognized when the event is probable and can be estimated, while a net curtailment gain is deferred until realized.

In accounting for pension and post-retirement benefits, several statistical and other factors that seek to anticipate future events are used to calculate plan expenses and liabilities. These factors include discount rate assumptions, expected return on plan assets, future increases in healthcare costs, and future salary increases.

In addition, actuarial consultants also use subjective factors such as withdrawal, turnover, and mortality rates to estimate these factors. The actuarial assumptions used by the Company may differ materially from actual results due to changing market and economic conditions, regulatory events, judicial rulings, higher or lower withdrawal rates, or longer or shorter participant life spans.

2.20 Capital

Common shares
Classified as shareholders' equity. Additional costs directly attributable to the issuance of shares and options are recognized as a deduction from the shareholders' equity, net of tax.

Preference share capital
Preference share capital is classified as equity if it is non-redeemable, or redeemable only at the Company’s option, and any dividends are discretionary. Discretionary dividends thereon are recognized as distributions within equity upon approval by the Company’s shareholders.

Minimum mandatory dividends and interest on shareholders’ equity paid to Marcopolo's stockholders are recognized as a liability in the Company's financial statements at the end of the year, pursuant to Marcopolo's bylaws. Any amount in excess of the mandatory minimum is only provisioned for on the date they are approved by the shareholders at the annual general meeting.

2.21 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of products and services in the ordinary course of the Company's activities. Operating revenue is recognized when: (i) significant risks and rewards of ownership have been transferred to the customer, (ii) recovery of the consideration is probable, (iii) the associated costs and possible return of goods can be reliably estimated, (iv) there is no ongoing involvement with the goods sold and (v) and the amount of revenue can be measured reliably. Revenue is stated net of returns, trade discounts and volume rebates and after eliminating intercompany sales.

(a) Bus sales

Revenue is not recognized until: (i) the cars have been delivered to the client; (ii) the risks of obsolescence and loss have been transferred to the client; (iii) the client has accepted the cars pursuant to the sale contract; and (iv) the acceptance terms have been agreed, or the Company has objective evidence that all acceptance criteria have been met.

Sales are recorded based on the price specified in the sale contract, and are discounted to present value.

2.22 Finance income and finance costs

The Company's finance income and finance costs comprise:
- interest revenue and expenses;
- net gain/loss on the sale of available-for-sale financial assets
- net gains/losses on financial assets measured at fair value through profit or loss
- net foreign currency gains and losses on financial assets and financial liabilities.
- fair value losses charged as contingent payment classified as a financial liability
- financial asset impairment (other than accounts receivable)
- Gains/losses on hedge instruments recognized in profit or loss and
- reclassifications of net gains previously recognized in other comprehensive income.

Interest income and expenses are recognized as they accrue in profit or loss, using the effective interest method.

The Company classifies interest on shareholders' equity received as cash flows from investment activities.

2.23. Standards, amendments and interpretations of standards

(a) Standards, amendments and interpretations of existing standards that are not yet effective:

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2017, and have not been applied in preparing these financial statements. The Company is not planning to implement these standards in advance.

IFRS 9 – Financial Instruments
Published in July 2014, IFRS 9 replaced the guidelines in IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 includes a logical model for classification and measurement of financial instruments, a single, forward-looking ‘expected loss’ impairment model and a substantially-reformed approach to hedge accounting. The standard carries over from IAS 39 the requirements for recognition and derecognition of financial assets and financial liabilities. IFRS 9 is effective for annual periods beginning on or after January 01, 2018. The Company is evaluating the effects that IFRS 9 will have on its financial statements and disclosures.

IFRS 15 Revenue from Contracts with Customers
IFRS 15 requires an entity to recognize revenue in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The new standard will replace most of the detailed guidelines about revenue recognition currently set out in IFRS and U.S. GAAP when the new standard, is adopted. The new standard is applicable on or after January 01, 2018. The new standard may be adopted retrospectively, using a cumulative approach. The Company is evaluating the effects that IFRS 15 will have on its financial statements and disclosures.

The new standards or modifications are not expected to have a material impact on the Company's consolidated financial statements.

- Accounting for Acquisitions of Interests in Joint Operations (amendment of IFRS 11)
- Acceptable Methods of Depreciation and Amortization (amendments of CPC 27 / IAS 16 and CPC 04 / IAS 38)
- Sale or Contribution of Assets Between an Investor and its Associate or Joint Venture (amendments of CPC 36 / IFRS 10 and CPC 18 / IAS 28)
- Disclosure Initiative (Amendment of CPC 26 / IAS 1).

The Accounting Pronouncements Committee has not yet issued an accounting pronouncement or amended existing pronouncements related to all these new IFRS standards. Early adoption of these IFRS is not therefore permitted for entities that disclose their financial statements in accordance with the accounting practices adopted in Brazil.

3 – Business combination - acquisition of subsidiary

On July 18, 2016 the Board of Directors approved the acquisition of the control of San Marino, a manufacturer of bodies for buses and minibuses, upon acquiring more than 55% of this entity’s capital. As a result, the Company's equity interest rose from 45% to 100%.

In a Special General Meeting on August 3rd, shareholders approved the acquisition of L&M Incorporadora Ltda., the direct parent of San Marino Ônibus Ltda. (“Neobus”), via the issuance of 12,108,151 new preferred shares.

Goodwill was determined under the acquisition of R$ 30,739 after the Purchase Price of R$ 24,413 had been allocated and a deferred tax liability of R$ 8,300 thousand.

(a) The sum of the net assets acquired resulted in the following amounts:

Identifiable assets acquired and liabilities undertaken	R$ 000
Assets	
Current	
Cash and cash equivalents	4,127
Trade receivables	99,063
Inventories	59,272
Other	24,180
Non-current	
Other assets	47,379
Property, plant and equipment	152,365
Intangible assets	4,068
Total Assets	**390,454**
Liabilities	
Current	
Trade accounts payable	(44,468)
Loans and borrowings	(136,896)
Other	(31,345)
Non-current	
Loans and borrowings	(106,833)
Other	(44,096)
Total Liabilities	**(363,638)**
Assets net of liabilities	**26,816**
% interest acquired	100.00%

(b) Goodwill

The goodwill recognized as a result of the acquisition was determined as follows:

	R$ thousand
Consideration transferred	73,668
Shareholders' equity acquired	26,816
Appreciation of assets	
Land	16,518
Buildings	7,895
Deferred income and social contribution taxes	(8,300)
Goodwill	**30,739**

4 Critical Accounting Estimates and Judgments

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Based on assumptions, the company makes estimates concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next year are addressed in note 2.1 (c).

5 Financial Risk Management

5.1 Risk factors

(a) Market risk

(i) Exchange rate risk
The Company's results are susceptible to currency effects as its assets and liabilities are subject to the volatility of foreign exchange rates, mainly the U.S. dollar.

As an exchange rate hedge strategy, Management uses natural hedges and maintains related assets also susceptible to exchange variance.

As of December 31, 2016 and 2015 the Company had assets, liabilities and forwards denominated in foreign currency in the following amounts (thousands of reais):

				Consolidated
				2016
	Trade accounts receivable	**Trade accounts payable**	**Loans**	**Forwards**
Currency				
US Dollars	316,507	15,458	322,577	196,797
Australian dollars	43,023	26,677	74,243	30,480
South African rand	20,466	49	842	5,138
Chinese Renminbi	18,787	-	15,756	-
	398,783	42,184	413,418	232,415

				Consolidated
				2015
	Trade accounts receivable	**Trade accounts payable**	**Loans**	***Forwards***
Currency				
US Dollars	333,291	5,903	461,857	78,943
Australian dollars	34,684	28,506	79,920	32,039
Argentinian pesos	-	-	-	4,410
South African rand	11,163	13,758	624	13,151
Chinese Renminbi	25,390	7,329	22,911	-
	404,528	55,496	565,312	128,543

(ii) Interest rate risk
The results of the Company are susceptible to losses arising from fluctuations in interest rates that lead to an increase in financial expenses related to loans and financing obtained in the market, or a decrease

in financial income related to financial investments. The Company continuously monitors the market interest rates in order to assess any requirement to use derivatives to protect itself against the risk of variation to these rates.

(iii) Sales and purchases price risk
Considering that exports are equivalent to 46.1% of the projected revenues for 2017, a possible volatility of foreign exchange rates represents, in fact, a price risk that may alter the results planned by management.
On the other hand, the purchases of raw materials considered as commodities represent approximately 38% of total purchases, and accordingly, the Company is subject to the effects of market price oscillations of these items.

The Company constantly monitors the price trends to mitigate these risks.

(b) Credit risk
The credit risk is administrated on a corporate basis. Credit risk arises from cash and cash equivalents, derivative financial instruments, deposits at banks and financial institutions, as well as credit exposures to customers, including outstanding receivables and repurchase transactions. If no independent classification exists, the credit ratings department evaluates the quality of the customer's credit, taking into account its financial position, past experience and other factors. The individual risk limits are determined based on internal or external classifications according to the limits established by the Board of Directors. The use of credit limits is monitored regularly.

The Company also has an allowance for doubtful accounts of R$ 29,430 (parent company) and R$ 87,893 (consolidated) as of December 31, 2016 (December 31, 2015 - R$ 32,572 and R$ 77,588) representing 6.4% and 6.0% respectively, of the outstanding accounts receivable balance of the parent company and consolidated (December 31, 2015 - 5.6% and 4.7%) which was recorded to cover credit risk

(c) Liquidity risk
This is a risk of the Company having insufficient liquid funds to meet its financial commitments, as a result of a time or volume mismatch between scheduled receipts and payments.

Future receipt and payment premises are established to administrate cash liquidity in local and foreign currency, which are directly monitored by the Treasury Department.

		Consolidated			
		2016			
		Contractual cash flow			
	Carrying amount	Total	Between one and two years	Between two and five years	Over five years
Nonderivative financial liabilities					
Loans and borrowings	2,299,234	2,616,781	978,687	1,395,853	242,241
Trade accounts payable	251,454	251,454	251,454	-	-
Derivative financial liabilities					
Derivative financial instruments	492	492	492	-	-

		Consolidated			
		2015			
		Contractual cash flow			
	Carrying amount	**Total**	**Between one and two years**	**Between two and five years**	**Over five years**
Nonderivative financial liabilities					
Loans and borrowings	2,474,846	2,788,174	1,014,846	1,594,096	179,232
Trade accounts payable	249,138	249,138	249,138	-	-
Derivative financial liabilities					
Derivative financial instruments	921	921	921	-	-

(d) Additional sensitivity analysis required by CVM

The table below denotes the sensitivity analysis of the financial instruments, which explains the risks that could generate material changes for the Company, with the most probable scenario as evaluated by management, for a period of 12 months during which the next financial statements shall be released. Two more scenarios are presented, which, if they occur, may generate adverse results for the Company: scenario II, which considers a possible deterioration of 25%; and scenario III, an extreme deterioration of 50%, in accordance with CVM Instruction 475/08.

Assumptions	**Effects on results**	**Scenario probable (Scenario I)**	**(Scenario II)**	**(Scenario III)**
CDI - %		10.50	13.13	15.75
TJLP - %		7.50	9.38	11.25
Exchange rate - USD		3.40	4.25	5.10
Exchange rate - Euro		3.65	4.56	5.48
LIBOR - %		1.55	1.94	2.33
Cost of advances on foreign exchange contracts (ACC) discount - %		3.04	3.80	4.56
	Short-term investments	111,185	138,835	166,460
	Interbank transactions	76,376	85,047	93,721
	Loans and borrowings	(155,287)	(247,607)	(341,694)
	Forwards	(5,856)	(20,843)	(24,941)
	Receivables less payables	15,485	108,506	201,527
	Gain/(Loss)	41,903	63,938	95,073

5.2 Capital Risk Management

The Company's objectives when managing capital are to safeguard its operational continuity, in order to provide returns to stockholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to preserve the sustainability and perpetuation of its business, in addition to social and environmental concerns, the Company places emphasis on the economic and financial results, which lead to the aggregation of value to the business and return to stockholders. As from 2001, the methodology known as Value-added Management was adopted to monitor the Company's performance. This methodology focuses on operational actions which result in superior financial performance. The staff received training under this program to develop and use measurement and control tools to accomplish targets, thus enabling the simulation and analysis of the efficient management of working capital and the effects of new investments on the Company's profitability. At the same time, Marcopolo adopted the concepts of Balanced Score Card (BSC) that translates each unit's strategy into objectives, drivers, targets and action plans, which are frequently monitored and managed. The tools related to objectives include: WACC (Weighted Average Cost Of Capital), Net debt/EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization) and Ratio between Debt/Shareholders' Equity. These key indicators were as follows in the past few years:

WACC - between 8% and 12% p.a.
Net Debt/EBITDA - between 1.50x and 2.50x
Debt/Equity ratio - between 25% and 80%

The financial leverage indexes as of December 31, 2016 and 2015 have been summarized below (Note 31):

	Consolidated		**Industrial Segment**		**Financial Segment**	
	2016	**2015**	**2016**	**2015**	**2016**	**2015**
Total loans	2,299,234	2,474,846	1,645,904	1,755,647	653,330	719,199
Derivative financial instruments	492	921	492	921	-	-
Minus: cash and cash equivalents	(1,209,459)	(1,131,162)	(1,164,763)	(1,111,998)	(44,909)	(19,164)
Less: short-term investments	(224,151)	(234,014)	(224,151)	(234,014)	-	-
Less: derivative financial instruments	(6,498)	-	(6,498)	-	-	-
Net debt (A)	859,618	1,110,591	250,984	410,556	608,421	700,035
Total shareholders' equity (B)	1,868,517	1,862,183	1,636,984	1,636,306	231,533	225,877
Financial leverage index - % (A/B)	46	60	15	25	263	310

5.3 Fair value estimation

The carrying amount less impairment provision of trade receivables and payables are assumed to approximate their fair value. The fair value of financial liabilities for reporting purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Company for similar financial instruments.

The Company adopted CPC 40/IFRS 7 for financial instruments that are measured in the balance sheet at fair value; this requires disclosure of fair value measurements by level of the following fair value hierarchy:

. Prices quoted (unadjusted) on active markets for identical assets and liabilities (level 1).

. Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices) (level 2), and

. Inputs for the asset or liability that are not based on observable market data (i.e. unobservable inputs) (level 3).

The following table presents the Company's assets and liabilities that are measured at fair value at December 31, 2016 and 2015 which were fully classified in level 2:

	Consolidated	
	2016	**2015**
Assets		
Financial assets at fair value through profit or loss		
- Fixed income investment fund	-	152
- Trading derivatives	6,498	1,803
Available-for-sale assets		
- Bank deposit certificates	224,151	184,714
	230,649	186,669
Liabilities		
Financial liabilities at fair value through profit or loss		
- Trading derivatives	492	921
	492	921

5.4 Other risk factors

At the initiative of the Board of Directors, the Company may conduct internal assessments whenever external or internal factors indicate the possibility of distortions in the financial statements, financial losses or damage to its repute have occurred. These procedures are carried out independently with or without the support of external experts, and the findings are reported to the Board of Directors.

6 Financial instruments by category

(a) Financial assets stated at fair value through profit or loss

(i) Short-term investments are classified as held for trading. The market value is recognized in the statements of financial position and

(ii) Derivatives - The derivative instruments contracted by the Company aim at protecting its transactions against the risks of foreign exchange and interest rate fluctuations, and are not used for speculative purposes

(b) Loans and receivables

(i) Cash and cash equivalents - The market values of current account balances in banks are similar to the recorded balances, considering their characteristics and maturities.

(ii) Trade accounts receivable - Accounts receivable on the sale of goods and services, and

(iii) Related-party transactions - Loans.

(c) Available-for-sale

Short-term investments - Funds held in Bank Deposit Certificates.

(d) Financial liabilities stated at fair value through profit or loss

Derivatives - The derivative instruments contracted by the Company aim at protecting its transactions against the risks of foreign exchange and interest rate fluctuations, and are not used for speculative purposes

(e) Other financial liabilities

(i) Loans and financing - The loans and financing are registered according to interest incurred. The difference between the book value and the market value, calculated in accordance with the discounted cash flow method, may be summarized as follows:

	Consolidated		Consolidated	
	2016		2015	
Nature of assets	**Carrying amount**	**Market value**	**Carrying amount**	**Market value**
Loans and borrowings	2,299,234	2,273,390	2,474,846	2,441,926

(ii) Trade payables - Payables on the acquisition of goods and services.

(f) Derivative financial instruments

The table below presents an estimate of the market value of the positions of Non-deliverable Forward (NDF) and Forward contracts. Unrealized gains and losses on derivatives are recorded in "derivative financial instruments" in assets or liabilities, with a corresponding entry to the results in the item Finance income (or costs) from exchange variance respectively.

Assets

					Notional value	Fair value		Amounts receivable	
Company	**Counterparty**	**Status**	**Initial**	**Final**	**2016**	**2016**	**2015**	**2016**	**2015**
Marcopolo					USD k				
	BRADESCO	Sale	10/10/2016	2/16/2017	7,050	773	-	773	-
	SANTANDER	Sale	10/7/2016	4/11/2017	21,410	3,059	-	3,059	-
	SAFRA	Sale	10/10/2016	3/23/2017	9,060	1,076	-	1,076	-
	BRADESCO	Purchase				-	288	-	288
	SANTANDER	Purchase				-	41	-	41
						4,908	**329**	**4,908**	**329**
Masa					USD k				
	STD	Purchase	11/30/2016	3/31/2017	584	54	1,380	54	1,380
	ABSA	Purchase	8/23/2016	2/24/2017	993	45	-	45	-
						99	**1,380**	**99**	**1,380**
MP Austrália					USD k				
	CITIBANK	Purchase	6/14/2016	1/17/2017	517	17	-	17	-
	WESTERN UNION	Purchase	10/28/2016	12/5/2017	3,600	472	4	472	4

	CITIBANK	Purchase	10/28/2016	7/5/2017	CHF k 700	18	-	18	-
	CITIBANK	Purchase	10/28/2016	9/5/2017	SGD k 775	4	-	4	-
	CITIBANK	Purchase	11/8/2016	11/8/2017	CNY k 20,718	266		266	
						777	**4**	**777**	**4**
Polomex									
	MONEX	Purchase	6/29/2016	1/17/2017	USD k 2,800	714	-	714	-
						714	**-**	**714**	**-**
Volare Veículos					USD k				
	BBA	Purchase				-	90	-	90
						-	**90**	**-**	**90**
						6,498	**1,803**	**6,498**	**1,803**

Liabilities

Company	Counterparty	Status	Initial	Final	Notional value 2016	Fair value 2016	Fair value 2015	Amounts payable 2016	Amounts payable 2015
Marcopolo					USD k				
	BRADESCO	Sale	10/19/2016	2/23/2017	4,250	(182)	(63)	(182)	(63)
	SANTANDER	Sale	10/24/2016	2/21/2017	4,550	(250)	(38)	(250)	(38)
	BBA	Purchase				-	(73)	-	(73)
						(432)	**(174)**	**(432)**	**(174)**
Ciferal					USD k				
	BRADESCO	Sale	12/29/2016	1/30/2017	775	(1)	-	(1)	-
						(1)	**-**	**(1)**	**-**
MP Austrália					USD k				
	WESTERN UNION	Purchase	10/9/2016	2/7/2017	209	(10)	(405)	(10)	(405)
	CITIBANK	Purchase	10/28/2016	10/10/2017	SGD k 465	(1)	(50)	(1)	(50)
	CITIBANK	Purchase	10/28/2016	10/10/2017	CHF k 504	(11)	(197)	(11)	(197)
	WESTERN UNION	Purchase				-	(81)	-	(81)
	CITIBANK	Purchase			CNY k	-	(14)	-	(14)
						(22)	**(747)**	**(22)**	**(747)**
Polomex					USD k				
	MONEX	Purchase	12/9/2016	9/19/2017	10,500	(37)	-	(37)	-
						(37)	**-**	**(37)**	**-**
						(492)	**(921)**	**(492)**	**(921)**

The Company had the following gains and losses from derivatives in the financial years ended December 31, 2016 and 2015:

	Realized gains/losses			
	Interest on derivatives		Exchange variance on derivatives	
	2016	2015	2016	2015
Marcopolo	10,753	(1,469)	12,218	8,769
Ciferal	-	-	-	(478)
Volare ES	(270)	-	(300)	-
Masa	-	-	(299)	(595)
MP Austrália	-	-	-	19

7 Consolidated financial statements

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

(a) Subsidiaries

	Percentage interest					
	2016			2015		
	Direct	Indirect	Minority interest	Direct	Indirect	Minority interest
Apolo	65.00	-	35.00	65.00	-	35.00
Banco Moneo	-	100.00	-	-	100.00	-
Ciferal	99.99	0.01	-	99.99	0.01	-
Ilmot	100.00	-	-	100.00	-	-
MAC	100.00	-	-	100.00	-	-
MIC	100.00	-	-	100.00	-	-
Mapla	-	-	-	99.99	0.01	-
Masa	100.00	-	-	100.00	-	-
Trading	99.99	-	0.01	99.99	-	0.01
Moneo	100.00	-	-	100.00	-	-
MP Austrália	100.00	-	-	100.00	-	-
MP Canada	100.00	-	-	100.00	-	-
Pologren (1)	-	75.00	25.00	-	75.00	25.00
Volgren (1)	-	75.00	25.00	-	75.00	25.00
Polomex	3.61	70.39	26.00	3.61	70.39	26.00
San Marino	100.00	-	-	-	-	-
Rotas do Sul (2)	-	100.00	-	-	-	-
San Marino México (2)	-	100.00	-	-	-	-
NewRoad (2)	-	100.00	-	-	-	-
Neobus Chile (2)	-	100.00	-	-	-	-
Syncroparts	99.99	0.01	-	99.99	0.01	-
Volare Veículos	99.90	0.10	-	99.90	0.10	-
Volare Comércio	99.90	0.10	-	99.90	0.10	-
Volare Peru	99.90	0.10	-	-	-	-

(1) Consolidated in MP Australia;
(2) Consolidated in San Marino.

The following main practices are adopted in the preparation of the consolidated financial statements:

(a) Elimination of inter-company asset and liability account balances

(b) Elimination of investment in the capital, reserves and retained earnings of the subsidiaries,

(c) Elimination of intercompany income and expenses and unearned income arising from intercompany transactions. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment;

(d) Elimination of tax charges on unearned income and presented as deferred tax in the consolidated balance sheet, and

(e) Identification of minority interests in the consolidated financial statements.

(b) Joint arrangement (not consolidated)

	Percentage interest			
	2016		2015	
	Direct	Indirect	Direct	Indirect
GB Polo	49.00	-	49.00	-
Kamaz	50.00	-	50.00	-
Loma	50.00	-	50.00	-
Metalpar (1)	1.00	49.00	-	50.00
Metalsur (1)	-	25.50	-	25.50
Marsa (1)	-	50.00	-	50.00
San Marino	-	-	45.00	-
Rotas do Sul (2)	-	-	-	45.00
San Marino México (2)	-	-	-	45.00
Superpolo	20.61	29.39	20.61	29.39
TMML	49.00	-	49.00	-

(1) Consolidated in joint arrangement (not consolidated) Loma;
(2) Consolidated in joint arrangement (not consolidated) at San Marino up to the business combination;

The main balances of the financial statements of the direct joint ventures can be summarized as follows:

	Assets		Liabilities		Net revenue		Profit (loss)	
	2016	2015	2016	2015	2016	2015	2016	2015
GBPolo	54,299	145,690	73,919	139,135	45,446	94,061	(27,186)	(13,859)
Kamaz	5,473	6,782	10,577	12,416	2,315	16,316	570	(2,834)
Loma	227,120	214,873	159,214	135,175	371,993	465,888	15,588	36,870
San Marino	-	416,864	-	356,333	-	306,961	-	(21,084)
Superpolo	216,494	172,207	137,731	91,430	249,748	213,171	14,794	11,179
TMML	188,822	208,492	147,791	162,739	244,842	306,663	4,547	(6,427)

(c) Associates (not consolidated)

	Percentage interest			
	2016		2015	
	Direct	Indirect	Direct	Indirect
Mercobus	40.00	-	40.00	-
MVC	-	-	26.00	-
New Flyer	-	10.81	-	19.97
Setbus	25.10	21.96	25.10	21.96
Spheros	40.00	-	40.00	-
Spheros Colombia (1)	-	40.00	-	40.00
Spheros Mexico (1)	-	40.00	-	40.00
WSul	30.00	-	30.00	-

(1) Consolidated in associate (not consolidated) Spheros

The main balances of the financial statements of the direct joint ventures can be summarized as follows:

	Assets		Liabilities		Net revenue		Profit (loss)	
	2016	2015	2016	2015	2016	2015	2016	2015
Mercobus	6,989	7,189	1,786	1,266	11,330	11,925	4,680	4,963
MVC	-	585,053	-	584,615	-	275,954	(438)	(137,323)
Setbus	11,349	11,801	24,978	22,996	2,460	14,395	(2,430)	(4,948)
Spheros	82,207	61,700	31,274	26,452	159,558	138,809	18,503	12,538
WSul	12,475	7,685	1,852	1,422	23,750	19,643	4,360	163

Below we present the nature of subsidiaries:

Apolo Soluções em Plásticos Ltda. - located in Caxias do Sul, State of Rio Grande do Sul, Brazil, with a share of 65% in the capital, Apolo carries out the plastic injection of parts, development, manufacture and sale of products and plastics.

Moneo Investimentos S. A. – Wholly owned subsidiary located in Caxias do Sul, State of Rio Grande do Sul, Brazil. Moneo was founded to acquire interests in other companies exclusively those which are defined to be financial institutions or other institutions authorized to operate by the Central Bank of Brazil and it has the following subsidiary:

- Banco Moneo S.A. – located in Caxias do Sul, State of Rio Grande do Sul, Brazil, is engaged in the banking business in general, in all financial operations Central Bank of Brazil has authorized for in the market of Brazil.

Ciferal Indústria de Ônibus Ltda. –Wholly owned subsidiary located in Duque de Caxias, State of Rio de Janeiro, Brazil, is engaged in manufacturing car bodies for buses and minibuses, besides their parts, components and accessories.

San Marino Ônibus Ltda. – Wholly owned subsidiary located in Caxias do Sul, State of Rio Grande do Sul, Brazil. San Marino is engaged in manufacturing bus and minibus bodies, in addition to their parts, components and accessories and has an interest in other companies, with the following subsidiaries:

- San Marino Bus de México S. A. de C.V. – Wholly owned subsidiary located in Toluca, State of Mexico, Mexico, it is engaged in manufacturing bus bodies.

- Rotas do Sul Logística Ltda. Wholly owned subsidiary located in Caxias do Sul, State of Rio Grande do Sul, Brazil, it is engaged in providing transportation services.

- NewRoad México S.A. de C.V. Wholly owned subsidiary located in Mexico, founded to couple bodies and sell parts.

- Neobus Chile SPA. - Wholly owned subsidiary located in Chile, founded to sell products and parts.

Ilmot International Corporation. - Wholly owned subsidiary, located in Uruguay. Ilmot was founded to acquire interests in other companies and has the following subsidiaries / associated companies:

- Polomex S.A. de C.V. - located in Monterrey, Nuevo León, Mexico, with a share of 70.39% in the capital. Polomex is engaged in manufacturing bus bodies.

- Superpolo S.A.S. located in Colombia, with a share of 29.39% in the capital. Superpolo is engaged in manufacturing bus bodies.

Marcopolo Auto Componentes Co. Wholly owned subsidiary, located in Changzhou City, China. It is engaged in developing and selling buses components.

Marcopolo Austrália Holdings Pty Ltd. Wholly owned subsidiary, located in Melbourne, Australia. MP Australia was founded to acquire interests in other companies and has the following subsidiary:

- Pologren Austrália Holdings Pty Ltd. - Subsidiary, located in Melbourne, Australia. Pologren was founded to acquire interests in other companies and has the following subsidiary:

    - Volgren Austrália Pty Limited. - located in Melbourne, Australia, with a share of 75% in the capital. Volgren is engaged in manufacturing bus bodies.

Marcopolo Canadá Holdings Corp. Wholly owned subsidiary, located in Canada. MP Canada was founded to acquire interests in other companies and has the following associated company:

- New Flyer Industries Inc. – located in Canada, with a share of 10.81% of the capital. New Flyer is engaged in manufacturing buses.

Marcopolo International Corp. Wholly owned subsidiary, located in British Virgin Islands. Currently this subsidiary is not operating.

Marcopolo South África Pty Ltd. Wholly owned subsidiary, located in Johannesburg, South Africa. Masa is engaged in manufacturing bus bodies.

Marcopolo Trading S. A. – Wholly owned subsidiary located in Caxias do Sul, State of Rio Grande do Sul, Brazil. It is engaged in provide technical services regarding foreign trade.

Superpolo S.A.S. located in Colombia, with a share of 20.61% in the capital. Superpolo is engaged in manufacturing bus bodies.

Syncroparts Com e Distr. de Peças Ltda. – Wholly owned subsidiary located in Caxias do Sul, State of Rio Grande do Sul, Brazil. It has engaged in trading and distribution of parts for vehicles and has interests in other companies.

Volare Veículos Ltda. Wholly owned subsidiary located in São Matheus, State of Espírito Santo, Brazil, it is engaged in manufacturing car bodies for buses and minibuses, besides their parts, components and accessories.

Volare Comércio e Distribuição de Veículos e Peças Ltda. – Wholly owned subsidiary, located in São Paulo, State of São Paulo, Brazil, it is engaged in sell vehicle parts and accessories.

Volare Del Perú S.A.C. – Wholly owned subsidiary, located in Peru, engaged in the sale of vehicles and parts and accessories.

GB Polo Bus Manufacturing S. A. E. – Subsidiary with a share of 49% in the capital, located in Suez, Egypt, it is engaged in manufacturing bus bodies.

Kamaz Marco LLC. Associated company with a share of 50% in the capital, located in Moscow, Russia, it is engaged in manufacturing bus bodies.

Loma Hermosa S. A. – Associated company with a share of 50% of capital, located in Buenos Aires, Argentina. Loma was founded to acquire interests in other companies and has the following subsidiaries / associated companies:

- Metalpar S.A. Subsidiary with a share of 98% of capital, located in Buenos Aires, Argentina. Metalpar is engaged in manufacturing bus bodies.

- Metalsur Carrocerias S.R.L. Subsidiary with a share of 51% of capital, located in Santa Fé, Argentina. Metalsur is engaged in manufacturing bus bodies.

- Marcopolo Argentina S.A. Joint subsidiary with a share of 50% of capital, located in Buenos Aires, Argentina. A wholly owned subsidiary engaged in the sale of vehicle parts and accessories.

Tata Marcopolo Motors Limited. Associated company with a share of 49% in the capital, located in Dharwad, India, it is engaged in manufacturing bus bodies.

Mercobus S.A.C. Associated company with a share of 40% in the capital, located in Peru, it is engaged in commercial representation of bus bodies.

MVC Componentes em Plásticos LTDA. – Associated company, with 26% interest in the capital, located in São José dos Pinhais, Paraná state, Brazil, with entire interest sold to Artecola Participações S.A., on June 22, 2016.

Setbus Soluções Automotivas Ltda. Associated company with a direct and indirect interest of 25.10% and 21.96%, respectively, in the capital, located in Caxias do Sul, State of Rio Grande do Sul, Brazil. Setbus is engaged in automotive solutions.

Spheros Climatização do Brasil S. A. – Associated company with a share of 40% in the capital, located in Caxias do Sul, State of Rio Grande do Sul, Brazil. Spheros is engaged in the assembly, sale, import and export of refrigeration and air conditioning equipment and has interests in other companies, with the following subsidiaries:

- Spheros México S. A. de C. V. – Wholly owned subsidiary located in Mexico engaged in the assembly, sale, import and export of refrigeration and air conditioning equipment.

- Spheros Thermosystems Colômbia Ltda. - Wholly owned subsidiary located in Colombia engaged in the assembly, sale, import and export of refrigeration and air conditioning equipment.

WSul Espumas Indústria e Comércio Ltda. Associated company with a share of 30% in the capital, located in Caxias do Sul, State of Rio Grande do Sul, Brazil. Wsul is engaged in the manufacturing and sale of molded polyurethane foam and derivatives thereof.

8 Cash and cash equivalents, financial assets and derivatives

8.1 Cash and cash equivalents

	Parent Company		Consolidated	
	2016	**2015**	**2016**	**2015**
Cash and banks				
Brazil	24,954	43,588	30,821	44,682
Foreign	138	260	118,441	128,388
Highly liquid marketable securities				
In Brazil (*)	891,903	879,395	1,022,078	958,092
Foreign	-	-	38,119	-
Total cash and cash equivalents	916,995	923,243	1,209,459	1,131,162

(*) Substantially correspond to Bank Deposit Certificates - CDB remunerated at between 99.0% and 102.0% of the Interbank Deposit Certificate (CDI) rate, resulting in a weighted average of approximately 100.0% of CDI as of December 31, 2016.

8.2 Financial assets at fair value through profit or loss, available-for-sale assets and derivative financial instruments

	Parent Company		Consolidated	
	2016	**2015**	**2016**	**2015**
Current				
Held for trading				
Fixed-income investment funds	-	152	-	152
Non-deliverable Forwards	4,908	329	6,498	1,803
Available for sale				
Bank deposit certificates (*)	222,997	184,714	224,151	184,714
	227,905	185,195	230,649	186,669
Non-current				
Available for sale				
Related-party transactions	24,966	114,878	18,817	47,345
	24,966	114,878	18,817	47,345

(*) Substantially correspond to Bank Deposit Certificates - CDB remunerated at between 100.0% and 102.0% of the Interbank Deposit Certificate (CDI) rate, resulting in a weighted average of approximately 100.10% of CDI as of December 31, 2016.

Derivative financial instruments are classified in current assets or liabilities. The Company has no financial instruments recognized under the hedge accounting method, pursuant to IAS 39.

9 Trade accounts receivable

	Parent Company		Consolidated	
	2016	**2015**	**2016**	**2015**
Current				
Domestic customers	178,047	252,236	250,288	331,026
Foreign customers	226,943	290,792	408,433	416,056
Related parties	58,206	44,347	-	-
Interbank transactions	-	-	315,934	357,634
Adjustment to present value	(3,051)	(3,571)	(4,599)	(4,178)
Allowance for doubtful accounts	(29,430)	(32,572)	(69,240)	(67,938)
	430,715	551,232	900,816	1,032,600
Non-current				
Interbank transactions	-	-	500,296	547,865
Allowance for doubtful accounts	-	-	(18,653)	(9,650)
	-	-	481,643	538,215
	430,715	551,232	1,382,459	1,570,815

Interbank accounts refer to the financing for the acquisition of buses granted by Banco Moneo through the Government Agency for Machinery and Equipment Financing (FINAME) program.

See below the aging list of trade accounts receivable:

	Parent Company		Consolidated	
	2016	**2015**	**2016**	**2015**
Amounts outstanding	310,137	351,874	1,242,492	1,308,040
Overdue:				
Up to 30 days	31,841	43,589	47,912	79,474
31 to 60 days	5,461	19,664	12,075	27,973
61 to 90 days	3,433	5,382	7,560	10,402
91 to 180 days	13,123	7,838	40,169	35,323
Over 181 days	99,201	159,028	124,743	191,369
Adjustment to present value	(3,051)	(3,571)	(4,599)	(4,178)
Allowance for doubtful accounts	(29,430)	(32,572)	(87,893)	(77,588)
	430,715	551,232	1,382,459	1,570,815

The changes in the allowance for doubtful accounts are as follows:

	Parent Company	Consolidated
Balance at January 1, 2015	(28,428)	(77,681)
Provision recorded in the year	(3,338)	(8,314)
Reversal of provision for receivables (write-off)	1,651	14,536
Exchange variance	(2,457)	(6,129)
Balance at December 31, 2015	(32,572)	(77,588)
Provision recorded in the year	(2,056)	(28,298)

	Parent Company	Consolidated
Reversal of provision for receivables (write-off)	6,063	16,951
Exchange variance	(865)	1,072
Balance at December 31, 2016	(29,430)	(87,893)

Accounts receivable are denominated in the following currencies:

	Parent Company		Consolidated	
	2016	**2015**	**2016**	**2015**
Reais	203,772	260,440	983,676	1,166,287
US Dollar	226,943	290,792	316,507	333,291
Australian Dollar	-	-	43,023	34,684
Rand	-	-	20,466	11,163
Renminbi	-	-	18,787	25,390
	430,715	551,232	1,382,459	1,570,815

10 Inventories

	Parent Company		Consolidated	
	2016	**2015**	**2016**	**2015**
Finished goods	65,475	77,974	104,192	124,782
Goods in process	40,817	31,548	116,790	68,368
Raw materials and auxiliary materials	101,316	115,230	222,404	225,370
Advances to suppliers and other	7,821	2,637	35,647	26,582
Provision for inventory losses	(3,313)	(857)	(6,976)	(7,328)
	212,116	226,532	472,057	437,774

The changes in provision for losses on inventories are as follows:

	Parent Company	Consolidated
Balance at January 1, 2015	(2,200)	(7,036)
Reversal of provision	1,973	4,833
Provision recorded in the year	(630)	(3,773)
Exchange variance	-	(1,352)
Balance at December 31, 2015	(857)	(7,328)
Reversal of provision	741	7,247
Provision recorded in the year	(3,197)	(8,339)
Exchange variance	-	1,444
Balance at December 31, 2016	(3,313)	(6,976)

11 Taxes and contributions recoverable

	Parent Company		Consolidated	
	2016	**2015**	**2016**	**2015**
Current				
Corporate Income Tax (IRPJ)	25,087	19,091	40,271	26,841
Social Contribution on Net Income (CSLL)	6,835	6,029	9,889	8,712
Excise Tax (IPI)	12,819	11,551	13,152	11,674
Value Added Tax on Sales and Services - ICMS	25,073	6,393	36,904	12,752
Social Integration Program (PIS)	1,335	1,894	4,409	3,898
Contribution for Social Security Financing (COFINS)	3,419	6,934	19,863	18,089
National Social Security Institute (INSS)	7,780	14,112	8,431	14,701
Reintegra	3,849	7,292	4,807	7,642
Value added tax (IVA)	-	-	26,234	14,003
Other	65	45	73	74
	86,262	73,341	164,033	118,386
Non-current				
Value-Added Tax on Goods and Services (ICMS)	444	629	5,584	842
Contribution for Social Security Financing (COFINS)	-	-	11,231	-
Social Integration Program (PIS)	-	-	2,878	-
Value added tax (IVA)	-	-	202	65
	444	629	19,895	907
	86,706	73,970	183,928	119,293

12 Investments

	Parent Company		Consolidated	
	2016	**2015**	**2016**	**2015**
Subsidiary	1,108,839	1,197,584	-	-
Joint subsidiaries	88,874	172,395	81,571	500,340
Associated companies	22,216	15,650	227,383	15,650
Other investments	-	-	120	139
	1,219,929	1,385,629	309,074	516,129

(a) Investments in subsidiaries, joint ventures and associated companies

Investments in subsidiaries, joint ventures and associated companies are presented below:

Subsidiary:

	Apolo	Ciferal	llmot	Mac	Mapla	MP Australia	Masa	MIC	Moneo	MP Canada	Polomex	San Marino	Syncro	Trading	Volare Vehicles	Volare Trade	Volare Peru	Subsidiary Total 2016	Subsidiary Total 2015
			(1)	(1)	(1)	(1)	(1)	(1)		(1) and (3)	(1)	(2)					(1)		
Investment data																			
Capital	3,750	20,000	50,181	9,662	-	52,993	7,390	4,562	100,000	169,637	28,720	171,000	4,000	3,000	150,000	11,000	674		
Adjusted shareholders' equity	3,794	147,664	106,175	5,575	-	53,235	52,267	1,526	232,429	246,889	118,366	69,189	5,071	6,667	122,608	4,783	1,268		
Shares or quotas held	3,250,000	499,953	50,000	1	4,000	100	100,000	1,400,000	100,000	4,925,530	3,011,659	7,478,482	1	3,450,103	19,980	999	999		
% interest	65.00	99.99	100.00	100.00	99.99	100.00	100.00	100.00	100.00	100.00	3.61	100.00	99.99	99.99	99.90	99.90	99.90		
Net income (loss) for the year	(65)	(47,005)	12,936	5,544	(13,707)	4,566	3,409	(36)	7,336	336,287	12,216	(47,699)	348	612	(19,330)	(660)	613		
Changes in the investments																			
Opening balances:																			
At equity value	2,508	194,660	112,096	439	90	59,055	51,607	1,869	226,843	458,643	4,547	-	4,722	6,199	71,866	2,440	-	1,197,584	1,016,397
Advance for future capital increase	-	-	-	-	-	-	-	-	-	-	-	90,000	-	-	-	-	-	90,000	-
Capital subscription	-	-	-	-	-	-	-	-	-	-	-	-	-	-	69,930	2,997	807	73,734	39,960
Acquisition via business combination	-	-	-	-	-	-	-	-	-	-	-	32,934	-	-	-	-	-	32,934	-
Dividends received	-	-	(2,101)	-	-	-	-	-	(1,743)	(343,899)	-	-	-	(145)	-	-	-	(347,888)	(22,675)
Equity in income of associates	(42)	(47,003)	12,936	5,544	(13,706)	4,566	3,409	(36)	7,336	336,287	441	(47,699)	348	612	(19,311)	(659)	612	243,635	25,288
Cumulative translation adjustments	-	-	(16,756)	(408)	(22)	(10,386)	(2,749)	(307)	-	(111,376)	(715)	128	-	-	-	-	(152)	(142,743)	172,882
Impairment	-	-	-	-	-	-	-	-	-	-	-	(6,027)	-	-	-	-	-	(6,027)	-
Transfer of joint subsidiary to subsidiary	-	-	-	-	-	-	-	-	-			46,738	-	-	-	-	-	46,738	-
Exchange variance on capital decrease	-	-	-	-	13,638	-	-	-	-	(21,001)	-	-	-	-	-	-	-	(7,363)	12,419
Capital reduction	-	-	-	-	-	-	-	-	-	(71,765)	-	-	-	-	-	-	-	(71,765)	(46,687)
Closing balances:																			
At equity value	2,466	147,657	106,175	5,575	-	53,235	52,267	1,526	232,436	246,889	4,273	116,074	5,070	6,666	122,485	4,778	1,267	1,108,839	1,197,584

(1) Overseas ventures.
(2) These balances consist of investments and goodwill.
(3) The sale of 4.5 million shares issued by New Flyer Industries Inc. (NFI), equal to a 7.4% interest in the company's share capital, generated income of R$ 268,133 thousand.

Joint ventures:

	GBPolo	Kamaz	Loma	Metalpar	San Marino	Superpolo	TMML	Joint ventures Total 2016	Joint ventures Total 2015
	(1)	(1)	(1),(2)	(1)	(2)	(1)	(1)		
Investment data									
Capital	17,748	2,881	20,224	10,519	171,000	14,011	81,601		
Adjusted shareholders' equity	(19,620)	(5,104)	67,906	29,800	69,189	78,763	41,031		
Shares or quotas held	4,803,922	1	15,949,948	473,995	7,478,482	265,763	24,500		
% interest	49.00	50.00	50.00	1.00	45.00	20.61	49.00		
Net income (loss) for the year	(27,186)	570	15,588	4,100	(35,331)	14,794	4,547		
Changes in the investments									
Opening balances:									
At equity value	3,212	(2,817)	70,301	392	62,240	16,648	22,419	172,395	153,908
Dividends received	-	-	-	-	-	(1,445)	-	(1,445)	(1,488)
Equity in income of associates	(13,321)	285	7,794	41	(15,899)	3,049	2,228	(15,823)	13,741
Cumulative translation adjustments	495	(20)	(13,691)	(135)	397	(2,019)	(4,542)	(19,515)	6,234
Transfer of Joint Subsidiary to Subsidiary					(46,738)			(46,738)	
Closing balances:									
At equity value	(9,614)	(2,552)	64,404	298	-	16,233	20,105	88,874	172,395
Goodwill on investments	-	-	(30,451)	-	-	-	-	(30,451)	(65,453)
Indirect interest - Superpolo	-	-	-	-	-	23,148	-	23,148	23,738
Indirect interest - New Flyer									369,660
At consolidated equity value	(9,614)	(2,552)	33,953	298	-	39,381	20,105	81,571	500,340

(1) Overseas ventures.
(2) These balances consist of investments and goodwill.

Associated companies:

	MVC	Mercobus	Spheros	Setbus	WSul	New Flyer	Associated companies Total 2016	Associated companies Total 2015
	(*)	(1)				(1)		
Investment data								
Capital	34,011	225	15,000	1,000	6,100	2,102,368		
Adjusted shareholders' equity	-	5,193	50,933	(13,629)	10,623	1,900,217		
Shares or quotas held	1	232	244,898	25,100	1,830,000	6,587,834		
% interest	26.00	40.00	40.00	25.10	30.00	10.81		
Net income (loss) for the year	(438)	4,680	18,503	(2,430)	4,360	321,040		
Changes in the investments								
Opening balances:								
At equity value	114	2,369	14,099	(2,811)	1,879		15,650	53,833
Dividends received	-	(1,837)	-	-	-		(1,837)	(8,355)
Equity in income of associates	(114)	1,872	7,401	(610)	1,308		9,857	(29,898)
Cumulative translation adjustments	-	(327)	(1,127)	-	-		(1,454)	70
Closing balances:								
At equity value	-	2,077	20,373	(3,421)	3,187		22,216	15,650
Indirect interest - New Flyer						205,167	205,167	-
At equity value	-	2,077	20,373	(3,421)	3,187	205,167	227,383	15,650

(1) Overseas venture.
(*) Investment sold in June 2016.

13 Investment property

Comprises a plot of land of 140,000 m2 and constructed area of 20,378.87m2, located in Três Rios, Rio de Janeiro, and stated at its carrying amount of R$ 48,941 thousand. The investment property is not being used in the Company's operations and is being held to earn rent or yield a capital gain. The property did not generate any income in FY 2016, only expenses on security, insurance and energy.

	Consolidated	
	2016	**2015**
Balance on January 1	-	-
Reclassification of property, plant and equipment	48,941	-
Balance on December 31	48,941	-

14 Property, plant and equipment

(a) Summary of changes in the parent company's property, plant and equipment

	Land	Buildings and constructions	Machinery and equipment	Furniture and fixtures	Computer equipment	Vehicles	Other PPE in progress	Property, plant and equipment in progress	Total
Balances at January 1, 2015	18,071	103,056	77,316	4,153	7,172	3,762	98	11,402	225,030
Additions	-	2,267	11,250	258	1,061	180	77	4,260	19,353
Write-offs	-	(141)	(1,022)	(30)	(39)	(279)	-	(112)	(1,623)
Transfers	-	6,722	2,335	-	(99)	1		(8,959)	-
Depreciation	-	(3,544)	(13,903)	(572)	(2,189)	(660)	-	-	(20,868)
Balances at December 31, 2015	18,071	108,360	75,976	3,809	5,906	3,004	175	6,591	221,892
Cost of property, plant and equipment	18,071	181,775	203,234	9,231	19,516	7,044	175	6,591	445,637
Accumulated depreciation	-	(73,415)	(127,258)	(5,422)	(13,610)	(4,040)	-	-	(223,745)
Residual value	18,071	108,360	75,976	3,809	5,906	3,004	175	6,591	221,892
Balances at December 31, 2015	18,071	108,360	75,976	3,809	5,906	3,004	175	6,591	221,892
Additions	4	408	4,093	198	888	69	-	2,723	8,383
Write-offs	-	(5)	(613)	(17)	(22)	(15)	-	(138)	(810)
Transfers	(1)	3,527	(657)	-	-	-		(2,869)	-
Depreciation	-	(3,811)	(12,808)	(559)	(2,133)	(583)	-	-	(19,894)
Balances at December 31, 2016	18,074	108,479	65,991	3,431	4,639	2,475	175	6,307	209,571
Cost of property, plant and equipment	18,074	185,764	203,412	9,222	19,934	7,042	175	6,307	449,930
Accumulated depreciation	-	(77,285)	(137,421)	(5,791)	(15,295)	(4,567)	-	-	(240,359)
Residual value	18,074	108,479	65,991	3,431	4,639	2,475	175	6,307	209,571
Annual depreciation rates - %		2.0	11.3	9.0	16.7	13.4			

(b) Summary of changes in the consolidated property, plant and equipment

	Land	Buildings and constructions	Machinery and equipment	Furniture and fixtures	Computer equipment	Vehicles	Other PPE in progress	Property, plant and equipment in progress	Total
Balances at January 1, 2015	22,809	214,928	149,632	8,720	8,524	6,791	2,711	20,909	435,024
Foreign exchange variations	118	688	9,685	378	-	709	851	75	12,504
Additions	-	81,397	50,101	1,749	1,877	1,813	1,420	19,908	158,265
Write-offs	-	(200)	(4,751)	(322)	(81)	(507)	(717)	(112)	(6,690)
Transfers	-	7,534	3,159	-	(99)	1	247	(10,842)	-
Depreciation	-	(5,477)	(25,398)	(1,450)	(2,581)	(1,835)	(1,022)	-	(37,763)
Balances at December 31, 2015	22,927	298,870	182,428	9,075	7,640	6,972	3,490	29,938	561,340
Cost of property, plant and equipment	22,927	392,396	419,498	19,241	22,809	14,892	16,867	29,938	938,568
Accumulated depreciation	-	(93,526)	(237,070)	(10,166)	(15,169)	(7,920)	(13,377)	-	(377,228)
Residual value	22,927	298,870	182,428	9,075	7,640	6,972	3,490	29,938	561,340
Balances at December 31, 2015	22,927	298,870	182,428	9,075	7,640	6,972	3,490	29,938	561,340
Foreign exchange variations	(70)	(386)	(5,268)	(196)	-	(524)	(632)	-	(7,076)
Additions	154	17,654	45,425	593	1,081	1,056	541	5,770	72,274
Acquisition of investment	40,997	59,627	41,987	1,650	-	3,946	785	3,373	152,365
Write-offs	-	-	(2,443)	(50)	(42)	(431)	(337)	(613)	(3,916)
Transfers	21,532	12,796	7,548	(185)	(113)	(9)	218	(17,374)	24,413
Reclassified to investment property	(22,892)	(23,958)	(2,091)	-	-	-	-	-	(48,941)
Depreciation	-	(5,892)	(29,638)	(1,390)	(2,510)	(1,779)	(981)	-	(42,190)
Balances at December 31, 2016	62,648	358,711	237,948	9,497	6,056	9,231	3,084	21,094	708,269
Cost of property, plant and equipment	62,648	466,477	533,695	22,814	23,280	20,618	16,241	21,094	1,166,867
Accumulated depreciation	-	(107,766)	(295,747)	(13,317)	(17,224)	(11,387)	(13,157)	-	(458,598)
Residual value	62,648	358,711	237,948	9,497	6,056	9,231	3,084	21,094	708,269
Annual depreciation rates - %		2.0	11.3	9.0	16.7	13.4	13.0		

Land and buildings mainly comprise plants and offices.

(c) Guarantees

As of December 31, 2016 properties with a residual book value of R$ 45,829 thousand (R$ 27,413 thousand as of December 31, 2015) are subject to a recorded guarantee for bank loans and financing.

15 Intangible assets

(a) Summary of changes in the parent company's intangible assets

	Software	Registered trademarks and licenses	Total
Balances at January 1, 2015	5,965	44	6,009
Additions	1,545	3	1,548
Write-offs	(130)	-	(130)
Transfers	-	-	-
Amortization	(1,842)	(11)	(1,853)
Balances at December 31, 2015	5,538	36	5,574
Cost of Intangible assets	52,315	1,228	53,543
Accumulated amortization	(46,777)	(1,192)	(47,969)
Residual value	5,538	36	5,574
Balances at December 31, 2015	5,538	36	5,574
Additions	315	-	315
Write-offs	-	-	-
Transfers	-	-	-
Amortization	(1,847)	(11)	(1,858)
Balances at December 31, 2016	4,006	25	4,031
Cost of Intangible assets	50,489	338	50,827
Accumulated amortization	(46,483)	(313)	(46,796)
Residual value	4,006	25	4,031
Annual amortization rates - %	20.0	7.0	

(b) Summary of changes in goodwill and consolidated intangible assets

	Software	Registered trademarks and licenses	Client portfolio	Other Intangible assets	Goodwill	Total
Balances at January 1, 2015	9,706	44	7,503	8,419	238,672	264,344
Foreign exchange variations	1,271	-	1,527	2,614	47,914	53,326
Additions	1,731	3	-	-	-	1,734
Write-offs	(133)	-	-	-	-	(133)
Transfers	-	-	-	-	-	-
Amortization	(2,706)	(11)	(5,957)	-	-	(8,674)
Balances at December 31, 2015	9,869	36	3,073	11,033	286,586	310,597
Cost of Intangible assets	59,837	1,228	24,473	11,791	286,586	383,915
Accumulated amortization	(49,968)	(1,192)	(21,400)	(758)	-	(73,318)
Residual value	9,869	36	3,073	11,033	286,586	310,597
Balances at December 31, 2015	9,869	36	3,073	11,033	286,586	310,597
Foreign exchange variations	(586)	-	(196)	(1,919)	(34,712)	(37,413)
Additions	934	-	336	-	30,739	32,009
Acquisition of investments	1,760	945		1,363		4,068
Write-offs	(11)	-	-	(336)	(66,724)	(67,071)
Transfers	-	-	8,775	(8,775)	-	-
Amortization	(3,127)	(11)	(4,240)	(123)	-	(7,501)
Balances at December 31, 2016	8,839	970	7,748	1,243	215,889	234,689
Cost of Intangible assets	66,832	1,283	26,881	3,315	215,889	314,200
Accumulated amortization	(57,993)	(313)	(19,133)	(2,072)	-	(79,511)
Residual value	8,839	970	7,748	1,243	215,889	234,689
Annual amortization rates - %	20.0	8.3	25.0	10.0		

Breakdown of goodwill:

	Goodwill	
	2016	2015
Loma	30,451	30,451
San Marino	30,739	35,002
Pologren	109,195	132,190
New Flyer	45,504	88,943
	215,889	286,586

(c) Goodwill impairment test

(i) Goodwill on joint subsidiary – Loma

Consists of the goodwill generated on the acquisition of the interest in Loma amounting to R$ 30,451. The projections were compiled for the period of five years and the assumptions made on December 31, 2016 for the gross margin were 25.40% (20.70%, in 2015), expected growth rate of 22.50% (8.90% in 2015) and discount rate of 10.66% (17.60% in 2015) to determine fair value via the discounted cash flow method include the projected cash flows based on Management estimates for future flows.

(ii) Goodwill of the indirect subsidiary - Pologren

Consists of the goodwill generated on the acquisition of the interest in Volgren amounting to R$ 109,195.

The projections were compiled by the indirect subsidiary Pologren and consolidated by MP Australia. The projections were compiled for the period of five years and the assumptions made on December

31, 2016 for the gross margin were 19.67% (9.50%, in 2015), expected growth rate of 6.00% (2.70% in 2015) and discount rate of 10.45% (8.70% in 2015) to determine fair value via the discounted cash flow method include the projected cash flows based on Management estimates for future flows.

16 Related parties

(a) Related-party balances and transactions

The main asset and liability balances at December 31, 2016, as well as the transactions with related parties that influenced the statement of income in the year, are detailed below:

Related Parties	Asset balances of loans and current accounts	Liability balances of loans and current accounts	Trade accounts receivable	Trade payables	Sales of goods/ services	Purchases of goods/ services	Finance income	Finance costs
Apolo	-	-	-	102	-	-	-	-
Ciferal	-	12	8,167	472	23,681	3,561	2	-
GB Polo	15,448	-	5,798	-	1,854	-	705	-
Kamaz	1,727	-	-	-	-	-	25	-
Ilmot	463	-	-	-	-	-	24	-
Loma	-	-	7,137	-	62,685	-	-	-
Mac	-	-	8,225	-	3,001	-	-	-
Masa	-	-	9,752	-	22,267	-	-	-
Moneo	32	-	-	-	-	-	4	-
Polomex	-	-	16,202	-	89,463	-	-	-
San Marino	-	-	23	-	780	-	-	-
Setbus	1,584	-	-	40	1	1,703	-	-
Spheros	-	-	-	3,038	27	33,926	-	-
Superpolo	-	-	4,307	-	8,480	-	-	-
TMML	-	-	7,216	-	3,265	-	-	-
Volare Veículos	5,654	-	10,424	329	4,336	1,239	5,200	-
Volare Comércio	-	8	3,932	575	6,895	-	38	1
Volare Peru	-	-	3		4,288	-	-	-
WSul	58	-	-	1,126	-	8,207	-	-
Balance in 2016	24,966	20	81,186	5,682	231,023	48,636	5,998	1
Balance in 2015	114,878	2	72,875	4,845	168,592	52,028	3,869	-

The loan and current account balances of companies headquartered in Brazil are subject to financial charges at the CDI interest rate, and those of companies abroad to the semi-annual Libor rate plus 3% p.a.

(b) Key management remuneration

Key management personnel include the directors, officers and members of the Executive Committee. The remuneration paid or payable is shown below:

					2016
	Fixed	**Variable**	**Pension plan**	**Share-based payments**	**Total**
Board of Directors and Executive Board	8,457	8,079	102	82	**16,720**
Nonexecutive officers	7,516	7,264	237	47	**15,064**
	15,973	15,343	339	129	**31,784**

In the financial year ended December 31, 2016 Marcopolo management and employees exercised call options for 682,989 preferred Marcopolo shares for R$ 1.85 per share with a discount of R$ 0.19 per share, using treasury shares, according to Marcopolo's share purchase option plan.

	2015				
	Fixed	**Variable**	**Pension plan**	**Share-based payments**	**Total**
Board of Directors and Executive Board	8,305	6,721	168	29	**15,223**
Nonexecutive officers	7,865	2,341	267	22	**10,495**
	16,170	9,062	435	51	**25,718**

In the financial year ended December 31, 2015 Marcopolo management and employees exercised call options for 566,738 preferred Marcopolo shares for R$ 2.38 per share with a discount of R$ 0.09 per share, using treasury shares, according to Marcopolo's share purchase option plan.

17 Loans and financing

	Average weighted rate % p.a.	**Year of Maturity**	**Parent Company**		**Consolidated**	
			2016	**2015**	**2016**	**2015**
Domestic currency						
FINAME	5.43	2017 to 2025	11,157	12,957	31,396	23,340
Bank loans	9.69	2017	-	74	56,341	143
Interbank deposits	15.98	2017	-	-	50,485	39,425
FINEP	4.52	2017 to 2025	203,881	186,365	275,826	199,549
FDE – Development funds	3.00	2024 and 2025	-	-	143,489	109,574
Fundepar - ES	-	2026	-	-	30,000	-
Exim	7.99	2017 and 2018	-	-	31,887	-
Special pre-shipment financing (*)	10.95	2017 and 2018	276,509	302,136	276,509	302,136
Export prepayments - Compulsory	9.11	2017 to 2019	387,038	556,339	387,038	556,339
Foreign currency						
Advances on export contracts	4.82	2017	-	-	59,333	-
Export prepayments in US dollars	3.31	2018	228,558	413,004	228,558	413,004
Export prepayments - USD	3.55	2018	24,462	48,854	34,686	48,854
Financing in Rands	8.59	2017 to 2020	-	-	842	624
Financing in renminbi	4.97	2017	-	-	15,756	22,911
Financing in Australian dollars	2.58	2017	-	-	74,243	79,173
Related parties	Libor + 3.00	-	20	2	-	-
Subtotal of local and foreign currency			1,131,625	1,519,731	1,696,389	1,795,072
Money market funding						
Domestic currency						
BNDES – Fixed-interest loans	4.19	2017 to 2024	-	-	429,156	613,321
BNDES – Floating interest loans	TJLP + 1.61	2017 to 2022	-	-	143,389	66,453
BNDES – Floating interest loans	SELIC + 2.04	2017 to 2022	-	-	30,300	-
Subtotal of money market funding			-	-	602,845	679,774
Total loans and financing			1,131,625	1,519,731	2,299,234	2,474,846
Current liabilities			(397,447)	(582,682)	(925,062)	(965,139)
Noncurrent liabilities			734,178	937,049	1,374,172	1,509,707

(*) BNDES credit facility used for producing goods for export, where the shipment must occur no later than 3 years after the initial contract.

The long-term installments have the following payment schedule:

	Parent Company		Consolidated	
	2016	**2015**	**2016**	**2015**
From 13 to 24 months	396,711	577,147	602,298	800,335
From 25 to 36 months	235,924	218,705	384,050	338,985
37 to 48 months	37,715	78,617	134,223	166,868
49 to 60 months	14,918	30,408	66,913	78,170
After 60 months	48,910	32,172	186,688	125,349
	734,178	937,049	1,374,172	1,509,707

(a) Loans and financing

The FINAME financing loans are secured by a statutory lien on the financed assets of R$ 45,829 as of December 31, 2016 (R$ 22,317 as of December 31, 2015).

The Company has secured bank loans amounting to R$ 190,290 thousand as of December 31, 2016 (R$ 506,424 thousand as of December 31, 2015). Under the terms of the contract, these loans will be settled in installments over the next 3 years. However, these contracts include covenants, which are being fully performed and amongst other things trigger partial or full repayment if certain indices are not achieved. These were complied with.

(b) Money market funding

Funds obtained in the money market are received by Banco Moneo from the National Bank for Economic and Social Development (BNDES) to finance FINAME loans.

The face value and the fair value of installments of money market funds are as follows:

	Face value (future)		Fair value (present)	
	2016	**2015**	**2016**	**2015**
1 to 12 months	246,832	256,531	223,587	235,174
From 13 to 24 months	178,698	206,892	162,211	192,044
From 25 to 36 months	124,831	133,351	115,448	124,095
After 36 months	106,522	135,205	101,599	128,461
	656,883	731,979	602,845	679,774

The face value of loans in current liabilities approximates the fair value.

18 Provisions

(a) Contingent liabilities

The Company is a party to labor, civil, tax and other lawsuits in progress, and is disputing them at the administrative and judicial levels, which, when applicable, are supported by judicial deposits. The provisions for any losses under these proceedings are estimated and restated by Management, relying on the opinion of its independent and in-house legal advisers.

The contingencies as of December 31, 2016 and December 31, 2015, which are considered to be probable and possible losses, according to the opinion of legal counsel, are shown below. Contingencies involving probable risks of loss have been provisioned for.

	Parent Company			
	2016		2015	
Nature	Probable	Possible	Probable	Possible
Civil	964	18,881	964	-
Labor	14,357	28,452	11,065	16,677
Tax	14,973	211,156	13,494	125,939
	30,294	258,489	25,523	142,616

	Consolidated			
	2016		2015	
Nature	Probable	Possible	Probable	Possible
Civil	2,007	19,323	964	442
Labor	18,084	29,011	12,486	16,677
Tax	15,254	259,377	13,688	172,091
	35,345	307,711	27,138	189,210

	Parent Company		Consolidated	
Judicial deposits	2016	2015	2016	2015
Civil	980	980	3,753	980
Labor	5,652	2,676	7,654	3,855
Tax	2,132	1,772	8,167	7,592
	8,764	5,428	19,574	12,427

(i) Civil and labor claims

The Company is party to civil and labor lawsuits, which include claims for indemnities for work accidents and occupational diseases. None of these lawsuits involves individually significant amounts.

(ii) Tax contingencies

The Company and its subsidiaries are party to various tax lawsuits. The nature of the principal lawsuits is detailed below:

. **Probable losses - provisioned for**

	Parent Company		Consolidated	
	2016	**2015**	**2016**	**2015**
REINTEGRA–credit appropriation (i)	545	484	545	484
Special Tax Arrangement – tax credit (ii)	11,435	10,171	11,435	10,171
Other contingent liabilities of lesser amounts	2,993	2,839	3,274	3,033
	14,973	13,494	15,254	13,688

(i) Contingency relating to the Reintegra credit - this contingency derives from the procedure discrepancy in the application for Reintegra credits for the 1st and 2nd quarters of 2012.
(ii) Contingency regarding the dispute of the procedures adopted to obtain tax incentives for product sales.

. **Possible losses - not provisioned for**

	Parent Company		Consolidated	
	2016	**2015**	**2016**	**2015**
PIS, COFINS and Social Security Fund (FINSOCIAL) - offset	6,962	6,497	6,962	6,497
COFINS – rebate application (i)	20,060	18,207	20,060	18,207
PIS, COFINS – credit	7,898	6,992	7,898	6,992
PIS – offsetting (ii)	13,074	11,444	13,074	11,444
IPI – credit	1,709	1,825	1,709	1,825
IRPJ – understated inflationary profit	2,763	2,609	2,763	2,609
IRPJ and CSLL - negative balance (iii)	15,877	14,445	15,877	14,445
IRPJ and CSLL – Overseas profits (iv)	26,885	24,319	26,885	24,319
IRPJ and CSLL – IR paid overseas	3,303	2,957	3,303	2,957
IRPJ and CSLL – overseas profits (v)	36,169	-	36,169	-
DCP – Monetary restatement (vi)	24,422	-	24,422	-
REINTEGRA – Offsetting (vii)	14,143	12,822	14,143	12,822
ICMS – shipment of goods with a reduced tax rate to non-taxpayers (viii)	-	-	34,162	32,135
ICMS – disreputable documents (ix)	14,531	13,139	14,531	13,139
ISS – services received from third parties	5,389	4,782	5,389	4,782
INSS – services acquired from legal entities	6,422	5,901	6,422	5,901
Other contingent liabilities of lesser amounts	11,549	-	25,608	14,017
	211,156	125,939	259,377	172,091

(i) Contingencies relating to procedures adopted by the tax inspectors for the COFINS reimbursement applications. The administrative proceeding is in progress before the federal tax authorities' judgement department.

(ii) Contingency relating to amounts recorded as federal overdue liabilities due to offsetting not ratified for credits obtained in court proceedings. The process is taking place at the lower Federal Court of Caxias do Sul.

(iii) Contingency relating to procedures contested by the tax inspectors regarding applications for the rebate of the IRPJ and CSLL negative balance. The proceeding is in progress before the Administrative Council for Tax Appeals.

(iv) Contingency relating to the dispute about the overseas consolidation of indirect subsidiaries' earnings before paying tax thereon in Brazil. The proceeding is in progress before the federal tax authorities' judgement department.

(v) Contingency related to the dispute about the disallowance of offsetting made against overseas taxes. The proceeding is in progress before the Regional Judgments Department.

(vi) Contingency related to the dispute about DCP credits, relating to the disallowance of monetary restatement and one-off fine imposed due to unratified tax returns. The proceeding is in progress before the Regional Judgments Department.

(vii) Contingency relating to the dispute about the Reintegra credit, due to discrepancy in the procedure applying for the credit. The proceeding is in progress before the Regional Judgments Department.

(viii) Contingency involving the subsidiary relating to ICMS disputes on sales with a reduced rate to non-taxpayers located outside the state. The proceedings in progress before the Taxpayers' Council of Rio de Janeiro state.

(ix) Contingency relating to ICMS disputes, due to the alleged issuance of tax documents with incorrect rates in sales to non-taxpayers located outside the state. The proceedings in progress before the Court of Appeal of São Paulo state.

(b) Contingent assets

The statement containing information about contingent assets has been detailed below, along with the chances of success, according to the legal advisers' opinion.

				Consolidated
		2016		2015
Nature	**Probable**	**Possible**	**Probable**	**Possible**
Contingency				
Tax	13,283	12,515	11,851	11,166
Social security	-	2,733	-	2,438
	13,283	15,248	11,851	13,604

(i) Tax contingencies

The Company is the plaintiff in various lawsuits at the state and federal levels, in which the following matters are being disputed:

- Excise Tax - IPI.
- Social Integration Program - PIS and Tax for Social Security Financing - COFINS.
- Corporate Income Tax - IRPJ and Social Contribution on Net Income - CSLL.
- Tax on Financial Transactions - IOF and Income Tax Withheld at Source - IRRF.
- Eletrobrás Compulsory Loan.
- ICMS on materials and consumables.

(ii) Social security contingencies

- National Institute of Social Security - INSS contribution.

19 Pension plan and retirement benefits for employees

Marcopolo is the main sponsor of Marcoprev Sociedade de Previdência Privada, a non-profit pension entity established in December 1995 with the main purpose of supplementing government social security benefits to all employees of the sponsors: Marcopolo (principal), Syncroparts, Trading, Banco Moneo and Fundação Marcopolo. The total consolidated contributions in FY 2016 was R$ 6,975 (R$ 16,543 in 2015). The actuarial method for determining the plan's cost and contributions is the capitalization method. This is a mixed plan, with features that are both defined benefit, where the sponsor is solely responsible for the contributions, and defined contribution, where the sponsor and participant are responsible for the contributions on an optional basis.

As of December 31, 2016 and 2015, amounts related to post-employment benefits were determined in the annual actuarial assessment carried out by independent actuaries and were recognized in the financial statements as shown below.

The amounts recognized in the statement of financial position are as follows:

	Parent Company		Consolidated	
	2016	2015	2016	2015
Present value of actuarial obligations	(244,008)	(196,773)	(246,707)	(198,861)
Fair value of the plan's assets	256,669	219,711	259,524	222,042
Surplus not subject to refund or reduction in future contributions	(12,661)	(22,938)	(12,817)	(23,181)
Liability to be recognized	-	-	-	-

According to the retirement plan statute and the installment recorded for the supplementary retirement plan it is not possible to reimburse the amounts, increase the benefit or reduce future contributions. Therefore, the asset originated from the plan surplus was not recorded as of December 31, 2016.

The changes over the benefit liability occurred during the year are described as follows:

	Parent Company		Consolidated	
	2016	2015	2016	2015
January 01	-	-	-	-
Plan participant contributions	9,713	10,165	9,825	10,298
Actuarial losses (gains)	(9,713)	(10,165)	(9,825)	(10,298)
Net annual (Expenses)/revenue recognized	-	-	-	-
December 31	-	-	-	-

Changes in the fair value of the employee benefits plan in the years are demonstrated below:

	Parent Company		Consolidated	
	2016	2015	2016	2015
January 01	219,711	210,184	222,042	212,329
Sponsor contributions	9,713	10,165	9,825	10,298
Employee contributions	260	482	261	490
Benefits paid	(11,900)	(9,806)	(11,984)	(9,807)
Expected return on plan assets	38,885	8,686	39,380	8,732
December 31	256,669	219,711	259,524	222,042

Changes in the actuarial obligation in the presented years is as follows:

	Parent Company		Consolidated	
	2016	**2015**	**2016**	**2015**
January 01	196,773	205,606	198,861	207,698
Actuarial (Gains) losses	32,227	(27,666)	32,574	(28,049)
Cost of current services	2,472	4,545	2,559	4,675
Financial cost	24,176	23,612	24,436	23,854
Employee contributions	260	482	261	490
Benefits paid	(11,900)	(9,806)	(11,984)	(9,807)
December 31	244,008	196,773	246,707	198,861

The amounts recognized in the statement of income are:

	Parent Company		Consolidated	
	2016	**2015**	**2016**	**2015**
Cost of current services	2,472	4,545	2,559	4,675
Financial cost	(426)	(706)	(431)	(715)
Total included as personnel cost	2,046	3,839	2,128	3,960

The main actuarial premises at the reporting date are:

. **Economic hypotheses**

	Percentage p.a.			
	Parent Company		**Consolidated**	
	2016	**2015**	**2016**	**2015**
Discount rate (*)	10.86	12.68	10.86	12.68
Expected return on plan assets	10.86	12.68	10.86	12.68
Future salary increases	7.37	7.52	7.37	7.52
Inflation	4.85	5.00	4.85	5.00

(*) The discount rate is: inflation 4.85% p.a. plus interest of 5.73 p.a. for 2016 (inflation of 5.00% p.a. plus interest of 7.31% p.a. for 2015).

. **Demographic hypotheses**

	Parent Company		Consolidated	
	2016	**2015**	**2016**	**2015**
Mortality table	AT 2000(*)	AT 2000(*)	AT 2000(*)	AT 2000(*)
Invalid and mortality table	RRB 1983	RRB 1983	RRB 1983	RRB 1983
Disability rate table	RRB 1944	RRB 1944	RRB 1944	RRB 1944

(*) Table segregated by sex, compiled based on the AT-2000 Basic, smoothed by 10%.

. **Actuarial hypotheses and sensitivity analyses**

The sensitivity analysis table below for benefit plan obligations demonstrates the impact on actuarial exposure (10.86% p.a.) by changing the premises on the discount rate by 1 p.p.:

(i) Present value of obligation at December 31, 2016.

- Total	244,008

(ii) Significant actuarial hypotheses at December 31, 2016.

		Sensitivity Analysis	Effect on PVO
Discount rate	11.86%	1% increase	(26,323)
Discount rate	9.86%	1% decrease	32,450

(iii) Methods and hypotheses used in sensitivity analyses.

The results presented were prepared by modifying only the real hypotheses mentioned in each row.

20 Income and social contribution taxes

(a) Deferred income and social contribution taxes

The basis for the calculation of the deferred taxes is as follows:

	Parent Company		Consolidated	
	2016	**2015**	**2016**	**2015**
Assets (liabilities)				
Provision for technical assistance	19,375	24,214	21,512	43,390
Provision for commissions	28,414	36,864	30,163	40,923
Allowance for doubtful accounts	5,999	5,175	47,752	24,952
Provision for profit sharing	40,687	18,118	40,687	19,493
Provision for contingencies	30,293	25,523	52,846	27,341
Provision for sureties with third parties	-	75	-	146
Provision for inventory losses	3,313	857	6,256	7,328
Provision for outsourced services	10,190	12,231	10,190	12,231
Provision for contractual termination	28,823	13,779	28,823	13,779
Unrealized inventory	9,392	8,616	9,392	8,616
Adjustment to present value	1,654	2,590	1,654	2,919
(Appreciation via business combination)	-	-	(24,413)	-
(Fiscal depreciation)	(32,067)	(32,565)	(32,067)	(45,318)
(Appropriation of gains/losses on derivatives)	(4,476)	(155)	(4,476)	(882)
Other provisions	10,100	3,340	16,913	27,835
Calculation basis	151,697	118,662	205,232	182,753
Statutory rate - %	34	34	34	34
Deferred income and social contribution taxes	51,577	40,345	69,779	62,136

(b) Estimated realization of deferred tax assets

The recovery of tax credits is based on estimates of taxable income, as well as on the realization of temporary differences, in the following years:

	Parent Company		Consolidated	
	2016	**2015**	**2016**	**2015**
13 months onwards	51,577	40,345	69,779	62,136
	51,577	40,345	69,779	62,136

(c) Reconciliation between the current income and social contribution tax expense

	Parent Company		Consolidated	
	2016	2015	2016	2015
Reconciliation				
Profit before income and social contribution taxes	271,949	91,949	370,237	127,717
Statutory rate - %	34	34	34	34
	92,463	31,263	125,881	43,424
Permanent additions and exclusions				
Equity in net income of subsidiaries	(2,032)	(7,327)	-	(11,219)
Interest on shareholders' equity	(40,267)	(14,723)	(40,267)	(14,723)
PDI tax incentive (i)	-	(10,310)	-	(10,310)
D&O profit shares	(2,691)	(2,285)	(2,691)	(2,285)
Transfer pricing	1,797	-	1,797	-
IR/CS over foreign income	-	10,239	981	10,239
Tax loss of subsidiaries	-	-	55,307	15,038
Other additions (exclusions)	3,291	(1,857)	6,683	8,470
	52,561	5,000	147,691	38,634
Income and social contribution taxes				
Current	(61,743)	(13,658)	(142,369)	(44,268)
Deferred charges	9,182	8,658	(5,322)	5,634
	52,561	5,000	147,691	38,634
Effective rate - %	19	5	40	30

(i) Incentive – Industrial development program.

21 Shareholders' equity

(a) Capital

The parent company's authorized capital is 2,100,000,000 shares, consisting of 700,000,000 common shares and 1,400,000,000 preferred shares, all nominative with no par value.

As of On December 31, 2016, the subscribed and paid-in capital consisted of 925,196,009 (896,900,084 as of December 31, 2015) registered shares with no par value, of which 341,625,744 are common shares and 586,570,265 are preferred shares.

Of the total subscribed capital, 340,542,666 (327,101,649 as of December 31, 2015) preferred shares are held by stockholders abroad.

(b) Reserves

(i) Legal reserve

Constituted at the rate of 5% of the net income determined in each financial year pursuant to article 193 of Law 6404/76 up to the limit of 20% of the share capital.

(ii) Statutory reserves

Marcopolo allocated at least 25% (twenty-five percent) of the remaining balance of profit to the payment of a minimum mandatory dividend on all Marcopolo shares. The remaining balance of profit is fully appropriated to the following reserves:

. Reserve for future capital increase - to be used for future capital increases and established at 70% of the remaining balance of net income for each year, but the balance cannot exceed 60% of share capital.

- Reserve for payment of interim dividends - to be used for the payment of interim dividends in accordance with Article 33 (1) of the Company's by-laws and established at 15% of the remaining balance of net income for each year, but the balance cannot exceed 10% of share capital.

- Reserve for the purchase of own shares - to be used for the purchase of Marcopolo's own shares, to be canceled, held in treasury and/or sold, and established at 15% of the remaining balance of net income for each year, but the balance cannot exceed 10% of share capital.

(c) Treasury stock

Treasury stock comprises 4,949,901 preferred nominative shares, purchased at the average cost of R$ 4.6379 (in reais) per share. In the year 974,068 preferred nominative shares were sold, at an average weight price of R$ 1.8500 per share, generating a negative balance of R$ 2,716. The market value of the treasury stock as of December 31, 2016 was R$ 22,957. According to article 168 (3) of Brazilian Corporation Law and CVM Instruction No. 390/03, the shares will be utilized to grant Marcopolo managers and employees share purchase options, pursuant to the Stock Option Plan approved by the Extraordinary General Meeting held on December 22, 2005.

22 Interest on shareholders' equity – Law 9249/95 and dividends

As permitted by Law 9249/95, Marcopolo calculated interest on shareholders' equity based on the Long Term Interest Rate (TJLP) of the current period amounting to R$ 118,432 (R$ 43,302 in 2015), with payment commencing on December 15, 2016, at the rate of R$ 0.131 per share, for common shares and for preferred shares, which were recorded as a financial expense, as requested per local applicable fiscal law. For the purposes of these financial statements, this interest was eliminated from financial expenses for the year and was charged to retained earnings and credited to cash.

Income and social contribution taxes for the year decreased by approximately R$ 40,267 (R$ 14,723 in 2015), as a result of the deduction of interest on shareholders' equity when calculating these taxes.

Minimum mandatory dividends calculation:

	2016	**2015**
Net income for the year (parent company)	219,388	86,949
Legal reserve (5%)	(10,969)	(4,347)
Dividend calculation basis	208,419	82,602
Value of minimum mandatory dividends (25%)	52,105	20,651
Additional dividends proposed	66,327	22,651
Total dividends proposed per Management	118,432	43,302
Interim dividends paid	52,105	20,651
Additional dividends proposed and paid	66,327	22,651
Interest on shareholders' equity attributed to dividends and paid in advance		
Gross	118,432	43,302
Income tax withheld at source (15%)	(17,765)	(6,495)
Income tax withheld at source suspended	3,672	1,487
Net value of credited interest	104,339	38,294
Net value of interest, credited dividends and proposed dividends	104,339	38,294

The amount of said interest was allocated to the minimum mandatory dividends declared in advance, as the current years concurs with item V of CVM Resolution number 207/96.

23 Insurance coverage

As of December 31, 2016 the Company has insurance coverage against fire and other risks to the property, plant and equipment and inventory at amounts deemed sufficient to cover any losses.

The main insurance policies cover:

		Consolidated	
Nature of assets	**Book value**	**2016**	**2015**
Inventory, building and contents	Fire and other risks	878,630	787,857
Vehicles	Collision and civil liability	36,033	38,252
		914,663	826,109

24 Guarantees

As of December 31, 2016, the Company had issued endorsements/sureties of R$ 15,965 (R$ 18,582 as of December 31, 2015), in connection with the financing of customers by banks, which are secured by the respective assets financed, and a residual value of financed goods amounting to R$ 45,829 (R$ 22,317 as of December 31, 2015) submitted as collateral for bank loans and contingencies.

25 Employee profit sharing

According to Law number 10101 of December 19, 2000, in 2016 Management opted to pay the employee profit sharing semiannually, paying a part in July 2016 and the remainder in February 2017.

The employee profit sharing was calculated in accordance with the terms established in the Marcopolo Targets/Efficiency Program Agreement (EFIMAR).
The amounts were classified in the statement of income as follows:

	Parent Company		Consolidated	
	2016	**2015**	**2016**	**2015**
Cost of goods sold and services rendered	25,825	9,468	26,922	9,732
Sales expenses	8,406	2,619	8,474	2,630
Management expenses	5,603	2,920	5,815	4,905
	39,834	15,007	41,211	17,267

26 Revenue

The reconciliation between gross sales and net revenue is as follows:

	Parent Company		Consolidated	
	2016	**2015**	**2016**	**2015**
Gross sales of products and services	1,805,986	2,058,158	2,874,909	3,193,687
Sales taxes and returns	(223,803)	(350,500)	(300,816)	(454,555)
Net revenue	1,582,183	1,707,658	2,574,093	2,739,132

27 Expenses by nature

	Parent Company		Consolidated	
	2016	**2015**	**2016**	**2015**
Raw materials and consumables	927,852	916,528	1,547,881	1,508,508
Outsourced services and other	143,008	171,247	212,665	253,938
Direct compensation	357,631	366,788	573,384	634,096
D&O compensation	16,089	15,156	16,089	15,156
Employee profit shares	39,834	15,007	41,211	17,267
Depreciation and amortization charges	21,752	22,721	49,691	46,437
Private pension expenses	6,848	16,457	6,975	16,543
Other expenses	49,976	53,517	106,621	94,544
Total sales and distribution costs and expenses and administrative expenses	1,562,990	1,577,421	2,554,517	2,586,489

28 Other operating income (expenses)

	Parent Company		Consolidated	
	2016	**2015**	**2016**	**2015**
Sale of New Flyer shares	-	-	268,133	-
IOF - Taxes on financial transactions	(1,771)	(625)	(1,329)	(1,517)
Labor indemnities	(21,629)	(16,384)	(21,629)	(17,538)
Restructuring of sales network	(25,908)	-	(32,705)	-
Other expenses	(16,109)	(6,819)	(22,114)	(515)
Total other operating revenue (expense)	(65,417)	(23,828)	190,356	(19,570)

29 Finance income

	Parent Company		Consolidated	
	2016	**2015**	**2016**	**2015**
Finance income				
Interest and monetary variance earnings	11,904	8,944	9,994	15,910
Interest on derivatives	12,500	479	12,500	479
Income on short-term investments	115,952	93,966	129,421	101,174
Exchange variance	327,359	261,079	358,541	284,811
Exchange variance on derivatives	39,968	17,730	40,578	18,217
Present value adjustment of accounts receivable	20,199	21,605	26,500	28,590
	527,882	403,803	577,534	449,181

	Parent Company		Consolidated	
	2016	**2015**	**2016**	**2015**
Finance costs				
Interest on loans and financing	(77,760)	(68,411)	(94,967)	(75,943)
Interest on derivatives	(1,747)	(1,948)	(2,017)	(1,948)
Exchange variance	(305,077)	(329,426)	(342,415)	(360,368)
Exchange variance on derivatives	(27,750)	(8,961)	(28,959)	(10,502)
Bank expenses	(13,085)	(13,283)	(16,224)	(15,925)
Present value adjustment of accounts payable	(21,959)	(17,784)	(26,658)	(22,847)
	(447,378)	(439,813)	(511,240)	(487,533)
Financial income, net	80,504	(36,010)	66,294	(38,352)

30 Earnings per share

(a) Basic

The Company calculates basic earnings per share by dividing the net income attributable to the company's shareholders by the weighted average number of shares issued in the year, excluding the shares purchased by the company and held as treasury stock.

	Parent Company		Consolidated	
	2016	**2015**	**2016**	**2015**
Profit attributable to shareholders	219,388	86,949	222,546	89,083
Weighted average number of shares issued (in thousands)	897,143	890,976	897,143	890,976
Earnings per share	0.2445	0.0976	0.2481	0.1000

(b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of common and preferred shares

outstanding to assume conversion of all potential common shares with dilutive effects. The Company considers as dilution effect of common and preferred shares, the exercise of share options by employees and management. The number of shares thus calculated is compared

with the number of shares issued assuming the exercise of the stock options.

	Parent Company		Consolidated	
	2016	**2015**	**2016**	**2015**
Profit attributable to shareholders	219,388	86,949	222,546	89,083
Weighted average number of shares issued (in thousands)	897,143	890,976	897,143	890,976
Adjustments:				
Exercising of share call options	4,950	5,924	4,950	5,924
Earnings per share	0.2432	0.0969	0.2467	0.0993

31 Statements of financial position and segment reporting

The industrial segment produces bus bodies and spare parts. The financial segment is responsible for financing transactions through Banco Moneo.

Statements of financial position

	Consolidated		Industrial		Finance	
	2016	**2015**	**2016**	**2015**	**2016**	**2015**
Assets						
Current						
Cash and cash equivalents	1,209,459	1,131,162	1,164,550	1,111,998	44,909	19,164
Financial assets stated at fair value through profit and loss	224,151	184,866	224,151	184,866	-	-
Derivative financial instruments	6,498	1,803	6,498	1,803	-	-
Trade receivables	900,816	1,032,600	587,635	678,442	313,181	354,158
Inventories	472,057	437,774	472,057	437,774	-	-
Other accounts receivable	243,757	200,714	195,542	154,971	48,215	45,743
	3,056,738	2,988,919	2,650,433	2,569,854	406,305	419,065
Non-current						
Financial assets stated at fair value through profit and loss	18,817	47,345	18,817	47,345	-	-
Trade receivables	481,643	538,215	-	-	481,643	538,215
Other accounts receivable	110,098	76,318	101,874	74,421	8,224	1,897
Investments	309,074	516,129	309,074	516,129	-	-
Investment property	48,941	-	48,941	-	-	-
Property, plant and equipment	708,269	561,340	707,914	560,948	355	392
Goodwill and intangible assets	234,689	310,597	234,331	310,154	358	443
	1,911,531	2,049,944	1,420,951	1,508,997	490,580	540,947
Total assets	4,968,269	5,038,863	4,071,384	4,078,851	896,885	960,012
Liabilities						
Current						
Trade accounts payable	251,454	249,138	251,454	249,138	-	-
Loans and borrowings	925,062	965,139	650,990	690,540	274,072	274,599
Derivative financial instruments	492	921	492	921	-	-
Other accounts payable	484,716	376,976	472,694	362,116	12,022	14,860
	1,661,724	1,592,174	1,375,630	1,302,715	286,094	289,459
Non-current						
Loans and borrowings	1,374,172	1,509,707	994,914	1,065,107	379,258	444,600
Other accounts payable	63,856	74,799	63,856	74,799	-	-
	1,438,028	1,584,506	1,058,770	1,139,906	379,258	444,600
Minority interests	32,108	34,098	32,108	34,098	-	-
Shareholders' equity attributable to controlling shareholders	1,836,409	1,828,085	1,604,876	1,602,132	231,533	225,953
Total liabilities	4,968,269	5,038,863	4,071,384	4,078,851	896,885	960,012

Statements of operations income

	Consolidated		Industrial		Finance	
	2016	2015	2016	2015	2016	2015
Operations						
Net revenue from sales and services	2,574,093	2,739,132	2,521,950	2,688,298	52,143	50,834
Cost of goods sold and services rendered	(2,248,335)	(2,263,165)	(2,248,335)	(2,263,165)	-	-
Gross profit	325,758	475,967	273,615	425,133	52,143	50,834
Operating revenue (expense)						
Sales expenses	(140,920)	(164,841)	(120,135)	(163,385)	(20,785)	(1,456)
Administrative expenses	(165,262)	(158,483)	(149,064)	(142,874)	(16,198)	(15,609)
Other net operating revenue (expenses)	190,356	(19,570)	192,117	(18,666)	(1,761)	(904)
Equity in income of associates	94,011	32,996	94,011	32,996	-	-
Operating income	303,943	166,069	290,544	133,204	13,399	32,865
Finance income						
Finance revenue	577,534	449,181	577,534	449,181	-	-
Finance expenses	(511,240)	(487,533)	(511,240)	(487,533)	-	-
Profit before income and social contribution taxes	370,237	127,717	356,838	94,852	13,399	32,865
Income and social contribution taxes	(147,691)	(38,634)	(141,611)	(24,600)	(6,080)	(14,034)
Net income for the year	222,546	89,083	215,227	70,252	7,319	18,831

32 Statements of cash flow by business segment – indirect method

	Consolidated		Industrial Segment		Financial Segment	
	2016	2015	2016	2015	2016	2015
Cash flows from operating activities						
Net income for the year	**222,546**	**89,083**	**215,227**	**70,252**	**7,319**	**18,831**
Reconciliation of income (loss) to cash provided by operating activities						
Depreciation and amortization	49,691	46,437	49,431	46,148	260	289
Gain (loss) on the sale of investment assets, property, plant and equipment and intangible assets	(198,659)	2,901	(198,662)	2,762	3	139
Equity in net income of subsidiaries	(94,011)	(32,996)	(94,011)	(32,996)	-	-
Allowance for doubtful accounts	22,629	(4,643)	4,723	(2,989)	17,906	(1,654)
Current and deferred income and social contribution taxes	147,691	38,634	141,611	24,600	6,080	14,034
Interest and exchange variance appropriated	(40,194)	160,095	(78,108)	133,907	37,914	26,188
Minority interests	3,158	2,134	3,158	2,134	-	-
Changes in assets and liabilities						
Decrease in trade accounts receivable	252,309	168,653	172,666	166,287	79,643	2,366
Decrease (increase) in securities	(13,859)	39,012	(13,859)	39,012	-	-
Inventory decrease	1,399	64,251	1,399	64,251	-	-
(Increase) decrease in other accounts receivable	(13,551)	(29,562)	(4,752)	(39,462)	(8,799)	9,900
(Decrease) in trade payables	(29,480)	(56,318)	(29,480)	(56,318)	-	-
Increase (decrease) in accounts payable and provisions	3,687	47,835	(6,905)	51,675	10,592	(3,840)
Cash produced by operating activities	**313,356**	**535,516**	**162,438**	**469,263**	**150,918**	**66,253**
Taxes on profit paid	(142,369)	(44,268)	(122,860)	(31,243)	(19,509)	(13,025)
Net cash provided by operating activities	**170,987**	**491,248**	**39,578**	**438,020**	**131,409**	**53,228**
Cash flows from investment activities						
Investments	4,127	(128)	4,127	(128)	-	-
Dividends from subsidiaries, joint ventures and associated companies	19,559	28,621	19,559	28,621	-	-
Additions to property, plant and equipment	(72,274)	(158,265)	(72,187)	(158,146)	(87)	(119)

	Consolidated		Industrial Segment		Financial Segment	
	2016	**2015**	**2016**	**2015**	**2016**	**2015**
Acquisition of intangible assets	(1,270)	(1,734)	(1,215)	(1,634)	(55)	(100)
Receipt on the sale of investments property, plant and equipment and intangible assets	405,950	3,922	405,950	3,922	-	-
Net cash provided by investment activities	**356,092**	**(127,584)**	**356,234**	**(127,365)**	**(142)**	**(219)**
Cash flows from financing activities						
Treasury shares	1,802	2,788	1,802	2,788	-	-
Share issuance	43,707	-	43,707	-	-	-
Loans secured from unrelated parties	641,263	767,717	425,650	530,954	215,613	236,763
Payment of loans – principal	(878,397)	(525,072)	(592,531)	(256,427)	(285,866)	(268,645)
Payment of loans – interest	(121,464)	(65,158)	(87,934)	(40,399)	(33,530)	(24,759)
Payment of interest in shareholders' equity and dividends	(118,432)	(86,935)	(116,693)	(82,228)	(1,739)	(4,707)
Net cash used in financing activities	**(431,521)**	**93,340**	**(325,999)**	**154,688**	**(105,522)**	**(61,348)**
Exchange variance on cash and cash equivalents	(17,261)	31,543	(17,261)	31,543	-	-
Net increase (decrease) in cash and cash equivalents	**78,297**	**488,547**	**52,552**	**496,886**	**25,745**	**(8,339)**
Cash and cash equivalents at beginning of year	1,131,162	642,615	1,111,998	615,112	19,164	27,503
Cash and cash equivalents at end of year	1,209,459	1,131,162	1,164,550	1,111,998	44,909	19,164

33 Additional information

The industrial business segment operates in the geographic areas listed below. The financial segment operates exclusively in Brazil.

(a) Net revenue by geographic area

	Consolidated	
	2016	**2015**
Brazil	1,738,293	2,009,525
Africa	92,889	98,275
Australia	367,251	324,149
China	63,432	67,045
Peru	4,783	-
Mexico	307,445	240,138
	2,574,093	2,739,132

(b) Property, plant and equipment, goodwill and intangible assets by geographic area

	Consolidated	
	2016	**2015**
Brazil	735,523	581,383
Africa	12,203	12,699
Australia	128,340	162,507
Canada	45,504	88,943
China	4,111	6,098
Mexico	17,174	20,237
Uruguay	58	70
Peru	45	-
	942,958	871,937

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