ALL - América Latina Logística S.A. and its subsidiaries

Financial statements as of December 31, 2006 and 2005 with report of independent auditors

REPORT OF INDEPENDENT AUDITORS

The Board of Directors and Shareholders
ALL – América Latina Logística S.A.

1. We have audited the accompanying balance sheets of ALL – América Latina Logística S.A. (“the Company”) and the consolidated balance sheets of ALL – América Latina Logística S.A. and subsidiaries (“the Company”) as of December 31, 2006 and 2005 and the related statements of income, changes in shareholders’ equity and changes in financial position for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements. The financial statements of the indirect subsidiary Boswells S.A., whose investment consisted of a provision for capital deficiency of R$2,308 thousand at December 31, 2005 and generated equity in losses of subsidiary of R$670 thousand, and of the affiliate Geodex Communications S.A., whose investment totals R$67,403 thousand at December 31, 2005 and generated equity in earnings of subsidiary of R$1,120 thousand for that year, were examined by other independent auditors, who issued unqualified opinions. Our opinion, insofar as it relates to the amount of these investments and to the equity pickup arising there from, is based on the opinion of those other auditors.

2. We conducted our audits in accordance with generally accepted auditing standards in Brazil which comprised: (a) the planning of our work, taking into consideration the materiality of balances, the volume of transactions and the accounting and internal control systems of the Company; (b) the examination, on a test basis, of documentary evidence and accounting records supporting the amounts and disclosures in the financial statements; and (c) an assessment of the accounting practices used and significant estimates made by management, as well as an evaluation of the overall financial statement presentation.

3. In our opinion, based on our audits, as well as on the opinion of other independent auditors mentioned in paragraph 1, the financial statements referred to above present fairly, in all material respects, the financial position of ALL – América Latina Logística S.A. and the consolidated financial position of ALL – América Latina Logística S.A. and its subsidiaries at December 31, 2006 and 2005, and the results of its operations, changes in its shareholders’ equity and changes in its financial position for the years then ended, in accordance with accounting practices adopted in Brazil.

4. As mentioned in Note 4(a), the subsidiaries América Latina Logística Central S.A. ("ALL Central") and América Latina Logística – Mesopotámica S.A. ("ALL Mesopotámica") are in the process of renegotiating their concession contracts with the government of Argentina. On October 20, 2006, the subsidiaries signed a new "Memorandum of Understanding" with the "*Unidad de Renegociación y Análisis de Contratos de Servicios Públicos*", which established a proposal for renegotiation of the concession contracts based on the following terms: (i) payment of a concession fee ("canon") beginning January 2006 through the end of the concession; (ii) obligation to make minimum capital investments beginning January 1, 2006 through the end of the concession; (iii) resolution of past disputed claims between the government of Argentina and subsidiaries, such net claims were in favor of the government and will be converted into capital investment commitments by the subsidiaries beginning from January 2006 through the end of the concession. The Memorandum of Understanding must be ratified by the national congress and by a decree of the President of the republic of Argentina, and therefore is subject to modifications. The financial statements referred to in paragraph 1 were prepared on the assumption that the conditions agreed to in the Memorandum of Understanding will be ratified as agreed to by the subsidiaries and the government and do not include any adjustments that may arise from future modifications to those conditions.

5. As mentioned in Note 4(c), taking into consideration resolutions enacted by an entity of the government of Argentina (Inspección General de Justicia ("I.G.J")), the subsidiary ALL - América Latina Logística Argentina S.A. ("ALL Argentina") should have converted the advances for future capital increase ("aportes irrevocables") which were recorded in its shareholders' equity into capital within a 180-day period, for which the latest extension expired on February 21, 2006. The extension was not renewed by the Company to date. If a specific authorization not obtained from I.G.J., such advances will be converted into capital or reclassified to a liability account. In accordance with Argentinean laws applicable to the subsidiary, any changes to capital need prior approval by the federal government. Therefore, conversion of the "aportes irrevocables" into capital depends on such approval which has not been obtained to date. At December 31, 2006 the balance of "aportes irrevocables" amounts to approximately R$83,000 thousand and, based on the opinion of its legal advisors, the Company recorded these amounts as shareholders' equity of the subsidiary because the Company's intent is to convert these advances into capital in the future after the necessary governmental approvals have been obtained. Management of the subsidiary requested a waiver from immediately converting the "aportes irrevocables" into capital, in accordance with I.G.J. resolutions, because of the legal restrictions which currently prevent the conversion of the advances. No response was obtained through the date this report was issued. The financial statements described in paragraph 1 do not include any effects that may arise in connection with the conclusion of this matter.

6. As described in Note 4(c), based on the opinion of its legal advisors, the subsidiary ALL Argentina did not recognize in its financial statements the minority interest, if any, on advances for capital increase granted to its subsidiaries ALL Central and ALL Mesopotámica. Such recognition was sought in court by a non-controlling shareholder. The financial statements do not include potential adjustments or reclassifications that might arise in connection with the conclusion of this matter.

7. As described in Note 6, the subsidiary ALL Central discontinued the recognition of revenues from tolls of "Unidad Ejecutora del Programa Ferroviario Provincial (U.E.P.F.P.)" beginning in January 2002. This decision was made because U.E.P.F.P. does not acknowledge the services provided by ALL Central. In 2004, ALL Central filed a claim with the Federal Court for Litigious and Administrative Matters of the Province of Buenos Aires seeking the payment of toll amounts for the period 1993 to 1995. As a result of the agreements reached with previous shareholders, ALL Argentina has a liability of R$3,857 thousand (P$5,510 thousand), associated with the obligation to reimburse 50% of the recovered toll amounts incurred in the periods prior to the date of acquisition of ALL Central and ALL Mesopotámica. Although management believes, based on the opinion of its legal advisors, that the likelihood of a favorable outcome in the collection proceedings initiated against U.F.P.F.P. is high, the receivable of R$3,800 thousand (P$5,420 thousand) has not been recorded. The financial statements do not consider any adjustment or reclassifications that might arise in connection with the conclusion of these discussions.

8. We conducted our audits in order to issue a report on the financial statements referred to in paragraph 1. In Note 30, the statements of cash flows for the years ended December 31, 2006 and 2005, are presented to provide additional information about the Company and its subsidiaries and are not required as part of the basic financial statements in accordance with accounting practices generally accepted in Brazil. The statements of cash flows were submitted to the same auditing procedures described in paragraph 2 and, in our opinion, are fairly presented, in all material respects, in relation to the financial statements taken as a whole.

9. The accounting practices adopted in Brazil differ, in certain aspects, from the accounting principles generally accepted in the United States of America. The information about the nature and the effect of these differences is presented in Note 31 to the financial statements.

Curitiba, February 26, 2007, except for the
Note 31 to the financial statements, as to which date is April 30, 2007

ERNST & YOUNG
Auditores Independentes S.S.
CRC-2-SP 15199/O-6 -F- PR

Marcos Antonio Quintanilha
Acountant CRC-1-SP-132776/O-3 T-SC-S-PR

ALL-América Latina Logística S.A. and its Subsidiaries
Balance Sheets as of December 31
(in thousands of Reais)

		Parent Company		Consolidated	
	Note	**2006**	**2005**	**2006**	**2005**
ASSETS					
Current assets					
Cash and cash equivalents	5	270,067	250,282	1,739,040	1,006,282
Trade accounts receivable	6	-	-	111,317	68,434
Inventories	7	-	-	70,995	28,164
Leases and concessions	8	-	-	6,182	10,075
Recoverable taxes	9	17,762	21,421	152,771	126,711
Deferred income tax and social contribution	10	20,257	6,630	36,082	21,922
Dividends and interest on own capital		141,537	33,999	-	-
Advances and other accounts receivable		15,044	14	44,543	13,012
Prepaid expenses		2,477	1,528	9,634	8,708
Total current assets		467,144	313,874	2,170,564	1,283,308
Non-current assets					
Long-term assets					
Receivables from affiliated companies	19	29,319	6,654	6,099	2,694
Leases and concessions	8	-	-	122,594	84,427
Recoverable taxes	9	18,753	-	55,677	10,732
Deferred income tax and social contribution	10	34,085	28,869	63,635	65,463
Judicial deposits	18	-	-	378,140	24,155
Long-term investments	11	1,063,059	308,222	203,094	17,794
Other accounts receivable		-	4,531	43,619	27,963
Prepaid expenses		7,393	3,686	19,495	11,499
		1,152,609	351,962	892,353	244,727
Permanent assets					
Equity investments	12	3,163,209	860,337	2,536,962	234,410
Intangible assets		137	137	137	137
Fixed assets	13	4,286	-	2,840,460	850,421
Deferred charges	14	120,467	-	445,741	42,305
		3,288,099	860,474	5,823,300	1,127,273
Total non-current assets		4,440,708	1,212,436	6,715,653	1,372,000
Total assets		4,907,852	1,526,310	8,886,217	2,655,308

The notes are an integral part of the financial statements.

ALL-América Latina Logística S.A. and its Subsidiaries
Balance Sheets as of December 31
(in thousands of Reais)

		Parent Company		Consolidated	
	Note	**2006**	**2005**	**2006**	**2005**
LIABILITIES					
Current liabilities					
Suppliers		1,083	-	333,502	288,404
Loans and financings	15	1,621	11,567	231,936	167,131
Debentures	16	187,578	22,239	224,342	22,239
Other taxes payable		2,415	3,472	180,300	116,808
Lease and concessions	17	-	-	16,990	22,909
Payroll and related charges		-	-	95,648	32,437
Advances from clients		-	-	29,586	13,046
Leases	28	-	-	18,380	-
Other accounts payable		-	179	93,855	1,688
Dividends and interest on own capital		15,842	38,483	15,964	38,483
Total current liabilities		208,539	75,940	1,240,503	703,145
Non-current liabilities					
Long-term liabilities					
Loans and financings	15	640	796	2,324,861	427,808
Debentures	16	1,035,000	485,957	1,573,516	485,957
Payables to affiliated companies	19	12,029	5,956	650	-
Provision for contingencies	18	-	-	442,794	15,523
Lease and concessions	17	-	-	664,373	52,621
Provision for unrealized profit	20	15,593	16,337	-	-
Leases	28	-	-	7,066	-
Other accounts payable		-	-	165,691	26,765
Provision for unsecured liabilities in subsidiary	12	1,189,563	-	-	-
Deferred income	21	-	-	25,443	8,692
Total non-current liabilities		2,252,825	509,046	5,204,394	1,017,366
Minority interest		-	-	-	19
Shareholders’ equity	22				
Capital stock		2,129,475	682,190	2,129,475	682,190
Capital reserves		32	32	32	32
Profit reserves		315,999	259,058	315,999	259,058
Accumulated losses		-	-	(5,168)	(6,546)
Advances for future capital increase		982	44	982	44
Total shareholders’ equity		2,446,488	941,324	2,441,320	934,778
Total liabilities and shareholders’ equity		4,907,852	1,526,310	8,886,217	2,655,308

The notes are an integral part of the financial statements.

ALL-América Latina Logística S.A. and its Subsidiaries
Statements of income
For the years ended December 31, 2006 and 2005
(in thousands of Reais)

		Parent Company		Consolidated	
	Note	**2006**	**2005**	**2006**	**2005**
Gross revenue from services					
Cargo transportation services		15,550	960	1,981,152	1,249,289
Gross revenue deductions, mainly taxes (ICMS, ISS, PIS and COFINS)		(2,027)	(92)	(255,020)	(162,326)
Net revenue from services		13,523	868	1,726,132	1,086,963
Cost of services provided		(255)	-	(1,106,963)	(668,495)
Gross profit		**13,268**	**868**	**619,169**	**418,468**
Income from equity investments					
Equity in earnings of subsidiaries	12	203,779	186,757	1,444	1,241
Provision for unsecured liabilities in subsidiaries	12	(103,461)	-	-	-
Goodwill amortization	12	(7,269)	(7,264)	(9,231)	(9,434)
Provision for loss in equity investment	12	(55,112)	-	(55,112)	-
		37,937	179,493	(62,899)	(8,193)
Other operating income (expenses)					
Selling		-	-	(23,300)	(7,659)
General and administrative		(7,706)	(7,628)	(101,893)	(87,480)
Other operating income, net		744	744	16,531	14,931
		(6,962)	(6,884)	(108,662)	(80,208)
Operating income before financial income (expense)		**44,243**	**173,477**	**447,608**	**330,067**
Financial income (expense)	25	16,009	(9,336)	(337,353)	(127,839)
Operating income		**60,252**	**164,141**	**110,255**	**202,228**
Non-operating income (expenses), net		(148)	(288)	(3,434)	7,558
Income before taxes and minority interest		**60,104**	**163,853**	**106,821**	**209,786**
Income tax and social contribution expense	24	(5,911)	(796)	(46,998)	(53,219)
Deferred income tax and social contribution	9	20,486	6,763	16,359	14,662
Minority interest		-	-	(122)	(31)
Net income		**74,679**	**169,820**	**76,060**	**171,198**
Number of shares at the end of the year (in thousands)		2,870,595	222,717	2,870,595	222,717
Net income per thousand shares at the end of the year – R$		**0.026**	**0.762**	**0.026**	**0.769**

The notes are an integral part of the financial statements.

ALL-América Latina Logística S.A. and its Subsidiaries
Statements of changes in shareholders' equity
For the years ended December 31, 2006 and 2005
(in thousands of Reais)

			Profit reserve				
	Capital Stock	**Capital reserve**	**Legal reserve**	**Investment reserve**	**Retained earnings**	**Advances for future capital increase**	**Total**
Balances, December 31, 2004	616,924	32	8,342	121,228	-	-	746,526
Issuance of shares	65,266	-	-	-	-	-	65,266
Transfer from long-term Liability	-	-	-	-	-	44	44
Net income for the year	-	-	-	-	169,820	-	169,820
Appropriation of net income for the year:							
Transfer to reserves	-	-	8,491	120,997	(129,488)	-	
Proposed dividends	-	-	-	-	(20,332)	-	(20,332)
Interest on own capital	-	-	-	-	(20,000)	-	(20,000)
Balances, December 31, 2005	682,190	32	16,833	242,225	-	44	941,324
Issuance of shares	1,447,285	-	-	-	-	-	1,447,285
Net income for the year	-	-	-	-	74,679	-	74,679
Advance received	-	-	-	-	-	938	938
Appropriation of net income for the year:							
Transfer to reserves	-	-	3,734	53,207	(56,941)	-	-
Proposed dividends	-	-	-	-	(2,738)	-	(2,738)
Interest on own capital	-	-	-	-	(15,000)	-	(15,000)
Balances, December 31, 2006	**2,129,475**	**32**	**20,567**	**295,432**	**-**	**982**	**2,446,488**

The notes are an integral part of the financial statements.

ALL-América Latina Logística S.A. and its Subsidiaries

Statements of changes in financial position

For the years ended December 31, 2006 and 2005

(in thousands of Reais)

	Parent Company		Consolidated	
	2006	**2005**	**2006**	**2005**
Sources of funds				
From operations				
Net income	74,679	169,820	76,060	171,198
Expenses (revenues) that do not represent changes in working capital:				
Equity in earnings of subsidiaries	(203,779)	(186,757)	(1,444)	(1,241)
Provision for unsecured liabilities	103,461	-	-	-
Provision for loss in equity investment	55,112	-	55,112	-
Minority interest	-	-	122	31
Gain on disposal of permanent assets	-	-	-	(5,916)
Depreciation and amortization	2,041	-	132,464	56,369
Goodwill amortization	5,453	7,264	9,231	9,434
Provision for contingencies	-	-	18,288	11,651
Financial charges of long-term assets and	-	-	-	-
liabilities, net	(96,249)	(30,055)	174,356	100,950
Realization of deferred income	-	-	(1,162)	(521)
Realization of unrealized income	(744)	(744)	-	-
Deferred income tax and social contribution	-	-	-	(8,900)
Foreign exchange variation on foreign subsidiaries	-	-	13,129	22,524
	(60,026)	(40,472)	476,156	355,579
From shareholders				
Issuance of shares	1,447,285	65,266	1,447,285	65,266
Advance for future capital increase	938	-	938	-
	1,448,223	65,266	1,448,223	65,266
From third parties				
Increase in long-term liabilities	6,073	-	79,676	-
By transfer of long-term assets to current assets	-	-		-
and investments			227,077	
Loans, financing and debentures	-	205,673	-	205,673
Sale of fixed assets	-	-	-	6,961
Sale of share ownership	-	-	-	1,061
Dividends and interest on own capital received	122,483	53,646	-	-
	128,556	259,319	306,753	213,695
Total sources	**1,516,753**	**284,113**	**2,231,132**	**634,540**

The notes are an integral part of the financial statements.

ALL-América Latina Logística S.A. and its Subsidiaries
Statements of changes in financial position
For the years ended December 31, 2006 and 2005
(in thousands of Reais)

	Parent Company		Consolidated	
	2006	**2005**	**2006**	**2005**
Uses of funds				
Dividends and interest on own capital	17,738	40,332	17,738	40,332
Increase in long-term assets	690,874	277,462	111,269	17,940
In permanent assets				
Equity investments	1,331,846	32,589	1,411,117	50
Fixed assets	4,511	-	372,354	255,276
Deferred assets	-	-	5,278	5,557
Non-current assets acquired	-	-	1,101,426	-
By transfer from long-term liabilities to current liabilities	(548,887)	42,903	(1,137,948)	195,916
Total uses	**1,496,082**	**393,286**	**1,881,234**	**515,071**
Increase (decrease) in net working capital	**20,671**	**(109,173)**	**349,898**	**119,469**
Changes in net working capital				
Current assets				
At the beginning of the year	313,874	406,473	1,283,308	972,862
At the end of the year	467,144	313,874	2,170,564	1,283,308
	153,270	(92,599)	887,256	310,446
Current liabilities				
At the beginning of the year	75,940	59,366	703,145	512,168
At the end of the year	208,539	75,940	1,240,503	703,145
	132,599	16,574	537,358	190,977
Increase (decrease) in net working capital	**20,671**	**(109,173)**	**349,898**	**119,469**

The notes are an integral part of the financial statements.

1. Operations

(a) The Company

ALL - América Latina Logística S.A. (the "Company" or "Parent Company") was established on September 30, 1997 and started its operating activities in April 1999, when the shareholders of ALL-América Latina Logística do Brasil S.A. ("ALL Brasil") (formerly "Ferrovia Sul-Atlântica S.A.") exchanged all of the shares of ALL Brasil for all of the Company's shares.

The Company's main corporate objectives are the following:

. to hold interests in other companies, ventures and consortia involved in transportation services, including rail transportation;

. to perform activities relating to transportation services, such as logistics, intermodal transportation, port operations, movement and storage of goods, operation and administration of storage warehouses and general warehouses;

. to acquire, lease or lend locomotives, wagons and other rail equipment to or from third parties;

. to perform other related activities as supported by the Company's structure.

On May 31, 2004, the Company adopted the Novo Mercado ("New Market") rules implemented by the São Paulo Stock Exchange ("BOVESPA"), where its shares are traded. The Company is the first land freight transportation company to adopt and comply with the New Market rules.

The covenants of the Parent Company's BNDES debt require that its bylaws must be conformed to the New Market rules of BOVESPA by February 1, 2004. On March 7, 2006, BNDES granted an extension to February 1, 2008.

The Company operates rail transportation in southern Brazil through ALL Brasil, and in the central-west region and the state of São Paulo through its subsidiaries Brasil Ferrovias and Novoeste Brasil. Brasil Ferrovias and Novoeste Brasil were acquired in 2006. The Company operates in Argentina through its subsidiary ALL - América Latina Logística – Argentina S.A. ("ALL Argentina"). ALL Argentina is the holding company of ALL - América Latina Logística - Central S.A. ("ALL Central") and ALL - América Latina Logística - Mesopotámica S.A. (ALL Mesopotámica). The Company also provides road transportation services in Brazil through ALL - América Latina Logística Intermodal S.A. ("ALL Intermodal").

1. Operations - continued

ALL Brasil also holds a concession to operate through February 2027 part of the Brazilian rail network (“Malha Ferroviária Sul - Southern Rail Network”), with a total length of 6,586 km. The concession period may be renewed by the granting authorities for an additional 30 years, covering the states of Paraná, Santa Catarina and Rio Grande do Sul. The Company also has an agreement to operate, on an exclusive basis, 874 km of rail lines in the state of São Paulo.

(i) Brasil Ferrovias

Brasil Ferrovias is a publicly-held company engaged in cargo rail transportation. Brazil Ferrovias has direct control of the concessionaires Ferrovia Ferronorte S.A. Ferrovia Norte Brasil (“Ferronorte”) and Ferroban – Ferrovias Bandeirantes S.A. (“Ferroban”), indirect control of Portofer Transportes Ferroviários Ltda. (“Portofer”), and shared control of Terminal XXXIX de Santos S.A. (“Terminal XXXIX”).

Ferronorte is a logistics company which links the north and central-west regions to the south and southeast regions of Brazil and to the port of Santos in São Paulo. It is the only railroad in Brazil built with private capital. The concession agreement was executed on May 19, 1989, between the federal government and Ferronorte. Under the concession, Ferronorte is responsible for the construction, operation, and maintenance of the road between Cuiabá (state of Mato Grosso) and Uberlândia, Santa Fé do Sul, Porto Velho and Santarém, for a 90-year period, which may be extended for another 90 years. There are no payment obligations during the concession.

In 1999, the first segment of Ferronorte was inaugurated with a length of 421 km, connecting Aparecida do Taboado (state of Mato Grosso do Sul) to Alto Taquari (state of Mato Grosso). In April 2002, another 90-km segment was inaugurated, connecting Alto Taquari and Alto Araguaia. With the continuity of the expansion project, Ferronorte will reach Rondonópolis (state of Mato Grosso), and afterwards Cuiabá (state of Mato Grosso).

Ferroban holds a concession to operate through December 2028 part of the Brazilian rail network, with an approximate length of 4,186 km covering the entire state São Paulo. The concession period may be renewed for a period of 30 years.

Portofer is a joint venture formed on June 28, 2000 by Ferronorte and by Ferroban. Portofer controls 90 km of railroads in the port of Santos area. Portofer’s objective is to provide the rail transportation of goods in the port through an agreement executed with CODESP (“Companhia Docas do Estado de São Paulo”) for a 25-year period, which may be extended by mutual agreement between the parties.

1. Operations - continued

The concession and lease agreements related to the terminals Terminal XXXIX, TGG and TERMAG were executed on August 8, 1997 between Ferronorte and CODESP. The period for the concessions is 25 years, which may be extended under agreement between the parties.

(ii) Novoeste Brasil S.A.

Novoeste Brasil is a wholly-owned subsidiary engaged in cargo rail transportation. Novoeste Brasil was formed from the partial spin-off of Brasil Ferrovias, which occurred on May 13, 2005. Novoeste Brasil is the parent company of Ferrovia Novoeste S.A. (“Novoeste”).

Novoeste holds a concession to operate through July 2026 part of the Brazilian rail network, with an approximate length of 1,600 km. The concession period may be renewed by the granting authorities for an additional 30 years. The railroad has an interconnection with waterway terminals in Porto Esperança and Ladário, both in the state of Mato Grosso do Sul, with Ferroban, in Bauru (state of São Paulo) and the Bolivian Ferrovia Oriental in Corumbá (state of Mato Grosso do Sul).

(iii) ALL Argentina

ALL Central holds a concession to operate through August 2023 part of the Argentine rail network, with a total length of 5,690 km. The main lines extend from Mendoza, on the Chilean border, to Buenos Aires. The concession period may be renewed for an additional 10 years.

ALL Mesopotámica holds a concession to operate through October 2023 part of the Argentine rail network, with a total length of 2,704 km the main lines extend from Buenos Aires to Uruguaiana. The concession period may be renewed for an additional 10 years. In Uruguaiana, the rail networks are interconnected to the rail network of ALL in Brazil and to the Paraguayan border in Corrientes.

(iv) Other subsidiaries

Boswells S.A. is a financial investment company based in Uruguay.

ALL Intermodal provides logistics and road transportation services, mainly by trucks, to the most populated Brazilian regions. This Company also distributes goods in urban areas and provides road freight services.

1. Operations - continued

In 2006, the board of directors approved the merger of its wholly-owned subsidiary Logispar Logística e Participações S.A. (Logispar) into the Company. Logispar was responsible for the management of its subsidiaries, ALL Argentina, ALL Equipamentos and Boswells S.A., including administering financial resources for their operations. As a result of the merger, the subsidiaries of Logispar became direct subsidiaries of the Company.

(b) Limitations and conditions of the concessions granted to ALL Brasil, Ferroban and Novoeste

ALL Brasil, Ferroban and Novoeste must comply with specific conditions established in the privatization process and in the concession agreements for the rail networks.

The concession agreements of these subsidiaries may be terminated as a result of the following events: expiration of the contractual term; expropriation; forfeiture; termination; annulment and bankruptcy; or extinguishment of the concessionaire.

If the concessions are terminated, the following would occur:

- all rights and privileges transferred to the subsidiaries would return to the federal government, together with leased assets and those capital investments made by the subsidiaries that the federal government considers necessary to the continuity of services under the concession.

- the aforementioned capital investments would be reimbursed by the federal government at their residual cost value, calculated in accordance with the accounting records of the subsidiaries, net of depreciation. This cost will be subject to technical and financial analyses by the federal government. Any improvements made to the permanent track infrastructure will not be considered as capital investments for reimbursement purposes.

2. Presentation of the financial statements

(a) Overall aspects

The financial statements were prepared and are presented in conformity with the accounting practices adopted in Brazil, considering the accounting guidelines set forth in the corporation law and in the rules of the Securities and Exchange Commission of Brazil - CVM.

The financial statements were approved at the meeting of the board of directors held on February 16, 2007.

2. Presentation of the financial statements - continued

The preparation of the financial statements requires management to make estimates based on assumptions that affect the values of assets, liabilities, revenues, expenses and disclosures presented in the financial statements. Material items subject to these estimates and assumptions include the selection of the useful life of the fixed assets and their recoverability in operations, credit risk analysis to determine the allowance for doubtful accounts, as well as the analysis of other risks to determine other provisions, including provision for contingencies and assessment of financial instruments and other assets and liabilities on the balance sheet date.

As a result of the settlement of transactions comprising these estimates, values may be materially different from those recorded in the financial statements due to inaccuracies inherent to the estimate process. The Company reviews its estimates and assumptions at least quarterly.

Assets and liabilities are classified as current when their realization or settlement is probable within the next twelve months. Otherwise, they are classified as non-current. Monetary foreign currency denominated assets and liabilities were translated into Brazilian reais according to the balance sheet exchange rate. Differences resulting from the translation of currency were recognized in the statements of income. For subsidiaries located abroad, assets, liabilities and income as of and for the year ended on December 31, 2006 were translated into Brazilian reais according to the exchange rate on the balance sheet closing date, R$0.699839 to P$1.00 (Argentine peso) (on December 31, 2005 - R$0.773785 to P$1.00) for Argentinean subsidiaries and R$2.138 to US$1.00 (U.S. dollar) (on December 31, 2005 – R$2.3407 to US$1.00). Exchange gains (losses) of foreign currency denominated investments are recorded in the income statement as financial income (expenses).

(b) Consolidated financial statements

The consolidated financial statements include the accounts of the Company and its directly and indirectly controlled subsidiaries. The percentage ownership of such subsidiaries is as follows:

(in thousands of Reais, unless otherwise indicated)

2. Presentation of the financial statements - continued

	Ownership %	
	2006	**2005**
Direct Subsidiaries		
ALL Brasil	100.00	100.00
ALL Intermodal	100.00	100.00
ALL-América Latina Logística Overseas Ltd. (ALL Overseas)	100.00	100.00
ALL-América Latina Logística Tecnologia Ltda. (ALL Tecnologia)	99.00	99.00
ALL-América Latina Logística Centro-Oeste Ltda. (ALL Centro-Oeste)	100.00	100.00
ALL-América Latina Logística Equipamentos Ltda. (ALL Equipamentos)	95.83	-
Logispar	-	100.00
ALL Argentina	100.00	
Santa Fé Vagões S.A.	39.99	39.99
Brasil Ferrovias	100.00	-
Novoeste Brasil	100.00	-
Boswells S.A.	100.00	-
Indirect Subsidiaries		
Investee of ALL Intermodal		
ALL-América Latina Logística Armazéns Gerais Ltda. (ALL Armazéns Gerais)	100.00	100.00
ALL Equipamentos	4.17	-
Investee of Armazéns Gerais		
PGT Grains Terminal S.A. (PGT)	100.00	100.00
Investees of Logispar		-
ALL Argentina	-	100.00
ALL Equipamentos	-	100.00
Boswells S.A.	-	100.00
Investees of Brasil Ferrovias		
Nova Ferroban S.A. (Nova Ferroban)	80.00	-
Ferronorte	97.55	-
Ferroban	30.52	-
Investee of Nova Ferroban		
Ferroban	66.42	-
Investee of Ferroban		
Portofer	50.00	-
Investee of Ferronorte		
Portofer	50.00	-
Terminal XXXI	50.00	-
Ferronorte Locadora de Vagões S.A. (Ferronorte Locadora)	100.00	-
Tenorte S.A.	100.00	-
Investee of Novoeste Brasil		
Novoeste	100.00	-
Investee of ALL Argentina		
ALL Central	73.55	73.55
ALL Mesopotámica	70.56	70.56

(in thousands of Reais, unless otherwise indicated)

2. Presentation of the financial statements - continued

At December 31, 2006, the minority interests of ALL Central and ALL Argentina are held as follows:

	% interest	
	ALL Central	**ALL Mesopotámica**
Railroad Development Corporation	6.45	2.74
Alesia S.A.	-	3.64
Petersen, Thiele Y Cruz S.A.	-	3.06
Ministerio de Economía y Obras y Servicios Públicos de la Nación	16.00	16.00
Other – Individuals	4.00	4.00

ALL Argentina is in negotiations with its minority shareholder Railroad Development Corporation for the acquisition of its interest of 6.45% and 2.74% in ALL Central and ALL Mesopotámica, respectively. The transaction depends on the approval of the share transfer by the Argentine government.

The subsidiaries ALL Central and ALL Mesopotámica amortize the organizational and pre-operating costs over periods which differ from those used in Brazil. No other differences in accounting practices were identified.

The Argentinean subsidiaries consider the inflationary effects of such country up to August 31, 1995 and from January 1, 2002 to February 28, 2003.

The reconciliation of net income and shareholders' equity between the parent company and the consolidated balance is summarized as follows:

	Shareholders' equity		Net income for the year	
	2006	**2005**	**2006**	**2005**
Parent company	2,446,488	941,324	74,679	169,820
Gain in the variation of Interest	(5,168)	(6,546)	-	-
Realization in the year of the gain in the variation of Interest	-	-	1,381	1,378
Consolidated	2,441,320	934,778	76,060	171,198

2. Presentation of the financial statements - continued

The gain in the variation of interest refers to the purchase, on August 22, 2000, by ALL Brasil of 16,573,431 shares of Itacaiúnas Participações S.A., generating goodwill of R$21,193. Such purchase generated variation in the parent company's interest from 100% to 63.03% of the capital with capital gain of R$13,782. The realization of this gain will take place as the locomotives, which originated the value of referred goodwill, are depreciated.

(c) Comparability of the financial statements

The comparability of the consolidated financial statements was significantly affected by the acquisition of the subsidiaries Brasil Ferrovias and Novoeste Brasil, as mentioned in Notes 1(a) and 12. The consolidated balances sheets of these subsidiaries as of December 31, 2006 were consolidated into the Company, as well as the results of the operations for the period from June 1, 2006 (acquisition date) to December 31, 2006.

(d) Supplementary information

As complementary information, the Company is also presenting the statements of cash flows in Note 30. Such statements were prepared according to the rules established by IBRACON, Brazilian Institute of Independent Auditors and Accounting Federal Council.

3. Summary of the primary accounting practices

(a) Cash and cash equivalents

Cash and cash equivalents include the balances in bank accounts and liquid cash investments with maturities of 90 days or less as of the balance sheet date, including, when applicable, income earned through the balance sheets dates.

(b) Allowance for doubtful accounts

The allowance for doubtful accounts is established in an amount considered sufficient by management to cover possible losses on the realization of receivables, considering the client portfolio profile, the economic scenario and specific risks.

(c) Inventories

Inventory items are valued by their average acquisition costs, which do not exceed the realization amounts.

3. Summary of the primary accounting practices - continued

(d) Lease and concessions (assets)

Lease and concession prepaid amounts are recorded at cost and allocated to income over the remaining concession term.

(e) Investments

The significant investments in subsidiaries and affiliated companies are accounted for under the equity method of accounting, adjusted to the recovery value when it is lower, as shown in Note 12. Goodwill recorded upon the acquisition of subsidiaries based on expectation of future profitability is amortized on a straight-line basis over the remaining concession term.

(f) Fixed assets

Fixed assets are recorded at the acquisition, formation or construction cost (including interest and other financial charges linked to projects or construction). Depreciation is recognized on the straight-line basis, considering the estimated economic useful life of the assets at the annual rates described in Note 13.

(g) Intangible assets

Intangible assets are recorded at the lower of acquisition and formation cost or market.

(h) Deferred charges

The portions of lease and concession cost corresponding to the pre-operating phase of Brazilian operations were deferred and have been amortized over the concession term, as described in Note 14. The pre-operating costs and studies and project costs are amortized over five years, beginning from the date in which the related activities generate benefits.

(i) Revenue recognition

The revenues from services are recognized when persuasive evidence of an agreement exists, services have been rendered, the price is fixed or determinable and collectibility is reasonably assured.

(j) Advances for future capital increase

The Company records as shareholders' equity the advances for share purchases received from participants of the Company's stock option plan described in Note 22.

3. Summary of the primary accounting practices - continued

(k) Taxes

Taxes on revenues (PIS, Cofins, ICMS and ISS) are presented as sales deductions in the statements of income. Credits deriving from the non-cumulativity of PIS/COFINS are presented reducing the cost of services rendered in the statement of income.

Income taxes are computed as 15% of taxable income and are increased by 10% for profits that exceed R$240 during the 12-month period. Social contribution is computed as 9% of taxable income. Deferred taxes are recognized on temporary differences and income and social contribution tax losses, when applicable. Deferred taxes related to temporary differences and tax losses are recorded as current and noncurrent assets, and the expected realization is supported by projected future taxable income, which is reviewed every year and properly approved by Company’s management. Only 30% of tax loss carryforwards can be used to offset taxable income in any given year.

4. ALL Argentina – Renegotiation of Concession Agreement

(a) Renegotiation of the concession agreement

From July 1997 to March 2001, through Decree 605/97, the Argentine Executive Branch ordered the Transportation Secretariat to renegotiate all concession agreements for freight rail transportation services, and there were various discussions and analyses resulting in the proposal of an addendum, which was null and void.

With the enactment of Law No. 25,561, a new turning point for the renegotiation of concession agreements was introduced and, on April 10, 2002, a presentation was delivered to the Argentine Minister of Economy through which the process was reinitiated.

In 2003, the Executive Branch issued Decree No. 311, creating a special committee for the renegotiation of all concession agreements. This committee reports simultaneously to the Ministry of Economy and to the Ministry of Federal Planning, Public Investments and Services. The change in the management of Argentine Government in May 2003 suspended the process for a few months and in September 2003, the concessionaires were once again required to update data and to attend various meetings with government officers and advisers of the Ministry of Federal Planning.

4. ALL Argentina – Renegotiation of Concession Agreement - continued

Beginning from 2005, ALL Argentina's subsidiaries, ALL Central and ALL Mesopotámica, continued renegotiations of their concession agreements under federal law. On July 18, 2005, provisions 18/2005 and 19/2005 of the Unit for Renegotiation and Analysis of Public Services Agreements were published on the Official Bulletin of the Argentine Government, relative to the Letter of Understanding resulting from renegotiations for commitments to the concession agreement between ALL Central and ALL Mesopotámica with the Argentine Government. On October 20, 2006, ALL Central and ALL Mesopotámica executed new letters of understanding with the Unit for Renegotiation and Analysis of Public Services Agreements. The letters of understanding are awaiting approval by the Argentine National Congress and by the President of the Republic of Argentina. Among other provisions, the referred letters establish the following:

(i) Annual investment plan

As of January 2006, ALL Central and ALL Mesopotámica must make annual capital investments in an amount equivalent to the higher of 9.5% of total net revenues or P$19.3 million.

(ii) Concession fee ("canon")

As of January 1, 2006, the amount corresponding to 3% of total net revenues of ALL Central and ALL Mesopotámica will be considered the concession fee ("canon"). During 2006, these subsidiaries recorded payables of R$3,124 and R$1,169, respectively, related to the canon.

(iii) Rights and obligations comprising the mutual claims

The renegotiation of concession agreements includes the settlement of amounts disputed by both the Argentine Government and the subsidiaries. The disputed amounts include capital investments not made by the subsidiaries, amounts related to prior years' concession fees and losses incurred by the subsidiaries as a result of unforeseen and unavoidable reasons (for example, floods).

Based on the aforementioned letters of understanding, the disputed amounts and claims were settled in favor of the Argentine government in the amount of P$79,760 thousand and P$14,480 thousand for ALL Central and ALL Mesopotámica, respectively. Additionally, the subsidiaries committed to making capital investments as defined in the letters of understanding.

4. ALL Argentina – Renegotiation of Concession Agreement - continued

(b) Approval for transfer of shares

On May 26, 1999, the indirect subsidiary ALL Argentina entered into a purchase and sale agreement with Poconé Participações S.A., Judori Administração, Empreendimentos e Participações S.A., Interférrea S.A. - Serviços Ferroviários e Intermodais, GP Capital Partners II L.P. and Emerging Markets Capital Investments ("the 5 shareholders") for 73.55% of shares of ALL Central and 70.56% of shares of ALL Mesopotámica. The amount of the transaction, equivalent to US$ 33,900 thousand on that date, was settled by means of offsetting payables ALL Argentina owed to the 5 shareholders. Pursuant to the terms of the concession agreement, this transfer of shares was subject to the approval of the Argentine government, which was obtained on April 26, 2004. The share transfer is now in progress.

Additionally, ALL Argentina holds partner rights in ALL Central and ALL Mesopotámica, by means of a beneficial interest agreement entered into with the 5 shareholders in May 1999. Under the terms of the beneficial interest agreement, ALL Argentina maintains its rights (both economic and political) and responsibilities as a shareholder of ALL Central and ALL Mesopotámica. The term of the beneficial interest agreement shall expire upon the effective transfer of shares of ALL Central and ALL Mesopotámica to ALL Argentina.

Also in May 1999, the Company entered into a purchase agreement with the 5 shareholders for the total number of shares of ALL Argentina and beneficial interest agreement over the rights of the shares of ALL Argentina. The term of the beneficial interest agreement is 20 years, automatically renewable if, up to the expiration of the agreement, the Argentine government does not express an opinion with regard to the approval for the transaction. Should authorization be denied by the government, the 5 shareholders irrevocably undertake to exercise the voting right over shares of ALL Argentina, in accordance with the Company's instructions.

Subsequently, as described in Notes 1(a) and 2, the Company sold all its partner rights in ALL Argentina to Logispar, and reacquired these rights through the purchase of Logispar's shares on December 31, 2003.

On March 29, 2006, the Company reacquired the beneficial rights and obligations over ALL Argentina's shares, as well as the right over advances for future capital increase ("aportes irrevocables"), described in Note 4(d), recorded in that investee, by means of capital reduction in Logispar (assignor of such rights and obligations). This transaction was supported by an appraisal report issued by independent experts and approved in the Annual General Shareholders' Meeting held on the date mentioned above.

4. ALL Argentina – Renegotiation of Concession Agreement - continued

(c) Advances for future capital increase ("aportes irrevocables")

Considering the Resolutions of *Inspección General de Justicia* ("I.G.J") 25/2004 and 1/2005, the direct subsidiary ALL - América Latina Logística Argentina S.A. should have allocated the advances for future capital increase *("aportes irrevocables")* within a specified term which expired on February 21, 2006. The aportes irrevocables are recorded in ALL Argentina's shareholders' equity at the approximate amount of R$83,000 on December 31, 2006. Such decision would imply the conversion of "*aportes irrevocables*" into capital or their reclassification to a liability account.

Pursuant to an Administrative Resolution applicable to the subsidiary, changes in its capital need prior approval of the Argentine government. Accordingly, the conversion of "*aportes irrevocables*" into capital depends on said approval, which has not occurred. The subsidiary requested a waiver from immediately converting the "aportes irrevocables" into capital, in accordance with I.G.J. resolutions, because of the legal restrictions which currently prevent the conversion of the advances. No response was obtained through the date this report was issued.

Management of the Company intends to convert *"aportes irrevocables"* into capital in ALL Argentina and also to convert "*aportes irrevocables*" into capital in ALL Argentina and ALL Mesopotámica.

ALL Central and ALL Mesopotámica have recorded the amounts of R$100,730 (P$143,900 thousand) and R$69,230 (P$98,900 thousand), respectively, for advances for future capital increase (AFAC) received from ALL Argentina. In April 2004, during Shareholders' Meetings of such companies, the Argentine government (minority shareholder) proposed that such AFACs be capitalized with no changes to its ownership interest and without a capital contribution. Such proposal was denied by ALL Argentina and, as such, the Government filed a suit to challenge such decision. No definitive decision on this judicial discussion has been handed down yet.

The final treatment of such advances, including their classification and valuation on the balance sheets of ALL Central and ALL Mesopotámica, the calculation of equity in earnings made by ALL Argentina and the related minority interest depend on the legal conclusion of this issue. ALL Argentina currently records 100% of the advances made, not assigning any portion to the minority shareholder (Argentine Government), which could correspond to 16%.

(in thousands of Reais, unless otherwise indicated)

5. Cash and cash equivalents

	Parent Company		**Consolidated**	
	2006	**2005**	**2006**	**2005**
Cash and banks	58,842	293	99,854	18,343
Cash investments	211,225	249,989	1,639,186	987,939
	270,067	250,282	1,739,040	1,006,282

Cash investments are represented by short and long-term Bank Deposit Certificates (CDB) with rates linked to the variation of the Interbank Deposit Certificate – CDI (83.50% to 104% rates) and with daily liquidity, except for the FAQ/FIF Exclusivo investments, whose liquidity is less than 90 days. The investment funds are also measured by CDI, with interest income realized at maturity.

6. Trade accounts receivable - consolidated

Subsidiaries	**2006**	**2005**
Trade accounts receivable		
ALL Brasil	31,744	29,433
ALL Intermodal	16,803	21,251
ALL Armazéns Gerais	216	157
ALL Tecnologia	4,577	341
Santa Fé	1,096	-
Ferroban	15,318	-
Ferronorte	17,658	-
Ferrovia Novoeste	11,780	-
Terminal XXXIX	1,494	-
ALL Central	28,214	29,178
ALL Mesopotámica	6,386	7,689
	135,286	88,049
(-) Allowance for doubtful accounts		
ALL Brasil	(993)	(1,756)
ALL Intermodal	(858)	(58)
ALL Tecnologia	-	(7)
Ferroban	(1,553)	-
Ferronorte	(3,051)	-
Ferrovia Novoeste	(1,639)	-
ALL Central	(14,358)	(16,504)
ALL Mesopotámica	(1,517)	(1,290)
	(23,969)	(19,615)
Consolidated	**111,317**	**68,434**

ALL Central and ALL Mesopotámica maintain allowances on receivables of R$9,240 at December 31, 2006 (R$10,836 at December 31, 2005) related to toll revenue.

(in thousands of Reais, unless otherwise indicated)

7. Inventories - consolidated

	2006	2005
Maintenance supplies	52,695	18,304
Raw material (railcars)	2,394	-
Finished products (railcars)	9	-
Fuel	3,125	2,819
Advances to suppliers	8,242	4,145
Materials in transit and others	4,530	2,896
	70,995	**28,164**

8. Leases and concessions assets - consolidated

	2006		2005	
	Current assets	**Long-term assets**	**Current assets**	**Long-term assets**
Lease				
ALL Brasil	2,734	52,410	2,734	55,144
ALL Intermodal	-	-	5,930	-
Ferroban	1,760	36,955	-	-
Novoeste	166	3,064	-	-
Prepaid right of way				
ALL Brasil	1,262	24,990	1,261	26,251
Concession				
ALL Brasil	150	2,881	150	3,032
Ferroban	97	2,042	-	-
Novoeste	13	252	-	-
	6,182	**122,594**	**10,075**	**84,427**

The lease of Rede Ferroviária Federal S.A.-RFFSA's assets, for a 30-year period, was contracted by ALL Brasil on February 27, 1997, for R$202,112, R$82,032 of which was paid in cash. The remaining R$120,080 has been paid since January 15, 1999 in 112 quarterly installments including interest of 12% per annum, restated by the General Price Index – Internal Availability (IGP-DI). The related liability is described in Note 17.

The lease of RFFSA's assets, for a 30-year period, was contracted by Ferroban on December 30, 1998 for R$230,160, R$52,793 of which was paid in cash. The balance of R$177,367 has been paid since December 15, 2000, in 112 quarterly installments including interest of 12% per annum, restated by IGP-DI. The related liability is described in Note 17.

The lease of RFFSA's assets, for a 30-year period, was contracted by Novoeste on June 26, 1996 for R$56,440, R$4,969 of which was paid in cash. The balance of R$51,471 has been paid since January 15, 1998, in 112 quarterly installments including interest of 12% per annum, restated by IGP-DI. The related liability is described in Note 17.

(in thousands of Reais, unless otherwise indicated)

8. Leases and concessions assets - consolidated - continued

Prepaid right of way refers to the amount paid by ALL Brasil to Ferroban (before it was an affiliated company) for the use of the lines from Presidente Epitácio to Rubião Júnior and from Pinhalzinho/Apiaí to Iperó (in the state of São Paulo), in accordance with the agreement to operate these lines for 30 years, which is also the amortization period.

The 30-year concession for rail freight transportation services was obtained by ALL Brasil for R$10,830, R$4,510 of which was paid in cash. The remaining R$6,320 has been paid since January 15, 1999, in 112 quarterly installments including interest of 12% per annum, restated by the IGP-DI. The related liability is described in Note 17.

The 30-year concession for rail freight transportation services was obtained by Ferroban, for R$12,252, R$2,917 of which was paid in cash. The remaining R$9,335 has been paid since December 15, 2000, in 112 quarterly installments including interest of 12% per annum, restated by the IGP-DI. The related liability is described in Note 17.

The 30-year concession for rail freight transportation services was obtained by Novoeste for R$3,118, R$409 of which was paid in cash. The remaining R$2,709 has been paid since January 15, 1998, in 112 quarterly installments including interest of 12% per annum, restated by the IGP-DI. The related liability is described in Note 17.

9. Recoverable taxes

	Current assets	Long-term Assets	Current assets	Long-term assets
Parent Company				
Withholding income tax - IRRF	3,092	18,753	11,725	-
Recoverable Pis and Cofins				
Recoverable IR and CS – prepayment	14,670	-	9,696	-
Deferred Income Tax (IR)				
	17,762	18,753	21,421	-
Subsidiaries				
Value-added Tax on Goods and Services – ICMS	36,817	31,291	9,707	9,942
Tax on Value Added – IVA	1,589	-	2,320	-
Withholding income tax - IRRF	21,676	4,520	9,317	-
Recoverable IR and CS - prepayment	18,475	-	2,499	-
Federal Tax Credits to offset	47,322	-	73,729	-
Other	9,130	1,113	7,718	790
	135,009	36,924	105,290	10,732
Consolidated	152,771	55,677	126,711	10,732

ALL Brasil and ALL Intermodal obtained federal tax credits that can be used to offset other federal taxes, such as PIS, COFINS, IRRF and CSL. The amount offset by both subsidiaries through December 31, 2006 amounted to R$52,115.

(in thousands of Reais, unless otherwise indicated)

10. Deferred income tax and social contribution

The Parent Company's deferred tax assets related to income tax and social contribution are as follows:

	2006		2005	
	Current Assets	**Long-term Assets**	**Current Assets**	**Long-term Assets**
Income tax credits				
On tax losses	12,771	6,024	3,576	17,667
On temporary differences	2,124	19,041	1,299	3,560
	14,895	25,065	4,875	21,227
Social contribution credits				
On negative bases	4,598	2,142	1,287	6,360
On temporary differences	764	6,878	468	1,282
	5,362	9,020	1,755	7,642
	20,257	34,085	6,630	28,869

Due to the expectation of future tax results and in compliance with the conditions set forth by the accounting practices in Brazil and rules of the Securities and Exchange Commission of Brazil (CVM), the Parent Company recorded deferred tax assets.

Deferred tax assets related to income tax and social contribution of the Parent Company and the subsidiaries ALL Brasil, ALL Intermodal and ALL Argentina are as follows:

	2006		2005	
	Current Assets	**Long-term Assets**	**Current Assets**	**Long-term Assets**
Income tax credits				
On tax losses	13,653	22,669	4,282	31,266
On temporary differences	12,878	28,283	11,837	21,828
	26,531	50,952	16,119	53,094
Social contribution credits				
On negative bases	4,915	2,478	1,541	9,277
On temporary differences	4,636	10,205	4,262	3,092
	9,551	12,683	5,803	12,369
	36,082	63,635	21,922	65,463

(in thousands of Reais, unless otherwise indicated)

10. Deferred income tax and social contribution - continued

Tax losses, negative bases and consolidated temporary differences by subsidiary are shown as follows:

	Consolidated			
	2006		2005	
	Income Tax	Social Contribution	Income Tax	Social Contribution
Tax losses and negative bases				
ALL	84,944	84,917	91,264	91,238
ALL Intermodal	7,478	7,478	7,863	7,863
Logispar	-	-	29,158	29,158
Brasil Ferrovias	216,159	216,159	-	-
Ferroban	1,162,688	1,162,688	-	-
Ferronorte	1,138,029	1,138,029	-	-
Novoeste	319,636	319,636	-	-
Ferronorte Locadora de Vagões	1,560	1,560	-	-
Novoeste Brasil	3,078	3,078	-	-
Temporary differences				
ALL.	79,752	79,752	35,599	35,599
ALL Brasil	76,788	76,788	62,833	60,267
ALL Intermodal	2,979	2,979	1,956	1,956
Brasil Ferrovias	11,354	11,354	-	-
Ferroban	436,345	436,345	-	-
Ferronorte	115,037	115,037	-	-
Ferrovia Novoeste	85,048	95,048	-	-
Nova Ferroban	811,642	811,642	-	-
ALL – Argentina – consolidated	44,894	44,894	51,705	-

The expectation of realization of deferred tax assets is as follows:

	Parent Company	Consolidated
2007	20,257	36,082
2008	2,130	22,369
2009	2,130	10,174
From 2010 to 2023	29,825	31,092
	54,342	99,717

Tax losses and negative bases of Logispar Logística e Participações S.A. were fully utilized with taxable income at the moment of its merger.

The subsidiaries Brasil Ferrovias and Novoeste Brasil and their respective subsidiaries did not record deferred tax assets because of a history of losses during the last years.

(in thousands of Reais, unless otherwise indicated)

10. Deferred income tax and social contribution - continued

The deferred tax assets of R$99,717 at December 31, 2006 were supported by a technical feasibility study which presented future taxable income discounted to present value. Such study was approved by the board of directors in accordance with CVM Instruction 371.

11. Long-term investments

(a) Debentures - Parent Company

On June 17 2005, the Parent Company acquired 27,459 non-convertible registered debentures, with a par value of R$10, from a private placement by ALL Brasil.

On October 2, 2006, the subsidiary Brasil Ferrovias approved the issuance to the Parent Company of 70,000 non-convertible registered debentures, with a par value of R$10, through a private placement.

On October 2, 2006, the subsidiary Novoeste Brasil approved the issuance to the Parent Company of 15,000 non-convertible registered debentures, with a par value of R$10, through a private placement.

					Long-term assets	
Tranche	**Issue date**	**Amount**	**Final maturity**	**Annual Yield**	**2006**	**2005**
ALL Brasil	6/17/2005	274,590	6/01/2015	CDI + 4%	385,248	308,222
Brasil Ferrovias	10/02/2006	622,818	10/02/2016	CDI + 4%	624,690	-
Novoeste Brasil	10/02/2006	53,501	10/02/2016	CDI + 4%	53,121	-
					1,063,059	308,222

(b) Marketable Securities

The subsidiary Novoeste holds LFTs (Financial Treasury Bills), which earn interest at 100% of CDI. Such LFTs are used to secure a letter of credit of R$147,572. Such letter of credit guarantees certain installments due related to the concession and lease granted to Novoeste by RFFSA and the federal government. Novoeste holds 65,017 LFTs with maturity on December 16, 2009, classified as “long-term investments” in the consolidated balance sheets.

(c) Subscription bonus security

On August 12, 2002, the Board of Directors of ALL S.A. approved the issuance of a subscription bonus, conceding to the shareholder Railtex the right to acquires shares of ALL

(in thousands of Reais, unless otherwise indicated)

11. Long-term investments - continued

S.A for R$ 0.01. On March 31, 2004 Railtex transferred such subscription bonus to GEEMF II Latin America.

On June 23, 2004 GEEMF II agreed to swap such subscription bonus for 1,933,530 shares of ALL S.A. owned by Logispar and ALL Argentina. On September 1, 2006 and October 11, 2006, Logispar and ALL Argentina sold such subscription bonus.

12. Investments

(a) Investments in subsidiaries and affiliated companies

	Parent Company		Consolidated	
	2006	2005	2006	2005
Equity interest in subsidiaries	665,945	665,152	-	-
Equity interest in affiliated companies	-	67,403	7,151	68,473
Goodwill in subsidiaries	2,497,264	127,782	2,529,811	165,937
	3,163,209	860,337	2,536,962	234,410

(b) Chart of interest in subsidiaries and affiliated companies

	Number of Shares/Owned quotas				%		Voting	
	Common Shares/Quotas		Preferred Shares		Total		Interest	
	2006	2005	2006	2005	2006	2005	2006	2005
ALL Brasil	9,914,626,262	9,914,626,262	15,084,057,716	15,084,057,716	100	100	100	100
ALL Intermodal	63,844,232	63,844,230	-	-	100	100	100	100
ALL Overseas	11,000	7,000	-	-	100	100	100	100
ALL Tecnologia	999	999	-	-	99.9	99.9	99.9	99.9
ALL Centro-oeste	499,999	499,999	-	-	99.9	99.9	99.9	99.9
ALL Equipamentos	24,192,631	-	-	-	95.83	-	95.83	-
Logispar	-	343,291	-	570,051	-	99.99	-	100
ALL Argentina	3,298,470	-	6,404,530	-	100	-	100	-
Santa Fé	50,000	25,000	29,996	14,996	39.99	39.99	50	50
Brasil Ferrovias	4,731,051,827	-	1,672,758,809	-	100	-	100	-
Novoeste Brasil	46,670,083	-	6,934,891	-	100	-	100	-
Boswell S.A.	60,000	-	-	-	100	-	100	-

(in thousands of Reais, unless otherwise indicated)

12. **Investments** - continued

	Subsidiaries/affiliated companies			**Parent Company**					
	Shareholders' Equity	**Income for for period**	**Paid dividends**	**Equity pick-up 2006**		**Equity pick-up 2005**	**Investments 2006**	**Investments 2005**	**Received dividends**
Direct subsidiaries									
ALL Brasil	372,773	84,223	49,626	84,223		141,086	372,773	338,177	49,626
ALL Intermodal	126,238	34,725	8,247	34,725		49,895	126,238	99,762	8,247
ALL Overseas	3,597	3	26,366	(275)	(a)	(571)	3,597	2,786	-
ALL Tecnologia	1	12,247	12,247	12,124		3,082	1	1,907	12,247
ALL Centro-oeste	500	7,489	7,489	7,489		9,525	500	10,025	7,489
ALL Equipamentos	25,245	26,488	26,366	7,308	(b)	-	24,196	-	25,261
Logispar	-	56,591	-	56,591		(17,380)	-	212,395	-
ALL Argentina	135,530	10,698	-	(2,495)	(c)	-	135,530	-	-
Santa Fé.	7,776	7,168	1,703	2,867		-	3,110	100	676
Goodwill									
Logispar	-	-	-	-		-	-	127,732	-
Santa Fé.	-	-	-	-		-	457	50	-
Brasil Ferrovias	-	-	-	-		-	2,364,380	-	-
Novoeste Brasil	-	-	-	-		-	132,427	-	-
Affiliated company									
Geodex	-	-	-	1,222		1,120	-	67,403	-
				203,779		**186,757**	**3,163,209**	**860,337**	**103,546**

(a) It comprises the exchange variation on the investee with functional currency in dollars in the amount of (R$278).
(b) Subsidiary acquired through the merger of Logispar on September 29, 2006.
(c) It comprises the exchange variation on the investee with functional currency in pesos in the amount of (R$13,193).

(in thousands of Reais, except when otherwise indicated)

12. Investments - continued

(c) Subsidiaries with negative shareholders' equity

Certain subsidiaries had negative shareholders' equity. As such, the related provision was recorded as a long-term liability in the Parent Company's balance sheets, as follows:

	Provision for unsecured liabilities	
	2006	**2005**
Brasil Ferrovias	1,125,229	-
Novoeste Brasil	58,355	-
Boswells	5,979	-
	1,189,563	-

(d) General information

The Company holds a 3.28% interest in the voting capital and a 43.69% interest in the total capital of Geodex Communications S.A. (Geodex). On October 6, 2006, the Company entered into a Memorandum of Understanding with the other shareholders of Geodex for a future disposal of Geodex. Pursuant to the Shareholders Agreement of Geodex, the preemptive right of receipt in the disposal shall be granted to the shareholders who have made capital contributions in cash. As such, the Company has recorded a provision for investment loss in Geodex in the amount of R$55,112 and reclassified the remaining equity investment amount of R$13,514 to other accounts receivable in current assets.

In the consolidated balance sheets, investments are comprised as follows:

	Consolidated	
	Book value of investments	
	2006	**2005**
Equity investments:		
Geodex	-	67,403
Rhall Terminais	1,151	929
Other	6,000	141
Goodwill:		
Logispar	-	127,732
ALL Argentina	32,547	38,155
Brasil Ferrovias	2,364,380	-
Novoeste Brasil	132,427	-
Santa Fé Vagões S.A.	457	50
	2,536,962	234,410

12. Investments - continued

Goodwill in ALL Argentina was based on the future profitability at the time the shares of ALL Central and ALL Mesopotámica were acquired on May 26, 1999, and has been amortized on a straight-line basis over the concession period.

On May 9, 2006, PREVI, FUNCEF, JP Morgan, BRP FERRONORTE, GABORONE and ALL executed two Investment Agreements, among other ancillary and correlated agreements, which established the terms and conditions of the merger by ALL of all the shares issued by Brasil Ferrovias and Novoeste. On May 10, 2006, BNDESPAR, which originally had the tag-along right in a Shareholders' Agreement executed with PREVI and FUNCEF, exercised the referred right and agreed to the Investment Agreements and other covenants related to the merger of shares of Brasil Ferrovias and Novoeste by ALL.

The merger agreement dated May 31, 2006 resulted in ALL becoming the holder of all of Brasil Ferrovias' and Novoeste do Brasil's capital stock and, consequently, also becoming the holder of the share control of rail concessionaries Ferroban, Ferronorte and Novoeste.

As a result of the merger of Brasil Ferrovias and Novoeste do Brasil, ALL's capital increased on June 16, 2006 by approximately R$1,405,033 on December 31, 2006, this increase plus the costs directly attributable to the acquisition process generated goodwill of R$2,496,807, based on the expectation of future profitability generation.

On June 16, 2006, the General Shareholders' Meetings of Brasil Ferrovias and Novoeste do Brasil approved the merger of shares. The term for the exercise of the withdrawal right expired on July 24, 2006 for the dissenting shareholders of the Company and on July 26, 2006 for the dissenting shareholders of Brasil Ferrovias and of Novoeste do Brasil. After the expiration, the former shareholders of Brasil Ferrovias and Novoeste do Brasil, who did not exercise the right to withdraw, became shareholders of the Company.

The documents related to the merger of shares were presented to the Brazilian Anti-Trust System authorities on May 29, 2006, and are currently undergoing a process of analysis by said authorities.

(in thousands of Reais, except when otherwise indicated)

13. Fixed Assets

	2006			2005	Depreciation
	Cost	**Accumulated depreciation**	**Net**	**Net**	**Annual Weighted Average Rates (%)**
Leasehold improvements:					
Locomotives	308,706	(112,030)	196,676	89,799	4.49
Railcars	161,700	(53,770)	107,930	27,169	15
Track	625,234	(88,637)	536,597	196,988	8.5
Other	56,837	(14,603)	42,234	44,504	10
	1,152,477	(269,040)	883,437	358,460	
Assets owned:					
Track	920,115	(93,997)	826,118	-	
Locomotives	551,906	(119,715)	432,191	143,602	4.49
Railcars	268,331	(65,751)	202,580	123,314	10
Maintenance supplies	38,983	-	38,983	18,381	-
Land	15,241	-	15,241	624	-
Buildings	78,078	(18,788)	59,290	8,272	3.5
Furniture and fixtures	24,235	(10,277)	13,958	362	15
Road vehicles	37,513	(19,337)	18,176	18,243	15
Data processing equipment, systems and applications	51,318	(25,814)	25,504	15,219	20
Telecommunications and signaling equipment	34,456	(20,965)	13,491	3,979	10
Equipment for track maintenance and rail transportation	51,428	(22,535)	28,893	10,263	11
Other	106,349	(38,021)	68,328	17,737	Several
	2,177,953	(435,200)	1,742,753	359,996	-
Construction in progress					
Locomotives	52,846	-	52,846	40,337	-
Railcars	9,890	-	9,890	16,356	-
Track	30,418	-	30,418	55,375	-
Advance from suppliers	35,516	-	35,516	-	-
Systems and applications	9,629	-	9,629	874	-
Road vehicles	5,988	-	5,988	1,330	-
Other	69,983	-	69,983	17,693	-
	214,270	-	214,270	131,965	-
	3,544,700	(704,240)	2,840,460	850,421	-

(in thousands of Reais, except when otherwise indicated)

14. Deferred charges

				Consolidated
			2006	2005
	Cost	Accumulated amortization	Net	Net
Parent Company				
Logispar goodwill	122,284	(1,817)	120,467	-
Subsidiaries				
Concession and lease - ALL Brasil	24,736	(4,914)	19,822	20,805
Pre-operating expenses				
ALL Central	19,746	(8,704)	11,042	12,960
ALL Mesopotámica	4,532	(1,975)	2,557	2,983
Santa Fé Vagões S.A.	438	(284)	154	574
PGT Ltda,	148		148	138
Ferronorte	645,294	(362,744)	282,550	-
Terminal XXXIX	469	(422)	47	-
Expenditures with studies and projects				
ALL Equipamentos	3,776	(378)	3,398	3,776
ALL Brasil	6,337	(781)	5,556	1,069
Consolidated	827,760	(382,019)	445,741	42,305

Pre-operating expenses for ALL Central and ALL Mesopotâmica are related to costs for feasibility studies made for the concession acquisition, which are amortized over the remaining concession period.

The pre-operating expenses of Ferronorte refer to start up costs in the pre-operational phase since 1988. The expenditures come from Phase I, comprising the segment of 403 km between the roadrail bridge on Rio Paraná and Alto Taquari (state of Mato Grosso), completed in March 2001 and expenditures coming from Phase II, which comprised the segment 1, of 96 Km between Alto Taquari and Alto Araguaia (state of Mato Grosso), completed in March 2003. Such expenses have been amortized on the straight-line basis, by the remaining term of the concession.

(in thousands of Reais, except when otherwise indicated)

15. Loans and financings

	Interest	Maturity	2006	2005
Parent Company				
Foreign currency (exchange variation linked to the US$)				
Financing of locomotives	10% (with swap to CDI)	December 2007	2,261	7,692
Swap operations			-	4,671
Total Parent Company			2,261	12,363
Subsidiaries				
Local currency				
• **ALL Brasil**				
Commercial banks	116% of CDI	November 2007	19,121	34,026
CCB	106.3% of CDI	August 2008	117,261	292,607
	106.3% of CDI	April 2008	339,616	-
BNDES Investments	TJLP + 5.25%	Quarterly/Monthly from January 2000 to April 2010	69,248	36,103
	TJLP + 5.25%	Quarterly/Monthly from May 1998 to April 2008	19,775	88,497
	TJLP + 6.63%	Quarterly/Monthly July2006 until January 2012	104,641	-
NCC	107.0% of CDI	March 2013	206,816	-
• **ALL Intermodal**				
BNDES investments - FINAME	TJLP + 3% to 4.7%	Quarterly/Monthly from January 2002 to December 2009	13,223	14,668
• **Brasil Ferrovias**				
Commercial banks	CDI + 4%	From August 2007 to March 2011	17,131	-
• **Novoeste**	CDI + 7.44%	Monthly until January 2007	20	-
Other guaranteed accounts				
• **Ferroban**				
BNDES investments	TJLP + 1.5% p.a	Quarterly/Monthly from April 2006 to January 2018	191,576	-
	Umbndes + 6%	Quarterly/Monthly from December 2005 to January 2013	3,099	-
• **Ferronorte**				
BNDES investments	TJLP + 1.5% p.a	Quarterly/Monthly from April 2006 to January 2016	788.086	-
	TJLP + 3%	Quarterly/Monthly from April 2006 to to January 2016	204,871	-
FINAME	TJLP + 4%	Quarterly/Monthly from April 1999 to January 2009	37,038	-
Commercial banks	CDI + 2 % p.a.	From August 2007 to March 2011	10,417	-
•**Terminal XXXIX**				
BNDES investments			6,386	-
			2,148,325	465,901

(in thousands of Reais, except when otherwise indicated)

15. Loans and financings - continued

	Interest	Maturity	2006	2005
Foreign currency (exchange variation linked to US$, with swap to CDI)				
• **ALL Brasil**				
IFC Loan	LIBOR +7.1%	December 2008	-	36,078
Financing of locomotives	10%	December 2007	4,520	15,384
Transfer 2770	1.42%	December 2007	353,778	-
Swap transactions			1,633	40,644
			359,931	92,106
Foreign currency (exchange variation linked to Argentine Peso - P$)				
• **ALL Argentina**				
Commercial banks	8.4%	December 2006	-	9,449
CMF – Debt 3	Badlas + 6.9%	November 2007	1,983	-
Mortgage Debt 1	11.5%	March 2006	-	4,973
Mortgage Debt 4	Bibor + 3%	December 2008	5,462	-
Itaú Argentina – Debt 6	13.5%	March 2011	24,991	-
Itaú Londres – Debt 2	Dollar + 9.05%	January 2009	9,455	-
• **ALL Central**				
BST	CER + 8%	September 2008	1,396	2,422
Itaú Argentina	13.0%	August 2008	2,993	396
• **ALL Mesopotámica**				
Commercial banks	15.0%	January 2006	-	391
Other	CER + 8%	February 2006	-	1,248
	11.0%	January 2006	-	1,165
	9.75%	February 2006	-	4,525
			46,280	24,569
Total subsidiaries			2,554,536	582,576
Total consolidated			2,556,797	594,939
Less: Current portion			(231,936)	(167,131)
Long-term portion			2,324,861	427,808

Future maturities of long-term debt are as follows:

	2006
2008	550,358
2009	264,526
2010	378,759
2011	222,128
2012	195,757
2013 and thereafter	713,333
	2,324,861

15. Loans and financings - continued

Abbreviations:

BNDES	- National Bank for Economic and Social Development
BIBOR	- Bangkok Interbank Offered Rates
CCB	- Bank Credit Note
CDI	- Interbank Deposit Certificate
CER	- Reference Stabilization Ratio
FINAME	- Government Agency for Equipment and Machinery Financing
LIBOR	- London Interbank Offered Rate
TJLP	- Long-Term Interest Rate
IFC	- International Finance Corporation
NCC	- Commercial Credit Note

BNDES loans are guaranteed by collateral accounts, in some cases locomotives.

Cash and cash equivalents include collateral accounts in the subsidiary ALL Brasil amounting to R$25,576 at December 31, 2006 (December 31, 2005 – R$34,373).

For foreign currency financing contracted in Brazil, the Company has swap agreements protecting the Brazilian real against the US dollar, being translated at rates of 85% to 105% of CDI.

The loans obtained from BNDES and IFC are intended for capital investments and have financial covenants, including certain financial liquidity ratios related to the net debt, shareholders' equity, EBITDA, debt service, short-term debt, among others, which have been complied with by the Company.

For the subsidiaries of Brasil Ferrovias, the following were granted as guarantees of loans and financings: (i) pledge of the total Ferronorte shares issued and held by Brasil Ferrovias, (ii) pledge of revenue of the fee collection for the cargo transportation revenue resulting from the work project of Ferronorte, (iii) pledge of service revenue.

Some agreements have restrictive covenants establishing quarterly financial requirements. The Company has complied with these covenants.

16. Debentures

Parent Company

- On February 1, 2003, the Company issued 5,500 convertible debentures with par value of R$10 each (2nd issue);
- On June 1, 2004, the Company issued 12,000 non-convertible debentures with par value of R$10 each (3rd issue);
- On October 1, 2004, the Company issued 13,500 non-convertible debentures with par value of R$10 each (4th issue);
- On September 1, 2005, the Company issued 20,000 non-convertible debentures with par value of R$10 (5th issue);
- On July 1, 2006, the Company issued 70,000 non-convertible debentures with par value of R$10 (6th issue).

Brasil Ferrovias

- On October 31, 2001, the Company issued 71,700 convertible debentures with par value of R$10 (2nd issue).

Ferronorte

- On July 1, 1997, the Company issued 10,00 convertible debentures with par value of R$10 (1st issue);
- On April 10, 2000, the Company issued 60,000,000 convertible debentures with par value of R$1.00 (2nd issue);
- On January 14, 2002, the Company issued 40,000,000 convertible debentures with par value of R$1.00 (3rd issue);
- On December 3, 2003, the Company issued 60,000 non-convertible debentures with par value of R$10 (5th issue).

The issued series are as follows:

(in thousands of Reais, except when otherwise indicated)

16. Debentures - continued

‘

					2006		2005	
Series	**Date**	**Value**	**Final maturity**	**Annual yield**	**Current liabilities**	**Long-term liabilities**	**Current liabilities**	**Long-term liabilities**
Parent Company								
2nd issue	2/1/03	55,000	2/16/09	TJLP + 6.25%	-	-	1,594	30,957
3rd issue	6/1/04	120,000	6/1/07	110% of CDI	121,364	-	1,960	120,000
4th issue	10/1/04	135,000	10/1/09	110% of CDI	4,570	135,000	6,190	135,000
5th issue	9/1/05	200,000	9/1/12	CDI + 1.50%	9,304	200,000	12,495	200,000
6th issue	7/1/06	700,000	7/1/11	CDI + 1.50%	52,340	700,000	-	-
					187,578	1,035,000	22,239	485,957
Brasil Ferrovias								
2nd issue	10/31/01	7,170	6/20/05	105% of CDI	18,602	-	-	-
					18,602	-	-	-
Ferronorte								
1st issue	7/1/97	100,000	6/30/06	TJLP + 1,5%	9.152	247.174	-	-
2nd issue	4/10/00	60,000	4/10/07	TJLP + 4%	-	146.013	-	-
3rd issue	1/14/02	40,000	1/14/09	TJLP + 4%	-	77.824	-	-
5th issue	12/3/03	60,000	12/3/09	CDI + 5%	9.010	67.505	-	-
					18.162	538.516	-	-
Consolidated					224,342	1,573,516	-	-

(in thousands of Reais, except when otherwise indicated)

17. Leases and concessions - liabilities

	2006		2005	
	Current Liabilities	**Long-term liabilities**	**Current liabilities**	**Long-term liabilities**
Leases				
ALL Brasil	9,104	40,152	9,154	49,865
ALL Intermodal	3,104	-	8,575	-
Ferroban	-	364,909	-	-
Novoeste	-	243,435	-	-
Concession				
ALL Brasil	490	2,307	490	2,756
ALL Argentina	4,292	-	4,690	-
Ferroban	-	4,190	-	-
Novoeste	-	9,380	-	-
	16,990	664,373	22,909	52,621

(a) ALL Brasil

Lease and concession amounts of ALL Brasil are expensed on a straight-line basis over the period of the respective agreements, adjusted by agreed-upon inflation and interest rates. Amounts relating to the grace period (1997 to 1999) were corrected for inflation and are being paid over the remaining concession period.

(b) ALL Intermodal

On July 23, 2001, ALL Intermodal and Delara Brasil Ltda. executed a lease agreement regarding the assets and rights of Delara, including real estate, facilities, machinery, equipment and vehicles, which expired in July 2006. At the end of the agreement, the Company still has the obligation of tendering to Delara Brasil Ltda. 18,625,800 shares, of which 7,006,800 are common and 11,619,000 preferred, issued by the Company at the unit price of R$0.1043. On July 31, 2006, the parties signed a term extending the performance of this share obligation to July 2007. On December 31, 2006, the share market value was R$4.28.

(c) Ferroban

Partial spin-off of Ferrovia Centro Atlântica (FCA).

On August 29, 2005, the partial spin-off between Ferroban and Ferrovia Centro Atlântica S.A. (FCA) was carried out, and FCA is now responsible for 35.6% of the total concession and lease amounts.

17. Leases and concessions – liabilities - continued

Payments of the concession and lease agreements

Ferroban discontinued its payments related to the lease agreement with RFFSA. The discontinuation of payments was supported by an injunction granted on April 7, 2005, which was subsequently postponed on July 8, 2005. On September 28, 2005, these injunctions were cancelled by the Federal Regional Court (TRF) of Rio de Janeiro. As such, Ferroban made judicial deposits for the outstanding lease amounts. The judicial deposits allowed Ferroban to post an appeal bond and ensure the continuity of the judicial discussion, as well as the good standing and payment of the concession before the ANTT (National Land Transportation Agency) and the STN (National Treasury Office).

Subsequent lease payments are being made by means of judicial deposits.

Considering that Ferronorte depends on Ferroban's lines for continuity of its transportation operations, beginning in the states of Mato Grosso, Mato Grosso do Sul and ending in Santos (SP), Ferronorte and Ferroban entered into a Collateral Agreement on January 10, 2006 by which a judicial deposit on behalf of Ferroban was made in the amount of R$22,177.

Because Brasil Ferrovias holds 83.66% of Ferroban's capital, a Collateral Agreement was signed on January 10, 2006 by which a judicial deposit on behalf of Ferroban was made in the amount of R$184,517.

From then on, the quarterly installments are being paid by means of judicial deposits made by Ferronorte based on the Collateral Agreements signed by Ferroban.

The term of the guarantee given by both Brasil Ferrovias and Ferronorte in favor of Ferroban became effective on the date in which the judicial deposit was made and will end on the date when the federal court makes a decision. For this guarantee, Ferroban will pay Brasil Ferrovias and Ferronorte the amount equivalent to the positive difference between the 100% CDI rate and the 100% TR rate.

In the case of the judicial decision determines that the federal government will retain the judicial deposits, Ferroban will owe from that date the total amount of the judicial deposits to Brasil Ferrovias and Ferronorte. Ferroban must repay these amounts to Brasil Ferrovias and Ferronorte within 90 days. The amounts owed to Brasil Ferrovias and Ferronorte may be settled by issuance of Ferroban share capital.

Exclusion of the operations of the Bauru-Mairinque segment

To comply with the Investment Agreement, entered into on May 5, 2005, the objective of which is the restructuring, the exclusion of the operations of the Bauru-Mairinque segment was set forth in the 2005 and 2006 business plan of the subsidiary, and this operation is being conducted by Novoeste as from October 1, 2005, in view of the Memorandum of Understanding dated September 23, 2005.

17. Leases and concessions – liabilities - continued

ANTT approved the exclusion of the operations by means of Resolution No. 1010, published in the Official Gazette of the Federal Government on July 28, 2005. The final implementation of this operation will be ratified by ANTT.

(d) Ferronorte

On May 19, 1989, Ferronorte and the federal government entered into a Concession Agreement for the establishment of a cargo rail transportation system, comprising the construction, operation, exploration and maintenance of a railroad between Cuiabá (Mato Grosso State) and: a) Uberaba/Uberlândia (Minas Gerais State), b) Santa Fé do Sul (São Paulo State), c) Porto Velho (Rondônia State) and d) Santarém (Pará State). The term of this concession lasts 90 years, renewable for the same period and 10 additional years may be granted before the end of the contractual term.

The Agreement does not require payment for the concession, however, it sets forth certain Company responsibilities, such as: a) not making sub-concessions, b) submitting itself to the permanent inspection of the federal government, c) complying with rules, technical specifications and national standards of the Ministry of Transportation and d) complying with all the legal provisions applicable to the granted services, specifically those related to environmental protection.

The end of the concession and the consequent termination of the Concession Agreement may take place due to the following factors: a) amicable agreement between the parties, with negotiations and financial adjustments due by one party to another; b) end of the contractual term; c) expropriation or redemption, by public interest beyond the Concession, by means of the proper indemnification; d) annulment for illegality of the Concession or agreement; e) severe and continued infractions committed by one of the parties, which impair the quality and efficiency of the services; f) by expropriation by the federal government of the granted services or by enactment of law that makes the agreement, formally or materially, impossible. In the event of expropriation, the Company’s shareholders will be indemnified by the fair amount of the assets linked to the concession, determined at the time of the expropriation.

(e) Novoeste

Due to a judicial discussion, Novoeste discontinued the concession and lease payment.

As described in Note 11, Novoeste acquired Financial Treasury Bills (LFTs) and National Treasury Bills (LNTs) as guarantee of installments due related to the concession and lease.

(in thousands of Reais, except when otherwise indicated)

18. Judicial deposits and provisions for contingencies

	Judicial Deposits		Contingencies			
			Probable		Possible and remote	
	2006	2005	2006	2005	2006	2005
Labor claims						
ALL Brasil	15,842	11,669	8,133	5,449	17,979	35,000
ALL Intermodal	1,244	2,796	1,340	1,101	735	4,000
ALL Central	-	-	3,819	4,338	-	-
ALL Mesopotámica	-	-	975	907	-	-
Brasil Ferrovias	185	-	1,578	-	-	-
Ferroban	50,501	-	310,716	-	96,364	-
Novoeste	11,021	-	24,816	-	5,135	-
Portofer	-	-	132	-	5,421	-
Ferronorte	1,290	-	5,116	-	-	-
Civil and regulatory claims						
ALL Brasil	-	-	3,216	2,945	79,944	15,500
ALL Intermodal	-	-	783	783	7,982	10,000
Brasil Ferrovias	6,500	-	4,306	-	20,333	-
Ferroban	284,833	-	22,462	-	83,072	-
Novoeste	-	-	1,752	-	6,613	-
Portofer	-	-	17	-	448	-
Ferronorte	-	-	4,684	-	1,122	-
Tax claims						
ALL Brasil	3,953	9,690	-	-	70,005	53,907
ALL Intermodal	-	-	-	-	6,157	-
ALL Holding	-	-	-	-	1,356	-
ALL Armazéns	-	-	-	-	755	-
Brasil Ferrovias	1,016	-	4,162	-	-	-
Ferroban	-	-	11,499	-	41,354	-
Novoeste	-	-	21,810	-	6,895	-
Portofer	-	-	2,323	-	2,038	-
Ferronorte	1,755	-	9,155	-	27,314	-
	378,140	24,155	442,794	15,523	481,022	118,407

The subsidiaries are involved in various proceedings in the normal course of business. The Company's management believes that the provisions will cover the probable amounts of losses for such issues.

18. Judicial deposits and provisions for contingencies -continued

(a) Labor contingencies

Labor contingencies include matters related to salary parity, overtime, additional payment for hazardous conditions, additional payment for unhealthy conditions, transfer additional, among others. The Company has recorded a provision of R$356,625 on the consolidated level for probable losses.

(b) Civil and regulatory contingencies

The subsidiaries are parties to various civil actions involving claims for damages, such as collisions in level crossings, bodily injuries, and traffic accidents, among others. Based on the opinion of its legal advisers and the status in the courts, the Company has estimated probable losses as R$37,220.

Among the significant actions with a remote chance of loss for ALL Brasil, there is an indemnification action being handled in the state of Rio de Janeiro, under number 2003.51.01.023238-1, in which RFFSA claims abandonment of public property and rail segments, requiring the restoration of various stations and maintenance of the strip of land along the road. ALL, in strict compliance with the Concession and Lease Agreements, is performing the maintenance of many rail segments and also the restoration of stations which are being returned to RFFSA in perfect condition of upkeep and use.

The civil liabilities classified as possible or remote in Brasil Ferrovias are mainly related to judicial actions resulting from class action suits questioning the voluntary resignation programs promoted by Ferroban, which require indemnities payments differences, calculated as the difference between the amount effectively paid by PABI (Voluntary Bilateral Agreement Plan) and the amount due in accordance with the unilateral indemnities criterion, established in Clause 4.49 of the Collective Bargaining Agreement, under penalty of invalidation of the privatization process and actions related to indemnification for accidents and eminent domain of the strip of land along the railway bed.

Currently, both Ferroban and Novoeste question in court the economic and financial imbalance of the Lease and Concession Agreements. In July 2000, Ferroban filed a Declaratory Action in the 20th Federal District Court of Rio de Janeiro questioning the economic and financial imbalance of the Lease and Concession Agreements, due to the high disbursement incurred by the Company for the payment of labor claims and other expenses involved.

18. Judicial deposits and provisions for contingencies – continued

(b) Civil and regulatory contingencies -- continued

Ferroban required an expert inspection for determination of the new lease and concession installments, as well as discontinuance of the payment of installments due and falling due until the effective expert inspection for determination of the adequate value. In July 2005, the injunction was granted, but in September 2005, it was suspended by the Federal Court of Appeals of Rio de Janeiro. No decision has been handed down yet and the expert report is outstanding. The total value related to the lease installments, in the amount of R$284,690, is being deposited in court.

The aforementioned situation is also applicable to Novoeste, however, its proceeding is in progress in the 16th Federal District Court of Rio de Janeiro. The amount related to the overdue installments represents R$208,903 and Novoeste is posting an appeal bond through the issue of government bonds (Treasury Financial Bills – LFT). This LFT is recorded under long-term investments.

(c) Tax contingencies

Main tax issues under discussion are those derived from lawsuits having the ALL group as plaintiff or defendant and for which chances of losses are deemed as possible or remote. Therefore, no provision was set up for such issues.

In April 2005, ALL Brasil obtained a favorable decision at the Court of Justice of the State of Rio Grande do Sul in relation to the tax deficiency notice of Rio Grande do Sul State Department, which charged the Company as a result of use of ICMS credit over the acquisition of assets and equipment intended to recover and renovate fixed assets. The assessment amount under discussion is approximately R$16,800, and ALL has already collected the amount of R$11,192 from the State of Rio Grande do Sul’s public coffers, having interrupted the payment of the remaining balance of R$5,670, due to a favorable decision of the Court of Justice of the State of Rio Grande do Sul, already confirmed by the Superior Court of Justice – STJ. Currently, the proceeding is awaiting court decision in the Supreme Federal Court – STF. The Company’s chance of loss in the proceeding under discussion is remote, according to understanding already rendered by the courts (annulment action 110660892). In addition, the Supplementary Law 87/96 authorized the full use of right to the credit in the acquisition of assets intended for permanent assets.

18. Judicial deposits and provisions for contingencies – continued

(c) Tax contingencies -- continued

The Paraná and São Paulo State Treasury Department drew up tax deficiency notices against ALL Brasil, the current amounts of which correspond to approximately R$38,000, due to non-payment of ICMS referring to the rendering of rail transportation services of goods intended for export and use of ICMS credits supposedly not authorized by laws. ALL already has favorable decisions as to the matter under discussion and courts already have a position on the non-levy of ICMS over export of goods. In April 2006, ALL Brasil obtained a favorable decision at the Board of Appeals of the State of Paraná, confirmed by the Public Finance Court of the State of Paraná in relation to the tax assessments existing in that state (administrative proceedings 6146502-2 and 6146495-6), establishing that export operations are immune, as mentioned in article 155, paragraph 2, X, “a” of CF/88. In view of this, there was a decrease in liabilities exposed to ICMS – exports risk of approximately R$18,000, recorded as previously unused credits, under “recoverable taxes”.

ALL Brasil has approximately R$6,500 and Ferroban approximately R$2,900 in IPTU (Municipal Real Estate Tax) debts in relation to the real properties over which the railway passes through, owned by the Federal Government, which, in view of the concession granted, are under its possession for execution of public rail transportation services. Nevertheless, the Brazilian Federal Constitution provides that there is non-levy of taxes over assets owned by the federal government, as such, the possibility of loss in these proceedings is remote.

Ferroban was sued for not paying PIS and COFINS levied on mutual traffic and right of way revenues, in the amount of R$21,000, during the period from 1999 to 2002 (cumulative PIS and COFINS). The Company understands that the chance of loss is remote, as the amounts under discussion have been previously paid by the concessionaries responsible for the transportation in the place of origin.

Ferronorte filed an Action for Annulment of tax debt, taking into consideration that the Company was sued for not paying ICMS on the transportation of goods intended for shipment abroad. The subsidiary believes its chance of success is probable.

(d) Environmental contingencies

According to environmental assessment notices subject to fines, the environmental contingencies of ALL Brasil amount to R$3,547; Ferroban, R$10,265; Ferronorte, R$3,188; Novoeste, R$282; and Portofer, R$21, totaling R$17,303.

(in thousands of Reais, except when otherwise indicated)

18. Judicial deposits and provisions for contingencies –continued

(d) Environmental contingencies--continued

Such amounts result from notices from FEPAM ("Rio Grande do Sul State Foundation for Environment Protection"), CETESB ("São Paulo State Basic Sanitation Technology and Environment Protection Agency") and IBAMA ("Brazilian Institute of the Environment and Renewable Natural Resources"), mostly due to the implementation/extension of marshalling yards without the respective environmental license, contamination of soil and water due to the overflow of products and non-compliance with the conditions imposed by the operating license. In all situations, the companies involved are executing Terms of Conduct Adjustment to reduce the applied penalties by 90%, pursuant to legal approval. The companies are also adopting all the prevention and restoration measures for the protection of the environment. The provision for the environmental area is recorded along with the civil provision of concessionaires, in an amount equivalent to 10% of the value of the assessment notices.

19. Receivables and payables from affiliated companies

	Parent Company					
	Long-term assets		Long-term liabilities		Service revenue	
	2006	2005	2006	2005	2006	2005
ALL Argentina	529	74	2,684	-	-	-
ALL Central	-	-	-	1,000	-	-
ALL Brasil	1,314	2,408	4,611	-	960	960
ALL Intermodal	24	-	2,067	-	-	-
ALL Equipamentos	-	-	-	-	-	-
ALL Tecnologia	54	-	-	-	-	-
ALL Armazéns Gerais	-	-	807	-	-	-
Brasil Ferrovias	-	-	-	-	-	-
Novoeste Brasil	-	-	-	-	-	-
Ferronorte	-	-	1,860	-	-	-
Santa Fé Vagões S.A.	364	3,930				
Caianda Participações S.A.	-	241	-	-	-	-
Geodex Communications Do Brasil S.A.	1	1	-	-	-	-
Logispar	-	-	-	4,956	-	-
Boswells	27,033	-	-	-	-	-
	29,319	6,654	12,029	5,956	960	960

(in thousands of Reais, except when otherwise indicated)

19. Receivables and payables from affiliated companies - continued

				Consolidated
		Long-term assets		**Long-term liabilities**
	2006	**2005**	**2006**	**2005**
Terminal XXXIX	-	-	627	-
Santa Fé Vagões S.A.	6,098	2,425	-	-
Caianda Participações S.A.	-	268	-	-
Geodex Communications do Brasil S.A.	1	1	-	-
Rhall Terminais	-	-	23	-
	6,099	2,694	650	-

The related-party transactions are carried out under normal market conditions.

As part of the restructuring process of Brasil Ferrovias and Novoeste Brasil, ALL transferred funds to the subsidiaries Ferronorte, Nova Ferroban and Novoeste, as Advances for Future Capital Increase (AFAC), pursuant to “Private Instrument of Advances for Future Capital Increase” executed on May 29, 2006. Until June 30, 2006, R$226,690 had been transferred to Ferronorte and Nova Ferroban, and R$18,450 to Novoeste.

Also on May 29, 2006, Brasil Ferrovias and Novoeste entered into another “Private Instrument of Advances for Future Capital Increase” with their direct subsidiaries Ferronorte, Nova Ferroban and Novoeste, transferring the responsibility for the advances received from ALL to Brasil Ferrovias and Novoeste Brasil.

On July 3, 2006, an addendum to the “Private Instrument of Advances for Future Capital Increase” was entered into, under the denomination of “Advances for Future Subscription and Payment of Debentures”. The addendum covered the conversion of the advances recorded in Brasil Ferrovias and Novoeste Brasil into debt of the Parent Company. This agreement charged the managers of Brasil Ferrovias, Novoeste Brasil and ALL with carrying out the issuance and subscription of the debentures through December 31, 2006. The interest rate was established at 100% of the Interbank Deposits (DI) daily average rates, plus 4% p.a. as surcharge.

Thus, in the third quarter of 2006, the advances recorded in Brasil Ferrovias and Novoeste Brasil through June 30, 2006, in the amount of R$226,690 and R$18,450, respectively, were reclassified to payables to affiliated companies, restated by the aforementioned rates. The balance of the payable on December 31, 2006 represents R$642,690 in Brasil Ferrovias and R$53,121 in Novoeste Brasil, according to note 11.

(in thousands of Reais, except when otherwise indicated)

20. Provision for unrealized profit

On September 30, 2001, the Parent Company sold to the subsidiary ALL Brasil the right to use the lines from Presidente Epitácio to Rubião Junior and from Pinhalzinho/Apiaí to Iperó at the market value of R$22,387, supported by an appraisal report prepared by independent experts as of that date. On December 31, 2001, the Parent Company established a provision of R$19,312 for unrealized profit from this operation, recorded in long-term liabilities. In the years ended December 31, 2006 and 2005, the amount of R$744 was realized.

21. Deferred income

	2006	2005
Subsidiaries		
ALL Brasil	7,642	8,019
ALL Intermodal	640	673
Ferroban	17,161	-
	25,443	8,692

ALL Brasil: this amount refers to an assignment agreement of the right of way for fiber optics alongside the track granted in the form of a capital contribution to the associated company Geodex at the contractual amount of R$10,000, which is being recorded as income on a straight-line basis over the remaining term of the assignment of rights.

ALL Intermodal: this amount refers to the deferred revenue originated in the capital stock payment by means of land granted under loan for use by ALL Intermodal to Rhall Terminais Ltda., appropriated on a straight-line basis over the remaining concession period.

Ferroban: this amount results from agreements entered into with communications companies, granting them the right of way to install fiber optic cables during the for the effectiveness period of the Concession Agreement of the Public Service of Cargo Rail Transportation (until 2028), which is being recorded as income on straight-line basis over the remaining term of the assignment of right.

(in thousands of Reais, except when otherwise indicated)

22. Shareholders' equity

(a) Capital stock

The Company's stock is represented as follows:

	2006	2005
Common	986,120,805	78,244,265
Preferred	1,884,474,520	144,472,750
	2,870,595,325	222,717,015

(a) Capital stock--continued

The Company's authorized capital is not to exceed R$900,000,000, unless a resolution is passed by the board of directors. The Company's shareholders have a preemptive right to receive their proportionate shares from any new shares issued by the Company.

On March 10, 2005, a 5-to-1 stock split was approved for all classes of shares at an Extraordinary General Shareholders' meeting.

The Company's capital stock increased from R$688,782 on December 31, 2005 to R$2,136,535 on December 31, 2006, upon the subscription of 643,425,175 new shares, 203,678,155 of which are common shares and 439,747,020 are preferred shares.

On September 5, 2006, a 10-to-1 stock split was approved for all classes of shares at a General Shareholders' meeting. Such split is reflected in these financial statements.

(in thousands of Reais, except when otherwise indicated)

22. Shareholders’ equity - continued

(b) Distribution of dividends and interest on own capital

Shareholders are assured a minimum mandatory dividend of 25% on the adjusted net income in accordance with Article 202 of Law 6,404/76. The calculation basis for dividends, according to the present legislation, is as follows:

	2006	2005
Net income for the year	74,679	169,820
(-) Legal reserve	(3,734)	(8,491)
Dividends calculation basis	70,945	161,329
Dividends	2,738	20,332
Interest on own capital	15,000	20,000
	17,738	40,332
Withholding income tax on interest on own capital	1,915	2,993

As a result of commitments undertaken pursuant to financing agreements, the parent company may not distribute dividends in excess of the minimum mandatory dividend through 2011.

(c) Profit reserve

Pursuant to Brazil’s corporate law, the legal reserve is established at 5% of net income for the year, prior to any other appropriations, and shall not exceed 20% of capital stock.

The investment reserve is based on statutory provisions, which are supported by the Company’s investment plan, which details uses and sources of funds and is subject to approval by the board of directors. Pursuant to Article 194 of Law 6,404/76, this reserve shall not exceed subscribed capital stock and cannot be less than twenty-five percent (25%) or more than seventy-five per cent (75%) of net income for the year adjusted in accordance with Article 202 of Law 6,404/76. The purpose of this reserve is to finance the expansion of the Company’s and its subsidiaries’ activities, either through the subscription of capital increases or the development of new ventures.

(d) Advances for future capital increases

The amounts received as advances for future capital increase, resulting from contributions to the stock option plan, described in Note 23, are presented in a Shareholders’ Equity account.

22. Shareholders’ equity - continued

(e) Directors’ compensation

In the General Shareholders’ Meeting held on March 27, 2006, the amount of R$192 was approved as the total annual compensation for the members of the Fiscal Council, and the amount of R$15,000 was approved as the total annual compensation for the board of directors. These amounts are valid until the next Annual General Shareholders’ Meeting.

23. Stock option plan

At an Extraordinary General Shareholders’ Meeting held on April 1, 1999, the shareholders approved a stock option plan (“Plan”), targeted at board members, executive officers, top management and third-party service providers of the Company (“Beneficiaries”). The plan is managed by the Company’s board of directors, or at its discretion, by a committee established for this purpose. The board or its committee may grant stock options within the guidelines of the Plan. The total number of stock options is limited to 8% of the Company’s outstanding shares.

When the individual stock option agreements are executed, the Beneficiary must exercise 10% of the stock options that were granted and purchase the corresponding shares in cash. The original exercise price is disclosed in the individual stock option agreements. Over the subsequent five years, the Beneficiary will be eligible to exercise an additional 18% lot of the options that were granted. The exercise price of the subsequent exercises is based on the original exercise price adjusted by the IGP-M (General Market Price Index).

On March 7, 2005, the committee of the board of directors approved some changes to the Plan, including a) requiring that every fiscal year Beneficiaries utilize at least 50% of variable compensation received, net of taxes and social charges, for the exercise of stock options, and b) possibility of early issuance of shares as of the date of the purchase of the second 18% lot of shares, in the cases where the Beneficiary has purchased 30% of the total eligible shares. The Company does not have the obligation to repurchase the shares acquired by the Beneficiaries through the Plan.

On March 1, 2006, the Plan Management Committee approved the creation of the 2006 Stock Option Program (“2006 Program”) and established that (i) the number of shares integrating the 2006 Program is 4,500,000 shares: 900,000 common shares and 3,600,000 preferred shares, corresponding to 2.0% of the Company’s capital stock, and (ii) the price per share is R$23.00. The 2006 Program comprises two groups of beneficiaries, with different types of agreement, referred herein as “Agreement A” and “Agreement B”. The Agreement A has the same characteristics established for the 2005 Program. The Agreement B is different from the Agreement A in the following two aspects:

(in thousands of Reais, except when otherwise indicated)

23. Stock option plan - continued

(i) the acquisition of the right to make the contributions for the acquisition of shares changes from 18% per year, as in the Agreement A, to 5% in the first year, 10% in the second, 15% in the third, 25% in the fourth and 35% in the fifth and last year. In case the beneficiary of the Agreement B is fired, the Plan Management Committee may, at its discretion, change the acquisition schedule of the right to make contributions for the acquisition of shares, to 18% per year, such as the schedule of the Agreement A.

(ii) the right to make contributions for the acquisition of shares is subject to the decision of the beneficiary related to the sale of shares resulting from the Stock Option Programs of the previous years. If the beneficiaries hold, on March 1, 2006, a total number of shares higher than the number of shares (vested and nonvested) attributed to the beneficiary in the 2006 Program, the Beneficiary may sell the number of shares equivalent to the difference between the balance of shares related to previous Programs and the total shares whose acquisition option was granted to the beneficiary within the scope of the 2006 Program, without losing the right to exercise contributions for acquisition of shares of the 2006 Program for each share sold related to previous Programs which exceeds the difference described above the beneficiary will reduce the right to make the contribution for acquisition of shares related to the 2006 Program in the same number of shares.

The conditions, nature, amounts and prices shown below are in compliance with CVM Deliberation 371/2000.

The summary of changes in stock options for the year ended December 31, 2006 is shown as follows:

	Number of Shares
Shares to be exercised on December 31, 2005	59,871,600
Grants on March 1, 2006	45,000,000
Grants cancelled in the year	(5,270,385)
Grants exercised in the year	(9,840,100)
Shares to be exercised on December 31, 2006	89,761,115
Weighted average price per share to be exercised	1,67

When the Beneficiary makes a payment related to the options, the amount is recorded as advances for future capital increase. When the shares are formally approved, the amounts are transferred to capital stock.

(in thousands of Reais, except when otherwise indicated)

23. Stock option plan - continued

The contributions around 30%, made for the acquisition of options, are accounted for the capital increase, as from the second reference date, in compliance with Law 6,404/76.

24. Determination of the income tax and social contribution – parent company

	Income Tax		Social Contribution	
	2006	2005	2006	2005
Earnings before income tax and social contribution	74,679	163,853	74,679	163,853
(+) Additions				
· Interest on own capital	19,500	35,900	19,500	35,900
· Goodwill amortization in subsidiary	5,453	7,264	5,453	7,264
· Provision for investment loss	55,112	-	55,112	-
· Hedge settlement	15,506	-	15,506	-
· Other	7,102	4,961	7,102	4,961
	102,673	48,125	102,673	48,125
(-) Exclusions				
· Interest on own capital	(15,000)	(20,000)	(15,000)	(20,000)
· Equity interest income	(100,318)	(186,757)	(100,318)	(186,757)
· Other	(37,098)	(1,775)	(37,098)	(1,775)
	(152,416)	(208,532)	(152,416)	(208,532)
Calculation basis for purposes of income tax and social contribution	24,936	3,446	24,936	3,446
Tax losses and offset negative bases	(7,481)	(1,034)	(7,481)	(1,034)
Final calculation basis	17,455	2,412	17,455	2,412
Rate	25%	25%	9%	9%
Taxes for the year	4,364	603	1,571	217

The reconciliation of the effective income tax and social contribution rate on the income before taxes with the provision for income tax and social contribution has not been shown for purposes of these consolidated financial statements, as the parent Company and its domestic and foreign subsidiaries are subject to different taxes and rates.

(in thousands of Reais, except when otherwise indicated)

25. Net financial income (expense)

	Parent Company		Consolidated	
	2006	**2005**	**2006**	**2005**
Interest on debentures	(127,426)	(69,139)	(160,353)	(69,581)
Interest on indebtedness	(873)	(695)	(221,890)	(97,806)
Hedge	17,578	(4,671)	17,578	(4,671)
Financial taxes (CPMF / IOF)	(8,600)	(3,376)	(24,706)	(9,655)
Interest on lease and concession	-	-	(157,006)	(47,536)
Exchange variation on subsidiaries abroad	-	-	(13,129)	(22,524)
Other	(20,271)	(6,460)	(92,832)	(50,151)
Total financing expenses	(139,592)	(84,341)	(652,338)	(301,924)
Revenue on financial investment	57,150	45,489	314,985	174,085
Compensation on debentures	98,451	29,516	-	-
Total financing income	155,601	75,005	314,985	174,085
Net financial income (expense)	16,009	(9,336)	(337,353)	(127,839)

26. Insurance – consolidated (unaudited)

The Company and its subsidiaries maintain insurance policies in amounts considered sufficient by management to cover possible losses, as follows:

Line of business	Coverage by event	Amount insured
Rail operating risks	Property – property damage and loss of profits	150,000
Civil liability - rail operations	Operations, pollution, employer, vehicles (contingencies) and port	25,500
Insurance for rail freight	Civil liability of the rail freight carrier (RCTF-C); rail risk (RF)	30,000
Civil liability – trucks	Damages to third parties on domestic and international routes	500
Insurance for road freight	Civil liability of the road freight carrier (RCTR-C) – accidents and (RCF-DC) theft; international road transportation	1,500

27. Financial instruments

On December 31, 2006, the Company and its subsidiaries had the following financial assets and liabilities:

Financial investments: evaluated at cost, with accrued interest through the balance sheet date, the rates of which were compatible with market conditions prevailing on that date.

Investments: as described in Note 13, these refer to investments in subsidiaries and/or equity investments.

Significant balances with related parties: as described in Note 12, related party transactions are carried out under normal market conditions.

Loans and financings: as described in Note 15, include interest and exchange swap effects, commented as follows.

Debentures: the market value of the debentures issued by the Company and its subsidiaries approximates their face value on December 31, 2006.

The main risk factors affecting the Company's and its subsidiaries' businesses are as follows:

(a) Credit risk

The Company and its subsidiaries are potentially subject to credit risk arising from their trade accounts receivable. The procedures adopted to minimize credit risk include the selection of customers through adequate credit analyses, the definition of sales limits, and short repayment terms. An allowance for doubtful accounts has been recorded for estimated losses.

(b) Exchange rate risk

The Company and its subsidiaries are subject to the effects of exchange rate fluctuations in connection with their foreign currency transactions.

To the extent that there are foreign currency-denominated debts, the Company and its subsidiaries, in order to protect themselves from fluctuations of the Brazilian currency, enter into currency swap operations (US$ x CDI - between 85% and 105%) for the total consolidated foreign currency-denominated debt (Note 16). The gains related to the swap transactions were R$1,633 for the year ended December 31, 2006 (for the year ended December 31, 2005 – losses of R$23,176). Additionally in December 2005, the Parent Company entered into currency swap transactions to protect its investments in Argentina against fluctuations of the Peso against Real. The gains related to these swap transactions were R$12,907 for the year ended December 31, 2006 (loss of R$4,671 for the year ended December 31, 2005).

(in thousands of Reais, except when otherwise indicated)

28. Lease

Ferronorte has a capital lease for locomotives. At December 31, 2006, the details of the lease are as follows:

Assets	Current Liabilities	Long-term Liabilities	Charges (p.a.)	Remaining term
Locomotives Dash 9	18,380	7,066	9% + dollar variation	5 semesters

29. Private social security

Novoeste sponsors a private pension plan with the company HSBC Fundo de Pensão. The plan is primarily a defined contribution plan. The plan has one defined benefit plan feature which provides a benefit equivalent to six salaries paid in the event of death, disability and or retirement, calculated according to formulas and conditions established in the plan's regulation.

On average, the contributions are made 80% by Novoeste and 20% by the active participants. The plan is annually reviewed by an independent actuary.

	2006	2005		2006	2005
			Sponsor contributions:		
Participants	273	513	Participation payroll	4,148	7,699
Net assets	8,096	7,380	Normal contribution	0.98%	2.32%

For the defined benefit portion of the pension plan, the Company has calculated its actuarial liability as R$1,020 at December 31, 2006. Such liability is in a funded status.

In addition to the total financial coverage of actuarial liabilities, the plan has a surplus with which a pension fund that amounts to R$1,059 on December 31, 2006 was made. This surplus results from the Company contributions made in prior periods related to participants that were subsequently dismissed.

(in thousands of Reais, except when otherwise indicated)

30. Supplementary information - statements of cash flows

	Parent Company		Consolidated	
	2006	2005	2006	2005
Operating activities				
Net income for the year	74,679	169,820	76,060	171,198
Depreciation and amortization	2,041	-	130,893	55,386
Leases and concessions	-	-	152,533	72,054
Equity in earnings of subsidiaries	(203,779)	(186,757)	(1,444)	(1,241)
Provision for unsecured liabilities	103,461		-	-
Goodwill amortization	5,453	7,264	9,231	9,434
Provision for loss in investment	55,112	-	55,112	-
Disposal of long-term investment	-	-	17,794	-
Gain in disposal of permanent assets	-	-	-	(1,061)
Exchange variation on subsidiaries abroad	-	-	13,129	22,524
Deferred income tax and social contribution	(20,486)	(6,763)	(16,359)	(14,662)
Provision of unrealized profit	(744)	(744)	(1,162)	(521)
Interest on taxes paid in installments	-	-	33,184	24,342
Provision for contingencies	-	-	19,411	11,651
Exchange variation and charges on financing and debentures	43,252	39,349	165,052	151,595
Swap activities	(21,049)	5,352	(2,678)	27,847
Allowance for doubtful accounts	-	-	18,391	2,814
Minority interest	-	-	122	31
	37,940	27,521	669,269	531,391
(Increase) decrease in assets				
Trade accounts receivable	-	-	(30,959)	(12,605)
Supplies	-	-	(29,825)	(4,658)
Recoverable taxes	(13,451)	(2,627)	(31,755)	(72,765)
Dividends and interest on own capital	(105,473)	(23,195)	-	-
Other assets	(5,112)	(1,091)	487	(9,728)
	(124,036)	(26,913)	(92,052)	(99,756)
Increase (decrease) in liabilities				
Suppliers	1,083	-	(192,718)	103,754
Payroll and related charges	-	-	(202,512)	2,558
Taxes, charges and contributions	(1,057)	(6,510)	27,580	32,986
Lease and concessions payable	-	-	(63,786)	(53,123)
Dividends and interest on own capital	(22,641)	6,585	(22,519)	6,585
Other liabilities	(179)	(1,736)	(221,877)	(40,476)
	(22,794)	(1,661)	(675,832)	52,284
Cash provided by (used in) operating activities	(108,890)	(1,053)	(98,615)	483,919

(in thousands of Reais, except when otherwise indicated)

30. Supplementary information - statements of cash flows—continued

	Parent Company		Consolidated	
	2006	**2005**	**2006**	**2005**
Investing activities				
Acquisition of subsidiary	(1,331,846)	(32,589)	(1,417,224)	(50)
Disposal of equity interest	-	-	-	1,061
Proposed dividends and interest on own capital	122,483	53,646	-	-
Capital structure, net of cash of company acquired in the year	-	-	26,334	-
Acquisition of fixed assets	(4,511)	-	(372,354)	(255,276)
Disposal of fixed assets	-	-	-	2,106
Deferred assets	-	-	(5,278)	(5,557)
Cash provided by (used in) investing activities	(1,213,874)	21,057	(1,768,522)	(257,716)
Financing activities				
Financing				
Proceeds from debt	1,400,200	205,673	2,207,200	234,881
Debt repayment	(832,815)	(91,811)	(989,370)	(221,170)
Acquisition of debentures	(658,588)	(278,706)	-	-
Capital increase and AFAC	1,448,224	65,266	1,448,224	65,266
Proposed dividends and interest on own capital	(17,738)	(40,332)	(17,738)	(40,332)
Realized swap transactions	19,857	(4,108)	(37,525)	(19,432)
Related parties	(16,591)	2,947	(10,896)	(4,091)
Cash provided by (used in) financing activities	1,342,549	(141,071)	2,599,895	15,122
Increase (decrease) in cash and cash equivalents	(19,785)	(121,067)	(732.758)	(241,325)
Cash and cash equivalents, beginning of year	250,282	371,349	1,006,282	764,957
Cash and cash equivalents, end of year	270,067	250,282	1,739,040	1,006,282
Increase (decrease) in cash and cash equivalents	(19,785)	(121,067)	(732.758)	(241,325)

(in thousands of Reais, except when otherwise indicated)

31. Summary of the differences between Accounting Practices Adopted in Brazil ("BR GAAP") and Accounting Principles Generally Accepted in the United States of America ("US GAAP")

The Company has prepared its primary consolidated financial statements in accordance with BR GAAP. The primary consolidated financial statements are used for statutory and regulatory purposes. In order to comply with the New Market requirements of BOVESPA, the Company is presenting the reconciliation of shareholders' equity as of December 31, 2006 and 2005 and the reconciliation of net income as of and for the year ended December 31, 2006 between BR GAAP and US GAAP. This note is not required by BR GAAP and has not been presented in the financial statements for statutory and regulatory purposes of the Company which were published on February 26, 2007.

A narrative description of the reconciling items between BR GAAP and US GAAP is also provided as required by BOVESPA. The narrative descriptions should not be used for any other purposes, as differences between BR GAAP and US GAAP may exist with respect to classification in the balance sheet and statement of income and with respect to required disclosures in the notes to the financial statements. Such potential differences are not being presented in this note.

The accompanying financial statements are a translation and adaptation from those originally issued in Brazil. Certain reclassifications, modifications and changes in terminology have been made in order to conform more closely to reporting practices of US GAAP.

I — Reconciliations of the differences between U.S. GAAP and BR GAAP in net income and shareholders' equity

Reconciliation of net income

		2006
Consolidated net income under BR GAAP		**76,060**
Capitalization of interest costs:	**(a)**	
Amortization of capitalized interest		(1,359)
Business combination – Logispar	**(b)**	
Reversal of goodwill amortization		7,264
Business combination and goodwill – Acquisition of truck operation	**(c)**	
Depreciation and amortization of fair value increments		(4,780)
Reversal of operating lease expense		5,929
Deferred taxes		(390)

(in thousands of Reais, except when otherwise indicated)

31. Summary of the differences between Accounting Practices Adopted in Brazil ("BR GAAP") and Accounting Principles Generally Accepted in the United States of America ("US GAAP") - continued

Reconciliation of net income – continued

		2006
Business combination and goodwill – Acquisition of Malha Norte	**(d)**	
Depreciation of fair value increments to property, plant and equipment		(64,755)
Capital lease expense		(17,140)
Reversal of amortization of deferred charges		37,696
Financial expenses due to fair value increments of loans and financings		(13,438)
Reversal of operating lease prepayments		11,856
Reversal of amortization of prepaid operating lease		1,445
Deferred taxes		102,393
Impairment on investments– Geodex	**(e)**	
Reversal of impairment allowance		46,720
Property, plant and equipment		
Depreciation on monetary adjustment of PP&E	**(f)**	(243)
Reversal of depreciation on monetary adjustment of PP&E of ALL Argentina		8,177
Accounting for leases:	**(g)**	
Prepayments amortization		3,892
Reversal of operating lease expense		6,558
Depreciation of capitalized lease assets		(11,314)
Financial expenses on capital lease		(15,811)
Deferred charges	**(h)**	
Reversal of amortization of deferred development stage costs		2,233
Stock option plan	**(i)**	
Stock based compensation expense		(14,673)
Derivatives instruments	**(j)**	
Loss on recognition of fair value of swaps		(82)
Equity instruments ("Bônus de subscrição")	**(k)**	
Reversal of gain on sale of equity instruments		(61,313)
Cumulative translation adjustment - ALL Argentina	**(l)**	
Reversal of foreign exchange loss		13,129
Other		(2,056)
Deferred income and social contribution tax effects on the above adjustments	**(m)**	(13,418)
Consolidated net income under U.S. GAAP		**102,580**

(in thousands of Reais, except when otherwise indicated)

31. Summary of the differences between Accounting Practices Adopted in Brazil ("BR GAAP") and Accounting Principles Generally Accepted in the United States of America ("US GAAP") - continued

Reconciliation of shareholders' equity

		2006	2005
Consolidated shareholders' equity under BR GAAP		**2,441,320**	**934,778**
Capitalization of interest costs	**(a)**		
Capitalization of interest, net of accumulated amortization		2,726	4,085
Business combination –Logispar	**(b)**	(120,468)	(127,732)
Write-off of goodwill , net of amortization			
Business combination and goodwill – Acquisition of truck operation	**(c)**		
Fair value increments to property, plant and equipment and intangibles, net of accumulated depreciation		8,952	13,732
Prepayments – operating lease		-	(5,929)
Goodwill		14,764	14,764
Deferred taxes		(8,063)	(7,673)
Business combination and goodwill – Acquisition of Malha Norte	**(d)**		
Fair value increments to property, plant and equipment, net of accumulated depreciation		4,255,924	-
Capital lease		(418,316)	-
Financial expenses due to fair value increments of loans and financings		162,401	-
Goodwill reversal		(2,496,807)	-
Prepayments – operating lease		(41,945)	-
Deferred charges		(282,597)	-
Goodwill		255,760	-
Deferred taxes		(1,249,659)	-
Impairment on investment – Geodex			
Reversal of equity in earnings of subsidiary		-	(46,720)
Property, plant and equipment			
Monetary adjustment of property, plant and equipment, net of accumulated depreciation	**(f)**	2,737	2,980
Reversal on monetary adjustment of property, plant and equipment, net of accumulated depreciation in ALL Argentina		(35,547)	(43,724)
Accounting for leases	**(g)**		
Prepayments – operating lease		(79,798)	(83,690)
Capitalized property, plant and equipment net of related accumulated depreciation		158,412	124,371
Lease payable		(300,039)	(245,431)
Deferred charges			
Write-off of deferred charges net of accumulated amortization	**(h)**	(41,892)	(44,125)

(in thousands of Reais, except when otherwise indicated)

31. Summary of the differences between Accounting Practices Adopted in Brazil ("BR GAAP") and Accounting Principles Generally Accepted in the United States of America ("US GAAP")--continued

Reconciliation of shareholders' equity- continued

		2006	2005
Derivative instruments			
Fair value of swaps	**(j)**	3,697	3,779
Other		1,152	1,828
Deferred income and social contribution tax effects on the above adjustments	**(m)**	128,197	141,615
Shareholders' equity under U.S. GAAP		**2,360,911**	**636,908**

II – Narrative Description of the differences between BR GAAP and US GAAP

(a) Capitalization of financial costs in property, plant and equipment

Under BR GAAP, the Company capitalizes interest costs of borrowed funds directly related to the construction of property, plant and equipment, in accordance with specific methodology. It also capitalizes foreign currency gains and losses on foreign-currency denominated borrowings applied to construction in progress.

Under U.S. GAAP, in accordance with the provisions of *SFAS N° 34 – Capitalization of Interest Cost*, interest incurred on all loans is capitalized to the extent that the amount of such loans does not exceed construction-in-progress. Under U.S. GAAP the amount of interest capitalized excludes foreign currency gains and losses and interest on shareholders' funds.

(b) Business combination –Logispar

Under BRGAAP, accounting standards do not specifically address business combinations and the purchase method is applied based on book values. Goodwill or negative goodwill on the acquisition of a company, including acquisition of an entity under common control, is recorded by calculating the difference between the acquisition cost and its underlying book value. If the goodwill or negative goodwill is based on future profitability expectations, goodwill amortization is recognized in income over a period consistent with the period over which the expectation is to incur gains or losses. This procedure is also generally applicable for transactions between entities under common control, and the goodwill generated would be amortized over the period of expected future profitability. As explained in Note 12 and 14 the Company recorded goodwill in a transaction between entities under common control with its subsidiary Logispar.

Under US GAAP, the Company adopted the procedures determined by *SFAS N° 141 - Business Combinations* which requires that transaction between entities under common control be accounted for its historical book basis with no recognition of goodwill or negative goodwill. The difference between the purchase price paid and book value of assets and liabilities of Logispar is treated for US GAAP purposes as a distribution to shareholders.

(in thousands of Reais, except when otherwise indicated)

(c) Business combinations and goodwill - Acquisition of truck operation

In August 2001, the Company entered into an agreement to lease all operational assets of the truck company operating under the name of Delara. Under the terms of the agreement the Company paid a fixed amount in cash and Company shares and a contingent amount also payable in cash and Company shares. The amounts payable in cash bear interest between the date of the agreement and the payment date at interest rates based on CDI. The contingent amounts would be due if the truck business achieves specified levels of EBITDA. At the end of the original five-year term the Company had the option to acquire the assets at a nominal price.

For BR GAAP the Company has accounted for the transaction as an operational lease and, as such, has recognized as an expense over the five-year period the total amount of the consideration due. Consideration payable in shares has been valued at the amount stated in the lease agreement as the value of those shares. No goodwill was recognized from this acquisition.

Under US GAAP, the Company concluded that the transaction represents a business combination that should be accounted under *SFAS 141 – Business Combination*s. Under SFAS 141, the Company determined the purchase price as the amount payable in cash plus the fair value of the Company shares to be issued. The fair value of the fixed quantity of shares to be issued was determined as of the date of the transaction while the fair value of the contingent shares issued was determined at the date when the contingency was resolved. Considering that the shares of the Company were not publicly traded at the time of this transaction, the Company estimated the fair value of the shares based on share valuation models.

Total purchase price is presented below:

Fixed amount payable in cash	17,400
Fair value of paid in shares	42,146
Contingent amount paid in cash	5,000
Fair value of contingent amount to be paid in shares	4,301
Fair value of liabilities assumed	26,672
Purchase price consideration	95,519

The purchase price was allocated to all assets acquired and liabilities assumed based on their estimated fair value. The purchase price allocation resulted in non-allocated goodwill in the amount of R$ 14,764 thousand. Considering that the acquisition was consummated after June

(in thousands of Reais, except when otherwise indicated)

(c) Business combinations and goodwill - Acquisition of truck operation-continued

30, 2001 goodwill has not been amortized in accordance with SFAS No. 142 – "Goodwill and Other Intangible Assets".

The following table summarizes the estimated fair-values of the assets acquired and liabilities assumed on the acquisition date:

Intangible asset	15,000
Property, plant and equipment	119,960
Current liabilities	(22,662)
Deferred tax	(27,275)
Net assets acquired at fair value	85,023
Goodwill	10,496
Purchase price consideration	95,519

As a result of the purchase price allocation, differences exist between the carrying amounts of property, plant and equipment, intangible asset and goodwill for BR GAAP and US GAAP as of December 31, 2006 and on the related depreciation and amortization. Such differences are summarized in the table below and presented in the reconciliation of net income and of shareholders equity:

	December 31, 2006			2005
	Under BR GAAP	**Under US GAAP**	**Difference**	**Difference**
Amounts in the balance sheet				
Prepayment – operational lease term	-	-	-	(5,929)
Property, plant and equipment, net	-	2,077	2,077	5,348
Intangible asset	-	6,875	6,875	8,375
Goodwill	-	14,764	14,764	14,764
Other	-	-	-	9
Amounts in the statement of income				-
Depreciation of property, plant and equipment	-	(3,271)	(3,271)	-
Amortization of intangible asset	-	(1,500)	(1,500)	-
Fair value adjustment	-	(9)		-
Lease expense	(5,929)	-	(5,929)	-
Total	(5,929)	(4,780)	1,149	

(in thousands of Reais, except when otherwise indicated)

31. Summary of the differences between Accounting Practices Adopted in Brazil ("BR GAAP") and Accounting Principles Generally Accepted in the United States of America ("US GAAP")—continued

(c) Business combinations and goodwill - Acquisition of truck operation - continued

During 2006, the Company performed the annual impairment test for the non-allocated goodwill, comparing the fair value of the reporting unit to its carrying value. Because the carrying value did not exceed the fair value, there was no need to calculate impairment.

(d) Acquisition of "Malha Norte"

As explained in Note 12, on May 31, 2006 the Company acquired the operations denominated Malha Norte by acquiring the companies Brasil Ferrovias S.A. and Novoeste Brasil S.A. The Company issued 56,408,235 Company shares to acquire Malha Norte. For BR GAAP purposes the Company recorded the assets and liabilities of the acquired business at their book values and recorded the shares issued at the contractual amount agreed between the parties for those shares. The resulting goodwill amounted to R$ 2,496,807.

Under US GAAP, the Company recorded the transaction as a business combination under *SFAS No. 141 – Business Combinations*. The Company computed the purchase price consideration as the quoted market price of the shares issued. The purchase price allocated to assets acquired and liabilities assumed of the acquired business considering based on their fair value. The purchase price allocation resulted in an initial excess of fair value of the assets acquired and liabilities assumed over the purchase price (negative goodwill) in the amount of R$ 1,352,051 thousand. The negative goodwill was originally allocated on a pro rata basis to reduce the amount of non current assets acquired.

The following table summarizes the fair-value of the assets acquired and liabilities assumed at the date of the transaction net of negative goodwill.

Current assets	110,102
Property, plant and equipment	6,118,347
Goodwill	255,760
Other non-current assets	312,902
Current liabilities	(1,706,784)
Non-current liabilities	(2,193,820)
Deferred taxes	(1,352,052)
Purchase price consideration	1,544,455

(in thousands of Reais, except when otherwise indicated)

31. Summary of the differences between Accounting Practices Adopted in Brazil ("BR GAAP") and Accounting Principles Generally Accepted in the United States of America ("US GAAP")—continued

(d) Acquisition of "Malha Norte"

As a result of the purchase price allocation differences exist between the carrying amounts of net assets and goodwill for BR GAAP and for US GAAP as of December 31, 2006 and on the related depreciation and amortization. Such differences are summarized in the table below and presented in the reconciliation of net income and of shareholders equity:

	May 31, 2006			December 31, 2006		
	Under BR GAAP	**Under US GAAP**	**Difference**	**Under BR GAAP**	**Under US GAAP**	**Difference**
Amounts in the balance sheet						
Property, plant and equipment, net	1,797,667	6,118,346	4,320,679	1,770,725	6,026,649	4,255,924
Goodwill reversal	2,496,807	-	(2,496,807)	2,496,807	-	(2,496,807)
Goodwill	-	255,760	255,760	-	255,760	255,760
Deferred taxes	-	(1,352,052)	(1,352,052)	-	(1,249,659)	(1,249,659)
Prepayments - operating lease	43,390	-	(43,390)	41,945	-	(41,945)
Loans and financings	-	-	-	-	-	-
Fair value adjustment	(2,296,668)	(2,120,830)	175,838		162,401	162,401
Capital lease	(314,901)	(727,932)	(413,031)	(287,075)	(705,391)	(418,316)
Deferred charges	320,293	-	(320,293)	282,597	-	(282,597)
Amounts in the statement of income						
Depreciation of property, plant and equipment				(26,942)	(91,697)	(64,755)
Reversal of amortization of prepaid operating lease				(1,445)	-	1,445
Reversal of operating lease prepayments				(11,856)	-	11,856
Financial expenses due to fair value increments of loans and financings				-	(13,438)	(13,438)
Amortization of deferred charges				(37,696)	-	37,696
Capital lease expense				(32,286)	(49,427)	(17,140)
Deferred taxes				-	102,393	102,393

31. Summary of the differences between Accounting Practices Adopted in Brazil ("BR GAAP") and Accounting Principles Generally Accepted in the United States of America ("US GAAP")—continued

(e) Impairment on Investments – Geodex

Under BR GAAP, investments in affiliated companies can be accounted for under the equity method if the investor has influence over the management or the investor holds more than a 20% interest, (considering both voting and non-voting shares) in the investee.

Under US GAAP, the equity method is required when the investor has an ability to exercise significant influence over the investee's operational and financial decisions. There is the presumption that such influence exists when the investor holds 20% or more of the voting shares of an investee. At December 31, 2006 and 2005, the Company had a 3.28% voting interest (43.69% of total capital) in Geodex. Therefore, for US GAAP purposes, the investment was accounted for using the cost method. The equity in earnings in Geodex recorded in 2005 for BR GAAP purposes was reversed for US GAAP purposes.

As mentioned in Note 11, in 2006 the Company entered into an agreement with the other shareholders of Geodex for the future sale of the investment. For BR GAAP purposes, during 2006, the Company recorded an impairment allowance to bring its investment in Geodex to its estimated realizable value. Because the estimated realizable value equals the investment balance recorded under the cost method, for US GAAP purposes, the impairment allowance was reversed. As a result, for both US GAAP and BR GAAP purposes, this investment has been accounted at the lower of cost or realizable value.

(f) Monetary adjustment of property, plant and equipment

Under BR GAAP, accounting for the effects of inflation and monetary restatements of financial statements ceased on December 31, 1995. Beginning January 1, 1996, the carrying value of all non-monetary assets and liabilities monetarily corrected for inflation through December 31, 1995, based on official inflation indices through that date, became their historical cost basis.

Under U.S GAAP, in accordance with *SFAS No. 52 – Foreign Currency Translation*, Brazil ceased to be considered to a hyper inflationary economy on July 1, 1997, when the cumulative three-year rate of inflation fell below 100%. In accordance with *APB 3 "Financial Statements restated for General Price-Level Changes" (APS 3)*, financial statements of companies operating in hyperinflationary economies should be adjusted for inflation following a methodology similar to the one used in Brazil through December 31, 1995. Considering that Brazil continued to be a hyperinflationary economy through July 1, 1997 the Company is presenting in the reconciliation the effects of monetarily correcting its non-monetary assets through June 30, 1997. Monetary correction for 1996 and 1997, for which an official inflation index for purposes of adjustment of financial statements no longer existed, was made using the Market General Price Index (IGP-M) for Brazil.

Under BR GAAP, the nonmonetary assets of the Argentine subsidiaries have been adjusted for inflation during 2002 and 2003. For US GAAP purposes, considering that Argentina is not considered a hyperinflationary economy, the monetary restatements recorded for the years 2002 and 2003 have been reversed.

(in thousands of Reais, except when otherwise indicated)

31. Summary of the differences between Accounting Practices Adopted in Brazil ("BR GAAP") and Accounting Principles Generally Accepted in the United States of America ("US GAAP")—continued

(g) Accounting for leases

Under BRGAAP, all leases can be treated as operating leases and there is no requirement for recording of capital leases. Under BR GAAP, lease payments are recognized as expenses when due.

Under US GAAP, lease contracts which meet at least one of the four criteria established by *SFAS No. 13, Accounting for Leases* are to be capitalized as property, plant and equipment and depreciated over the shorter of the estimated useful life of the asset or the lease term.

The following table presents the amounts of property plant and equipment and the related lease liabilities that would be recognized under US GAAP as well as the related effect in the statement of income:

	December 31, 2006			2005
	Under BR GAAP	Under US GAAP	Difference	Difference
Amounts in the balance sheet				
Prepayments – operating lease	94,896	15,098	(79,798)	(83,690)
Property, plant and equipment, net of accumulated	-	158,412	158,412	124,371
Lease payable	(43,652)	(343,690)	(300,039)	(245,431)
Amounts in the statement of income				
Reversal of prepayments amortization	(4,639)	(747)	3,892	-
Operating lease expense	(6,558)	-	6,558	-
Depreciation of capitalized lease assets	-	(11,314)	(11,314)	-
Financial expenses on capital lease	(32,485)	(48,297)	(15,811)	-

(h) Deferred charges

Under BR GAAP preoperational expenses incurred can be capitalized as deferred charges and amortized over the expected period to be benefited.

Under US GAAP preoperational expenses are expensed when incurred.

(in thousands of Reais, except when otherwise indicated)

(i) Stock option plan

In April 1999, the Company established a stock option plan (the "Plan") under which stock options can be issued to a selected group of key executives, members of the board of directors. The options are exercisable at varying dates as explained in Note 23.

Under BRGAAP no stock based compensation is recorded. When a beneficiary exercises the options the exercise price paid is recognized as an increase in equity under advance for future capital increase. Subsequently, when the shareholders' meeting approves the capital increase that amount is recognized as an increase in paid-in capital.

The Company accounts for the stock-based compensation plans beginning January 1, 2006 under *SFAS 123 – R ("SFAS 123R") Shared-based payment*. SFAS 123R requires an entity to measure the cost of employee services received in exchange for an award of equity instruments, based on the grant-date fair value of the award. That cost is recognized over the period during which an employee is required to provide services in exchange for the award (vesting period). The grant-date fair value of employee share options and similar instruments is estimated using Black-Scholes model. SFAS 123R also requires the Company to estimate forfeitures in calculating the expense relating to stock-based compensation as opposed to only recognizing these forfeitures and the corresponding reduction in expense as they occur.

The Company has applied the modified prospective application method to account for the implementation of SFAS 123R, which consists on recognizing costs of services rendered beginning January 1, 2006 according to the grant-date fair value of stock options instruments. Under this transition method, compensation cost for stock options plans beginning January 1, 2006, include the applicable amount of: (a) compensation cost for all share based instruments granted prior to, but not yet vested, as of January 1, 2006 (based on the grant-date fair value in accordance with the provisions of SFAS 123), and (b) compensation cost for all share based instruments granted after January 1, 2006 (based on the grant-date fair value estimated in accordance with the new provisions of SFAS 123R).

The assumptions used for estimating the fair value of the options on the grant date during the year ended December 31, 2006 following the Black & Scholes method were as follows:

Assumptions for options granted during the year ended December 31, 2006

Expected dividend yield:	0
Expected stock price volatility:	36.4%
Risk-free rate of return:	6.0%
Expected life:	10 years

The total compensation cost calculated at December 31, 2006 was R$ 14,673, which was recorded as additional paid in capital for USGAAP purpose.

(j) Fair value of derivative instruments

In order to reduce the exchange rate risk, the Company entered into swap agreements to exchange the U.S. dollar rate variation plus fixed interest to the CDI variation. The swaps had the same maturity dates as those of the related debts. Under BR GAAP, any differential to be paid or received, computed using the contractual rates through the balance sheet date, under these contracts is recorded as an asset or liability with a corresponding adjustment to interest expense in the statement of operations. The fair value of these contracts is not recognized in the consolidated financial statements.

Under U.S. GAAP - SFAS No. 133 –*Accounting for Certain Derivative Instruments and Certain Hedging Activities and SFAS No. 149 – Amendment of Statement 133 on Derivative Instruments and Hedging Activities* establish accounting and reporting standards requiring that all derivative instruments be recorded on the balance sheet as either an asset or liability and measured at fair value unless they meet certain stringent criteria to qualify for hedge accounting. SFAS No. 133 requires that changes in the fair value of derivatives should be recognized currently in earnings unless specific hedge accounting criteria are met. Since the Company's swap agreements do not qualify for hedge accounting, for US GAAP purposes they are recorded at fair value with changes recognized in earnings in the current period.

(k) Equity instruments ("Bônus de subscrição")

Under BR GAAP gain related to purchase and subsequent sale of certain equity instruments ('Bônus de subscrição") were recorded in the income statement as incurred.

Under USGAAP consideration received for Company's shares or similar equity instruments should be recorded as a contribution to paid-in capital and the gain recognized in BR GAAP is reversed.

(l) Cumulative translation adjustments on subsidiaries in Argentina

Under Brazilian GAAP, financial statements of subsidiaries located in Argentina are translated from Argentinean pesos into Brazilian Reais at period-end exchange rates. Assets, liabilities and income and expenses are translated at such period-end exchange rate. Translation differences corresponding to the effect of changes in the exchange rate between the Brazilian real and the Argentinean peso over net equity at the beginning of the period are recognized in income under "Foreign exchange gain/loss".

Under US GAAP the Company considers that the functional currency of its subsidiaries in Argentina is the Argentinean peso and translates the financial statements from Argentinean pesos into Brazilian Reais following the requirements of *SFAS No. 52 Foreign Currency Translation*. Under SFAS 52 assets and liabilities are translated at period-end exchange rates and income and expenses at average rates for the period. The translation effect is recognized under cumulative translation adjustments directly in shareholders equity. The adjustment included in net income represents the elimination from net income of the translation effect recognized in income for Brazilian GAAP under "Foreign exchange/loss" as well as the

(in thousands of Reais, except when otherwise indicated)

(l) Cumulative translation adjustments on subsidiaries in Argentina - continued

translation effect over the adjustments to US GAAP corresponding to the subsidiaries in Argentina.

(m) Deferred taxes on the adjustments above

The following table presents the deferred tax effects on the appropriate adjustments detailed above as of December 31, 2006 and 2005 and for the year ended December 31, 2006:

	2006	2005
Balance Sheet		
Capitalization of interest costs	2,726	4,085
Business combination –Logispar	(120,468)	(127,732)
Equity method accounting – Geodex S.A.	-	(46,720)
Property, plant and equipment:	(254,235)	(245,494)
(-) Inflation adjustments - ALL Argentina	35,547	43,724
Deferred charges	(41,892)	(44,125)
Derivative instruments	3,697	3,779
Other	(2,426)	(4,031)
Basis	(377,051)	(416,514)
Income Tax asset (liability) - 34%	128,197	141,615
Income Statement		
Capitalization of interest costs	(1,359)	
Business combination –Logispar	7,264	
Impairment on investments – Geodex	46,720	
Property, plant and equipment:	(8,741)	
(-) Depreciation inflation adjustments - ALL Argentina	(8,177)	
Deferred charges	2,233	
Derivative instruments	(82)	
Other	1,605	
Basis	(39,463)	
Income Tax Expense - 34%	(13,418)	

The deferred taxes effect related to the business combination are included with the business combinations balances in the reconciliation of net income and shareholder's equity.

ALL-América Latina Logística S.A. and Subsidiaries

Massage to shareholders and management report

MESSAGE TO SHAREHOLDERS

We are pleased to present the results for 2006, a year which will be remembered as transformational for our business. The period shows the strength of ALL's fundamentals and competitive advantages, for we achieved our financial goals facing an adverse agricultural market and managed, with agility, to increase our volume in the ports and reach new industrial segments. 2006 also will be remembered for the largest acquisition of our history, the purchase, in May, of Brasil Ferrovias, totally carried out through the capital markets, focusing on the States of Midwestern Brazil and in São Paulo. These markets have a low presence of the railroad modal and with a great growth opportunity from the railroad infrastructure recovery.

The good results achieved have only been possible through our staff commitment, which has worked with the solid intent of delivering the best service to our clients, with safety and constant productivity gains. This commitment is a result of a meritocratic culture, incessant in cost reduction and in the search for results.

The year of 2006 was transformational for ALL for five main reasons:

1. **EBITDAR grew by 23% over 2005, reaching R$591 million in 2006.** This growth was comprised of a 25% increase in Ebitdar of ALL Brasil, to R$547 million, and a 9% increase in Ebitdar of ALL Argentina, to P$64 million. Our consolidated revenue grew by 15% compared to 2005, to R$1,430 million, and in 2006 the consolidated volume had a 10.6% growth, reaching 22.047 billion RTK.

Our ability to provide integrated logistics solutions to clients, associated with the tireless focus on the reduction of expenses and productivity gains, allowed us to grow in an adverse scenario in the agricultural market, with an unfavorable foreign exchange and depreciated prices in the first half of the year. In May, we faced the stoppage of farmers, which interrupted flows of agricultural transportation for 25 days, both in Midwestern and Southern Brazil. Even through, the volume of agricultural commodities grew by 13.4%, from 10.2 billion RTK, in 2005, to 11.6 billion RTK, in 2006.

In the industrial market, we continued our growth curve above 20% in intermodal volumes, main steel products, refrigerated cargos and containers. In the highway market we maintained our strategy of focusing on dedicated operations and grew by 44% our operating result, reaching new operations in the Beverages (AmBev), Consumption (Unilever) and Automotive (Renault) segments.

In Argentina, even facing a weak soybean, corn and wheat crop, our volume grew by 6%, basically pushed by the improvement in our operating indicators. The reliability of our assets and the safety level had a significant improvement in the year. For the first time, we entered into long-term agreements with investments of clients, such as AGD, Iecsa, Agrenco and Cia Argentina de Granos.

In Brasil Ferrovias, we promoted a significant reduction in the cost base. During the second half of 2006, period in which the company was already totally under the management of ALL, EBITDAR grew by 86%, increasing from R$92 million in 2S05 to R$171 million in 2S06. Every cost adjustment, both personnel and renegotiation of agreements with suppliers and financial debts has already been made, totaling a gain of synergies higher than R$80 million. The adjustment process had a cost of R$400 million and all existing liabilities are presented in the 2006 balance sheet.

With the acquisition of Brasil Ferrovias, we leveraged the net debt/Ebitda ratio from the level of 0.2x at the end of 2005 to 3.8x at the end of 2006. The debt of R$1.6 billion of Brasil Ferrovias, incorporated to our balance sheet, has a long-term profile, taken with BNDES and governmental bodies, with more attractive rates than the market, and with present value in a very positive level. Our result and cash generation growth curve makes us calm concerning the financing and reduction of this indebtedness as planned. In addition, the intensive use of the EVA, both in the corporate level and in our business units, allowed us to grow at the same time we kept on reducing the invested capital, so that we can obtain a growing free cash flow.

Our Investor Relations areas has dedicated itself a lot in the proximity and education of our business with the financial market, as we are the only logistics publicly-held company in Brazil, with superior corporative governance practices and being followed closely by more than 10 prime analysts and investors all over the world. The performance of our shares, with a 377% appreciation since their launch in June 2004, compared to a 114% appreciation of IBOVESPA in the period, is the acknowledgment of our transparency and demonstrates the trust of the capital markets in the fundamentals of our business. In addition, we are already in the Ibovespa and IBrX-50 indexes and have received several awards for our Investor Relations website.

2. **The history of ALL is repeated with the acquisition of Brasil Ferrovias.** In May 2006, we acquired, through an exchange of shares, the operations of Brasil Ferrovias, preserving ALL's cash for the restructuring and investment process in the operational recovery of this network and its assets. It had 4.7 thousand of railroad, 7.8 thousand railcars and 280 locomotives. The history of ALL is repeated with the opportunity of operationally changing Brasil Ferrovias into a viable railroad operation and starting to commercially grow its share in the transportation matrix. For comparison purposes, currently the railroad share in the Port of Santos stands at 27%, against 60% in Paranaguá.

The operational indicators of safety, track conditions, reliability of locomotives and turnover of railcars show significant gaps to those already reached by our operation in Southern Brazil. We believe this improvement process, which already starts showing small results, will take from two to three years to be concluded.

The operational and administrative systems have already been implemented and our Operational Control Center (CCO) already controls by satellite from Curitiba the railroad operations in our entire network in Brazil. We created five more operational production units and two business units in São Paulo. Our management system by guidelines, individual goals and performance championships has already been implemented for all our employees. Therefore, all processes, procedures and goals have already been consolidated and we have been operating in a unified manner since January 2007.

3. **Good improvement in the service, productivity and safety levels.** We reached new levels of productivity and reliability for railcars and locomotives, with an improvement in the terminals turnover and the remunerated/km of our trucks. The diesel consumption (liters/000gtk) was again reduced by 3% over 2005, and we had significant gains in the services and material purchases contracts.

Massage to shareholders and management report

In 2006, we had our best performance in operational safety, rewarding the discipline in the compliance with the conduction procedures, with audits in 100% of mountain range travels and strong use of technology. Thus, we improved our gravity indicators and the number of accidents, with 12.2 accidents by million of train/km in the southern rail network, against 83.2 in 1997, which made ALL southern rail network one of the safest cargo railroads of the world.

Our clients' satisfaction survey showed an improvement in relation to 2005, rewarding our quality policies in the execution of operational processes. The commercial proximity with our clients has been the key to accelerate our growth with joint expansion projects.

4. **Strong advance in sales agreements and investments of clients and of our own**. We entered into several long-term sales agreements, ensuring new volumes and investments of clients, showing the trust and acknowledgment with our service level and their strategic decision to expand their businesses in ALL's influence area. There were more than 1,500 railcars, among mew and refurbished ones, from clients such as Bunge, Coamo, Álcool PR, Klabin, Sadia, Votorantim, Ipiranga, among others. We also had terminals inaugurated in ALL's operational areas such as the plate terminal of Masisa, in São Paulo, of Standard, for container, in Cambé and Cascavel, of Meridian, for grains, in Maringá, and the duplication of Pasa, for sugar, in Paranaguá.

Various new operations were added to the company, strengthening our presence in Brazil and Argentina as an Intermodal Logistics Operator, growing in dedicated operations, storage, transfers, urban distribution and border services. As an example, we have the management of the whole logistics network of Calpar, of Bunge Fertilizantes PR, and of the supply of High Maltose to Ambev's plants, in addition to the dedicated highway operations of Unilever, Ford, Scania and White Martins. In the 4th quarter, we also took over the entire intermodal logistics of refrigerated products of Sadia in west Paraná and the dedicated highway operation of Renault in Mercosur.

Within the several projects developed, we highlight the two most important ones. The first one is the new port in Zarate, Argentina, with a static capacity of 150 thousand tonnes/year, under construction by Agrenco, which will allow a better outflow of the Argentine and Paraguayan crop. The second one is TGG, new grains terminal in the port of Santos, with static capacity of 240,000 tonnes, built in a partnership between Bunge, Amaggi and ALL. These two large-extent projects, which significantly increase the railroad competitiveness, will be under operation as from February 2007.

ALL also continues its policy of intense investments of its own. In 2006 investments added up to R$300 million, focusing on information technology, with the launch of the 2nd generation Board Computer, the implementation of detectors of railcar derailment and barrier falls, and the development of CCP (Yard Circulation Control), which will allow us to manage the maneuvers and movement of railcars in the yards. Since the privatization, in 1997, more than R$1.2 billion was invested in new technologies, track, rolling stock and training.

5. **Improvement of our employees' satisfaction and integration with the community.** More than 4.7 thousand employees were trained by our Corporate University in technical and management courses, and we

obtained a significant improvement in our internal research of the organizational environment. This was also a year of great proximity with the community, where important projects of Corporate Responsibility were developed, such as the Talent Workshop project that graduates youngsters from public schools in Basic Engineering, the signaling of more than 200 Level Crossings in places with a wide circulation of vehicles and the Environmental Train program that benefited more than one thousand youngsters from the communities close to the railroad. We are already in the newly created Bovespa Corporate Sustainability Index (ISE), the first Latin American indicator targeted at companies with a responsible attitude towards the environment, society, clients, suppliers and governments.

2007 Outlook: Operational reliability to grow in volume and result

The strong Balance allows us to concretize our growth and investment plan, regardless of the financial market fluctuations. In 2007, the commercial market scenario is very promising, with the recovery of the grain crop and the growth trend for industrial volumes. The adaptation of 40 locomotives and refurbishment of 1,800 railcars of the dead fleet, improvement in track, port terminals and information system have already been provided to support the ambitious growth planned. By means of the right allocation of these investments, we are working to give one more step towards growth, with significant profitability and productivity results in 2007.

Finally, we would like to thank all our clients, suppliers and regulation bodies for the support shown during these years, our shareholders for the constant support, and our employees, who in every moment show a differentiated commitment , always in pursuit of our vision, which is "To be the best logistics company of Latin America".

Wilson Delara

Chairman of the Board of Directors

Alexandre Behring

Vice Chairman of the Board of Directors

Bernardo Hees

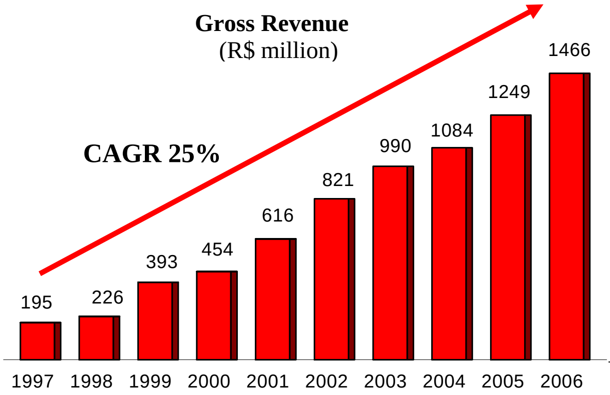
Chief Executive Officer

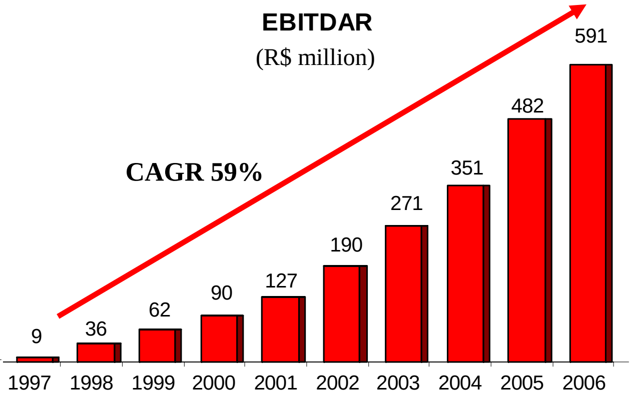
2006 MANAGEMENT REPORT

The purpose of América Latina Logística S.A. (Holding) is the interest in other companies, as shareholder or partner, and it develops, through its subsidiaries, activities related to cargo transportation and logistics. Its main subsidiaries are ALL do Brasil, Southern Rail Network concessionaire of RFFSA (Federal Railway System) and the southern portion of São Paulo rail network, Brasil Ferrovias and Novoeste Brasil, holding companies that control railroad concessionaires in the States of São Paulo, Mato Grosso do Sul and Mato Grosso, ALL Argentina, which controls ALL Central and ALL Mesopotâmica in Argentina, and ALL Intermodal, a logistics company which explores cargo intermodal transportation services and activities related to the road transportation services and logistics operations. The consolidated results, unless otherwise indicated, exclude results coming from our stake in Santa Fé Vagões, in which ALL holds a 40% interest, as well as the results of Brasil Ferrovias S.A. (a wholly-owned subsidiary) and Novoeste Brasil S.A. (a wholly-owned subsidiary), acquired in May 2006. In this report, the term "Brasil Ferrovias", except when differently indicated, refers to both companies Brasil Ferrovias and Novoeste Brasil.

FINANCIAL AND OPERATIONAL HIGHLIGHTS

Consolidated Results

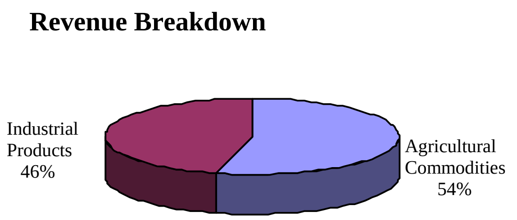


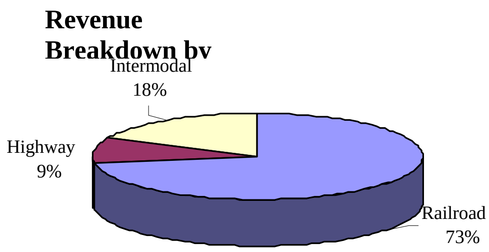


During the year, ALL increased (a) total volumes by 10.6%, from 19,929 million RTK in 2005 to 22,047 million RTK in 2006, (b) gross revenue by 17.4%, from R$1,249.3 million in 2005 to R$1,466.5 million in 2006, (c) EBITDA by 11.7%, from R$457.9 million in 2005 to R$511.3 million in 2006 and (d) EBITDAR by 22.7%, from R$481.8 million in 2005 to R$591.1 million in 2006. ALL's two largest business units, Agricultural Commodities and Industrial Products, accounted for 98% of the incremental EBITDAR of R$109.2 million in 2006, with growth rates of 26.9% and 20.2% respectively, when compared to 2005. EBITDA in the year, recorded by the Highway Services business unit, shifted from R$5.9 million in 2005 to R$8.5 million in 2006. The products that contributed most for EBITDA growth were soybean, sugar, corn and fertilizers in agricultural commodities and pulp and paper, containers and steel products in industrialized products.

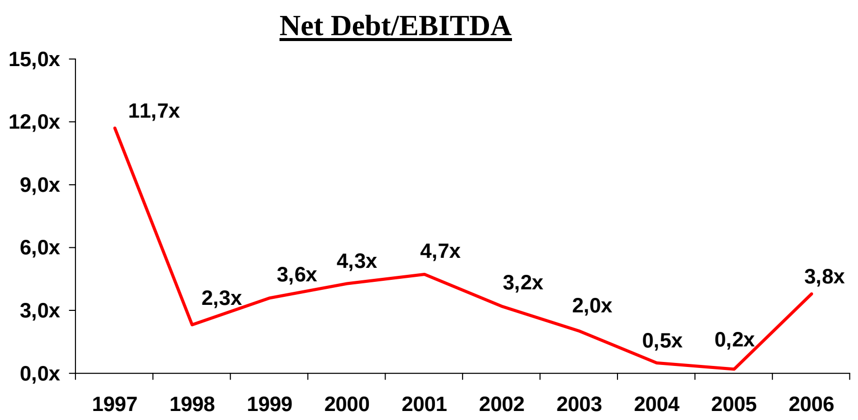
Massage to shareholders and management report

We continued to improve our EBITDAR margins, which increased more than two percentage points, from 44.3% in 2005 to 46.5% in 2006. Margin increases occurred in all lines of businesses and were a result of the operational leverage, the increase in the freight average value, increase in diesel price and continued productivity gains.



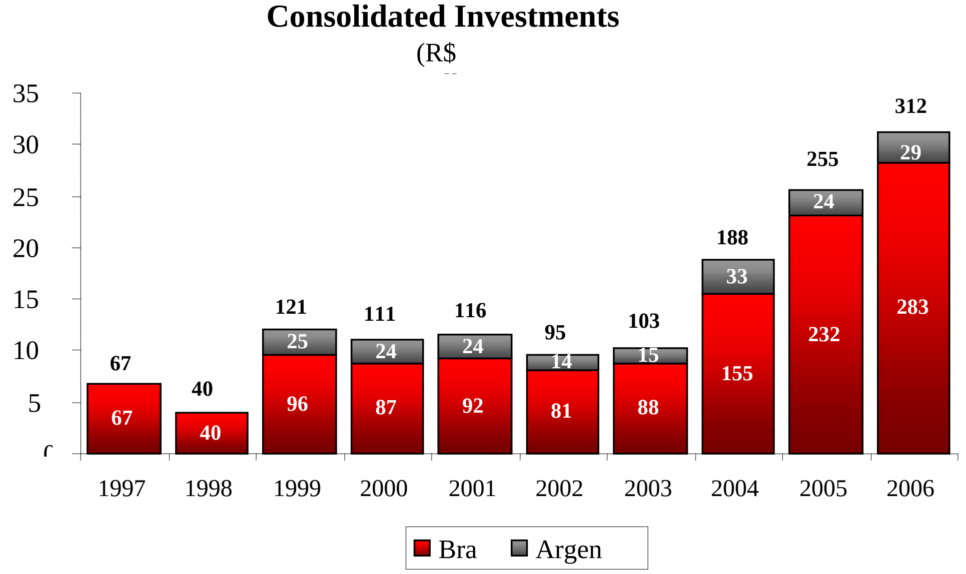


ALL's consolidated net income increased by 0.9% in 2006, reaching R$172.7 million compared to R$171.2 million in 2005, mainly due to the increase in EBITDA, partially offset by interest expenses in view of an increase in leverage. The Net Debt/EBITDA ratio grew from 0.2X in 2005 to 3.8X in 2006, mainly reflecting the acquisition of Brasil Ferrovias, which was highly leveraged. The net debt/shareholders' equity ratio rose from 0.1X to 1.1X in the same period.



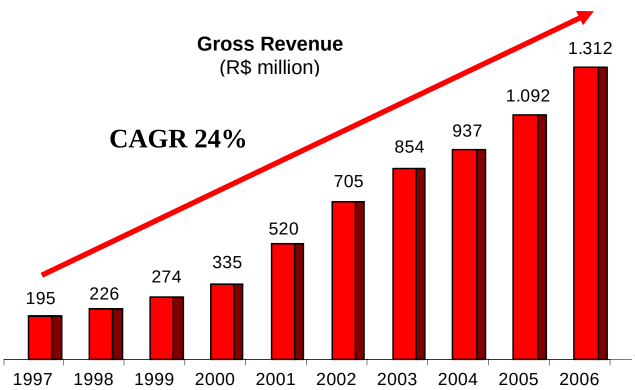
Massage to shareholders and management report

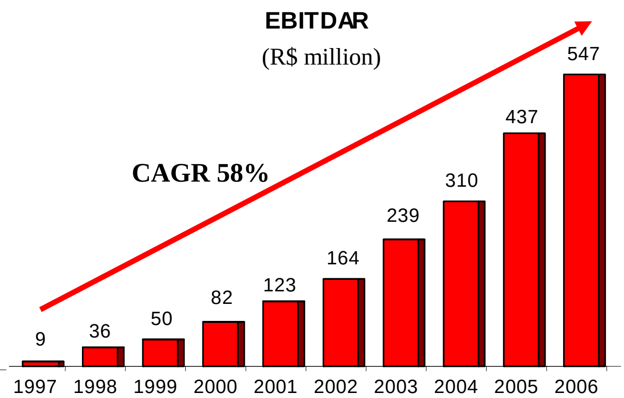
Since its privatization in 1997, more than R$1.4 billion was destined to new technologies, assets, operations and training. In 2006, the consolidated investments totaled R$312 million, versus R$255.3 million in 2005, with a 22% growth. The increase in investments of Brazilian operations reflects: (a) the acquisition and refurbishment of second-hand locomotives in the United States; (b) higher investments in return of profile and maintenance of track; (c) the acquisition of new trucks and (d) logistic systems. In Argentina, total investments increased from R$23.5 million in 2005 to R$29.3 million in 2006, mainly due to the increase in expansion investments in locomotives and railcars.



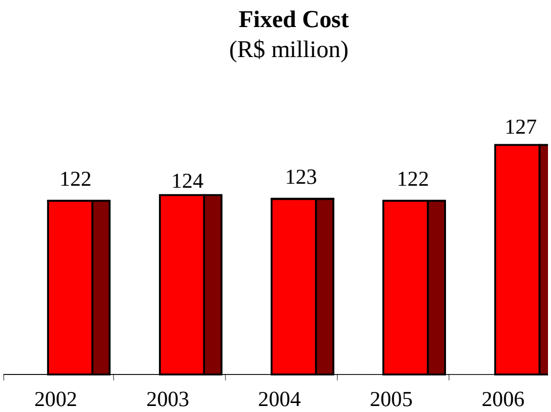
ALL BRASIL

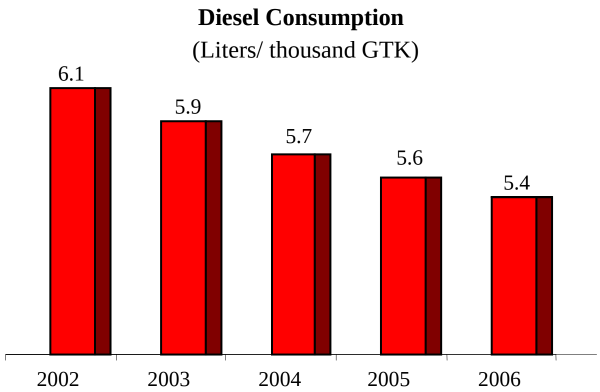
In 2006, ALL Brasil's net income reached R$162.0 million, 18.5% lower than the R$198.8 million posted in 2005. The reduction was a result of (i) the increase in financial expenses due to the higher leverage with the acquisition of Brasil Ferrovias, and (ii) the provisions of R$55 million for losses with a possible sale of Geodex and R$18.8 million related to receivables from Ferropar, partially offset by the EBITDA growth in the period.





Gross revenue from Brazilian operations increased by 20.1%, from R$1,092.0 million to R$1,312.0 million, while total transported volume climbed from 15.8 billion RTK to 17.7 billion RTK in 2006. EBITDAR posted a 25.1% growth, increasing from R$436.8 million in 2005 to R$546.7 million in 2006, with a growth of 2.0 percentage points in EBITDAR Margin, from 46.8% in 2005 to 48.8% in 2006. The significant growth of EBITDAR and EBITDAR Margin reflects a high operational leverage of the business and strict cost controls.





Below, 2006 results opened by business unit.

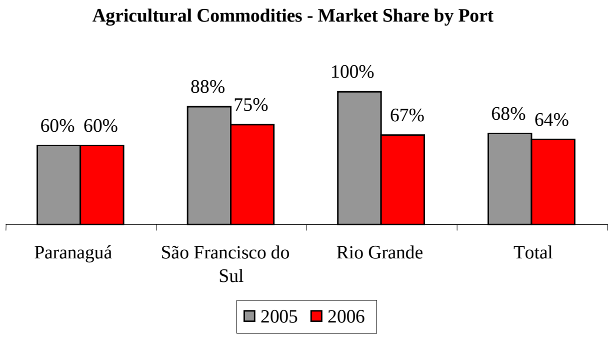
AGRICULTURAL COMMODITIES BUSINESS UNIT

The volume of agricultural commodities increased by 13.4% in 2006, from 10,192 million RTK in 2005 to 11,554 million RTK, in spite of the interruptions occurred in May in our rail network due to protests of farmers against the domestic agricultural policy. This result was favored by the strong growth in the crop of Rio Grande do Sul in 2006, which in 2005 was almost destroyed by the strong drought in the State.

Table 6 – Agricultural Commodities (RTK million)	**2006**	**2005**	**% Variation**
Soybean	4,939.3	3,593.8	37.4%
Soy Bran	1,506.3	2,019.4	-25.4%
Fertilizers	1,499.9	1,273.3	17.8%
Sugar	1,447.0	1,045.6	38.4%
Corn	1,016.6	725.3	40.2%
Wheat	466.9	832.3	-43.9%
Rice	509.4	461.7	10.3%
Other	168.3	240.7	-30.1%
Total	**11,553.7**	**10,192.0**	**13.4%**

Massage to shareholders and management report

At the end of the year, our market share fell from 68% in 2005 to 64% in 2006, due to the better market conditions in our coverage area, mainly in the State of Rio Grande do Sul, where the crop had an increase of nearly 50% in 2006. Exports of agricultural commodities through the ports served by ALL increased by 24.9% in 2006 when compared to 2005, while ALL's volume in these ports increased by 17.1% in the same period. The volume growth was a result mainly of increases in sugar (38%), soybean (37%), corn (40%) and fertilizers (18%).



Agricultural commodities gross revenue increased by 27.3% to R$766.8 million in 2006 against R$602.4 million in 2005, while net revenue increased by 27.3%, from R$520.3 million in 2005 to R$662.2 million in 2006. The average yield, measured by R$/thousand RTK, had a 12.3% rise compared to the previous year, mainly due to: (i) higher prices in our sales agreements, (ii) the transfer of increases in diesel price and (iii) the change in the mix of transported products.

EBITDAR of agricultural commodities increased by 26.9%, from R$304.0 million in 2005 to R$385.6 million, mainly due to the expansion of volume and yield, while the EBITDAR margin decreased from 58.4% to 58.2% in the same period, dropping 0.2 percentage point. EBITDA of the Business Unit (after railcar rental expenses related to new railcars purchased by clients) increased by 10.8%, from R$284.6 million in 2005 to R$315.5 million in 2006, while the EBITDA margin fell 7 percentage points, from 54.7% to 47.6%.

INDUSTRIAL PRODUCTS BUSINESS UNIT

During the year, the volume of the industrial products business unit increased by 9.2%, from 5,627 million RTK in 2005 to 6,142 million RTK in 2006. This increase mainly resulted from a growth in the transported volume of 21.9% in intermodal flows, with market share gains in almost all segments. It is worth pointing out the growth in containers (22.6%), steel products (37.0%) and wood (22.1%). In the fuel, vegetable oil and cement segments – which are almost exclusively transported by railroad in our operation area – our market share is currently high and our performance depends on the industry growth in our coverage area. In this segment, we had a total volume increase of 2.6% in 2006 compared to 2005, with a growth of 11.1% in civil construction, 4.1% in fuels and a reduction of 31.8% in vegetable oils due to the migration of crushing companies from Brazil to Argentina.

Massage to shareholders and management report

Table 8 - Intermodal Industrial Products (RTK million)	**2006**	**2005**	**% Variation**
Steel products	644.2	470.1	37.0%
Wood, Pulp and Paper	437.1	358.0	22.1%
Food products	440.4	362.3	21.5%
Containers	687.7	561.1	22.6%
Other	106.2	147.8	-28.2%
Total	**2,315.6**	**1,899.4**	**21.9%**

Table 9 - Pure Iron Industrial Products (RTK million)	**2006**	**2005**	**% Variation**
Fuel	2,405.4	2,309.8	4.1%
Vegetable Oil	245.0	359.5	-31.8%
Civil Construction	1,175.5	1,058.1	11.1%
Total	**3,826.0**	**3,727.3**	**2.6%**

Industrial products gross revenue increased by 20.9%, from R$336.0 million in 2005 to R$406.2 million in 2006, pushed by an increase in volume of 9.2% and an increase in yield, measured by R$/thousand RTK, of 10.8%, mainly reflecting the change in the mix of transported products, and an increase in diesel.

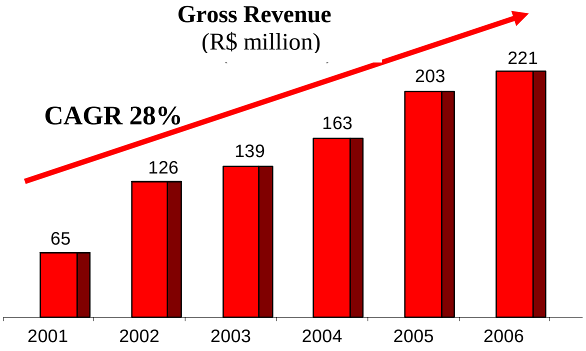
EBITDAR of industrial products increased by 20.2% in 2006, from R$126.9 million in 2005 to R$152.5 million, mainly due to increases in volume and average yield. The EBITDAR margin fell 0.3 percentage point in 2006, from 45.4% in 2005 to 45.1%. EBITDA of the Business Unit (after railcar rental expenses related to new railcars purchased by clients) increased by 16.8%, from R$122.3 million in 2005 to R$142.8 million in 2006, while the EBITDA margin dropped 1.5 percentage point, from 43.7% to 42.2%.

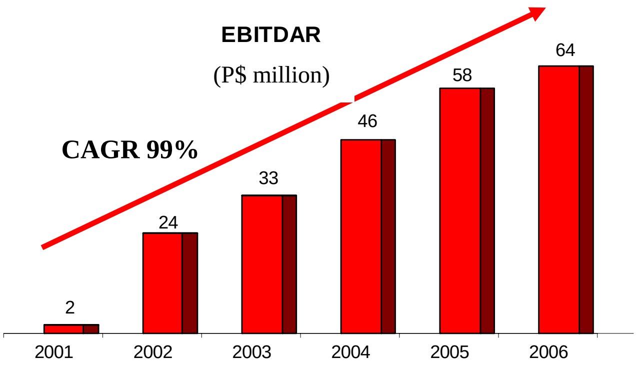
HIGHWAY SERVICES BUSINESS UNIT

During 2006, the volume of highway services was negatively affected by the process of changing this strategic unit into a more profitable business. In 2006, we reduced some little profitable operations, as we established higher profitability goals. The change in the client base also resulted in a new mix of flows with smaller average distance and, consequently, smaller total volume and higher average yield, measured in R$/RK, contributing to a better profitability. For instance, in 2006, we discontinued one of the operations of urban distribution of products of Ambev and, recently, included the transportation of water bottles for Minalba in the State of São Paulo, an operation which has better margins.

The revenue decreased by 9.5% in 2006, reaching R$139.0 million, as a result of a 15.9% reduction in volumes, from 55.9 million RK in 2005 to 47.0 million RK in 2006, partially offset by a 7.6% increase in the average yield. EBITDA of the highway services unit increased by 43.5% in 2006, from R$5.9 million in 2005 to R$8.5 million in 2006, while the EBITDA margin grew from 4.4% in 2005 to 7.1%. The improvement in profitability reflects the discontinuance process of non-profitable operations and the establishment of a minimum return level for new operations.

ARGENTINA OPERATIONS





Gross revenue of ALL Argentina increased by 8.6% in 2006, from P$203.3 million in 2005 to P$220.7 million, due to an increase of 2.5% in the average fee, from P$49.5 per thousand RTK in 2005 to P$50.7 per thousand RTK, and of 5.9% in volume, from 4,110 million RTK in 2005 to 4,352 million RTK. The average fee increase mainly reflects the transfer of inflation, while volume growth resulted in productivity gains, partially offset by a change in the mix of freights - with an increase in the share of lower density products, such as agricultural commodities, and reduction in the share of higher density products, such as stones.

Table 10 - Agricultural Commodities (Thousands of RTK)	**2006**	**2005**	**% Variation**
Soybean	428.2	225.9	89,.6%
Soy Bran	49.4	43.8	12,.7%
Fertilizers	111.5	69.6	60,.2%
Sunflower	52.1	54.3	-4.0%
Sugar	0.0	10.9	na
Corn	115.0	151.5	-24,.1%
Wheat	34.2	66.2	-48.4%
Rice	6.3	5.5	14.4%
Other	0.0	2.1	-100.0%
Total	**796.6**	**629.7**	**26.5%**

In 2006, the increase in the volume of agricultural commodities stood at 26.5%, from 629.7 million RTK to 796.6 million RTK. In addition to the higher productivity of the rolling stock, the strong increase in the volumes of agricultural commodities during the year reflects: (i) favorable conditions of the crop in Argentina, (ii) the Company's decision to allocate capacity in the higher margin businesses to the detriment of volumes in lower margin industrial flows.

Table 11 - Industrial Products (Thousands of RTK)	**2006**	**2005**	**% Variation**
Vegetable Oil	37.6	40.4	-7.0%
Steel Products	381.3	453.9	-16.0%
Wood	326.4	336.9	-3.1%
Food Products	343.3	397.5	-13.6%
Civil Construction	1,772.2	1,647.1	7.6%
Container	477.9	407.5	17.3%
Other	216.3	196.8	9.9%
Total	**3,554.9**	**3,480.1**	**2.2%**

The volume of industrial products grew by 2.2% in 2006 compared to 2005, due to the allocation of more railcars to the flows of agricultural commodities to the detriment of lower profitable industrial flows - in particular, stones in the civil construction segment.

EBITDAR grew from P$58.2 million in 2005 to P$63.5 million in 2005, or 9.1%, reflecting an increase in volumes and a strong yield growth. In spite of the increase in labor costs due to the negotiation of salaries with labor unions, the EBITDAR margin reached 29.5%, in line with the previous year.

BRASIL FERROVIAS

On May 9, after 6 months of negotiations, we concluded the acquisition of Brasil Ferrovias. After having all the necessary approvals and the compliance with all previous conditions, the operation was concluded on June 16, through the exchange of shares, with no payment in cash. Brasil Ferrovias operates two railroad systems: (i) one narrow gauge next to the rail network of ALL, which connects our current network to the States of Mato Grosso do Sul and São Paulo and to the port of Santos; and (ii) a broad gauge system which connects the State of Mato Grosso to the port of Santos through the State of São Paulo. The two systems are interconnected in Campinas and the railroad that connects Campinas to Santos is a mixed gauge railroad.

The acquisition is an important advance in our strategy of giving ALL access to important markets, such as the State of São Paulo, and to the States of Mato Grosso and Mato Grosso do Sul, which constitute the current Brazilian agricultural frontier, and to the port of Santos, the largest one of the country both in volume of agricultural commodities and in movement of containers. After the acquisition, the share of agricultural commodities in our mix of cargos increased from 50% to 75% of ALL’s total revenue. With time, we should reach once again a higher balance between agricultural and industrial commodities closer to 50/50.
Some May 10 up to December, a transition team of ALL’s executives managed Brasil Ferrovias with the mission to restructure the company and prepare it for the total integration in 2007. Since January 1, 2007, ALL and Brasil Ferrovias are operating in a totally integrated way, with unified teams, systems and rail networks.

In 2006, EBITDAR grew by 6.8%, from R$228.4 million to R$244.0 million and the EBITDAR margin increased by 2.3 percentage points, from 30.9% to 33.2%. The revenue decreased by 1.7%, from R$839.1 million to R$825.0 million and the volume fell 5.8%, from 9,844 million RTK in 2005 to 9,273 million RTK in 2006. In 2H06, period in which Brasil Ferrovias was under the management of ALL, EBITDAR increased by 85.6%, from R$91.9 million in 2H05 to R$170.6 million in 2H06, mainly reflecting a strong reduction in the cost base. Revenue decreased by 5.0%, from R$411.8 million in 2H05 to R$391.4 million due to the drop of volume of 5.9%, from 4,857 million RTK in 2H05 to 4,570 million RTK.
In similar conditions to the ones of ALL after its privatization in 1997, Brasil Ferrovias was a company with weak operating performance, reduced moral and a history of negative results, however with a large

growth potential. We have the challenge to restructure Brasil Ferrovias with actions aimed at (i) reaching productivity and safety levels similar to the ones of ALL; (ii) implementing the same culture of obsessive cost control and (iii) reaching compatible levels of volumes and revenues in 2 to 3 years.

In 2H06, we had an important progress towards our main goal concerning Brasil Ferrovias in 2006, which is to crease a corporate culture focused on results, as we did in ALL. We are better positioned to complete the restructuring process than we were in 1997, for we count on 9 years of experience of our team. We continue to be confident in the large potential of this opportunity.

CVM Instruction no. 381 as of January 14, 2003

ALL - América Latina Logística S.A. in compliance with the Official Letter/CVM/SEP/GEA-2/no. 305/05 and CVM Instruction no. 381 as of January 14, 2003 (ratified by the Directive Release /CVM/SEP/SNC/no. 02/2005 as of March 20, 2005) informs the market the services contracted by the Company and carried out by its independent auditor Ernst & Young ("Auditor") during 2006:

(i) Due diligence services for the acquisition of the companies Brasil Ferrovias S.A. and Novoeste Brasil S.A., based on an agreement entered into in the first quarter of 2006, whose fees and expenses totaled approximately R$800,000.00, with duration of 50 days. These fees represent 44.6% of the total external audit fees;

(ii) Review services of the corporate model resulting from the acquisition of investments in Brasil Ferrovias and Novoeste Brasil, in accordance with the agreement entered into in May 4, 2006 in the amount of R$91,900.00. The service lasted 2 weeks. These fees represented 5% of the total external audit fees.