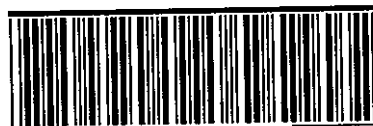


Balance Sheets

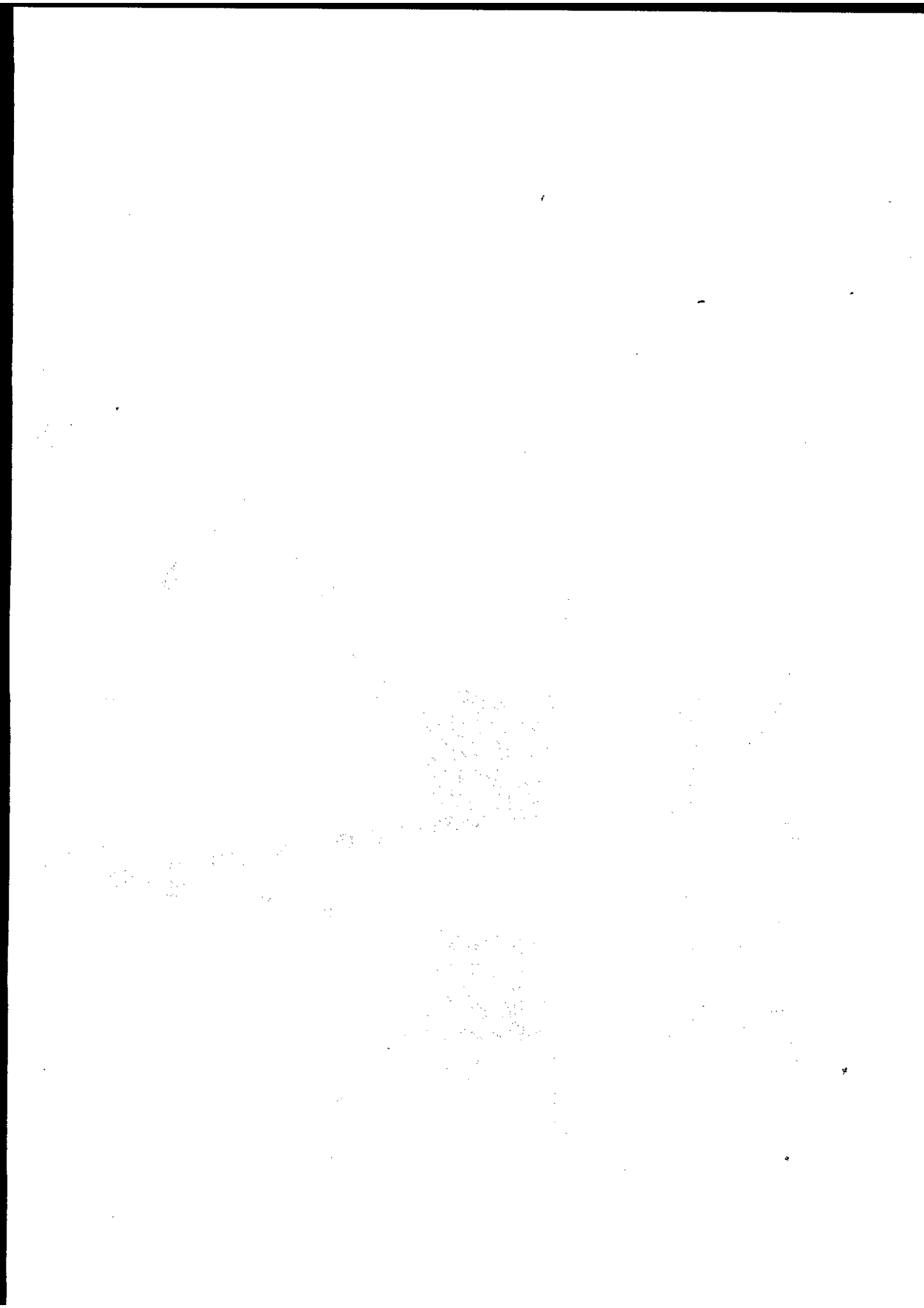
December 31, 1995 and 1994

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BALANCE SHEETS

As of December 31, 1995 and 1994

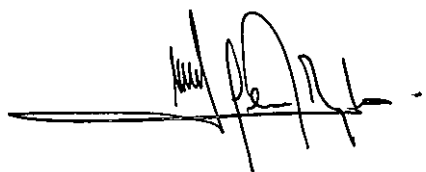
(in thousands of Reais)

ASSETS

	In December 1995 currency	
	12/31/95	12/31/94
CURRENT ASSETS		
Cash and Cash Equivalents	94,380	127,552
Accounts Receivable		
Customers	349,872	347,119
Brazilian Government	10,649	14,361
Other Airlines	32,347	24,778
Subsidiaries	10,195	9,362
Other Receivables	75,608	15,340
Less: Allowance for Doubtful Accounts	(3,545)	(3,485)
Total Accounts Receivable	475,126	407,475
Special Deposits	41,861	40,158
Maintenance and Operating Supplies	128,395	125,367
Advances to Suppliers	58,195	53,317
Prepaid Expenses	46,209	37,283
TOTAL CURRENT ASSETS	844,166	791,152
LONG-TERM ASSETS		
Subsidiaries	21,334	47,278
Special Deposits	57,802	46,126
Others	6,109	38,086
TOTAL LONG-TERM ASSETS	85,245	131,490
PERMANENT ASSETS		
Investments		
Subsidiaries and Associated Companies	171,952	167,163
Other Companies and Investments	8,116	15,125
Total Investments	180,068	182,288
Property and Equipment		
Property and Equipment	3,583,718	3,682,448
Less: Accumulated Depreciation	(1,526,198)	(1,368,625)
Subtotal	2,057,520	2,313,823
Work in Progress	21,677	23,147
Total Property and Equipment	2,079,197	2,336,970
Deferred Charges		
Amortizable Expenses	16,238	36,629
Less: Accumulated Amortization	(8,270)	(20,933)
Total Deferred Charges	7,968	15,696
TOTAL PERMANENT ASSETS	2,267,233	2,534,954
TOTAL ASSETS	3,196,644	3,457,596

LIABILITIES AND STOCKHOLDERS' EQUITY

	In December 1995 currency	
	12/31/95	12/31/94
CURRENT LIABILITIES		
Suppliers	60,492	66,193
Loans and Financings - Working Capital (9)	344,295	320,771
Lease Agreements (10)	187,020	112,169
Debentures (12)	-	42,524
Accrued Interest	46,202	32,201
Fees and Contributions	57,727	81,572
Wages and Salaries	29,726	29,477
Payable to Other Airlines	5,641	6,326
Accounts Payable	39,964	44,161
Unearned Transportation Revenues	196,973	177,209
Provisions for:		
Labor Contingencies	67,751	66,848
Flight Equipment Overhaul	14,159	9,335
TOTAL CURRENT LIABILITIES	<u>1,049,950</u>	<u>988,786</u>
LONG-TERM LIABILITIES		
Loans and Financings - Working Capital (9)	394,504	623,114
Lease Agreements (10)	1,209,309	1,461,702
Debentures (12)	158,108	9,829
Accrued Interest	57,264	31,733
Subsidiaries (8)	21,586	7,972
Accounts Payable	-	57
TOTAL LONG-TERM LIABILITIES	<u>1,840,771</u>	<u>2,134,407</u>
STOCKHOLDERS' EQUITY		
Paid-in Capital Stock		
Paid-in Capital Stock (13)	190,654	39,924
Monetary Restatement of Paid-in Capital Stock (13)	81,369	451,561
Total Paid-in Capital Stock	272,023	491,485
Capital Increase to be Homologated (13)	-	31,128
Revaluation Reserves		
Property and Equipment (13)	27,123	32,073
Investments	8,349	8,686
Total Revaluation Reserves	35,472	40,759
Retained Earnings (Deficit)	(1,572)	(228,969)
TOTAL STOCKHOLDERS' EQUITY	<u>305,923</u>	<u>334,403</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>3,196,644</u>	<u>3,457,596</u>



STATEMENTS OF INCOME

For the years ended December 31, 1995 and 1994

(in thousands of Reais, except for per-share data)

	In December 1995 currency	
	12/31/95	12/31/94
Operating Revenues		
Flight Revenues	3,117,517	3,460,233
Less: Value-Added Tax (ICMS)	-	(53,234)
Other Operating Revenues	54,600	77,693
	<u>3,172,117</u>	<u>3,484,692</u>
Less: Taxes on Revenues - COFINS	(24,235)	(24,046)
Net Operating Revenues	<u>3,147,882</u>	<u>3,460,646</u>
Operating Costs		
Flight Operations	(1,821,314)	(2,011,629)
Other Operating Expenses	(28,800)	(65,347)
Depreciation Aggregated to Service Costs	(44,951)	(81,799)
Depreciation of Leased Equipment	(130,947)	(143,663)
	<u>(2,026,012)</u>	<u>(2,302,438)</u>
GROSS PROFIT	1,121,870	1,158,208
Commercial Expenses	(704,435)	(853,912)
General Expenses		
Directors and Counselors Salaries	(2,401)	(3,506)
Administrative Expenses	(185,897)	(187,956)
	<u>(188,298)</u>	<u>(191,462)</u>
FLIGHT OPERATING PROFIT	229,137	112,834
Net Financial Income (Expenses)		
Financial Income	63,977	65,721
Financial Expenses	(190,939)	(217,914)
Interest on Long-Term Debt for Flight Equipment	(116,268)	(118,177)
	<u>(243,230)</u>	<u>(270,370)</u>
Gains (Losses) on Foreign Currency Assets and Liabilities (14)	102,300	538,390
Income from Investments		
Income from Investments in Subsidiaries and Associated Companies (5)	6,811	9,864
Dividends and Income from Other Investments	5	5
	<u>6,816</u>	<u>9,869</u>
Gains (Losses) on Non-Interest Monetary Items (15)	(649)	(4,624)
OPERATING INCOME (LOSS)	94,374	386,099
Non-Operating Income (Loss) (16)	(101,233)	(177,174)
NET INCOME (LOSS) FOR THE YEAR	<u>(6,859)</u>	<u>208,925</u>
NET INCOME (LOSS) PER SHARE	R\$ (0.11)	R\$ 3.38

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

For the years ended December 31, 1995 and 1994

(in thousands of Reais)

(In December 1995 currency)

DESCRIPTION	Paid-in Capital Stock	Capital to be Homologated	Revaluation Reserve		Retained Earnings (Deficit)	Total
			Property and Equipment	Investments		
A-Balances as of December 31, 1993	491,485	31,128	123,460	14,150	(534,745)	125,478
- Realization of Revaluation Reserves Property and Equipment	- -	- -	(91,387)	- -	91,387	- -
- Realization of Revaluation Reserves Investments	- -	- -	- -	(5,464)	5,464	- -
- Net Income for the Year	- -	- -	- -	- -	208,925	208,925
B-Balances as of December 31, 1994	491,485	31,128	32,073	8,686	(228,969)	334,403
- Capital Increase by Conversion of Debentures	9,507	- -	- -	- -	- -	9,507
- Capital Reduction/Offset of Retained Deficit	(228,969)	- -	- -	- -	228,969	- -
- Realization of Revaluation Reserves Property and Equipment	- -	- -	(4,950)	- -	4,950	- -
- Realization of Revaluation Reserves Investments	- -	- -	- -	(337)	337	- -
- Reversal of Reserves	- -	(31,128)	- -	- -	- -	(31,128)
- Net Loss for the Year	- -	- -	- -	- -	(6,859)	(6,859)
C-Balances as of December 31, 1995	<u>272,023</u>	<u>- -</u>	<u>27,123</u>	<u>8,349</u>	<u>(1,572)</u>	<u>305,923</u>

STATEMENTS OF CHANGES IN FINANCIAL POSITION

For the years ended December 31, 1995 and 1994

(in thousands of Reais)

	In December 1995 currency	
	<u>12/31/95</u>	<u>12/31/94</u>
SOURCES		
Operations		
Net Income (Loss) for the Year	(6,859)	208,925
Depreciation and Amortization	104,219	128,895
Depreciation - Leased Equipment	130,947	143,663
Equity in Subsidiaries	(6,811)	(9,864)
Gains (Losses) on Long-Term Assets	2,783	19,805
Net Book Value of Property and Equipment Sold	82,622	436,486
Gains (Losses) on Long-Term Liabilities	(137,439)	(503,812)
Net Book Value of Investments	36,987	12,942
Capital Losses - Stockholding	7,999	8,657
	<u>214,448</u>	<u>445,697</u>
Stockholders and Third Parties		
Long-Term Financings	256,202	1,241,558
Reduction of Long-Term Liabilities	43,462	60,168
Total Sources	<u>514,112</u>	<u>1,747,423</u>
USES		
Increase in Permanent Assets		
Investments	35,955	16,869
Property and Equipment	49,765	869,896
Deferred Charges	2,522	6,869
	<u>88,242</u>	<u>893,634</u>
Reduction of Long-Term Debt	434,020	170,060
Total Uses	<u>522,262</u>	<u>1,063,694</u>
Changes in Net Working Capital	<u>(8,150)</u>	<u>683,729</u>
	<u>514,112</u>	<u>1,747,423</u>
REPRESENTED BY:		
Current Assets		
At End of Year	844,166	791,152
At Beginning of Year	791,152	685,001
	<u>53,014</u>	<u>106,151</u>
Current Liabilities		
At End of Year	(1,049,950)	(988,786)
At Beginning of Year	(988,786)	(1,566,364)
	<u>(61,164)</u>	<u>577,578</u>
Changes in Net Working Capital	<u>(8,150)</u>	<u>683,729</u>

NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 1995 AND 1994

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 and Exchange Commission (CVM), the Company presents only Financial Statements inflation indexed by reference to units of constant purchasing power. This is because Income for the Year and Stockholders' Equity as of December 31, 1995 so reported are the same as those reported in the Financial Statements presented in accordance with inflation indexing prescribed by the Brazilian Corporation Law.

The Financial Statements related to the previous year were translated into Reais and monetarily restated to December 1995 currency.

Amounts presented in the Notes to Financial Statements have likewise been monetarily restated to December 1995 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 Brazilian Corporation Law, representing inflation gains and losses on monetary assets and liabilities, has been reclassified to the respective income statement accounts to which it relates.

b. Denomination of Foreign Currency or Index-Linked Amounts

Current and long-term 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. Marketable Securities

Marketable securities are stated at cost plus yields accrued on a prorated basis through the balance sheet date and are represented by regular market transactions without any characteristics that would classify them as derivatives. Management evaluation's did not identify material differences between market and book values of loans, financing and debentures (Notes 9, 10 and 12) due to the debt restructuring process carried out recently. Additionally, the Company has commitments defined in operating lease agreements, which are shown in Note 11.

d. Allowance for Doubtful Accounts

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

e. Maintenance and Operating Supplies

The Spare Parts and Sundry Materials and Work in Progress Inventories are stated at acquisition or production cost, inflation-indexed in accordance with the UFIR fluctuation, which is lower than replacement cost. Imports in Progress are stated at costs incurred through the balance sheet date.

f. Property and Equipment

The Company's own equipment and that acquired under purchase leasing are stated at monetarily restated acquisition cost, except for flight equipment revalued in October 1988 and monetarily restated from that date on. Depreciation of property and equipment and lease agreements is computed by the straight-line method at the rates shown in Note 6, with no residual value.

g. Provisions

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

h. Revenue Recognition

Sales are recorded as a Current Liability - "Unearned Transportation Revenues" - until such time as the transportation services are provided, at which point they are transferred to the statement of income as revenue earned. Accordingly, in the balance sheet this account represents services to be rendered. -

3. MAINTENANCE AND OPERATING SUPPLIES

	R\$ thousand	
	12/31/95	12/31/94
- Sundry materials.....	89,108	89,644
- Work in progress	14,601	10,373
- Importation in progress	24,686	25,350
	<u>128,395</u>	<u>125,367</u>

4. SPECIAL DEPOSITS

	R\$ thousand			
	1995			1994
	Current	Long-Term	Total	Total
- As guarantee for lease contracts (Security Deposits and Maintenance Deposits)	21,035	33,073	54,108	45,176
- As guarantee for aircraft manufacture (Progress Payments)	7,481	6,983	14,464	15,408
- Other Deposits	13,345	17,746	31,091	25,700
	<u>41,861</u>	<u>57,802</u>	<u>99,663</u>	<u>86,284</u>

5. SUBSIDIARIES AND ASSOCIATED COMPANIES

VARIG's investments in its subsidiaries and associated companies are monetarily restated and accounted for by the equity method. Details on these investments are as follows as of December 31, 1995:

	R\$ thousand				R\$ thousand		
	Stockholders' Equity	Income (Loss) for the Year	% Share of Capital Total-Voting		Adjusted Book-Value	Equity Income (Loss)	1994 Adjusted Book Value
Cia. Tropical de Hotéis	48,610	(6,047)	92.83	97.19	45,124	(5,613)	35,023
Cia. Tropical de Hotéis da Amazônia	60,561	(11,695)	36.31	45.42	21,987	(4,246)	25,730
ÍCARO Editora Ltda.	672	(64)	99.99	99.99	672	(64)	145
Banco VARIG S.A.	8,956	(6,232)	46.67	24.24	4,180	(2,909)	7,088
SATA Serv. Auxiliares de Transp. Aéreo S.A.	19,370	(2,103)	77.68	77.68	15,047	(1,634)	19,403
RIO-SUL Serv. Aéreos Regionais S.A.	76,273	24,908	96.78	96.69	73,819	24,106	64,121
VARIG Agropecuária S.A. ...	50,751	(15,244)	19.22	19.22	9,756	(2,930)	12,988
Other Companies					1,367	101	2,665
					<u>171,952</u>	<u>6,811</u>	<u>167,163</u>

6. PROPERTY & EQUIPMENT

	R\$ thousand				(a) % Rate per Year
	12/31/95		12/31/94		
	Restated Amount	Accumulated Depreciation	Restated Amount	Accumulated Depreciation	
OWN PROPERTY & EQUIPMENT					
- Flight Equipment					
B-727/100	53,963	(53,963)	53,963	(53,963)	20,0
B-737/200	249,236	(202,559)	249,236	(195,688)	7.1 and 16.6
737/747/767/DC-10 Engines	107,791	(57,020)	107,791	(48,791)	5.8
Spare and Repair Parts	235,636	(112,494)	254,734	(115,325)	(b)
- Training Equip. - Planes and Simulators	77,295	(44,605)	77,332	(38,560)	10.0
- Ground Equipment	211,907	(159,933)	234,082	(172,839)	10.0
- Vehicles	12,693	(11,793)	15,633	(14,237)	20.0
- Real Estate Properties	345,544	(174,433)	376,092	(175,052)	4.0 and 5.0
Total Own Property & Equipment	<u>1,294,065</u>	<u>(816,800)</u>	<u>1,368,863</u>	<u>(814,455)</u>	
FINANCE LEASES					
- Flight Equipment					
B-737/200	28,761	(26,788)	28,761	(26,497)	7.1 and 16.6
B-737/300	488,853	(65,306)	488,455	(36,330)	5.0 and 6.6
DC-10/30	332,233	(218,199)	332,233	(177,838)	9.5 and 16.6
B-747/200	253,454	(152,401)	279,287	(131,110)	8.3
B-747/300	317,897	(133,992)	317,897	(115,284)	5.8
B-767/300	165,874	(16,162)	165,874	(5,597)	6.5 and 6.6
MD-11	664,883	(78,893)	663,380	(45,686)	5.0
B-767 - 747 Engines	21,897	(2,799)	21,897	(1,232)	7.2
- Training Equipment - Simulators	15,801	(14,858)	15,801	(14,596)	14.2
Total Finance Leases	<u>2,289,653</u>	<u>(709,398)</u>	<u>2,313,585</u>	<u>(554,170)</u>	
Total Property & Equipment	<u>3,583,718</u>	<u>(1,526,198)</u>	<u>3,682,448</u>	<u>(1,368,625)</u>	

(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 As a result of the flight equipment revaluation made in October 1988, depreciation expense in the respective amount of R\$ 19,090 thousand was charged to results of 1995 operations. Property & Equipment includes R\$ 95,413 thousand representing the uplift of assets from restated cost to their revalued amounts; this uplift will be amortized in the results of operations of future years when realized through depreciation or sale. The resulting revaluation reserve has been reduced by losses incurred in the year of revaluation and, consequently, is lower than the related uplift in Property & Equipment by R\$ 68,290 thousand.

6.2 In accordance with the 2nd Article of Law 8200/91, depreciation expense and cost of assets written off, in the amounts of R\$ 6,586 thousand and R\$ 4,639 thousand, respectively, were charged to results for the year. An amount of R\$ 45,983 thousand out of the total revalued amount remains under Property & Equipment and will be recorded in the results of future years when realized through depreciation or sale.

7. DEFERRED CHARGES - AMORTIZABLE EXPENSES

	R\$ thousand			
	Monetarily restated original amounts		Monetarily restated amortization	
	12/31/95	12/31/94	12/31/95	12/31/94
- On-board service equipment	-	356	-	(189)
- Leasehold improvements (a)	781	4,354	(496)	(3,437)
- Expenses incurred in putting new flight/ground equipment into service (B)	15,457	31,919	(7,774)	(17,307)
	<u>16,238</u>	<u>36,629</u>	<u>(8,270)</u>	<u>(20,933)</u>

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

(b) Pre-operating 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

8. INTERCOMPANY TRANSACTIONS - SUBSIDIARIES, ASSOCIATED COMPANIES AND PARENT COMPANY

Amounts classified as Current refer to normal market transactions. Amounts classified as Long-Term refer to mutual loans, earning interest at market rates.

8.1 Current

	R\$ thousand	
	Assets	
	12/31/95	12/31/94
Cia. Tropical de Hotéis	496	344
SATA Serv. Auxiliares de Transporte Aéreo S.A.	1,810	2,681
RIO-SUL Serviços Aéreos Regionais S.A.	2,447	1,908
Fundação Ruben Berta	4,953	3,700
Others	489	729
	<u>10,195</u>	<u>9,362</u>

8.2 Long-Term

	R\$ thousand			
	Assets		Liabilities	
	12/31/95	12/31/94	12/31/95	12/31/94
Soc. Brasileira de Turismo Aéreo-Rotatur Ltda.	-	-	181	146
RIO-SUL Serv. Aéreos Regionais S.A.	-	-	-	7,826
Fundação Ruben Berta	-	-	21,405	-
VARIG Agropecuária S.A.	8,534	1,872	-	-
Cia. Tropical de Hotéis	6,847	16,667	-	-
Cia. Tropical de Hotéis da Amazônia	5,953	-	-	-
SPR Empreendimentos e Participações	-	2,633	-	-
Caterair do Brasil S.A.	-	2,157	-	-
Interlocadora S.A.	-	23,949	-	-
	<u>21,334</u>	<u>47,278</u>	<u>21,586</u>	<u>7,972</u>

9. WORKING CAPITAL LOANS AND FINANCING

	R\$ thousand			
	1995			1994
	Short-Term	Long-Term	Total	Total
Working Capital Loans	128,468	105,612	234,080	356,018
Credit Lines				
Brasil	-	-	-	18,045
Abroad	6,561	-	6,561	6,967
Financing of Supplies	1,275	-	1,275	11,073
Financed Imports	22,854	-	22,854	38,642
Financing of Taxes and Levies	165,621	288,857	454,478	464,830
Financing of Fuel Purchases	10,301	-	10,301(a)	29,015
Financing related to Property and Equipment	63	35	98	381
Others	9,152	-	9,152	18,914
	<u>344,295</u>	<u>394,504</u>	<u>738,799</u>	<u>943,885</u>

(a) Financing related to Petrobrás fuel billings, monthly payments and interest calculated based on CETIP rate.

Interest incurred and not due is classified as Current and Long-Term Liabilities, depending on the respective maturity dates, under "Accrued Interest".

9.1 Working Capital Loans

	R\$ thousand				
	1995			1994 Total	Final Maturity
	Short-Term	Long-Term	Total		
Brazil					
- Banco Safra	1,640	-	1,640	-	
- Banco Arbi	2,025	-	2,025	-	
- Others	-	-	-	114,158	
	<u>3,665</u>	<u>-</u>	<u>3,665</u>	<u>114,158</u>	
Abroad					
- Nissho Iwai Corp. - Japan (JY\$ 2 Billion)	18,710	-	18,710 (a)	41,093	DEC/96
- Banco do Brasil - USA (US\$ 53.3 million)	51,867	-	51,867 (a)	71,443	MAR/96
- Banespa - USA (US\$ 24 million)	23,340	-	23,340	24,865	JAN/96
- Banco Crédito Nacional - USA (US\$ 13.8 million)	13,42	-	13,420	-	FEB/96
- Brazilian American Merchant Bank - USA (US\$ 150.1 million)					
Less: Discount (US\$ 41.5 million)					
Net (US\$ 108.6 million)	-	105,612	105,612(b)	62,162	DEC/2012
- Others	17,466	-	17,466	42,297	
	<u>124,803</u>	<u>105,612</u>	<u>230,415</u>	<u>241,860</u>	
	<u>128,468</u>	<u>105,612</u>	<u>234,080</u>	<u>356,018</u>	

(a) Loans guaranteed by sales in Japan, Argentina and Italy, with variable interest rates in accordance with LIBOR;

(b) Loans for 18- and 5-year periods with a 5-year grace period for payment of the principal. Interest calculated based on LIBOR plus a spread of 3.5% and 3% per year, respectively, due semi-annually. As a consequence of the sale operation of DCBs - Debt Conversion Bonds and IDUs - Obligations issued by the Brazilian Treasury, a discount equivalent to US\$ 41.5 million was obtained on these loans, to be accrued to results over the loan amortization term. Real estate properties in Brasília and Manaus and all shares owned in RIO-SUL, Sata, Cia. Tropical de Hotéis and Cia. Tropical de Hotéis da Amazônia were included as guarantees for these operations.

9.2 Financing of Taxes, Levies and Social Security and Pension Fund Contributions

	R\$ thousand				
	1995			1994 Total	Final Maturity
	Short-Term	Long-Term	Total		
- INSS	68,587	136,693	205,280	260,576(a)	OCT/2000
- COFINS	3,819	10,934	14,753	18,573(b)	AUG/2002
- ICMS	15,180	812	15,992	15,611(c)	
- INFRAERO - Taxas Aeroportuárias	8,829	54,236	63,065	72,670(d)	NOV/2002
- Instituto AERUS de Seguridade Social	69,206	86,182	155,388	97,400(e)	JAN/99
	<u>165,621</u>	<u>288,857</u>	<u>454,478</u>	<u>464,830</u>	

- (a) Company's share of Social Security contributions - due through August 1994; to be paid in installments from 24 to 90 months and bearing interest at 1% per month;
- (b) Contributions related to COFINS levy from June 1993 to March 1994; to be paid in installments over a maximum of 80 months and bearing interest at 1% per month
- (c) Value-Added Tax (ICMS) on air transportation services up to July 1994; to be paid in installments under agreements reached with the respective state governments. Payments have now been suspended by decision of the Federal Supreme Court;
- (d) Airport taxes due up to June 1994; to be paid to INFRAERO in installments over a 96-month period and bearing interest at 1% per month;
- (e) Contributions due to AERUS will be divided into installments in January 1996 and then be payable as from February 1996 in 36 monthly installments and bearing interest at 1% per month.

10. LEASE AGREEMENTS

	R\$ thousand	
	1995	1994
Flight Equipment	1,238,996	1,412,885
Ground/Training Equipment	6,903	9,479
Refinancings	150,430	151,507
	<u>1,396,329</u>	<u>1,573,871</u>
Analyzed between:		
Short-Term	187,020	112,169
Long-Term	1,209,309	1,461,702

Interest incurred and not due is reported under Current Liabilities as "Accrued Interest".

10.1 Flight Equipment

		R\$ thousand					
		1995			1994	Final	
		Short-Term	Long-Term	Total	Total	Maturity	
(a)	- Orient Leasing Co. et al - Japan (JY\$ 19.1 billion)	41,946	136,555	178,501	196,025	DEC/99	
(b)	- Nissho Iwai Corp. et al - Japan (JY\$ 20.3 billion)	22,477	168,181	190,658	213,069	SEP/2002	
	- Nissho Iwai Corp. - Japan	-	-	-	689		
(c)	- Nissho Iwai Corp. - Japan (US\$ 125.6 million)	5,547	116,651	122,198	135,588	NOV/2005	
(d)	- Citibank - USA (US\$ 7.8 million)	2,884	4,719	7,603	10,054	JUN/98	
(e)	- Citibank - USA (US\$ 26.4 million)	5,330	20,385	25,715	31,490	OCT/99	
(f)	- Wilmington Trust Co. - USA (US\$ 47.2 million)	3,426	42,524	45,950	52,308	DEC/2003	
(g)	- Wilmington Trust Co. - USA (US\$ 166.5 million)	12,786	149,167	161,953	185,079	JAN/2005	
(h)	- Wilmington Trust Co. - USA (US\$ 11.4 million)	8,625	2,504	11,129	16,347	NOV/97	
(i)	- Wilmington Trust Co. - USA (US\$ 189.1 million)	12,551	171,422	183,973	208,431	JAN/2006	
(j)	- G.P.A. Group - Ireland (US\$ 22.7 million)	2,483	19,663	22,146	25,681	APR/2002	
(k)	- G.P.A. Group - Ireland (US\$ 41.6 million)	9,385	31,116	40,501	52,131	MAY/98	
(l)	- Harrington Ltd - USA (US\$ 82.0 million)	7,995	71,799	79,794	92,727	FEB/2001	
(m)	- Harrington Ltd - USA (US\$ 740.3 thousand)	720	-	720	2,259	JUN/96	
(n)	- General Electric Capital Corp - USA (US\$ 13.3 million)	608	12,326	12,934	13,778	NOV/2004	
(o)	- Bavaria Flug Gesellschaft - Germany (US\$ 51.4 million)	4,251	45,741	49,992	54,740	JUN/2002	
(p)	- Mitsui Corp. - Japan (US\$ 49.7 million)	2,711	45,699	48,410	54,216	DEC/2006	
(q)	- Orix Ouro Corp. - Cayman (US\$ 25.9 million)	2,575	22,602	25,177	26,822	JUL/2001	
(r)	- SLVRG Ltd. - Cayman (US\$ 26.4 million)	2,347	23,355	25,702	27,381	JUL/2001	
(s)	- BCN Leasing - Brazil (US\$ 1.2 million)	1,200	41	1,241	2,803	SEP/96	
(t)	- BCN Leasing - Brazil (US\$ 2.8 million)	1,323	1,447	2,770	3,169	DEC/97	
(u)	- Pontual Leasing - Brazil (US\$ 1.3 million)	1,313	-	1,313	4,662	MAR/96	
(v)	- Safra Leasing - Brazil (US\$ 633.6 thousand)	616	-	616	3,436	JUN/97	
		<u>153,099</u>	<u>1,085,897</u>	<u>1,238,996</u>	<u>1,412,885</u>		

- a. Three B-747-200B aircraft, on a 15 year lease starting December 1982, with an option to purchase at the end of the lease term for JY\$ 600. The outstanding balance is to be amortized as from January 1996. Interest is paid quarterly at a fixed rate of 9.15% p.a.;
- b. Two B-747-300 aircraft, on a 15 year lease starting December 1985, with an option to purchase at the end of the lease term for JY\$ 400. Installments and fixed interest charges at the rate of 9.0% p.a. are paid quarterly;
- c. Two B-767-300 aircraft leased in October 1989, converted into a financial lease in November 1994, with a purchase option at the end of the lease term for US\$ 200.00 and remaining period of 11 years. Installments are quarterly and bear interest of LIBOR plus 1.5% p.a.;
- d. Four engines leased in July 1992 for an original 5-year period and a purchase option at the end of the term for US\$ 100.00. Payments are monthly, ending June 1998. Interest charges at LIBOR plus spread of 4.0% p.a. are like wise paid monthly;
- e. Two DC-10 aircraft in November 1994 on the basis of a sale-lease-back transaction for a period of 5 years, with an option to purchase at the end of the lease term for the market price. Installments are paid monthly and bear interest of LIBOR plus spread of 2.87% p.a. and 4% p.a., also paid monthly;

- f. Two B-737-300 aircraft leased in December 1991 from Wilmington Trust Co. -USA for 12 years, with payments totaling US\$ 63.2 million and purchase option at the end of the lease term for US\$ 200.00. Payments are quarterly; interest is at 8.31% p.a.;
- g. Two MD-11 aircraft leased in December 1992 with Wilmington Trust Co. - USA for 12 years, with purchase option at the end of the lease term for US\$ 200.00. Payments are made quarterly and bear variable interest of 0.4% p.a. to 3.15% p.a. over quarterly LIBOR and fixed interest of 7.28% p.a.;
- h. One DC-10 aircraft on the basis of a sale-lease-back transaction in December 1993 and with an original 2-year term. After being renegotiated, the term was extended to November 1997 and quarterly amortization are to begin in May 1996. Interest is calculated based on LIBOR plus spread of 4% p.a. and is paid monthly;
- i. Two MD-11 aircraft leased in December 1993 for 12 years, with an option to purchase at the end of the lease term for US\$ 200.00. Payments are made quarterly and bear variable interest in accordance with LIBOR;
- j. One B-737-300 aircraft leased in April 1992 for 10 years, with purchase option at the end of the lease term for US\$ 2.5 million. Installments are payable monthly and interest rate is 10.0042% p.a.;
- k. Two DC-10-30 cargo aircraft leased in April 1992 on the basis of a sale-lease-back transaction for a period of 6 years, with option to purchase at the residual value of US\$ 17.5 million. Installments are payable monthly; interest is at 10.7433% p.a.;
- l. Five B-737-300 aircraft leased in November 1988 converted into financial leased in February 1994, with a 7-year term, with a purchase option at the end of the lease term for US\$ 30.6 million and monthly amortization. Interest at LIBOR plus spread of 1.5% p.a. is being paid monthly;
- m. Two CF6 engines leased in May 1994 for 2 years, with purchase option at the end of the lease term (US\$ 1.00) and monthly amortization. Interest at LIBOR is paid monthly;
- n. Two CF6 engines leased in October 1994 for 10 years, with an option to purchase at the end of the lease term (US\$ 1.00), payable monthly from May 1996 on. Interest at 4% above LIBOR is payable monthly from the beginning of the contract;
- o. Two B-737-300 aircraft leased in July 1992 converted in financial lease in March 1994, with a purchase option at the end of the lease term (US\$ 2.00) and remaining term of 8 years. Payments and interest at a fixed rate of 10% p.a. will be paid monthly;
- p. Two B-737-300 aircraft leased in November 1990 converted into financial lease in December 1994, with a purchase option at the end of the lease term (US\$ 200.00) and remaining term of 12 years. Amortization of principal and interest (LIBOR plus spread of 1.1250% p.a.) is payable quarterly;
- q. One B-737-300 aircraft leased in July 1991 converted into financial lease in December 1994, with a purchase option at the end of the lease term (US\$ 12.7 million) and remaining term of 7 years. Payments are made semi-annually; interest is fixed at 10.64% p.a.;
- r. One B-737-300 aircraft leased in July 1991 converted into financial lease in December 1994, with a purchase option at the end of the lease term (US\$ 13.8 million) and remaining term of 7 years. Payments are made semi-annually; interest is fixed at 10.64% p.a.;
- s. Three CF6 engines leased in September 1993 on a sale-lease-back basis for 3 years, with a purchase option at the end of the lease term (US\$ 42 thousand) and quarterly payment terms;
- t. One B-737-200 aircraft leased in August 1992 on a sale-lease-back basis for 2 years, with a purchase option at the end of the lease term (US\$ 3,059 thousand), to be paid in 36 installments as from December 1994;

u. Three CF6 engines leased in March 1994 on a sale-lease-back basis for 2 years and semi-annually payments;

v. One B-737-200 aircraft leased in June 1994 on a sale-lease-back basis for 3 years.

10.2 Refinancings

	R\$ thousand			1994 Total	Final Maturity
	1995				
	Short-Term	Long-Term	Total		
- Financial Lease					
(a) Wilmington Trust Co.					
- USA (US\$ 34.1 million)	-	33,196	33,196	34,856	JUL/2005
(b) Wilmington Trust Co.					
- USA (US\$ 30.8 million)	14,955	14,955	29,910	5,505	OCT/97
(c) First Security Bank of Utah					
- USA (US\$ 28.0 million)	1,869	25,361	27,230	29,008	NOV/2005
(d) GPA Group					
- USA (US\$ 13.2 million)	3,557	9,344	12,901	10,177	SEP/98
Others	120	-	120	7,298	
	<u>20,501</u>	<u>82,856</u>	<u>103,357</u>	<u>86,844</u>	
- Operating Lease					
(e) Pegasus Capital Corp.					
- USA (US\$ 3.9 million)	1,394	2,431	3,825	2,448	OCT/98
(e) Global Aircraft Leasing Ltd.					
- Cayman (US\$ 4.7 million)	1,484	3,095	4,579	3,066	JAN/99
(e) PK Airfinance					
- USA (US\$ 4.7 million)	1,541	3,124	4,665	2,948	JAN/99
(e) Ansett Worldwide Aviation					
- USA (US\$ 3.7 million)	1,367	2,280	3,647	4,009	OCT/99
(e) Bavaria Flug Gesellschaft					
- Germany (US\$ 7.6 million)	2,218	5,203	7,421	7,583	SEP/99
- GPA Group Irland	-	-	-	3,818	
(e) International Lease Finance Corp.					
- USA (US\$ 23.5 million)	2,447	20,489	22,936	40,791	MAY/2003
	<u>10,451</u>	<u>36,622</u>	<u>47,073</u>	<u>64,663</u>	
	<u>30,952</u>	<u>119,478</u>	<u>150,430</u>	<u>151,507</u>	

- a. Outstanding balance of debt (US\$ 34.1 million) related to the contracts for four MD-11 aircraft, borne by the guarantor of the operation (McDonnell Douglas), US\$ 17.4 million being amortized as from July 1995 in 10 quarterly installments and US\$ 16.7 million to be amortized from 2005 on. Interest of 4% p.a. above LIBOR will be due on the outstanding balance of debt, payable quarterly;
- b. Outstanding balance of debt (US\$ 30.8 million) paid monthly in 10 installments as from July 1995; interest is at 4% p.a. above LIBOR and paid quarterly;
- c. Outstanding balance of debt (US\$ 26.9 million) and interest (US\$ 1.1 million) on series "D" of the contracts for four MD-11 aircraft signed with Wilmington Trust, refinanced by the First Bank of Utah for 11 years. Payments will be made monthly beginning in June 1996. Interest will be also paid monthly based on a rate of 4% p.a. above LIBOR;
- d. Installments of the principal and interest due on lease contracts from March to June 1994, which were refinanced with the lessor over 54 monthly payments. Interest will also be paid monthly based on a fixed rate of 8% p.a. and variable in accordance with LIBOR;
- e. Amounts of operating lease that were not paid and were refinanced by creditors for average terms of 18 to 60 months; monthly payments and interest calculated either at fixed rates of 8% p.a. or variable in accordance with LIBOR plus 4% p.a.

11. OPERATING LEASES

The Company has operating lease commitments for the following aircraft:

Lessor	Equipment		Contract		Monthly Cost	US\$ thousand		
	Quant.	Type	Beginning	End		Balance 12/31/95	Distribution (Term)	
							Short	Long
Bavaria Flug Gesellschaft - Germany	2	B-737/300	APR/91	MAR/99	445	17,355	5,340	12,015
	2	B-737/300	OCT/90	OCT/98	493	16,762	5,916	10,846
	2	B-737/300	AUG/91	SEP/99	511	22,995	6,132	16,863
Ansett Worldwide Aviation - USA	1	B-737/300	MAY/90	APR/98	253	7,084	3,036	4,048
	2	B-737/300	NOV/91	OCT/99	501	23,046	6,012	17,034
International Lease Finance Corp. - USA	3	B-747/300	APR/94	APR/99	2,390	95,600	28,680	66,920
	2	B-737/300	OCT/91	OCT/96	572	5,720	5,720	-
GPA Group - Ireland	2	MD-11	NOV/91	NOV/96	1,597	17,567	17,567	-
C. Itoh Co. Ltd. - Japan ...	2	B-767/300	SEP/94	MAR/98	1,317(a)	35,559	15,804	19,755
Mitsui Corp - Japan	1	DC-10/30	JUN/91	JUN/96	441(a)	2,646	2,646	-
Pegasus Capital Corp - USA	1	DC-10/30	SEP/90	OCT/98	317	10,778	3,804	6,974
Global Aircraft Leasing Ltd. - Cayman	1	DC-10/30	DEC/90	JAN/99	328	12,136	3,936	8,200
PK Airfinance - USA	1	DC-10/30	JAN/91	JAN/99	329	12,173	3,948	8,225
Aircraft 46.941 Inc. - USA	1	DC-10/30	MAY/91	MAY/96	500	2,500	2,500	-
B-767- Leasing, Inc. - USA	6	B-767-200	NOV/94	OCT/2009	1,930 (b)	320,380	23,160	297,220

(a) Average monthly cost, varying according to the LIBOR plus spread of 1.5% p.a.;

(b) After January 1996, average cost is US\$ 2,034 thousand per month.

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 acquisitions.

The balances as of December 31, 1995, which correspond to commitments of the Company, are charged to results of operations for the year under the heading Flight Operations, in view of the utilization of the respective equipment.

12. DEBENTURES

	R\$ thousand	
	1995	1994
3rd Issue	- (a)	51,776
4th Issue	158,108	577
	<u>158,108</u>	<u>52,353</u>
Analyzed between:		
Short-Term	-	42,524
Long-Term	158,108	9,829

(a) Debentures of the 3rd Issue - 2nd series are all in the Treasury and fall due on March 1, 1996.

12.1. The Extraordinary Stockholders Meeting held on November 17, 1994 approved the issue of 130,000 debentures (4th issue) with par value of R\$ 1,000.00, divided in three series with the following characteristics as of December 31, 1995

	<u>Quantity</u>	<u>Restated Amount</u>	<u>Renegotiated Interest</u>
- 1st series	21,845 (a)	27,979	534
- 2nd series	68,101 (b)	87,224	1,663
- 3rd series	33,498 (c)	42,905	818
	<u>123,444</u>	<u>158,108</u>	<u>3,015(d)</u>

- (a) Debentures convertible into common shares;
- (b) Debentures convertible into preferred shares;
- (c) Debentures convertible into preferred shares;
- (d) Interest are classified as Current Liabilities under "Accrued Interest".

As from July 1, 1995, with the termination of Real Consumer Price Index (IPC-r), the monetary restatement of debentures started to be carried out based on the INPC, with a remuneration of 12% p.a. and premium calculated according to the issue register, and paid annually. The amortization will be made in 3 annual successive installments as from November 1997 or, at the choice of the person holding the debenture, through the conversion of Company's shares, which can be made at any time until the final maturity, according to the following portions:

Date	<u>Quantity of Shares per Debenture</u>
until 10/31/95	385
from 11/01/95 to 10/31/96	308
from 11/01/96 to 10/31/97	254
from 11/01/97 to 10/31/98	178
from 11/01/98 to 11/01/99	102

As of December 31, 1995, 6,556 debentures were converted, as follows:

	<u>Quantity</u>
- 1st series	3,155
- 2nd series	2,899
- 3rd series	502

Debentures of 1st and 2nd series are being guaranteed by Company's creditor banks, as per private deed, and the value of the subscription of such debentures was, in January 1995, used in the settlement of loans with those institutions

13. STOCKHOLDERS' EQUITY

13.1 Paid-in capital stock

The Company's paid-in capital stock, totaling R\$ 190,653,863.32, is divided into 64,380,189 shares with no par value. Of this total number of shares, 36,663,468 are common shares and the remaining 27,716,721 preferred non-voting shares. Authorized capital stock is 85,843,855 common shares and 63,948,793 preferred shares.

The principal corporate acts during the year were as follows:

- a.** Annual and Extraordinary General Stockholders Meetings were held on April 27, 1995 and, among other decisions, approved an increase in the Company's capital stock from R\$ 39,923,910.00 to R\$ 401,336,532.92 through incorporation of monetary restatement reserves into capital stock in the amount of R\$ 361,412,622.92, without issue of new shares.
- b.** On October 25, 1995, the Board of Directors decided to reverse the credits paid in by the Ruben Berta Foundation, classified in the Company's Stockholders' Equity under Capital Increase to be Homologated, setting up the same credit in an intercompany loan account classified in Long-Term Liabilities under the Subsidiaries.
- c.** In 1995 the Board of Directors homologated conversion of 6,556 debentures, (3,155 1st series, 2,899 2nd series and 502 3rd series - 4th issue) at the restated overall face value of R\$ 9,030,353.89 into 1,214,675 common shares and 1,309,385 preferred shares, though use of the multiplying factor of 385. As a result, Subscribed and Paid-in Capital Stock rose from R\$ 401,336,532.92 to R\$ 410,366,886.81.
- d.** An Extraordinary General Stockholders Meeting was held on December 19, 1995. Among other decisions, the Company's Stockholders approved reduction of the Capital Stock by R\$ 219,713,023.49, by offsetting of the Deficit through December 31, 1994, updated to November, 1995. As a result, the Capital Stock was reduced from R\$ 410,366,886.81 to R\$ 190,653,863.32.

13.2 Reserves

Pursuant to the Brazilian Corporation Law (6404/76) and the Corporate Statutes, the Company set up a capital stock monetary restatement reserve, which can be capitalized at the next Annual General Stockholders Meeting.

13.3 Revaluation Reserve

The revaluation of flight equipment was approved in October of 1988 (Note 6.2). As allowed by Instruction 197 issued by the Brazilian Securities & Exchange Commission (CVM) on January 19, 1993, the Company chose not to reclassify part of the revaluation reserves to the Special Monetary Restatement Reserve (2nd Article of Law 8200/91) in relation to those assets, as established by CVM Instruction 189/92. The remaining balance of the revaluation reserve as of December 31, 1995, corresponds to the total of the reserve.

13.4 Dividends

In light of the loss for the year and the absence of retained earnings and revenue reserves, no dividends will be distributed, as permitted by the Corporate Statutes.

14. NET GAINS ON FOREIGN CURRENCY ASSETS AND LIABILITIES

These amounts correspond to the amount by which exchange gains 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:

	R\$ thousand	
	1995	1994
Net profit on fixed assets financings	-	-
- Financings in Japanese Yen	36,640	105,696
- Financings in US Dollars and other currencies	63,816	420,533
	<u>100,456</u>	<u>526,229</u>
Net profit from other assets and liabilities in foreign currency	1,844	12,161
	<u>102,300</u>	<u>538,390</u>

15. LOSSES ON DEFLATION OF INTEREST BEARING ITEMS TO PRESENT VALUE

15.1. In the Statement of Income, expressed in currency of Constant Purchasing Power, 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:

	R\$ thousand			
	Corporate legislation	Full restate- ment before reclassification	Reclassification of net profit (loss) from monetary items	Constant purchasing power
- Net operating revenues	2,779,287	3,144,835	3,047	3,147,882
- Operating expenses	(1,801,613)	(2,033,262)	7,250	(2,026,012)
- Commercial expenses	(618,967)	(697,887)	(6,548)	(704,435)
- Administrative expenses	(166,858)	(188,309)	11	(188,298)
- Net financial income (expenses)	(292,445)	(332,663)	89,433	(243,230)
- Net exchange loss on assets and liabilities in other currencies	(192,361)	(231,340)	333,640	102,300
- Income from investments	6,814	6,816	-	6,816
- Gains (losses)	-	437,345	(437,994)	(649)(a)
- Non-operating income	(98,661)	(112,394)	11,161	(101,233)
- Inflation indexing result	377,945	-	-	-
Loss for the year	<u>(6,859)</u>	<u>(6,859)</u>	<u>-</u>	<u>(6,859)</u>

(a) Losses are detailed as follows:

- Subsidiary and associated companies	(1,747)
- Other credits	(1,293)
- Collection on behalf of third parties	94
- Accounts payable	2,405
- Other payables	<u>(108)</u>
	<u>(649)</u>

16. NON-OPERATING INCOME (LOSS)

We highlight the following net results of the main events which occurred in 1995:

	R\$ thousand
- Depreciation of grounded aircraft	(31,439)
- Estimated loss on sale of grounded aircraft (B-747-200)	(25,958)
- Result of write-off of accessories and spare parts	(17,428)
- Fines on installment payments of social security (INSS) contributions	(14,257)
- Other non-operating results	<u>(12,151)</u>
	<u>(101,233)</u>

17. TAXES

17.1 ICMS (value added tax on circulation of goods and transportation and communications services)

In view of the tax changes instituted by the Federal Constitution in October of 1988, the States of the Brazilian Federation approved collection of Value-Added Tax (ICMS) on domestic air passenger and cargo transport as from May, 1989, on the basis of the national tax conference (CONFESS 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.

Collection of such value-added tax was suspended under a restraining order as from July, 1994. This resulted from a preliminary injunction granted in that month by the Federal Supreme Court in response to a Direct Unconstitutionality Suit filed by the nation's Attorney General. This suit in turn was based on a suit of the same nature filed by the Brazilian Airline Companies Association (SNEA). This decision suspended the administrative ruling which had ordered the collection of ICMS on airline transportation services in Brazil. According to our legal advisors, the restraining order means that ICMS will not be levied on Company operations until such time as a final decision is reached.

17.2 Income Tax and Social Contribution

This year, in light of the deficit, neither Income Tax nor the Social Contribution levy are due. Accumulated tax losses (NOLs) – deducted from deferred inflation profit – as of December 31, 1995, in the amount of approximately R\$ 52 million, will be offset against future taxable income.

18. CONTINGENT CREDITS

Through its legal counsel, VARIG has filed suit for reimbursement by the government of an insufficiency of domestic fare tariffs in effect from 1986 to 1991. The total updated amount filed for as of March, 1995, according to calculations made by accounting experts, is R\$ 2,236,654 thousand. The Company has chosen not to record such contingent credits in its financial statements. This will be done when a favorable decision is reached on our lawsuit.

19. AERUS EMPLOYEE PENSION FUND

The Instituto Aerus de Seguridade Social (Aerus Social Security Institute) is an employee pension fund that 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 amounted to 6.8% of salaries, for a total amount for the year of R\$ 37.261 thousand in December 1995 currency.

According to the financial statements of Instituto Aerus de Seguridade Social, supported by the respective actuarial calculations and the report of independent accountants, the mathematical reserves representing liabilities for benefits granted or to be granted, in the amount of R\$ 1,019,203 thousand as of December 31, 1995, are covered by the plan's assets. Therefore, there are no contingencies to be recognized by the sponsors.

20. 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, 1995:

Type	Object	Insured amount R\$ thousand
- Aviation	-Aircraft (engines, airframe), flight simulators, spare parts	3,566,255
- Fire	-Buildings and contracts	294,338
- Ground liability	-Comprehensive (cargo, passengers and other)	978,160
- Sundry risks	-Valuables and equipment	13,212
- Group life and personal accident	- All employees	216

BOARD OF DIRECTORS

Edgard Nascimento de Araújo
Chairman

Aguinaldo M. Junqueira Filho
Vice-Chairman

Arnoldo Souza de Oliveira

Ingo Plöger

Joaquim Fernandes dos Santos

Lino Pereira

Nelson de Sampaio Bastos

Walterson Fontoura Caravajal

Wilson Nélio Brumer

OFFICERS

Carlos Willy Engels
President and Chief Executive Officer

Andrés Lautersztajn
Cargo Director

Carlos Ebner Neto
Chief Financial Officer and Investor Relations Director

Claudio Affonso Junqueira
Engineering and Maintenance Director

Luiz da Gama Mor
Operational Logistics Director

Nelson Hillcoat Riet Corrêa
Flight Operations Director

Odilon Cesar Nogueira Junqueira
Administration and Human Resources Director

Paulo Enrique Moraes Coco
Marketing and Sales Director

Manuel Eduardo Domingues Guedes
Accountant
CRC-SP - 145.685/S/RS
CPF 013.901.588-45

Report of Independent Accountants

To the Stockholders and Board of Directors
"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, 1995 and 1994, and the related statements of income, changes in stockholders' 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 auditing standards generally accepted 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, 1995 and 1994, and the results of its operations and the changes in its stockholders' equity and financial position for the years then ended, in accordance with accounting principles generally accepted in Brazil.

São Paulo, Brazil
March 20, 1996

**Coopers
& Lybrand**

Coopers & Lybrand
Biedermann, Bordasch
auditores independentes
CRC SP 8.599-S/RS

Roberto Wagner Promenzio
Senior Partner
Accountant CRC SP 88.438 S/RS

REPORT OF STATUTORY AUDIT COMMITTEE

The Members of the Statutory Audit Committee of "VARIG", S.A. (Viação Aérea Rio-Grandense), having conducted an examination of the accounting records of the Company's operations for the year ended December 31, 1995, based on the Balance Sheet as of that date and the corresponding Statements of Income and Changes in Stockholders' Equity and Financial Position for the year then ended, as well as the Report of Management and the Report of Independent Accountants, are of the opinion that the said Financial Statements merit the approval of the Annual General Stockholders Meeting.

•Porto Alegre, March 20, 1996.

Celso Lima Araújo
Horst-Günter Axthelm
Emílio Otto Kaminski
Roberto Bier da Silva
Izidoro Polacow
Arnaldo Sandal Pires