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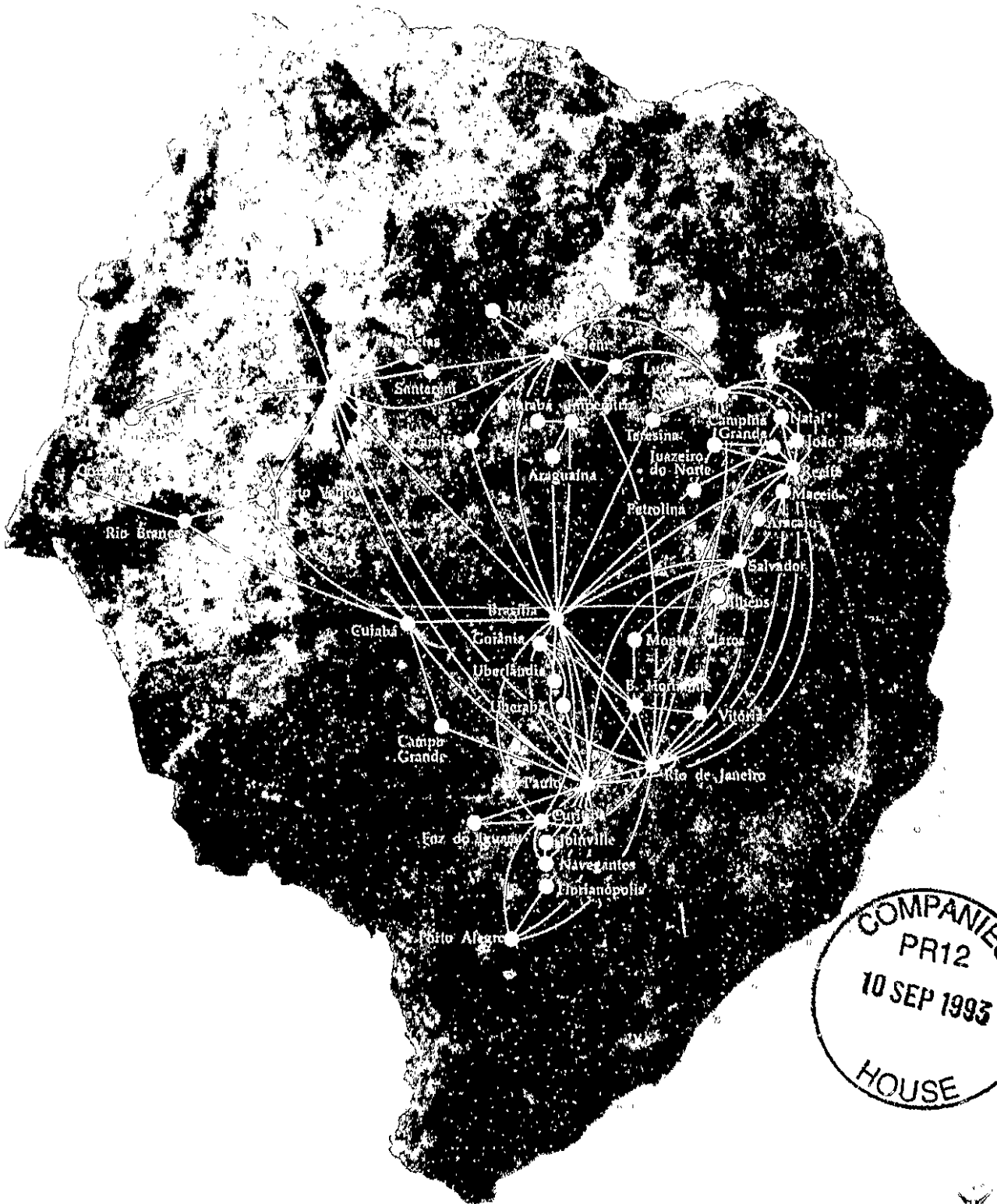
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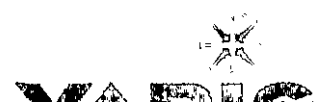
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66th ANNUAL REPORT - 1992

FC 5668



COMPANIES
PR12
10 SEP 1993
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BALANCE SHEETS DECEMBER 31, 1992 AND 1991

(In Thousands of U.S. Dollars)

ASSETS

	1992	1991
CURRENT ASSETS:		
Cash and Cash Equivalents	31,694	87,467
Accounts Receivable	242,508	214,464
Maintenance and Operating Supplies (Note 2)	135,453	185,057
Special Deposits (Note 3)	8,914	9,833
Prepaid Expenses and Other	47,588	40,795
CURRENT ASSETS	466,157	537,616
LONG-TERM ASSETS:		
Subsidiaries and Associated Companies (Note 4)	16,597	25,528
Special Deposits (Note 3)	133,004	114,835
Other	4,019	5,732
LONG-TERM ASSETS	153,620	146,095
PERMANENT ASSETS:		
Investments		
Subsidiaries (Note 5)	111,393	108,724
Other Investments	6,689	6,500
	<u>118,082</u>	<u>115,224</u>
Property and Equipmen.		
Flight Equipment - Own	700,683	716,677
Flight Equipment - Purchase Lease (Note 6)	908,844	832,359
Property and Ground Equipment (Note 6)	355,326	333,011
	1,964,853	1,882,047
Accumulated Depreciation (Note 6)	(690,855)	(560,010)
	1,273,998	1,322,037
Flight Equipment - Lease Contracts (Note 6)	190,638	202,597
Work in Progress (Note 7)	46,915	55,968
	1,511,551	1,580,602
Deferred Charges, Net	14,857	15,694
PERMANENT ASSETS	1,644,490	1,711,520
TOTAL ASSETS	2,264,267	2,395,231

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

LIABILITIES AND SHAREHOLDERS' EQUITY

	1992	1991
CURRENT LIABILITIES		
Suppliers	110,509	94,155
Loans and Financing (Note 8)	321,811	317,411
Current Portion - Lease Agreements (Note 9)	127,267	95,493
Dividends Payable	7	132
Accrued Interest	36,749	54,041
Unearned Transportation Revenues	132,194	100,948
Fees and Contributions	141,833	94,770
Wages and Salaries	21,066	24,453
Accounts Payable	53,753	51,577
Accrued Vacation Pay and Other	65,020	68,426
CURRENT LIABILITIES	1,010,209	901,406
 LONG-TERM LIABILITIES		
Loans and Financing (Note 8)	93,180	904
Lease Agreements (Note 9)	892,553	881,745
Subsidiaries and Associated Companies (Note 4)	15,784	3,260
Debentures (Note 10)	20,223	50,167
Accounts Payable	92,828	44,886
LONG-TERM LIABILITIES	1,114,568	980,962
 SHAREHOLDERS' EQUITY		
Paid-in Capital Stock (Note 12)	261,498	254,591
Revaluation Reserves	120,597	174,761
Surplus Reserves	-	190,329
Accumulated Losses	(242,605)	(106,818)
SHAREHOLDERS' EQUITY	139,490	512,863
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	2,264,267	2,395,231

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

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STATEMENTS OF INCOME

December 31, 1992 and 1991

(in Thousands of U.S. Dollars)

	1992	1991
GROSS OPERATING REVENUES		
Flight Revenues	2,192,070	1,984,756
Value-Added Tax (ICMS)	(40,089)	(27,649)
	2,151,981	1,957,107
Other	44,658	56,391
	2,196,639	2,013,498
Taxes on Revenues (PIS and FINSOCIAL)	(15,480)	(20,299)
Net Operating Revenues	2,181,159	1,993,199
 OPERATING COSTS		
Flight Operations	(1,224,573)	(1,117,400)
Other Operating Costs	(12,728)	(30,608)
Depreciation of Owned Equipment	(83,937)	(105,248)
Depreciation of Leased Equipment	(56,665)	(50,755)
Adjustments to Inventories and Provisions	15,253	(48,763)
	(1,362,650)	(1,352,774)
 GROSS PROFIT	818,509	640,425
Commercial Expenses	(575,763)	(461,634)
General and Administrative Expenses	(128,534)	(138,363)
Net Financial Loss	(186,609)	(82,646)
Exchange Loss on Permanent Assets Financing	(1,102)	(28,493)
Interest on Long-Term Debt for Flight Equipment	(98,002)	(81,255)
Equity in Subsidiaries	(6,664)	(9,681)
Effects of Translation	(173,293)	(79,962)
 OPERATING LOSS	(351,458)	(241,609)
Non-operating Income	(28,822)	77,310
	(380,280)	(164,299)
LOSS BEFORE INCOME TAX	(380,280)	(164,299)
Reversal for Income Tax Provision	—	26,725
NET LOSS FOR THE YEAR	(380,280)	(137,574)
NET LOSS PER SHARE	(0.61)	(0.23)

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

STATEMENTS OF CHANGES IN FINANCIAL POSITION

December 31, 1992 and 1991

(In Thousand of U.S. Dollars)

	1992	1991
SOURCES		
Operations:		
Net Loss for the Year	(380,280)	(137,574)
Depreciation and Amortization	106,840	124,913
Depreciation - Leased Equipment	56,665	50,755
Exchange Losses on Long-Term Debt	1,016	25,982
Equity in Subsidiaries	6,664	9,681
Other	—	1,762
	<u>(209,095)</u>	<u>75,519</u>
Shareholders and Third Parties:		
Net Book Value of Property and Equipment Sold	104,583	151,520
Increase in Long-Term Liabilities	268,388	296,815
Other Sources	—	396
TOTAL SOURCES	<u>163,876</u>	<u>524,250</u>
USES		
Increase in Permanent Assets:		
Investments	8,438	12,822
Property and Equipment	169,429	450,667
Deferred Charges	9,327	4,516
Increase in Long-Term Assets	7,156	27,056
Decrease in Long-Term Debt	86,296	76,921
Decrease in Other Long-Term Liabilities	57,430	103,603
Reduction of Net Working Capital from Incorporation of CRUZEIRO DO SUI S.A. - Serviços Aéreos	6,062	—
Other Uses	—	402
TOTAL USES	<u>344,138</u>	<u>675,987</u>
CHANGES IN WORKING CAPITAL	<u>(180,262)</u>	<u>(151,737)</u>
	<u>163,876</u>	<u>524,250</u>
CHANGES IN WORKING CAPITAL ARE REPRESENTED BY:		
Current Assets		
At End of Year	466,157	537,616
At Beginning of Year	537,616	557,829
	<u>(71,459)</u>	<u>(20,213)</u>
Current Liabilities		
At End of Year	(1,010,209)	(901,406)
At Beginning of Year	(901,406)	(769,882)
	<u>(108,803)</u>	<u>(131,524)</u>
CHANGES IN WORKING CAPITAL	<u>(180,262)</u>	<u>(151,737)</u>

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

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STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

Years ended December 31, 1992 and 1991
(In Thousand of U.S. Dollars)

DESCRIPTION	Paid-in Capital Stock	Revaluation Reserves		Surplus Reserves		(Accumulated Losses)	Total
		Flight Equipment	Investments	Legal	Statutory		
Balances as of December 31, 1990	254,591	237,086	28,342	23,090	167,239	(57,270)	653,078
- Price-Per-Share Adjustments - Equity in Subsidiaries	-	-	-	-	-	(2,239)	(2,239)
- Realization of Revaluation Reserves	-	(90,667)	-	-	-	90,667	-
- Income Tax on Net Income-Subsidiaries	-	-	-	-	-	(50)	(50)
- Income Tax on Net Income	-	-	-	-	-	(352)	(352)
- Net Loss for the Year	-	-	-	-	-	(137,574)	(137,574)
Balances on December 31, 1991	254,591	146,419	28,342	23,090	167,239	(106,818)	512,863
- Capital Increase Through Incorporation of CRUZEIRO DO SUL S.A. - Serviços Aéreos (Extraordinary Shareholders' Meeting of December 16, 1992)	6,907	-	-	-	-	-	6,907
- Realization of Revaluation Reserves	-	(46,865)	(7,290)	-	-	54,164	-
- Reversal of Reserves	-	-	-	(23,090)	(167,239)	190,329	-
- Net Loss for the Year	-	-	-	-	-	(380,280)	(380,280)
Balances on December 31, 1992	261,498	99,554	21,043	-	-	(242,605)	139,490

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

Accounting records

The legal accounting records of the Company are maintained in Brazilian cruzeiros and in accordance with local accounting practices and law. Brazilian corporate law requires monetary correction (price-level reindexation) of permanent assets (fixed assets, deferred charges and permanent investment) 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 cruzeiros accounts using the procedure described below (currency translation).

Currency translation

The Company's cruzeiro financial statements have been translated into U.S. dollars in accordance with 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 are included in the statement of income 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.

Cash and cash equivalents

Short-term investments are carried at cost plus accrued interest and have maturities of less than three months.

Maintenance and operating supplies valuation

Inventories are carried at the lower cost (acquisition or market).

Depreciation is computed by the straight-line method at the rates shown in Note 6.

Purchase lease

The cost of flight equipment acquired by purchase lease 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\$ 99,554 thousand remain in property and equipment at December 31, 1992 which will be recognized in income when realized, either through depreciation or sale.

Investments

Investments in subsidiaries are carried on the equity basis.

Revenue recognition

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

2. Maintenance and Operating Supplies

	Thousands of U.S. Dollars	
	1992	1991
Spare parts and sundry materials	108,402	130,217
Work in progress	11,587	8,333
Imports in progress	15,464	46,487
	<u>135,453</u>	<u>185,037</u>

3. Special Deposits

	Thousands of U.S. Dollars					
	Current		Long-term		Total	
	1992	1991	1992	1991	1992	1991
- As guarantee for lease (Security and maintenance deposits)						
Nissho Iwai Co. - Japan	2,002	1,924	25,779	24,224	27,781	26,148
International Lease Finance Co. - USA	-	-	23,302	21,025	23,772	21,075
Ansett Worldwide Aviation - USA	-	-	1,610	1,610	1,610	1,610
Westdeutsche - USA	-	-	13,037	8,029	13,037	8,029
C.P.A. Group - Ireland	-	-	8,120	4,746	8,120	4,746
C. Itoh Co. Ltd. - Japan	-	-	8,147	4,869	8,147	4,869
Bavaria Flug Gesellschaft - Germany	-	-	4,442	3,840	4,442	3,840
Ori- Ouro Corp. - Cayman	-	-	2,725	2,456	2,725	2,456
Mitsui Corp. - Japan	-	-	2,329	1,891	2,329	1,891
SL VRG - Cayman	-	-	2,688	2,456	2,688	2,456
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
	<u>2,002</u>	<u>1,924</u>	<u>99,679</u>	<u>82,666</u>	<u>101,681</u>	<u>81,596</u>
- As guarantee for aircraft production (Progress Payments)						
The Boeing Co. - USA	13,608	19,880	16,869	24,720	30,377	44,600
McDonnell Douglas - USA	37,162	18,581	600	19,181	37,762	37,762
(-) Advances Received Marubeni - USA	(47,585)	(35,639)	-	(26,492)	(47,585)	(60,131)
	<u>3,085</u>	<u>4,822</u>	<u>17,469</u>	<u>17,469</u>	<u>20,554</u>	<u>22,231</u>
Other Deposits	3,827	3,087	15,856	14,700	19,653	17,567
	<u>8,914</u>	<u>9,833</u>	<u>133,004</u>	<u>114,835</u>	<u>141,918</u>	<u>124,668</u>

4. Intercompany transactions - subsidiaries and associated companies

Accounts currently receivable from and payable to subsidiaries and associated companies are shown under the captions "Accounts receivable" and "Accounts payable" and amount to US\$ 4,193 thousand and US\$ 323 thousand (US\$ 4,485 thousand and US\$ 58 thousand in 1991) respectively.

Long-term items reflect loan agreements which provide for interest pursuant to legal requirements and advances for future capital increases as follows:

Thousands of U.S. Dollars

	Assets		Liabilities	
	1992	1991	1992	1991
CRUZEIRO DO SUL S.A. - Serviços Aéreos	—	19,873	—	—
Fundação Ruben Berta	—	—	14,531	2,927
Soc. Brasileira de Turismo Aéreo - Rotatur Ltda.	9	—	—	46
ICARO Editora Ltda.	—	—	39	9
Cia. Tropical de Hotéis da Amazônia	—	4,710	—	—
Interlocadora S.A.	4,476	522	—	—
VARIG Agropecuária S.A.	4,629	—	—	278
Expressão Brasileira de Propaganda Ltda.	766	421	—	—
Cia. Tropical de Hotéis	6,717	—	—	—
SATA Serviços Auxiliares de Transporte Aéreo S.A.	—	—	1,214	—
	16,597	25,526	15,784	3,260

5. Investments in subsidiaries

Thousands of U.S. Dollars

	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	43,054	30,915	(3,005)	89.85	96.02	27,777	(2,643)
Cia. Tropical de Hotéis da Amazônia	57,739	29,322	(10,247)	64.57	80.78	13,933	(6,616)
Expressão Brasileira de Propaganda Ltda.	662	1,082	163	99.42	99.42	1,076	88
ICARO Editora Ltda.	496	828	(12)	15.79	15.79	130	6
Banco VARIG S.A.	11,307	12,897	1,647	46.67	24.24	6,019	769
SATA Serviços Auxiliares de Transporte Aéreo S.A.	8,246	13,103	3,040	99.36	99.36	13,019	2,209
RIO-SUL Serviços Aéreos Regionais S.A.	22,256	26,888	256	96.78	96.69	26,023	248
VARIG Agropecuária S.A.	78,901	70,573	(3,443)	24.02	24.02	16,950	(826)
Interlocadora S.A.	4,062	1,005	27	91.46	91.46	919	101
Other Companies	—	—	—	—	—	547	—
						111,393	(6,664)

5.1 - The principal amounts of capital stock paid into the Company's subsidiaries during 1992 were as follows:

Thousands of U.S. Dollars

Cia. Tropical de Hotéis da Amazônia	6,745
SATA Serviços Auxiliares de Transporte Aéreo S.A.	1,138
Others	524
	8,407

5.2 - In light of the incorporation of CRUZEIRO DO SUL S.A. - Serviços Aéreos, the following shares were added to VARIG's investments in subsidiary and associated companies:

Thousands of U.S. Dollars

	Total share	Thousands of U.S. Dollars	
		Incorporated amount (a)	Equity income (loss) (b)
Cia. Tropical de Hotéis	0.76	201	34
Cia. Tropical de Hotéis da Amazônia	0.46	114	—
Expressão Brasileira de Propaganda Ltda.	20.00	255	(42)
ICARO Editora Ltda.	4.50	25	8
SATA Serviços Auxiliares de Transporte Aéreo S.A.	30.06	3,472	281
RIO-SUL Serviços Aéreos Regionais S.A.	0.36	98	(?)
VARIG Agropecuária S.A.	0.02	13	—
Others	—	96	50
		4,274	324

(a) Shares as of September 30, 1992
 (b) Equity Income (Loss) for the period from October through December of 1992.

6. Property and Equipment

	Thousands of U.S. Dollars						Depreciation (a) Rates % p.a. Jan/Dec
	1992			1991			
	Cost	Accumulated depreciation	Net book value	Cost	Accumulated depreciation	Net book value	
6.1. Flight equipment - owned							
Turbopropellers	—	—	—	54,241	(24,239)	2	33.3
B-727/100	29,333	(23,949)	5,384	48,449	(30,164)	18,285	20.0
B-737 200	158,022	(86,662)	71,360	67,708	(25,172)	42,536	7.1 and 16.6
DC-10/30	159,284	(63,148)	96,136	250,320	(75,433)	174,887	9.5 and 20.0
B-737/747/767 engines	37,094	(10,568)	26,526	28,723	(4,719)	24,004	5.8
Spare and repair parts	316,950	(132,806)	184,144	297,236	(106,276)	190,960	(b)
	<u>700,683</u>	<u>(317,133)</u>	<u>383,550</u>	<u>716,677</u>	<u>(266,003)</u>	<u>450,674</u>	
6.2. Flight equipment - purchase lease							
B-737/200	—	—	—	40,602	(13,982)	26,620	7.1
B-737/300	108,868	(5,895)	102,973	78,641	(1,050)	77,591	8.3
DC-10/30	70,000	(6,806)	63,194	—	—	—	14.2
B-747/200	170,005	(54,283)	115,722	170,927	(41,254)	129,673	8.3
B-747/300	184,434	(45,185)	139,249	184,581	(34,335)	150,246	5.8
B-767/200 ER	343,789	(76,469)	267,320	338,481	(57,934)	280,547	5.4
B-767 - 747/400 engines	22,733	(2,035)	20,698	11,112	(1,019)	10,093	6.6
Training equipment - simulators	9,015	(5,685)	3,330	8,015	(4,507)	3,508	14.2
	<u>908,844</u>	<u>(196,358)</u>	<u>712,486</u>	<u>832,359</u>	<u>(154,081)</u>	<u>678,278</u>	
6.3. Property and ground equipment							
Training equipment (Planes and simulators)	47,179	(15,181)	31,998	46,562	(11,985)	34,577	10.0
Ground equipment	149,870	(97,109)	52,761	132,137	(71,299)	60,838	10.0
Vehicles	20,061	(14,344)	5,717	18,638	(11,572)	7,066	20.0
Real Estate	136,216	(55,730)	80,486	135,654	(45,070)	90,584	4.0 and 5.0
	<u>355,326</u>	<u>(177,364)</u>	<u>177,962</u>	<u>333,011</u>	<u>(139,926)</u>	<u>193,085</u>	
6.4. Flight equipment - lease contracts							
B-737/300	158,246	—	158,246	34,857	—	34,857	
B-747/300	32,392	—	32,392	167,740	—	167,740	
	<u>190,638</u>	<u>—</u>	<u>190,638</u>	<u>202,597</u>	<u>—</u>	<u>202,597</u>	
Total	<u>2,155,491</u>	<u>(690,855)</u>	<u>1,464,636</u>	<u>2,084,644</u>	<u>(560,010)</u>	<u>1,524,634</u>	

(a) In agreement with service lives based on appraisal of October, 1988.
 (b) Depreciated at the same rates as the related equipment.

6.5 - The amounts recorded in Property and Equipment under "Purchase lease" refer to equipment acquired through purchase lease 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.

6.6 - The following changes in Property and Equipment in 1992 deserve mention:

	Thousands of U.S. Dollars
- Purchase of 1 B-737/300 aircraft (purchase lease)	29,872
- Purchase of 3 B-747/300 engines (purchase lease)	16,929
- Purchase of ground equipment and vehicles	7,324
- Purchase of 3 B-737/200 engines (purchase lease)	9,976
- Purchase of 2 DC-10/30 aircraft (Sale/leaseback)	70,000
- Write-off of B-737/200 and B-727/100 engines (residual value)	(4,033)
- Write-off of 2 DC-10/30 aircraft (Sale/leaseback)	(55,033)
- Write-off of 14 Electra aircraft and spare parts	—
- Write-off of 4 B-727/100 aircraft	(3,584)
- Write-off of 2 CF-6 30C2 engines	(4,549)

6.7 - As a result of the incorporation of CRUZEIRO DO SUL S.A. - Serviços Aéreos (Note 14), the following amounts (in December, 1992 currency) were added to Property and Equipment during 1992:

	Thousands of U.S. Dollars	
	Cost	Accumulated depreciation
- Flight equipment		
B-737/200	53,705	(36,327)
B-727/100 and A300 engines	9,119	(8,248)
Spare and repair parts	31,684	(29,478)
- Ground equipment	5,555	(5,378)
- Vehicles	1,146	(1,126)
- Real estate	3,255	(1,543)
Total	<u>104,464</u>	<u>(82,098)</u>

7. Work in progress

On December 31, 1992 and 1991 work in progress included:

	Thousands of U.S. Dollars	
	1992	1991
a. Technical and operational Infrastructure projects	40,182	45,533
b. Group support equipment	512	4,291
c. Purchase and manufacturing of Data Processing Equipment	1,367	2,555
d. Other	4,854	3,589
	<u>46,915</u>	<u>55,968</u>

8. 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 on the balance sheet dates.

	Thousand of U.S. Dollars				Final Maturity
	Short-Term		Long-Term		
	1992	1991	1992	1991	
8.1 - Working capital loans and financing					
Brazil					
- Citibank	-	10,000	-	-	-
- Banco Nacional	10,000	10,670	-	-	-
- Banco Francês e Brasileiro	5,700	5,146	-	-	-
- Unibanco	-	-	10,000	-	APR/95
- Bamerindus	-	-	10,000	-	MAR/94
- Banco de Crédito Nacional	4,569	5,649	3,059	-	DEC/94
- Banco B.B.A.	2,698	-	-	-	-
- Banco de Tokio	4,279	9,356	-	-	-
- Banco Inter Atlântico	5,998	-	967	-	MAY/95
- Lloyds Bank	5,005	-	-	-	-
- Banco América do Sul	4,844	-	-	-	-
- Banco Safm	2,623	5,707	-	-	-
- Banco Pontual	3,713	-	-	-	-
- Banco Industrial CML	3,229	-	-	-	-
- Banerj	-	9,356	-	-	-
- Citibank	-	-	6,184	-	-
- Other (23 Institutions)	34,040	40,631	-	-	-
Abroad					
- Citibank (US\$ 51.0 million)	-	-	51,000	-	MAR/95
- International Lease Finance Co.	10,861	105	7,964	895	MAY/2001
- Banco Nacional	10,000	-	-	-	-
- Banco Bamerindus do Brasil/USA	7,000	-	-	-	-
- Banco de Crédito Nacional/USA	13,800	15,000	-	-	-
- Banco Bradesco/USA	8,500	-	-	-	-
- Banco do Estado de São Paulo/USA	18,000	14,060	-	-	-
- Banco do Brasil/USA	20,000	22,000	-	-	-
- ABN AMRO N. V./USA	-	49,100	-	-	-
- Other (5 Institutions)	12,049	32,340	-	-	-
	<u>186,908</u>	<u>229,020</u>	<u>89,174</u>	<u>895</u>	
8.2 - Credit lines					
Brazil					
- Hot Money (11 Institutions)	53,978	16,406	-	-	-
- Other	1,031	88	-	-	-
Abroad (a)					
	<u>27,829</u>	<u>41,974</u>	-	-	-
	<u>82,838</u>	<u>58,468</u>	-	-	-
8.3 - Financed imports					
	<u>51,059</u>	<u>29,510</u>	-	-	-
8.4 - Related property and equipment:					
- Sundry	1,006	413	4,006	9	
	<u>321,811</u>	<u>317,411</u>	<u>93,180</u>	<u>904</u>	

(a) Represented by credit lines obtained in the U.S.A. (US\$ 2.4 millions), Germany (DM 27.4 millions), France (FFR 21.9 millions) and Portugal (ESC 634.4 millions), renewable, on average, every 90 days with interest charges at various rates.

8.5 - Interest charges

Working capital finance - Brazil - CDI/CETIP + 0,5% per month
 - Abroad - 7,5% p.a. - fixed

Loans - Brazil - CDI/CETIP and TRD
 - 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.

9. Lease Agreements

	Thousands of U.S. Dollars				Final Maturity
	Current portion		Long-term portion		
	1992	1991	1992	1991	
9.1 Purchase Leasing					
- Wilmington Trust Co. - USA (US\$ 251.1 millions)	30,065	27,599	221,082	251,147	JUNE/99
- Wilmington Trust Co. - USA (US\$ 56.2 millions)	2,728	5,270	53,462	57,965	NOV/2003
- Orient Leasing Co. et al/Japan (JY\$ 24.7 billions)	44,306	27,489	151,796	181,195	DEC/97
- Nissho Iwai Corp. et al/Japan (JY\$ 23.8 billions)	16,309	14,870	172,770	188,255	DEC/2000
- Manufacturers Hanover Arrendamento Mercantil - Brazil	-	2,039	-	-	
- Citibank Leasing S.A. - Brazil	-	1,005	-	-	
- Unibanco Leasing S.A. - Brazil (US\$ 1.7 millions)	833	833	833	1,667	DEC/94
- Tokyo Leasing S.A. - Brazil (US\$ 1.2 millions)	503	503	754	1,256	FEB/95
- Norchen Leasing S.A. - Brazil (US\$ 1.3 millions)	527	527	791	1,318	APR/95
- Finnlease S.A. Brazil - (US\$ 1.1 millions)	369	369	728	1,107	OCT/95
- Westdeutsche Brazil (US\$ 1.4 million)	1,286	1,166	113	1,399	FEB/94
- Nissho Iwai Corp - Japan (US\$ 5.5 millions)	2,305	2,108	3,185	5,490	FEB/95
- Citibank - Brazil (US\$ 14.0 millions)	2,844	-	11,101	-	JAN/97
- G.P.A. Group - USA (US\$ 28.5 millions)	1,779	-	26,755	-	APR/2002
- G.P.A. Group - USA (US\$ 65.1 millions)	7,001	-	58,109	-	MAY/98
- IBM Leasing Arr. Merc. - Brazil (US\$ 14.8 millions)	3,202	-	11,609	-	MAY/96
- Others	376	32	576	32	
	<u>114,433</u>	<u>83,810</u>	<u>713,674</u>	<u>690,831</u>	
9.2 Finance lease					
- International Lease Finance Co. - USA (US\$ 158.2 millions)	10,285	9,493	147,961	158,246	APR/2003
- Orix Ouro Corp. - Cayman (US\$ 16.6 millions)	1,334	1,205	15,261	16,768	AUG/2001
- SL VRG - Cayman (US\$ 16.9 millions)	1,215	985	15,657	15,900	AUG/2001
	<u>12,834</u>	<u>11,683</u>	<u>178,879</u>	<u>190,914</u>	
	<u>127,267</u>	<u>95,493</u>	<u>892,553</u>	<u>881,745</u>	

9.3 - Maturities of long-term leases

Year	Thousands of U.S. Dollars
	1992
1994	123,081
1995	129,859
1996	137,656
1997	145,961
1998	119,646
1999	81,186
2000	68,810
After 2001	86,354
	<u>892,553</u>

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

10. 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, 1992, 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.

	Quantity	Thousands of U.S. Dollars		
		Updated amount	Agreed-upon premium/interest	Agreed-upon premium/interest term
1st series	65,000 (35,950) (a)	36,064 (19,946)	5,400 (2,987)	6/1/92 to 6/1/93
		16,118	2,413	
2nd series	65,000 (57,600) (a)	36,064 (31,959)	6,294 (5,525)	7/1/92 to 7/1/93
		4,105	709	
		20,223	3,122 (b)	

(a) Debentures in treasury.

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

11. Operating Leases

The following aircraft and equipment are held under operating leases:

Lessor	Equipment		Agreement		Value	Thousands of U.S. Dollars				
	Quantity	Type	Beginning	Expiry		Monthly Payment	Balance	Current	Long-term	
Bavaria Flug Gesellschaft Germany	(1)	2	B-737/300	APR/91	MAR/96	30,600	510	19,890	6,120	13,770
	(2)	2	B-737/300	OCT/90	AUG/95	35,880	598	20,334	7,176	13,158
	(2)	2	B-737/300	AUG/91	JUL/96	34,320	572	24,596	6,864	17,732
	(2)	2	B-737/300	JUL/92	JUN/97	46,463	774	41,817	9,293	32,524
Ansett Worldwide Aviation - USA	(1)	1	B-737/300	MAY/90	APR/95	17,100	285	7,980	3,420	4,560
	(1)	2	B-737/300	NOV/91	OCT/96	32,850	547	25,185	6,570	18,615
International Lease Finance Co. USA	(2)	1	B-747/400	JUN/91	MAY/96	71,107	1,358	55,692	16,300	39,392
	(1)	2	B-737/300	OCT/91	SEP/96	34,320	572	25,740	6,864	18,876
	(2)	1	B-747/400	JUN/92	MAY/97	85,160	1,419	75,225	17,032	58,193
Westdeutsche - USA	(2)	5	B-737/300	FEB/89	JAN/94	85,140	926 (a)	12,040	11,114	926
GFA Group - Ireland	(1)	1	B-737/300	OCT/89	SEP/94	16,500	275	5,775	3,300	2,475
	(2)	2	MD-11	NOV/91	NOV/96	110,000	1,850	86,950	22,200	64,750
Nissho Iwai Corp. - Japan	(2)	2	B-767/300	DEC/89	JAN/95	95,200	1,027 (a)	25,677	12,325	13,352
C. Itoh Co. Ltd. - Japan	(2)	2	B-767/300	JUN/90	MAY/95	87,568	1,026 (a)	29,762	12,316	17,446
Mitsui Corp. - Japan	(2)	2	B-737/300	DEC/90	NOV/95	39,249	426 (a)	14,910	5,112	9,798
	(1)	1	DC-10/30	JUN/91	MAY/96	30,885	465 (a)	19,057	5,577	13,480
Pegasus Capital Corp. - USA	(1)	1	DC-10/30	NOV/90	OCT/95	30,000	500	17,000	6,000	11,000
Global Aircraft Leasing Ltd. Cayman	(1)	1	DC-10/30	DEC/90	DEC/95	30,000	500	17,500	6,000	11,500
Aircraft 46.916 Inc. - USA	(1)	1	DC-10/30	JAN/91	DEC/95	30,000	500	18,000	6,000	12,000
Aircraft 46.941 Inc. - USA	(1)	1	DC-10/30	MAY/91	APR/96	30,000	500	20,500	6,000	14,500

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

12. Paid-in Capital Stock

12.1 - The Company's paid-in capital stock, totalling US\$ 261,497,969.00, is divided into 618,591,295 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 voting shares, distributed as follows:

Shareholders	Common shares	Preferred shares
- Residing in Brazil	353,756,325	263,766,192
- Residing Overseas	731,607	307,171
Totals	354,487,932	264,073,363

12.2 - Extraordinary General Shareholder's Meetings were held on November 12 and December 16, 1992 and approved incorporation of CRUZEIRO DO SUL S.A. - Serviços Aéreos. As a result of this incorporation, the entire capital stock of the latter company, amounting to US\$ 6,906,761.00 as of September 30, 1992, was incorporated into VARIG'S capital stock through the issue of 18,561,295 new shares. Of these new shares, 10,637,200 are common shares and 7,924,095 are preferred shares. Accordingly, VARIG'S capital stock was increased from US\$ 254,591,208.00 to US\$ 261,497,969.00.

13. 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
- Sale of 4 Aircraft B-727/100 Aircraft	(1,209)
- Leaseback of 2 DC-10/30 Aircraft	14,967
- Sale of 13 Electra-L-188 Aircraft and Supplies	8,737
- Sale of Reserve Engines	(3,413)
- Sale of Electra Simulator	200
- Credits Received from The Boeing Co.	7,976
- Other Non-Operating Income (Losses)	(56,080)
	<u>(28,822)</u>

14. Incorporation of CRUZEIRO DO SUL S.A. - Serviços Aéreos.

The following are summary financial statements of CRUZEIRO DO SUL S.A. - Serviços Aéreos as of the incorporation date, already included into VARIG'S balance sheet, as well as the results of operations for the period from January through September of 1992.

	Thousands of U.S. Dollars
<u>ASSETS</u>	<u>09/30/1992</u>
CURRENT ASSETS	25,267
LONG-TERM ASSETS	369
PERMANENT ASSETS	32,564
TOTAL ASSETS	<u>58,200</u>
<u>LIABILITIES AND SHAREHOLDER'S EQUITY</u>	
CURRENT LIABILITIES	31,330
LONG-TERM LIABILITIES	19,963
SHAREHOLDERS' EQUITY	6,907
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u>58,200</u>
<u>STATEMENT OF INCOME</u>	
For the period from January 1 to September 30, 1992	
Net Operating Revenues	273,247
Operating Expenses	(207,113)
Gross Profit	66,134
Commercial Expenses	(46,969)
General Expenses	(16,364)
Net Financial Loss	(4,343)
Equity in Subsidiaries	874
Effects of Translation	(16,457)
Operating Loss	(17,173)
Non-Operating Loss	(7,753)
Loss for the Year	<u>(24,378)</u>

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BOARD OF DIRECTORS

Rubel Thomas
Chairman
Edgard Nascimento de Araujo
Vice-Chairman
Aguinaldo M. Junqueira
Antonio José Schittini Pinto
Eduardo Camargo Neves
Erni Silveira Peixoto
Götz Georg Herzfeldt
João Adolpho Lorenz
Joaquim Fernandes dos Santos
Lauro Zerwes
Oswaldo C. 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
Álvaro Arnaldo Ártico
Director Coordination Subsidiaries and Associated Companies
Edacir Luiz Tombini
Director On-Board Service
George Ermakoff
Resident Director in Brasília
Hardy Carlos Brust
Director Superintendent - São Paulo
Harro Fouquet
Director of Planning
João Luis Bernes de Sousa
Commercial Director
Luís Camargo Pinto de Carvalho
Director of Legal Affairs
Nelson Hillcoat Rlet Corrêa
Director of Flight Operations
Oswaldo Domingos Ribeiro
Director of Contracts
Ottorino Bruno
Sales Director
Paulo Enrique Moraes Coco
Traffic Director
Paulo Lopes Gallindo
Director of Engineering and Maintenance
Sérgio José Ramos Prates
Director of Administration
Simão Guilhem Guilhem
Director Superintendent - Rio Grande do Sul
Tarso Osman Guedes Picças
Executive Director - Presidency

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INDEPENDENT AUDITOR'S REPORT

To the
Shareholders and Board of Directors of
"VARIG", S.A. (Viação Aérea Rio-Grandense)

1. We have audited the accompanying balance sheets of "VARIG", S.A. (Viação Aérea Rio-Grandense) as of December 31, 1992 and 1991, and the related statements of operations, changes in shareholders' equity and changes in financial position for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.
2. We conducted our audits in accordance with generally accepted auditing standards in Brazil. Those standards require that we a) plan our work, considering the materiality of balances, volume of transactions, and the Company's system of internal accounting control; b) examine, on a test basis, evidence supporting the amounts and disclosures in the financial statements; and c) assess the accounting principles used and significant estimates made by management, as well as evaluate the overall financial statement presentation.
3. In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of "VARIG", S.A. (Viação Aérea Rio-Grandense) as of December 31, 1992 and 1991, and the results of its operations, changes in its shareholders' equity and changes in its financial position for the years then ended, in accordance with generally accepted accounting principles (Note 1).
4. The financial statements as of December 31, 1992 evidence considerable losses, shortage of working capital and a high level of indebtedness, which, therefore, affects the Company's economic-financial balance. The return of the Company to profitable operational levels and consequent economic-financial recovery will depend on normalization of the airline sector overall and also on the effective and successful implementation of the measures described in the annual management report to the shareholders.

São Paulo, Brazil
March 25, 1993

COOPERS & LYBRAND
BIEDERMANN, BOWASCH

