



Companies House

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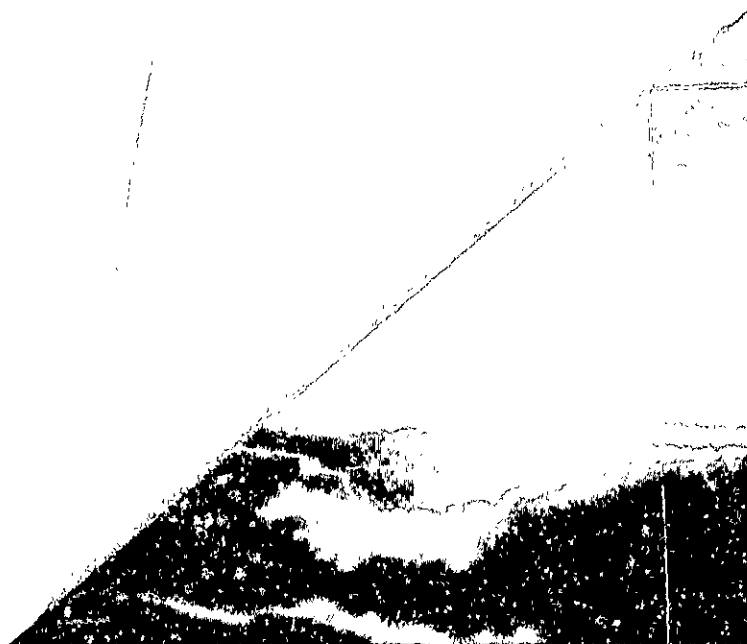
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06-08-92

F.C. 5668



65th ANNUAL REPORT
1991



VARIG

COMPANIES HOUSE

28 JUL 1992

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Balance Sheets

December 31, 1991 and 1990

(In Thousands of U.S. Dollars)

ASSETS		
	1991	1990
CURRENT ASSETS:		
Cash and cash equivalents	87,467	93,615
Accounts receivable	214,464	245,425
Maintenance and operating supplies (Note 2)	185,057	166,062
Special deposits (Note 3)	9,833	13,340
Prepaid expenses and other	40,795	39,387
CURRENT ASSETS	537,616	557,829
 LONG-TERM ASSETS:		
Subsidiaries and associated companies (Note 4)	25,528	7,019
Special deposits (Note 3)	114,835	106,152
Other	5,732	5,868
LONG-TERM ASSETS	146,095	119,039
 PERMANENT ASSETS:		
Investments		
Subsidiaries (Note 5)	108,714	109,980
Other investments	6,500	6,500
	115,224	116,480
Property and equipment		
Flight equipment - own (Note 6)	716,677	774,010
Flight equipment - purchase lease (Note 6)	832,359	784,920
Property and ground equipment (Note 6)	333,011	323,310
	1,882,047	1,882,240
Accumulated depreciation (Note 6)	(560,010)	(456,407)
	1,322,037	1,425,833
Flight equipment - lease contracts (Note 6)	202,597	-
Work in progress (Note 7)	55,968	24,052
	1,580,602	1,449,885
Deferred charges, net	15,694	18,416
PERMANENT ASSETS	1,711,520	1,584,781
 TOTAL ASSETS	 2,395,231	 2,261,649

(In Thousands of U.S. Dollars)

LIABILITIES AND SHAREHOLDERS' EQUITY

	1991	1990
CURRENT LIABILITIES:		
Suppliers	94,155	71,977
Short-term loans (Note 8)	317,411	234,743
Current portion - lease agreements (Note 9)	95,493	76,036
Dividends	132	11,690
Accrued interest	54,041	21,405
Unearned transportation revenues	100,948	131,345
Amort fees	20,045	75,670
Accrued payroll	24,453	17,834
Accounts payable	126,302	110,963
Accrued vacation pay and other	68,426	78,219
CURRENT LIABILITIES	901,406	769,882

LONG-TERM LIABILITIES:

Long-term debt (Note 8)	904	51,030
Lease agreements (Note 9)	881,745	683,399
Subsidiaries and associated companies (Note 4)	3,260	3,200
Debentures (Note 10)	50,167	63,238
Other	44,886	37,822
LONG-TERM LIABILITIES	980,962	838,689

SHAREHOLDERS' EQUITY:

Paid-in capital stock (Note 12)	254,591	254,591
Revaluation reserves	174,761	265,438
Surplus reserves	110,329	190,329
Accumulated losses	(106,818)	(57,270)
SHAREHOLDERS' EQUITY	512,863	653,078



TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY 2,395,231 2,261,649

The accompanying notes are an integral part of the financial statements

06-08-92

Statements of Income

Year ended December 31, 1991 and 1990

In Thousands of U.S. Dollars

	1991	1990
GROSS OPERATING REVENUES:		
Passenger fares	1,984,756	1,898,408
Other related tax	(27,649)	(33,966)
	1,957,107	1,864,442
Freight	56,391	86,148
	2,013,498	1,948,887
Other revenues (PIS and Financial)	(20,299)	(21,960)
Total operating revenues	1,993,199	1,926,927
OPERATING COSTS		
Flight operations	(1,121,248)	(1,139,941)
Other operating costs	(30,608)	(38,217)
Depreciation of owned equipment	(105,248)	(129,318)
Depreciation of leased equipment	(50,755)	(50,654)
Adjustments to inventories and provisions	(48,763)	(38,665)
	(1,356,622)	(1,396,790)
GROSS PROFIT	636,577	530,137
Commercial expenses	(461,634)	(435,946)
General and administrative expenses	(94,536)	(123,555)
Net financial loss	(122,625)	(89,274)
Exchange losses on permanent assets financing	(23,492)	(27,943)
Interest on long-term debt for flight equipment	(81,255)	(72,590)
Equity investments	(9,681)	(12,803)
Effects of translation	(79,962)	(47,678)
	(1,213,185)	(1,136,789)
OPERATING LOSS	(241,604)	(279,152)
NON OPERATING INCOME	(Note 13)	77,370
		1,81,047
LOSS BEFORE INCOME TAX		
Provision for income tax	(264,299)	(145,105)
	26,725	
	(237,574)	(145,105)
NET LOSS	(157,574)	(145,105)
LOSS PER SHARE	(US\$0.23)	(US\$0.24)

Statements of Changes in Financial Position

Years ended December 31, 1991 and 1990

in thousands of U.S. dollars

	1991	1990
SOURCES		
Operations:		
Net loss	357,574	175,001
Depreciation and amortization	121,913	117,619
Depreciation - leased equipment	50,705	50,651
Exchange losses on long-term debt	2,982	24,582
Equity in subsidiaries	9,681	12,757
Other	1,762	1,111
	544,617	382,621
Shareholders and other:		
Net book value of property and equipment sold	151,525	24,667
Increase in long-term liabilities	276,815	107,349
Debentures		6,275
Capital increase		55,257
Other Sources	346	176
	528,791	303,723
TOTAL SOURCES	1,073,408	686,344
USES		
Proposed dividends		41,698
Additions to permanent assets:		
Investments	1,102	91,814
Property and equipment	146,667	87,119
Deferred charges	4,516	11,795
Increase in long-term assets	27,016	39,673
Decrease in long-term debt	76,723	161,130
Decrease in other long-term liabilities	103,603	47,325
Other uses	402	18,012
	359,929	549,966
TOTAL USES	359,929	549,966
CHANGES IN WORKING CAPITAL	713,479	136,378
	524,250	303,123
CHANGES IN WORKING CAPITAL ARE REPRESENTED BY:		
Current Assets:		
End of year	137,615	407,209
Beginning of year	937,829	491,401
	(799,214)	(84,192)
Current Liabilities:		
End of year	901,405	176,624
Beginning of year	269,862	159,765
	(631,524)	(16,141)
CHANGES IN WORKING CAPITAL	167,691	23,812

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Statements of Changes in Shareholders' Equity

For the period ending 31st December 1991

Particulars	Paid up Capital (Rs)	Reserves		Surplus reserves		Total (Rs)
		Profit & Loss Account	Investment Reserve	Legal Reserve	Other Reserve	
Balance as at 31st Dec 1990	100,000	25,000	4,400	2,500	6,100	138,000
Profit for the year					12,100	12,100
Transfer to Investment Reserve					(12,100)	(12,100)
Transfer to Legal Reserve					2,500	2,500
Transfer to Other Reserve					(2,500)	(2,500)
Balance as at 31st Dec 1991	100,000	25,000	4,400	2,500	12,100	144,000

Notes to Financial Statements (in connection with Cruzelros Financial Statements)

1. Summary of significant accounting policies

Accounting records

The accounts are prepared on a double entry system. All assets and liabilities are measured at their fair value. The accounting records are maintained in the English language.

The financial statements are prepared on a going concern basis. The management has no intention of liquidating the company or of ceasing its operations.

The financial statements are prepared on a historical cost basis. The carrying amount of assets and liabilities is based on their historical cost less any depreciation, amortisation or impairment losses.

The financial statements are prepared on a cash basis. The carrying amount of cash and cash equivalents is based on the bank statements and other supporting documents.

The financial statements are prepared on a accrual basis. All assets and liabilities are recognized when they are incurred, regardless of whether they have been paid for or not.

The financial statements are prepared on a prudence basis. All assets and liabilities are measured at their lower value, unless there is clear evidence to the contrary.

The financial statements are prepared on a consistency basis. The accounting policies are applied consistently from year to year.

The financial statements are prepared on a disclosure basis. All material information is disclosed in the financial statements.

The financial statements are prepared on a transparency basis. The financial statements are clear and understandable.

The financial statements are prepared on a reliability basis. The financial statements are based on reliable information.

The financial statements are prepared on a relevance basis. The financial statements are relevant to the users.

The financial statements are prepared on a comparability basis. The financial statements are comparable with those of other companies.

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Reversal recognition

Sales are recorded as current liabilities (debt) until the aircraft is delivered to the customer. The amount of the liability is determined by the amount of the contract price.

2. Maintenance and operating supplies

	Thousands of US Dollars	
	1991	1990
Spares and sundry materials	130,217	128,693
Warranty progress	6,353	4,196
Other progress	48,987	45,667
	185,557	178,556

3. Special deposits

	Current		Thousands of US Dollars		Total	
	1991	1990	1991	1990	1991	1990
A. Guaranteed for lease (security deposits)						
Aviation Co. Japan	1,924	1,700	16,357	16,431	18,281	18,131
Aviation Co. Japan	-	-	7,667	2,976	7,667	2,976
ILFC - USA	-	3,150	13,825	-	13,825	9,100
ILFC - USA	-	-	7,200	7,200	7,200	7,200
ILFC - USA	-	-	3,600	-	3,600	-
Airport Worldwide Aviation - USA	-	-	1,600	1,600	1,600	1,600
Airport Worldwide Aviation - USA	-	-	500	500	500	500
Wendingsche - USA	-	-	8,029	2,853	8,029	2,853
GPA Group - Ireland	-	2,000	4,196	-	4,196	2,000
GPA Group - Ireland	-	-	500	500	500	500
China Co Ltd. Japan	-	-	4,889	1,436	4,889	1,436
China Co Ltd. Japan	-	-	2,446	-	2,446	-
Bayern Flug Gesellschaft - Germany	-	-	3,600	1,196	3,600	1,196
Miles Corp. Japan	-	-	1,891	600	1,891	600
SEVEC - Cayman	-	-	2,456	-	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	-	-	3,600	-	3,600	-
Aircraft 46 916 Inc. - USA	-	-	1,500	1,500	1,500	1,500
	1,924	6,940	62,666	59,407	84,590	46,947
B. Guaranteed for production of aircraft (Progress payments)						
The Boeing Co. - USA	19,880	3,916	24,780	36,406	44,666	42,324
McDonnell Douglas - USA	18,581	-	19,181	26,373	37,762	26,373
(-) Advances received Marubeni - USA	(33,639)	-	(40,492)	-	(60,131)	-
	4,822	3,916	17,469	62,783	22,297	67,697
Other deposits	3,087	2,484	14,700	2,962	17,787	5,446
	9,833	13,340	114,835	106,152	124,674	119,492

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\$ 4,489 thousand and US\$ 58 thousand, US\$ 3,182 thousand and US\$ 1,122 thousand in 1990, respectively.

Long-term inter-related loan agreements which provide for interest pursuant to legal requirements or advances for future capital increases are as follows:

	Thousands of US Dollars			
	Receivables		Payables	
	1991	1990	1991	1990
Compania de Sul S.A. - Serviço Aéreo	19,875	-	-	2,972
Fundação Ribon beta	-	843	2,927	-
Soc. Brasileira de Turismo Aéreo - Reator Ltda.	-	-	46	208
VARI's Trade S.A.	-	136	-	-
VARI's Agropecuária S.A.	-	3,071	578	-
Interlocadora S.A.	527	-	-	-
Com. Tropical de Hóteis da Amazônia S.A.	4,310	2,393	-	-
Plan Editora Ltda.	-	56	-	-
Expresso Brasileiro de Propaganda Ltda.	321	-	0	-
	25,633	7,019	3,551	3,180

(-) Advances for future capital increase

5. Investments in subsidiaries

	Thousands of US Dollars			Thousands of US Dollars	
	Capital stock	Shareholders' equity	Net income	Carshare (at Capital)	Equity of other companies
				Total	Vote
Com. Tropical de Hóteis	43,049	33,640	(16,913)	59,09	95,65
Com. Brasileira de Turismo Aéreo	51,469	32,718	(1,269)	40,64	7,12
Soc. Brasileira de Turismo Aéreo - Reator Ltda.	15	28	33	99,40	99,40
Exp. Expresso Brasileiro de Propaganda Ltda.	655	716	147	29,42	29,42
Interlocadora S.A.	403	897	11	17,81	17,81
Com. VARI's Agropecuária	78,901	77,437	(3,492)	24,76	28,51
Com. VARI's Trade S.A.	22,256	27,281	(1,163)	96,42	96,42
SATA Serv. Aéreo Transporte Aéreo S.A.	7,168	9,393	(1,075)	52,80	52,80
Com. VARI's S.A.	18,547	9,947	(8,266)	40,67	24,94
Interlocadora S.A.	9,391	4,619	(2,076)	62,60	62,60
Other	-	-	-	-	309
	247,839	247,839	(24,766)	324,42	324,42

(-) Investments decreased due to the sale of 600 shares in November 1991

(-) Investments increased due to the sale of 600 shares in November 1991 and type of share (common rights)

(-) Investments increased due to the sale of 600 shares in November 1991 and type of share (common rights) and type of share (preferred rights), which resulted in the decrease of total balance funds by 24,766 thousand.

6. Property and equipment

	Thousands of dollars					
	1991		1990		1989	
	As reported	As reported	As reported	As reported	As reported	As reported
6.1. Land and buildings						
Land	24,247	24,159	24,247	24,247	24,247	24,247
Buildings	40,449	39,624	39,624	39,624	39,624	39,624
Leasehold improvements	27,460	25,372	25,372	25,372	25,372	25,372
Construction in progress	27,127	24,433	24,433	24,433	24,433	24,433
Accumulated depreciation	(24,247)	(24,247)	(24,247)	(24,247)	(24,247)	(24,247)
6.2. Equipment						
Equipment	40,653	39,972	39,972	39,972	39,972	39,972
Leasehold improvements	1,664	1,664	1,664	1,664	1,664	1,664
Construction in progress	1,762,217	1,762,217	1,762,217	1,762,217	1,762,217	1,762,217
Accumulated depreciation	(325,463)	(319,831)	(319,831)	(319,831)	(319,831)	(319,831)
Construction in progress	15,112	15,112	15,112	15,112	15,112	15,112
Accumulated depreciation	(8,032)	(8,032)	(8,032)	(8,032)	(8,032)	(8,032)
Construction in progress	4,276	4,276	4,276	4,276	4,276	4,276
6.3. Intangible assets						
Patents and trademarks	40,592	41,985	41,985	41,985	41,985	41,985
Goodwill	3,927,417	3,927,299	3,927,299	3,927,299	3,927,299	3,927,299
Other intangible assets	1,226,654	1,226,654	1,226,654	1,226,654	1,226,654	1,226,654
Accumulated depreciation	(444,911)	(459,926)	(459,926)	(459,926)	(459,926)	(459,926)
Total	1,882,447	1,882,447	1,882,447	1,882,447	1,882,447	1,882,447

As of the end of the reporting period of October 31, 1992.

Includes the related property and equipment.

6.4. The company has acquired equipment through purchase orders placed during the reporting period. The company has also acquired property and equipment through purchase orders placed during the reporting period.

6.5. The company has acquired property and equipment during the reporting period.

	1991	1990
Acquired during the reporting period	6,400	72,151
Disposals	(72,151)	(1,168)
Net change	(65,751)	70,983

6.6. Assets held for sale during the reporting period.

	1991	1990
Assets held for sale	1,677,217	1,677,217
Accumulated depreciation	(218,577)	(218,577)
Total	1,458,640	1,458,640

Assets held for sale of \$1,677,217 consisted of assets held for sale during the reporting period of \$1,677,217 and which have not yet been sold.

7. Property and equipment in progress

	Thousands of dollars	
	1991	1990
Construction in progress	4,276	4,276
Equipment	4,276	4,276
Leasehold improvements	4,276	4,276
Construction in progress	4,276	4,276
Total	17,112	17,112

8. Loans

Loans are reported at face value less unamortized discounts and other adjustments. Other adjustments are disclosed in the notes to the financial statements.

8.1. Loans payable

	Thousands of dollars			
	1991		1990	
	Start	End	Start	End
Term loans	10,000	10,000	10,000	10,000
Accounts payable	10,000	10,000	10,000	10,000
Total	20,000	20,000	20,000	20,000

8.2. Loans receivable

	1991		1990	
	Start	End	Start	End
Term loans	10,000	10,000	10,000	10,000
Accounts receivable	10,000	10,000	10,000	10,000
Other receivables	10,000	10,000	10,000	10,000
Construction in progress	10,000	10,000	10,000	10,000
Accumulated depreciation	(10,000)	(10,000)	(10,000)	(10,000)
Total	30,000	30,000	30,000	30,000

	Quantity	Updated value	Project costs remain	Information disclosed
Fluorene	25,000 (4,500) (a)	35,210 (2,299)	3,954 (382)	66,549 (b) comp 86,019
Gen. Equip. (c)	25,000 (27,432) (a)	30,913 (33,216)	4,329 (2,285)	62,621 (b) comp 52,519
		19,256	1,985	
		59,167	8,302 (b)	

Information disclosed by the company is recorded under the heading of "Contractual liabilities - Accrued interest"

11. Operating leases

The following table and equipment are held under operating leases:

Leasee	Equipment	Lease agreement		Thousands of U.S. Dollars				
		Start	Term	Value	Monthly payment	Balance	Current	Long-term
Lufthansa Technik AG - Germany	B-737-300	APR/91	MAR/96	30,600	510	26,020	8,120	19,890
	B-737-300	SEP/91	AUG/95	35,885	598	26,210	7,126	19,084
Airbus Worldwide Aviation - USA	B-737-300	AUG/91	JUL/96	34,320	577	31,746	6,864	24,882
	B-737-300	NOV/91	NOV/96	32,850	547	31,295	6,970	24,325
International Lease Finance Corporation - USA	B-737-300	MAY/90	APR/95	17,100	265	11,400	3,420	7,980
	B-737-300	JUN/91	MAY/96	21,121	492 (b)	20,607	13,556	57,051
Westwoods Inc. - USA	B-737-300	OCT/91	OCT/96	34,320	572	32,604	6,964	25,640
	B-737-300	FFB/89	JAN/94	85,140	1,111 (a)	27,841	12,944	14,897
CPA Group - Ireland	B-737-300	OCT/89	SEP/94	16,500	275	9,675	2,960	6,715
	A310-11	NOV/91	NOV/96	110,000	1,850	103,225	22,200	81,025
Nippon Air Corp. - Japan	B-737-300	DEC/89	FEB/95	95,200	1,312 (a)	49,844	17,740	32,104
	B-737-300	JUN/90	JUN/95	87,542	1,234 (a)	54,760	17,027	37,733
C. Tech. Co. Ltd. - Japan	B-737-300	DEC/90	NOV/95	37,243	548 (a)	25,764	6,518	19,246
	DC-10-30	JUN/91	MAY/96	30,885	515 (a)	27,282	6,177	21,105
Pegasus Capital Corp. - USA	DC-10-30	NOV/90	OCT/95	30,000	500	23,000	6,000	17,000
	DC-10-30	DEC/90	NOV/95	30,000	500	23,500	6,000	17,500
Aircraft Leasing Ltd. - Canada	DC-10-30	JAN/91	DEC/95	30,000	500	24,000	6,000	18,000
	DC-10-30	MAY/91	APR/96	30,000	500	26,500	6,500	20,000
Aircraft Leasing Ltd. - USA						630,823	152,966	472,857

12. Accessory monthly payment, variable in accordance with LIBOR rate plus spread of 1.5% per annum. The amount is \$1,350 thousand for the first year and \$1,350 thousand for the following months.

12. Paid-in capital stock

Paid-in capital totals US\$ 254,571,208 (a) at December 31, 1991 and is divided into 600,000,000 no-par value shares, of which 343,850,732 are common shares and the remaining 256,149,268 are preferred non-voting shares, distributed as follows:

Shareholder	Shares	
	Common	Preferred
- Remaining in Brazil	343,110,736	255,865,289
- Remaining abroad	739,996	283,879
	343,850,732	256,149,268

13. Non-operating income

As a consequence of the fleet expansion and rationalization plan, in 1991 the company realized income in the sale of aircraft and components, received credits granted by manufacturers on the purchase of aircraft and engines and also realized other types of income, as detailed below:

	Thousands of U.S. Dollars
Sale of part DC-10-30	87,019
Sale of part B-737-300	1,569
Credits granted by The Boeing Co.	7,500
Other non-operating income	27,222
	123,310

14. Income tax and Social contribution

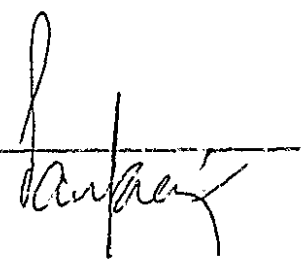
There is no provision in 1991 for income tax and social contribution payable due to the fact that the amount of the income in 1991 relative to the previous year was lower than the amount of the previous year's income.

Board of Directors

Roberto Thomas - *Director President*
 Joaquina Fernandes de Barros - *Director Vice President Executive and Financial*
 Walferson Fontoura Caravajal - *Director Vice President Administration and Human Resources*
 Carlos Willy Engels - *Director Vice President Technical*
 Alvaro Antonio Antunes - *Director General Operations Subsidiaries and Associated Companies*
 Edmar Luiz Tavares - *Director On-Board Service*
 George Eduardo Almeida - *Resident Director in Brasília*
 Haroldo de Sá - *Director Sales Superintendent - São Paulo*
 Haroldo de Sá - *Director of Financing*
 José Luiz Brito de Aguiar - *Commercial Director*
 Luiz Carlos de Faria - *Director of Legal Affairs*
 Nelson de Souza - *Director of Flight Operations*
 Carlos Roberto de Aguiar - *Director of Contracts*
 Guilherme Eduardo Sales Bragança - *Director*
 Francisco de Assis - *Director of Traffic*
 Paulo Roberto de Aguiar - *Director of Engineering and Maintenance*
 Sérgio Roberto de Aguiar - *Director of Administration*
 Sérgio Roberto de Aguiar - *Director Superintendent - Rio Grande do Sul*
 Tarciso Cláudio de Aguiar - *Executive Director - Presidency*

Administrative Council

Roberto Thomas - *Chairman*
 Edgard Nascimento de Araujo - *Vice Chairman*
 Arnaldo de Aguiar - *Member*
 Antonio José de Aguiar - *Member*
 Eduardo Comarço Neves - *Member*
 Erico Silveira Peres - *Member*
 Gato Oswaldo Herzfeld - *Member*
 João Adolpho Lorenz - *Member*
 Joaquim Fernandes dos Santos - *Member*
 Lauro Zerweck - *Member*
 Oswaldo C. Triguereas Jr - *Member*



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, 1991 and 1990 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. These 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, 1991 and 1990, 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 annual report shows that factors related to macro-economic policies and retraction in domestic and international markets, mainly the air transportation market, have significantly contributed to the generation of operating losses and insufficient working capital, which are presented in the Company's financial statements. The economic-financial balance and the normalization of the Company's businesses are subject to the effective implementation of the structural adjustments mentioned in the report.

São Paulo, Brazil
 March 16, 1992

COOPERS & LYBRAND