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**The poor quality has been noted, but unfortunately steps taken to improve them were unsuccessful.**

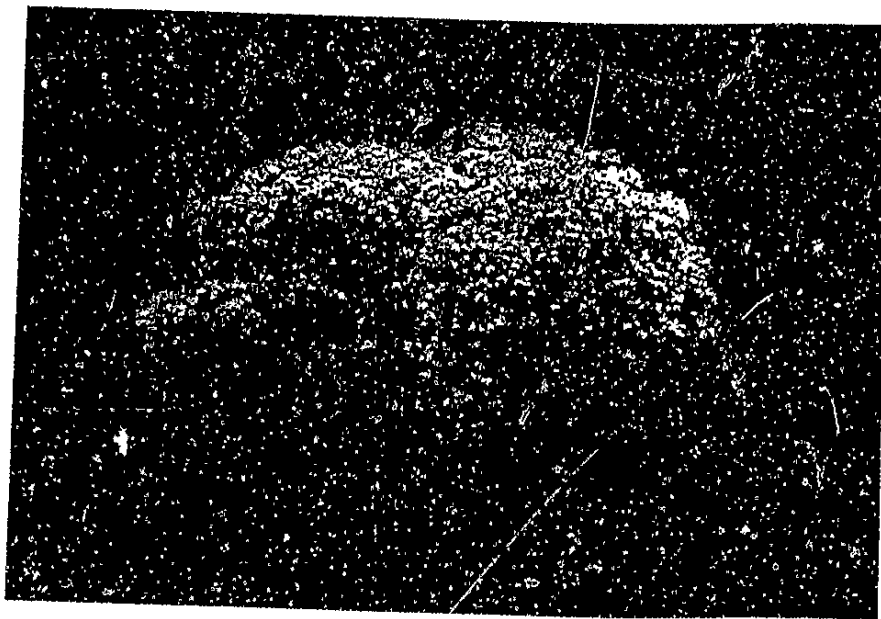
**Companies House would like to apologise for any inconvenience this may cause**

20'07'94

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67<sup>th</sup>  
*Annual  
Report*

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\*AGBJN20J\*

A25 RECEIPT DATE: 05/07/94

  
**VARIG**

20107194



VARIG S.A. VIA CAVALIERE AEROGRAFICO N. 1  
APPLICAZIONI PUBBLICITARIE COMPANY  
C/O NO. 92/281 00141

FOR NEDMA 1992

20107194

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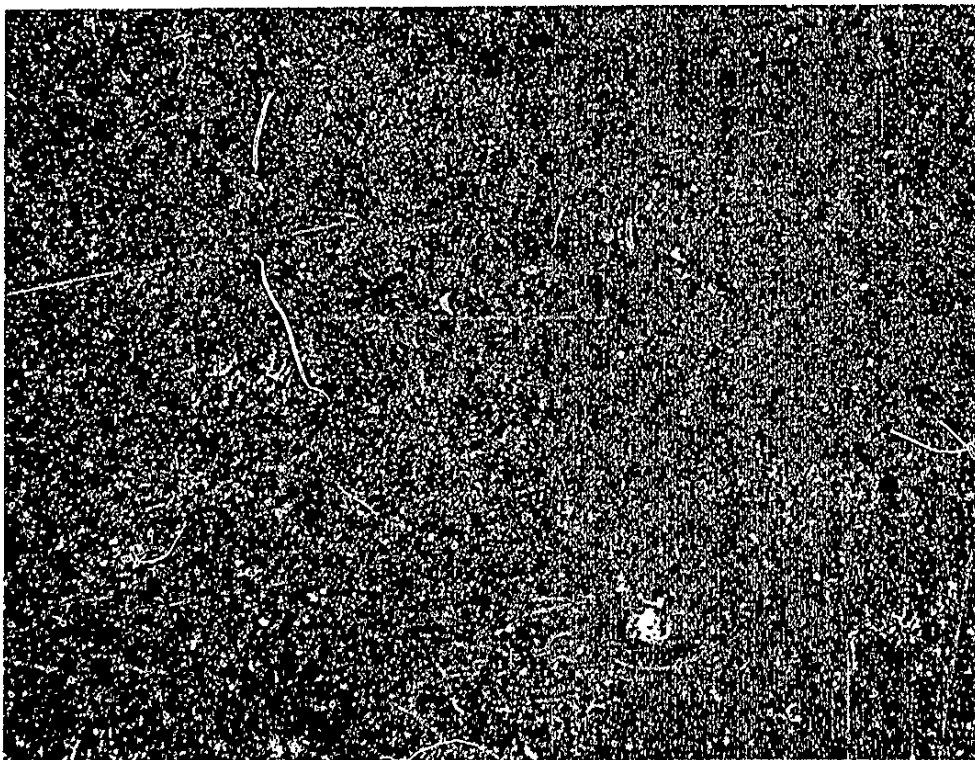
Island FA MAI  
Scientific name: *Acrocomia aculeata*  
Common names: My all palm, Misaw tree

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## 1. Varig in 1993

1.1 In terms of achievements, 1993 was a highly positive year for VARIG, reflecting the efforts undertaken to overcome the difficulties identified in our previous Annual Report. Particularly noteworthy among our 1993 accomplishments are the following:

- a. inauguration of the strategic route to Bangkok and Hong Kong;
- b. finalization of studies for a connection to and from Atlanta in the U.S.A.;
- c. integration of VARIG into the AMADEUS international reservations network, thereby enhancing our presence in the global market;
- d. launching of the VARIG Travel Consortium, the first concrete initiative in Brazilian commercial aviation for mass-marketing of air travel; consumers can now group together to purchase airfares through a long-term installment plan;



Family: BIGNONIACEAE  
Scientific name: *Tibouchina arellanae*  
Common name: Ipe

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e. modernization of our fleet, the average age of which ( 95 years ) is among the lowest in the world;

f. increase in productivity and efficiency with the introduction of a new operating plan;

g. creation of Caterair Brasil, a joint venture with Caterair International, for supplying on-board meals as well as for meeting the needs of outside customers on an industrial scale;

h. creation of the Aviation Sciences Institute in conjunction with the Pontifical Catholic University of Rio Grande do Sul ( PUC/RS );

i. implementation of an operational agreement between VARIG and Lufthansa; and

j. appointment of an international consulting firm to advise management in drawing up its overall strategic plan.

1.2 Together with these initiatives, we are expanding the "VARIG Commitment to Quality" program to all areas of the Group and to every level of the organization. Quality Action Groups have been set up, working in conjunction with top-line consulting firms. Results are already visible and, indeed, recognized by our customers.

1.3 These measures and their effects on the 1993 results are discussed in the following sections.

## 2. Market and business environment

2.1 Worldwide demand for VARIG services by market segment was as follows (expressed as percentages of passenger-kilometers and of metric tons per kilometer of cargo flown, respectively):

Routes: all markets	Demand by segment %	
	Passenger	Cargo
Domestic .....	27.7	26.6
International .....	72.3	73.4
Total .....	100.0	100.0

International markets by area	% breakdown	
	Passenger	Cargo
North America ( U.S.A./Canada )	16.1	35.0
Europe .....	26.7	23.6
Asia .....	15.8	7.8
Latin America .....	13.2	6.8
Africa .....	0.5	0.2
Total .....	72.3	73.4

2.2 Despite continued keen competition in the world aviation industry, VARIG managed once again to enjoy significant participation in the various markets where it competes, as shown below:

Markets	Number of Competitors	VARIG's % Share of passenger market
North America ( U.S.A./Canada )	12	37
Europe	17	46
Asia	3	42
Latin America	20	55
Africa	2	59
Domestic	2	55

2.3 Our domestic and international route network regularly serves 44 cities in Brazil and another 38 cities in 29 countries around the globe, distributed throughout the three Americas, Europe, Asia and Africa. As of December 31, 1993, our non-duplicated routes totalled 469,805 km, compared with 425,809 km the previous year. The major changes in our operating network during 1993 are as follows:



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- Inauguration of regular service, twice a week, on the Rio-Sao Paulo-Johannesburg-Bangkok-Hong Kong route. This strategically important route is the first direct connection between South America and two of Asia's most important cities and has already reached the breakeven point. With this flight, our aircraft no longer stop over at Capetown, South Africa.

- Considerable expansion of the range of flights provided directly to tourist attractions in the Brazilian Northeast. Regular or charter flights are now available from Europe, the U.S.A. and Argentina. As a result, a total of 193,868 passengers boarded and disembarked from VARIG international flights in seven Northeastern cities in 1993.



IX. 10-30 Cargo

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- Restructuring of our flight grid to rationalize and enhance productivity and efficiency. This resulted in the suspension of regular service to Barcelona ( Spain ), Iquitos ( Peru ), Panama and Paramaribo ( Surinam ). Furthermore, flights to Portugal and Italy were transformed into circular trips, with savings resulting from the use of a single aircraft.

2.4 A cooperation agreement was signed and implemented between VARIG and Lufthansa. As a result, the two carriers jointly began to serve the important Brazil-Germany market in a coordinated manner. Users are now offered a series of options. These include, for example, daily São Paulo-Frankfurt-São Paulo nonstop flights, Rio-Frankfurt-Rio nonstop flights three times a week, as well as regular service linking Frankfurt directly with Recife and Salvador.

2.5 Cooperation agreements signed with other airline companies continue in effect, as follows:

- Ecuatoriana and LACSA: joint flights linking Brazil, Ecuador and Costa Rica;
- Japan Air Lines (JAL): weekly service between Brazil and Japan (Tokyo and Nagoya);
- Canadian Airlines International: flights between Brazil and Canada;
- Scandinavian Airlines System (SAS): linking Scandinavia with Brazil;
- South African Airways (SAA): providing joint connections, through code-sharing, between Johannesburg and Bangkok, a segment of our flights to Hong Kong.

2.6 Our services are sold through a network of 355 VARIG-managed branches and outlets, 157 of which are located in Brazil and 198 overseas. After detailed studies, in 1993 VARIG joined the AMADEUS global reservations network which, in the future, should be integrated with IRIS, our own distribution system. Accordingly, the way is clear for our Company to make its presence felt more fully and effectively in travel agencies and airline company outlets throughout the world.

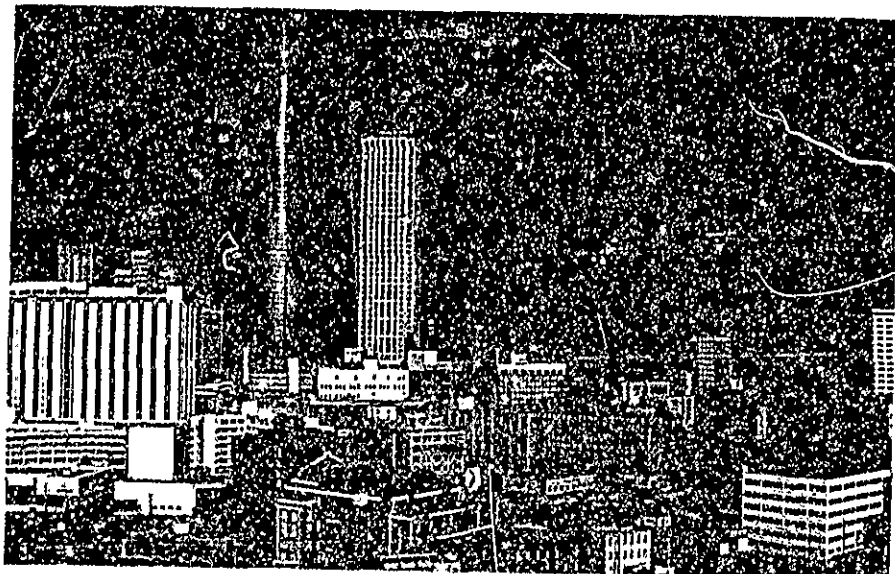
2.7 Some of the measures to be implemented during 1994, within a wider plan for return to profitability of all operations, deserve mention at this point:

- Implementation of the VARIG Mileage Program - SMILES - beginning in January of 1994, which will provide increasing benefits to frequent users of our services;

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- Signing of a cooperation agreement with Delta Air Lines in March, 1994. This envisages daily air services between Rio-São Paulo and Atlanta, through code-sharing with the U.S. carrier. This vital link will permit immediate connections between virtually all major American and Brazilian cities, in both directions;

- Daily flights between Brazil and Japan, based on a cooperation agreement with Japan Airlines. This will involve continuation of our weekly flight to Nagoya and launching of a new service to Osaka when the new Kansai airport is inaugurated in the second half of 1994. Beginning June 15, 1994, we will begin operating daily flights between Brazil and Los Angeles, a key segment of our service to and from Japan.



Atlanta



Varg's Mileage Program

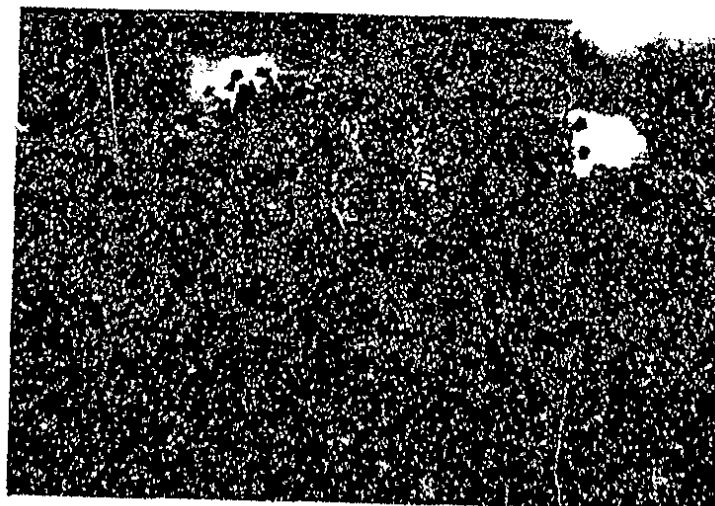
### 3. Traffic and fleet

3.1 The following statistics show traffic volumes in 1992 and 1993. All indicators were up. The 8.2% rise in available seat-kilometers was matched by the 8.3% increase in revenue passenger-kilometers. Revenue cargo-kilometers rose 11.6% in terms of millions of metric tons.

TRAFFIC STATISTICS	1992	1993	Change
HOURS FLOWN			
International	11,490	124,516	+6.6%
Domestic	115,976	129,531	+11.7%
Total	233,466	254,047	+8.8%
MILLIONS OF KILOMETERS FLOWN			
International	96	101	+5.2%
Domestic	78	88	+12.8%
Total	174	189	+8.6%
PASSENGERS CARRIED			
International	2,824,494	3,095,823	+9.6%
Domestic	5,633,878	6,064,409	+7.6%
Total	8,458,372	9,160,232	+8.3%
AVAILABLE SEAT-KILOMETERS ( MILLIONS )			
International	23,752	2,609	+7.8%
Domestic	9,472	10,323	+9.0%
Total	33,224	35,932	+8.2%
REVENUE PASSENGER-KILOMETERS ( MILLIONS )			
International	14,890	16,003	+7.5%
Domestic	5,553	6,128	+10.4%
Total	20,443	22,131	+8.3%
PASSENGER LOAD FACTOR			
International	63%	62%	- 1.0
Domestic	59%	59%	-
Total	62%	62%	-
REVENUE CARGO-KILOMETERS ( MILLIONS OF METRIC TONS )			
International	769	805	+4.7%
Domestic	213	291	+36.6%
Total	982	1,096	+11.6%

3.2 The table below details the VARIG fleet as of December 31, 1993, with breakdown of average hours-per-day utilization during the year for each type of aircraft:

Aircraft type	Aircraft in use at December 31, 1993	Average daily % utilization rate
B-747-400 (Passenger)	3	13.49
B-747-300 (Passenger)	3	12.59
B-747-300 (COMBI)	2	10.23
B-747-200B (COMBI)	2	9.43
MD-11	4	11.38
DC-10-30 (Passenger)	7	7.68
DC-10-30 (CARGO)	2	9.20
B-767-300ER (Passenger)	4	12.01
B-767-200ER (Passenger)	6	9.66
B-727-100 (CARGO)	5	5.77
B-737-300	26	7.91
B-737-200	17	6.66
PASSENGER AIRCRAFT	74	8.64
CARGO AIRCRAFT	7	6.75
TOTAL FLEET	81	8.48



Family BIXACAL  
Scientific name *Bixa orellana*  
Common name Annatto tree

2000794

Average daily utilization increased by 7.6% overall in relation to 1992  
Average fleet age was 9.5 years as of December 31, 1993.

3.3 VARIG's fleet underwent the following changes in 1993:

- phasing in of two MD-11 aircraft in January;
- delivery and phasing in of a B747-400 aircraft in April;
- lease of a B747-200 B aircraft to Aerolineas Argentinas in July, for a period of no more than two years;
- lease of a DC-10-30 aircraft to LAPSA, from October, 1993 to January, 1994.

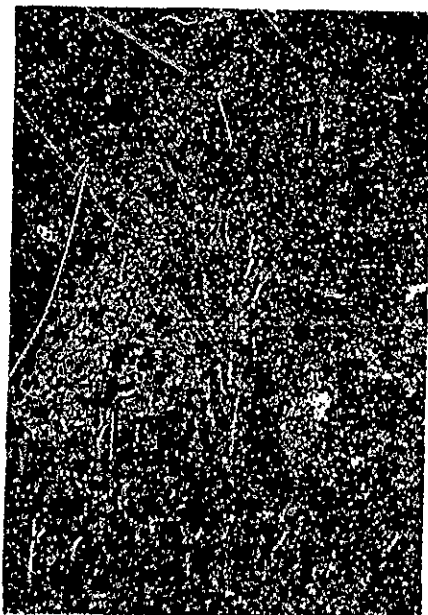
3.4 The adverse conditions faced by the aviation industry made it necessary to revise our fleet plan, resulting in the following measures:

- cancellation of options to purchase five B747-400 aircraft and seven B737-300 aircraft; and

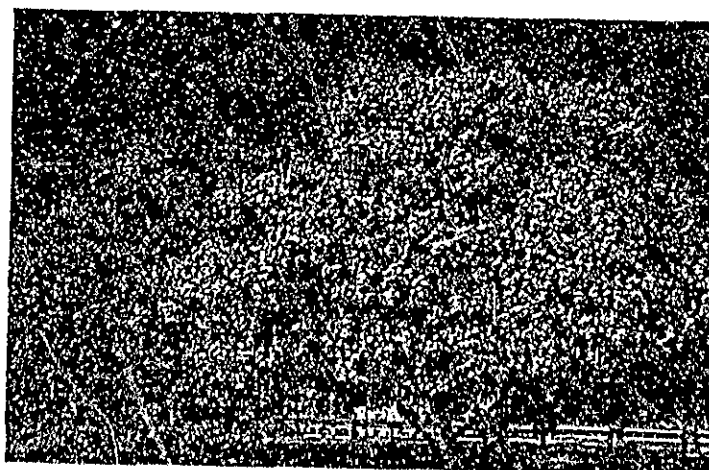
all ... of delivery schedules for previously ordered aircraft, ... with a reappraisal designed to identify the aircraft types most suited to our operating needs in the forthcoming years.

3.5 The previously phased-out Electra L-128 fleet was completely disposed of. Twelve units were reexported in 1993 and the final unit left Brazil at the beginning of 1994.

Family ARAUCARIACEAE  
Scientific name *Araucaria angustifolia*  
Common name Parana araucaria



Family LEGUMINOSAE  
Scientific name *Erythrina falcata*  
Common name Coralbean



Family MELASTOMATACEAE  
Scientific name *Tibouchina grande*  
Common name Glory-bush

## 4. Organization and Human Resources

4.1 In the organizational area, implementation of strategies first planned in 1992 continued through 1993. Our response to the challenges of the international aviation market is to increase our competitiveness. The chief line of action is improving the quality of our services by simplifying processes and reducing costs. This has been possible only due to the commitment of management personnel to the dissemination of the "Vision, Values and Mission" project, and to the establishment of our macro-objectives of "Profitability, Market, Organization, Professionalism and Quality."

4.2 The "VARIG Commitment to Quality," aimed at nothing less than 100% customer satisfaction, is a program whereby we constantly enhance our working methods. Its essential feature is the harmonious development of all Company areas. Notable benefits have already been attained - boosts in productivity and greater personal and professional satisfaction on the part of our colleagues.

4.3 As part of this restructuring project, hierarchical levels have been reduced; now, through employee empowerment, we can provide swifter solutions to customer needs. Simplification has led to the extinction of several positions, including directorships.

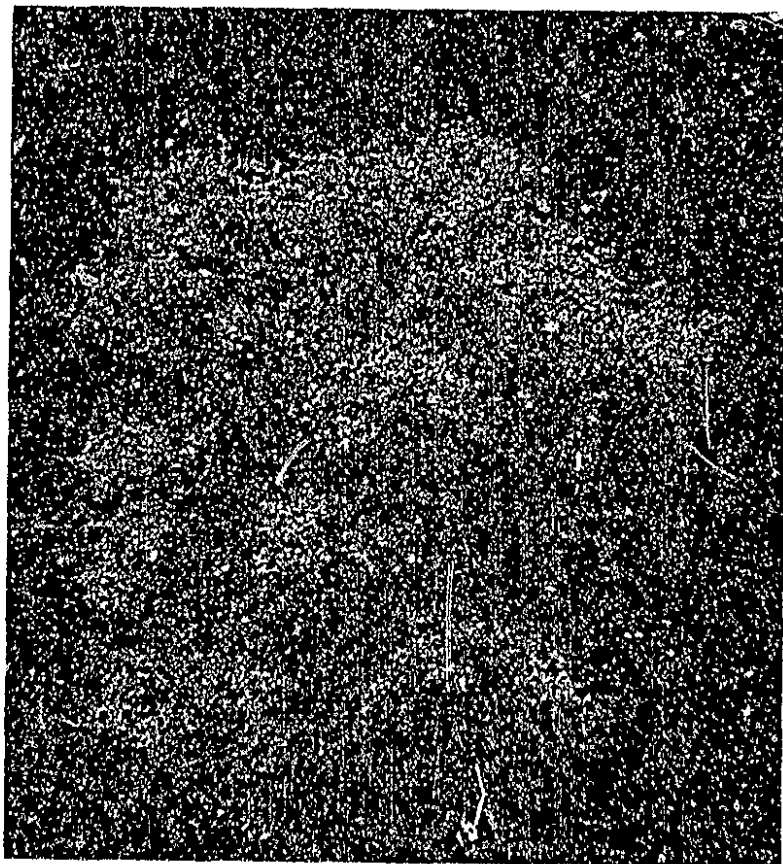
4.4 All told, our work force was reduced by 1,568 in 1993. This total includes early retirements and resignations on special terms, especially in the case of flight engineers, a function which does not exist on new aircraft. Year-end personnel statistics were as follows:

	1992		1993	
- Ground personnel	18,366	69.9%	16,994	68.8%
- Crew members	5,836	22.2%	5,669	22.9%
- Personnel abroad	<u>2,057</u>	<u>7.9%</u>	<u>2,028</u>	<u>8.3%</u>
TOTAL STAFF	<u>26,259</u>	<u>100.0%</u>	<u>24,691</u>	<u>100.0%</u>



4.5 Human resources training and development investments totalled US\$ 18.2 million in 1993. Courses were conducted for 23,424 participants from the operating and administrative areas.

4.6 Through the Ruben Berta Foundation, our employees enjoy benefits such as subsidized meals, medical/dental care and opportunities to participate in cultural and recreational activities. Also, VARIG is the principal sponsor of the Aerus Social Security Institute. Measured in terms of equity, Aerus is the largest provider of supplementary retirement benefits in the Brazilian private sector.



Family BOMBACACEAE  
Scientific name *Ceiba speciosa*  
Common name Silk cotton tree

## 5. Economic-Financial Aspects

5.1 VARIG's 1993 financial statements bear witness to the recovery efforts mentioned earlier in this report, even though final results are still negative. Indeed, we have been quite successful in bringing down the levels of our losses - a key step towards returning to profitability. The reversal of this decade's loss trend is clearly illustrated in the following table. It shows the Company's Flight Operating Profit ( Loss ) trends in relation to Gross Revenues in millions of U.S. Dollars:

Year	Gross Revenues	Flight Operating Profit ( Loss )
1990	1,949	( 85 )
1991	2,014	( 87 )
1992	2,095	( 27 )
1993	2,611	43

Flight Operating Profit ( Loss ) represents the Company's primary operating profit ( operating revenues, net of operating expenses ) prior to net financial income ( expense ), non-operating profit ( loss ) including equity pickup, and the effects of inflation and/or exchange variation not resulting from operating activities.

5.2 On the other hand, owing to its many commitments on the international market, the Company produces financial statements in U.S. Dollars, in accordance with the internationally accepted accounting principles of the International Accounting Standards Committee ( IASC ). It is interesting to note the substantial difference between the final IASC results and those contained in the accompanying financial statements prepared in accordance with the Brazilian Generally Accepted Accounting Principles ( Brazil GA AP ). Figures reported to our foreign creditors and suppliers indicate a 1993 loss of US\$ 97 million, fully 73.5% lower than in 1992.

The main differences between Brazilian and International accounting principles result from the respective treatment of balance sheet monetary restatement and foreign exchange variations. The latter basically derive from the rise in the Japanese Yen against the U.S. Dollar ( our reference currency for revenue purposes ) and consequently also against the Brazilian currency.

In previous reports, we have pointed out that in practice foreign exchange variations on long-term operations - for VARIG the most significant transactions of this type - only represent losses or gains upon effective realization. Specifically in our case, the Cruzeiro Real balances reflect the revaluation of the Yen against the U.S. Dollar. This has been aggravated by the unlinking of the U.S. Dollar and the officially sanctioned inflation index ( UFIR ) used for balance sheet monetary restatement. Nevertheless, such "losses" are mere bookkeeping entries with no impact on the Company's cash flows.

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Other positive aspects that should be highlighted for 1993 are the 23% rise in revenues over 1992 and the increase in gross margin from 31% to 34%. These figures confirm the trends already noted in previous years. Moreover, financial charges decreased from 8.7% of net revenues in 1992 to 7% in 1993.

5.3 Shares of VARIG ON ( registered common ) and PN ( registered preferred ) stock are traded on all Brazilian stock exchanges. On the São Paulo stock exchange ( Bovespa ), our main market, 730,000 shares of common stock and 81,610,000 shares of preferred stock were traded in 1993. In terms of profitability, preferred shares rose 2.850%. Book value of each share was CR\$ 44.75 as of December 31, 1993.

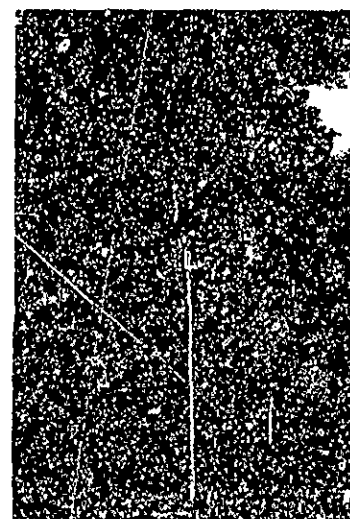
5.4 Given the loss for 1993, already mentioned above, no dividends will be distributed.

5.5 With respect to shareholders' equity, the Company's investments in subsidiaries as of December 31, 1993 are above the limit set by the Brazilian Corporation Law ( no. 6404/76 ) for purposes of preparing consolidated financial statements. However, since VARIG's assets and shareholders' equity already include the results of its subsidiaries through the equity accounting method, we believe that consolidation would not be meaningful to readers. This is especially true if we consider that almost all our subsidiaries are involved in quite different business activities with no direct relationship to ours. Furthermore, given the divestiture plan mentioned in our previous report and already under way, this situation is transitory.

5.6 Financial Restructuring. The Company is responsible for fleet operating and finance leases, as described in the Notes to Financial Statements. Such leases were contracted in the light of scenarios and trends completely different from those prevalent in this decade. Given present aircraft market trends, the costs of these leases now exceed those of currently available lease contracts. As there is presently considerable excess aircraft lease supply on the market, bargaining room has now opened up for lease contracts at much lower costs.

Accordingly, we have decided to renegotiate the original lease contracts with our creditors, in order to adjust them to the present market conditions. To give this project the required consistency and support, it has been entrusted to the Bankers Trust Securities Corporation, which has broad and proven experience in the international market.

It cannot be overemphasized that this initiative will not interfere in any manner with the Company's other commitments, especially those on the Brazilian financial market.



Family LECYTHIDACEAE  
Scientific name *Bertholletia excelsa*  
Common name Brazil nut tree

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### 6. Outlook

We shall not dwell on the serious difficulties faced by the world's aviation industry, mitigated in many nations by massive government subsidies. Instead, it is more fitting that we concentrate our expectations on the future of our own nation.

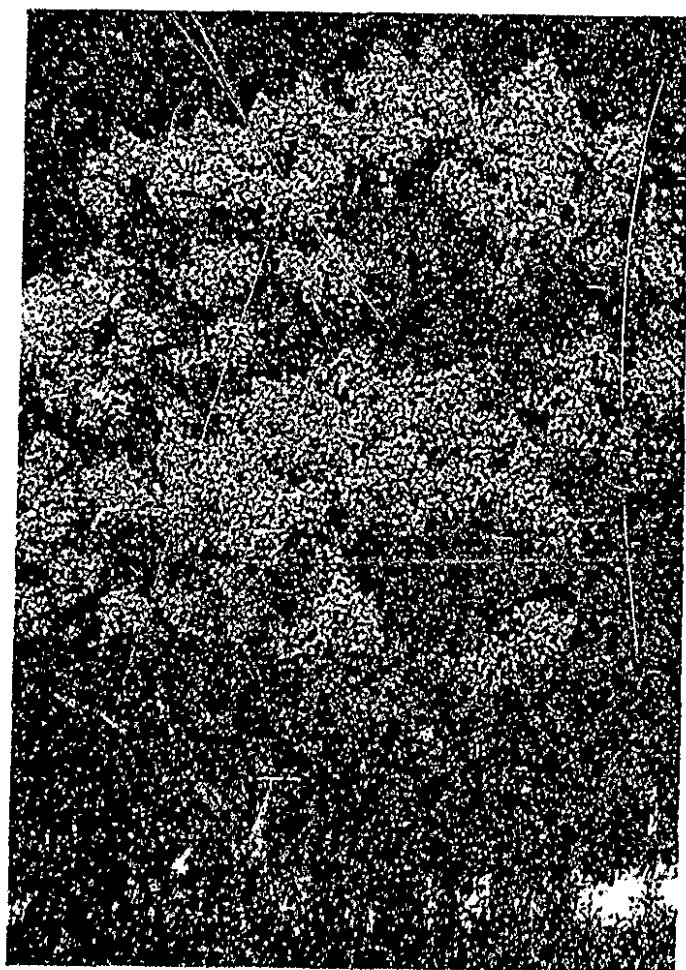
We are convinced that Brazil is going through a unique phase in both the political and economic spheres. This is an extraordinarily promising time, as we are headed for an economy that is less regulated, more open and more competitive, but paradoxically more predictable as well. After many repeated and frustrated attempts, conditions are finally being created for the nation to achieve its real potential. We are fortunate that reform of our Constitution, the struggle to balance the government's accounts and, in particular, institutionalization of a reliable currency, are now combining to produce measures which will have tremendous impact and lasting beneficial effects. These will be felt both on the domestic front and in our venturing into the global economy.

Sustainable development and growth is a natural consequence of this process of change. The role of commercial aviation, acknowledged as the best structured transport system in our continental-sized nation, will doubtlessly be expanded.

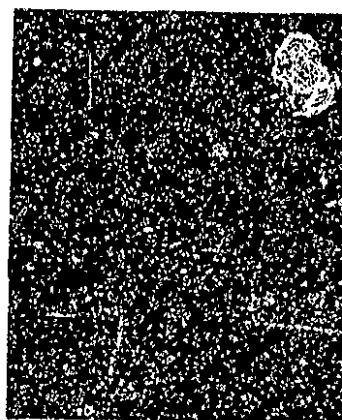
VARIG aims to be prepared for the new national and international challenges.

Although we recognize that the attainment of financial equilibrium has been hindered by the series of losses discussed in previous Annual Reports, our top priority for 1994 is to achieve precisely this. Once we attain this goal, our next step will be to structure a recapitalization plan. This will return VARIG to a situation where our own capital and third-party financing will be reasonably balanced.

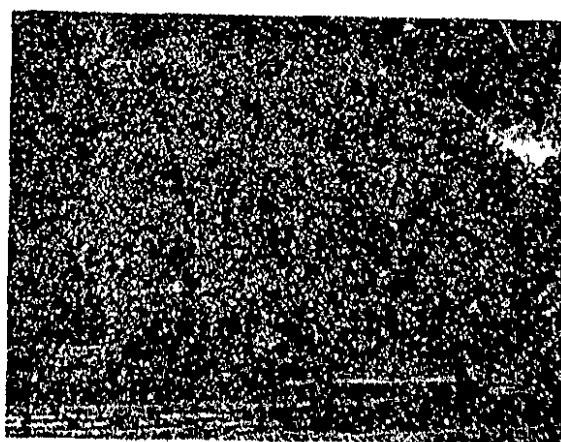
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Family LEGUMINOSAE  
Scientific name *Senna spectabilis*  
Common name Senna



Family BIGNONIACEAE  
Scientific name *Spathodea campanulata*  
Common name Spathodea



Family ERYTHRIDACEAE  
Scientific name *Leclypis pisonis*  
Common names Monkey pot, Sapucaia

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## *Acknowledgements*

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In concluding our 67<sup>th</sup> Annual Report, we wish to express our sincere gratitude to our faithful customers who continue to honor us with their preference. We also thank travel and cargo agents whose spirit of cooperation and partnership are vital to our success.

We are further grateful to those Brazilian authorities, especially the Air Force Ministry and its Civil Aviation Department, who have been unswerving in their support.

Finally, a word of gratitude and recognition to our personnel. Their understanding, collaboration and participation clearly demonstrate their enthusiasm for, and genuine commitment to, our recovery program. They have inspired in us the certainty that, when the present turbulence is cleared, VARIG will resume its route to progress.

Porto Alegre, Brazil - March 21, 1994



Family: LEGUMINOSAE  
Scientific name: *Delonix regia*  
Common names: Royal poinciana, Flamboyant,  
Flame tree, Peacock Flower

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## OFFICERS

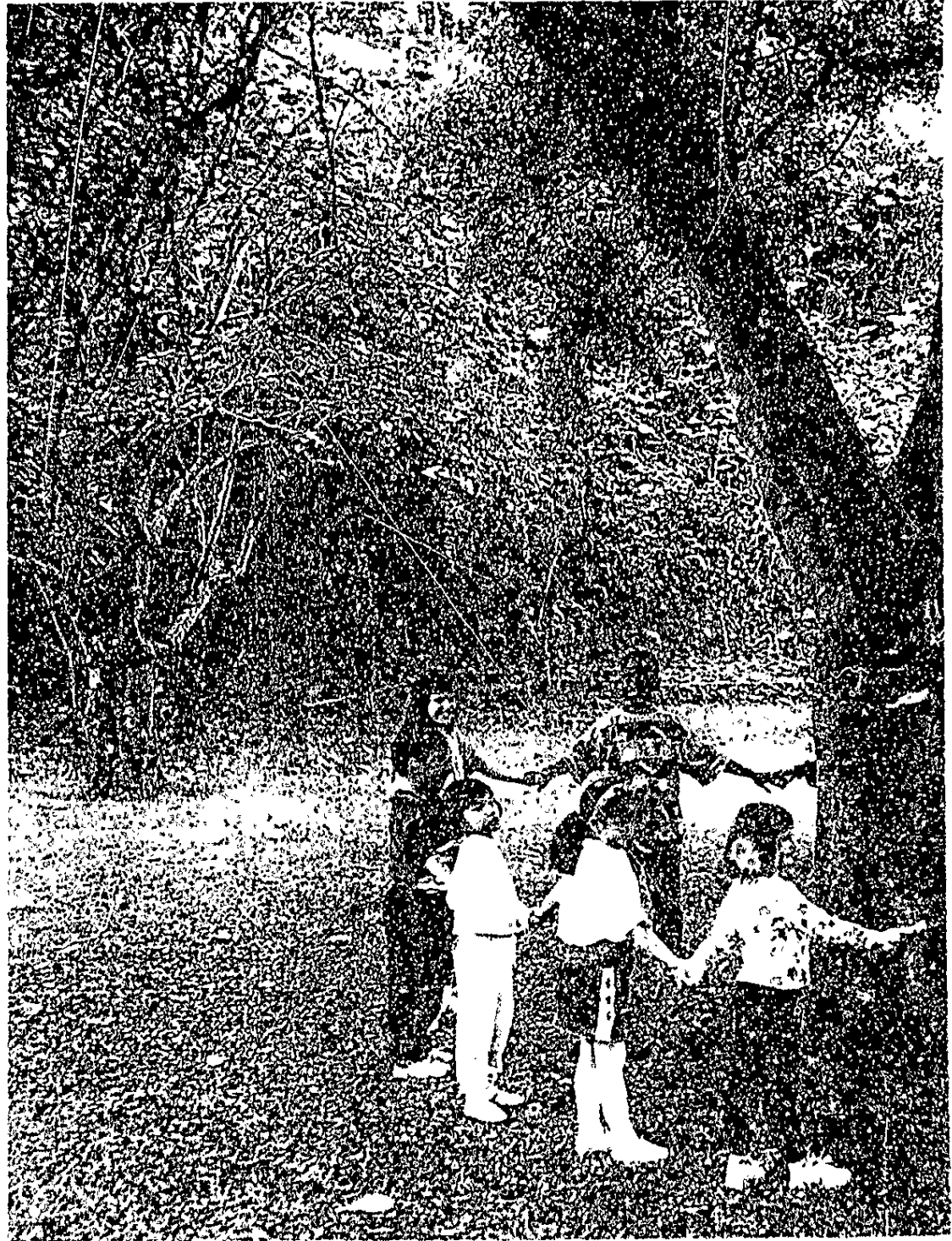
Rubel Thomas  
*President and Chief Executive Officer*  
Joaquim Fernandes dos Santos  
*Executive Vice-President and  
Chief Financial Officer*  
Walterson Fontoura Caravajal  
*Vice-President for Administration  
and Human Resources*  
Carlos Willy Engels  
*Vice-President, Technical*  
Carlos Ebner Neto  
*Financial Director*  
Edacir Luis Tombini  
*Director, On Board Service*  
Hardy Carlos Brust  
*Superintendent Director - São Paulo*  
João Luis Bernes de Souza  
*Marketing Director*  
Nelson Hillcoat Riet Corrêa  
*Director of Flight Operations*  
Osvaldo Domingos Ribeiro  
*Director of Contracts*  
Paulo Enrique Moraes Coco  
*Director of Sales and Services*  
Paulo Lopes Gallindo  
*Director of Engineering and Maintenance*  
Sérgio José Ramos Prates  
*Director of Organizational Development*  
Simão Guilhem Guilhem  
*Superintendent Director - Rio Grande do Sul*  
Tarso Osman Guedes Piegas  
*Executive Director - Presidency*

## BOARD OF DIRECTORS

Rubel Thomas  
*Chairman*  
Edgard Nascimento de Araújo  
*Vice-Chairman*  
Aguinaldo M. Junqueira  
Antônio José Schittini Pinto  
Eduardo Camargo Neves  
Götz Georg Herzfeldt  
Harro Fouquet  
Joaquim Fernandes dos Santos  
Oswaldo Trigueiros Jr.



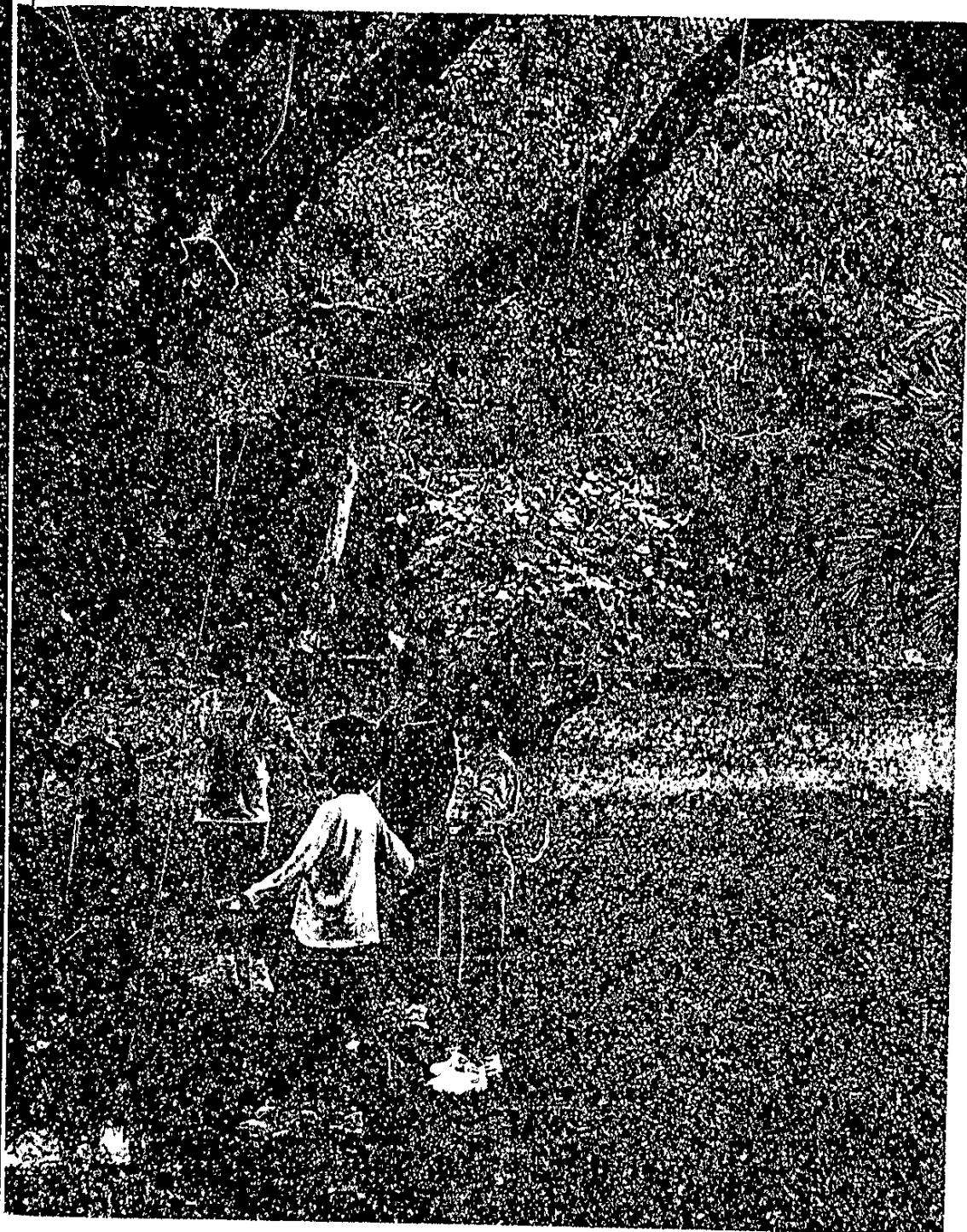
## *Quality Living: A Permanent Objective*



Children and adults playing around a tree



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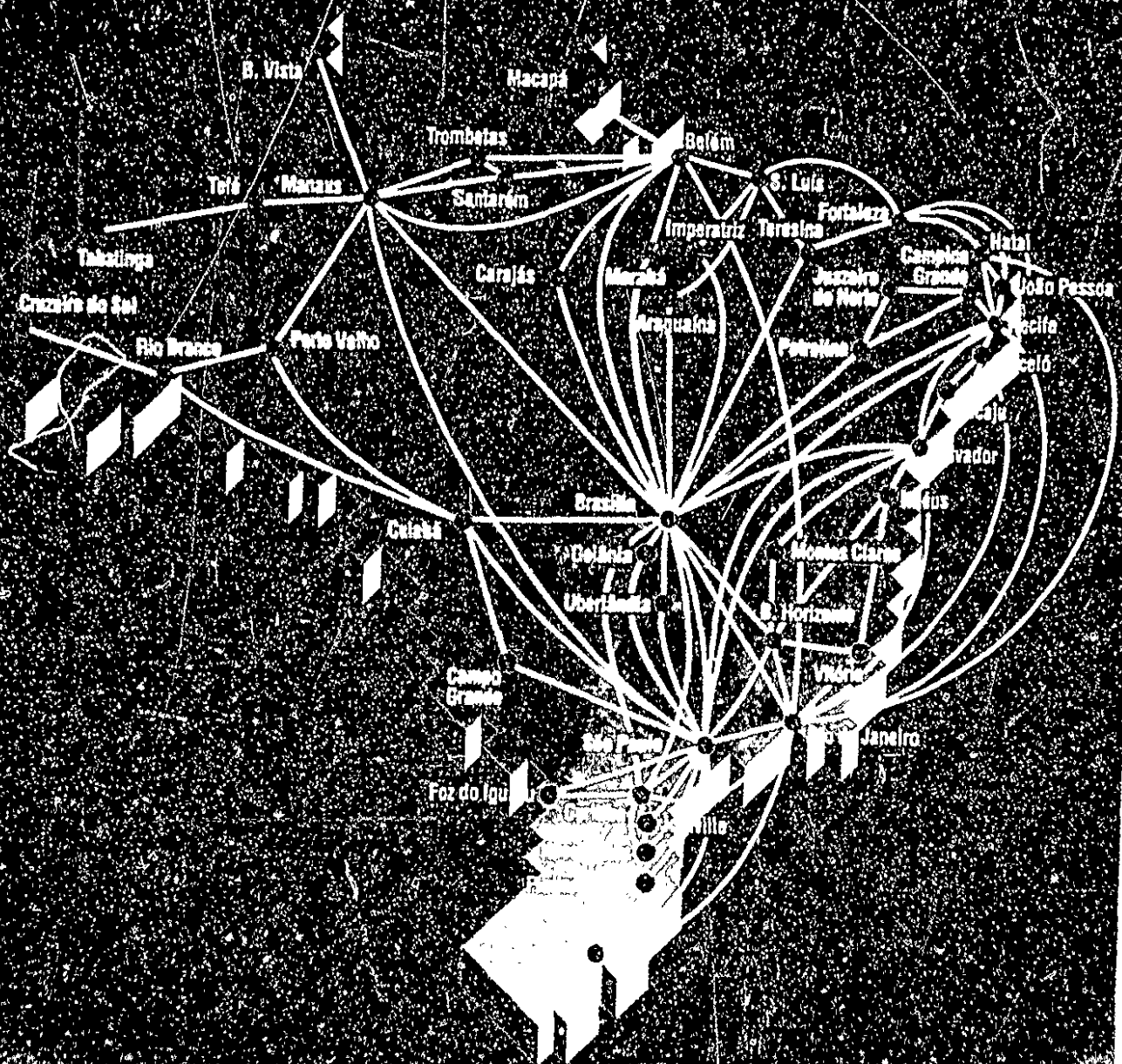
## *Agencies and Offices - Brazil*

### BRAZIL ( 157 )

Alagoinhas	Criciúma	Maceió	Santos
Anápolis	Cruz Alta	Mairipora	São Bernardo do Campo
Apucarana	Cruzeiro do Sul	Manaus	São Caetano do Sul
Aracaju	Cuiabá	Marabá	São Carlos
Araguaína	Curitiba	Maringá	São Francisco do Sul
Araxá	Divinópolis	Mococa	São Gonçalo
Arcos	Duque de Caxias	Mogi das Cruzes	São Gonçalo do Amarante
Assis Brasil	Erexim	Monte Alegre	São José dos Campos
Atibaia	Farrapos	Montenegro	São José do Rio Preto
Bagé	Florianópolis	Montes Claros	São Leopoldo
Baria do Pirai	Fortaleza	Mossoró	São Luís
Barra Mansa	Foz do Iguaçu	Muriae	São Paulo
Bauru	Franca	Natal	Sete Lagoas
Belém	Francisco Beltrão	Nova Iguaçu	Sinop
Belo Horizonte	Garanhuns	Novo Hamburgo	Sorocaba
Benjamin Constant	Goiânia	Óbidos	Tabatinga
Bento Gonçalves	Guaíra	Osasco	Tefé
Blumenau	Guajará-Mirim	Palmares	Teresina
Boa Vista	Guarapuava	Paranaíba	Teresópolis
Brasília	Guarulhos	Paranavaí	Tijuca
Brusque	Ijuí	Parnamirim	Timbaúba
Cachoeira do Sul	Ilhéus	Passo Fundo	Toledo
Cachoeiro do Itapemirim	Imperatriz	Paulo Afonso	Três Corações
Camaçari	Itabuna	Pelotas	Três Rios
Campina Grande	Itajaí	Petrolina	Uberaba
Campinas	Itaúna	Petrópolis	Uberlândia
Campo Bom	Itumbiara	Ponta Grossa	Umuarama
Campo Grande	Jaraguá do Sul	Porto Alegre	União da Vitória
Campos	João Pessoa	Porto Trombetas	Uruguaiana
Canela	Joinville	Porto Velho	Viçosa
Canoinhas	Juazeiro do Norte	Pouso Alegre	Vila Maria
Carajás	Juiz de Fora	Recife	Vila Mariana
Carazinho	Lages	Ribeirão Preto	Vila Velha
Caruaru	Lajeado	Rio Branco	Vitória
Cascavel	Lavras	Rio de Janeiro	Volta Redonda
Cataguases	Londrina	Rio Grande	
Caxias do Sul	Macaé	Rio Verde	
Chapécó	Macapá	Salvador	
Colatina		Santa Maria	
Conselheiro Lafaiete		Santana do Livramento	
Cotia		Santarém	
		Santo André	
		Santo Ângelo	

20107194

## Domestic Routes



## Agencies and Offices - Abroad

### EUROPE ( 55 )

Amsterdam  
Athens  
Barcelona  
Bari  
Berlin  
Bilbao  
Bologna  
Bordeaux  
Brussels  
Budapest  
Catania  
Cyprus  
Cologne  
Copenhagen  
Dusseldorf  
Stockholm  
Florence  
Frankfurt  
Funchal  
Geneva

Genoa  
Hamburg  
Helsinki  
Lisbon  
Leghorn  
London  
Luxemburg  
Lyons  
Madrid  
Marselha  
Messina  
Milan  
Munich  
Naples  
Nice  
Nuremberg  
Oporto  
Oslo  
Palermo  
Paris

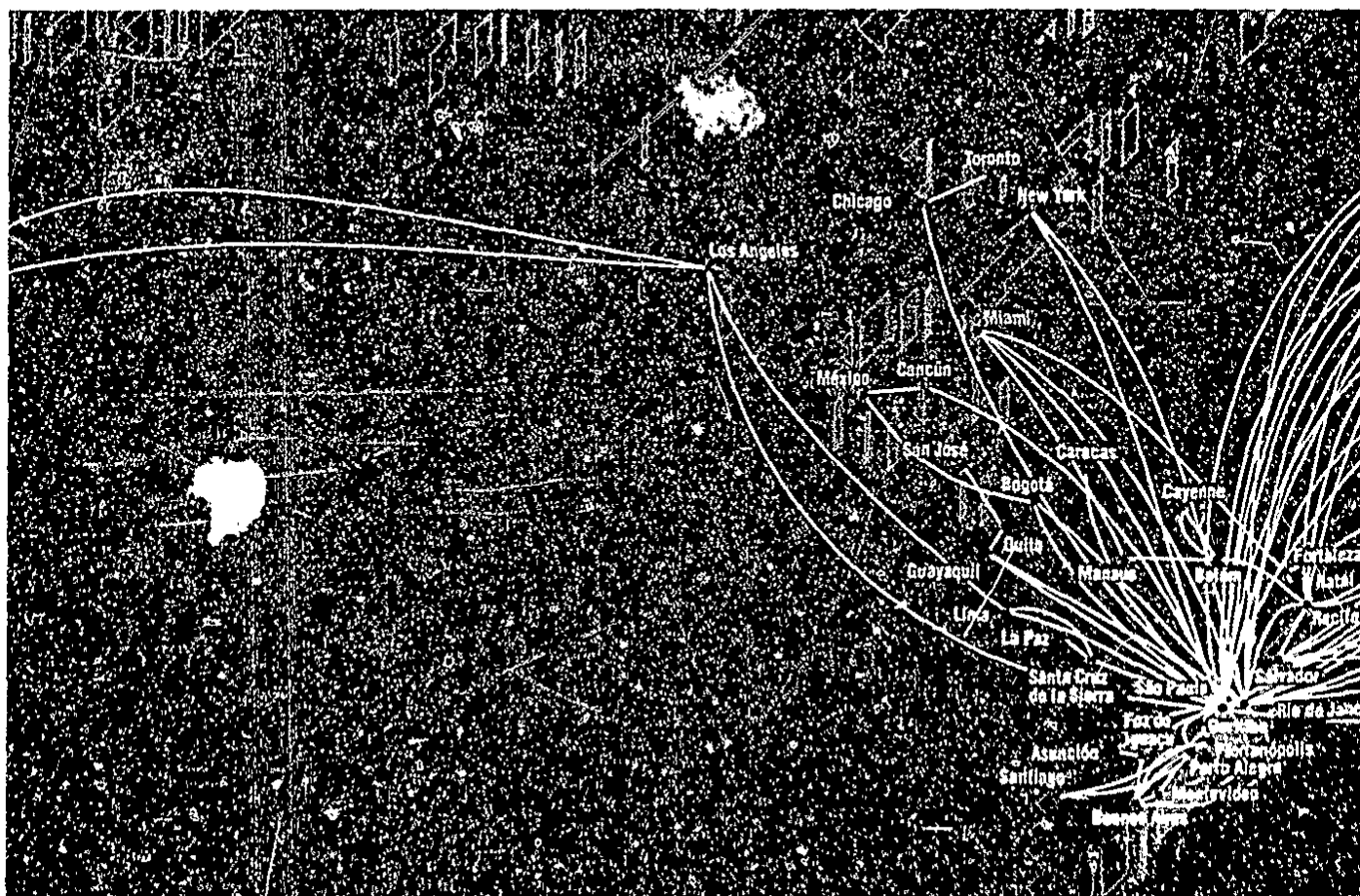
Prague  
Puteaux  
Rome  
Ruzyne  
Sliema  
Sofia  
Stuttgart  
Terni  
Torino  
Valencia  
Verona  
Vienna  
Vigo  
Warsaw  
Zurich

### AMERICAS ( 86 )

Antofagasta  
Arequipa  
Asunción

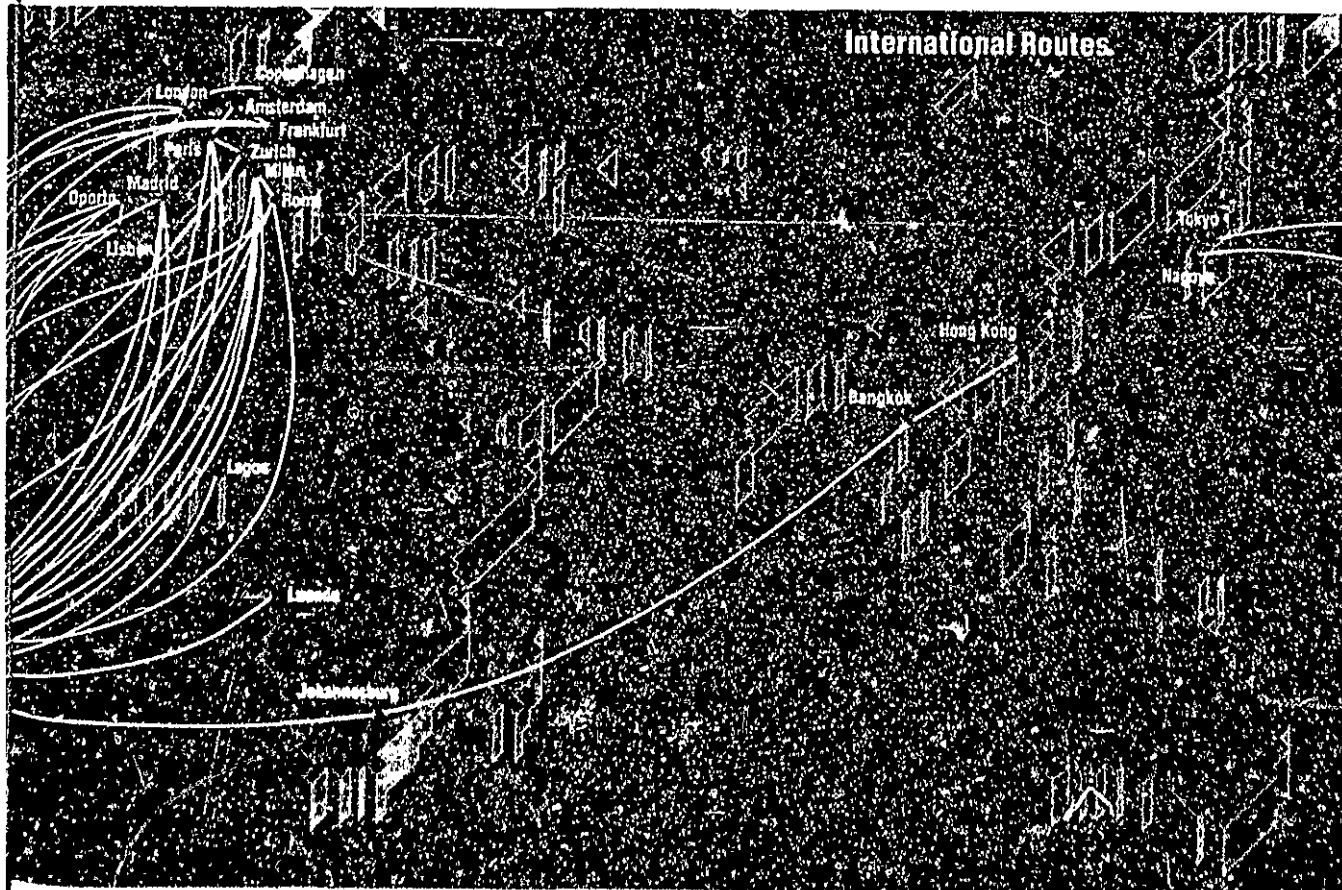
Atlanta  
Bariloche  
Barranquilla  
Baymon  
Boca Raton  
Bogotá  
Boston  
Bridgetown  
Bucamaranga  
Buenos Aires  
Cáli  
Cancún  
Caracas  
Cayenne  
Chaco  
Chicago  
Ciudad de Leste  
Cochabamba  
Colonia  
Concepción  
Córdoba

Cuenca  
Curaçao  
Denver  
Philadelphia  
Guadalajara  
Guayaquil  
Guatemala  
Haeo City  
Honolulu  
Houston  
Junin  
La Paz  
La Plata  
Lima  
Los Angeles  
Managua  
Manta  
Mar del Plata  
Maracaibo  
Medellín



# 20'07'94

Mendoza	Salto	Washington	Kuala Lumpur	Djibouti
Mercedes	San Francisco	ASIA ( 31 )	Kuwait	Harare
Mexico	San Jose	Abu Dhabi	Manila	Harcourt
Miami	San Martín	Amman	Nagoya	Ibadan
Minas	San Salvador	Baghdad	Naha	Johannesburg
Monterrey	Sta. Cruz de la Sierra	Bangkok	New Delhi	Lagos
Montevideo	Santa Fe	Beirut	Okinawa	Luanda
Montreal	Santiago	Bombay	Osaka	Mauritius
New Orleans	Santo Domingo	Singapore	Seoul	Maputo
New York	Seattle	Colombo	Taipei	Moroni
Orlando	Tegucigalpa	Daman	Tel Aviv	Nairobi
Osorno	Temuco	Damascus	Tokyo	Port Louis
Panamá	Toronto	Djakarta	AFRICA ( 23 )	Sal
Pereira	Trujillo	Doha	Abidjan	Salisbury
Port of Spain	Tucumán	Dubai	Addis Ababa	St. Denis
Puerto Ordaz	Valencia	Fukuoka	Blantyre	Tunis
Punta Arenas	Valparaíso	Hong Kong	Cape Verde	OCEANIA ( 3 )
Quito	Vancouver	Istanbul	Cairo	Auckland
Rio Negro	Vera Cruz	Jidda	Casablanca	Melbourne
Rivera	Yucatán	Jouaieh	Cape Town	Sydney
Rosario		Karachi		



20-0-7-194

*67<sup>th</sup> ANNUAL REPORT - 1993*

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FC 5668



  
**VARIG**



# 2007194

## BALANCE SHEETS DECEMBER 31, 1993 AND 1992

(In Thousands of U.S. Dollars)

FC 5668

### ASSETS

	1993	1992
<b>CURRENT ASSETS</b>		
Cash and Cash Equivalents .....	46,296	31,694
Accounts Receivable .....	228,069	242,508
Maintenance and Operating Supplies ..... (Note 3)	110,430	135,453
Special Deposits ..... (Note 4)	37,621	8,914
Prepaid Expenses and Other .....	96,353	47,588
<b>CURRENT ASSETS</b>	<b>518,769</b>	<b>466,157</b>
 <b>LONG-TERM ASSETS</b>		
Subsidiaries and Associated Companies ..... (Note 5)	13,553	16,597
Special Deposits ..... (Note 4)	114,549	133,004
Other .....	19,397	4,019
<b>LONG-TERM ASSETS</b>	<b>147,499</b>	<b>153,620</b>
 <b>PERMANENT ASSETS</b>		
Investments		
Subsidiaries ..... (Note 6)	111,356	111,393
Other Investments .....	6,689	6,689
	<b>118,045</b>	<b>118,082</b>
Property and Equipment		
Flight Equipment - Own ..... (Note 7)	629,469	700,683
Flight Equipment - Lease-Purchase ..... (Note 7)	1,177,064	899,829
Property and Ground Equipment ..... (Note 7)	375,305	364,341
	2,181,838	1,964,853
Accumulated Depreciation ..... (Note 7)	(797,283)	(690,855)
	1,384,555	1,273,998
Flight Equipment - Lease Contracts ..... (Note 7)	177,682	190,638
Work in Progress ..... (Note 8)	28,661	46,915
	1,590,898	1,511,551
Deferred Charges, Net .....	13,138	14,857
<b>PERMANENT ASSETS</b>	<b>1,722,081</b>	<b>1,644,490</b>
<b>TOTAL ASSETS</b>	<b>2,388,349</b>	<b>2,264,267</b>

The accompanying notes are an integral part of the financial statements.

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# 20'07'94

## LIABILITIES AND SHAREHOLDERS' EQUITY

	1993	1992
<b>CURRENT LIABILITIES</b>		
Suppliers	80,522	110,500
Loans and Financing (Note 9)	374,324	321,811
Current Portion - Lease Agreements (Note 10)	146,958	127,267
Accrued Interest	52,426	36,749
Unearned Transportation Revenues	112,975	132,194
Fees and Contributions	172,291	141,833
Wages and Salaries	20,273	21,066
Accounts Payable	52,276	53,753
Accrued Vacation Pay and Other	60,933	65,027
<b>CURRENT LIABILITIES</b>	<b>1,072,978</b>	<b>1,010,209</b>
 <b>LONG-TERM LIABILITIES</b>		
Loans and Financing (Note 9)	58,543	93,180
Lease Agreements (Note 10)	1,009,134	892,553
Subsidiaries and Associated Companies (Note 5)	6,759	15,784
Debentures (Note 11)	34,866	20,223
Accounts Payable	141,602	92,828
<b>LONG-TERM LIABILITIES</b>	<b>1,250,904</b>	<b>1,114,568</b>
 <b>SHAREHOLDERS' EQUITY</b>		
Paid-in Capital Stock (Note 13)	261,498	261,498
Capital to be Homologated	22,147	
Revaluation Reserves	84,705	120,597
Accumulated Losses	(303,883)	(242,605)
<b>SHAREHOLDERS' EQUITY</b>	<b>64,467</b>	<b>139,490</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>2,388,349</b>	<b>2,264,267</b>

The accompanying notes are an integral part of the financial statements



# 2007-94

## STATEMENTS OF INCOME

December 31, 1993 and 1992  
(In Thousands of U.S. Dollars)

	1993	1992
<b>GROSS OPERATING REVENUES</b>		
Flight Revenues .....	2,521,639	2,050,707
Value-Added Tax (ICMS) .....	(69,393)	(40,089)
	2,452,246	2,010,618
Other .....	88,899	44,658
	2,541,145	2,055,276
Taxes on Revenues (COFINS) .....	(24,467)	(15,480)
Net Operating Revenues .....	2,516,678	2,039,796
 <b>OPERATING COSTS</b>		
Flight Operations .....	(1,451,213)	(1,209,320)
Other Operating Costs .....	(35,257)	(12,728)
Depreciation of Owned Equipment .....	(81,894)	(83,937)
Depreciation of Leased Equipment .....	(74,085)	(56,665)
	(1,642,449)	(1,362,650)
 <b>GROSS PROFIT</b> .....	874,229	677,146
Commercial Expenses .....	(683,386)	(575,763)
General and Administrative Expenses .....	(147,696)	(128,534)
 <b>OPERATING INCOME I</b> .....	43,147	(27,151)
Net Financial Loss .....	(78,485)	(125,610)
Net Exchange Loss on Assets and Liabilities in Other Currencies .....	(40,479)	(62,101)
Interest on Long-Term Debt for Flight Equipment .....	(83,745)	(98,002)
Equity in Subsidiaries .....	4,820	(6,664)
Effects of Translation .....	20,473	(31,930)
 <b>OPERATING INCOME II</b> .....	(134,269)	(351,458)
Non-Operating Income .....	37,099	(28,822)
<b>NET LOSS FOR THE YEAR</b> .....	(97,170)	(380,280)
<b>NET LOSS PER SHARE</b> .....	(0.16)	(0.61)

The accompanying notes are an integral part of the financial statements.

# 2007-94

## STATEMENTS OF CHANGES IN FINANCIAL POSITION

December 31, 1993 and 1992  
(in Thousands of U.S. Dollars)

	1993	1992
<b>SOURCES</b>		
Operations:		
Net Loss for the Year .....	(97,170)	(380,280)
Depreciation and Amortization .....	103,535	106,840
Depreciation - Leased Equipment .....	74,085	56,665
Exchange Losses on Long-Term Debt .....	1,835	1,016
Equity in Subsidiaries .....	(4,820)	6,664
Other .....	6,398	
	83,863	(209,095)
Shareholders and Third Parties:		
Net Book Value of Property and Equipment Sold .....	1,930	104,583
Increase in Long-Term Liabilities .....	329,517	268,388
Decrease in Long-Term Assets .....	6,121	
<b>TOTAL SOURCES</b> .....	421,431	163,876
<b>USES</b>		
Increase in Permanent Assets:		
Investments .....	1,541	8,438
Property and Equipment .....	265,581	169,429
Deferred Charges .....	5,561	9,327
Increase in Long-Term Assets .....	-	7,156
Decrease in Long-Term Debt .....	81,077	86,296
Decrease in Other Long-Term Liabilities .....	77,824	57,430
Reduction of Net Working Capital from Incorporation of CRUZEIRO DO SUL S.A. - Serviços Aéreos .....		6,062
<b>TOTAL USES</b> .....	431,588	344,138
<b>CHANGES IN WORKING CAPITAL</b> .....	(10,157)	(180,262)
	421,431	163,876
<b>CHANGES IN WORKING CAPITAL ARE REPRESENTED BY:</b>		
Current Assets		
At End of Year .....	518,769	466,157
At Beginning of Year .....	466,157	537,616
	52,612	(71,459)
Current Liabilities		
At End of Year .....	(1,072,978)	(1,010,209)
At Beginning of Year .....	(1,010,209)	(901,406)
	(62,769)	(108,803)
<b>CHANGES IN WORKING CAPITAL</b> .....	(10,157)	(180,262)

The accompanying notes are an integral part of the financial statements.

# 20'07'94

## STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

Years ended December 31, 1993 and 1992  
(in Thousands of U.S. Dollars)

DESCRIPTION	Paid-in Capital Stock	Capital to be Homologated	Revaluation Reserves		Surplus Reserves		(Accumulated Losses)	Total
			Flight Equipment	Investments	Legal	Statutory		
Balances as of December 31, 1991	254,591	-	146,419	28,342	23,090	167,239	(106,818)	512,863
- Capital Increase through Incorporation of CRUZERO DO SUL S.A. - Serviços Aéreos (Extraordinary Shareholders' Meeting of December 16, 1992)	6,907	-	-	-	-	-	-	6,907
- Realization of Revaluation Reserves	-	-	(46,865)	(7,299)	-	-	54,164	-
- Reversal of Reserves	-	-	-	-	(23,090)	(167,239)	190,329	-
- Net Loss for the Year	-	-	-	-	-	-	(380,280)	(380,280)
Balances as of December 31, 1992	261,498	-	99,554	21,043	-	-	(242,607)	139,490
- Capital to be Homologated (Extraordinary Shareholders' Meeting of October 15, 1993)	-	22,147	-	-	-	-	-	22,147
- Realization of Revaluation Reserves	-	-	(36,933)	(4,177)	-	-	35,892	-
- Net Loss for the Year	-	-	-	-	-	-	(97,170)	(97,170)
Balances as of December 31, 1993	261,498	22,147	62,621	16,866	-	-	(303,883)	64,467

The accompanying notes are an integral part of the financial statements.

## NOTES TO FINANCIAL STATEMENTS

(In connection with Cruzeiro's Financial Statements)

### 1. Summary of significant accounting practices

#### 1.1. Accounting records

The legal accounting records of the Company are maintained in Brazilian cruzeiros reais and in accordance with local accounting practices and law. Brazilian corporate law requires monetary correction (price-level restatement) of permanent assets (fixed assets, deferred charges and permanent investments) and shareholders' equity accounts.

The computed monetary correction amounts are recorded in the respective balance sheet accounts with the net amount recorded as a gain or loss in the statement of income. The accompanying U.S. dollar financial statements were translated from the Brazilian currency accounts using the procedure described below (currency translation).

#### 1.2. Currency translation

The Company's financial statements in cruzeiros reais have been translated into U.S. dollars in accordance with the rules set by the International Accounting Standards Committee (IASC), using the monetary non-monetary method. Under this Statement, the U.S. dollar is the functional currency as Brazil is a "high-inflation country."

As such, balance sheet accounts are translated into U.S. dollars at current exchange rates for monetary items and at historical rates for all other items. Revenue and expense accounts are translated at the average exchange rate in effect at each month, except for those accounts which relate to assets and liabilities translated at historical rates.

Foreign currency translation gains and losses on monetary items are included in their respective statement of income lines. For monetary items which do not have relation in statement of income lines, the gains or losses are accounted as "gain or loss on translation."

The remeasurement into United States dollar equivalents should not be construed as representations that Brazilian cruzeiro amounts could be converted into United States dollars at rates of exchange used in the preparation of the financial statements.

#### 1.3. Maintenance and operating supply valuation

Inventories are carried at the lowest cost: acquisition or market.

#### 1.4. Property and Equipment

Owned equipment and equipment under purchase leases are translated at historical exchange rates, except for the flight equipment revalued in October of 1988.

Depreciation is computed by the straight-line method at the rates shown in Note 7.

#### Lease-purchase

The cost of flight equipment acquired by lease-purchase is recorded in property and equipment and the current and long-term debt reflected on the balance sheet.

#### Revaluation of flight equipment

In October 1988 the flight equipment was appraised by a specialized company at market value. Of the appraisal write-up, US\$ 62,621 thousand remain in property and equipment at December 31, 1993 which will be recognized in income when realized, either through depreciation or sale.

#### 1.5. Investments

Investments in subsidiaries are carried on the equity basis.

#### 1.6. Revenue recognition

Sales are recorded as current liabilities denominated "Unearned transportation revenues," and revenues are recorded when services are rendered.

### 2. Change in Accounting Policy

Effective January 1, 1993, the Company changed its method of accounting for the exchange losses resulting from the U.S. Dollar exchange devaluation as compared to the yen on foreign currency long-term debt, as permitted by the International Accounting Standard no. 21. In prior years, the Company used to charge these exchange losses to the statement of income as incurred. As from January 1, 1993 the above exchange losses have been deferred and have been amortized to the statement of income over the remaining lives of the foreign currency debt to which they relate.

In the opinion of Management, the deferral of those exchange losses equalizes the Company's practice to those accepted by the industry. The effect of the change was to reduce net loss for 1993 by approximately US\$ 38,051 thousand with corresponding increase in shareholders' equity as of December 31, 1993 by the same amount.

## 3. Maintenance and Operating Supplies

Spare parts and sundry materials  
Work in progress  
Imports in progress

Thousands of U.S. Dollars

1993	1992
98,841	106,402
8,757	11,587
2,832	15,461
110,430	133,450

## 4. Special Deposits

- As guarantee for lease agreements (Security and maintenance deposits)

	Current		Long-term		Total	
	1993	1992	1993	1992	1993	1992
Nissho Iwai Co. - Japan	2,306	2,002	27,787	25,779	30,093	27,781
International Lease Finance Co. - USA			15,927	23,302	15,927	23,302
Ansett Worldwide Aviation - USA			1,610	1,610	1,610	1,610
Westdeutsche - USA	15,667		13,037	15,667	13,037	13,037
G.P.A. Group - Ireland			8,320	8,120	8,320	8,120
C. Itoh Co. Ltd. - Japan			11,404	8,147	11,404	8,147
Bavaria Flug Gesellschaft - Germany			5,940	4,442	5,940	4,442
Orix Ouro Corp. - Cayman			3,054	2,725	3,054	2,725
Mitsui Corp. - Japan			3,602	2,329	3,602	2,329
SL VRG - Cayman			2,970	2,688	2,970	2,688
Pegasus Capital Corp. - USA			1,500	1,500	1,500	1,500
Global Aircraft Leasing Ltd. - Cayman			1,500	1,500	1,500	1,500
Aircraft 46 941 Inc. - USA			3,000	3,000	3,000	3,000
Aircraft 46 916 Inc. - USA			1,500	1,500	1,500	1,500
	17,973	2,002	88,114	99,679	106,087	101,681

- As guarantee for aircraft production (Progress payments)

The Boeing Co. - USA	12,918	13,508	5,787	16,869	18,705	30,377
McDonnell Douglas - USA	18,581	37,162	600	600	19,181	37,762
(-) Advances received from Marubeni - USA	(23,806)	(47,585)	-	-	(23,806)	(47,585)

Other deposits

	7,693	3,085	6,387	17,469	14,080	20,554
	11,955	3,827	20,048	15,856	32,003	19,683
	37,621	8,914	114,549	133,004	152,170	141,918

## 5. Intercompany transaction - Subsidiaries and associated companies

Accounts currently receivable from subsidiaries and associated companies are shown under the caption "Accounts Receivables" and amount to US\$ 10,076 thousand (US\$ 4,193 thousand in 1992).

Long-term items reflect loan agreements which provide for interest pursuant to Brazilian finance market cost, distributed as follows:

	Assets		Liabilities	
	1993	1992	1993	1992
Fundação Ruben Berta	-	-	-	14,531
Soc. Brasileira de Turismo Aéreo - Rotatur Ltda	-	9	24	-
ICARO Editora Ltda.	-	-	-	39
RIO-SUL Serviços Aéreos Regionais S.A.	-	-	6,735	-
InterLocadora S.A.	5,638	4,476	-	-
VARIG Agropecuária S.A.	1,950	4,629	-	-
Expressão Brasileira de Propaganda Ltda	-	766	-	-
Cia. Tropical de Hotéis	5,965	6,717	-	-
SATA Serviços Auxiliares de Transporte Aéreo S.A.	-	-	-	1,214
	13,553	16,597	6,759	15,784

## 6. Investments in subsidiaries

	Thousands of U.S. Dollars			Our share (%)		Thousands of U.S. Dollars	
	Paid-in capital stock	Shareholders' equity	Net income (loss)	total	voting	Adjusted book value	Equity income (loss)
Cia. Tropical de Hotéis	43,058	26,685	(4,230)	89.85	96.02	23,977	(3,800)
Cia. Tropical de Hotéis da Amazônia	58,745	23,579	(7,743)	64.57	80.78	15,225	(3,708)
Expressão Brasileira de Propaganda Ltda	1,559	1,970	49	99.73	99.73	1,965	49
ICARO Editora Ltda.	501	82	(6)	19.57	19.57	161	(1)
Banco VARIG S.A.	11,307	16,337	3,461	46.67	24.24	7,625	1,615
SATA Serv. Auxil. Transporte Aéreo S.A.	8,246	13,013	1,262	99.36	99.36	12,930	1,255
RIO-SUL Serv. Aéreos Regionais S.A.	22,256	37,739	11,764	96.78	96.69	36,524	11,306
VARIG Agropecuária S.A.	84,816	53,870	(7,864)	21.24	21.24	11,443	(1,671)
InterLocadora S.A.	9,070	1,048	(333)	91.46	91.46	958	(305)
Other Companies	-	-	-	-	-	548	-
						111,356	4,820

b) The principal amount of capital stock paid into the Company's subsidiaries during 1993 was as follows:

Espresso Brasileira de Propaganda Ltda. Thousands of U.S. Dollars  
822

## 7. Property and equipment

	Thousands of U.S. Dollars						Depreciation rate
	1993	1992	1993	1992	1993	1992	
	Cost	Accumulated depreciation	Net book value	Cost	Accumulated depreciation	Net book value	
7.1 Flight equipment - owned							
B-737-400	29,333	(28,317)	1,016	29,333	(23,949)	5,384	20.0
B-737-300	157,296	(107,476)	49,820	158,022	(86,662)	71,360	7.1 and 16.6
B-737-200	111,755	(54,947)	56,808	159,284	(61,148)	98,136	9.5 and 20.0
B-737-200 engines	33,236	(9,342)	23,894	37,094	(10,568)	26,526	5.8
Spare and repair parts	297,849	(130,136)	167,713	316,950	(132,896)	184,054	(6)
	629,469	(330,218)	299,251	700,683	(312,113)	388,570	
7.2 Flight equipment - lease purchase							
B-737-300	108,868	(11,423)	97,445	108,868	(5,895)	102,973	8.3
B-737-200	112,329	(37,613)	74,716	70,000	(6,806)	63,194	9.5 and 20.0
B-737-200	170,349	(67,425)	102,924	170,005	(54,283)	115,722	8.3
B-737-300	184,446	(56,088)	128,358	184,434	(45,185)	139,249	5.8
B-737-200 ER	348,026	(95,159)	252,867	343,289	(76,469)	266,820	5.4
MD-11	230,313	(10,534)	219,779				5.0
B-737-200 engines	22,733	(2,896)	19,837	22,733	(2,075)	20,658	6.6
	1,177,064	(281,138)	895,926	899,829	(190,653)	709,176	
7.3 Property and ground equipment							
Training equipment (Planes and simulators)	48,719	(22,141)	26,578	47,179	(15,181)	31,998	10.0
Training equipment (simulator - lease purchase)	9,015	(6,650)	2,365	9,015	(5,695)	3,320	14.2
Ground equipment	143,577	(61,572)	82,005	149,870	(92,109)	57,761	10.0
Vehicles	16,447	(2,711)	13,736	20,061	(14,344)	5,717	20.0
Real Estate	163,547	(56,813)	106,734	138,216	(55,730)	82,486	4.0 and 5.0
	378,308	(159,277)	219,031	355,341	(183,049)	172,292	
7.4 Flight equipment - lease contracts							
B-737-300	147,961		147,961	158,246		158,246	
B-737-300	29,721		29,721	32,392		32,392	
	177,682		177,682	190,638		190,638	
Total	2,159,520	(797,283)	1,362,237	2,155,491	(690,855)	1,464,636	

(a) In agreement with service lives which, in case of flight equipment, is based on appraisal of October, 1988

(b) Depreciated at the same rates as the related equipment

7.5 The amounts recorded in Property and equipment under "Lease-Purchase" refer to equipment acquired through lease-purchase which, owing to their characteristics, such as to the term (Shorter than the service life of the equipment) and the symbolic purchase option value, are considered purchased items.

7.6 The following changes in Property and equipment in 1993 deserve mention:

	Thousands of U.S. Dollars
Purchase of 2 MD-11 aircraft (lease purchase)	224,877
Aircraft standardization	5,435
Purchase of computer equipment	696

## 8. Work in progress

	Thousands of U.S. Dollars
1993	1992
a) Technical and operational infrastructure	23,591
b) Ground support equipment	2,356
c) Purchase and manufacturing of Data Processing Equipment	1,367
d) Other	2,714
	28,028

9. Loans and financing  
Loans denominated in U.S. Dollars are considered at their original values. Other currencies are translated into dollars at rates in force at the balance sheet dates.

### 9.1. Working capital loans and financing

9.1. Working capital loans and financing					
Brazil					
Bradesco	7,754				
Banco Nacional	15,641	10,000			
Banco Francês e Brasileiro	4,170	5,700			10,000
Caixa	10,000				10,000
Unibanco	10,000				3,059
Banmerindus	3,750	4,569			
Banco de Crédito Nacional	2,146				
Banco do Progresso	2,453	4,279			
Banco de Tokio	2,024	5,998	5,967	967	MAY/95
Banco Inter Atlântico	1,595	4,844			
Banco América do Sul	2,526	2,623			
Banco Safra		3,713			
Banco Pontual	2,944	3,229			
Banco Industrial CML	7,301				
Banco Rural	2,499				6,184
Banco Econômico	25,123	41,743			
Other (23 institutions)					51,000
Abroad	39,319		5,917	7,964	MAY/2001
Citibank	6,161	10,861			
International Lease Finance Co.	20,000	10,000			
Banco Nacional/USA	13,800	13,800			
Banco de Crédito Nacional	29,000	18,000			
Banco do Estado de São Paulo/USA	20,000	20,000			
Banco do Brasil/USA	4,575		6,268		MAR/96
Tombo Aviation/USA	17,699	35,399			DEC/96
Nissho Iwai/Japan	18,218	27,549			
Other (10 institutions)	268,698	186,908	55,571	89,174	

### 9.2. Credit lines

<b>Brazil</b>	9,329	53,978	-	-
- Hot money (11 institutions)	46,910	1,031	-	-
- Other	15,151	27,829	-	-
<b>Abroad (a)</b>	71,390	82,838	-	-

### 9.3. Financed imports

	1,137	1,006	2,972	4,006
<b>9.4. Related to property and equipment:</b>				
- Sundry	374,324	321,811	58,543	93,180

(a) Represented by credit lines obtained in the U.S.A. (US\$ 2.4 million), Germany (DM 17.7 million), France (FFR 11.4 million) and Portugal (ESC 94.4 million), renewable, on average, every 90 days with interest charges at various rates.

### 9.5. Interest charges

- Brazil - CDI/CETIP and TR plus interest rates from 0.5% to 1.5% per month  
- Abroad - Rates from 5.195% and 10.0% p.a.  
Interest accrued on this debt is included in the Accrued interest line in the balance sheet under Current liabilities.

## 10. Lease agreements

## 10.1 Lease-purchase

	Thousands of U.S. Dollars				Final maturity
	Current portion 1991	1992	Long term portion 1991	1992	
Wilmington Trust Co. - USA (US\$ 221.1 million)	32,751	30,065	188,431	221,082	JUNE/99
Wilmington Trust Co. - USA (US\$ 53.5 million)	2,973	2,728	50,489	53,462	DEC/2003
Wilmington Trust Co. - USA (US\$ 202.9 million)	12,003		190,946		JAN/2005
Wilmington Trust Co. - USA (US\$ 20.0 million)	4,966		15,031		MAY/95
Orient Leasing Co. - Japan (¥15.19 billion)	36,726	47,806	132,127	151,295	DEC/97
Nishiohwa Corp. - Japan (¥15.21 billion)	19,812	16,309	172,156	172,570	DEC/2000
Nishiohwa Corp. - Japan (US\$ 3.2 million)	2,519	2,305	666	3,185	FEB/95
Unifanco Leasing S.A. - Brazil (US\$ 833 thousand)	833	833		833	DEC/94
Tokio Leasing S.A. - Brazil (US\$ 753 thousand)	503	503	750	750	FEB/95
Norchen Leasing S.A. - Brazil (US\$ 790 thousand)	527	527	263	791	APR/95
Franklease S.A. - Brazil (US\$ 738 thousand)	369	369	369	538	DEC/95
Westdeutsche - USA (US\$ 225 thousand)	225	1,286		113	FEB/94
Combank - USA (US\$ 11.1 million)	2,851	2,844	8,250	11,101	JAN/97
G.P.A. Group - USA (US\$ 26.7 million)	1,966	1,779	24,789	26,755	APR/2002
G.P.A. Group - USA (US\$ 58.1 million)	2,792	7,001	50,312	58,109	MAY/98
IBM Leasing Att. Merc. - Brazil (US\$ 12.8 million)	5,758	3,202	7,115	11,609	MAY/96
Others	1,616	376	2,899	576	
	134,190	114,433	844,221	713,624	

## 10.2. Finance lease

International Lease Finance Co. - USA (US\$ 14.9 million)	11,144	10,285	13,817	14,961	APR/2003
Orin Duro Corp. - Cayman (US\$ 14.6 million)	850	1,334	13,784	15,261	AUG/2001
SLARC - Cayman (US\$ 15.0 million)	774	1,215	14,312	15,655	AUG/2001
	12,768	12,834	161,913	178,877	
	146,958	127,267	1,009,134	892,553	

## 10.3. Maturities of Long-term leases

Year	Thousands of U.S. Dollars	
	1993	
1995		166,307
1996		159,162
1997		168,438
1998		128,208
1999		112,683
2000		91,877
2001		53,742
2002		52,433
2003		36,560
after 2001		39,724
		1,009,134

10.4. Interest accrued on these lease obligations is included in the Accrued interest line in the balance sheet, under Current liabilities.

## 11. Debentures

At a Special General Meeting held on September 11, 1990, the Company's stockholders approved the issue on October 1, 1990 of 130,000 debentures with par value equivalent to 1,000 BTNF (Brazilian Treasury Fiscal Notes), divided into two series of 65,000 debentures each.

Since February 1, 1991, when the BTNF was abolished by decree, the debentures have been restated according to the Brazilian managed prime rate - the TRD (Daily Reference Rate).

The maturity dates of the first and second series are October 1, 1995 and March 1, 1996, respectively, and they bear interest of 12% p.a. The debenture agreement also establishes a renegotiation procedure to adjust periodically the interest rates to market rates (premiums). Premiums are calculated in accordance with criteria established in the debenture agreement. The maturity dates of the next series are June 1, and July 1, 1994, respectively. The remaining renegotiations will be made in periods to be defined by the Administrative Council, at which time the Company agrees that it will acquire any outstanding debentures from debentureholders who do not accept the renegotiation terms.



Below is a summary of the position on December 31, 1993:

	Quantity	Thousands of U.S. Dollars		
		Updated amount	Agreed-upon premium/Interest	Agreed-upon premium/Interest term
1st series	65,000 (11,964) (a)	35,138 (6,251)	2,053 (365)	6/1/93 to 6/1/94
2nd series	65,000 (53,940) (a)	28,887 (29,159)	1,688 (2,658)	7/1/93 to 7/1/94
		5,979	545	
		34,866	2,233 (b)	

(a) Debentures in treasury.

(b) Interest and premium accruals are recorded under the heading "Current liabilities - Accrued interest."

## 12. Operating leases

The following aircraft and equipment are held under operating leases:

Lessor	Equipment		Agreement		Value	Thousands of U.S. Dollars			
	Quant.	Type	Begin	Expire		Monthly payment	Balance	Current	Long-term
Bavaria Flug Gesellschaft - Germany	2	B-737-300	APR/91	MAR/96	30,600	510	13,770	6,120	7,650
	2	B-737-300	OCT/90	OCT/95	15,880	598	11,960	7,176	4,784
	2	B-737-300	AUG/91	AUG/96	34,320	572	17,732	6,864	10,868
	2	B-737-300	JUL/92	JUL/97	46,463	774	32,527	9,293	23,234
Anselt Worldwide Aviation - USA	1	B-737-300	MAY/90	MAY/95	17,100	285	4,560	3,420	1,140
	2	B-737-300	NOV/91	NOV/96	32,850	547	18,632	6,570	12,062
International Lease Finance Corporation - USA	1	B-747-400	JUN/91	MAY/96	71,107	1,358	40,750	16,300	24,450
	2	B-737-300	OCT/91	OCT/96	34,320	572	18,876	6,864	12,012
	1	B-747-400	JUN/92	MAY/97	85,160	1,419	58,179	17,032	41,147
	1	B-747-400	JUN/93	MAY/98	89,716	1,495	79,235	17,943	61,292
Westdeutsche - USA	5	B-737-300	FEB/89	JAN/94	85,140	839 (a)	839	839	-
GPA Group - Ireland	1	B-737-300	OCT/89	OCT/94	16,500	275	2,475	2,475	-
	2	MD-11	NOV/91	NOV/96	110,000	1,850	64,750	22,200	42,550
Nissho Iwai Co. - Japan	2	B-767-300	DEC/89	FEB/95	95,200	924 (a)	12,012	11,088	924
C. Itoh Co. Ltd. - Japan	2	B-767-300	JUN/90	JUN/95	87,568	941 (a)	17,849	11,292	6,557
Mitsui Corp. - Japan	2	B-737-300	DEC/90	NOV/95	39,249	387 (a)	8,910	4,649	4,261
	1	DC-10-30	JUN/91	JUN/96	30,885	447 (a)	12,968	5,366	7,602
Pegasus Capital Corp. - USA	1	DC-10-30	SEP/90	OCT/95	30,000	500	11,000	6,000	5,000
Global Aircraft Leasing Ltd. - Cayman	1	DC-10-30	DEC/90	DEC/95	30,000	500	11,500	6,000	5,500
Aircraft 46,916 Inc. - USA	1	DC-10-30	JAN/91	DEC/95	30,000	500	12,000	6,000	6,000
Aircraft 46,941 Inc. - USA	1	DC-10-30	MAY/91	MAY/96	30,000	500	14,500	6,000	8,500

(a) Average monthly payment, variable according to the LIBOR plus a spread of 1.5% p.a.

## 13. Paid-in capital stock

13.1. The Company's paid-in capital stock, totalling US\$ 261,498 thousand, is divided into 618,561,295 shares with no par value. Of this total number of shares, 354,487,932 are common shares and the remaining 264,073,363 are preferred non-voting shares, distributed as follows:

Shareholders	Common shares	Preferred shares
- Residing in Brazil	353,823,246	263,770,140
- Residing overseas	664,686	303,223
Total	354,487,932	264,073,363

13.2. An Extraordinary General Shareholders' Meeting was held on October 15, 1993 and approved the following decisions among others:

a) Increase in capital stock in the amount of US\$ 22,147 thousand, through issue of 130,401,948 shares with no par value. Of this total number of shares, 74,731,344 are common shares and the remaining 55,670,604 are preferred shares. This was due to capitalization of Fundação Ruben Berta credits in the Company and maintenance of preference rights of the other shareholders.

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b) Changes in the Company's statutes authorizing the Administrative Council to decide upon capital increase without previous approval from the Annual Shareholders' Meeting up to the limit of 858,438,552 common shares and 639,487,934 preferred shares, respecting the conditions prescribed by law and preference rights of the shareholders.

Such decisions, however, have not been confirmed yet due to the injunction granted in a lawsuit filed by minority shareholders which discontinued the decisions related to subscription of capital as mentioned in item a, a fact which was widely disseminated at the time.

As this temporary judicial decision is related solely to the suspension of subscription of the capital by the other shareholders, the amount of monetarily restated credits paid in by Fundação Ruben Berta is classified as Capital Increase to be Homologated under Shareholders' Equity.

#### 14. Non-operating income (loss)

Under the fleet expansion and modernization program a series of transactions were carried out involving disposal of aircraft and components, and the obtention of credits granted by manufacturers on the purchase of aircraft and engines and other revenues, as detailed below:

	Thousands of U.S. Dollars
• Credits received from G.E. ....	29,028
• Credits received from Mc Donnell Douglas	13,322
• Credits received from The Boeing Co.	9,000
• Other non operating income (losses)	(14,260)
	37,090

#### 15. Subsequent Events

The Company is responsible for fleet operating and finance leases contracted in the light of market conditions completely different from those currently prevailing. As there is presently considerable excess aircraft lease supply on the market, lower lease costs might be obtainable. Accordingly, the Company has decided to renegotiate the original lease contracts with its creditors in order to adjust them to present conditions. The renegotiation in question only encompasses the cited contracts, without affecting the Company's other obligations.

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## BOARD OF DIRECTORS

Rubel Thomas  
*Chairman*  
Edgard Nascimento de Araújo  
*Vice-Chairman*  
Aguinaldo M. Junqueira  
Antonio José Schittini Pinto  
Eduardo Camargo Neves  
Götz Georg Herzfeldt  
Harro Fouquet  
Joaquim Fernandes dos Santos  
Oswaldo Trigueiros Jr.

## OFFICERS

Rubel Thomas  
*President and Chief Executive Officer*  
Joaquim Fernandes dos Santos  
*Executive Vice-President and Chief Financial Officer*  
Walterson Fontoura Caravajal  
*Vice-President for Administration and Human Resources*  
Carlos Willy Engels  
*Vice-President, Technical*  
Carlos Fbner Neto  
*Financial Director*  
Edacir Luiz Tomblin  
*Director, On-Board Service*  
Hardy Carlos Brust  
*Superintendent Director - São Paulo*  
João Luis Bernes de Sousa  
*Marketing Director*  
Nelson Hilkoat Ruel Corrêa  
*Director of Flight Operations*  
Oswaldo Domingos Ribeiro  
*Director of Contracts*  
Paulo Enrique Moraes Coco  
*Sales and Service Director*  
Paulo Lopes Gallanda  
*Director of Engineering and Maintenance*  
Sérgio José Ramos Prates  
*Director of Organizational Development*  
Simão Guilhem Guilhem  
*Superintendent Director - Rio Grande do Sul*  
Tarso Osmani Guedes Piegas  
*Executive Director - Presidency*



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## BALANCE SHEETS DECEMBER 31, 1993 AND 1992

(expressed in thousands of Cruzeiros Reais)

### ASSETS

	In December, 1993 currency	
	12/31/93	12/31/92
<b>CURRENT ASSETS:</b>		
Cash and Cash Equivalents .....	15,097,365	9,901,727
Accounts Receivable .....		
Customers .....	57,380,091	62,829,898
Brazilian Government .....	3,421,219	5,177,781
Other Airlines .....	2,279,615	3,900,105
Subsidiaries and Associated Companies .... (9)	3,285,727	1,309,985
Other Receivables .....	10,820,620	5,551,307
Less: Allowance for Doubtful Accounts .....	(511,562)	(688,004)
Less: Unearned Interest .....	(2,301,010)	(2,316,637)
Total Accounts Receivable .....	74,374,700	75,764,435
Special Deposits .....	12,268,236	2,785,041
Maintenance and Operating Supplies .....	35,654,796	40,968,351
Advances to Suppliers .....	5,450,029	5,311,569
Prepaid Expenses .....	10,174,562	8,494,881
<b>TOTAL CURRENT ASSETS</b>	<b>153,019,688</b>	<b>143,226,004</b>
<b>LONG-TERM ASSETS:</b>		
Subsidiaries and Associated Companies .... (9)	4,419,548	5,185,215
Special Deposits .....	37,354,901	41,553,066
Other .....	5,463,207	155,181
<b>TOTAL LONG-TERM ASSETS</b>	<b>47,237,656</b>	<b>46,893,462</b>
<b>PERMANENT ASSETS:</b>		
Investments .....		
Subsidiaries .....	38,879,102	39,520,261
Other Investments .....	694,632	693,414
Total Investments .....	39,573,734	40,213,675
Property and equipment .....		
Property and equipment .....	769,016,056	701,106,605
Less: Accumulated Depreciation .... (6)	(294,379,367)	(251,247,757)
Sub-total .....	474,636,689	449,858,848
Flight Equipment - Lease Contracts .... (6)	57,942,717	59,559,293
Work in Progress .....	9,524,133	16,586,968
Total property and equipment .....	542,103,539	526,005,109
Deferred Charges -		
Amortizable Expenses .....	8,581,614	8,998,003
Less: Accumulated Amortization .... (8)	(4,656,279)	(4,417,524)
Total Deferred Charges .....	3,925,335	4,580,479
<b>TOTAL PERMANENT ASSETS</b>	<b>585,602,608</b>	<b>570,799,263</b>
<b>TOTAL ASSETS</b>	<b>785,859,952</b>	<b>760,918,729</b>

The accompanying notes are an integral part of the financial statements.

## LIABILITIES

		In December, 1993 currency	
		12/31/93	12/31/92
<b>CURRENT LIABILITIES:</b>			
Suppliers .....		26,258,597	34,525,159
Loans and Financing .....	(10)	122,068,965	100,540,248
Current Portion - Lease Agreements .....	(11)	47,923,606	39,760,778
Fees and Contributions .....	(14)	56,184,796	44,311,545
Dividends Payable .....		78	2,122
Wages and Salaries .....		6,611,099	6,581,399
Accrued Interest .....		17,096,473	11,481,166
Payable to Other Airlines .....		1,372,410	428,582
Accounts Payable .....		15,675,354	16,264,136
Unearned Transportation Revenues .....		36,841,740	41,300,159
Subsidiaries and Associated Companies .....	(9)	-	100,961
Provision for:			
Vacation pay .....		17,479,691	17,460,505
Flight Equipment Overhaul .....		3,391,040	2,853,059
<b>TOTAL CURRENT LIABILITIES</b>		<b>349,903,849</b>	<b>315,609,819</b>
<b>LONG-TERM LIABILITIES:</b>			
Lease Agreements .....	(11)	329,083,754	278,851,557
Loans and Financing .....	(10)	19,091,275	29,111,229
Subsidiaries and Associated Companies .....	(9)	2,204,154	4,931,309
Debentures .....	(13)	11,369,814	6,318,208
Accounts Payable .....		46,176,965	29,001,469
<b>TOTAL LONG-TERM LIABILITIES</b>		<b>407,925,962</b>	<b>348,213,772</b>
<b>SHAREHOLDERS' EQUITY:</b>			
Paid-in Capital Stock .....	(15)	4,353,217	420,918
Monetary Correction of Paid-in Capital Stock .....	(15)	105,137,580	109,369,859
Total Paid-in Capital Stock .....		109,790,777	109,790,777
Capital Increase Subject to Approval .....	(15)	6,953,569	-
Revaluation Reserves			
Property and Equipment .....	(15)	27,579,342	36,477,591
Investments .....	(15)	3,160,987	3,647,445
Total Revaluation Reserves .....		30,740,329	40,125,036
Accumulated Losses .....	(15)	(119,454,534)	(52,820,675)
<b>TOTAL SHAREHOLDERS' EQUITY</b>		<b>28,030,141</b>	<b>97,095,138</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b>785,859,952</b>	<b>760,918,729</b>

The accompanying notes are an integral part of the financial statements.

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**STATEMENTS OF INCOME**For the years ended December 31, 1993 and 1992  
(expressed in thousands of Cruzeiros Reais)

	In December, 1993 currency	
	12/31/93	12/31/92
<b>Operating Revenues</b>		
Flight Revenues .....	796,375,425	651,708,717
Less: Value-Added Tax (ICMS) .....	(21,885,560)	(12,729,685)
Other .....	27,184,545	14,209,238
<b>Total Operating Revenues</b> .....	<b>801,674,410</b>	<b>653,188,270</b>
Less: Taxes on Revenues - COFINS .....	(5,758,082)	(4,809,325)
<b>Net Operating Revenues</b> .....	<b>795,916,328</b>	<b>648,378,945</b>
<b>Operating Costs</b>		
Flight Operations .....	(466,676,025)	(387,921,237)
Other Operating Costs .....	(11,140,606)	(1,739,750)
Depreciation of Owned Equipment .....	(24,555,622)	(30,033,889)
Depreciation of Leased Equipment .....	(26,886,324)	(27,473,240)
<b>Total Operating Costs</b> .....	<b>(529,258,577)</b>	<b>(447,168,816)</b>
<b>GROSS PROFIT</b> .....	<b>266,657,751</b>	<b>201,210,129</b>
<b>Commercial Expenses</b> .....	<b>(212,811,144)</b>	<b>(182,619,896)</b>
<b>General Expenses</b>		
Executive Salaries .....	(917,317)	(835,195)
Administrative Expenses .....	(41,576,667)	(40,762,500)
<b>Total General Expenses</b> .....	<b>(42,493,984)</b>	<b>(41,597,695)</b>
<b>OPERATING INCOME I</b> .....	<b>11,352,623</b>	<b>(23,007,462)</b>
<b>Net Financial Income (Expense)</b>		
Financial Income .....	16,308,970	12,905,979
Financial Expenses .....	(45,317,068)	(48,420,304)
Interest on Long-Term Debt for Flight Equipment .....	(26,723,611)	(21,168,077)
<b>Net Financial Income (Expense)</b> .....	<b>(55,731,709)</b>	<b>(56,682,402)</b>
<b>Gains (losses) on Foreign Currency Assets and Liabilities</b> (16)	<b>(38,053,915)</b>	<b>(4,632,676)</b>
<b>Investment Income (Loss)</b>		
Equity in Subsidiaries .....	665,871	(4,678,671)
Other Investment Income .....	4,740	92
	670,611	(4,678,579)
<b>Gains (Losses) on Non-Interest Monetary Items</b> (17)	<b>(4,309,218)</b>	<b>(4,235,102)</b>
<b>OPERATING INCOME II</b> .....	<b>(86,071,608)</b>	<b>(93,236,221)</b>
<b>Non-Operating Income (Loss)</b>		
Non-Operating Income .....	22,701,705	33,443,088
Non-Operating Expenses .....	(11,405,063)	(43,492,633)
<b>Net Non-Operating Income (Loss)</b> .....	<b>11,296,642</b>	<b>(10,049,545)</b>
<b>NET LOSS FOR THE YEAR</b> .....	<b>(74,774,966)</b>	<b>(103,285,766)</b>
<b>NET LOSS PER SHARE (IN CRUZEIROS REAIS)</b> .....	<b>(120,89)</b>	<b>(166,98)</b>

The accompanying notes are an integral part of the financial statements

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## STATEMENTS OF CHANGES IN FINANCIAL POSITION

For the years ended December 31, 1993 and 1992  
(expressed in thousands of Brazilian Reals)

	In December, 1993 currency	
	12/31/93	12/31/92
<b>SOURCES</b>		
Operations	(74,774,966)	(103,285,766)
Net Loss for the Year	34,152,519	41,655,840
Depreciation and Amortization	26,886,324	27,473,240
Depreciation - Leased Equipment	(665,871)	4,678,671
Equity in Subsidiaries	5,762,020	(16,565,070)
Gains/Losses on Long-Term Assets	8,663,434	32,949,586
Net Book Value of Property and Equipment Sold	36,355,410	(25,171,350)
Gains/Losses on Long-Term Liabilities	109,386	55,384
Net Book Value of Investments	231,642	(745,950)
Capital Gains		(3,698,526)
Prior Years' Adjustments	36,719,898	(42,653,941)
Sub-Total		
Shareholders and Third Parties	57,278,948	100,239,600
Long-Term Debt	93,998,846	57,585,659
Total Sources		
<b>USES</b>		
Increase in Permanent Assets -	278,814	2,647,079
Investments	83,553,028	66,498,388
Property and Equipment	1,602,808	2,073,815
Deferred Charges	85,434,650	71,219,282
Reduction of Net Working Capital from Incorporation of		1,894,496
Cruzeiro do Sul S.A. - Serviços Aéreos	6,106,215	5,657,108
Increase in Long-Term Assets	26,958,327	26,344,738
Decrease in Long-Term Debt	118,499,192	105,115,624
Total Uses	(24,500,346)	(47,529,965)
Changes in Working Capital	93,998,846	57,585,659
<b>CHANGES IN WORKING CAPITAL ARE REPRESENTED BY:</b>		
Current Assets	153,019,688	143,226,004
At End of Year	143,226,004	173,857,915
At Beginning of Year	9,793,684	(30,631,911)
Increase (Decrease) in Current Assets		
Current Liabilities	(349,903,849)	(315,609,819)
At End of Year	(315,609,819)	(298,711,765)
At Beginning of Year	(34,294,030)	(16,898,054)
Increase in Current Liabilities	(24,500,346)	(47,529,965)
Changes in Working Capital		

The accompanying notes are an integral part of the financial statements.



## STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

For the years ended December 31, 1993 and 1992  
(expressed in thousands of Cruzeiros Reals in December)

DESCRIPTION	Paid-in Capital stock	Capital to be homologated	Capital Reserves
			Special monetary restatement
A - Balances as of December 31, 1991 .....	66,569,747	—	35,403,400
- Capital increase through transfer from reserves (Annual Shareholders' Meeting of April 30, 1992) .....	39,407,409	—	(35,403,400)
- Capital increase through incorporation of Cruzeiro do Sul (Extraordinary Shareholders' Meeting of December 16, 1992) .....	3,813,621	—	—
- Equity adjustment relating to prior years .....	—	—	—
- Realization of revaluation reserves - property and equipment .....	—	—	—
- Realization of revaluation reserves - investments .....	—	—	—
- Income tax on net income (ILL) - Investments .....	—	—	—
- Reversal of reserves .....	—	—	—
- Net loss for the year .....	—	—	—
B - Balances as of December 31, 1992 .....	109,790,777	—	—
- Capital to be homologated (Extraordinary Shareholders' Meeting of October 15, 1993) .....	—	6,953,569	—
- Equity adjustments relating to prior years .....	—	—	—
- Realization of revaluation reserves - Property and Equipment .....	—	—	—
- Realization of revaluation reserves - Investments .....	—	—	—
- Net loss for the year .....	—	—	—
C - Balances as of December 31, 1993 .....	109,790,777	6,953,569	—

The accompanying notes are an integral part of the financial statements.

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Revaluation reserves		Surplus reserves			Retained earnings	Total
Investments	Property and equipment	Legal	Statutory	Unrealized income		
4,223,616	60,177,108	3,675,555	20,950,662	5,258,047	4,004,009	200,262,144
-	-	-	-	-	(4,004,009)	-
-	-	-	-	-	-	3,813,621
-	-	-	-	-	(3,686,279)	(3,686,279)
-	(23,699,517)	-	-	-	23,699,517	-
(576,171)	-	-	-	-	576,171	-
-	-	-	-	-	(8,582)	(8,582)
-	-	(3,675,555)	(20,950,662)	(5,258,047)	29,884,264	-
-	-	-	-	-	(103,285,766)	(103,285,766)
3,647,445	36,477,591	-	-	-	(52,820,675)	97,695,138
-	-	-	-	-	-	6,953,569
-	-	-	-	-	(1,243,600)	(1,243,600)
-	(8,898,249)	-	-	-	8,898,249	-
(486,458)	-	-	-	-	486,458	-
-	-	-	-	-	(74,774,966)	(74,774,966)
3,160,987	27,579,342	-	-	-	(119,454,534)	28,030,141

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## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED

### 1. Business of the Company

The main business of the Company is operating passenger, cargo, baggage and mail air transport services over both domestic and international routes, under government concessions or licenses, and rendering related services to third parties.

### 2. Presentation of the Financial Statements

In order to upgrade the quality of information provided to investors and to the general public, and in accordance with instructions issued by the Brazilian Securities Commission (CVM), the Company is presenting only statements in units of constant purchasing power. This is because Net Loss for the year and the Shareholders' Equity are the same as those determined in the Financial Statements in accordance with Brazilian Corporation Law.

The amounts presented in the Notes to Financial Statements have likewise been monetarily restated to December 1993 currency.

#### 2.1 - Summary of Significant Accounting Policies

##### a) Effects of inflation

The effects of the loss of the purchasing power of Brazilian currency on equity components have been recognized in results for the year based on the change in the nominal value of the Fiscal Reference Unit (UFIR) over the year. Inflation income determined in accordance with the Brazilian Corporation Law has been reclassified to the respective income statement accounts to which it relates.

##### b) Denomination of foreign currency or index-linked amounts

Current and noncurrent assets and current and long-term liabilities denominated in foreign currencies or otherwise index-linked are determined by reference to the appropriate exchange rates and other indices in effect at the balance sheet date.

##### c) Allowance for doubtful accounts

The allowance for doubtful accounts is based on historical experience and is considered sufficient to cover any losses expected upon realization.

##### d) Maintenance and Operating Supplies

The Spare Parts and Sundry Materials and the Work in Progress Inventories are stated at acquisition or production cost, inflation-indexed as discussed in Note 2.1.a., which is lower than replacement cost. The Imports in Progress are stated at costs incurred through the balance sheet date.

##### e) Property and Equipment

VARIG's own equipment and that under lease-purchase are stated at monetarily restated acquisition cost, except for flight equipment revaluated in October of 1988 and monetarily restated from that date on.

Flight equipment under lease-purchase previously denominated finance leases have symbolic residual value and the characteristics of financed purchases. Therefore, their total value is recorded in Property and Equipment, with the corresponding financing reported as Finance Lease Agreements, under Current and Long-Term Liabilities.

Depreciation of own and lease-purchase equipment is computed by the straight-line method at the rates shown in Note 6, with no residual value.

Equipment under capital lease with purchase options, whose residual value is higher than 25% and therefore are not characterized as financed purchases, are recorded in Property and Equipment at the outstanding value of the contract on the balance sheet date, with the corresponding financing reported as Finance Lease Agreements, under Current and Long-Term Liabilities. Lease charges are charged directly to the results of operations.

##### f) Provisions

The provision for Flight Equipment Overhaul is based on the hours flown and covers future equipment overhaul costs, except for latest-generation equipment, the overhaul costs of which are recognized as incurred.

DECEMBER 31, 1993

## g) Adjustments to present value

Current accounts receivable and payable which include built-in future inflation expectations, have been adjusted to present value by reference to rates published by the Brazilian Association of Investment and Development Banks (ANBID).

## h) Revenue recognition

Sales are recorded as a Currency Liability - "Unearned Transportation Revenues" and revenues derived from sales are recognized in income at the time that the transportation services are provided.

## i) Prior year's statements of income

Prior year's statements of income were translated to Cruzeiros Reais and restated to December 1993 currency. Due to the merger of CRUZEIRO DO SUL S.A. in 1992, the Statement of Income for that year includes the results of operations from October to December, 1992, which are immaterial in the overall context of the Company's financial statements.

## 3. Maintenance and Operating Supplies

	C.R.\$ thousand	
	12/31/93	12/31/92
Spare parts and sundry materials	31,876,878	31,889,809
Work in progress	2,866,539	2,711,233
Import in progress	923,379	4,831,309
	35,666,796	49,432,351

The lower total for maintenance and operating supplies this year is the result of a Company program to rationalize and standardize the materials used. This process has been greatly aided by the government's easing up on importation restrictions, which has led to shortened replacement periods.

The monetarily restated portion of the above balances corresponds to CR\$ 30,663,663 thousand (CR\$ 34,312,054 thousand as of December 31, 1992).

## 4. Special Deposits

		CR\$ thousand			
		Current assets		Long Term	
		12/31/93	12/31/92	12/31/93	31/12/92
- As guarantee for lease contracts (Security Deposits and Maintenance Deposits)					
Nissho Iwai Corp - Japan	(US\$ 30.1 million)	(a)	752,081	625,471	9,061,257
International Lease Finance Co - USA	(US\$ 15.9 million)	(b)	"	"	5,194,037
Ansett Worldwide Aviation - USA	(US\$ 1.6 million)	(d)	"	"	525,029
Westdeutsche USA	(US\$ 15.7 million)	(d)	5,102,993	"	4,073,128
G.P.A. Group - Ireland	(US\$ 8.3 million)	(c)	"	"	2,713,194
C. Itoh Co. Ltd - Japan	(US\$ 11.4 million)	(d)	"	"	3,718,923
Bavaria Flug Gesellschaft - Germany	(US\$ 5.9 million)	(d)	"	"	1,937,165
Orix Ouro Corp - Cayman	(US\$ 3.1 million)	(e)	"	"	995,854
Mitsui Corp - Japan	(US\$ 3.6 million)	(d)	"	"	1,174,698
SL VRG - Cayman	(US\$ 3.0 million)	(e)	"	"	968,650
Pegasus Capital Corp. - USA	(US\$ 1.5 million)	(d)	"	"	489,158
Global Aircraft Leasing Ltd - Cayman	(US\$ 1.5 million)	(d)	"	"	489,158
Aircraft 46.941 Inc. - USA	(US\$ 3.0 million)	(d)	"	"	978,315
Aircraft 46.916 Inc. - USA	(US\$ 1.5 million)	(d)	"	"	489,158
			5,861,074	625,471	28,734,596
- As guarantee for aircraft production (Progress Payments)					
The Boeing Co. - USA	(US\$ 18.7 million)	(f)	4,212,455	4,220,340	1,887,258
McDonnell Douglas - USA	(US\$ 19.2 million)	(g)	6,059,395	11,610,230	195,663
Less: Advances Received Marubeni - USA	(US\$ 23.8 million)	(h)	(7,263,268)	(14,866,661)	"
			2,508,582	963,906	2,082,951
- Other Deposits					
			3,898,580	1,195,664	6,532,354
			12,268,236	2,785,041	37,354,901
					41,553,066

- a) An amount of JYE 2.0 billion, equivalent to US\$ 17.3 million, was deposited to guarantee payment of semi-annual interest at the Euroyen rate, on a lease-purchase agreement for two B-747/300 aircraft; an additional amount of US\$ 12.8 million was deposited to guarantee operating lease agreements for two B-767/300 aircraft.
- b) An amount of US\$ 3.1 million was deposited to guarantee financial lease agreements for three B-747/300 aircraft, while US\$ 11.3 million was deposited to cover operational lease of three B-747/400 aircraft and US\$ 1.5 million was posted to guarantee operational lease of two B-737/300 aircraft. These deposits are refundable at the end of the leases.
- c) Deposits made to guarantee lease-purchase agreements for two DC-10/30 aircraft (US\$ 2 million) and one B-737/300 aircraft (US\$ 550 thousand), and an operational lease agreement for two MD-11 aircraft (US\$ 4.1 million) and one B-737/300 aircraft (US\$ 1.7 million). These deposits are refundable at the end of the leases.
- d) Deposits made in favor of the institutions mentioned to guarantee operating lease agreements (Note 12); the amounts are refundable upon termination of the leases.
- e) Deposits made to guarantee financial lease agreements (Note 11); the amounts are likewise refundable upon termination of the leases.
- f) Deposits made in favor of The Boeing Co. to guarantee aircraft production, as follows:
- | Aircraft  | Quantity | US\$ Million | CR\$ thousand | Delivery dates |
|-----------|----------|--------------|---------------|----------------|
| B-737/300 | 5        | 12.9         | 4,212,455     | From 1994 on   |
| B-737/300 | 15       | 1.7          | 549,592       | From 1995 on   |
| B-747/400 | 6        | 4.1          | 1,337,696     | From 1996 on   |
- These deposits will be refunded when the manufacturer delivers the aircraft.
- g) The amount of US\$ 19.2 million was deposited in the account of the McDonnell Douglas Co. at the Chase Manhattan Bank in New York, to guarantee production of two MD-11 aircraft (US\$ 18.6 million) to be delivered in January, 1994, with option to purchase an additional six such aircraft (US\$ 600 thousand). These deposits will be refunded when the manufacturer delivers the aircraft.
- h) Financing was obtained from Marubeni USA, corresponding to the deposits made in guarantee for production of five B-737/300 aircraft (US\$ 4.6 million) and two MD-11 aircraft (US\$ 19.2 million).

## 5. Subsidiaries and Associated Companies

VARIG's investments in its subsidiaries and associated companies are recorded by the equity method at their monetarily restated cost. Details on these investments are as follows as of December 31, 1993:

	C R\$ thousand			C R\$ thousand		
	Paid-in Capital stock	Shareholders' Equity	Income (loss) for year	% share of capital Total Voting	Adjusted book value	Equity income (loss)
Varig S.p.A. - São Paulo	11,169,268	10,149,334	(1,501,653)	89.85 96.02	9,118,620	(1,349,259)
Varig Transportes de Heliópteros da Amazônia	10,366,858	11,153,943	(3,396,961)	64.67 80.78	7,202,023	(1,547,701)
Expressão Brasileira de Propaganda Ltda.	484,848	652,627	32,807	99.73 99.73	690,840	32,217
Brazilair S.p.A. - São Paulo	161,135	260,851	9,678	19.67 19.57	51,049	1,891
Brasair S.p.A. - São Paulo	3,297,821	5,213,798	1,186,014	46.67 24.24	2,435,214	553,542
SALVEX S.p.A. - Manaus/Estado do Amapá	2,429,257	3,634,679	242,611	99.46 99.36	3,611,457	241,061
BRASAT S.p.A. - Aracaju/Região Nordeste	7,113,221	12,540,324	3,432,900	96.78 96.69	12,156,769	3,322,434
VARIG Agropecuária S.p.A.	23,579,940	15,002,116	(2,645,187)	21.24 21.24	3,186,809	(561,901)
Interlocutora S.p.A.	2,789,331	376,692	4,505	91.46 91.46	298,585	4,121
Other companies					187,516	(51,036)
					39,879,102	665,871

In fiscal year 1993 the capital stock of Expressão Brasileira de Propaganda Ltda. was paid in, which totalled C R\$ 256,324 thousand.

Intercompany transactions are carried out on normal market terms. Revenues and expenses arising from such transactions are immaterial. Resulting balances are shown in Note 9.

## 6. Property and Equipment

	C R\$ thousand				Depreciation (a)
	12/31/91 Monetarily restated cost	Accumulated depreciation	12/31/92 Monetarily restated cost	Accumulated depreciation	Annual rate last year
Own equipment					
Flight equipment					
B 737-400	9,956,781	(9,801,938)	12,051,466	(9,551,220)	20.0
B 737-200	62,091,569	(42,500,272)	62,318,930	(34,268,170)	7.1 and 16.6
DC-10-30	45,442,621	(22,020,054)	64,518,529	(25,555,031)	9.5 and 20.0
B 707-320 engines	11,932,796	(5,232,094)	14,062,694	(4,945,059)	5.8
Spare and repair parts	58,580,868	(24,876,328)	60,917,169	(25,420,675)	(b)
Training equipment (Planes and Simulators)	17,309,531	(7,229,600)	16,810,921	(5,752,669)	10.0
Ground equipment	52,129,037	(15,781,437)	55,376,984	(33,999,898)	10.0
Vehicles	3,931,729	(3,491,287)	6,614,039	(5,228,257)	20.0
Real estate	80,429,638	(35,789,594)	72,747,979	(32,581,671)	4.0 and 5.0
Total own equipment	343,857,555	(186,722,601)	365,451,611	(177,103,430)	
Lease purchase					
Flight equipment					
B 737-400	35,779,396	(1,814,312)	35,779,388	(1,988,115)	8.3
DC-10-30	39,159,184	(13,560,578)	22,637,930	(2,200,523)	9.5 and 20.0
B 707-200	62,214,935	(24,547,534)	62,125,060	(19,813,156)	8.3
B 707-300	70,944,382	(21,579,793)	70,940,721	(17,407,312)	5.8
B 767-200ER	155,173,357	(37,150,203)	133,674,858	(29,834,639)	5.4
A320-1	21,386,219	(3,265,786)			5.0
B 767-300 engines	6,971,127	(969,214)	6,971,127	(621,436)	6.6
Training equipment - Simulators	3,529,881	(2,769,845)	3,529,880	(2,279,146)	14.2
Total lease purchase	425,198,481	(107,656,766)	335,654,961	(74,144,327)	
	769,056,036	(294,379,367)	701,106,572	(251,247,757)	

(a) Depreciation is calculated in accordance with the service life of the equipment, which, in the case of flight equipment, is based on an appraisal report of October 1988.

(b) Depreciated at the same rate as the equipment to which they are related.

6.1 - The amounts recorded in Property and Equipment under "Lease-Purchase" refer to equipment acquired through lease-purchase which, owing to their characteristics, such as the term (shorter than the service life of the equipment) and the symbolic purchase option value, are considered purchased items.

6.2 - The following changes in property and equipment in 1993 deserve mention:

	C R\$ thousand
Purchase of two A320-1 (lease purchase)	70,377,656
Aircraft disposal in 1993	(1,088,561)
Purchase of information processing equipment	262,541

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6.3 - As a result of the flight equipment revaluation made in October of 1988, depreciation expense and cost of items written off in the respective amounts of CR\$ 8,361,286 thousand and CR\$ 536,961 thousand were charged to results of 1993 operations. An amount of CR\$ 52,513,500 thousand out of the total revaluation amount remains under Property and Equipment and will be recorded in the results of operations of future years when realized through depreciation or sale. The respective revaluation reserve set up the time of the revaluation is CR\$ 24,934,153 thousand lower than the remaining balance in Property and Equipment, due to partial offsetting with losses from that year.

6.4 - In accordance with article 2 of Law 8200/91, depreciation expense and cost of items written off, in the respective amounts of CR\$ 1,692,331 thousand and CR\$ 194,286 thousand, were charged to results of 1993 operations. An amount of CR\$ 14,407,918 thousand out of the total reappraised amount remains under Property and Equipment and will be recorded in the results of operations of future years when realized through depreciation or sale.

6.5 - The principal amounts corresponding to finance are as follows:

B-747/300 (US\$ 147.9 million)

B-737/300 (US\$ 29.6 million)

CR\$ thousand	Purchase option
48,250,720	30%
9,691,997	43%
57,942,717	

## 7. Work in Progress

- Technical and operational infrastructure projects
- Physical plant - Rio de Janeiro
- Purchase of real estate - Brasilia
- Building improvements - Brazil
- Purchase and manufacture of data processing equipment
- Ground support equipment
- Purchase of Brazilian/foreign real estate
- Standardization of aircraft
- Other fixed assets in process

CR\$ thousand	
12/31/93	12/31/92
4,271,920	11,705,116
3,841,430	2,552,804
116,714	38,461
216,959	478,813
127,390	130,567
100,435	158,310
794,315	1,476,742
54,970	46,136
9,524,131	16,586,968

## 8. Deferred Charges - Amortizable Expenses

- On board service equipment
- Leasehold improvements
- Expenses incurred in putting new flight/ground equipment into service

CR\$ thousand			
Monetarily restated original amounts		Monetarily restated amortizations	
12/31/93	12/31/92	12/31/93	12/31/92
54,461	176,494	(27,443)	(48,953)
959,194	2,593,419	(623,465)	(1,792,025)
7,567,959	6,227,570	(4,005,371)	(2,576,546)
8,581,614	8,998,003	(4,656,279)	(4,417,524)

(a) Amortizable expenses over term of lease or service life.

(b) Preoperating expenses, such as for training of crew and technical personnel, institutional advertising, standardization, test flights, etc., amortizable at a rate of 10% p.a., starting when equipment enters into service

## 9. Intercompany Transactions - Subsidiaries and Associated Companies

	R\$ thousand			
	Assets		Liabilities	
	12/31/93	12/31/92	12/31/93	12/31/92
<b>Current</b>				
Clia Tropical de Hotéis	76,367	21,160	-	-
Clia Tropical de Hotéis da Amazônia	74,535	60,353	-	-
Expressão Brasileira de Propaganda Ltda	92,723	39,466	-	-
Banco VARIG S.A.	67,525	74,729	-	-
SATA Serv. Auxiliares de Transporte Aéreo S.A.	718,573	65,422	-	-
RIO S.H. Serviços Aéreos Regionais S.A.	916,237	-	-	100,961
Fundação Ruben Berta	1,674,177	902,116	-	-
Interlocadora S.A.	8,917	91,273	-	-
Soc. Brasileira de Turismo Aéreo-Rotatur Ltda	113,127	-	-	-
VARIG Agropecuária S.A.	113,413	64,363	-	-
Outros	85,083	103	-	-
	<b>3,285,727</b>	<b>1,309,985</b>		<b>100,961</b>
	R\$ thousand			
	Assets		Liabilities	
	12/31/93	12/31/92	12/31/93	12/31/92
<b>Long-Term</b>				
Fundação Ruben Berta	-	-	-	4,539,860
Soc. Brasileira de Turismo Aéreo-Rotatur Ltda	-	2,618	7,714	-
RIO S.H. Serviços Aéreos Regionais S.A.	-	-	2,196,140	101
KARCO Editora Ltda	-	-	-	12,131
Interlocadora S.A.	1,638,634	1,398,497	-	-
VARIG Agropecuária S.A.	635,956	1,446,150	-	-
Expressão Brasileira de Propaganda Ltda	-	239,344	-	-
Clia Tropical de Hotéis	1,944,958	2,098,616	-	-
SATA Serviços Auxiliares de Transporte Aéreo S.A.	-	-	-	379,217
	<b>4,419,548</b>	<b>5,185,215</b>	<b>2,304,154</b>	<b>4,931,309</b>

## 10. Loans and Financing

	R\$ thousand				
	Short-Term		Long-Term		Final
	12/31/93	12/31/92	12/31/93	12/31/92	Maturity
10.1 - Working capital loans and financing					
Brazil					
Banco do Brasil	2,528,480				
Banco Nacional	5,100,577	3,124,202			
Banco Francês e Brasileiro	1,360,000	1,780,777			
Unibanco	3,261,050			3,124,202	
Bamerindus	3,261,050			3,124,202	
Banco de Crédito Nacional	1,223,000	1,427,486		955,710	
Banco do Progresso	700,000				
Banco de Tokio	800,000	1,336,692			
Banco Inter Atlântico	660,000	1,873,891	1,945,985	302,219	SEP/95
Banco América do Sul	520,000	1,513,236			
Banco Safra	823,800	819,342			
Banco Industrial CML	960,000	1,008,842			
Banco Rural	2,380,950				
Banco Econômico	815,000				
Other (23 Institutions)	8,192,893	14,201,471		1,931,698	
Abroad					
Citibank (US\$ 39.4 million)	12,822,093			15,933,445	
International Lease Finance Co - USA (US\$ 12.1 million)	2,009,174	3,393,483	1,929,994	2,488,240	MAY 2001
Banco Nacional USA (US\$ 20.0 million)	6,522,100	3,124,202			
Nissei Iwai Corp - JAPAN (JY\$ 6.0 million)	5,771,760		11,543,530		DEC/96
Banco de Crédito Nacional-USA (US\$ 13.8 million)	4,500,249	4,311,387			
Banco do Estado de São Paulo-USA (US\$ 29.0 million)	9,457,045	5,623,561			
Banco do Brasil USA (US\$ 20.0 million)	6,522,100	6,248,405			
Lomb Aviation-USA (US\$ 10.9 million)	1,492,023		2,050,528		MAR/96
Others (10 Institutions)	5,941,156	8,606,716	652,210		
	87,624,500	58,393,696	18,122,237	27,859,916	



## 10.2 - Credit lines

### Brazil

- Hot Money (11 institutions)

Others

Abroad (a)

CR\$ thousand					
Short-Term		Long-Term			
12/31/93	12/31/92	12/31/93	12/31/92		Maturity
Brazil					
- Hot Money (11 institutions)					
3,041,972	16,863,909	-	-		
Others					
15,297,841	322,143	-	-		
Abroad (a)					
4,910,518	8,694,324	-	-		
23,280,331	25,880,376	-	-		

## 10.3 - Financed imports (US\$ 33.1 million)

10,793,642 15,952,003

## 10.4 - Related to property and equipment

370,492 114,168 969,038 1,251,113  
122,068,965 100,540,248 19,091,275 29,111,229

(a) Represented by credit lines obtained in the USA (US\$ 2.4 million), Germany (DMK 17.7 million), France (FFR 11.4 million) and Portugal (Esc 91.4 million) renewable on average, every 90 days with interest charges at various rates

## 10.5 - Interest charges

- Brazil - CDI/CETIP and TRD of 0.5% to 1.5% per month

- Abroad - Between 5.195% and 10.0% p.a.

Interest accrued on this debt is included in the accrued interest line in the balance sheet under Current Liabilities.

## 11. Leasing Agreements

### 11.1 - Lease-purchase

(a) - Wilmington Trust Co - USA (US\$ 221.1 million)  
(b) - Wilmington Trust Co - USA (US\$ 53.5 million)  
(c) - Wilmington Trust Co - USA (US\$ 202.9 million)  
(d) - Wilmington Trust Co - USA (US\$ 20.0 million)  
(e) - Orient Leasing Co. et al-Japan (JY\$ 19.1 billion)  
(f) - Nissho Iwai Corp. et al-Japan (JY\$ 21.7 billion)  
(g) - Nissho Iwai Corp. - Japan (US\$ 3.2 million)  
(h) - Unibanco Leasing S.A. - Brazil (US\$ 833 thousand)  
(i) - Tokio Leasing S.A. - Brazil (US\$ 753 thousand)  
(j) - Norchen Leasing S.A. - Brazil (US\$ 790 thousand)  
(k) - Franlease S.A. - Brazil (US\$ 738 thousand)  
(l) - Westdeutsche - USA (US\$ 225 thousand)  
(m) - Citibank - USA (US\$ 11.1 million)  
(n) - C.P.A. Group - USA (US\$ 26 million)  
(o) - C.P.A. Group - USA (US\$ 58.1 million)  
(p) - IBM Leasing Arr. Merc. - Brazil (US\$ 12.8 million)  
Others

CR\$ Thousand					
Current portion		Long-term portion			Maturity
12/31/93	12/31/92	12/31/93	12/31/92		
10,680,152	9,292,813	61,415,734	69,070,436	JUN/99	
969,476	852,280	16,464,819	16,792,654	DIC/2003	
3,914,134	-	62,268,376	-	JAN/2004	
1,619,307	-	4,902,793	-	NOV/94	
11,917,753	13,842,133	43,087,293	47,424,196	DEC/97	
6,464,187	5,095,396	56,212,658	53,977,039	DIC/2000	
821,547	720,048	217,068	995,029	FEB/95	
271,754	260,352	-	260,352	DEC/94	
163,868	154,998	81,934	235,485	FEB/95	
171,906	164,691	85,953	247,036	APR/95	
120,370	115,309	120,370	230,642	DEC/95	
73,428	401,815	-	35,334	FEB/94	
929,644	888,623	2,690,350	3,468,085	JAN/97	
610,962	555,837	8,083,833	8,358,663	APR/2002	
2,540,899	2,187,359	16,408,783	18,154,473	MAY/98	
1,877,647	1,000,199	2,320,191	3,627,000	MAY/96	
526,634	117,427	944,403	179,808		
43,760,085	39,751,280	275,304,558	222,966,252		

### 11.2 - Finance Lease

(q) - International Lease Finance Co /USA (US\$ 147.9 million)  
(r) - Orix Oiro Corp. - Cayman (US\$ 14.6 million)  
(s) - SLVRG - Cayman (US\$ 15.0 million)

(q)	3,633,893	3,213,358	44,616,827	46,225,914	APR/2003
(r)	277,120	416,620	4,495,089	4,767,701	AUG/2004
(s)	252,508	379,520	4,667,280	4,891,688	AUG/2001
	4,163,521	4,009,498	53,779,196	55,885,305	
	47,923,606	39,760,778	329,083,754	278,851,557	

### 11.3 - Maturities of long-term leases:

Year	CR\$ thousand
1995	54,233,700
1996	51,903,620
1997	54,928,317
1998	41,809,308
1999	36,746,528
2000	29,961,626
2001	17,525,629
2002	17,098,547
2003	11,922,310
After 2004	12,953,934
	329,083,754

11.4 - Lease-purchase agreements, accounted for as described in Note 6.1, are as follows:

- a) Six B-767/200-ER aircraft leased on May 1, 1987 from Wilmington Trust Co. - USA (Trustee and Representative Lessor for 5 institutions) for 12 years, with payments totalling US\$ 377.5 million and with an option to purchase at the end of the lease term for US\$ 600.00. Payments are semi-annual and bear fixed interest of 8.14% p.a. plus variable interest of 0.07% to 1.25% above the six-month LIBOR rate.
- b) Two B-737/300 aircraft leased in December 1991 from Wilmington Trust Co. - USA for 12 years, with payments totalling US\$ 63.2 million and with an option to purchase at the end of the lease term for US\$ 200.00. Payments are quarterly and bear interest of 8.31% p.a.
- c) Two MD-11 aircraft leased on December 14, 1992 from Wilmington Trust Co. - USA for 12 years, with payments totalling US\$ 210.2 million and, with an option purchase at the end of the lease term for US\$ 200.00. Payments are made quarterly and bear variable interest of 0.4% to 3.15% p.a. above the quarterly LIBOR.
- d) One DC-10 aircraft on the basis of a 2-year sale/leaseback transaction with Wilmington Trust Co. - USA dated October 27, 1993, with payments totalling US\$ 20 million and with an option to purchase at the end of the lease term for the same amount. Payments are made quarterly and bear fixed interest of 9.00% p.a.
- e) Three B-747/200B aircraft leased from Orient Leasing Co. - Japan (Representative Lessor for 19 institutions) for 15 years, amounting to JY\$ 46.8 billion, under an agreement renewed in December 1982, with an option to purchase at the end of the lease term for JY\$ 600. The Yen-denominated equal and semi-annual installments include interest of 9.15% p.a.
- f) Two B-747/300 aircraft leased in December 1985 from Nissho Iwai Corp. - Japan (Representative Lessor for 27 institutions) for 15 years, amounting to JY\$ 33.7 billion, with an option to purchase at the end of the lease term for JY\$ 400. Installments are semi-annual and bear fixed interest at the rate of 9.0% p.a. (1.5% + 7.5% JLPK).
- g) Two CF6-80-C286F engines leased in February 1990 from Nissho Iwai Corp. for 5 years, amounting to US\$ 10.9 million, with an option to purchase at the end of the lease term for US\$ 50.00. Installments are quarterly and bear interest of 1.5% p.a. above LIBOR.
- h) One B-737-200 flight simulator on the basis of a 7-year sale/leaseback transaction with Unibanco Leasing S.A. dated December 30, 1987, amounting to US\$ 5.0 million and with an option to purchase at the end of the lease term for Cr\$ 1.00. Installments are payable semi-annually in Cruzeiro Real amounts, linked to the U.S. Dollar, and bear interest of 6.0% p.a. above LIBOR.
- i) Two flight simulators (one B-707 and one B-727) on the basis of a 7-year sale/leaseback transaction with Tokio Leasing S.A. dated February 5, 1988 and amounting to US\$ 3.0 million, with an option to purchase at the end of the lease term for Cr\$ 1.00. Installments are semi-annual in Cruzeiros Reais amounts, linked to the U.S. Dollar, and bear interest of 2.52% p.a. above LIBOR.
- j) IBM data processing equipment leased on April 27, 1988 from Norehem Leasing S.A. for 7 years, amounting to US\$ 3.1 million. Installments are semi-annual in Cruzeiro Real amounts, linked to the U.S. Dollar, and bear interest of 4.5% p.a. above LIBOR.
- k) IBM data processing equipment leased on August 1, 1988 from Franlease S.A. for 7 years, amounting to US\$ 2.4 million. Installments are semi-annual in Cruzeiro amounts, linked to the U.S. Dollar, and bear interest of 6.0% p.a. above LIBOR.
- l) Two CFM-56-3B2 engines leased in February 1989 from Westdeutsche for 5 years, amounting to US\$ 5.4 million, with an option to purchase at the end of the lease term for US\$ 100.00. Installments are monthly and bear interest of 1.5% p.a. above LIBOR.
- m) Four engines (two CFM-56-3B2 and two CF-6-80C-2B) leased in July, 1992 from Citibank for a 5-year period, totalling US\$ 14.9 million and, with an option to purchase at the end of the lease term, for US\$ 100.00. Installments are semi-annual and bear interest at 2.7% above LIBOR.
- n) One B-737/300 aircraft leased in April, 1992 from the G.P.A. Group - USA for 10 years with payments totalling US\$ 29.8 million and with an option to purchase at the end of the lease term for US\$ 2.5 million. Installments are payable monthly in US\$ and bear annual interest of 10.0042% p.a.
- o) Two DC-10/30 cargo aircraft in April, 1992 on the basis of a sale/leaseback transaction with the G.P.A. Group - USA for a period of 6 years with payments totalling US\$ 70.0 million and with an option to purchase at the end of the lease term for US\$ 17.5 million. Installments are payable monthly and bear annual interest of 10.7433% p.a.
- p) Sundry IBM data processing equipment on the basis of several lease agreements with IBM do Brasil Leasing S.A. for a period of 42 months, in the total amount of US\$ 11.6 million. Monthly installments are payable in Cruzeiro Real amounts, linked to the U.S. Dollar, and bear interest of 10.5% p.a. above LIBOR and fixed interest of 15.00% to 16.4% p.a.

11.5 - The finance lease agreements, accounted for as described in Note 6.5, are as follows:

- q) Three B-747/300 aircraft leased in April 1991 from International Lease Finance Co. - USA for 12 years, amounting to US\$ 175.5 million with an option to purchase at the end of the lease term for US\$ 75.2 million. The December, 1992 balance (US\$ 147.3 million) is being paid in installments, including a variable charge based on an interest rate of 8.038% p.a.
- r) One B-737/300 aircraft leased in August 1991 from Orix Ouro Corp. - Cayman for 10 years, amounting to US\$ 16.6 million (present value), with an option to purchase at the end of the lease term for US\$ 12.7 million. Installments are payable semi-annually, including a variable charge based on an interest rate of 8.3056% p.a.
- s) One B-737/300 aircraft leased in August 1991 from SL VRG - Cayman for 10 years, amounting to US\$ 16.9 million (present value), with an option to purchase at the end of as the lease term for US\$ 13.8 million. Installments are payable semi-annually, including a variable charge based on an interest rate of 8.24% p.a.

11.6 - Interest accrued on these lease obligations is included in the Accrued Interest line in the balance sheet under Current Liabilities.

## 12. Operating Leases

Lessor	Equipment		Agreement		US\$ Thousand					
	Quantity	Type	Begin	Expire	Amount	Monthly payment	Balance 12/31/93	Distribution		
								Short-term	Long-term	
Bavaria Flug Gesellschaft - Germany	(1)	2	B-737/300	APR91	MAR96	30,600	510	13,770	6,120	7,650
	(2)	2	B-737/300	OCT90	OCT95	35,880	598	11,960	7,176	4,784
	(2)	2	B-737/300	AUG91	AUG96	34,320	572	17,732	6,864	10,868
	(2)	2	B-737/300	JUL92	JUL97	46,463	774	32,527	9,293	23,234
Ansett Worldwide Aviation - USA	(1)	1	B-737/300	MAY90	MAY95	17,100	285	4,560	3,420	1,140
	(1)	2	B-737/300	NOV91	NOV96	32,850	547	18,632	6,570	12,062
International Lease Finance Co. - USA	(2)	1	B-747/400	JUN91	MAY96	71,107	1,358	40,750	16,300	24,450
	(1)	2	B-737/300	OCT91	OCT96	34,320	572	18,876	6,864	12,012
	(2)	1	B-747/400	JUN92	MAY97	85,160	1,419	58,179	17,032	41,147
	(2)	1	B-747/400	JUN93	MAY98	89,716	1,495	79,235	17,943	61,292
Westdeutsche - USA	(2)	5	B-737/300	FEB89	JAN94	85,140	839 (a)	839	839	-
GPA Group - Ireland	(1)	1	B-737/300	OCT89	OCT94	16,500	275	2,475	2,475	-
	(2)	2	MD-11	NOV91	NOV96	110,000	1,850	64,750	22,200	42,550
Nissho Iwai Corp. - Japan	(2)	2	B-767/300	DEC89	FEB95	95,200	924 (a)	12,012	11,083	924
C. Itoh Co. Ltd. - Japan	(2)	2	B-767/300	JUN90	JUN95	87,568	941 (a)	17,849	11,292	6,557
Mitsui Corp. - Japan	(2)	2	B-737/300	DEC90	NOV95	59,249	387 (a)	8,910	4,649	4,261
	(1)	1	DC-10/30	JUN91	JUN96	30,000	447 (a)	12,968	5,766	7,202
Pegasus Capital Corp. - USA	(1)	1	DC-10/30	SEP90	OCT95	30,000	500	11,000	6,000	5,000
Global Aircraft Leasing Ltd. - Cayman	(1)	1	DC-10/30	DEC90	DEC95	30,000	500	11,500	6,000	5,500
Aircraft 46,916 Inc. - USA	(1)	1	DC-10/30	JAN91	DEC95	30,000	500	12,000	6,000	6,000
Aircraft 46,941 Inc. - USA	(1)	1	DC-10/30	MAY91	MAY96	30,000	500	14,500	6,000	8,500

(a) Average monthly payment, variable according to the LIBOR plus a spread of 1.5% p.a.

(1) Pursuant to the agreement terms, the lease may be extended at VARIG's discretion.

(2) When the operating lease expires, and at the Company's discretion, these agreements may be converted into finance leases.

The operating leases are neither recorded in Property and Equipment nor in Short- and Long-Term Liabilities because they do not have purchase options and therefore they are not considered as purchases.

The balances as of December 31, 1992 which correspond to the Company's liabilities, are amortized monthly and charged to results of operations for the year under the heading Flight Operations, in view of the utilization of the respective equipment.

## 13. Debentures

At an Extraordinary General Meeting held on September 11, 1990, the Company's shareholders approved the issue on October 1, 1990 of 130,000 debentures with par value equivalent to 1,000 BTNF (Brazilian Treasury Fiscal Notes), divided into two series of 65,000 debentures each.

Since February 1, 1991, when the BTNF was abolished by decree, the debentures have been restated according to the Brazilian managed prime rate - the TRD (Daily Reference Rate).

The maturity dates of the first and second series are October 1, 1995 and March 1, 1996, respectively, and they bear interest of 12% p.a. The debenture agreements also establishes a renegotiation procedure to adjust periodically the interest rates to market rates (premiums). Premiums are calculated in accordance with criteria established in the debenture agreement. The maturity dates of the next series are June 1, and July 1, 1994, respectively. The remaining renegotiations will be made in periods to be defined by the Administrative Council, at which time the Company agrees that it will acquire any outstanding debentures from debentureholders who do not accept the renegotiation terms.

Below is a summary of the position on December 31, 1993:

	Quantity	CR\$ thousand	
		Updated amount	Agreed upon premium/ interest (b)
1st series	65,000	11,458,663	669,465
	(11,564) (a)	(2,038,585)	(119,303)
		9,420,078	550,362
2nd series	65,000	11,458,663	1,044,361
	(51,910) (a)	(9,508,927)	(866,659)
		1,949,736	177,702
		11,369,814	728,064 (b)

(a) Debentures in treasury.

(b) Interest and premium accruals are recorded under the heading "Current liabilities - Accrued Interest."

#### 14. Fees and Contributions

These are broken down as follows:

	CR\$ thousand	
	12/31/93	12/31/92
- Brazilian Social Security	16,567,868	9,682,317
- Foreign Social Security	856,807	776,971
- Guarantee Fund for Length of Service (FGTS)	1,428,710	1,367,613
- Ac. us Employee pension fund	9,863,688	17,249,910
- Value-added tax (ICMS) on air transport services	5,614,570	4,607,376
- Airport fees	13,563,962	5,622,354
- Other obligations	8,259,182	5,005,004
	56,184,796	44,311,545

#### 15. Shareholders' Equity

##### 15.1 Paid-in capital stock

The Company's paid-in capital stock, totalling CR\$ 4,353,217,366.27, is divided into 618,561,295 shares with no par value. Of this total number of shares, 354,487,932 are common shares and the remaining 264,073,363 are preferred non-voting shares, distributed as follows:

Shareholders	Common shares	Preferred shares
Residing in Brazil	353,823,246	263,770,140
Residing overseas	664,686	303,223
	354,487,932	264,073,363

The principal corporate acts during the year were as follows:

- Annual and Extraordinary General Shareholders' Meetings were held on April 30, 1993 and, among other decisions, approved an increase in the Company's capital stock from Cr\$ 420,918,312,591.60 to Cr\$ 4,353,217,366,272.51 through incorporation of capital stock monetary restatement reserves in the amount of Cr\$ 3,932,299,053,680.91, without issue of new shares.
- An Extraordinary General Shareholders' Meeting was held on October 15, 1993 and approved the following decisions, among others:
  - Increase in capital stock in the amount of CR\$ 3,160,048,700.00 through issue of 130,401,948 shares with no par value. Of this total number of shares, 74,731,344 are common shares and the remaining 55,670,604 are preferred shares. This was due to capitalization of Fundação Ruben Berta credits in the Company and maintenance of preference rights of the other shareholders.
  - Changes in the Company's statutes authorizing the Administrative Council to decide upon capital increase without previous approval from the Annual Shareholders' Meeting up to the limit of 858,438,552 common shares and 639,487,934 preferred shares, respecting the conditions prescribed by law and preference rights of the shareholders.

Such decisions, however, have not been confirmed yet due to the injunction granted in a lawsuit filed by minority shareholders which discontinued the decisions related to subscription of capital as mentioned in item b.1, a fact which was widely disseminated at the time.

As this judicial decision is related solely to the suspension of subscription of the capital by the other shareholders, the amount of monetarily restated credits paid in by Fundação Ruben Berta is classified as Capital Increase to be Homologated under Shareholders' Equity.

## 15.2 - Reserves

In accordance with the Brazilian Corporation Law and the Company's statutes, the Company set up a capital stock monetary restatement reserve, which can be capitalized at the next Annual General Shareholders' Meeting.

## 15.3 - Revaluation Reserve

The revaluation of flight equipment was approved in October of 1988 (Note 6.3). As allowed by instruction no. 197 issued by the Brazilian Securities Commission (CVM) on January 19, 1993, the Company chose not to reclassify part of the revaluation reserves to the Special Monetary Restatement Reserve (Article 2, Law 8200/91), as established by CVM Instruction no. 189/92.

The balance of the revaluation reserve as of December 31, 1993 is equivalent to the amount of said Special Monetary Restatement Reserve.

## 15.4 - Dividends

The following is the calculation of the adjusted net loss for dividend distribution purposes, as prescribed by the Brazilian Corporation Law:

	CR\$ thousand
Loss for the year	(74,774,966)
(+) Realization of revaluation reserve	8,898,249
Adjusted net loss for the year	(65,876,717)

## 16. Net Losses on Foreign Currency Assets and Liabilities

These amounts correspond to the amount by which exchange gains and losses on foreign currency assets and liabilities differ from the results of applying Brazilian inflation indices to the net amounts of these assets and liabilities.

Major items are:

	CR\$ thousand	1991	1992
Net gains (losses) on permanent asset financings			
- Financings in Japanese Yen	(18,651,919)		7,974,503
- Financings in U.S. Dollars and other currencies	(11,234,126)		5,547,903
	(29,886,045)		13,522,406
Net losses on other assets and liabilities denominated in foreign currencies	(8,167,870)		(18,155,082)
	(38,053,915)		(4,632,676)

## 17. Gains (Losses) on Deflation of Interest-Bearing Balance Sheet Items to Present Value

17.1 - The deflation adjustments to present value charged to results of operations for 1993 and 1992 were:

	CR\$ thousand	1993	1992
- Customers and accounts receivable and unearned transportation revenues	(28,078)		
- Suppliers	356,024		152,811
- Reversal of prior years' adjustments	(152,811)		(800,148)
	175,135		(647,337)

The calculations adjusted at present value were performed upon the transactions which, in their nominal value, included financial charges based on the ANBID rate in effect on the transaction dates.

17.2 - In the Statements of Income, prepared in currency of Constant Purchasing Power, gains or losses on monetary items and deflation adjustments to present value have been reclassified to the respective accounts to which they relate. This reclassification is broken down as follows:

	Corporation law	Fully indexed before reclassification	(R\$ Thousand) Reclassifications		Fully indexed
			Net gains (losses) on monetary items	Adjustments to present value	
Net operating income	217,791,582	785,654,800	10,481,869	(220,341)	795,916,328
Operating expenses	(191,703,380)	(547,304,433)	17,840,476	205,380	(529,258,977)
Commercial expenses	(56,268,059)	(205,750,752)	(7,060,392)	-	(212,811,144)
Administrative expenses	(11,530,437)	(46,702,262)	4,208,278	-	(52,493,984)
Net financial income (expenses)	(170,112,671)	(441,421,394)	285,746,629	(50,914) (a)	(55,731,709)
Net exchange loss on assets and liabilities in other currencies	-	(167,963,092)	129,909,177	-	(38,053,915)
Equity in subsidiaries	668,219	670,611	-	-	670,611
Gains (losses)	-	543,876,396	(548,185,614)	-	(4,309,218) (a)
Adjustments to present value	321,907	175,155	(247,060)	71,905	-
Non operating income	2,921,433	3,990,005	7,306,637	-	11,296,642
Inflationary result	135,134,440	-	-	-	-
Loss of the year	(74,774,966)	(74,774,966)	-	-	(74,774,966)

(a) Gains (losses) detailed as follows:

Subsidiary and associated companies	12,869,915
Other receivables	(5,814,457)
Collection on behalf of third parties	233,349
Accounts payable	5,419,419
Other payables	(1,277,614)
	(4,309,218)

(b) The amounts corresponding to net commercial expenses for the year, which correspond to the difference between the rates charged in the transactions that include financial charges and ANBID rates in its par value

## 18. Non-Operating Income (Loss)

Under the fleet expansion and modernization program, a series of transactions were carried out involving disposal of aircraft and components, and the obtention of credits granted by manufacturers on purchase of aircraft and engines and other revenues, as detailed below:

	Net income (R\$ thousand)
Credits received from G. F. (US\$ 29.0 million)	9,877,740
Credits received from M. Donnell Douglas (US\$ 13.3 million)	4,095,056
Credits received from The Boeing Co. (US\$ 9.0 million)	3,004,079
Other non operating income (losses)	(5,680,233)
	11,296,642

## 19. Credits on Purchase of B-767/200ER Aircraft

Upon delivery of six B-767/200ER aircraft in 1967, The Boeing Co. granted VARIG a US\$ 78.5 million credit to be deducted from lease payments in 24 semi-annual installments. In June and December of 1993, the Company received the twelfth and thirteenth installment payment credits in the amount of US\$ 7.5 million, which are reflected in non-operating income as described in Note 18.

## 20. Taxes

### 20.1 - Value-added tax on goods and services (ICMS)

In view of the tax changes instituted by the Federal Constitution in October 1988, the States of the Brazilian Federation approved collection of ICMS on domestic air passenger and cargo transport as from May, 1989, on the basis of the national tax conference (CONFAZ 66/88). The Special Presumed Credit rate is 9% for all of Brazil except for the States of São Paulo, Rio Grande do Sul and Paraná, where the rate is 8%.

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### 20.2 Social Investment Fund (FINSOCIAL)

The rate of the FINSOCIAL (Social Investment Fund) contribution was increased during the period from October, 1988 to March of 1992. On the basis of a decision by the nation's Supreme Court on December 16, 1992, the legal grounds for such increases were judged unconstitutional.

In a decision on our suit at the lowest court level, it was decided that legislation enacted subsequent to the 1988 Federal Constitution are unconstitutional. According to our legal counsel, this means that the contribution in question may be calculated based on Income Tax effectively due rather on billings. Therefore, the amounts paid during the period are being considered as tax credits (CR\$ 9,335 million) offset with other contributions of the same nature. The net effect on income for the year (CR\$ 4,201 million) is reflected under Other Operating Revenues.

### 20.3 - Social Integration Program (PIS)

The Company has also filed suit to challenge the government's collecting the Social Integration Program (PIS) on Operating Revenues. Although a court decision has not yet been reached, legal counsel advise that as this tax on companies that render services is unconstitutional, such tax is not due and, therefore, the amounts collected after 1988 in the amount of CR\$ 7,167 million are being considered as tax credits to be recorded in the Statements of Income under Other Operating Revenues.

### 20.4 - Income Tax and Social Contribution

In light of the loss for the year, neither Income Tax nor Social Contribution (another para-fiscal contribution) are due. Tax losses for the year ended December 31, 1993, amounting to CR\$ 82,350.896 million, will be carried forward and offset against future taxable income.

### 21. Contingent Credits

Through its legal counsel VARIG has filed suit to be reimbursed by the government for reduced domestic fares in effect from 1986 through 1991. The amount filed for, approximately US\$ 900 million, is based on route concession agreements and, although favorable decisions have already been made in similar cases, the Company has chosen not to record such contingent credits in its financial statements. This will only be done when a favorable decision is obtained.

### 22. Aerus Employee Pension Fund

The Aerus Social Security Institute (Instituto Aerus de Seguridade Social) is an employee pension fund which provides supplementary retirement benefits to airline employees in Brazil.

In order to finance its activities on the basis of actuarial calculations, contributions are paid by employees and sponsoring companies, which in the Company's case corresponded to 11.73% of salaries, for a total of CR\$ 11,968 million as of December 31, 1993.

According to the financial statements of Instituto Aerus de Seguridade Social, supported by the respective actuarial calculations and independent auditors' report, the mathematical reserves representing liabilities for benefits granted or to be granted, in the amount of CR\$ 160,915,422 thousand as of December 31, 1993, are covered by the plan's assets. Therefore, there are no contingencies to be recognized by the sponsors.

### 23. Subsequent Events

23.1 - On February 27, 1994 the Federal Government issued Provisory Measure no. 434, introducing the URV - Real Value Index and changing wage and price policies. Based on regulation thereof through the date of this report, the effects of such changes are not expected to alter the Company's economic-financial situation to any significant degree.

23.2 - The Company is responsible for fleet operating and finance leases contracted in the light of market conditions completely different from those currently prevailing. As there is presently considerable excess aircraft lease supply on the market, lower lease costs might be obtainable. Accordingly, the Company has decided to renegotiate the original lease contracts with its creditors in order to adjust them to present market conditions. The renegotiation in question only encompasses the cited contracts, without affecting the Company's other obligations.

## 24. Insurance

The Company maintains insurance policies in amounts considered sufficient to cover potential risks to its assets and/or liabilities, broken down as follows as of December 31, 1993:

Type	Cover	Insured amount CR\$ thousand
- Aviation	- Aircraft (engines, airframes), flight simulators, spare parts	1,376,001,348
- Fire	- Buildings and contents	99,191,521
- General	- Comprehensive liability (cargo, passengers and other)	329,508,247
- Sundry risks	- Valuables, equipment	3,538,617
- Life and personal accidents	- All employees	4,038

## 25. Contingent Accounts

Liens, pledges, guarantees, insured risks, contracts and similar items are broken down as follows as of December 31, 1993:

Insured risks	CR\$ thousand
Severance pay (FGTS)	1,808,243,771
Guarantees provided for third parties	37,607
Spare parts on consignment	4,470,064
Guarantees obtained from third parties	3,149,388
Finance leases	25,851
	10,645,319

## BOARD OF DIRECTORS

Rubel Thomas  
Chairman

Edgard Nascimento de Araújo  
Vice-Chairman

Aguinaldo M. Junqueira  
Antonio José Schittini Pinto  
Eduardo Camargo Neves  
Götz Georg Herzfeldt  
Harro Fouquet  
Joaquim Fernandes dos Santos  
Osvaldo Trigueiros Jr.

## OFFICERS

Rubel Thomas  
President and Chief Executive Officer

Joaquim Fernandes dos Santos  
Executive Vice-President and Chief Financial Officer

Walterson Fontoura Caravajal  
Vice-President for Administration and Human Resources

Carlos Willy Engels  
Vice-President, Technical

Carlos Ebner Neto  
Financial Director

Edaírl Luiz Tombini  
Director, On-Board Service

Hardy Carlos Brust  
Superintendent Director - São Paulo

João Luis Bernes de Sousa  
Marketing Director

Nelson Hilkoat Riet Corrêa  
Director of Flight Operations

Osvaldo Domingos Ribetto  
Director of Contracts

Paulo Enrique Moraes Coco  
Director of Sales and Service

Paulo Lopes Gallindo  
Director of Engineering and Maintenance

Sérgio José Ramos Prates  
Director of Organizational Development

Simão Guilhem Guilhem  
Superintendent Director - Rio Grande do Sul

Tarso Osman Guedes Piegas  
Executive Director - Presidency

Yutaka Imagawa  
Accountant  
CRC - SP 150 334/S/RS  
CPF 053.663 658-04