

2/23/2006

**DETAILED JUDICIAL REORGANIZATION PLAN**

**for**

**“VARIG” S.A (Viação Aérea Rio Grandense)**

**Rio Sul Linhas Aéreas S.A.**

**Nordeste Linhas Aéreas S.A.**

**Under Judicial Reorganization**

2/21/06

**DETAILED JUDICIAL REORGANIZATION PLAN**

**I – DEFINITIONS AND ACRONYMS**

1. Designations and acronyms used in the text:

SHARES IN THE COMPANIES	This term has the meaning ascribed in Item 24
EIF-CONTROL ADMINISTRATOR	A first-rate financial institution chosen in the MEETING OF APPOINTMENTS to perform the duties conferred thereto under the RULES AND REGULATIONS
AERUS	Instituto AERUS de Seguridade Social
12/19/2005 GMC	General Meeting of Creditors occurring on 12/19/2005
2/13/2006 GMC	General Meeting of Creditors convened on February 13, 2006 and adjourned on February 23, 2006, for the sole purpose of reviewing and ratifying the language in the legal documents concerning the PLAN, per p. 14,072 of the ACTION
TRUSTEE	This term is as defined in Item 28 of this document
FINAL PRESENTATION	Slides presented by the President of VARIG at the 12/19/2005 GMC (Attachment I)
MEETING OF APPOINTMENTS	Meeting of Creditors to choose the EIF-CONTROL ADMINISTRATOR, the EIF-CONTROL MANAGER, and the MANAGING COMMITTEE members in accordance with Item 26 b) of this document
VALUATOR	First-rate firm charged with valuating the SHARES IN THE COMPANIES
BANK CREDIT NOTE	Bank Credit Notes issued in accordance with Item 22
CERTIFICATE OF BANK CREDIT NOTES	Certificates of Bank Credit Notes issued in accordance with Item 22
CLASS I	Group of CLASS I CREDITORS
CLASS II	Group of CLASS II CREDITORS
CLASS III	Group of CLASS III CREDITORS
CREDITOR CLASSES	CLASSES I, II, and III, together
COMPANIES	VARIG, RIO SUL, and NORDESTE, together
CREDITORS COMMITTEE	Creditors Committee formed in accordance with Art. 26 and following articles of the CRL
ACKNOWLEDGMENT OF DEBT	The private instrument of acknowledgment of debt to be entered into between the COMPANIES and the CREDITORS in accordance with Item 17.d) of this

	DETAILED PLAN, as well as between the COMPANIES and the holders of POST-FILING CREDITS, so long as they are net and certain, for the purpose of substantiating and updating the value of the CREDITS and/or POST-FILING CREDITS, which will have substantially the same form as the standard draft included in Attachment IV to this DETAILED PLAN
CLASS A SHARES	The Class A shares in the EIF-CONTROL, as defined in the RULES AND REGULATIONS
CLASS B SHARES	The Class B shares in the EIF-CONTROL, as defined in the RULES AND REGULATIONS
CLASS C SHARES	The Class C shares in the EIF-CONTROL, as defined in the RULES AND REGULATIONS
POST-FILING CREDITS	This term has the meaning established in Item 16 a) of this document
CREDITS	The credits against the COMPANIES subject to the JUDICIAL REORGANIZATION
CREDITORS	CLASS I, II, and III CREDITORS, together, as well as their successors and assignees, for any reason
CLASS I CREDITORS	Holders of credits derived from labor laws or resulting from work accidents
CLASS II CREDITORS	Holders of credits with real collateral
CLASS III CREDITORS	Holders of unsecured, special-privilege, general or subordinate credits
CVM	Brazilian Securities and Exchange Commission
DAC	Civil Aviation Department
DETAILED PLAN	Text of the legal documents concerning the PLAN, as substantiated in this document and attachments thereto
DISTRIBUTION TO CREDITORS	This term has the meaning ascribed in Item 38
EIF	Equity Investment Fund
EIF-CONTROL	EIF that will hold the equity control over the COMPANIES
EIF-CREDITS I	EIF reserved for CLASS I CREDITORS
EIF-CREDITS II	EIF reserved for CLASS II CREDITORS
EIF-CREDITS III	EIF reserved for CLASS III CREDITORS
EIFs-CREDITS	EIF-CREDITS I, EIF-CREDITS II, and EIF-CREDITS III, together
FRB-Par	FRB-Par Investimentos S.A.
FOUNDATION	Ruben Berta Foundation
EIF-CONTROL MANAGER	The EIF-CONTROL Manager is the institution chosen in the MEETING OF APPOINTMENTS to perform the duties attributed thereto under the RULES AND REGULATIONS
INTERIM MANAGER	Person responsible for conducting the Interim

	Management in accordance with p. 14,072 of the ACTION, as included in Attachment I to this document
INTERVENING FINANCIAL INSTITUTION	This term has the meaning defined in Item 22 b)
DEPOSITORY FINANCIAL INSTITUTION	This term has the meaning defined in Item 22 c)
PUBLIC OFFER LEADER	Member institution of the Brazilian securities distribution system, contracted by the EIF-CONTROL ADMINISTRATOR to conduct the DISTRIBUTION TO CREDITORS and the PUBLIC OFFERS
TAX INCREMENT	Increment in the obligation in the exact amount for the net value to reflect, after the mandatory tax withholdings, the originally contracted net amount
IN/CVM 391	CVM Normative Instruction No. 391 of 7/16/2003
CRL	Law No. 11,101 of 2/9/2005
NORDESTE	Nordeste Linhas Aéreas S.A.
PUBLIC OFFERS	Group of offers of Class B shares in the EIF-CONTROL
PLAN	Judicial Reorganization Plan approved in the 12/19/2005 GMC, in accordance with the FINAL PRESENTATION
ACTION	Action No. 2005.001.072887-7 in progress at the 8th Business Court of the County of the Capital of the State of Rio de Janeiro
FINAL LIST OF CREDITORS	General Group of Creditors signed by the Judge and the Judicial Administrator in accordance with Article 14 of the CRL or the Sole Paragraph of Article 18 of the CRL
DOCUMENTARY CREDIT	
DEPOSIT RECEIPT	This term has the meaning ascribed in Item 23
JUDICIAL REORGANIZATION	Judicial reorganization proceeding consubstantiated in the ACTION
RULES AND REGULATIONS	Rules and regulations of the EIF-CONTROL, the draft of which is included in Attachment VI to this DETAILED PLAN
PRIOR MEETING OF CREDITORS	Meeting of CREDITORS called by the TRUSTEE under Item 31 of this DETAILED PLAN in order to determine the direction of the vote to be cast by the TRUSTEE in the General Meeting of Shareholders in the EIF-CONTROL, as a holder of CLASS C SHARES
RIO SUL	Rio Sul Linhas Aéreas S.A.
QUALIFIED BONDS	ACKNOWLEDGMENTS OF DEBT, DOCUMENTARY CREDIT DEPOSIT RECEIPTS, BANK CREDIT NOTES or BANK CREDIT NOTE CERTIFICATES
VARIG	VARIG Viação Aérea Rio Grandense S.A.
VPTA	Varig Participações em Transportes Aéreos S.A.

## II – INTRODUCTION

### A – Approval of the PLAN

2. The 12/19/2005 GMC approved the PLAN, as indicated in the minutes prepared by the Secretary and signed by the Judicial Administrator, as Chair of the meeting, and by a legal number of CREDITORS, in accordance with Art. 45 of the CRL and for the intents and purposes set forth under Art. 59 and the following articles of the CRL.

### B – Granting of Judicial Reorganization

3. Once the PLAN was unanimously approved by the CREDITOR CLASSES, the Honorable Judge of the 8th Business Court, after hearing the opinion of the Public Prosecutor's Office, issued the decision to grant the Judicial Reorganization of the COMPANIES (Attachment II).
4. As established in the PLAN, Mr. Marcelo Bottini, as INTERIM MANAGER, was given the task of arranging for the final draft of the legal documents concerning the PLAN, for review and subsequent ratification in the 2/13/2006 GMC.
5. The legal documents referred to in Item 4 above are consubstantiated in this document and attachments thereto. **THIS DOCUMENT DOES NOT ALTER NOR REPLACES THE PLAN, AND IS INTENDED SOLELY TO SUPPLEMENT AND PROVIDE DETAILS REGARDING WHAT IS NECESSARY FOR ITS IMPLEMENTATION.**
6. The first draft of this DETAILED PLAN was distributed to the CREDITORS on January 20, 2006, by electronic means, in order to elicit comments and add transparency to the preparation process for this document. The second draft of this DETAILED PLAN was distributed to the CREDITORS on February 7, 2006. The third draft of this DETAILED PLAN was distributed to the CREDITORS on February 21, 2006. The CREDITORS provided suggestions and comments on all drafts, per correspondence that will be kept at VARIG's headquarters for the duration of the period of JUDICIAL REORGANIZATION, at the disposal of any interested parties.

### C – PLAN Methodology

7. The preparation of the PLAN was based on the COMPANIES' current economic, financial, and operational capacity to continue their activities without considering the realization of any contingent assets or the addition of new funding from investors.

8. Nevertheless, both the realization of contingent assets and the addition of new funding would accelerate the COMPANIES' recovery of their investment capacity and provide for a more efficient access to the financial and capitals market. For this reason, such objectives will be actively and consistently pursued by the professionals assigned to the new control, administration, and management system for the COMPANIES, referred to in Chapter VII of this DETAILED PLAN.
9. Also under the PLAN, all CREDITOR CLASSES, their successors and assignees, will be offered the opportunity to partially or fully convert their credits into an indirect stake in the COMPANIES under the conditions described above, so they may benefit economically, if they so choose, from the potential appreciation of the COMPANIES once the judicial reorganization process is stabilized, the new corporate governance system is implemented and the public offers of indirect stakes in the COMPANIES are made.
10. The purpose of the restructuring and corrective measures to be pursued for the COMPANIES, as set forth in the PLAN and unanimously approved by the CREDITOR CLASSES, is to implement a new control and corporate governance system for the COMPANIES, after a period of interim management, and to resolve its liabilities through debt renegotiation and capital procurement. The nature of the measures listed herein is: (a) administrative-operational; (b) economic-financial; and (c) corporate, and are described in this DETAILED PLAN.

### **III – INTERIM MANAGEMENT**

11. The INTERIM MANAGER was charged with arranging for the implementation of the following measures:
  - a) To plan the corporate reorganization, including arrangements, after the ratification of this DETAILED PLAN, for the necessary authorizations and approvals from the CVM and the DAC, without prejudice to any other required authorizations; and
  - b) To perform the actions attributed to him under the PLAN, as required for their implementation, until such time as his function is terminated.
12. The function of the INTERIM MANAGER will be terminated once the EIF-CONTROL is invested in the ownership of SHARES IN THE COMPANY and is able to fully exercise the political rights arising therefrom. The EIF-CONTROL MANAGER will provide all appropriate help to the INTERIM MANAGER with respect to the measures that are within the latter's responsibility.

#### **IV – OPERATIONAL RESTRUCTURING**

13. The PLAN incorporates the recommendations included in the work prepared by Lufthansa Consulting, with final improvements from VARIG's technical staff, as described in Attachment III.
14. The operational plan includes: (i) operating revenues adjusted to the scheme of 63/69 operational aircraft; (ii) fully planned and covered current expenses; and (iii) full absorption of these restructuring costs in the cash flow.
15. The operating income projections are included on pp. 14,060-1 of the ACTION and in the FINAL PRESENTATION. The free operating cash flow projections are included in Attachment VIII and result from a revision to the projections appearing on p. 14,061 of the ACTION, taking into consideration the adjustments made in this DETAILED PLAN.

#### **V – ECONOMIC-FINANCIAL RESTRUCTURING**

16. This DETAILED PLAN incorporates the payment forms, conditions and schedules approved in the 12/19/2005 GMC and listed herein as detailed in the paragraphs below, and it is certain that:
  - a) The credits constituted after June 17, 2005, even if arising out of agreements entered into prior to said date, are post-filing and shall be paid on their due date, in the form and under the conditions contractually established with the COMPANIES, with such credits falling under the provisions of Art. 67 of the CRL ("POST-FILING CREDITS").
  - b) The holders of POST-FILING CREDITS will also have the option of obtaining an ACKNOWLEDGMENT OF DEBT from the COMPANIES, according to the operating procedures that the COMPANIES will communicate in due time.
17. Provisions that are common to all renegotiated credits under the PLAN:
  - a) the credits novated under the PLAN will obligate the COMPANIES with respect to all CREDITORS, without changes in the guarantees, as determined under Art. 59 of the CRL, except when otherwise expressed in the PLAN;
  - b) the TAX INCREMENT obligations pertaining to the CREDITS shall be maintained insofar as they are established in the original agreements and amendments thereto;
  - c) all obligations not expressly renegotiated under the JUDICIAL REORGANIZATION shall be maintained as provided under the original

agreements and amendments thereto, including payment procedures and currency conversion criteria;

- d) The CREDITORS, at their sole discretion, may obtain a document of ACKNOWLEDGMENT OF DEBT from the COMPANIES without any resulting obligation of taking supervening actions to issue BANK CREDIT NOTES, and shall, in such cases, follow the operating procedures that the COMPANIES will communicate in due time;
  - i. If the COMPANIES should become bankrupt within 2 (two) years as of the date of granting of JUDICIAL REORGANIZATION, the CREDITORS shall have their rights and guarantees reconstituted under the originally agreed conditions, as described in the fields “Origin of Debt” and “Guarantees” in the ACKNOWLEDGMENT OF DEBT, even if they had chosen to issue any of the instruments include listed as QUALIFIED BONDS.
- e) After an ACKNOWLEDGMENT OF DEBT is obtained as referred to in Item d) above, the CREDITORS will also have, at their sole discretion, the option of requesting the issuance of a BANK CREDIT NOTE, a BANK CREDIT NOTE CERTIFICATE or a DOCUMENTARY CREDIT DEPOSIT RECEIPT, as provided under Chapter VI of this DETAILED PLAN, based on their CREDIT;
- f) The QUALIFIED BONDS shall be negotiable in an over-the-counter (fixed income) market, and shall be the appropriate instrument to carry out the conversion detailed in Chapter VII of this DETAILED PLAN.

18. Conditions applicable to CLASS I CREDITORS:

- a) All *Aeroviários* [Aviation Workers] will be paid for their CREDITS according to the original payment amount and conditions, within the time established under Art. 54, *opening paragraph*, of the CRL, that is, within up to one year as of the date of PLAN approval, with the option, for those that choose to do so, to convert the CREDITS by joining the EIF-CREDITS I.
- b) All *Aeronautas* [Crew] will be paid according to the following changes:
  - i. FGTS: per agreement previously entered into with the Caixa Econômica Federal or in cash, in the cases of withdrawals provided under the fund's rules and regulations;
  - ii. PIA: under the same, originally agreed conditions;
  - iii. Crew CREDITS, except those related to FGTS and PIA: conversion of CREDITS and/or own funds of any nature into shares in the EIF-CREDIT I or receipt of the par value within 3



(three) years, per any Collective Bargaining Agreement to be entered into in the future, or, further, within 1 (one) year, per Art. 54, *Opening Paragraph*, of the CRL.

19. Conditions applicable to CLASS II CREDITORS:

- a) The payment conditions applicable to the CLASS II CREDITS held by AERUS will be those described in Item 21 b) of this DETAILED PLAN.
- b) The payment conditions applicable to the Credits held by Brazilian American Merchant Bank – BAMB have been renegotiated as follows:
  - i. the agreements designated as “Loan Agreement” in the amounts of US\$ 60,000,000.00 and US\$ 40,000,000.00, entered into between VARIG and BAMB on October 21, 1994, and the amendments thereto signed on 3/29/1995, showing a balance of US\$ 55,661,898.24, equivalent to R\$ 132,881,649.68 on 6/17/2005, heretofore referred to as “DEBT PRINCIPAL,” shall be settled under the following special conditions:
    - A. total period: 7 years, including a deferred payment period of 36 months, with final payment due on 1/28/2013;
    - B. finance charges: correction based on the currency exchange variation (U.S. Dollar), plus 4.75% (four point seventy-five percent) in annual interest, *pro rata die* (base 365 days), as of June 17, 2005, with finance charges applicable as of this date and through the end of the deferred payment period shall be added to the DEBT PRINCIPAL;
    - B.1. finance charges: after the deferred payment period, the finance charges shall become due and payable with each installment of the principal, as indicated in the Price Schedule;
    - C. form of payment: the debt amount calculated after the end of the deferred payment period, including the principal and the capitalized finance charges (Item B. above), will be payable in 48 monthly and successive installments, according to the Price Schedule, plus finance charges accruing for the period (Item B.1. above), with the first installment due on February 28, 2009, and the last on January 28, 2013;
    - D. guarantees: all guarantees provided in the original agreements and amendments thereto shall remain whole, as well as fully valid and binding, and shall be

observed until the full discharge of the debt, except with respect to the shares of RIO SUL and the real estate subject to the accord and satisfaction, which shall be treated in accordance with Item “ii” below;

E. other conditions: all other clauses and conditions established in the original agreements and amendments thereto, and not modified herein, are maintained, including the procedures for payments, which shall be made as follows:

E.1. Payments shall be made in U.S. Dollars, through the New York Clearing House Interbank Payments System, in favor of the “Brazilian American Merchant Bank” or to its order, into account number 810560114 at the New York Branch of Banco do Brasil S.A. – 550 Fifth Avenue, New York, NY – 10036, by 3:00PM EST;

E.2. The reference for currency conversion shall be the exchange rate on the date of payment, as publicly announced by the Brazilian Central Bank through the SISBACEN system (or other system that may come to replace it) as the exchange rate for the U.S. Dollar PTAX800, option 5 (sell rate), currency 220;

ii. Accord and Satisfaction: in accord and satisfaction to BAMB, VARIG will provide the real estate units of its ownership and located at the plot referred to by the letter “L” at Quadra CN-02, consisting of the North Tower, Bloco “B,” of Quadra 04 of the Norte-SC/Norte Commercial Sector, in Brasília (DF), bound by a direct mortgage and listed below (“REAL ESTATE UNITS”):

Registration No.	Unit	Location
50852	Store No. 26	Ground Floor
50853	101	1st Floor
68476	201	2nd Floor
50854	301	3rd Floor
50855	401	4th Floor
50856	501	5th Floor
50857	601	6th Floor
50858	701	7th Floor
50859	801	8th Floor
50860	901	9th Floor
50861	1001	10th Floor
50862	1101	11th Floor
50863	1201	12th Floor

Included in and	Auditorium	13th Floor
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distributed among the real estate units above		
Included in and distributed among the real estate units above	Penthouse	14th Floor

- A. Within 90 (ninety) calendar days as of the adjournment of the 2/13/2006 GMC, Varig shall formalize the public deed of accord and satisfaction for the faithful fulfillment of the proposed PLAN and as a condition for releasing the shares in RIO SUL, as approved in the 12/19/2005 GMC, having as object the REAL ESTATE UNITS that are free and clear, on the date of accord and satisfaction, of any onus, burdens or judicial or extrajudicial claims of any nature from third parties.
- A.1. VARIG undertakes to make free and clear of any onus, burdens or judicial or extrajudicial claims of any nature, within a maximum period of 18 (eighteen) months as of the adjournment of the 2/13/2006 GMC, the REAL ESTATE UNITS that are not transferred at the time of registration of the public deed mentioned in Item A. above.
- A.2. During this period of 18 (eighteen) months referred to in the Item above, VARIG may assign to third parties, for consideration, ICMS credits granted by court decisions, and revert the full proceeds thereof to BAMB until satisfaction if provided for the total value of the REAL ESTATE UNITS that are not delivered in accord and satisfaction due to any pending onus, burden or claim. In the legal businesses of assigning ICMS credits for consideration, as referred to in this Item, BAMB will participate as intermediary appointed to directly receive the price for the assignment, up to the amount to which it is entitled.
- A.3. Whenever BAMB receives funds derived from the assignment of ICMS for consideration under Item A.2 above, it shall release the mortgage corresponding to one or more REAL ESTATE UNITS not yet transferred in accord and satisfaction due to any pending onus, burden or claim, and the real estate unit or units to be released shall be selected by mutual consent between both parties. The REAL ESTATE UNITS whose mortgage shall be released as described in this Item shall be excluded from the obligation referred to in Item ii.

- A.4 For the purposes of the accord and satisfaction provided under this Item ii and as a reference for the alternative mechanism to release the mortgages described in Items A.2 and A.3 above, the REAL ESTATE UNITS shall be evaluated by two companies selected by VARIG among those accredited by Banco do Brasil to perform such services. The market value of the REAL ESTATE UNITS to be used shall be the higher value between: (i) the mathematical average between the two evaluations; and (ii) the value used as the basis of calculation for the IPTU tax in 2006. The REAL ESTATE UNITS shall be evaluated without consideration for the effects of any mortgage, onus or any judicial or extrajudicial claim on them. The costs of the evaluation firms will be divided equally between VARIG and BAMB.
- A.5 The result of each accord and satisfaction, as well as the payments resulting from the ICMS credit assignments shall be used to amortize the debt referred to in Item i above, according to the same procedures described in Items E.1 and E.2 above.
- B. The expenses incurred with announcements, transfers, including taxes and fees, shall run on VARIG's account;
- iii. BAMB, as a Creditor, will also be subject to the common provisions for Class II Creditors, resulting from the prorating of R\$ 100,000,000.00 (one hundred million reais) in accordance with Item "21" below.
- A. The amount prorated to BAMB will also be used to amortize the debt mentioned in Item "i" above, according to the same payment procedures established in paragraphs "E.1" and "E.2" of the same Item.
- c) The payment conditions applicable to the CREDITS held by the other CLASS II CREDITORS will be renegotiated as follows:
- i. full payment within 7 (seven) years as of February 28, 2006, including the stipulation of the first 36 (thirty-six) months as a deferred payment period, with no obligation to pay the principal nor finance charges, and 48 (forty-eight) months of amortization payments for the principal and finance charges. During the first 36 (thirty-six) months, R\$ 100,000,000.00 (one hundred million reais) will be prorated as set forth under Item 21, and the amounts

received by the CREDITORS shall amortize the amount of their respective CREDITS.

- ii. the amount of debt calculated after the deferred payment period, including the principal and finance charges, shall be paid in 48 (forty-eight) monthly and successive installments, plus finance charges, according to the Price Schedule, the first of which shall come due on February 28, 2009.
- iii. the finance charges applicable to the debt shall be: (i) for debts in foreign currency, correction based on the currency exchange variation of the U.S. Dollar, plus 4.75% (four point seventy-five percent) in annual interest, *pro rata die* (base 365 days) as of June 17, 2005; and (ii) for debts in Brazilian currency, correction based on the variation of the IGP-M, plus 4.75% (four point seventy-five percent) in annual interest, *pro rata die* (base 365 days) as of June 17, 2005. In both cases, the finance charges applicable as of this date and through the end of the deferred payment period shall be added to the debt principal.

20. Conditions applicable to CLASS III CREDITORS:

- a) The payment conditions applicable to the CLASS III CREDITS held by AERUS will be those described in Item 21 b) of this DETAILED PLAN.
- b) Without prejudice to impugnations submitted by any of the creditors listed below, with respect to the classification or value of their CREDITS, the payment conditions applicable to the CREDITS held by the CREDITORS referred to in Item 13 of the explanatory notes to VARIG's June 2005 quarterly financial statements (Attachment V), renegotiated in accordance with the PLAN, shall be the same as the conditions stipulated under Items 19. c) i, 19. c) ii, and 19.c) iii above, with the originally agreed guarantees whole and unchanged:
  - i) GE-Engines Services Incorporation (including the following companies: General Electric Company; CFM International Inc.; GE Rio Revisão de Motores Aeronáuticos S/A; GE Celma Ltda.;
  - ii) GE-Capital Aviation Services Incorporation (GE Capital Group);
  - iii) INFRAERO – Empresa Brasileira de Infra-estrutura Aeroportuária;
  - iv) Petrobras Distribuidora S/A;
  - v) International Lease Finance Corporation;
  - vi) PLM Worldwide;
  - vii) Sunrock Aircraft Corporation;

- viii) Mitsui;
  - ix) CIT;
  - x) ACG (Wells Fargo Bank Northwest National Association – Aircraft MSN 24377 and 24098);
  - xi) GATX (including: GATX Third Aircraft Corporation, East Trust Sub-3, and East Trust Sub-14);
  - xii) Boullioun (in reference to the agreement entered into with Wells Fargo Bank Northwest on 4/7/2004);
  - xiii) Ansett (including Ansett Worldwide Aviation Limited, Ansett Worldwide Aviation USA, AWMS I, and AWMS II);
  - xiv) Debis (Debis Group);
  - xv) Nissho Iway (current name: SOJITZ Corporation);
  - xvi) Boeing (Boeing Group).
- c) The payment conditions applicable to the CREDITS held by the other CLASS III CREDITORS were renegotiated as follows:
- i. full payment within 10 (ten) years as of February 28, 2006, including the stipulation of the first 36 (thirty-six) months as a deferred payment period, with no obligation to pay the principal nor finance charges, and 84 (eighty-four) months of amortization payments for the principal and finance charges. During the first 36 (thirty-six) months, R\$ 100,000,000.00 (one hundred million reais) will be prorated as set forth under Item 21, and the amounts received by the CREDITORS shall amortize the amount of their respective CREDITS.
  - ii. the amount of debt calculated after the deferred payment period, including the principal and finance charges, shall be paid in 84 (eighty-four) monthly and successive installments, plus finance charges, according to the Price Schedule, the first of which shall come due on February 28, 2009.
  - iii. the finance charges applicable to the debt shall be: (i) for debts in foreign currency, correction based on the currency exchange variation of the U.S. Dollar, plus 4.75% (four point seventy-five percent) in annual interest, *pro rata die* (base 365 days) as of June 17, 2005; and (ii) for debts in Brazilian currency, correction based on the variation of the IGP-M, plus 4.75% (four point seventy-five percent) in annual interest as of June 17, 2005. In both cases, the finance charges applicable as of this date and through the end of the deferred payment period shall be added to the debt principal.

21. Common provisions for CLASS II and III CREDITORS

- a) All CLASS II and III CREDITORS, except AERUS, shall receive partial payment for their CREDITS, without prejudice to the other provisions referred to in Items 19 and 20 above, resulting from the prorating of the total amount of R\$ 100,000,000.00 (one hundred million reais) among said CREDITORS, according to the criteria below, payable in 36 (thirty-six) monthly, equal, and successive installments as of February 28, 2006:
- i. 80% (eighty percent) of the total amount referred to above shall be prorated among and paid to the CLASS II and CLASS III CREDITORS referred to in Item 13 of the Explanatory Notes to VARIG's June 2005 Quarterly Financial Statements (Attachment V), in accordance with the list of creditors and corresponding amounts set forth in Attachment IX, and payable in 36 (thirty-six) monthly and successive installments as of February 28, 2006.
  - ii. 20% (twenty percent) of the total amount referred to above shall be prorated among and paid to CLASS III CREDITORS, with half (10%) prorated according to the value of their CREDITS and the other half (10%) linearly, that is, equally divided by the total number of CREDITORS in the CLASS.
  - iii. The creditors referred to as "secured" in Item 13 of the explanatory notes to VARIG's June 2005 Quarterly Financial Statements (Attachment V) and identified in Item 20 b) shall participate in the prorating referred to in this Item "21. a)" in accordance with sub-Item i above.
  - iv. The amounts payable as a result of the prorating of the amount provided under Item a) i. of this Item are set forth under Attachment IX to this DETAILED PLAN.
  - v. With respect to CLASS III CREDITORS (except AERUS), the parameter to be used for the establishment of the prorating proportions, as well as the total number of creditors in the class established in Item a) ii. of this Item, shall be the one provided in the list of CREDITORS of the COMPANIES, as published in the Brazilian Federal Register on August 3, 2005, with the corrections implemented by the September 23, 2005 issue, excluding, only for this specific purpose, the CREDITORS listed in the table included in Attachment IX to this DETAILED PLAN.
- b) The payment conditions applicable to the CREDITS held by AERUS were agreed to as follows:
- i. The payment of credits included in Class II with respect to sponsorship contributions in arrears (and the object of a specific renegotiation in accordance with the "Private Instrument of Debt Consolidation and Renegotiation, with an Agreement to Suspend Demandability, Fixed Term Amortizable Instruments and Offer

of Guarantees,” dated on 4/10/2003) is resumed as of January 31, 2006, in accordance with the terms and conditions set forth in the referred to instrument of renegotiation;

- ii. the balance of overdue and unpaid credits from May 2005 through December 31, 2005 was incorporated into the outstanding balance referred to in subparagraph i above and divided into the 196 (one hundred ninety-six) installments due as of (and including) January 2006, with the application thereto of all the conditions set forth in the corresponding instrument of renegotiation;
- iii. the installment due on 1/31/2006, which already includes the amount referred to in subparagraph ii above, was in the amount of R\$ 8,726,807.55 (eight million, seven hundred twenty-six thousand, eight hundred seven reais and fifty-five cents) and has been duly paid. The subsequent monthly installments shall be adjusted in accordance with the criterion established in the *opening paragraph* of Clause Three of the instrument of renegotiation referred to above;
- iv. the guarantees and all other terms and conditions provided under the corresponding instrument of renegotiation were fully maintained and ratified, and the rights of AERUS were fully exempted with respect to the other signatory co-obligees in that instrument, as provided under § 1 of Art. 49 of the CRL, under the exact agreed upon terms and conditions, without any deferment;
- v. all obligations agreed to through the “Private Instrument of Acknowledgment of Responsibility and Other Agreements,” dated on 7/1/2004, remained fully valid and effective with respect to the responsibility for filling the technical gap of benefits granted (assisted participants) through the AERUS supplementary pension plans sponsored by VARIG, particularly with respect to the guarantee offered therein and VARIG’s obligation to make payments according to the schedule and in the form agreed to in that instrument;
- vi. AERUS’s CLASS III CREDITS that become qualified shall be amortized under the same conditions as the obligations stipulated in the “Private Instrument of Acknowledgment of Responsibility and Other Agreements,” dated on 7/1/2004, and all the terms and conditions provided under this instrument shall apply to AERUS’s CLASS III CREDITS.

c) The credits constituted after June 17, 2005, even if arising out of agreements entered into prior to said date, are post-filing and shall be paid on their due date, in the form and under the conditions contractually established



with the COMPANIES, with such credits falling under the provisions of Art. 67 of the CRL.

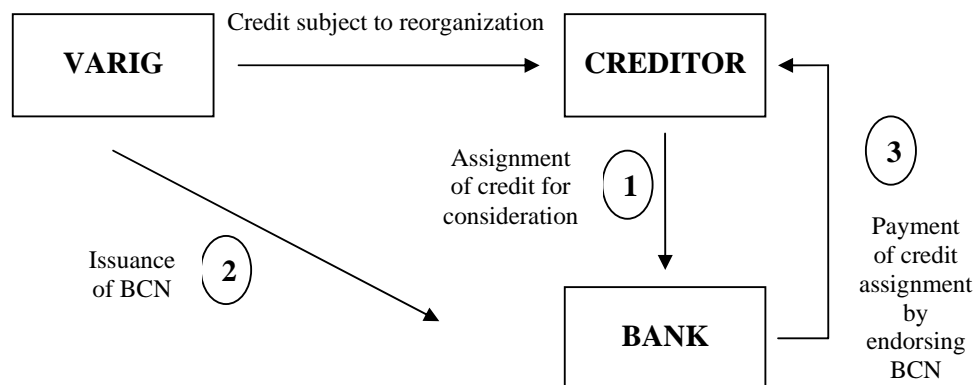
## **VI – LIQUIDITY INCENTIVE FOR THE CREDITS**

22. In order to encourage circulation of the CREDITS and thus provide greater liquidity to the CREDITORS, they will have the option, at any time, to convert their CREDITS into securities issued by the COMPANIES, representing the exact content of the CREDITS, including with respect to their real or fide-jussio guarantees, which are negotiable in an organized over-the-counter debt market overseen by the Brazilian Securities and Exchange Commission (CVM) and the Brazilian Central Bank, according to the following procedure:

- a) Any CREDITOR may request the issuance of a BANK CREDIT NOTE by the COMPANIES, in the form of a letter, and, if desired, of the corresponding BANK CREDIT NOTE CERTIFICATE, in the form of a title.
- b) the procedure for the issuance of a BANK CREDIT NOTE and a BANK CREDIT NOTE CERTIFICATE shall be executed through an intervening financial institution or similar entity to be hired by the COMPANIES for this purpose (“INTERVENING FINANCIAL INSTITUTION”), as described below:
  - i. The CREDITOR, duly in possession of the instrument of ACKNOWLEDGMENT OF DEBT referred to in Item 17.d) above, shall enter into a Private Instrument of Credit Assignment with the INTERVENING FINANCIAL INSTITUTION, with standard language to be defined later with the express agreement of the COMPANY against which the CREDIT is held, through which the CREDIT shall be assigned to the INTERVENING FINANCIAL INSTITUTION in full or in part.
  - ii. The price for the assignment referred to in Item i above shall not be paid immediately by the INTERVENING FINANCIAL INSTITUTION, but a credit will be generated in favor of the CREDITOR and against the INTERVENING FINANCIAL INSTITUTION.
  - iii. At the same time, the COMPANIES shall issue a BANK CREDIT NOTE representing the CREDIT in favor of the INTERVENING FINANCIAL INSTITUTION, reflecting the terms of the ACKNOWLEDGMENT OF DEBT, without the effect of novating the CREDIT and without prejudice to all the guarantees linked thereto.

- iv. Then, the INTERVENING FINANCIAL INSTITUTION shall deliver the BANK CREDIT NOTE to the creditor, for the face value of the CREDIT, in payment of the obligation referred to in Item ii, which was contracted when the CREDIT was assigned, as provided under Item i.
- v. The CREDITOR, at its discretion, may receive the BANK CREDIT NOTE in the form of a letter or the corresponding Bank Credit Note Certificate in the form of a title (the "BANK CREDIT NOTE CERTIFICATE").
- vi. The BANK CREDIT NOTE CERTIFICATE shall be negotiable in an organized over-the-counter debt market.
- vii. Pursuant to Paragraph 1 of Article 26 of Law 10,931/04, BANK CREDIT NOTES issued in accordance with the procedure explained herein shall be subject to Brazilian laws and venues.
- viii. The language of the BANK CREDIT NOTE shall include an express provision determining that, in case of debtor bankruptcy within the period provided under Art. 61 of the CRL, the conditions and characteristics of the CREDIT, consubstantiated in the BANK CREDIT NOTE, shall change to fully reconstitute the originally agreed conditions, as established in the ACKNOWLEDGMENT OF DEBT, thus fully satisfying the effects of Art. 61 of the CRL.
- ix. The reconstitution indicated in Item viii above shall be resolved by the occurrence of the earlier of the following events: (a) a second endorsement of the BANK CREDIT NOTE; or (b) the first endorsement or signing of the first term of transfer pertaining to the BANK CREDIT NOTE CERTIFICATE, issued on the basis of the BANK CREDIT NOTE.

The procedure for the issuance of the Bank Credit Note is illustrated below:



23. Alternatively to the issuance of the BANK CREDIT NOTE, the CREDITORS may deposit their CREDITS, consubstantiated in ACKNOWLEDGMENTS OF DEBT, into the custody of a financial institution to be hired by the COMPANIES for this purpose (“DEPOSITORY FINANCIAL INSTITUTION”), which will issue a documentary credit deposit receipt (“DOCUMENTARY CREDIT DEPOSIT RECEIPT”).
- a) the DOCUMENTARY CREDIT DEPOSIT RECEIPT shall confer to its holder the right to receive, into an account opened at the DEPOSITORY FINANCIAL INSTITUTION, all payments made by the COMPANIES with respect to the deposited CREDIT.
  - b) the DOCUMENTARY CREDIT DEPOSIT RECEIPT shall allow its holder to redeem, at any time and by simple request, all documents representing the CREDIT.
  - c) the DOCUMENTARY CREDIT DEPOSIT RECEIPT shall be negotiable in an organized over-the-counter debt market.
  - d) the exact format and content of the DOCUMENTARY CREDIT DEPOSIT RECEIPT shall be communicated after the DEPOSITORY FINANCIAL INSTITUTION is hired.

## **VII – CORPORATE RESTRUCTURING**

24. The PLAN also provides for the reorganization of the block controlling the COMPANIES through the transfer of their control to an Equity Investment Fund (the “EIF-CONTROL”), which shall receive, through the procedure described in the Items below, all common and preferred shares issued by the COMPANIES and held, directly or indirectly, by the FUNDAÇÃO, FRB-PAR and VPTA (the

“SHARES IN THE COMPANIES”). The EIF-CONTROL may also receive additional funding from three other Equity Investment Funds that will be formed to allow the conversion of credits consubstantiated in QUALIFIED BONDS into shares of the EIF-CONTROL, each to include the CREDITORS of each of classes I, II, and III (respectively, “EIF-CREDIT I,” “EIF-CREDIT II,” and “EIF-CREDIT III”), without prejudice to the possibility of holders of QUALIFIED BONDS converting their credits, in total or in part, directly into the EIF-CONTROL, or also of any third parties providing additional funding in Brazilian currency to the EIF-CONTROL. The EIF-CONTROL and EIF-CREDITS I, II, and III may adopt rules and regulations that have the form and substance of the standard drafts included in Attachments VI and VII to this DETAILED PLAN.

- a) The SHARES IN THE COMPANIES, which shall be transferred to the EIF-CONTROL, shall be valued by an independent expert firm (the “VALUATOR”), which shall apply economic valuation criteria for the SHARES IN THE COMPANY according to the best internationally-accepted technical standards.
- b) should the FUNDAÇÃO, FRB-Par, VPTA, or the TRUSTEE, acting in the interest of the CREDITORS or CREDITORS, disagree with the valuation conducted by the VALUATOR, they may request, within 5 (five) business days and by notification to the EIF-CONTROL ADMINISTRATOR, that the valuation be submitted to a second independent expert firm for review (the “REVIEWER”), the result of which shall not be open to questioning by any party. The REVIEWER shall apply economic valuation criteria for the equity according to best internationally-accepted technical standards, the costs of which review shall be borne by the requesting party. Should the result of the REVIEWER’s work point to a lower value than the VALUATION’s, the average between both shall prevail.
- c) the VALUATOR’s uncontested conclusion or the REVIEWER’s conclusion after a request is made in accordance with Item b) above (the “VALUATION”) shall represent the legitimate transfer price for the SHARES IN THE COMPANIES and shall irrevocably bind both the holders of SHARES IN THE COMPANIES and the EIF-CONTROL, in accordance with Art. 485 of the Brazilian Civil Code.
- d) The EIF-CONTROL ADMINISTRATOR shall select, among the names included in the list referred to in Item “g” “(i)” below, two first-rate international investment banks with proven experience in valuating companies of size similar to the COMPANIES’, which shall act as VALUATOR and REVIEWER. The definition of which firm shall perform which of the two roles shall be decided by a draw conducted by the EIF-CONTROL ADMINISTRATOR in a

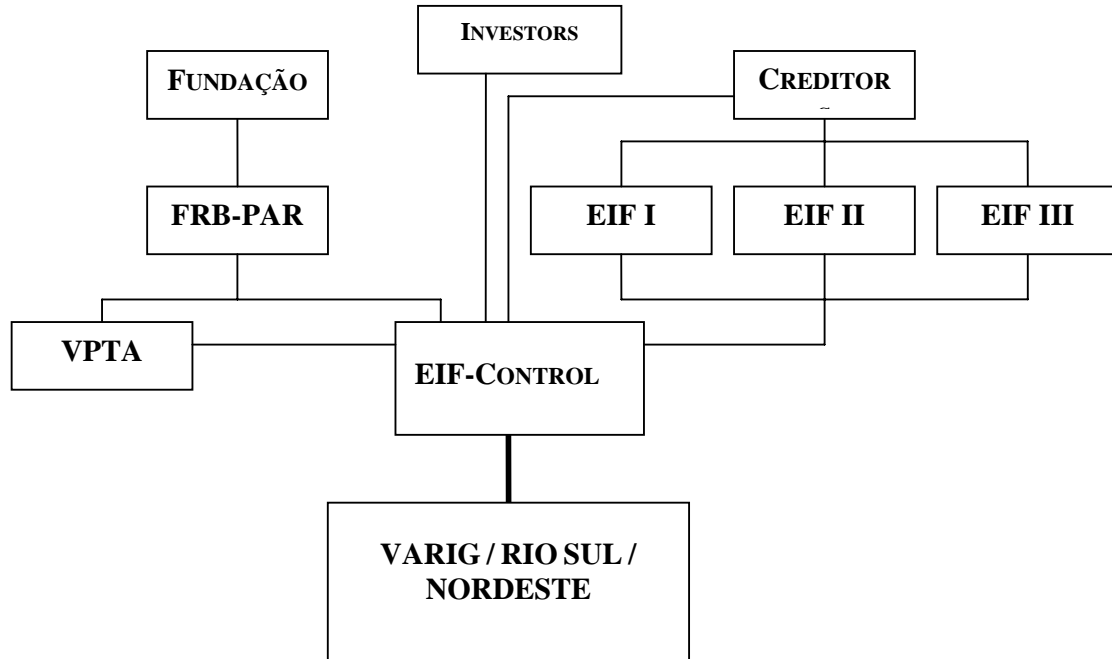
transparent and public manner, within 10 (ten) business days of the execution of the investment commitment referred to in Item g below.

- e) The hiring of the VALUATOR and REVIEWER shall be formalized by the EIF-CONTROL ADMINISTRATOR, acting on behalf of the EIF-CONTROL, within 5 (five) business days as of the draw referred to in Item d) above.
- f) The COMPANIES shall make available to the VALUATOR and REVIEWER all information required for the valuation work, under a regime of confidentiality, whenever necessary, for the protection of the COMPANIES' legitimate management, commercial, and strategic interests.
- g) The holders of SHARES IN THE COMPANIES shall sign, with the EIF-CONTROL ADMINISTRATOR, an investment commitment with an irrevocable, irreversible, and specifically enforceable obligation to transfer the SHARES IN THE COMPANIES at the price stipulated pursuant to Items "a" a "f" above, and under the provisions of Art. 485 of the Brazilian Civil Code, and shall receive in return as many CLASS A SHARES with a unit face value of R\$ 10.00 (ten reals) as necessary to total said price. The investment commitment shall contain: (i) a list of five to ten names of investment banks that meet the requirements of Item "d" above, to act as VALUATOR or REVIEWER ("LIST OF VALUATORS"); and (ii) an irrevocable and irreversible mandate for the EIF-CONTROL ADMINISTRATOR to perform the acts required to transfer the SHARES IN THE COMPANIES to the ownership of the EIF-CONTROL. The LIST OF VALUATORS shall be prepared by the INTERIM MANAGER and submitted for the approval of the CREDITORS in the MEETING OF APPOINTMENTS.
- h) The COMPANIES shall take all required steps for the investment commitment referred to in Item "g" above to be duly formalized by the holders of SHARES IN THE COMPANIES within a maximum and nonextendable period of 30 (thirty) days as of the EIF-CONTROL's date of registration at the CVM, and shall follow the substance of the draft included in Attachment X.
- i) As soon as the EIF-CONTROL is formed and as the CLASS A SHARES are paid in, the TRUSTEE, on behalf of the CREDITORS, shall subscribe 10,000 (ten thousand) CLASS C SHARES in the EIF-CONTROL, each with a face value of R\$ 10.00 (ten reals), which may be paid in both in CREDITS or QUALIFIED BONDS, according to their face value, when in Brazilian currency. The funds

to pay in CLASS C SHARES shall be provided by the CREDITORS in the proportion of their respective CREDITS in relation to the total CREDITS held by the CREDITORS who, at their sole discretion, decide to pay in CLASS C SHARES, according to a procedure to be detailed by the TRUSTEE.

- j) After CLASS A SHARES are subscribed and paid in by the holders of SHARES IN THE COMPANIES and CLASS C SHARES by the TRUSTEE, CLASS B SHARES shall be issued, which may be subscribed and paid in by the CREDITORS, the EIFs-CREDITS and/or any third parties, in Brazilian currency or through the conversion of QUALIFIED BONDS according to the distribution mechanism for CLASS B SHARES, as provided in Chapter VII (C) of this DETAILED PLAN.
- k) The CLASS I, II, and III CREDITORS that so wish may, at their sole discretion, subscribe shares of the EIFs-CREDIT I, II, and III, respectively, and pay them in according to their respective Rules and Regulations, including through the conversion of QUALIFIED BONDS that they hold. The EIFs-CREDIT I, II, and III shall use the resources that are part of their assets to subscribe and pay in CLASS B SHARES in the EIF-CONTROL, issued in the distributions of CLASS B SHARES in the EIF-CONTROL.
- l) The EIFs-CREDIT shall act on behalf of the CREDITORS that have provided CREDITS to these EIFs-CREDIT, with respect to exercising the rights inherent in the CLASS C SHARES that said CREDITORS may hold, for the purposes of voting in PRIOR MEETINGS OF CREDITORS, while the respective EIF-CREDIT does not allocate its assets to pay in CLASS B SHARES, while observing the procedures defined by the TRUSTEE under Item 36 below.
- m) The EIF-CONTROL shall exercise its control power over the COMPANIES to approved an increase in capital (while duly observing the rights of minority shareholders in the COMPANIES, in accordance with Art. 170, Paragraph 1, of Law No. 6,404/76), through which QUALIFIED BONDS or funds provided in Brazilian currency to the EIF-CONTROL by the CREDITORS, by the EIFs-CREDITS, by the TRUSTEE or by any third party as a result of PUBLIC OFFERS shall be used to pay in common shares issued by the COMPANIES and subscribed by the EIF-CONTROL.

25. The organizational chart below shows the corporate restructuring provided under the PLAN:



A – Election of Administrators, Managers, and the Managing Committee

26. The selection procedures for the EIF-CONTROL ADMINISTRATOR and the EIF-CONTROL MANAGER, as well as the ADMINISTRATORS and MANAGERS for the EIFs-CREDIT I, II, and III, shall be the following:

- a) The EIF-CONTROL ADMINISTRATOR shall be a first-rate financial institution selected by the INTERIM MANAGER.
- b) The EIF-CONTROL MANAGER shall be nominated by the INTERIM MANAGER or any CREDITOR and submitted for approval in the General Meeting of Creditors called especially for this purpose for March 13, 2006 (“MEETING OF APPOINTMENTS”). Attachment XI contains a list of all institutions authorized by the CVM to provide such services and already managing EIFs when this list was prepared. An updated version of the list was requested from the CVM by the JUDICIAL ADMINISTRATOR on February 20, 2006, and shall be distributed after the 2/13/2006 GMC. Nominations for the position of EIF-CONTROL MANAGER must be limited to the names appearing on the update of the list included in Attachment XI, which shall be distributed at the 2/13/2006 GMC.

- c) The decision with respect to the election of the EIF-CONTROL MANAGER shall be made unanimously by the CREDITOR CLASSES. In each of the classes the winner shall be the candidate who receives the largest number of votes, each corresponding to R\$ 1,00 (one real) in CRÉDITOS.
    - i. Should the same candidate be declared winner in all classes, the EIF-CONTROL MANAGER shall be thus elected.
    - ii. In the absence of the unanimity referred to in Item i above, a new vote shall be cast in the same MEETING OF APPOINTMENTS, in which the winners in each class shall be submitted to a vote in each of the Classes, and the votes shall be counted in accordance with Item “c” above. Should a single winner emerge from all Classes in this vote, they shall be thus elected as EIF-CONTROL MANAGER;
    - iii. Should a MANAGER fail to be elected in the vote referred to in Item ii above, a third vote shall be cast in the same MEETING OF APPOINTMENTS, which shall use the same vote counting system as in the election under Item ii, in which the winners in each Class shall be submitted to a vote in each of the Classes. In this vote, the winner shall be the candidate that wins at least in two classes.
  - d) The Administrator and the Manager of each of the EIFs-CREDIT shall be nominated and elected by the CREDITORS from the class corresponding to said EIF-CREDIT. If no Administrator and/or Manager are nominated for any EIF-CREDIT, the INTERIM MANAGER shall appoint the Administrator and/or Manager for said EIF-CREDIT within 10 (ten) days as of the MEETING OF APPOINTMENTS. The selected Administrators and Managers shall immediately proceed with the formation of the EIFs-CREDIT and shall have their appointments and compensation criteria ratified in the first General Meeting of Shareholders in each of the EIFs-CREDIT.
  - e) The Administrator, the EIF-CONTROL Manager, and the members of the Managing Committee, once installed, as well as the Administrators and Managers of each of the EIF-CREDITS must have spotless reputation and experience in asset management and must be authorized by the CVM to provide securities portfolio management services.
27. The nominations for all positions and functions referred to in Item 26 above shall be forwarded to the INTERIM MANAGER and the CREDITORS COMMITTEE, which shall circulate them among the CREDITORS at least 5



(five) days prior to the MEETING OF APPOINTMENTS or any continuation thereof, as provided under Item 26 e) above, and shall include at least:

- a) The complete name of the individual or corporate candidate;
- b) *Curriculum* and credentials in support of the merit of the nomination;
- c) Evidence of qualifications at the CVM and the Brazilian Central Bank, whenever necessary;
- d) Evidence of compliance with the requirements set forth under Article 13, Paragraph 1 of the Rules and Regulations of the EIF-CONTROL, when applicable;
- e) A proposal of administration fee, performance fee, as well as all compensation and billing conditions in the case of the Administrator or Manager for the EIF-CONTROL or EIFs-CREDIT;
- f) A signed affidavit from the candidate as to the absence of any corporate and/or contractual links that may result in a conflict of interests with respect to the COMPANIES and any CREDITOR or group of CREDITORS;
- g) A signed affidavit from the candidate as to the absence of a criminal history and the absence of impediments to its practice of business activities;
- h) An affidavit stating that there exist no links with any competitors or relevant suppliers of competitors of the COMPANIES, in the previous 5 (five) years, or a detailed description of any current or prior such link; and
- i) An indication from the candidate with respect to the firm or firms with expertise in corporate restructuring, which the candidate to EIF-CONTROL MANAGER plans to nominate for hire by the competent officials in the COMPANIES.

#### B – Election of TRUSTEE and PRIOR MEETING OF CREDITORS

- 28. A duly qualified institution shall be hired to act as the trustee for the CREDITORS, for the purpose of exercising the political rights inherent in CLASS C SHARES (“TRUSTEE”).
- 29. The TRUSTEE shall be the owner of the CLASS C SHARES, as agent for the CREDITORS, and shall exercise its voting rights in the interest of the collective, without privileging nor favoring any CREDITOR or group of CREDITORS, and shall observe, in addition to the obligations established under the respective

mandate, in a subsidiary manner, the provisions applicable to a Creditors' Trustee, as established under Law 6,404/76 and in current CVM regulations.

30. The TRUSTEE shall be nominated by any of the CREDITORS and elected in the MEETING OF APPOINTMENTS set forth in Items 26 and 27 above, in a decision to be made by a majority of the total value of the CREDITS present at said meeting.
31. Prior to any General Meeting of Shareholders in the EIF-CONTROL in which decisions are to be made with respect to matters whose approval depends on an affirmative vote of the owners of CLASS C SHARES, the TRUSTEE shall call a PRIOR MEETING OF CREDITORS in order to determine the direction of the vote to be proffered by the TRUSTEE at said meeting, solely with respect to such matters.
32. The TRUSTEE shall follow the voting orientation from the Prior Meeting of Creditors and use all the rights inherent in the condition of a shareholder holding CLASS C SHARES in the EIF-CONTROL, including the rights of action, to make effective the decision reached in the Prior Meeting of Creditors.
33. The PRIOR MEETING OF CREDITORS shall be called by the TRUSTEE by notice given at least 7 days in advance, which shall present a precise description of the matters included in the agenda of the General Meeting of the EIF-CONTROL, which may depend, for their approval, on an affirmative vote from the owners of CLASS C SHARES, as well as include all materials sent to the TRUSTEE and pertaining to said matters. The PRIOR MEETING OF CREDITORS shall convene at least 2 (two) days prior to the General Meeting of Shareholders in the EIF-CONTROL.
34. The decision as to the direction of the TRUSTEE's vote as the owner of Class C Shares shall be made by more than half of the total value of the CREDITS present at the PRIOR MEETING OF CREDITORS, with the understanding that none of the CREDITORS shall individually have, at PRIOR MEETINGS OF CREDITORS, votes representing more than 25% (twenty-five percent) of the total of CREDITORS that may have acquired rights over Class C Shares.
35. The decisions made in the PRIOR MEETING OF CREDITORS shall be consubstantiated in the minutes, which shall be the Vote Instruction, producing effects similar to those referred to in Article 118 and Paragraphs of Law No. 6,404/76.
36. The TRUSTEE shall keep the General Group of Creditors duly informed. The TRUSTEE shall also be responsible for the continuous update of the relative positions of CREDITORS holding CLASS C SHARES, taking into consideration, among other events, conversions of credits into CLASS B SHARES and/or the qualification of later submitted CREDITS. If CREDITORS representing at least 5% (five percent) of CLASS C SHARES disagree with the

TRUSTEE's procedures, they shall have the option of demand a revision of said procedures and may also call a general meeting of creditors to decide on the matter as an appeal.

37. At PRIOR MEETINGS OF CREDITORS, votes shall be attributed to each CREDITOR in the proportion of their CREDITS, updated and reflecting the deduction of any CREDITS converted into CLASS B SHARES.

C – Public Distribution of Class B Shares in the EIF-CONTROL

38. Within 90 (ninety) days after CLASS A SHARES and CLASS C SHARES are subscribed and paid in, the first public distribution of CLASS B SHARES ("DISTRIBUTION TO CREDITORS") shall take place, exclusively for holders of QUALIFIED BONDS, directly or through the EIFs-CREDITS.

39. Only the following shall be qualified to participate in the DISTRIBUTION TO CREDITORS:

- a) EIF-CREDIT I;
- b) EIF-CREDIT II;
- c) EIF-CREDIT III; and
- d) holders of QUALIFIED BONDS.

40. Those qualified under Item 39 above and interested in participating in the DISTRIBUTION TO CREDITORS shall make a reservation of shares in the total amount of the intended subscription, at least 48 (forty-eight) hours in advance of the date scheduled for the DISTRIBUTION TO CREDITORS to take place. The procedure for making reservations shall be announced in due time in the communication materials and in the prospectus corresponding to the DISTRIBUTION TO CREDITORS.

41. In the DISTRIBUTION TO CREDITORS, as many CLASS B SHARES as required shall be issued to allow the totality of the demand represented by the reservations, per Item 40 above, to be fully met.

- a) The face value of CLASS B SHARES shall be equivalent to the ideal fraction of the Fund's assets, as calculated after CLASS A SHARES and CLASS C SHARES are paid in, and taking into consideration the valuation of the SHARES IN THE COMPANIES converted into the EIF-CONTROL.

- b) The economic valuation referred to in Item a above shall be performed by the institution coordinating the DISTRIBUTION TO CREDITORS, using the VALUATION as a basis.
  - c) QUALIFIED BONDS shall be received at par value when the CLASS B SHARES in the EIF-CONTROL are paid in.
  - d) CLASS B SHARES subscribed in the DISTRIBUTION TO CREDITORS shall be paid in in the proportion of 25% (twenty-five percent) in cash and 75% (seventy-five percent) within 180 (one hundred and eighty) days, in accordance with Article 22, Paragraph 4, Subparagraph 3 of CVM Instruction No. 391/03.
  - e) If the subscribed shares are not fully paid in within the timeframe established above, non-paid in shares shall be cancelled by the ADMINISTRATOR.
  - f) QUALIFIED BONDS converted into the EIF-CONTROL shall be used by the EIF-CONTROL to pay in new common shares in the COMPANIES, to be issued as an increase in capital approved pursuant to Item 24 m) of this DETAILED PLAN.
42. Within 30 (thirty) days as of the Distribution to Creditors, the first public offer of Class B shares in the EIF-CONTROL ("FIRST PUBLIC OFFER") shall take place.
- a) The FIRST PUBLIC OFFER shall target all market participants, including those holding QUALIFIED BONDS, as well as EIFs-CREDIT I, II, and III.
  - b) QUALIFIED BONDS shall be received at par value when the shares in the EIF-CONTROL are paid in, which may be made in Brazilian currency or, when authorized in accordance with the RULES AND REGULATIONS of the EIF-CONTROL, in securities.
  - c) The FIRST PUBLIC OFFER shall be conducted in accordance with the CVM rules usually applicable to the public offering of securities and pertaining to the members of the Brazilian System of Distribution of Securities, in addition to the rules and best practices of the organized market in which it occurs.
  - d) CLASS B SHARES subscribed in the FIRST PUBLIC OFFER shall be paid in in the proportion of 25% (twenty-five percent) in cash and 75% (seventy-five percent) within 180 (one hundred and eighty) days, in accordance with Article 22, Paragraph 4, Subparagraph 3 of CVM Instruction No. 391/03.

- e) QUALIFIED BONDS, funds in Brazilian currency, as well as securities converted into the EIF-CONTROL as a result of the FIRST PUBLIC OFFER shall be used by the EIF-CONTROL to pay in new common shares in the COMPANIES, to be issued as an increase in capital approved pursuant to Item 24 m) of this DETAILED PLAN.

43. Within 210 (two hundred ten) days as of the FIRST PUBLIC OFFER, the second public offer of CLASS B SHARES ("SECOND PUBLIC OFFER") shall take place.

- a) The SECOND PUBLIC OFFER shall target all market participants, including those holding QUALIFIED BONDS, as well as EIFs-CREDIT I, II, and III.
- b) QUALIFIED BONDS shall be received at par value when the shares in the EIF-CONTROL are paid in.
- c) The SECOND PUBLIC OFFER shall be conducted in accordance with the CVM rules usually applicable to the public offering of securities and pertaining to the members of the Brazilian System of Distribution of Securities, in addition to the rules and best practices of the organized market in which it occurs.
- d) The CLASS B SHARES subscribed in the SECOND PUBLIC OFFER shall be paid in fully in cash.
- e) QUALIFIED BONDS, funds in Brazilian currency, as well as securities converted into the EIF-CONTROL as a result of the SECOND PUBLIC OFFER shall be used by the EIF-CONTROL to pay in new common shares in the COMPANIES, to be issued as an increase in capital approved pursuant to Item 24 m) of this DETAILED PLAN.

44. The distribution of CLASS B SHARES, including the DISTRIBUTION TO CREDITORS, the FIRST PUBLIC OFFER, and the SECOND PUBLIC OFFER described above, shall be conducted by a member institution of the Brazilian Securities Distribution System, with recognized experience in intermediating the placement of securities in the Brazilian capitals market, and hired specifically for this purpose ("PUBLIC OFFER LEADER").

- a) The PUBLIC OFFER LEADER shall receive the irrevocable and irreversible mandate and instruction from the EIF-CONTROL ADMINISTRATOR to conduct the DISTRIBUTION TO CREDITORS, the FIRST PUBLIC OFFER, and the SECOND

PUBLIC OFFER, as well as any and all other offers that may become necessary or recommended to reach the goal of R\$ 4,000,000,000.00 (four billion reais) in CLASS B SHARES within 3 (three) years.

- b) The PUBLIC OFFER LEADER shall be selected and hired by the EIF-CONTROL ADMINISTRATOR as soon as the EIF-CONTROL is formed, and its compensation shall run at the expense of the EIF-CONTROL.
- c) All public offers of CLASS B SHARES in the EIF-CONTROL beyond those described above and required to reach the funding goal, shall observe the same rites, procedures, and rules established herein for the SECOND PUBLIC OFFER.

#### D – Temporary Provision of Cash for the EIF-CONTROL

45. During the EIF-CONTROL's first year of existence, the COMPANY shall be authorized to make pre-payments of CREDITS or POST-FILING CREDITS consubstantiated in QUALIFIED BONDS held by the EIF-CONTROL, so long as it maintains a permanent availability of cash for payment of CREDITS as renegotiated under the PLAN, with the intent of and to the extent strictly required for covering the following EIF-CONTROL expenses:

- a. Fees that are reasonable and according to the market average, due to the VALUATOR and REVIEWER;
- b. Any fixed installment of compensation owed to the PUBLIC OFFER LEADER; e
- c. Administration Fee.

46. As an alternative to the pre-payment provided under Item 45 above, the COMPANY may issue simple and subordinated debentures for private placement in the EIF-CONTROL, and accept QUALIFIED BONDS to pay in the issued debentures, with the intent of providing cash flow to the EIF-CONTROL during the first year of its existence, for the same purposes and observing the same limits as provided under Item 45.

#### VIII – REQUIRED GOVERNMENT APPROVALS

47. The INTERIM MANAGER, with the assistance of the institution selected to act as EIF-CONTROL MANAGER, shall seek the required approvals from the CVM and the DAC to implement the measures set forth in this DETAILED PLAN. In case of any impediment to the approval by said agencies or any other

government entity, which may prevent or disrupt the implementation of the measures set forth in this DETAILED PLAN, the INTERIM MANAGER, with the assistance of the institution selected to act as EIF-CONTROL MANAGER, shall indicate the changes required to overcome the impediment, and submit the required modification in the DETAILED PLAN to the proper General Meeting of Creditors. In this case, changes will be introduced only in the Items strictly required for the approval by the pertinent agency.

48. The default on any obligation included in this DETAILED PLAN within 2 (two) years as of the granting of JUDICIAL REORGANIZATION of the COMPANIES shall result in the application of the provisions of Paragraph 1 of Art. 61 and subparagraph IV of Art. 73 of the CRL.
49. Until a decision is rendered to end the JUDICIAL REORGANIZATION, any legal action or controversy related to this DETAILED PLAN or the PLAN shall be resolved by the 8th Business Court of the County of the Capital of the State of Rio de Janeiro. Once the JUDICIAL REORGANIZATION is ended, any legal actions or controversies shall be resolved by the competent venue in the County of the Capital of the State of Rio de Janeiro.

**List of Attachments**

Attachment I – Minutes of the 12/19/2005 GMC and attachments thereto

Attachment II – Decision rendered by the 8th Business Court of the County of the Capital of the State of Rio de Janeiro

Attachment III – Operational Restructuring Plan prepared by VARIG based on work conducted by Lufthansa Consulting (“VARIG Recovery Plan – Operational Restructuring Plan”)

Attachment IV – Templates of ACKNOWLEDGMENT OF DEBT for CREDITS and POST-FILING CREDITS

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Attachment XI – List of Administrators and Managers accredited by the CVM, to be updated per Item 26



## **ATTACHMENT II**

### **PRINCIPLES AND RULES FOR CORPORATE GOVERNANCE APPLICABLE TO FIP-CONTROLE AND TO THE TARGET INVESTMENT COMPANIES**

This attachment sets out the precepts for corporate governance that are to be heeded by the Manager, Trustee and Management Committee of FIP-Controle, both in relation to FIP-Controle itself as well as in relation to the Target Investment Companies. In this regard, FIP-Controle should take advantage of the emerging power of its shareholding stake in the Target Investment Companies so as to implement and observe the precepts set out here.

These precepts are set out in this Attachment as Principle and Rules. There is an ongoing obligation for those under this Attachment to attain full satisfaction of the principle, even when all the Rules have been achieved, but they are not forgiven performance of the Rules by having achieved the Principles.

#### **I. PRINCIPLES AND RULES OF CORPORATE GOVERNANCE APPLICABLE TO FIP-CONTROLE**

##### **I.1 – Independence of the Management Committee in relation to administration of the Target Investment Companies**

###### Principles:

Administration of the Target Investment Companies is the responsibility of the Boards of Directors of the Target Investment Companies.

The role of the Management Committee is to define the votes of FIP-Controle, shareholder in the Target Investment Companies, acting as a professional shareholder, exercising its voting power to the effect of: (i) forming and maintaining the Board of Directors of the Target Investment Companies in full and efficient operation, and acting pursuant to the law, the Rules and Regulations, the Plan Details and the precepts of corporate governance described in this Attachment, as well as such other rules of corporate governance as it may deem complementary; (ii) maximizing the returns of the quotaholders by means of receipt of earnings on the capital invested, valuation of the shares comprising the Fund portfolio, with due regard for the interests of the Target Investment Companies and its duties as controlling shareholder; (iii) examining and resolving on strategic matters under the authority of the shareholders when presented by the Board of Directors of the Target Investment Companies; (iv) during the period of the Court Recovery of the Target Investment Companies, the Management Committee will follow up on and demand of the Board of Directors of the Companies the exact execution of the Plan Details.

The Management Committee should hold itself independent when evaluating, approving, reprimanding, rewarding or correcting the acts of the Board of Directors of the Target Investment Companies.

## Rules

I.1.a. The Trustee, any of its legal representatives, managers, partners, associates or shareholders, the members of the Management Committee, or in the case of legal entities, any of its legal representatives, managers, partners, associates or shareholders, cannot hold more than one position of manager in any of the Target Investment Companies or company in the group of companies to which it belongs or to which the Target Investment Companies belonged.

I.1.b. The Board of Directors of the Company will have a maximum of 2 (two) members that have been part of the Management Committee or Trustee or legal representatives, managers, partners, associates or shareholders of a legal entity that is or has been part of the Management Committee or Trustee, in the 3 (three) years that preceded their election as director.

I.1.c. The Chairperson of the Board of Directors of the Company cannot have been a member of the Management Committee or legal representative, manager, partner, associate or shareholder of a legal entity that is or has been a member of the Management Committee or Trustee, in the 5 (five) years that preceded his/her election as chairperson of the Board of Directors.

## **I.2. Monitoring Role of the Supervisory Committee**

### Principles:

The Supervisory Committee should operate as the main monitoring entity for the activities of the Management Committee, the Trustee, and the Manager of the Fund, on behalf of the quotaholders. Its main function is to maintain a follow-up of the performance of the activities of the Fund, using a proximity that the quotaholders do not possess. It should be prepared to give its opinion to the General Meeting of Quotaholders regarding all issues referred to it, offering another viewpoint from that of the Manager, Trustee and Management Committee, whether in agreement or not. It should further evaluate the quality of the work and the performance of the Manager, the Trustee and the Management Committee so as to report to the quotaholders, especially at the time of elections and dismissals of these agents that are referred to the deliberation of the General Meeting of Quotaholders.

### Rules:

I.2.a. The members of the Supervisory Committee cannot hold more than one position on the Management Committee or on the administration or management of the Target Investment Companies.

I.2.b. The Supervisory Committee should approve in-house rules and regulations governing its functioning in a manner complementary to what is set out in the regulations, including the manner of election and authority of its President and Vice President.

I.2.c. The Supervisory Committee should communicate to the General Meeting of Quotaholders as to its opinion on issues referred for the deliberation of the quotaholders, after statements from the Trustee, the Manager and the Management Committee, offering its agreeing or conflicting viewpoint.

I.2.d. All votes handed down in the Supervisory Committee should be substantiated, and all votes differing from the majority should mention the substantiation of the disagreement in a separate statement, which will become part of the minutes.

I.2.e. The recommendations of the Supervisory Committee to the General Meeting of Quotaholders should be set out in writing and made available to the quotaholders, always together with the minutes that contain the resolution approving said statement, including any statements diverging from the vote.

## **II. PRINCIPLES AND RULES OF CORPORATE GOVERNANCE APPLICABLE TO THE TARGET INVESTMENT COMPANIES**

### **II.1 – Central role of the Board of Directors of the Target Investment Companies**

#### Principles:

The entity with main responsibility for administration of the Target Investment Companies (the “Company”) will be the Board of Directors of each one of the Companies (“Board of Directors”). The Board of Directors will bring about execution of the strategic objectives of the Company and will determine the policy for their achievement, delegating to the Executive Board the mission of carrying out the daily administration of the Company so as to achieve such objectives.

The Board of Directors should diligently supervise the exercise of the executive functions by the Executive Board, exerting every effort and using all means available to monitor the development and the operating and financial results arising from the executive management with regard to short-, medium- and long-term aspects. The Board of Directors should furthermore maintain constant vigilance as to the relevant risks to which the Company operations are subject, and verify the existence and good functioning of management mechanisms permitting the identification and efficient management of such risks.

The Board of Directors should take care to ensure that the Executive Board has within its reach the best possible resources, whether human, financial or technological, for the efficient performance of its executive role.

#### Rules:

II.1.a. The Board of Directors should be composed of individuals proven capable of the performance of the tasks required for the position, targeting a combination of talents and capabilities among the diverse members, thereby ensuring that the Board of Directors may have the human resources needed to act effectively with full coverage of areas required for the efficient and

effective administration of the Company. At least 2 (two) of the members of the Board of Directors must be experienced with and well-versed in corporate finances.

II.1.b. The Board of Directors should meet with sufficient regularity for the performance of its duties in an effective manner, and never less than once a month. There should always be a clear definition as to the issues to be referred to the Board of Directors, and the list of these issues should be disclosed to the shareholders of the Company by means of the Annual Administration Report.

II.1.c. The Annual Administration Report should take into account, with regard to its contents, the highest standards existing on the Brazilian and international market, targeting provision of the maximum amount of transparency possible with regard to the operating, financial, governance, and risk management results, in addition to the corporate liability of the Company and the future prospects, with due regard for the right to withhold confidential strategic aspects.

II.1.d. The Annual Administration Report should contain, in addition to the explanations made jointly by the Board of Directors and Executive Board of the Company, in accordance with the highest standards existing on the Brazilian and international market, a section reserved for the Board of Directors of the Company, which will be drafted and approved without the participation of the members of the Executive Board (“Statement from the Board of Directors”).

II.1.e. The Annual Administration Report, in the Statements from the Board of Directors, should contain:

- (i) a description of the composition of the Board of Directors, containing the *curriculum vitae* of each of its members, the shareholders that elected them, if this can be determined, whether or not he/she is an Independent Member, his/her remuneration situation vis-à-vis the Company (including indirect fees, such as vehicles, travel tickets, etc.) and the total remuneration earned from the Company for the preparation of the Annual Administration Report;

- (ii) an evaluation of the performance of the Executive Board, containing the *curriculum vitae* of each board member, indicating the prerogatives on the Executive Board pertaining thereto, and carrying out a study of the various areas and sectors of the Company regarding the command of the Executive Board, indicating the measures that will be adopted for improvement of performance in the areas and sectors with results below expectations.

## **II.2 – Equilibrium in the composition of the Board of Directors and economic alignment with the objectives of the Company, its controlling and minority shareholders.**

### Principles:

The Board of Directors should be composed of individuals subject to distinct mechanisms for alignment of economic interests, so as to allow the result of the various forces comprising the Board of Directors to be always in line with the objectives of the Company and with the interests of its controlling and minority shareholders, with due regard for equality before the law.

The composition of the Board of Directors should take into account the need for a significant participation of the Directors who are independent with regard to past transactions of the Company, ensuring that they are economically not bound by any interests when evaluating past events and decisions.

Rules:

II.2.a. The Board of Directors should be composed of from 5 (five) to 9 (nine) members.

II.2.b. Approximately one-third of the members of the Board of Directors should be [sic] fulfill the following requirements, so as to be classified as Independent Members:

(i) not have been an employee of the Company or of the group of companies to which the Company belongs or belonged in the last 5 (five) years;

(ii) not have had in the last 5 (five) years any significant business relationship with the Company or the group of companies to which the Company belongs or belonged, either directly, or as partner, consortium member, controlling shareholder, or manager of an entity that has maintained such significant business relationship;

(iii) not have held a position of Board Member of the Company or of a company in the group of companies to which the Company belongs or belonged, or have been a member of the Trustee Council of the Ruben Berta Foundation, of the FRB-Par Investimentos S.A. administration, of Varig Participações em Transportes Aéreos S.A., and not have been a member of the Board of Directors of the Company for 4 (four) years or more;

(iv) not be related to any officer of the Company or of a company in the group of companies to which the Company belongs or belonged;

(v) not have been an employee, officer or controlling company of a shareholder holding 5% (five percent) or more of shares issued by the Company or a company in the group of companies to which the Company belongs or belonged, or investor holding 5% (five percent) or more of FIP Controle, FIP Crédito I, FIP Crédito II or FIP Crédito III;

(vi) Not be a shareholder holding 5% (five percent) or more of the shares issued by the Company or a company in the group of companies to which the Company belongs or belonged, or investor holding 5% (five percent) or more of FIP Controle, FIP Crédito Classe I, FIP Crédito Classe II or FIP Crédito Classe III.

II.2.c. At least 2 (two) committees should be created, each one comprising 3 (three) members of the Board of Directors, with one being a Risk Control Committee and the other, an Investor Relations Committee. Both committees will reach resolutions by a simple majority. The Board of Directors will be free to create other committees, should it consider this productive.

II.2.d. The Risk Committee will necessarily have at least 1 (one) place held by an Independent Member, and will issue on an annual basis a statement, which will be included with the Statement from the Board of Directors, with regard to the sufficiency, efficiency and effectiveness of the relevant identification and risk management systems that govern the operations of the Company. This statement should succinctly explain the reasons for which the Risk Committee finds the risk identification and management system satisfactory, especially with regard to the controls as to fidelity and access to information, including by means of the chain of personal responsibility for the provision and verification of information by the responsible Directors. Any committee members that do not agree with the statement of findings and do not sign off on it, should provide their own statements separately, indicating the points that they disagree with. The Committee will select the risk agencies that will monitor the quality of the credit and corporate governance of the Company.

II.2.e. The Investor Relations Committee will issue on an annual basis a statement of findings contained in the Annual Administration Report of the Company, analyzing the quality of the services involving Investor Relations of the Company, the information placed at the disposal of the shareholders of the Company, especially the minority shareholders, including the information contained in the quarterly reports required by the regulations, and the information contained in the Annual Administration Report of the Company. This Committee will be responsible for arranging for public meetings with analysts or any others interested in disclosing information as to the economic/financial situation, project and perspectives of the Company, at least once a year.

### **II.3 – Separation of the Duties of Supervision and Execution**

#### Principle:

The Board of Directors should have total independence to evaluate, reprimand, reward or correct the acts of the executive administration performed by the Board Members and, therefore, its members cannot be linked to any acts performed as either perpetrators or co-perpetrators.

#### Rules:

II.3.a. No member of the Board of Directors may hold more than one position as Board Member of the Company or a company in the group of companies to which the Company belongs or belonged.

II.3.b. The Chairperson of the Board of Directors of the Company cannot have held the position of Board Member of the Company or a company in the group of companies to which the Company belongs or belonged in the 3 (three) years preceding his/her election to the chair of the Board of Directors.

## **II.4 – Access to information and means**

### Principle:

The Board of Directors should be supplied with detailed and timely information in order that it might carry out its duties and should have access to means sufficient to ensure that its scrutiny is supported by the technical assistance needed for the responsible evaluation of the matters submitted to it.

### Rules:

II.4.1. The Board of Directors should draw up procedures and policies for receiving periodic and extraordinary information, with the depth and timeliness necessary. The Chairperson of the Board will be responsible for receiving all information forwarded to the Board of Directors, carrying out the requests for information made to the Executive Board, as well as for ensuring that the other members of the Board of Directors receive all information gathered on a timely basis.

II.4.2. The Board of Directors should have a budget to use specialized technical services, whether legal, accounting, financial or engineering in nature, in order that it might evaluate in an independent manner the operations of the Company. Selection of service providers and acceptance of the work carried out will require the approval of the majority of the Directors remunerated as set out in item II.2.d. The committees should also have specific budgets for contracting of equivalent services.

## **II.5 – Valuation of the Minority Participation in the Event of Transfer of Control**

### Principle:

The minority shareholders of the Company should be assured the right to transfer their shares along with the controlling shareholder in the event of transfer of control, receiving an amount equivalent to that paid for the controlling shares.

Rule:

II.5.a. The shareholders controlling the Company should undertake, in the event of transfer of the control of the Company, to make a public offering for acquisition of the shares of the Company available on the market, for a cash amount equivalent to the price paid per common share in the control block.

**II.6 – The Company Will Adopt the Highest Standards Existing for Corporate Governance**

Principle:

The Company Administration should arrange for the servicing and adhesion to the highest standards of corporate governance existing, with due regard for the restrictions applicable to companies that are concessionaires of air transport services.

Rule:

II.6.a. The Company should mention in its Bylaws all rules pertaining to Level I of corporate governance for the New Market issued by BOVESPA in no more than 3 (three) years, with exception made for any requirements that may be prohibited or limited by prevailing legislation in its regard.

II.6.b. The Company should mention in its Bylaws all rules pertaining to Level II of corporate governance for the New Market issued by BOVESPA in no more than 5 (five) years, with exception made for any requirements that may be prohibited or limited by prevailing legislation in its regard.



# VARIG, RIO SUL AND NORDESTE OPERATIONAL RESTRUCTURING PLAN

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## **VARIG, RIO SUL AND NORDESTE JUDICIAL RECOVERY PLAN**

This document was prepared with the intention of including and detailing the main terms of the Judicial Recovery Plan (“Recovery Plan”), under the aegis of the Law of Judicial and Extra-Judicial Recovery and Bankruptcy of the Business Owner and Companies (Law no. 11.101, of February 9, 2005) (“The Companies Recovery Law”), for “VARIG,” S.A. (Viação Aérea Rio-Grandense) – undergoing Judicial Recovery, RIO SUL Linhas Aéreas S.A. – undergoing Judicial Recovery and NORDESTE Linhas Aéreas S.A. – undergoing Judicial Recovery (referred to respectively as “VARIG,” “RIO SUL” and “NORDESTE” and together as the “COMPANIES”). Although VARIG, RIO SUL and NORDESTE are different and independent legal entities, they have been integrating a large part of their operations since 2002.

VARIG, a Brazilian company, is the largest airline in Brazil and South America. Founded in 1927, VARIG offers regular air service in the domestic and international markets. VARIG currently operates an average of 289 flights per day to 36 destinations in Brazil. In addition, VARIG offers flights to 23 destinations abroad and connections to many other locations via the *Star Alliance* – the world’s largest strategic global alliance, composed of the largest and most important civil aviation companies. VARIG also operates an average of 26 flights per day to Latin America, North America, Europe and Asia. On June 30, 2005, VARIG possessed a fleet of 78 jet aircraft for passenger transportation.

VARIG is a public-stock corporation, controlled by FRB – Par Investimentos S.A. (“FRB-Par”). VARIG Participação em Transportes Aéreos S.A. (“VPTA”), which is controlled directly by FRB-Par, owns 97% of the shares of RIO SUL and 100% of NORDESTE. In addition, VARIG owns 100% of VARIG de México S.A., a company that leases a hangar in Mexico City, and VARIG Engines Holding S.A., an inactive company registered in Delaware, U.S.A. In the last 12 month period ending on June 30, 2005, the COMPANIES generated operational revenue totaling R\$ 8.088 billion.

On June 17, 2005, the COMPANIES filed an initial petition with the Rio de Janeiro State Court of Appeals requesting the protection provided according to the Companies Recovery Law, which was assigned to the 8<sup>th</sup> Corporate Court of Rio de Janeiro. On June 22, 2005, the

8<sup>th</sup> Corporate Court granted the processing of the petition for judicial recovery, in a decision that was published in the Official Gazette of the State of Rio de Janeiro on July 12, 2005.

Immediately after filing the request for Judicial Recovery in Brazil, VARIG filed a judicial motion with the Bankruptcy Court of the Southern District of New York (proceeding no. 05-14400 rdd), requesting that the effects of the decisions rendered by the 8<sup>th</sup> Corporate Court would extend to U.S. territory and to the COMPANIES' American creditors, which was granted.

Various recent factors have contributed to the COMPANIES' decision to re-structure their operations under the Companies Recovery Law, including: (i) the price war being waged in the domestic passenger air-transport market; (ii) the growing volatility in the price of aviation fuel; (iii) the inability to reduce, on the short term, the cost of personnel and other costs of an operational nature; and (iv) the risk of imminent loss of aircraft due to delay in payment by the lessees. In addition, the COMPANIES' balance sheets show a substantial tax, social-security and pension-fund liability, as well as other debts, obligations that the COMPANIES' will most likely be unable to meet unless they reorganize and re-structure themselves to allow an influx of new money and new investor(s).

In 2003, VARIG, RIO SUL and NORDESTE showed net losses of R\$ 1.8368 billion, R\$127.6 million and R\$49.4 million respectively. In 2004, VARIG and RIO SUL showed a net loss of R\$ 87.2 million and R\$14.8 million, while NORDESTE had a net profit of R\$ 2.5 million. In the first semester ending on June 30, 2005, VARIG and NORDESTE showed net losses of R\$ 394 million and R\$ 3.8 million, respectively, while RIO SUL announced a net profit of R\$ 1.1 million. On June 30, 2005, VARIG, RIO SUL and NORDESTE showed negative net worth of R\$ 6.838 billion, R\$ 337.4 million and R\$ 145.6 million, respectively.

In the context of the Companies Recovery Law, the COMPANIES' Administrative Councils and Boards of Directors, as well as their operational, financial and legal consultants, conducted an extensive analysis of the available alternates to overcome the COMPANIES' current financial situation and maximize payment to creditors, given the circumstances. The opinion of the administrators is that all the interested parties; the employees, the pension holders, the government, the creditors, the shareholders and the aviation market itself, will

reap greater benefits from the implementation of the Recovery Plan than they would from liquidation of the COMPANIES' assets, which would mean an immediate loss of the concessions and surrender of the leased aircraft, implying the destruction of inestimable tangible elements, such as the Smiles Program, with its 5 million participants.

The implementation of the Recovery Plan will make it possible for the COMPANIES to rise again as a competitive and feasible airline, in the long term, within the industry's current and future context.

The Recovery Plan is based on the most recent financial and operational information, as well as corresponding projections and assumptions. Certain confidential information and data has been purposely omitted from the text presented herein, due also to the rules applicable to corporations whose shares are traded on the stock exchange.

## **I – INTRODUCTION**

### **The COMPANIES' Social and Economic Relevance for Brazil**

The COMPANIES constitute the largest passenger airline in Brazil, with an average participation of 58% of all passengers transported during the past five years, 84% of which in the international market and 36% in the domestic market.

As Brazil's largest and most famous airline, the COMPANIES play a fundamental role in generating jobs and income. In December 2005, the COMPANIES directly generated 11,790 jobs, 95% were in Brazil. Considering the multiplier effect estimated by the Air Transportation Action Group for the worldwide civil aviation industry, it is calculated that the COMPANIES generate directly, indirectly and by effect of revenue, a total of about 180,000 jobs.

The services the COMPANIES offer to support the flow of domestic and international tourists have a high degree of economic relevance for Brazil. In 2003, 4 million foreign tourists visited Brazil, including passengers traveling on business. Of these, 72% traveled by airplane and spent a total of US\$ 3.5 billion in foreign currency in Brazil.

However, the COMPANIES' social and economic importance for Brazil also has other dimensions. The presence of a Brazilian company in the air transportation market is considered a strategic factor. In the absence of favorable conditions for private capital to

invest in this industry, governments often assume this responsibility via direct public investments. VARIG has been a private company since its creation and is still the main participant in the Brazilian air transportation industry, performing a fundamental role in Brazil's national integration process.

One of the most strategic aspects for the nation is the contribution to the Brazilian economy's level of competition. The COMPANIES' reorganization and Restructuring will certainly improve the Brazilian economy's ability to compete in global markets. More efficient passenger transportation, both domestic and international, means an increased level of competition for the productive sector as a whole. The COMPANIES' importance in the industry is not limited to their ability to compete worldwide but also includes their contribution in enabling the Brazilian economy to compete globally and effectively.

In effect, from the social and economic standpoint, VARIG's presence in the international markets is a strategic contribution that assures a flow of more than US\$ 1.2 billion in revenue and profits to Brazil each year.

It should be noted that the COMPANIES' strong presence in the domestic market acts as leverage for the company's performance in the international market, a connectivity effect, and vice-versa. This relationship can be proven both by supply and demand. From the point of view of supply, major airlines have a lower production cost, which enables them to charge lower fares and achieve a higher rate of occupation on international flights. The COMPANIES have a better domestic network compared to foreign airlines, which fly to only a few cities in Brazil. Therefore, the COMPANIES are able to achieve higher occupation rates, in both domestic and international flights than foreign airlines. In other words, in civil aviation, economy of scale is of major importance.

In the COMPANIES' case, an improvement in its financial health will have a positive impact on the efficiency and quality of services offered. For example, better integration of the network of air routes will reduce flying time and waiting time at airports, allowing greater productivity in the use of resources. The combination of these factors will mean lower costs, and lower fares, for both domestic and international routes, in benefit to the consumer. From the viewpoint of demand, product differentiation aids in the formation of greater market power in relation to foreign airlines. Improvement in the financial health of the COMPANIES will make the VARIG trademark more attractive, promoting loyalty on the part of the consumers, which will result in increased occupation rates.

The relevance of the international segment is derived from the fact that revenues and profits are beneficial to the Brazilian economy. As a whole, the Brazilian economy would be favorably impacted by increases in the revenue and profits generated by foreign sources, expanding local capacity for the consumption of goods and services.

The COMPANIES' existence also has a positive impact on the domestic economy by maintaining or increasing the level of competition in the domestic market. On the short and medium terms, maintaining the COMPANIES' activities will increase the level of competition.

### **Causes that Contributed to the COMPANIES' current Financial Situation**

The main external events or causes of the COMPANIES' current economic and financial problems are related to factors that have affected the civil aviation industry worldwide, as well as other specific factors within Brazil. The latter are related to the macro-economic context and to specific regulatory and labor legislation, which have created an operational environment different from that existing in other parts of the world.

During the last decade, an average of 60% of the COMPANIES' revenues was generated in the international market, the remaining 40% having come from domestic routes. The current situation is the result not only of recent factors but also of events that occurred in the past.

Before 1985, airfares were controlled and established by the Federal Government based on analyses that took into account the airlines' costs. After 1985, however, airfare increases began to be submitted to the prior approval of the Ministry of Finance. Between 1985 and 1992, as a result of the Government's various plans for economic stabilization and its policy for the civil aviation industry, the fare adjustments that were granted did not comply with the parameters established and contained in the calculations prepared by the National Airlines' Syndicate ("SNEA") and sent to the Federal Government. A deficit was created between the airfare levels calculated and demonstrated by the SNEA, which reflected increases in the industry's costs, and those approved by the Government. This resulted in a loss of revenue for the COMPANIES and the other companies in the air transportation industry. With regard to the COMPANIES, in March 1995, in a judicial action filed against the Federal Union (Airfare Action against the Government), the loss was estimated for part of the period as R\$ 2.346 billion.

The introduction of the floating exchange rate in 1999 and the subsequent devaluation of the Brazilian *Real* resulted in substantial impacts on the internal price of aviation fuel, as well as in aircraft maintenance and leasing costs. In an even more negative way, the 35% devaluation of the *Real* in 2002, as a result of the electoral environment, had an equally negative impact. A secondary effect of the devaluation was a reduction in the occupation rates of international flights caused by a fall in the purchasing power of the Brazilian population, measured in US dollars.

Brazil's institutional environment also affected the airlines' performance. The companies' capacity to adapt to the negative international scenario in the past five years was affected by the restrictive labor laws and the form of deregulation that occurred in the domestic market. As acknowledged in several studies, the Brazilian labor rules and those negotiated by the airlines created a certain amount of rigidity in the civil aviation industry. This lack of flexibility affects not only the speed with which the airlines' labor force adjusts to the cyclic fluctuations in demand, but also their operating costs. These costs are greater, depending on how long the company has existed and its personnel turnover rate. VARIG has completed almost 80 years of activity and its turnover rate is low (2% per annum).

Another relevant aspect is the development of competitive conditions occurring in the civil aviation market after the year 2000. The consequences of the increase in competition were not managed in a timely fashion by the Federal Government. The Brazilian economy grew only 2.2% per year in the period from 1999 to 2004, corresponding to a per capita increase in the GNP of 0.6% per year. However, there was a substantial increase in supply capacity on the part of the airlines. As a result, Transbrasil and VASP ceased to operate regular flights, while VARIG and TAM entered into a code sharing agreement, in an attempt to mitigate the pressures resulting from the industry's scenario of economic problems.

In the international context, various relevant factors affected the industry, such as the increase in the price of aviation fuel, the terrorist attacks of September 11, the invasion of Iraq and the Acute Respiratory Syndrome (SARS) epidemic.

The increase in the price of aviation fuel had a substantial impact on the COMPANIES' costs, particularly after 1999. During the period between 1999 and the first half of 2005, the cost of a liter of aviation fuel was raised, in US dollars, an average of 22% per year.

The events of September 11, 2001 constituted a shock of great proportions for the civil aviation industry worldwide. Demand fell sharply, with devastating and unprecedented consequences. In the United States, in particular, these events reduced the volume of passengers by 30% on the short term and, in subsequent years, structurally, by an estimated 7.3%. For VARIG, the decrease in 2001 was 2.5% in the domestic market and 4.5% in the international market. According to the International Air Transport Association (“IATA”), the participating airlines suffered overall losses in 2001 and 2002 of US\$ 25 billion.

In March 2003, the international crisis in the civil aviation industry grew deeper with the war in Iraq and the SARS epidemic. According to IATA, in April 2003 international passenger traffic had fallen 18.5% compared to the same period in the previous year.

In summary, the main external causes of the COMPANIES’ economic-financial problems are tied to events with a high degree of uncertainty or to institutional factors that are difficult to manage.

In other countries, the airlines received special credits and/or subsidies from their respective governments to overcome their problems. The COMPANIES have never benefited from such measures. On the contrary, they have accumulated huge debts to the Government and their creditors, while seeking in the Courts, as they continue to seek, awards (“future assets”) that would be more than sufficient to pay off their public and private debts without affecting their assets.

The COMPANIES have adopted the following measures to overcome their economic and financial problems:

- In 1994, they entered into an agreement with the creditors, with the support of Bankers Trust, that re-structured their debt and assured the influx of new financing;
- During the period from 1995 to 1999, in order to generate cash flow, VARIG sold its engine overhaul shop to General Electric, disposed of its equity interest in EQUANT and sold its aircraft, subsequently leasing back the same aircraft (sale and lease back);
- In 2001/2002, it re-structured certain corporate activities, namely, the cargo transportation and aircraft-maintenance activities, which were spun off and merged



into new companies to allow their capitalization by third parties or sale;

- In March 2002, FRB-Par formally approved the dilution and consequent transfer of VARIG's control to enable the influx of new money and new investor(s);
- In September 2002, the operational integration of VARIG, RIO SUL and NORDESTE was initiated;
- In the same year, a Committee was created by VARIG's main creditors to re-structure the debt. That Committee proposed the signing of a Memorandum of Understanding ("MDE"), which was later rejected;
- In February 2003, an MDE was signed with TAM for the purpose of merging VARIG with TAM. The merger was subsequently rejected by both companies; and
- In January 2005, the bank Unibanco, the law firm of Wald Advogados and the consulting firm of Trevisan Consultoria were hired to analyze and submit a restructuring plan for VARIG, which was not approved by the Government.

As a result of their restructuring efforts, since 2002 the COMPANIES have reduced their work force from 14,570 to 11,790 employees in December/2005, their fleet of aircraft from 118 to 73 in December/2005 and their flight destinations from 91 to 59 in December/2005, always in an attempt to obtain positive operating results, which they achieved in 2003, 2004 and the beginning of 2005.

These are the main reasons that led to the filing of a request for judicial recovery on June 17, 2005. It is important to note that the filing of that request did not affect the trust of VARIG's customers. It allowed VARIG to re-capture, in the next two months, second place in the domestic market and guaranteed it absolute leadership in the international market.

## **Operational Restructuring**

The COMPANIES contracted the services of Lufthansa Consulting GmbH ("LCG"), an internationally renowned aviation consulting firm, for the purpose of: (i) evaluating the current operational situation; (ii) developing measures to increase revenue, reduce operating costs and improve profitability; (iii) estimating the financial impact of these

improvement measures; (iv) presenting a report with proposals to improve measures to support the Recovery Plan; (v) advising the COMPANIES on the implementation of measures for improvement; and (vi) providing support for the initial phase of implementing the measures, including immediate gains.

LCG commenced its work on July 13, 2005, and revised the areas of Corporate Strategy and Structure, Network and Fleet Planning, Sales and Distribution, Maintenance and Engineering, Flight Operation, Information Technology and Management Information Systems (“SIG”) and Human Resources and Airports. On December 19, 2005, a revised operational restructuring plan based on the first version of September 12, 2005, was submitted to the creditors, which was essentially the fruit of the aircraft fleet’s operational availability and other assumptions presented in item IV - DESCRIPTION OF THE RECOVERY PLAN (REVISED) – PROJECTED OPERATING RESULTS. LCG’s conclusions and recommendations were described and incorporated into this Recovery Plan.

## **II – GENERAL PANORAMA OF THE RECOVERY PLAN**

### **Objectives**

The objectives of the Recovery Plan are to assure that:

- (i) the COMPANIES will overcome their current economic-financial difficulties, with VARIG staying in business and, as much as possible, preserving jobs while at the same time looking out for the interests of the creditors and shareholders;
- (ii) VARIG’s business, with its operations, rights and assets, will be feasible on the long term, enabling also the resurgence of the COMPANIES after the recognition of the “future assets,” which will allow them to resolve their public tax and social security debt;
- (iii) the interests of all the parties involved will be treated in a fair, reasonable and balanced manner.

### **III – LIQUIDITY SITUATION**

Prior to the request for Judicial Recovery, the COMPANIES experienced increasing liquidity crises due to their substantial liabilities, price wars and increased operating costs caused mainly by the high cost of fuel.

After the request, in spite of the 8<sup>th</sup> Corporate Court's decision to grant the benefit of suspending payments relative to most of the debts that existed prior to the recovery proceeding, the COMPANIES experienced an even more serious liquidity crisis caused by various factors:

- Suppliers refused to grant normal credit terms and began to demand cash payments or even advanced payments;
- Banco do Brasil ceased to anticipate receivables from VISANET credit card sales;
- Some international receivables were blocked by creditors, for example, General Electric Capital Aviation Services (“GECAS”); and
- The International Air Transport Association (“IATA”) and Billing and Settlement Plan (“BSP”) clearing houses requested payment in advance and deposits as guarantee.

These pressures contributed to a severe reduction in the COMPANIES' cash flow. As a result, the COMPANIES failed to make payments to the leasing companies and got behind in their payments to suppliers and employees.

Cash flow restrictions forced the COMPANIES to ground various aircraft due to lack of resources necessary for their maintenance, which led to a reduction in the number of flights and other operational impacts that, in the final analysis, prevented any increase in the COMPANIES' revenues.

The COMPANIES worked with UBS to identify potential sources of short-term liquidity and contracted several Brazilian and international financial institutions, and alternative providers of capital. The traditional financial institutions were not willing to lend enough funds to assure the COMPANIES the liquidity necessary to keep their operations going during the Judicial Recovery period.

After an exhaustive search, the COMPANIES succeeded in arriving at an agreement with Matlin Patterson Global Advisers LLC (“MP”), a renowned international investment fund, to obtain via a Brazilian subsidiary, up to US\$ 103 million, with the sale of 95% of VARIG’s shares in VARIGLOG and an offer to buy Brazilian VISANET receivables.

The above operations enabled the COMPANIES to pay the leasing companies US\$ 56 million, which was liquidated in the American court on January 12, 2006.

#### **IV – DESCRIPTION OF THE REVISED RECOVERY PLAN**

##### **REVISED OPERATIONAL RESTRUCTURING PLAN**

In the context of the COMPANIES’ judicial recovery plan, LCG was chosen to be the technical advisor in the preparation of an Operational Restructuring Plan in order to assure that the COMPANIES would achieve an adequate and sustainable level of operational profit. The future feasibility of the COMPANIES depends not only on solving the current debt situation but also, and fundamentally, on improving their operational performance.

The measures identified in the Operational Restructuring Plan are incorporated to the COMPANIES’ Business Plan for the period 2006 to 2010 and are based on the following key initiatives:

- Strengthening VARIG’s current position in the international market;
- Maintaining and strengthening VARIG’s position in the domestic market;
- Creating a clear hub structure at Guarulhos International Airport (“GRU”), near the city of São Paulo, in order to increase connectivity, thus attracting additional traffic;
- Restructuring and harmonizing the fleet of aircraft so as to reduce unit costs and increase operational efficiency;
- Improving the management of revenues in a manner compatible with the competitive position;

- Strengthening the COMPANIES' organization and strategic decision-making responsibility in order to achieve goals and assure that all actions adhere to the plans;
- Clearly defining organizational structures, interfaces and responsibilities within the COMPANIES and with the COMPANIES' subsidiaries;
- Optimizing processes in order to improve efficiency and productivity in all areas;
- Reducing personnel costs in a manner compatible with the optimized structure of the COMPANIES and aligning these costs with market conditions;
- Improving products and customer service in order to win back the COMPANIES' market share; and
- Establishing relevant arrangements and alliances and intensifying current alliances in order to strengthen the network and the product;
- Implementing and continuously monitoring measures to reduce cost and increase revenue proposed in this plan;
- Selling Variglog and VEM's assets to the investors, Matlin Patterson and TAP, respectively;
- Recovering the operational margin in the last quarter of 2005 and resolving flight grid problems, in spite of the grounded aircraft (73 existing, 63, operable in the first semester of 2006 and 69 operable in the second semester);
- Implementing incentive programs for the pension program (PIA) and voluntary retirement program (PDV), with installment payment plan for severance payments without impacting the COMPANIES' cash flow;
- Adjusting the size of the staff via dismissal of personnel, retirement and unending leave of absence, in order to downsize staff to be compatible with the company's fleet;

VARIG and LCG have jointly analyzed the following areas: Corporate Strategy, Corporate Structure, Network Planning, Fleet of Aircraft, Revenue Management, Sales and Distribution, Marketing, Maintenance and Engineering, Flight Operations and Onboard Services, Information Technology and Management Information Systems and Human Resources.

Based on this analysis and on the evaluation of the financial performance of the COMPANIES' operations, a projection of Operational Results was developed for the period 2006 to 2010. The measures already adopted for improving results as well as those to be carried out during the implementation of the Business Plan and the effects of those measures on the operational performance, productivity and results are detailed in this document.

	Total No. of Measures	Quantified	To be Quantified in Phase 2/or Not Quantifiable
Corporate Strategy Corporate Structure Network Planning Fleet Revenue Management Sales, Distribution and Marketing Engineering and Maintenance Flight Operations and Onboard Services Information Technology Human Resources Airplane		[See original for figures.]	

The financial projections were developed assuming accentuated and continuous growth in air traffic in the domestic market and modest economic growth in countries where the COMPANIES will be operating in the next 3 to 5 years. The effects of the improvement measures, including effects on operational and financial results, were calculated based on conservative estimates.

The complete list of recommended measures is described in the following chapters of this document. However, the measures that are considered essential for successful implementation of the Business Plan are as follows:

- ✓ Restructuring the COMPANIES' network of flights and establishment of a well-defined hub structure at GRU;

- ✓ Harmonization of the currently overly-diversified fleet of aircraft;
- ✓ Establishing a main base of operations for aircraft, crew and other operational units at GRU; and
- ✓ Expanding the cost-reduction program in all areas of the company.

## **Introduction**

The COMPANIES' operational performance in recent years has suffered the impact of an overly diversified fleet structure, operating almost entirely under operational leasing agreements, reduction of routes and loss of competitive ability, especially in the domestic market.

The operational environment for airlines in Brazil has become much more competitive due to TAM and GOL's appearance in the market and rapid growth, resulting not only in the cessation of Transbrasil and VASP's operations but also a reduction in the COMPANIES' market share.

Factors such as price wars in the domestic market, the high cost of aviation fuel, the air industry's high tax burden, which, according to SNEA studies, is 100% higher in Brazil than Europe and 200% higher than the United States, fluctuating exchange rates as well as the COMPANIES' significant inefficiency in relation to the route structure and to the frequent changes in the company's administration have contributed to the Companies' deteriorating situation in recent years.

In this context, the COMPANIES' operational results have suffered considerably due to the increase in operating costs and reduced efficiency and productivity. In addition, constantly negative overall cash flows have contributed to debt accumulation.

<b>DEMONSTRATION OF RESULTS</b>			
<b>Amounts in US\$ (000)</b>			
	<b>2002</b>	<b>2003</b>	<b>2004</b>
- Flight Revenue de Vôo	2.377.275	2.174.561	2.487.647
- Taxes on Revenue s/Receita	(36.697)	(47.020)	(42.279)
- Other Operating Rervenue	115.841	78.313	179.409
<b>NET OPERATIONAL REVENUE</b>	<b>2.456.420</b>	<b>2.205.854</b>	<b>2.624.777</b>
- Flight Cost	(1.397.866)	(1.251.652)	(1.566.438)
- Comission	(363.750)	(345.698)	(340.337)
- Commercial Expenses	(174.286)	(105.644)	(127.182)
- Administrative Expenses	(77.760)	(50.771)	(63.525)
- Other Operational Costs	(101.943)	(63.116)	(61.149)
<b>COST OF SERVICES RENDERED</b>	<b>(2.115.605)</b>	<b>(1.816.882)</b>	<b>(2.158.631)</b>
<b>EBITDAR</b>	<b>340.814</b>	<b>388.973</b>	<b>466.146</b>
<b>EBITDAR MARGIN</b>	<b>13,9%</b>	<b>17,6%</b>	<b>17,8%</b>
- Operational Leasing Expenses	(321.696)	(238.733)	(242.601)
- Depreciation and Amort.	(47.310)	(31.467)	(14.814)
- Other	60.138	(118.556)	(11.565)
<b>OTHER EXPEN.</b>	<b>(308.869)</b>	<b>(388.755)</b>	<b>(268.981)</b>
<b>RESULTS OF ACTIVITY</b>	<b>31.946</b>	<b>217</b>	<b>197.165</b>
- Net Financial Rev./Expenses	(117.844)	(116.692)	(194.402)
- Results of Participation	(43.845)	(1.345)	(3.598)
- Exchange/Translation Earnings (Losses)	16.132	(254.308)	(176.703)
- Non-Operationg Results	(789.049)	(683.612)	(92.501)
- Provision for Income Tax	(1.713)	-	(378)
<b>RESULTS IN PERIOD</b>	<b>(904.373)</b>	<b>(1.055.740)</b>	<b>(270.416)</b>

Source: LCG/VARIG S.A.



Next came a dramatic increase in both cost basis and financial leverage, weakening the COMPANIES' ability to withstand the industry's cyclic cash flow variations. These factors also deteriorated the ability to generate enough capital to honor the COMPANIES' commitments, resulting in the need to suspend payments. As an example, due to serious cash flow problems, in August 2005 only 64 of the Companies' 78 aircraft were operating, which means that 14 aircraft were not being utilized to generate the revenue necessary to pay their respective leasing costs of almost US\$ 40 million per year, thus significantly deteriorating the operational results.

#### Recent Events

In the first six months of 2005, the airlines in Latin America experienced significant growth of 14% in Revenue per Passenger per Kilometer ("RPK"), with a 26% increase in traffic between the countries of Latin America and an increase of 10% in U.S. traffic, according to AITAL – International Latin American Association of Airplane transportation [*Asociación Internacional de Transporte Aéreo Latinoamericano*].

In the same period, when compared to the first six months of 2004, VARIG's traffic, measured in RPK, increased only 6% (5% in domestic routes and 7% in international routes). In general, revenue grew 18% due to an 11-percent improvement in yield (revenue generated per passenger per kilometer) and a 1-percent increase in the occupation rate, which rose to 72%.

In addition, a factor that prevented VARIG from taking advantage of the increase in traffic, displacing that of its competitors, was the fact that several of its aircraft were not operational and the route plans had to be adjusted periodically to adapt to the changes in aircraft availability.

In the first six months of 2005, the Cost per Available Seat per Kilometer ("CASK") rose by 22%, nullifying the positive effects of the increase in revenue and raising the point of equilibrium of the occupation rates from 69% to 72%. The main cause of the increase in costs was increase in the price of aviation fuel (45% since January 2005), coupled with the 18% rise in indirect costs, when compared to the same period in 2004.

The 66% reduction in operating results was strongly influenced by the negative performance that occurred in the months of May and June 2005, due to the intense price wars and the aviation fuel price increases.

While domestic market profitability declines, international services recovered, with positive results in 2005.

### **Corporate Strategy and Structure**

In practical terms, the absence of a long-term strategy is one of the causes of the COMPANIES' current situation. In spite of promising growth in traffic in the domestic and international markets, the COMPANIES suffered a negative impact due to the following factors:

- The R\$7.7273 billion debt is substantially higher than what the COMPANIES can bear;
- Fourteen aircraft are inoperable due to lack of maintenance, these aircraft being subject to current leasing costs;
- Higher cost of spare parts due to the utilization of intermediaries, who supply parts only on a cash basis;
- A heterogeneous fleet with different types of aircraft, engines, configurations and tires, resulting in a negative impact on maintenance, operations, commercialization, image etc.;
- The need to adapt staff personnel in various areas of the COMPANIES; and
- Absence of optimized and consistent processes, which prevents the company from achieving international standards of operating efficiency.

In spite of all these problems, there are reasons for a positive outlook:

- The Brazilian air transport market has doubled in the past ten years;
- The COMPANIES have qualified specialists on their staff in all areas of the business;
- VARIG is known in the market as a trustworthy and safe airline;
- VARIG is a national symbol to the Brazilian people;
- The VARIG trademark is internationally known and strongly linked with Brazil;
- VARIG possesses a strong international network, connecting Brazil and MERCOSUL with the rest of the world;
- VARIG has a significant slice of the lucrative air-shuttle market between Rio de Janeiro and São Paulo; and
- VARIG is a member of a global alliance of airlines, the Star Alliance.

#### Immediate and Short-Term Measures

Due to financial and time restrictions, the strategic objective of the coming months is to recover, while at the same time seeking to make choices, not to limit the COMPANIES' future alternatives. Therefore, the scope of this Operational Restructuring Plan in the short term is to identify immediate sources of additional revenue, cash-flow generation and opportunities for reducing costs.

The most important task at this time is to manage the crisis and guarantee operational stability, making the consumer's needs compatible with the need for cutting costs.

The COMPANIES need to continue offering a good, efficient, safe and comfortable product at reasonable prices.

The coming months will continue to be difficult for the COMPANIES, since they are experiencing substantial financial difficulties. The administration must consolidate and prepare the organization for the coming months.

#### Medium and Long-Term Measures

The development of a corporate strategy, subject to frequent revisions, is one of the coming tasks of the COMPANIES' administration. This work requires an ongoing study of the competition, the customers, interested parties and the market, as well as the status quo of the COMPANIES themselves. The future strategy/vision/mission will cover essential points, such as markets to serve, customers, products, competition, technology, profitability and growth, image, employees etc.

The strategy will be developed with the support of LCG and a new unit that will answer directly to the President of the COMPANIES.

#### Strategic Principles Included in this Business Plan

The strategic decision that sustains this Business Plan is that VARIG will remain one of the strongest airlines in South America, especially by assuring connectivity between domestic and international origins and destinations. Its extensive network of routes, jointly with the Star Alliance (which increases even more their chances of connecting flights), will propel VARIG's market share. With a more homogenous fleet of aircraft, adjusted to the needs of the consumer market, VARIG will assure modern air transportation within Brazil as well as between Brazil and other destinations in South America, North America and Europe. With the intense cooperation of other members of the Star Alliance, VARIG will also assure transportation to Asia and Africa.

VARIG must maintain its position as one of Brazil's major employers, with competitive salaries for its employees. In the future, VARIG will be exercising strict cost control and continuously redefining its products in accordance with market demand and profitability objectives. Continuous optimization of costs,

revenue and initiatives for improving cash flow will be implemented, but without compromising safety, thus paving the way for a modern airline that will meet consumer demand, respecting the characteristics of the Brazilian style. Within the Business Plan's horizon, VARIG will transfer its most relevant operational units to São Paulo.

#### Recommended Improvement Measures

- ✓ Developing and implementing a corporate strategy, with a declaration of the company's vision and mission;
- ✓ Implementing and constantly updating the corporate Business Plan.

#### Corporate Structure

An analysis of the structure of the Ruben Berta Foundation reveals a group of companies more or less directly related to passenger air transportation, the result of developments that have occurred over time. The problem is not the existence of this diversification but the lack of transparency in processes within and between these companies.

The VARIG organization is characterized by extremely centralized responsibilities and also limited horizontal communication between the organizational units. The organization has seven levels and its scope of control is not regulated by or related to any specific requirements. The entire organization shows a tendency to fragment into very small units.

The VEM and VARIGLOG spin-offs took place in 2001/2002, but were not completely carried out at the operational level. As a result, there are many superimposed areas with respect to functions and the customer-supplier relationship was never adequately defined.

The concept of Shared Services deserves more profound study, depending on the future relationship between the COMPANIES, VARIGLOG and VEM.

During the past 20 years, São Paulo's three airports experienced an increase in traffic from approximately 5 million to 27 million passengers per year, compared with the Rio de Janeiro's two airports, which saw an increase from 7.5 to 11 million passengers per year. In spite of this impressive change in demand, VARIG has kept most of its units in Rio de Janeiro and its bases of maintenance in Rio de Janeiro and Porto Alegre. RIO SUL and NORDESTE have kept their bases in Rio de Janeiro and Salvador.

#### Recommended Improvement Measures

- ✓ Analyzing the transfer of certain of VARIG's operational bases to São Paulo
- ✓ Permanently integrating RIO SUL and NORDESTE
- ✓ Assuring VEM's complete independence as an MRO entity
- ✓ Setting up a Corporate Strategy and Structure function
- ✓ Assuring an appropriate structure for VARIG's maintenance operations
- ✓ Centralizing Flight-Operation Dispatch services
- ✓ Transforming the Flight Training Center into a Center of Results
- ✓ Revising TI governance strategy and processes
- ✓ Adjusting the managerial organization of Human Resources
- ✓ Adopting advanced corporate governance practices that provide greater security to the new investors and to the creditors

#### **Network and Fleet Planning**

##### Network

Network Management, in conjunction with Sales, Distribution and Marketing, represent the central commercial functions of an airline, running in a general way the COMPANIES' business and profitability. In traditional airlines operational functions, such as operations and maintenance, have commanded the companies' processes, with the commercial functions being subordinate to the definitions of production.

The VARIG network of routes has three main strong points:

- An international network that no other Brazilian airline can offer, in spite of strong competition from international airlines;
- The strategic Rio de Janeiro-São Paulo Shuttle market, which has capacity limits due to the landing and takeoff slot restrictions; and
- Participation in the Star Alliance, which can be exploited better by VARIG to capture additional traffic and revenue for its own network.

The domestic network, with its 190 million inhabitants, represents a substantial basis of demand, in which the COMPANIES have relinquished their leadership to TAM. In recent years, price wars and excess supply and capacity occurred, leading to a period of cooperation between TAM and VARIG. Since that cooperation ended, and due to fleet problems, VARIG has been reducing its domestic network. Competing airlines took advantage of this situation to enter this market with lower airfares.

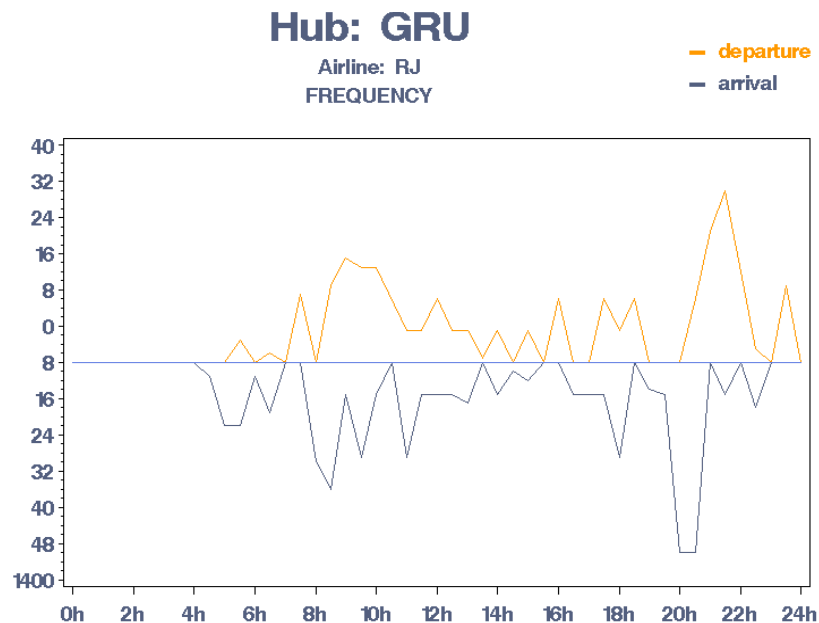
Some of the main conclusions are related to network and connectivity strategy, selection of partners and allocation of aircraft.

Below are details of each of these conclusions:

- VARIG is not operating a consistent network concept, due to a lack of aircraft.
- VARIG is a member of the Star Alliance, but upon analyzing the benefits derived from this alliance from a network perspective, these have been limited. Connectivity of the VARIG network with other members of the Star Alliance, via hubs, to capture greater traffic flow, is limited.
- The utilization rate per paid seat in the international network has increased 0.5 percentage points to about 75.5% between January and June 2005, when compared with the same period the year before. The final result of the occupation rate in 2004 was 76%.
- In the domestic market, the Shuttle plus direct flights to other state capitals, was responsible for a high percentage of the domestic network's operational results.

- In 2004, on some international routes the break-even occupation rate was more than 80% (100% for 3 of them), making it practically impossible to operate at a profit, in view of the current yield and cost structures. Nevertheless, the break-even occupation-rate figures improved on some of these routes between January and June 2005.
- VARIG offers limited connectivity at its main airport (GRU) and, therefore, is unable to exploit its entire potential of passengers who could use it as a connecting point on its actual O&D itinerary. This affects the occupation rates on all of VARIG's flights to and from GRU. This assertion can be substantiated by the following graph, which is based on a sample of stopovers in August 2005. Considering that only 61 of the 73 aircraft are operating, certain accommodations and adjustments were necessary in relation to connectivity and hub structure.

Structure of the VARIG Hub at GRU, based on the Network on August 5, 2005



Source: COMPASS by LCG, August 2005



In order to be successful, VARIG needs to capitalize on its most important asset: its network. Only by taking better advantage of its network can VARIG hope to reverse the current tendency and remain competitive in the domestic and international markets.

A pre-requisite for restructuring the network is the total operational availability of VARIG's fleet of aircraft. According to VARIG's calculations, these measures can be implemented within 3 to 6 months and will cost approximately US\$ 60 million. This cost is included in the calculation of the operational results for 2006.

In the first stage, the objective of restructuring the network is its simplification. Cancellation of routes that generate losses is an essential step to assure proper focus (i.e., profitable routes) and to quickly improve overall profitability.

In the next stage, the objective of network restructuring will be to strengthen the GRU's role as the main hub of VARIG's network, transforming it into an effective and competitive hub. In the international area, GRU will position VARIG as a departure gate between South America, North America and Europe. In the domestic market, GRU will allow VARIG to improve coverage of its network and connectivity.

Complete restructuring of the network, including a veritable optimization of the hub, is an extensive and lengthy task. In order for VARIG to benefit from network improvements as quickly as possible, more than one stage will be necessary.

Restructuring of VARIG's network will also provide improvements in relation to the fleet and the shared-flight strategy, as well as monitoring and control of network performance.

In the final stage, it will be necessary and crucially important to have a process and all the relevant information required to actively monitor the profitability and performance of VARIG's network. This will be possible with the introduction of an advanced approach for network monitoring and control that will provide critical performance indicators, such as the detailed, precise profitability of each route (with information relative to network contribution), actual passenger itineraries and up-line-down-line traffic.

Only an approach of this nature can guarantee adequate management of the VARIG network.

#### Recommended Improvement Measures

- ✓ Network simplification;
- ✓ Expansion of flight sharing with allied airlines;
- ✓ Network monitoring and control; and
- ✓ Optimization of decisions for altering route plans.

In the last six months of 2005, numerous operational measures were performed in the planning of the COMPANIES' network, including the following:

- Integrated revision of the flight grid, including new flights to the northeast region, namely: Salvador, Recife, Natal and Fortaleza, as well as re-adaptation of destinations with lesser utilization and profitability (Cuiabá and Campo Grande);
- Recovery of yield in the domestic and international markets via adjustments in the revenue management system, aimed at selling airfares with better revenue, in spite of impacts on the consumer market due to the judicial recovery process;
- Cancellation of non-profitable international routes (Japan, Amsterdam and Cancun);
- Expansion of profitable flights in South America (Bogotá, Caracas);
- Reinforcement of profitable markets with the inauguration of the Munich Route, in addition to greater focus on recovering the profitability of the other markets via point-to-point sales incentives, in detriment to beyond-traffic sales on international flights, aimed at maximizing the amount of revenue that remains in the company (Miami, Paris, Milão, Portugal).

#### Fleet

VARIG's diversified fleet is the result of short-term financial limitations that caused an impact on long-term planning, hindering any renovation efforts.

During the period 2001 to 2005, VARIG introduced aircraft based on short-term requests, in opposition to any efforts to perform any long-term planning. Seventeen aircraft included in the fleet during that period were leased for periods of 2 to 4 years. If, on the one hand, this allows greater flexibility, on the other hand, it results in higher costs, because short-term leasing is typically more expensive than long-term leasing. Thus, the fleet's structure is not the result of any consistent process but, rather, specific market situations in view of the cash-flow limitations.

From the standpoint of fleet size, VARIG achieved its maximum in 2001 with 118 aircraft, after integration with RIO SUL and NORDESTE. Since then, due to the financial difficulties mentioned above, VARIG gradually reduced its fleet to the current 78 aircraft. A constant lack of aircraft has resulted in a gradual reduction in network and lesser market share. Therefore, the renovation program must begin in 2006 in order to achieve a fleet structure that is adequate to the COMPANIES' market share, network and fleet efficiency goals. Currently, the fleet is composed of a variety of aircraft types with different seating configuration and engines, even sub fleets:

<u>Type</u>	<u>Aircraft</u>	<u>No.</u>	<u>Seating Configuration</u>
<i>Wide-Body</i>	B777-200	8	4
	MD-11	13	4
<i>Wide-Body Long Haul</i>	B767-300	5	4
<i>Wide-Body Medium Haul</i>	B757-200	4	
<i>Narrow Body Short Haul</i>	B737-800	2	
	B737-700	2	
	B737-500	10	
	B737-400	4	
	B737-300	30	3

The variety of engine types increases costs, which are already high due to a diversified fleet composition. In September 2005, as mentioned, only 64 of the 78 aircraft were operating, or approximately 80% of the fleet. This situation is the result of recurring cash-flow problems, limiting the COMPANIES' ability to make investments and maintain the fleet at full operating capacity. These aircraft, which have been grounded, cause interruptions in the network, which prevents VARIG from maintaining stable production capacity.

The cost of leasing grounded aircraft has grown to US\$ 3.8 million per month, since August 2005. Therefore, these reductions in operating fleet result not only in an increase in unit cost and reduced operating reliability, but also in lower revenue due to loss of passengers caused by diminished supply.

The fleet plan is intrinsically linked to and dependent on VARIG's short-term planning efforts. As soon as the network plan is devised, a fleet size and structure plan can be prepared.

Harmonizing the fleet to just three types of aircraft can provide, from the single perspective of maintenance, a cost reduction of approximately US\$ 10 million (please see the section on Maintenance and Engineering).

Harmonizing the COMPANIES' fleet must be based on an efficient production platform, which must be adapted to network demand, minimizing production costs and maximizing productivity. In order to achieve this production platform, an in-depth and impartial study must be conducted to list all the suppliers and available aircraft.

For purposes of this Operational Restructuring Plan, it is assumed that an agreement will be reached regarding financial and contractual aspects between the COMPANIES and the current leasing companies, and that a timetable of additions and returns will be agreed to in order to achieve the ideal fleet.

In a more detailed study, we will try to obtain equilibrium between optimizing standardization and maintaining flexibility, as well as optimizing aircraft allocation to

routes. This study must include the possibility of introducing aircraft in the 70 to 90 seat range, so that the company can adapt to the changes in the domestic market, via an increase in flight frequency.

This Plan proposes to make the fleet more uniform with just three types of aircraft: (i) long haul wide body for long-range intercontinental flights; (ii) medium to long haul narrow body for high-volume, long-range South American and domestic flights; and (iii) narrow body for domestic and regional flights. The new structure will lead to a reduction in unit costs and improved fleet and personnel efficiency, as well as a reduction in maintenance costs.

In the last six months of 2005, numerous efforts were made to recuperate the fleet, including the following:

- Overhaul of 18 engines, with another 25 in the process of being overhauled (shop visits), using the companies' own resources and via an agreement with BCC;
- Plan for reducing acquisition costs via a profit sharing agreement with the biggest company to reduce purchasing costs – WEBB;
- Rental of 6 additional engines;
- Evaluation of proposals for the acquisition of 5 aircraft (narrow and wide);
- Payment of leasing and maintenance costs in arrears;
- Recuperation of 216 seats throughout 2006 (2% of the total seats),  
Representing greater fleet harmonization with focus on optimizing revenue, greater passenger comfort and improved company image.

Due to the deadlines for making currently leased aircraft available, the Plan is assuming the following replacement timetable:

2005/2006	2006/2007	2008/ and beyond ...
MDII	MDII	A long haul family
B777-200	B777-200	
B767-300	B757-200	A medium haul family
B757-200	B737-800	
B737-800	B737-700	A short haul family <ul style="list-style-type: none"><li>• 3 families</li><li>Advantages of standardization<ul style="list-style-type: none"><li>➤ smaller stock of spare parts</li><li>➤ smaller variety of disqualification</li><li>➤ smaller number of engine types</li><li>➤ flexibility in route designation</li><li>➤ training</li></ul></li></ul>
B737-700	B737-400	
B737-500	B737-300	
B757-400	<ul style="list-style-type: none"><li>• 7 types</li><li>• 5 families</li></ul>	
B737-300		
<ul style="list-style-type: none"><li>• 9 types</li><li>• 6 families</li></ul>		

#### Recommended Improvement Measures

- ✓ Renegotiating current leasing terms
- ✓ Integrating short and long-term fleet planning

### **Sales, Distribution and Marketing**

#### Sales and Distribution

As mentioned in the chapter dealing with Network Planning, the central commercial functions of an airline are Sales, Distribution and Marketing, which, together with network management, generally run the business and its profitability results.

In VARIG's current organization, the Sales, Planning and Marketing Directors are subordinate to the Commercial and Planning Vice President. According to the principles of maximization of results, *i.e.* clear responsibility and decision-making structures, the distribution of functions under the Commercial and Planning Vice President is being adapted to the efficient management of a modern airline. The Planning Director includes all the functions of a modern Network Management organization, while the Sales Director supervises domestic and international sales activities.

In the organization, the sales and network management responsibilities (network planning and revenue management) are clearly separate. This structure provides all the conditions essential for achieving the objective of maximizing revenue by creating a natural and constructive rivalry between the sales and revenue management units.

Since maximization is based on total sales, part of which is not transformed into revenue for VARIG (for example, sales that are prorated with other companies), maximization of the sales of each unit does not lead to maximization of the COMPANIES' total revenues.

Therefore, revenue management has the function of maximizing the COMPANIES' overall revenues via maximization of the combination of yield and occupation rate for all flights. The natural conflict that arises from these two distinct tasks must be managed via solutions of an organizational and procedural nature.

#### Recommended Improvement Measures

- ✓ Revising the commission policy for the Brazilian market (agreed to with commercial partners)
- ✓ Improving personnel in the sales department's organization in Brazil and abroad
- ✓ Making decisions regarding the future sales platform
- ✓ Making flight reservations on the Internet
- ✓ Partially changing the training program to on-line training
- ✓ Optimizing the structure and organization of direct sales

#### Marketing

VARIG's current marketing policy is focused on marketing communication, but it becomes essential to develop a clearly defined and consistent marketing, service and product strategy that will improve VARIG's image in a clear and objective manner and one that is derived from a global corporate strategy. This strategy needs to systematically cover the following issues:

- Target groups and customer segmentation

- Product definition - intercontinental
- Product definition - South America
- Product definition - domestic
- Definition of the general chain of services (pre-flight, in-flight, post-flight)

The marketing principles derived from defining the marketing strategy must constitute a basis for all product and service-related decisions, which must be integrated into the COMPANIES' planning and budgetary process.

Any issues related to the concept of VARIG's products and services — in the air and on the ground — must be developed by the marketing organization, in coordination with other sectors involved, such as onboard services, ground operations, cabin crew, maintenance etc.

#### Recommended measures for Improvement

- ✓ Defining a marketing strategy aligned with the corporate strategy
- ✓ Performing a systematic analysis of VARIG's strategic concept of classes on international and domestic flights
- ✓ Re-evaluating the VIP rooms at the airports

#### Revenue Management

In 2004 and 2005, VARIG's occupation rate on intercontinental flights was slightly lower than that of its international competitors. However, VARIG's yields are currently 30% below that of the international companies with flights to Brazil. The revenue system used (PROS5) is considered an adequate basis for optimizing the revenue. However, the system's instability is causing a loss in revenue that will be corrected by the investment already included in the budget.

A budget and control process was already implemented for the sales force, containing guidelines for certain classes of reservations in the inventory of each flight class, subject to compliance with the general goal established by revenue management. However, if this procedure is not strictly complied with, erosion of the yield may lead to a loss in revenue. Currently, punctual checking is performed in different sales regions to verify adherence with the appropriate class of reservations.



In 2005, VARIG began to adopt a more rigorous revenue-management policy, including yield and pricing control. In July 2005, goals were introduced based on ASK and the no yield and occupation rate for the revenue-management controllers.

#### Recommended Improvement Measures

- ✓ Establishing goals for the revenue management controllers
- ✓ Establishing discipline in reservations
- ✓ Developing a system interface for changes in route plans
- ✓ Implementing bid pricing
- ✓ Assuring the stability of the PROS5 system
- ✓ Introducing forecast reports for revenue management

In the last six months of 2005, numerous operational measures were implemented in the area of Sales, Distribution and Marketing, including the following:

- Revising the agent commissions in the domestic market, with the process of making the agents aware of the need to reduce the commission, a fact that had already occurred successfully in the international market in 2005 and had immediate results in increasing the company's net revenue;
- Adjusting the domestic-market fares in October 2005, including promotional and air-shuttle fares;
- Revising the distribution platform by renegotiating contracts with the main vendors;
- Revising the integrated concept of marketing and defining product and service strategies for the COMPANIES.

#### **Maintenance and Engineering**

The search for improvement measures in the area of Aircraft Maintenance must take into consideration not only the maintenance responsibilities assumed by VARIG but also those of VEM, which is its main maintenance provider. The separation in 2001 of Varig's aircraft maintenance division into a legal entity referred to as VEM had the objective of creating an

independent MRO operating as a profit center.

From its beginning, VEM became dependent on VARIG in the proportion of 80/20 and the objective of reaching a proportion of 50/50 on the middle term does not seem realistic, given the current conditions under which VARIG is operating. VARIG's current aircraft maintenance sector needs to be fortified in terms of personnel and authority to fulfill its role.

The improvement measures identified here are all related to the goal of diminishing costs and do not depend on recommendations to be introduced in other organizations. Reductions in Aircraft Maintenance costs are divided into three main categories: (i) indirect cost reductions, via improvements in the internal structure, new strategies between the operator and the MRO and organization; (ii) direct cost reductions for VARIG, estimated at 25% to 30%, which will also benefit VEM, via freeing up capacity in almost all areas, thus enabling aggressive marketing of its products, helping VEM achieve the level of independence desired; and (iii) cost reductions based on work rationalization by VARIG.

To achieve future goals, it will be extremely important to change the current structure of the MRO's functional organization to an organization oriented toward processes.

#### Recommended Improvement Measures

- ✓ Developing customized maintenance programs;
- ✓ Defining parameters to measure aircraft maintenance performance in all sectors;
- ✓ Introducing "No-Maintenance Stations";
- ✓ Establishing medium and long-term planning (3-5 years);
- ✓ Establishing aggressive marketing for VEM's products;
- ✓ Introducing a new maintenance philosophy to supplement the new rotation plans;
- ✓ Increasing the interval between nightly inspections at the final terminals; and
- ✓ Improving VARIG's standards of visual manifestation.

## **Flight Operations**

As noted in the chapter dealing with the fleet, VARIG operates a diversified fleet with various configurations. Some systems are obsolete (such as, for example, Crew Scheduling or Flight Planning) or non-existing (for example, Flight Monitoring or ACARS).

Analyses performed in the area of Flight Operations and Onboard Services reveal significant potential for improvement related to personnel costs, fuel costs and other expenses, such as for example, Onboard Service or Air Traffic Control fees.

Normally, the Flight Operations area, like the Engineering and Maintenance area, is responsible for a significant portion of the costs, which enables the implementation of corresponding improvements. As a prerequisite for cutting costs, some support costs, such as the installation and utilization of ACARS, reliable Flight Monitoring and a state-of-the-art Crew-Scheduling system, are indispensable. Constant and direct interaction with the Department of Civil Aviation authorities is also crucial.

These pre-requisites, combined with fuel management, simplification of processes and personnel reduction, will allow VARIG to achieve significant savings. In addition, the analysis and simplification of processes, such as in the onboard area, for example, will provide even greater savings, without compromising quality.

### **Recommended Improvement Measures**

Fuel Conservation:

- ✓ Introducing an integrated management process
- ✓ Alternative destinations
- ✓ Calculating cruising speed
- ✓ Precisely determining zero fuel weight
- ✓ Weight monitoring for fuel conservation
- ✓ Improving the external aircraft cleaning procedure
- ✓ Reconsidering *block time*

Other operational measures:

- ✓ Centralizing Dispatching in Rio de Janeiro or São Paulo
- ✓ Installing ACARS on long-range aircraft
- ✓ Changing the current Flight Planning System
- ✓ Information Technology – Crew Scheduling Solution
- ✓ Automatic Calculation of take-off performance
- ✓ Optimizing onboard service
- ✓ Take-off fuel in the Air Shuttle service
- ✓ Reducing the use of the repetitive flight plan (RPL)

In the last six months of 2005, numerous operational measures were implemented in the area of Flight Operations, including the following:

- Revising Onboard Service by optimizing products and services, resulting in a reduction in costs by the last quarter of 2005 (approximately US\$ 6.3 million);
- Introducing integrated fuel management systems, with a focus on reducing the company's biggest operating cost (35-38% of the flight cost), a reduction of US\$ 2.2 million;
- Introducing flight operation policies (close-in alternate, economic fueling, among others) with a focus on reducing the company's biggest operating cost (35-38% of the flight cost), a reduction of US\$ 9 million between August and December/2005.

### **Information Technology and Management Information Systems**

An analysis of the COMPANIES' information technology department reveals typical problems of in-house computer organization that is not well aligned with business strategy. The portfolio of projects is not derived from strategic business objectives. Proposed projects and projects already underway are not decided adequately and there is a lack of efficient project management. A great deal of the information-technology cost is considered part of overhead costs, such as, for example, the resources corresponding to TI's own personnel or out-sourced personnel not allocated to specific projects.

TI support for the various business processes can be optimized. It is possible to immediately reduce the costs of various areas of infrastructure, and the implementation of modern solutions in well-defined projects may help both to diminish the operational cost of the business as well as generate substantial revenue.

#### Recommended Improvement Measures

- ✓ Establishing an information technology strategy and budgetary procedure
- ✓ Establishing a contingency plan for the information technology organization and its personnel
- ✓ Transferring the Wide Area Network (WAN) communication links to Digital Subscriber Line (DSL)
- ✓ Renegotiating the Data Processing Center outsourcing contract
- ✓ Reducing the size of the Data Processing Center
- ✓ Replacing the CUTE terminals
- ✓ Implementing the complete service model for the Desktop infrastructure

#### **Human Resources**

The COMPANIES need significant changes in their Human Resource policies and practices in order to be more competitive in an ever more demanding market. Like other creditors, the Recovery Law has turned the employees of companies in trouble into collaborators in the recovery process via concessions, even though temporary.

Employee representatives can contribute by informing the members of their institutions the precise magnitude of the COMPANIES' problems, recognizing that only joint efforts will enable their recovery and save most of the jobs.

Article 50, cut VIII, of the Recovery Law allows reductions in salaries, offsetting of work hours and reduction in the work day, via agreements or collective bargaining, signaling the possibility of a comprehensive revision of the current employment contract conditions.

The COMPANIES do not intend merely to propose or negotiate new rules that will be implemented for their recovery, but also, once recovery is achieved, to negotiate compensation for any losses incurred.

Currently, the Human Resources department is focused mainly on administrative tasks. Important HR processes, such as recruiting and selection, training and development, performance evaluation, rewards and recognition, internal communications and labor relations with the unions are not adequately aligned with the business.

The evolution of a personnel staff up to December 2005 is shown below, indicating an already achieved reduction of 3.5% as of the beginning of the judicial recovery process.

VARIG, RIO-SUL AND NORDESTE – Shift in Size of Personnel Staff

Year	VARIG			RIO-SUL			NORDESTE			PERSONNEL ABROAD			Total Brazil
	Hired	Laid Off	Total	Hired	Laid Off	Total	Hired	Laid Off	Total	Hired	Laid Off	Total	
2005													
May			10,249			791			278			891	11,318
June	42	120	10,171	5	10	786	7	1	284	12	9	894	11,241
July	72	116	10,127	-	12	774	-	-	284	13	9	898	11,185
Aug.	61	111	10,077	-	9	765	-	1	283	2	7	893	11,125
Sept.	53	132	9,998	-	-	765	-	-	283	2	14	881	11,046
Oct.	73	73	9,998	-	4	761	-	2	281	2	6	877	11,040
Nov.	44	96	9,946	-	3	758	-	1	280	3	6	874	10,984
Dec.	39	106	9,879	-	2	756	-	1	279	15	13	876	10,914

The COMPANIES have the potential for reducing personnel and costs. The organization is highly fragmented and there are obvious redundancies. The remuneration structure is complex and the average cost per employee compares unfavorably with the aviation industry's costs in Brazil.

This is particularly obvious in such areas as flight operations in which the COMPANIES employ approximately 1,740 pilots and 3,700 flight attendants for 78 aircraft. That means 22.3 pilots and 47.4 flight attendants per aircraft. Based on benchmarks with the major global and Latin American airlines, the number of the COMPANIES' pilots per aircraft is about 45% higher than that of comparable companies. With regard to cabin crew, the COMPANIES' numbers are comparable to those of the major airlines.

The COMPANIES' high personnel costs are due partly to their heterogeneous fleet, to the fact that their base of operations is not located in São Paulo, resulting in inefficient work-force management standards and also to contracts and regulations, such as the collective bargaining agreement currently in effect.

In spite of the excess personnel, there is a high level of overtime, costing approximately US\$ 5 million per year.

The average amount of accumulated vacation time per employee is 13 days.

VARIG does not monitor temporary absences (less than 15 days), but long-term absenteeism is controlled. In June 2005, 458 employees were absent for at least 180 days, and for 932 days on average; 582 were absent for more than 15 and less than 180 days.

Four different types of norms apply to the COMPANIES' employees, i.e. labor laws (with a chapter on aviation), the industry's collective bargaining agreement, the COMPANIES' collective bargaining agreements and the internal guidelines and procedures. The structure of these regulations and agreements is complex, applied with limited economic considerations, severely hindering flexibility in the company's administration.

The COMPANIES have no instruments to evaluate the performance of the employees and the salaries are 100% fixed.

#### Recommended Improvement Measures

- ✓ Reallocating VARIG employees who perform services for VARIGLOG and VEM and vice-versa
- ✓ Reducing the number of trainees
- ✓ Reducing the personnel staff and labor costs
- ✓ Eliminating overtime
- ✓ Eliminating accumulated vacation time
- ✓ Monitoring and controlling temporary absences
- ✓ Renegotiating collective and individual employment conditions
- ✓ Establishing a system of remuneration based on performance
- ✓ Reestablishing the early-retirement system
- ✓ Establishing improvements in the process of selecting pilots, flight attendants and ground personnel

In the last six months of 2005, efforts were made to resize the COMPANIES staff of personnel to their fleet, including the following:

- Implementing early retirement (PIA) and voluntary resignation (PDV) incentive programs with payment of severance pay in installments, with no impact on cash flow;
- Adjustment of the full staff via lay-off, retirement and open-ended leaves of absence, with the purpose of resizing the staff of personnel to the size of the fleet.

### **Projected Operational Results**

Since the publication of the court's decision granting the request for protection established in the Recovery Law until the date of submittal of this Plan, a high-level analysis of the COMPANIES' current performance was performed and possible measures for improvement were identified.

The following information from the COMPANIES was utilized to prepare the Operational Restructuring Plan for the period 2006-2010:

- Annual reports;
- Analysis of the profitability of routes for the year 2004;
- Analysis of the profitability of routes from January to June 2005;
- The budget for 2005;
- The updated budget for 2005 (updated in December 2005); and
- High-level analysis conducted by LCG (*Lufthansa Consulting GmbH*).

Based on this analysis, various measures for improving the COMPANIES' operational performance and achieving a sustainable operating profit were identified.

These measures were identified and quantified with the purpose of analyzing the future feasibility of the COMPANIES.

Detailed, in-depth studies were performed for each of the topics identified as being essential for achieving the COMPANIES' sustained feasibility. The measures identified will be integrated to a strategic corporate plan, which will define the COMPANIES' general goals and objectives. The necessary plans of action are being developed and implemented.



## **Critical Assumptions and Topics**

Described below are the main assumptions utilized to project the COMPANIES' operational results for the years 2006 to 2010.

Implementation of the following measures is essential for achieving the projected results:

- Repairing the aircraft that are currently inoperable due to lack of funds necessary to purchase replacement parts etc.;
- Restructuring of the COMPANIES' network of routes;
- Establishing a clearly defined hub structure at GRU;
- Transferring the base of operations to São Paulo;
- Reducing the number of personnel to adapt to the size of the fleet, so as to obtain a compatible level of efficiency;
- Renegotiating leasing costs in 2005-2006;
- Maintaining the level of other costs in 2006;
- Introduction of fuel conservation techniques; and
- Fleet harmonization and modernization, with revision of the number of operable aircraft and totals for the period 2006 to 2010.

The financial projections were developed based on assumptions of sustained increase in domestic air traffic in Brazil, but at rates lower than those of 2004 and 2003, and modest economic growth in the countries where VARIG will be operating in the next 3 to 5 years. It is assumed that the COMPANIES' share in the dynamic Brazilian domestic-flight market will diminish slightly in coming years due to intensification of the local competition, while their share in the international-flight market will increase, due to growing capacity and aggressive positioning. The effect of the improvement measures on the operational and financial results was calculated based on conservative assumptions.

The principal assumptions that served as a basis for calculating the operational results are:

- All the improvement measures identified by LCG will be implemented during the period established in the Business Plan, plus a plan of action for the area of ground handling and airports;

- Reduction in personnel will begin in 2005-2006;
- The number of pilots and flight attendants will be reduced in 2006, to adapt to the size of the fleet and the increased efficiency resulting from the hub and base of operations at GRU;
- The average price of a liter of aviation fuel stayed at about US\$ 0.53, 1.9% less than the accumulated average for 2005, reflecting a tendency to fall in the second semester of this year. Based on 2005 prices, it was estimated that there will be average growth of 2% every year from 2006 to 2010;
- The net yield per passenger, in US\$ cents varies according to the growth in the GNP and exchange rates and it is estimated that a combined effect will trigger growth of 5% (domestic and international) for 2006, as a result of an improved revenue-management policy and sales efforts. For the other years, 3.8%, 2.7%, 1% and 1%, for 2007, 2008, 2009 and 2010 respectively; and
- Change in the structure on the horizon of the Business Plan, from the current 60% of all revenues originating in Brazil and 40% originating abroad, to 56% and 44%, respectively.

With these assumptions, the COMPANIES' operational margin must increase from -4.6% in 2005 to 3.7% after the new structure's first year of operation and rise to more than 8.6% in 2010. To achieve these results, however, it will be necessary to implement a rigid system of revenue and cost planning and control, which is already being developed.

After the implementation of all the improvement measures identified, within the timetable established in the Business Plan, the potential for developing the COMPANIES' operational results will be as shown in the following table.

Plan of Recovery Business Plan for 2006 to 2010- revised version Projected Operational Results on December 12, 2005						
DOMESTIC + INTERNATIONAL (US\$ 000)	2005	2006	2007	2008	2009	2010
Paid Passengers	13.055.819	13.263.986	14.499.200	15.024.873	15.775.117	16.796.007
% of variation vs. preceding year		1.6%	9.3%	3.6%	5.0%	6.5%
Occupation Rate	74.5%	73.2%	75.4%	77.1%	75.6%	76.5%
FLIGHT REVENUE	2.382.130	2.558.837	2.834.646	3.010.475	3.215.282	3.539.093
TAXES	54.806	58.039	65.382	69.570	74.296	81.923
SMILES	60.586	61.809	60.630	74.089	70.123	87.245
NET FLIGHT REVENUE	2.387.910	2.562.607	2.838.894	3.014.995	3.220.109	3.544.415
% variation vs. preceding year	11.3%	7.3%	10.8%	6.2%	6.8%	10.1%
DIRECT FLIGHT COSTS	1.497.375	1.484.121	1.610.708	1.673.207	1.806.902	1.917.912
AIRCRAFT	1.269.799	1.253.583	1.353.969	1.400.582	1.507.165	1.617.526
AIRCRAFT OPERATIONS	80.947	83.280	88.523	90.944	100.848	109.869
FLIGHT SERVICE	146.629	147.258	168.216	181.681	198.888	220.517
MARGIN OF CONTRIBUTION (DIRECT COST)	890.535	1.078.486	1.228.185	1.341.788	1.413.207	1.596.503
% OF NET REVENUE	37%	42%	43%	45%	44%	45%
STRUCTURAL COST OF AIRCRAFT	733.329	758.109	813.456	895.078	941.155	990.311
AIRCRAFT	380.008	421.099	459.586	529.866	557.057	584.457
STRUCTURAL OPERATIONS OF AIRCRAFT	196.649	180.739	183.447	192.566	202.820	213.039
	154.673	156.271	170.423	172.656	181.278	192.815
MARGIN OF CONTRIBUTION	157.206	320.376	414.729	446.710	472.052	606.192
% OF NET REVENUE	6.6%	12.5%	14.6%	14.8%	14.7%	17.1%
CENTRALIZED STRUCTURAL COST + BRANCHES	267.639	226.617	242.048	254.903	270.615	299.797
TOTAL COST	2.498.343	2.468.848	2.666.213	2.823.188	3.018.672	3.238.020
% of variation vs. preceding year		-1.2%	8.0%	5.9%	6.9%	7.3%
NET OPERATIONAL PROFIT	(110.433)	93.759	172.680	191.807	201.437	306.395
% NET PROFIT / TOTAL NET FLIGHT REVENUE	-1.6%	3.7%	6.1%	6.4%	6.3%	8.6%

Source: Lufthansa/VARIG

**PRIVATE INSTRUMENT OF DEBT ACKNOWLEDGMENT No.**

<b>I. CREDITOR:</b>	<i>CNPJ</i> [Corporate Taxpayers Register]/ <i>MF</i> [Minister of Finance]:
Address:	
<b>II. DEBTOR:</b> Viação Aérea Rio-Grandense - Varig	CNPJ/MF:
Address:	
<b>III. INTERVENING PARTY AND GUARANTOR</b> {when applicable}	CNPJ/MF:
Address:	
<b>IV. Value of the Debt:</b> {In the currency of the Contract}	
<b>V. Origin of the Debt:</b> Credits incurred on or before 6/17/2005 and not paid pursuant to the contract dated {object of the contract}, entered into by and between the Creditor and the Debtor, which contract is properly filed at the head offices of the Debtor under No. and/or registered at the Registry of Deeds and Documents or another applicable public registry under No. (the "Contract").	
<b>VI. Guarantees:</b> {when applicable}	
<b>VII. Form and Conditions of Payment:</b>	
<b>VIII. Elected jurisdiction of the contract:</b>	

**WHEREAS** the Creditor is the legitimate and exclusive owner of the credits arising out of the Contract and such credits were not quit by the Debtor; and

**WHEREAS** the Debtor filed and had granted its Court Recovery by the judge of the 8th Lower Business Court of the Judiciary District of the Capital of the State of Rio de Janeiro, which approved plan established new conditions for payment for the indebtedness of the Debtor to its creditors.

NOW, THEREFORE, the Parties have resolved to enter into this Private Instrument of Debt Acknowledgment, which will be governed by the following clauses and conditions:

1. The Debtor, hereby, recognizes in an irreversible and irrevocable manner that it is Debtor to the Creditor for the net and certain sum indicated in Blank IV of the Preamble.
2. For all intents and purposes of the law, the sum now acknowledged is recognized by the Debtor as net and certain, and this instrument constitutes an extrajudicial execution instrument pursuant to article 585, II, of the Brazilian Code of Civil Procedure.
3. The Debtor hereby obligates itself to quit the debt now acknowledged in the Form and Conditions of Payment set forth in Blank VII of the Preamble.
4. The debt now acknowledged is guaranteed by the guarantees described in Blank VI of the Preamble, which, despite the acknowledgment of indebtedness now agreed on, continue to exist and are both valid and effective {when applicable}.
- 4.1 The guarantees provided by the Intervening Party Guarantor indicated in Blank III of the Preamble continue to exist and are both valid and effective in light in light [sic] of the consent of the latter to this instrument, as well as of the entering into of the contractual addendum(a) to said respective instrument(s) of guarantee {when applicable}.

**DEBTOR:**

Sgd:

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\_\_\_\_\_  
Name:

Position:

Sgd:

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\_\_\_\_\_  
Name:

Position:

Sgd:

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\_\_\_\_\_  
Name:

Position:

Sgd:

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\_\_\_\_\_  
Name:

Position:

Witnesses:

1)

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\_\_\_\_\_  
Name:

CPF/MF:

2)

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\_\_\_\_\_  
Name:

CPF/MF:

## PRIVATE INSTRUMENT OF DEBT ACKNOWLEDGMENT No.

<b>I. CREDITOR:</b>	CNPJ [Corporate Taxpayers Register]/MF [Minister of Finance]:
Address:	
<b>II. DEBTOR:</b> Viação Aérea Rio-Grandense - Varig	CNPJ/MF:
Address:	
<b>III. INTERVENING PARTY GUARANTOR</b> {when applicable}	CNPJ/MF:
Address:	
<b>IV. Value of the Debt:</b> {In the currency of the Contract}	
<b>V. Origin of the Debt:</b> Credits incurred on or before 6/17/2005 and not paid pursuant to the contract dated [object of the contract], entered into by and between the Creditor and the Debtor, which contract is properly filed at the head offices of the Debtor under No. and/or registered at the Registry of Deeds and Documents or another applicable public registry under No. (the "Contract").	
<b>VI. Guarantees:</b> {when applicable}	
<b>VII. Form and Conditions of Payment:</b>	
<b>VIII. Elected jurisdiction of the contract:</b>	

**WHEREAS** the Debtor filed and had granted its Court Recovery by the judge of the 8th Lower Business Court of the Judiciary District of the Capital of the State of Rio de Janeiro, which approved plan established new conditions for payment for the indebtedness of the Debtor to its creditors; and

**WHEREAS** after the adjudication of the petition for Court Recovery of the Debtor the Creditor had constituted in its favor credits arising from the Contract, being the legitimate and exclusive owner of said credits.

NOW, THEREFORE, the Parties have resolved to enter into this Private Instrument of Debt Acknowledgment, which will be governed by the following clauses and conditions:

1. The Debtor, hereby, recognizes in an irreversible and irrevocable manner that it is Debtor to the Creditor for the net and certain sum indicated in Blank IV of the Preamble.
2. For all intents and purposes of the law, the sum now acknowledged is recognized by the Debtor as net and certain, and this instrument constitutes an extrajudicial execution instrument pursuant to article 585, II, of the Brazilian Code of Civil Procedure.
3. The Debtor hereby obligates itself to quit the debt now acknowledged in the Form and Conditions of Payment set forth in Blank VII of the Preamble.
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- 4.1 The guarantees provided by the Intervening Party Guarantor indicated in Blank III of the Preamble continue to exist and are both valid and effective in light in light [sic] of the consent of the latter to this instrument, as well as of the entering into of the contractual addendum(a) to said respective instrument(s) of guarantee {when applicable}.

5. All the obligations and rights provided for in the Contract will continue in full effect, and both Parties remain obligated to faithfully observe them and remain subject to the penalties set forth in that instrument in the event of breach.
6. Any delay or breach of the Debtor with regard to the payment of the debt now acknowledged will entail the levy of a nonadjustable fine of {equal to that of the contract} on the value of the debt, plus default interest of {equal to that of the contract} per month, in addition to the other sanctions of the law, up to the date of the actual liquidation of the indebtedness.
7. The Parties hereby agree that the credit ensuing from the debt now acknowledged can be assigned, either for a fee or free of charge, at any time by the Creditor, independently of prior notification to the Debtor.
8. This instrument is entered into on a totally irrevocable and irreversible basis, and binds the Parties and their successors in any way. The rights and obligations set out in this instrument transfer in full to the successors of the Parties.
9. Failure by the Parties to exercise any right or faculty bestowed on them by the law, or in this contract, or any forbearance as to contractual infractions by any of the Parties, will not entail the renunciation, novation or amendment of the contractual clauses.
10. In the event of the drafting of an instrument of acknowledgment of debt in foreign currency, in the case of its protest or execution, the Creditor can convert the outstanding balance into Brazilian currency at the rate of exchange publicly divulged by the Central Bank of Brazil through the SISBACEN system (or another system that may come to replace it) as the rate of exchange for the United States dollar PTAX800, option 5 (rate for sale), currency 220, for the business day immediately preceding any protest or execution, which rate should be adapted in the event of any contracting in a currency other than the United States currency.
11. Any change or renunciation of any provision or right set forth in this instrument will only be valid if made in writing and signed by the Parties.
12. The Parties elect the courts indicated in Blank VIII of the preamble, to the express exclusion of any other courts, no matter how privileged, as being competent to settle any questions and/or doubts arising from this instrument.

IN WITNESS WHEREOF the parties sign this instrument in 2 (two) counterparts of identical tenor and form, in the presence of 2 (two) witnesses, in the best terms of the law.

Rio of Janeiro, \_\_\_\_\_, \_\_\_\_\_.

**CREDITOR:**

**DEBTOR:**

Sgd:

Sgd:

\_\_\_\_\_

\_\_\_\_\_



Name:  
Position:

Name:  
Position:

Sgd:

Sgd:

\_\_\_\_\_  
Name:  
Position:

\_\_\_\_\_  
Name:  
Position:

Witnesses:

1)

2)

\_\_\_\_\_  
Name:  
CPF/MF:

\_\_\_\_\_  
Name:  
CPF/MF:

# **REGULATIONS OF VARIG FUNDO DE INVESTIMENTO EM PARTICIPAÇÕES – CRÉDITO III [Varig Private Equity Fund – Credit III]**

## **CHAPTER I – THE FUND**

Article 1 - Varig Fundo de Investimento em Participações – Crédito III (the "Fund") is a private equity fund organized as a private condominium, governed by these regulations (the "Regulations"), by Securities and Exchange Commission ("CVM") Instruction No. 391, of July 16, 2003 ("CVM Instruction No. 391"), and other applicable statutory and regulatory provisions, which shall have a duration of forty (40) years, extendable as provided for in these Regulations.

## **CHAPTER II – TARGET MARKET**

Article 2 – The Fund's quotas are intended for Class III creditors of "VARIG," S.A. (Viação Aérea Rio-Grandense) – undergoing in-court reorganization ("Varig"), Rio Sul Linhas Aéreas S.A. – undergoing in-court reorganization ("Rio Sul") and Nordeste Linhas Aéreas S.A. – undergoing in-court reorganization ("Nordeste") (collectively referred to as "Corporations"), who wish to participate in the Corporations' In-court Reorganization proceeding.

## **CHAPTER III – INVESTMENT POLICY**

Article 3 – The Fund's purpose is to obtain the appreciation of its quotas through the acquisition of quotas in the **Varig Fundo de Investimento em Participações – Controle** ("FIP Controle"), in the manner and for the purposes of the In-court Reorganization Plan approved by the Meeting of Creditors held on December 19, 2005, officially ratified by the Court of the 8<sup>th</sup> Commercial Division for the Judicial District of the Rio de Janeiro State Capital, Case No. 2005.001.072.887-7, and endorsed by the Deliberative College of the Ruben Berta Foundation [Fundação Ruben Berta] on January 5, 2006, with the details approved by the Meeting of Creditors called to order on February 13, 2006 and adjourned on February 23, 2006 (the "Detailed Plan").

First §. The Fund's purpose described above does not constitute a promise, guarantee or suggestion of profitability by the Administrator and the Manager.

Second §. Due to the nature of the Fund and the Corporations, the Fund's quota-holders must be aware that: (i) the assets comprising the Fund's portfolio may have a significantly low liquidity as compared to other types of investments in funds; and (ii) the Fund's portfolio is concentrated on securities issued by a small number of corporations, with investment risks being directly linked to the Corporations' performance.

Third §. The Fund's Manager and Administrator shall perform their duties and responsibilities in the quota-holders' best interests, and agree to exercise the Fund's voting right at Meetings of Quota-holders of FIP-Controle to the effect of directing FIP-Controle toward the implementation, as applicable, of the provisions contained in the Detailed Plan and its exhibits.

Fourth §. Investments in FIP Controle shall be aimed at a participation in the Corporations' in-court reorganization proceeding, pursuant to the guidelines contained in the Detailed Plan, as well as in their decision-making process, effectively influencing their operating and/or strategic management through the exercise of a controlling power over the Corporations, including through the election of members to their boards of directors.

Fifth §. Notwithstanding the care to be exercised by the Manager in the implementation of the investment policy described in these Regulations, the Fund's investments, due to their very nature, shall always be subject to market fluctuations and to the risks which are inherent to the issuers of the bonds comprising the portfolio, and to credit risks in general, and the Manager may not, in any event, be held liable for any depreciation of the assets in the portfolio, or for any losses sustained by the Fund's quota-holders, except in cases of the Manager's bad faith or negligence.

#### **CHAPTER IV – PORTFOLIO MIX**

Article 4 – The Fund shall invest its funds according to the investment policy provided for in these Regulations, at all times in compliance with applicable statutory provisions and the following provisions:

- (i) during the Investment Period, the Fund shall keep at least 90% of its Net Worth in quotas issued by FIP Controle;
- (ii) during the Investment Periods, the Fund may keep at most 10% of its Net Worth in quotas of financial investment funds and/or in fixed-income bonds issued by the National Treasury, the Central Bank of Brazil or a financial institution of the federal government, such as certificates of bank deposit, as may be chosen by the Manager, and in bonds issued by the Corporations, for the sole purpose of providing the Fund's portfolio with the necessary liquidity for the fund to bear its expenses and charges, as provided for in these Regulations and in any applicable regulations;
- (iii) the Fund shall not operate on an overdraft facility nor shall it make any share lending transactions; and
- (iv) the Fund may not trade in derivative markets.

Sole §. The Investment Period shall be the period comprised from the Fund's organization to the achievement of the funding goal set by the Manager.

#### **CHAPTER V - ADMINISTRATION**

Article 5 – The Fund is administered by the Bank [...], with head office in the City of [...], State of [...], at [...], registered in the CNPJ/MF [National Registry of Legal Entities/Ministry of Finance] under No. [...] (the “Administrator”), and its portfolio is managed by [...], with head office in the City of [...], State of [...], at [...], registered in the CNPJ/MF under No. [\*\*\*●\*\*\*] (the “Manager”).

Sole §. The Administrator and/or Manager may, and their own expense, hire companies to provide consulting or other services, whether in Brazil or abroad.

Article 6 – The Manager, upon delegation by the Administrator, has powers to exercise all rights which are inherent to the bonds and securities comprising the portfolio, including the right to act and attend and vote at FIP Controle’s Meetings of Quota-holders, at all times upon complying with the provisions under article 3 of these Regulations. The Manager may also acquire, sell or otherwise dispose of bonds and securities, compromise, grant and be granted release, grant powers of attorney to executive officers [*diretores*], employees and/or lawyers, ultimately to perform all necessary acts for managing the portfolio, observing the statutory and regulatory limitations in effect, as well as the provisions of these Regulations.

Sole §. The Administrator may not, upon a unilateral act, revoke a delegation established under this article. Powers delegated to the Manager may only be modified pursuant to an amendment to these Regulations.

Article 7 – The Administrator and/or the Manager may resign from their respective offices upon at least a sixty (60) days’ prior notice to the Quota-holders and to CVM, and shall be required, upon the same notice, to call a Meeting of Quota-holders, which shall decide on their replacement or the Fund’s liquidation, within the time periods provided under regulations.

Sole §. In the event described under this article, the Administrator and/or Manager shall remain responsible for the Fund’s administration/management until they are actually replaced.

Article 8 – The Administrator’s obligations, among such other obligations as may be imposed upon it under applicable legislation/regulations, are:

- (i) at its own expense, to keep up to date and in perfect order according to sound administrative technique, forthwith and for up to five (5) years after the Fund’s closing:
  - (a) records of quota-holders and quota transfers;
  - (b) minutes books for Meetings of Quota-holders;
  - (c) Quota-holders’ attendance book;
  - (d) file for auditors’ opinions;
  - (e) accounting records and financial statements pertaining to the Fund’s transactions and equity; and
  - (f) documentation on the Fund’s transactions;
- (ii) to fund the Fund’s advertising expenses;

- (iii) to keep the financial assets and/or kinds of transactions comprising the Fund's portfolio under custody, registered and/or in a deposit account in the Fund's name, segregated from the Administrator's account, centered on a single custodian entity authorized by the CVM to engage in such activity;
- (iv) to pay a penal fine for late performance of its duties and responsibilities under these Regulations and CVM Instruction No. 391/03;
- (v) to draw up and send to the Fund's quota-holders and to CVM the semi-annual and annual reports mentioned in Chapter X of these Regulations;
- (vi) to draw up, together with financial statements, an opinion on the Fund's transactions and results, including a statement that the provisions of CVM Instruction No. 391/03 and these Regulations have been complied with;
- (vii) to inform the CVM and the quota-holders of any change of Administrator, Manager or their executive officers in charge;
- (viii) to maintain a Quota-holders' Customer Service in charge of clarifying any questions and receiving any complaints;
- (ix) to observe and comply with the provisions of the Fund's Regulations, CVM Instruction No. 391/03 and applicable regulations; and
- (x) to comply with the resolutions of the Fund's Meeting of Quota-holders.

First §. The Fund's Administrator and Manager shall submit to the Fund's quota-holders for prior approval, upon a Meeting of Quota-holders being held, any proposal for changing its corporate control, subject to the provision of §2 below.

Second §. Notwithstanding the provision under clause (iii) of article 21 below, if any change is made in the corporate control of the Administrator or Manager, without the Meeting of Quota-holders mentioned above being called, or if any change is made in its corporate control otherwise than in accordance with a resolution by the Meeting of Quota-holders mentioned above, the Fund's quota-holders may resolve to replace the Administrator pursuant to approval by a majority of the quotas owned by the Fund's quota-holders in attendance, with each paid up quota being entitled to one vote.

Article 9 – The Administrator and/or Manager may not, in the Fund's name:

- (i) receive deposits to a bank account;
- (ii) incur or make loans, except for those kinds of loans provided for by the CVM;
- (iii) provide surety, "aval" guarantee, acceptance or otherwise become a co-obligor;
- (iv) trade in *duplicatas* [trade acceptances], promissory notes (except for those under CVM Instruction No. 134, of November 1, 1990, and those under article 2 §1 of CVM Instruction No. 391, of July 16, 2003), or other bonds either unauthorized by CVM or not comprised under this Fund's investment policy, as provided for in article 3 of these Regulations;
- (v) promise a pre-determined yield to the quota-holders; and
- (vi) invest funds:
  - (a) abroad;
  - (b) in the acquisition of real property;

- (c) in the subscription to or acquisition of shares or any other security of its own issue.

Article 10 - The Manager's obligations, among such other obligations as may be imposed upon it under applicable legislation/regulations or under other articles of these Regulations, are:

- (i) to perform an analysis of all investment and divestment opportunities arising for the Fund, observing the Investment Policy established under article 3 of these Regulations;
- (ii) to employ, upon defending the rights of the Fund's quota-holders, the diligence required under the circumstances, and perform all necessary acts to assure such rights, including to take any applicable legal and/or arbitral action, and to attend and vote at FIP Controle's Meetings of Shareholders;
- (iii) to exercise all rights which are inherent to the bonds and securities comprising the Fund's portfolio;
- (iv) to make available to the Fund's quota-holders the semi-annual reports on the growth of investments in each Corporation to be produced by FIP Controle's Manager, containing such information as: (a) implementation stage of the Detailed Plan (physical/financial report describing the results of actions already implemented and the schedule for implementing other actions); (b) origins and sources of the Corporations' funds; (c) the Corporations' financial condition; (d) interim balance for the reported period; and (e) relevant technical issues involving the Corporations;
- (v) to provide the material for investment analysis to quota-holders who, individually or jointly, and holding at least ten percent (10%) of issued quotas, request such material, and any updates thereof, upon complying with the provisions under article 14 sole § of CVM Instruction No. 391/03;
- (vi) to keep the performance of the Fund's investments under constant monitoring;
- (vii) to observe and comply with the provisions under the Fund's Regulations, CVM Instruction No. 391/03 and applicable regulations; and
- (viii) to comply with the resolutions by the Fund's Meeting of Quota-holders.

Article 11 – Administrator's Fee – The Administrator's fee shall be as defined in Exhibit I attached to these Regulations.

Article 12 – Manager's Fee – The Manager's fee shall be as defined in Exhibit II attached to these Regulations.

## **CHAPTER VI – QUOTAS**

Article 13 – The Fund's quotas correspond to ideal fractions of its equity, and shall be in book-entry form and registered.

Article 14 – The Fund’s quotas shall be of a single class.

Article 15 – The capacity of quota-holder is verified upon the entry of the holder’s name in the Fund’s record of quota-holders or the quota deposit account opened in the quota-holder’s name.

Article 16 – The Fund’s quotas shall have their value calculated daily and shall be allowed for trading at a stock exchange or organized over-the-counter market.

Article 17 – The Fund’s quotas that have been subject to public distribution may only be traded at a stock exchange or organized over-the-counter market, except for any private trades between qualified investors, and for such purposes the intermediary shall make sure that the quota purchaser is a qualified investor.

Article 18 – The Fund’s quotas may be amortized or liquidated, at the Administrator’s discretion:

- (i) in kind, through a direct distribution of dividends and/or interest on the quota-holders own equity;
- (ii) in kind, for distribution of income from disposal of FIP Controle’s quotas; or
- (iii) in assets, through a distribution of bonds and securities comprising the Fund’s portfolio from [sic] the quota-holders.

Sole §. Upon the request of any quota-holder to whom the definition of qualified investor applies, the Administrator shall provide for the amortization of the requesting quota-holder’s quotas in assets proportionately to the portfolio mix.<sup>1</sup>

Article 19 – For the issue of the Fund’s quotas, the quota value on the day following the date on which the investor’s funds are actually made available shall be used, observing the time-of-day limit for investments in the Fund.

Sole §. For the purposes of these Regulations, the day’s quota value shall be understood as the result of a division of the net worth amount by the number of the Fund’s quotas, both ascertained at the day’s closing, i.e., the time when the markets in which the Fund operates are closed.

Article 20 – Unless otherwise expressly referred to in these Regulations, the quotas shall be distributed solely to the Corporations’ Class III creditors or their successors at whatsoever design during the time period comprised between [...] and [...] (the “Closing Date”). The issue of new quotas by the Fund shall not be permitted after the Closing Date except upon the express approval by the Meeting of Quota-holders.

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<sup>1</sup> The possibility provided for in this paragraph shall be subject to a special authorization being requested from CVM.

First §. During the time period comprised between the Fund's organization date and the Closing Date the Fund may issue, at the Manager's discretion, at least thirty million reais (R\$30,000,000.00) and at most three billion reais (R\$3,000,000,000.00) in quotas, without the need for approval by the Meeting of Quota-holders.

Second §. The initial issuing value of the quotas upon the Fund's organization ("Initial Subscription") shall be ten reais (R\$10.00) per quota; subsequent issues shall be made according to the value of the quotas on the issuing date.

Third §. The quotas shall be paid in national currency or in credits against the Corporations, substantiated as Qualified Bonds, by the investors who signed the private instrument for commitment of investment as provided under applicable CVM regulations. Qualified Bonds shall be understood as Debt Acknowledgments, Banking Credit Bills, and Certificates of Banking Credit Bills issued by the Corporations, as well as Receipts of Documentary Credit Deposit issued by the Depositary Bank, everything in accordance with the provisions and definitions contained in the Detailed Plan attached to FIP Controle's Regulations. Qualified Bonds shall be given the same valuation as their face value.

Fourth §. The Administrator may, at its own discretion, accept payment of quotas in bonds and securities of unquestionable liquidity, pursuant to the regulations issued by CVM.

Fifth §. No preemptive right shall be given the Fund's quota-holders to subscribe to new quotas.

## **CHAPTER VII – THE MEETING OF QUOTA-HOLDERS**

Article 21 – It shall be exclusively incumbent upon the Meeting of Quota-holders:

- (i) to receive, annually, the Fund's accounts rendered by the Administrator and deliberate on the financial statements submitted by the Administrator;
- (ii) to amend the Fund's Regulations;
- (iii) to pass resolution on the removal and/or replacement of the Administrator and the Manager, and on the selection of their respective replacements;
- (iv) to pass resolution on the Fund's consolidation, merger, split-up or spin-off, or possible liquidation;
- (v) to pass resolution on raising the Administration Fee and Performance Fee;
- (vi) to pass resolution on the issue and distribution of Fund quotas over the maximum limit established in article 20 §1 of these Regulations;



- (vii) to pass resolution on changing the Fund's Investment Policy established in Chapter III of these Regulations, upon a proposal sent by the Manager to that effect;
- (viii) to pass resolution on extending the Fund's duration;
- (ix) to pass resolution on changing the quorum for calling to order and passing resolution at Meetings of Quota-holders;
- (x) to pass resolution, as the case may be, on the information to be provided to the quota-holders, observing the provision under article 14 sole § of CVM Instruction No. 391/03; and
- (xi) to pass resolution on changing the policy for the exercise of voting rights by the Manager or by its lawfully appointed representatives at FIP Controle's meetings of quota-holders, observing the provision under article 3 of these Regulations.

Sole §. These Regulations may be amended, irrespective of a Meeting of Quota-holders or a consultation with the Fund's quota-holders, whenever such amendment is solely the result of a need to meet CVM requirements, or a consequence of statutory or regulatory provisions, and in such cases the necessary notification of the Fund's quota-holders shall be provided for within thirty (30) days.

Article 22 – The Meeting of Quota-holders shall be called by means of a letter sent to each quota-holder and to the Fund's Administrator, as the case may be, and for such purposes any means of communication may be used where proof of receipt by the Fund's quota-holder is possible, and provided that the intended purpose is achieved, such as sending a letter with return receipt, by fax, e-mail, etc.

First §. The call for the meeting, made by any means provided for in the forepart of this article, shall state on a mandatory basis the date, time and place for the Meeting of Quota-holders to be held, and also in summary form the subject matters to be dealt with.

Second §. The call for the Meeting of Quota-holders shall be made at least fifteen (15) days in advance of the date on which said Meeting of Quota-holders is to be held.

Third §. The Meeting of Quota-holders may only be called by the Administrator or by the Fund's quota-holders who hold quotas representing at least five percent (5%) of the total quotas issued by the Fund.

Fourth §. In the case of any resolution involving an amendment to these Regulations, a Meeting of Quota-holders shall be called especially for such a purpose. The call for the meeting, made as provided for in the forepart of this article, shall state the amendments proposed to be made.

Article 23 – At Meetings of Quota-holders, which may be called to order with at least one quota-holder in the Fund, or such quota-holder's legal representative, resolutions are passed

upon the criterion of a majority of quotas held by the Fund's quota-holders in attendance, with each paid up quota being entitled to one vote, observing, as regards a specific quorum, the provisions of the paragraphs below.

First §. Except for the matter provided for in article 21 (i), all resolutions regarding the other matters under such article shall be passed upon the affirmative vote of the holders of at least seventy percent (70%) of the quotas issued by the Fund, duly paid up.

Second §. Any change in the advantages of the quotas, or the creation of new classes, shall only be approved by a Meeting of Quota-holders pursuant to an approval by all the Fund's quota-holders.

Article 24 – Only the Fund's quota-holders whose quotas were deposited in the deposit account by three (3) business days prior to the date scheduled for the Meeting of Quota-holders to be held, provided such quotas are duly paid, may vote at Meetings of Quota-holders.

Sole §. Summarized decisions by the Meeting of Quotaholders shall be sent to each of the Fund's quota-holders, observing the time limit of thirty (30) days from the date it is held, and a monthly statement of account may be used for such purposes.

Article 25 – The legal representatives of the Fund's quota-holders or their lawfully appointed proxies shall have the capacity to vote at Meetings of Quota-holders.

## **CHAPTER VIII – THE FUND'S CHARGES**

Article 26 – In addition to the Administrator's and the Manager's fees provided for in these Regulations, the Fund's charges shall consist of the following expenses, which may be charged to the Fund:

- (i) federal, state, municipal or government-agency rates, taxes or contributions assessed, or as may be assessed, on the Fund's assets, rights and obligations;
- (ii) expenses with the registration of documents at registry offices, printing, issuance and publication of reports, forms and periodic information, as provided under pertinent regulations;
- (iii) mailing expenses in the Fund's interest, including any communication to quota-holders;
- (iv) fees and expenses with the auditors in charge of examining the Fund's financial statements in accordance with auditing standards;
- (v) fees and commissions paid on the trades for the sale and purchase of the bonds and securities comprising the Fund's portfolio;
- (vi) attorney fees, costs and related expenses incurred in the defense of the Fund's interests, in or out of court, including the amount of any judgment award against the Fund, as the case may be;

- (vii) the portion of any losses not covered by an insurance policy and not directly arising from the Administrator's and/or the Manager's fault or malice in the performance of their duties and responsibilities;
- (viii) insurance premiums on valuables, and any expenses relating to a transfer of the Fund's funds between banks;
- (ix) rates and expenses with the custody and settlement of the Fund's bonds and securities;
- (x) any expenses which are inherent to the Fund's organization, consolidation, merger, split-up or spin-off, or liquidation, and to the holding of Meetings of Quota-holders;
- (xi) annual dues of the organized over-the-counter entity where the Fund has its quotas admitted for trading; and
- (xii) expenses with professional services retained which are of a legal, tax, accounting or specialized consulting nature.

Sole §. Any expenses not provided for in these Regulations or in CVM Instruction No. 391/03 as the Fund's charges shall be incurred for the Administrator's account, unless the Meeting of Quota-holders decides otherwise.

## **CHAPTER IX – FINANCIAL STATEMENTS**

Article 27 – The Fund shall have its own bookkeeping, and its accounts and financial statements shall be segregated from the Administrator's and the Manager's accounts and financial statements.

Article 28 – The Fund's fiscal year shall last twelve (12) months, beginning on January 1<sup>st</sup> and ending on December 31<sup>st</sup>, at which time the Fund's financial statements for the preceding period shall be drawn up.

Article 29 – The Fund's financial statements shall be audited annually by a CVM-registered independent auditor in accordance with the standards governing the performance of such activity.

Article 30 – The Fund's net worth consists of the sum total of available funds, plus the value of its portfolio, plus receivables, less liabilities ("Net Worth").

First §. The variable-income assets comprising the Fund's portfolio shall be evaluated, whenever possible, on the basis of their market price. However, and taking into account the possibly low liquidity of the securities issued by the Corporations, the criteria for the economic value of assets under article 3 §9 of CVM Instruction No. 305/99 shall be adopted for purposes of evaluating variable-income investments in non-liquid assets.

Second §. The Administrator assumes the responsibility to CVM and the quota-holders for the criteria, values and premises used in the economic evaluation adopted by the Fund.

Third §. The Administration Fee pertaining to the equity portion comprised of non-liquid variable-income assets, evaluated on the basis of their economic value as provided under §1

above, shall be charged on the basis of the historical costs of investments, and the performance fee, if any, shall be paid only upon the investments in the Fund being fully made.

Fourth §. The criteria of evaluation at the economic value of assets shall be regularly employed during the course of subsequent accounting periods.

Article 31 – Fixed-income bonds shall be evaluated at the investment amount, plus any net earnings ascertained, including premium and discount amortizations, and the accrual of taxes assessed on recognized portions of income, as applicable.

## **CHAPTER X – PUBLICITY AND INFORMATION**

Article 32 – Upon joining the Fund, the investor shall receive from the Administrator, on a mandatory and gratuitous basis, a copy of these Regulations, and shall adhere expressly to its contents. The Fund will not have a prospectus, as admitted under article 4 (V) of CVM Instruction No. 391/03.

Article 33 – The Administrator shall disclose any material act or fact, amply and immediately, by any means, so as to assure for all quota-holders any information which may, directly or indirectly, affect their decisions whether to remain in the Fund or not, and other investors' decisions whether to purchase any quotas or not.

Sole §. The Administrator shall not be required to send the information provided for in this article (i) if the latest information sent was returned because an incorrect address was indicated, and the quota-holder failed to inform the Administrator of its updated address, and/or (ii) in those events under article 31 sole § of CVM Instruction No. CVM 391/03.

Article 34 – The Administrator shall:

- (i) no later than forty-five (45) days after the closing of each quarter, provide the quota-holders with information on the yield ascertained for the month and on the value and mix of the portfolio, itemizing the quantity, kind and value of the quotas, bonds and securities of which it is comprised, their amount and its percentage of the portfolio total, pointing out the investments, if any, in related companies and in funds managed by the Administrator or by companies related to the latter;
- (ii) send on a quarterly basis to the quota-holders, within forty-five (45) days from the closing of the reference quarter, a statement of account containing:
  - (a) the Fund's name and its CNPJ registration number;
  - (b) the Administrator's name, address and CNPJ registration number;
  - (c) the quota-holder's name;
  - (d) balance and value of the quotas at the beginning and at the end of the period, and operations during the course of such period; and
  - (e) place and date of quota issue; and

- (iii) send on a quarterly basis to the quota-holders, within forty-five (45) days from the closing of the reference quarter, a management report containing:
  - (a) the Corporations' unaudited financial statements;
  - (b) opinions on the Corporations' results and operations, issued by the management of said corporations and by FIP Controle's Manager; and
  - (c) an analysis of the industry in which the Corporations operate.

Article 35 – Without prejudice to the reports, opinions and other information sent to the Fund's quota-holders pursuant to articles 8 and 10 of these Regulations, the Administrator shall send to the quota-holders and to CVM, within sixty (60) days from the closing of the fiscal year ended on December 31<sup>st</sup>, a report on the Fund's transactions and results for the previous fiscal year, covering, among such other aspects as the Administrator may deem relevant, the following:

- (i) financial statements accompanied by an independent auditor's opinion;
- (ii) a performance presentation covering the equity value of the quotas on the closing date of the balance sheet, and the evolution of such value on the last day of each one of the last twelve months, indicating the yield for the period;
- (iii) administration fees, identifying fixed and variable fees, as the case may be, in national currency and as a percentage of the Fund's net worth;
- (iv) brokerage expenses, including the total amount charged to the Fund; and
- (v) percentage of the amount charged as brokerage expenses in relation to the average value of the Fund's portfolio.

Article 36 – The Administrator shall send to CVM and the quotaholders, within forty-five (45) days after the closing of the semi-annual periods ended on June 30<sup>th</sup> and December 31<sup>st</sup>, a report on the Fund's transactions and results for the previous semester, covering, among such other aspects as the Administrator may deem relevant, the following:

- (i) basic information, including:
  - (a) value and mix of the portfolio, describing the quantity, kind and quotation of the quotas, bonds and securities comprising it, the value of each investment and its percentage of the total portfolio amount, pointing out investments, if any, in related companies or in funds administered and/or managed by the Administrator and/or by the Manager; and
  - (b) financial statements accompanied by an independent auditor's opinion and a statement from the Administrator confirming that the provisions of CVM Instruction No. 391/03 and these Regulations have been complied with;
- (ii) analysis of the Fund's portfolio vis-à-vis the strategy adopted and goals of its investment policy;
- (iii) administration fees, identifying fixed and variable fees, as the case may be, in national currency and as a percentage of the Fund's net worth;
- (iv) brokerage expenses, including the total amount charged to the Fund;
- (v) percentage of the amount charged as brokerage expenses in relation to the average value of the Fund's portfolio; and

- (vi) list of the institutions in charge of providing services for the custody of the bonds and securities comprising the Fund's portfolio.

First §. The information provided or disclosed by the Fund shall be in accordance with the annual report or semi-annual report filed with CVM, as the case may be.

Second §. If any information from the Fund is disclosed with inaccuracies or improprieties which may be misleading to the investor's evaluation, the Fund shall resort to the same disclosure media through which the erroneous information was provided, and state expressly that the information is being republished as a correction of erroneous and improper information.

## **CHAPTER XI – GENERAL PROVISIONS**

Article 37 – The investor's submission of a private instrument for commitment of investment constitutes its express awareness of and agreement with all clauses of these Regulations, which it shall be bound to comply with from the time of its acceptance into the Fund by the Administrator.

Article 38 – In the event of death or incapacity of a quota-holder in the Fund, the representative of the estate or of the incapacitated quota-holder shall exercise such rights and perform such obligations to the Administrator as were incumbent upon the deceased or incapacitated quota-holders, in observance of statutory provisions.

Article 39 – Quotas may be traded in an organized over-the-counter market by an institution authorized by the CVM to operate, provided that such trading was resolved at a Meeting of Quota-holders.

Article 40 – Any advertising copy for the offering of quotas, the Fund's advertisement or promotion shall be made in accordance with these Regulations and the provisions under article 34 of CVM Instruction No. 391/03, and shall disclose at all times the Customer Service for quota-holders, its mailing address and name of the person in charge.

Article 41 – The Fund's Administrator may organize and administer another fund for investment in securities with the same investment policy as the one covered by these Regulations as regards the Corporations.

Article 42 – These Regulations are governed and interpreted in accordance with Brazilian legislation, and any conflicts arising from or related to the provisions of these Regulations shall be settled by arbitration, and the procedure indicated in Exhibit III attached to these Regulations shall be observed.

**EXHIBIT I – MANNER OF ADMINISTRATOR’S COMPENSATION**

**{THE TEXT OF THIS EXHIBIT WILL BE PROVIDED IN A TIMELY MANNER}**

**EXHIBIT I – MANNER OF MANAGER’S COMPENSATION**

**{THE TEXT OF THIS EXHIBIT WILL BE PROVIDED IN A TIMELY MANNER}**



### **EXHIBIT III – ARBITRATION CLAUSE**

In the event of any litigation, controversy, difference or claim arising from or related to these Regulations, it shall be submitted to the International Court of Arbitration of the International Chamber of Commerce for institutional arbitration pursuant to said Chamber's Rules of Arbitration in effect on the commencement date of arbitration.

Said arbitration shall be conducted by three arbitrators, one of them appointed by the petitioner(s), another by the respondent(s) and the third by the two arbitrators appointed by the parties, with the latter acting as chairman of the Arbitration Court.

The arbitration shall be at law and conducted in the City of Rio de Janeiro, State of Rio de Janeiro, Brazil, in the Portuguese language.

The arbitration award shall not be subject to appeal. The costs and expenditures of arbitration shall be for the account of the party totally defeated in such arbitration. If the award is partly favorable to each party, the award shall indicate the ratio of costs and expenditures to be assumed by each party.

Notwithstanding the provision under the above paragraph, in order to prevent a forfeiture of rights and irreparable losses, the need may arise to seek judicial relief by way of injunctive measures. The adoption of any judicial relief of such nature prior to the installation of the Arbitration Court shall not be deemed inconsistent with this arbitration clause, and moreover shall not imply a waiver of any rights and duties created under the arbitral procedure. After the Arbitration Court is installed, any measures in the nature of injunction already examined by the Courts or submitted to them may be reexamined or decided by the Arbitration Court, and it shall be understood that any new measures shall be sought before the Arbitration Court.

{Date}

Signatures of all the quota-holders, Administrator and Manager

# **REGULATIONS OF VARIG FUNDO DE INVESTIMENTO EM PARTICIPAÇÕES – CRÉDITO I [Varig Private Equity Fund – Credit I]**

## **CHAPTER I – THE FUND**

Article 1 - Varig Fundo de Investimento em Participações – Crédito I (the "Fund") is a private equity fund organized as a private condominium, governed by these regulations (the "Regulations"), by Securities and Exchange Commission ("CVM") Instruction No. 391, of July 16, 2003 ("CVM Instruction No. 391"), and other applicable statutory and regulatory provisions, which shall have a duration of forty (40) years, extendable as provided for in these Regulations.

## **CHAPTER II – TARGET MARKET**

Article 2 – The Fund's quotas are intended for Class I creditors of "VARIG," S.A. (Viação Aérea Rio-Grandense) – undergoing in-court reorganization ("Varig"), Rio Sul Linhas Aéreas S.A. – undergoing in-court reorganization ("Rio Sul") and Nordeste Linhas Aéreas S.A. – undergoing in-court reorganization ("Nordeste") (collectively referred to as "Corporations"), who wish to participate in the Corporations' In-court Reorganization proceeding.

## **CHAPTER III – INVESTMENT POLICY**

Article 3 – The Fund's purpose is to obtain the appreciation of its quotas through the acquisition of quotas in the **Varig Fundo de Investimento em Participações – Controle** ("FIP Controle"), in the manner and for the purposes of the In-court Reorganization Plan approved by the Meeting of Creditors held on December 19, 2005, officially ratified by the Court of the 8<sup>th</sup> Commercial Division for the Judicial District of the Rio de Janeiro State Capital, Case No. 2005.001.072.887-7, and endorsed by the Deliberative College of the Ruben Berta Foundation [Fundação Ruben Berta] on January 5, 2006, with the details approved by the Meeting of Creditors called to order on February 13, 2006 and adjourned on February 23, 2006 (the "Detailed Plan").

First §. The Fund's purpose described above does not constitute a promise, guarantee or suggestion of profitability by the Administrator and the Manager.

Second §. Due to the nature of the Fund and the Corporations, the Fund's quota-holders must be aware that: (i) the assets comprising the Fund's portfolio may have a significantly low liquidity as compared to other types of investments in funds; and (ii) the Fund's portfolio is concentrated on securities issued by a small number of corporations, with investment risks being directly linked to the Corporations' performance.

Third §. The Fund's Manager and Administrator shall perform their duties and responsibilities in the quota-holders' best interests, and agree to exercise the Fund's voting right at Meetings of Quota-holders of FIP-Controle to the effect of directing FIP-Controle toward the implementation, as applicable, of the provisions contained in the Detailed Plan and its exhibits.

Fourth §. Investments in FIP Controle shall be aimed at a participation in the Corporations' in-court reorganization proceeding, pursuant to the guidelines contained in the Detailed Plan, as well as in their decision-making process, effectively influencing their operating and/or strategic management through the exercise of a controlling power over the Corporations, including through the election of members to their boards of directors.

Fifth §. Notwithstanding the care to be exercised by the Manager in the implementation of the investment policy described in these Regulations, the Fund's investments, due to their very nature, shall always be subject to market fluctuations and to the risks which are inherent to the issuers of the bonds comprising the portfolio, and to credit risks in general, and the Manager may not, in any event, be held liable for any depreciation of the assets in the portfolio, or for any losses sustained by the Fund's quota-holders, except in cases of the Manager's bad faith or negligence.

#### **CHAPTER IV – PORTFOLIO MIX**

Article 4 – The Fund shall invest its funds according to the investment policy provided for in these Regulations, at all times in compliance with applicable statutory provisions and the following provisions:

- (i) during the Investment Period, the Fund shall keep at least 90% of its Net Worth in quotas issued by FIP Controle;
- (ii) during the Investment Periods, the Fund may keep at most 10% of its Net Worth in quotas of financial investment funds and/or in fixed-income bonds issued by the National Treasury, the Central Bank of Brazil or a financial institution of the federal government, such as certificates of bank deposit, as may be chosen by the Manager, and in bonds issued by the Corporations, for the sole purpose of providing the Fund's portfolio with the necessary liquidity for the fund to bear its expenses and charges, as provided for in these Regulations and in any applicable regulations;
- (iii) the Fund shall not operate on an overdraft facility nor shall it make any share lending transactions; and
- (iv) the Fund may not trade in derivative markets.

Sole §. The Investment Period shall be the period comprised from the Fund's organization to the achievement of the funding goal set by the Manager.

#### **CHAPTER V - ADMINISTRATION**

Article 5 – The Fund is administered by the Bank [...], with head office in the City of [...], State of [...], at [...], registered in the CNPJ/MF [National Registry of Legal Entities/Ministry of Finance] under No. [...] (the “Administrator”), and its portfolio is managed by [...], with head office in the City of [...], State of [...], at [...], registered in the CNPJ/MF under No. [\*\*\*●\*\*\*] (the “Manager”).

Sole §. The Administrator and/or Manager may, and their own expense, hire companies to provide consulting or other services, whether in Brazil or abroad.

Article 6 – The Manager, upon delegation by the Administrator, has powers to exercise all rights which are inherent to the bonds and securities comprising the portfolio, including the right to act and attend and vote at FIP Controle’s Meetings of Quota-holders, at all times upon complying with the provisions under article 3 of these Regulations. The Manager may also acquire, sell or otherwise dispose of bonds and securities, compromise, grant and be granted release, grant powers of attorney to executive officers [*diretores*], employees and/or lawyers, ultimately to perform all necessary acts for managing the portfolio, observing the statutory and regulatory limitations in effect, as well as the provisions of these Regulations.

Sole §. The Administrator may not, upon a unilateral act, revoke a delegation established under this article. Powers delegated to the Manager may only be modified pursuant to an amendment to these Regulations.

Article 7 – The Administrator and/or the Manager may resign from their respective offices upon at least a sixty (60) days’ prior notice to the Quota-holders and to CVM, and shall be required, upon the same notice, to call a Meeting of Quota-holders, which shall decide on their replacement or the Fund’s liquidation, within the time periods provided under regulations.

Sole §. In the event described under this article, the Administrator and/or Manager shall remain responsible for the Fund’s administration/management until they are actually replaced.

Article 8 – The Administrator’s obligations, among such other obligations as may be imposed upon it under applicable legislation/regulations, are:

- (i) at its own expense, to keep up to date and in perfect order according to sound administrative technique, forthwith and for up to five (5) years after the Fund’s closing:
  - (a) records of quota-holders and quota transfers;
  - (b) minutes books for Meetings of Quota-holders;
  - (c) Quota-holders’ attendance book;
  - (d) file for auditors’ opinions;
  - (e) accounting records and financial statements pertaining to the Fund’s transactions and equity; and
  - (f) documentation on the Fund’s transactions;
- (ii) to fund the Fund’s advertising expenses;

- (iii) to keep the financial assets and/or kinds of transactions comprising the Fund's portfolio under custody, registered and/or in a deposit account in the Fund's name, segregated from the Administrator's account, centered on a single custodian entity authorized by the CVM to engage in such activity;
- (iv) to pay a penal fine for late performance of its duties and responsibilities under these Regulations and CVM Instruction No. 391/03;
- (v) to draw up and send to the Fund's quota-holders and to CVM the semi-annual and annual reports mentioned in Chapter X of these Regulations;
- (vi) to draw up, together with financial statements, an opinion on the Fund's transactions and results, including a statement that the provisions of CVM Instruction No. 391/03 and these Regulations have been complied with;
- (vii) to inform the CVM and the quota-holders of any change of Administrator, Manager or their executive officers in charge;
- (viii) to maintain a Quota-holders' Customer Service in charge of clarifying any questions and receiving any complaints;
- (ix) to observe and comply with the provisions of the Fund's Regulations, CVM Instruction No. 391/03 and applicable regulations; and
- (x) to comply with the resolutions of the Fund's Meeting of Quota-holders.

First §. The Fund's Administrator and Manager shall submit to the Fund's quota-holders for prior approval, upon a Meeting of Quota-holders being held, any proposal for changing its corporate control, subject to the provision of §2 below.

Second §. Notwithstanding the provision under clause (iii) of article 21 below, if any change is made in the corporate control of the Administrator or Manager, without the Meeting of Quota-holders mentioned above being called, or if any change is made in its corporate control otherwise than in accordance with a resolution by the Meeting of Quota-holders mentioned above, the Fund's quota-holders may resolve to replace the Administrator pursuant to approval by a majority of the quotas owned by the Fund's quota-holders in attendance, with each paid up quota being entitled to one vote.

Article 9 – The Administrator and/or Manager may not, in the Fund's name:

- (i) receive deposits to a bank account;
- (ii) incur or make loans, except for those kinds of loans provided for by the CVM;
- (iii) provide surety, "aval" guarantee, acceptance or otherwise become a co-obligor;
- (iv) trade in *duplicatas* [trade acceptances], promissory notes (except for those under CVM Instruction No. 134, of November 1, 1990, and those under article 2 §1 of CVM Instruction No. 391, of July 16, 2003), or other bonds either unauthorized by CVM or not comprised under this Fund's investment policy, as provided for in article 3 of these Regulations;
- (v) promise a pre-determined yield to the quota-holders; and
- (vi) invest funds:
  - (a) abroad;
  - (b) in the acquisition of real property;

- (c) in the subscription to or acquisition of shares or any other security of its own issue.

Article 10 - The Manager's obligations, among such other obligations as may be imposed upon it under applicable legislation/regulations or under other articles of these Regulations, are:

- (i) to perform an analysis of all investment and divestment opportunities arising for the Fund, observing the Investment Policy established under article 3 of these Regulations;
- (ii) to employ, upon defending the rights of the Fund's quota-holders, the diligence required under the circumstances, and perform all necessary acts to assure such rights, including to take any applicable legal and/or arbitral action, and to attend and vote at FIP Controle's Meetings of Shareholders;
- (iii) to exercise all rights which are inherent to the bonds and securities comprising the Fund's portfolio;
- (iv) to make available to the Fund's quota-holders the semi-annual reports on the growth of investments in each Corporation to be produced by FIP Controle's Manager, containing such information as: (a) implementation stage of the Detailed Plan (physical/financial report describing the results of actions already implemented and the schedule for implementing other actions); (b) origins and sources of the Corporations' funds; (c) the Corporations' financial condition; (d) interim balance for the reported period; and (e) relevant technical issues involving the Corporations;
- (v) to provide the material for investment analysis to quota-holders who, individually or jointly, and holding at least ten percent (10%) of issued quotas, request such material, and any updates thereof, upon complying with the provisions under article 14 sole § of CVM Instruction No. 391/03;
- (vi) to keep the performance of the Fund's investments under constant monitoring;
- (vii) to observe and comply with the provisions under the Fund's Regulations, CVM Instruction No. 391/03 and applicable regulations; and
- (viii) to comply with the resolutions by the Fund's Meeting of Quota-holders.

Article 11 – Administrator's Fee – The Administrator's fee shall be as defined in Exhibit I attached to these Regulations.

Article 12 – Manager's Fee – The Manager's fee shall be as defined in Exhibit II attached to these Regulations.

## **CHAPTER VI – QUOTAS**

Article 13 – The Fund's quotas correspond to ideal fractions of its equity, and shall be in book-entry form and registered.

Article 14 – The Fund’s quotas shall be of a single class.

Article 15 – The capacity of quota-holder is verified upon the entry of the holder’s name in the Fund’s record of quota-holders or the quota deposit account opened in the quota-holder’s name.

Article 16 – The Fund’s quotas shall have their value calculated daily and shall be allowed for trading at a stock exchange or organized over-the-counter market.

Article 17 – The Fund’s quotas that have been subject to public distribution may only be traded at a stock exchange or organized over-the-counter market, except for any private trades between qualified investors, and for such purposes the intermediary shall make sure that the quota purchaser is a qualified investor.

Article 18 – The Fund’s quotas may be amortized or liquidated, at the Administrator’s discretion:

- (i) in kind, through a direct distribution of dividends and/or interest on the quota-holders own equity;
- (ii) in kind, for distribution of income from disposal of FIP Controle’s quotas; or
- (iii) in assets, through a distribution of bonds and securities comprising the Fund’s portfolio from [sic] the quota-holders.

Sole §. Upon the request of any quota-holder to whom the definition of qualified investor applies, the Administrator shall provide for the amortization of the requesting quota-holder’s quotas in assets proportionately to the portfolio mix.<sup>1</sup>

Article 19 – For the issue of the Fund’s quotas, the quota value on the day following the date on which the investor’s funds are actually made available shall be used, observing the time-of-day limit for investments in the Fund.

Sole §. For the purposes of these Regulations, the day’s quota value shall be understood as the result of a division of the net worth amount by the number of the Fund’s quotas, both ascertained at the day’s closing, i.e., the time when the markets in which the Fund operates are closed.

Article 20 – Unless otherwise expressly referred to in these Regulations, the quotas shall be distributed solely to the Corporations’ Class I creditors or their successors at whatsoever design during the time period comprised between [...] and [...] (the “Closing Date”). The issue of new quotas by the Fund shall not be permitted after the Closing Date except upon the express approval by the Meeting of Quota-holders.

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<sup>1</sup> The possibility provided for in this paragraph shall be subject to a special authorization being requested from CVM.

First §. During the time period comprised between the Fund's organization date and the Closing Date the Fund may issue, at the Manager's discretion, at least thirty million reais (R\$30,000,000.00) and at most three billion reais (R\$3,000,000,000.00) in quotas, without the need for approval by the Meeting of Quota-holders.

Second §. The initial issuing value of the quotas upon the Fund's organization ("Initial Subscription") shall be ten reais (R\$10.00) per quota; subsequent issues shall be made according to the value of the quotas on the issuing date.

Third §. The quotas shall be paid in national currency or in credits against the Corporations, substantiated as Qualified Bonds, by the investors who signed the private instrument for commitment of investment as provided under applicable CVM regulations. Qualified Bonds shall be understood as Debt Acknowledgments, Banking Credit Bills, and Certificates of Banking Credit Bills issued by the Corporations, as well as Receipts of Documentary Credit Deposit issued by the Depositary Bank, everything in accordance with the provisions and definitions contained in the Detailed Plan attached to FIP Controle's Regulations. Qualified Bonds shall be given the same valuation as their face value.

Fourth §. The Administrator may, at its own discretion, accept payment of quotas in bonds and securities of unquestionable liquidity, pursuant to the regulations issued by CVM.

Fifth §. No preemptive right shall be given the Fund's quota-holders to subscribe to new quotas.

## **CHAPTER VII – THE MEETING OF QUOTA-HOLDERS**

Article 21 – It shall be exclusively incumbent upon the Meeting of Quota-holders:

- (i) to receive, annually, the Fund's accounts rendered by the Administrator and deliberate on the financial statements submitted by the Administrator;
- (ii) to amend the Fund's Regulations;
- (iii) to pass resolution on the removal and/or replacement of the Administrator and the Manager, and on the selection of their respective replacements;
- (iv) to pass resolution on the Fund's consolidation, merger, split-up or spin-off, or possible liquidation;
- (v) to pass resolution on raising the Administration Fee and Performance Fee;
- (vi) to pass resolution on the issue and distribution of Fund quotas over the maximum limit established in article 20 §1 of these Regulations;



- (vii) to pass resolution on changing the Fund's Investment Policy established in Chapter III of these Regulations, upon a proposal sent by the Manager to that effect;
- (viii) to pass resolution on extending the Fund's duration;
- (ix) to pass resolution on changing the quorum for calling to order and passing resolution at Meetings of Quota-holders;
- (x) to pass resolution, as the case may be, on the information to be provided to the quota-holders, observing the provision under article 14 sole § of CVM Instruction No. 391/03; and
- (xi) to pass resolution on changing the policy for the exercise of voting rights by the Manager or by its lawfully appointed representatives at FIP Controle's meetings of quota-holders, observing the provision under article 3 of these Regulations.

Sole §. These Regulations may be amended, irrespective of a Meeting of Quota-holders or a consultation with the Fund's quota-holders, whenever such amendment is solely the result of a need to meet CVM requirements, or a consequence of statutory or regulatory provisions, and in such cases the necessary notification of the Fund's quota-holders shall be provided for within thirty (30) days.

Article 22 – The Meeting of Quota-holders shall be called by means of a letter sent to each quota-holder and to the Fund's Administrator, as the case may be, and for such purposes any means of communication may be used where proof of receipt by the Fund's quota-holder is possible, and provided that the intended purpose is achieved, such as sending a letter with return receipt, by fax, e-mail, etc.

First §. The call for the meeting, made by any means provided for in the forepart of this article, shall state on a mandatory basis the date, time and place for the Meeting of Quota-holders to be held, and also in summary form the subject matters to be dealt with.

Second §. The call for the Meeting of Quota-holders shall be made at least fifteen (15) days in advance of the date on which said Meeting of Quota-holders is to be held.

Third §. The Meeting of Quota-holders may only be called by the Administrator or by the Fund's quota-holders who hold quotas representing at least five percent (5%) of the total quotas issued by the Fund.

Fourth §. In the case of any resolution involving an amendment to these Regulations, a Meeting of Quota-holders shall be called especially for such a purpose. The call for the meeting, made as provided for in the forepart of this article, shall state the amendments proposed to be made.

Article 23 – At Meetings of Quota-holders, which may be called to order with at least one quota-holder in the Fund, or such quota-holder's legal representative, resolutions are passed

upon the criterion of a majority of quotas held by the Fund's quota-holders in attendance, with each paid up quota being entitled to one vote, observing, as regards a specific quorum, the provisions of the paragraphs below.

First §. Except for the matter provided for in article 21 (i), all resolutions regarding the other matters under such article shall be passed upon the affirmative vote of the holders of at least seventy percent (70%) of the quotas issued by the Fund, duly paid up.

Second §. Any change in the advantages of the quotas, or the creation of new classes, shall only be approved by a Meeting of Quota-holders pursuant to an approval by all the Fund's quota-holders.

Article 24 – Only the Fund's quota-holders whose quotas were deposited in the deposit account by three (3) business days prior to the date scheduled for the Meeting of Quota-holders to be held, provided such quotas are duly paid, may vote at Meetings of Quota-holders.

Sole §. Summarized decisions by the Meeting of Quotaholders shall be sent to each of the Fund's quota-holders, observing the time limit of thirty (30) days from the date it is held, and a monthly statement of account may be used for such purposes.

Article 25 – The legal representatives of the Fund's quota-holders or their lawfully appointed proxies shall have the capacity to vote at Meetings of Quota-holders.

## **CHAPTER VIII – THE FUND'S CHARGES**

Article 26 – In addition to the Administrator's and the Manager's fees provided for in these Regulations, the Fund's charges shall consist of the following expenses, which may be charged to the Fund:

- (i) federal, state, municipal or government-agency rates, taxes or contributions assessed, or as may be assessed, on the Fund's assets, rights and obligations;
- (ii) expenses with the registration of documents at registry offices, printing, issuance and publication of reports, forms and periodic information, as provided under pertinent regulations;
- (iii) mailing expenses in the Fund's interest, including any communication to quota-holders;
- (iv) fees and expenses with the auditors in charge of examining the Fund's financial statements in accordance with auditing standards;
- (v) fees and commissions paid on the trades for the sale and purchase of the bonds and securities comprising the Fund's portfolio;
- (vi) attorney fees, costs and related expenses incurred in the defense of the Fund's interests, in or out of court, including the amount of any judgment award against the Fund, as the case may be;

- (vii) the portion of any losses not covered by an insurance policy and not directly arising from the Administrator's and/or the Manager's fault or malice in the performance of their duties and responsibilities;
- (viii) insurance premiums on valuables, and any expenses relating to a transfer of the Fund's funds between banks;
- (ix) rates and expenses with the custody and settlement of the Fund's bonds and securities;
- (x) any expenses which are inherent to the Fund's organization, consolidation, merger, split-up or spin-off, or liquidation, and to the holding of Meetings of Quota-holders;
- (xi) annual dues of the organized over-the-counter entity where the Fund has its quotas admitted for trading; and
- (xii) expenses with professional services retained which are of a legal, tax, accounting or specialized consulting nature.

Sole §. Any expenses not provided for in these Regulations or in CVM Instruction No. 391/03 as the Fund's charges shall be incurred for the Administrator's account, unless the Meeting of Quota-holders decides otherwise.

## **CHAPTER IX – FINANCIAL STATEMENTS**

Article 27 – The Fund shall have its own bookkeeping, and its accounts and financial statements shall be segregated from the Administrator's and the Manager's accounts and financial statements.

Article 28 – The Fund's fiscal year shall last twelve (12) months, beginning on January 1<sup>st</sup> and ending on December 31<sup>st</sup>, at which time the Fund's financial statements for the preceding period shall be drawn up.

Article 29 – The Fund's financial statements shall be audited annually by a CVM-registered independent auditor in accordance with the standards governing the performance of such activity.

Article 30 – The Fund's net worth consists of the sum total of available funds, plus the value of its portfolio, plus receivables, less liabilities ("Net Worth").

First §. The variable-income assets comprising the Fund's portfolio shall be evaluated, whenever possible, on the basis of their market price. However, and taking into account the possibly low liquidity of the securities issued by the Corporations, the criteria for the economic value of assets under article 3 §9 of CVM Instruction No. 305/99 shall be adopted for purposes of evaluating variable-income investments in non-liquid assets.

Second §. The Administrator assumes the responsibility to CVM and the quota-holders for the criteria, values and premises used in the economic evaluation adopted by the Fund.

Third §. The Administration Fee pertaining to the equity portion comprised of non-liquid variable-income assets, evaluated on the basis of their economic value as provided under §1

above, shall be charged on the basis of the historical costs of investments, and the performance fee, if any, shall be paid only upon the investments in the Fund being fully made.

Fourth §. The criteria of evaluation at the economic value of assets shall be regularly employed during the course of subsequent accounting periods.

Article 31 – Fixed-income bonds shall be evaluated at the investment amount, plus any net earnings ascertained, including premium and discount amortizations, and the accrual of taxes assessed on recognized portions of income, as applicable.

## **CHAPTER X – PUBLICITY AND INFORMATION**

Article 32 – Upon joining the Fund, the investor shall receive from the Administrator, on a mandatory and gratuitous basis, a copy of these Regulations, and shall adhere expressly to its contents. The Fund will not have a prospectus, as admitted under article 4 (V) of CVM Instruction No. 391/03.

Article 33 – The Administrator shall disclose any material act or fact, amply and immediately, by any means, so as to assure for all quota-holders any information which may, directly or indirectly, affect their decisions whether to remain in the Fund or not, and other investors' decisions whether to purchase any quotas or not.

Sole §. The Administrator shall not be required to send the information provided for in this article (i) if the latest information sent was returned because an incorrect address was indicated, and the quota-holder failed to inform the Administrator of its updated address, and/or (ii) in those events under article 31 sole § of CVM Instruction No. CVM 391/03.

Article 34 – The Administrator shall:

- (i) no later than forty-five (45) days after the closing of each quarter, provide the quota-holders with information on the yield ascertained for the month and on the value and mix of the portfolio, itemizing the quantity, kind and value of the quotas, bonds and securities of which it is comprised, their amount and its percentage of the portfolio total, pointing out the investments, if any, in related companies and in funds managed by the Administrator or by companies related to the latter;
- (ii) send on a quarterly basis to the quota-holders, within forty-five (45) days from the closing of the reference quarter, a statement of account containing:
  - (a) the Fund's name and its CNPJ registration number;
  - (b) the Administrator's name, address and CNPJ registration number;
  - (c) the quota-holder's name;
  - (d) balance and value of the quotas at the beginning and at the end of the period, and operations during the course of such period; and
  - (e) place and date of quota issue; and

- (iii) send on a quarterly basis to the quota-holders, within forty-five (45) days from the closing of the reference quarter, a management report containing:
  - (a) the Corporations' unaudited financial statements;
  - (b) opinions on the Corporations' results and operations, issued by the management of said corporations and by FIP Controle's Manager; and
  - (c) an analysis of the industry in which the Corporations operate.

Article 35 – Without prejudice to the reports, opinions and other information sent to the Fund's quota-holders pursuant to articles 8 and 10 of these Regulations, the Administrator shall send to the quota-holders and to CVM, within sixty (60) days from the closing of the fiscal year ended on December 31<sup>st</sup>, a report on the Fund's transactions and results for the previous fiscal year, covering, among such other aspects as the Administrator may deem relevant, the following:

- (i) financial statements accompanied by an independent auditor's opinion;
- (ii) a performance presentation covering the equity value of the quotas on the closing date of the balance sheet, and the evolution of such value on the last day of each one of the last twelve months, indicating the yield for the period;
- (iii) administration fees, identifying fixed and variable fees, as the case may be, in national currency and as a percentage of the Fund's net worth;
- (iv) brokerage expenses, including the total amount charged to the Fund; and
- (v) percentage of the amount charged as brokerage expenses in relation to the average value of the Fund's portfolio.

Article 36 – The Administrator shall send to CVM and the quotaholders, within forty-five (45) days after the closing of the semi-annual periods ended on June 30<sup>th</sup> and December 31<sup>st</sup>, a report on the Fund's transactions and results for the previous semester, covering, among such other aspects as the Administrator may deem relevant, the following:

- (i) basic information, including:
  - (a) value and mix of the portfolio, describing the quantity, kind and quotation of the quotas, bonds and securities comprising it, the value of each investment and its percentage of the total portfolio amount, pointing out investments, if any, in related companies or in funds administered and/or managed by the Administrator and/or by the Manager; and
  - (b) financial statements accompanied by an independent auditor's opinion and a statement from the Administrator confirming that the provisions of CVM Instruction No. 391/03 and these Regulations have been complied with;
- (ii) analysis of the Fund's portfolio vis-à-vis the strategy adopted and goals of its investment policy;
- (iii) administration fees, identifying fixed and variable fees, as the case may be, in national currency and as a percentage of the Fund's net worth;
- (iv) brokerage expenses, including the total amount charged to the Fund;
- (v) percentage of the amount charged as brokerage expenses in relation to the average value of the Fund's portfolio; and

- (vi) list of the institutions in charge of providing services for the custody of the bonds and securities comprising the Fund's portfolio.

First §. The information provided or disclosed by the Fund shall be in accordance with the annual report or semi-annual report filed with CVM, as the case may be.

Second §. If any information from the Fund is disclosed with inaccuracies or improprieties which may be misleading to the investor's evaluation, the Fund shall resort to the same disclosure media through which the erroneous information was provided, and state expressly that the information is being republished as a correction of erroneous and improper information.

## **CHAPTER XI – GENERAL PROVISIONS**

Article 37 – The investor's submission of a private instrument for commitment of investment constitutes its express awareness of and agreement with all clauses of these Regulations, which it shall be bound to comply with from the time of its acceptance into the Fund by the Administrator.

Article 38 – In the event of death or incapacity of a quota-holder in the Fund, the representative of the estate or of the incapacitated quota-holder shall exercise such rights and perform such obligations to the Administrator as were incumbent upon the deceased or incapacitated quota-holders, in observance of statutory provisions.

Article 39 – Quotas may be traded in an organized over-the-counter market by an institution authorized by the CVM to operate, provided that such trading was resolved at a Meeting of Quota-holders.

Article 40 – Any advertising copy for the offering of quotas, the Fund's advertisement or promotion shall be made in accordance with these Regulations and the provisions under article 34 of CVM Instruction No. 391/03, and shall disclose at all times the Customer Service for quota-holders, its mailing address and name of the person in charge.

Article 41 – The Fund's Administrator may organize and administer another fund for investment in securities with the same investment policy as the one covered by these Regulations as regards the Corporations.

Article 42 – These Regulations are governed and interpreted in accordance with Brazilian legislation, and any conflicts arising from or related to the provisions of these Regulations shall be settled by arbitration, and the procedure indicated in Exhibit III attached to these Regulations shall be observed.

**EXHIBIT I – MANNER OF ADMINISTRATOR’S COMPENSATION**

**{THE TEXT OF THIS EXHIBIT WILL BE PROVIDED IN A TIMELY MANNER}**

**EXHIBIT I – MANNER OF MANAGER’S COMPENSATION**

**{THE TEXT OF THIS EXHIBIT WILL BE PROVIDED IN A TIMELY MANNER}**



### **EXHIBIT III – ARBITRATION CLAUSE**

In the event of any litigation, controversy, difference or claim arising from or related to these Regulations, it shall be submitted to the International Court of Arbitration of the International Chamber of Commerce for institutional arbitration pursuant to said Chamber's Rules of Arbitration in effect on the commencement date of arbitration.

Said arbitration shall be conducted by three arbitrators, one of them appointed by the petitioner(s), another by the respondent(s) and the third by the two arbitrators appointed by the parties, with the latter acting as chairman of the Arbitration Court.

The arbitration shall be at law and conducted in the City of Rio de Janeiro, State of Rio de Janeiro, Brazil, in the Portuguese language.

The arbitration award shall not be subject to appeal. The costs and expenditures of arbitration shall be for the account of the party totally defeated in such arbitration. If the award is partly favorable to each party, the award shall indicate the ratio of costs and expenditures to be assumed by each party.

Notwithstanding the provision under the above paragraph, in order to prevent a forfeiture of rights and irreparable losses, the need may arise to seek judicial relief by way of injunctive measures. The adoption of any judicial relief of such nature prior to the installation of the Arbitration Court shall not be deemed inconsistent with this arbitration clause, and moreover shall not imply a waiver of any rights and duties created under the arbitral procedure. After the Arbitration Court is installed, any measures in the nature of injunction already examined by the Courts or submitted to them may be reexamined or decided by the Arbitration Court, and it shall be understood that any new measures shall be sought before the Arbitration Court.

{Date}

Signatures of all the quota-holders, Administrator and Manager

# **REGULATIONS OF VARIG FUNDO DE INVESTIMENTO EM PARTICIPAÇÕES – CRÉDITO III [Varig Private Equity Fund – Credit III]**

## **CHAPTER I – THE FUND**

Article 1 - Varig Fundo de Investimento em Participações – Crédito III (the "Fund") is a private equity fund organized as a private condominium, governed by these regulations (the "Regulations"), by Securities and Exchange Commission ("CVM") Instruction No. 391, of July 16, 2003 ("CVM Instruction No. 391"), and other applicable statutory and regulatory provisions, which shall have a duration of forty (40) years, extendable as provided for in these Regulations.

## **CHAPTER II – TARGET MARKET**

Article 2 – The Fund's quotas are intended for Class III creditors of "VARIG," S.A. (Viação Aérea Rio-Grandense) – undergoing in-court reorganization ("Varig"), Rio Sul Linhas Aéreas S.A. – undergoing in-court reorganization ("Rio Sul") and Nordeste Linhas Aéreas S.A. – undergoing in-court reorganization ("Nordeste") (collectively referred to as "Corporations"), who wish to participate in the Corporations' In-court Reorganization proceeding.

## **CHAPTER III – INVESTMENT POLICY**

Article 3 – The Fund's purpose is to obtain the appreciation of its quotas through the acquisition of quotas in the **Varig Fundo de Investimento em Participações – Controle** ("FIP Controle"), in the manner and for the purposes of the In-court Reorganization Plan approved by the Meeting of Creditors held on December 19, 2005, officially ratified by the Court of the 8<sup>th</sup> Commercial Division for the Judicial District of the Rio de Janeiro State Capital, Case No. 2005.001.072.887-7, and endorsed by the Deliberative College of the Ruben Berta Foundation [Fundação Ruben Berta] on January 5, 2006, with the details approved by the Meeting of Creditors called to order on February 13, 2006 and adjourned on February 23, 2006 (the "Detailed Plan").

First §. The Fund's purpose described above does not constitute a promise, guarantee or suggestion of profitability by the Administrator and the Manager.

Second §. Due to the nature of the Fund and the Corporations, the Fund's quota-holders must be aware that: (i) the assets comprising the Fund's portfolio may have a significantly low liquidity as compared to other types of investments in funds; and (ii) the Fund's portfolio is concentrated on securities issued by a small number of corporations, with investment risks being directly linked to the Corporations' performance.

Third §. The Fund's Manager and Administrator shall perform their duties and responsibilities in the quota-holders' best interests, and agree to exercise the Fund's voting right at Meetings of Quota-holders of FIP-Controle to the effect of directing FIP-Controle toward the implementation, as applicable, of the provisions contained in the Detailed Plan and its exhibits.

Fourth §. Investments in FIP Controle shall be aimed at a participation in the Corporations' in-court reorganization proceeding, pursuant to the guidelines contained in the Detailed Plan, as well as in their decision-making process, effectively influencing their operating and/or strategic management through the exercise of a controlling power over the Corporations, including through the election of members to their boards of directors.

Fifth §. Notwithstanding the care to be exercised by the Manager in the implementation of the investment policy described in these Regulations, the Fund's investments, due to their very nature, shall always be subject to market fluctuations and to the risks which are inherent to the issuers of the bonds comprising the portfolio, and to credit risks in general, and the Manager may not, in any event, be held liable for any depreciation of the assets in the portfolio, or for any losses sustained by the Fund's quota-holders, except in cases of the Manager's bad faith or negligence.

#### **CHAPTER IV – PORTFOLIO MIX**

Article 4 – The Fund shall invest its funds according to the investment policy provided for in these Regulations, at all times in compliance with applicable statutory provisions and the following provisions:

- (i) during the Investment Period, the Fund shall keep at least 90% of its Net Worth in quotas issued by FIP Controle;
- (ii) during the Investment Periods, the Fund may keep at most 10% of its Net Worth in quotas of financial investment funds and/or in fixed-income bonds issued by the National Treasury, the Central Bank of Brazil or a financial institution of the federal government, such as certificates of bank deposit, as may be chosen by the Manager, and in bonds issued by the Corporations, for the sole purpose of providing the Fund's portfolio with the necessary liquidity for the fund to bear its expenses and charges, as provided for in these Regulations and in any applicable regulations;
- (iii) the Fund shall not operate on an overdraft facility nor shall it make any share lending transactions; and
- (iv) the Fund may not trade in derivative markets.

Sole §. The Investment Period shall be the period comprised from the Fund's organization to the achievement of the funding goal set by the Manager.

#### **CHAPTER V - ADMINISTRATION**

Article 5 – The Fund is administered by the Bank [...], with head office in the City of [...], State of [...], at [...], registered in the CNPJ/MF [National Registry of Legal Entities/Ministry of Finance] under No. [...] (the “Administrator”), and its portfolio is managed by [...], with head office in the City of [...], State of [...], at [...], registered in the CNPJ/MF under No. [\*\*\*●\*\*\*] (the “Manager”).

Sole §. The Administrator and/or Manager may, and their own expense, hire companies to provide consulting or other services, whether in Brazil or abroad.

Article 6 – The Manager, upon delegation by the Administrator, has powers to exercise all rights which are inherent to the bonds and securities comprising the portfolio, including the right to act and attend and vote at FIP Controle’s Meetings of Quota-holders, at all times upon complying with the provisions under article 3 of these Regulations. The Manager may also acquire, sell or otherwise dispose of bonds and securities, compromise, grant and be granted release, grant powers of attorney to executive officers [*diretores*], employees and/or lawyers, ultimately to perform all necessary acts for managing the portfolio, observing the statutory and regulatory limitations in effect, as well as the provisions of these Regulations.

Sole §. The Administrator may not, upon a unilateral act, revoke a delegation established under this article. Powers delegated to the Manager may only be modified pursuant to an amendment to these Regulations.

Article 7 – The Administrator and/or the Manager may resign from their respective offices upon at least a sixty (60) days’ prior notice to the Quota-holders and to CVM, and shall be required, upon the same notice, to call a Meeting of Quota-holders, which shall decide on their replacement or the Fund’s liquidation, within the time periods provided under regulations.

Sole §. In the event described under this article, the Administrator and/or Manager shall remain responsible for the Fund’s administration/management until they are actually replaced.

Article 8 – The Administrator’s obligations, among such other obligations as may be imposed upon it under applicable legislation/regulations, are:

- (i) at its own expense, to keep up to date and in perfect order according to sound administrative technique, forthwith and for up to five (5) years after the Fund’s closing:
  - (a) records of quota-holders and quota transfers;
  - (b) minutes books for Meetings of Quota-holders;
  - (c) Quota-holders’ attendance book;
  - (d) file for auditors’ opinions;
  - (e) accounting records and financial statements pertaining to the Fund’s transactions and equity; and
  - (f) documentation on the Fund’s transactions;
- (ii) to fund the Fund’s advertising expenses;

- (iii) to keep the financial assets and/or kinds of transactions comprising the Fund's portfolio under custody, registered and/or in a deposit account in the Fund's name, segregated from the Administrator's account, centered on a single custodian entity authorized by the CVM to engage in such activity;
- (iv) to pay a penal fine for late performance of its duties and responsibilities under these Regulations and CVM Instruction No. 391/03;
- (v) to draw up and send to the Fund's quota-holders and to CVM the semi-annual and annual reports mentioned in Chapter X of these Regulations;
- (vi) to draw up, together with financial statements, an opinion on the Fund's transactions and results, including a statement that the provisions of CVM Instruction No. 391/03 and these Regulations have been complied with;
- (vii) to inform the CVM and the quota-holders of any change of Administrator, Manager or their executive officers in charge;
- (viii) to maintain a Quota-holders' Customer Service in charge of clarifying any questions and receiving any complaints;
- (ix) to observe and comply with the provisions of the Fund's Regulations, CVM Instruction No. 391/03 and applicable regulations; and
- (x) to comply with the resolutions of the Fund's Meeting of Quota-holders.

First §. The Fund's Administrator and Manager shall submit to the Fund's quota-holders for prior approval, upon a Meeting of Quota-holders being held, any proposal for changing its corporate control, subject to the provision of §2 below.

Second §. Notwithstanding the provision under clause (iii) of article 21 below, if any change is made in the corporate control of the Administrator or Manager, without the Meeting of Quota-holders mentioned above being called, or if any change is made in its corporate control otherwise than in accordance with a resolution by the Meeting of Quota-holders mentioned above, the Fund's quota-holders may resolve to replace the Administrator pursuant to approval by a majority of the quotas owned by the Fund's quota-holders in attendance, with each paid up quota being entitled to one vote.

Article 9 – The Administrator and/or Manager may not, in the Fund's name:

- (i) receive deposits to a bank account;
- (ii) incur or make loans, except for those kinds of loans provided for by the CVM;
- (iii) provide surety, "aval" guarantee, acceptance or otherwise become a co-obligor;
- (iv) trade in *duplicatas* [trade acceptances], promissory notes (except for those under CVM Instruction No. 134, of November 1, 1990, and those under article 2 §1 of CVM Instruction No. 391, of July 16, 2003), or other bonds either unauthorized by CVM or not comprised under this Fund's investment policy, as provided for in article 3 of these Regulations;
- (v) promise a pre-determined yield to the quota-holders; and
- (vi) invest funds:
  - (a) abroad;
  - (b) in the acquisition of real property;

- (c) in the subscription to or acquisition of shares or any other security of its own issue.

Article 10 - The Manager's obligations, among such other obligations as may be imposed upon it under applicable legislation/regulations or under other articles of these Regulations, are:

- (i) to perform an analysis of all investment and divestment opportunities arising for the Fund, observing the Investment Policy established under article 3 of these Regulations;
- (ii) to employ, upon defending the rights of the Fund's quota-holders, the diligence required under the circumstances, and perform all necessary acts to assure such rights, including to take any applicable legal and/or arbitral action, and to attend and vote at FIP Controle's Meetings of Shareholders;
- (iii) to exercise all rights which are inherent to the bonds and securities comprising the Fund's portfolio;
- (iv) to make available to the Fund's quota-holders the semi-annual reports on the growth of investments in each Corporation to be produced by FIP Controle's Manager, containing such information as: (a) implementation stage of the Detailed Plan (physical/financial report describing the results of actions already implemented and the schedule for implementing other actions); (b) origins and sources of the Corporations' funds; (c) the Corporations' financial condition; (d) interim balance for the reported period; and (e) relevant technical issues involving the Corporations;
- (v) to provide the material for investment analysis to quota-holders who, individually or jointly, and holding at least ten percent (10%) of issued quotas, request such material, and any updates thereof, upon complying with the provisions under article 14 sole § of CVM Instruction No. 391/03;
- (vi) to keep the performance of the Fund's investments under constant monitoring;
- (vii) to observe and comply with the provisions under the Fund's Regulations, CVM Instruction No. 391/03 and applicable regulations; and
- (viii) to comply with the resolutions by the Fund's Meeting of Quota-holders.

Article 11 – Administrator's Fee – The Administrator's fee shall be as defined in Exhibit I attached to these Regulations.

Article 12 – Manager's Fee – The Manager's fee shall be as defined in Exhibit II attached to these Regulations.

## **CHAPTER VI – QUOTAS**

Article 13 – The Fund's quotas correspond to ideal fractions of its equity, and shall be in book-entry form and registered.

Article 14 – The Fund’s quotas shall be of a single class.

Article 15 – The capacity of quota-holder is verified upon the entry of the holder’s name in the Fund’s record of quota-holders or the quota deposit account opened in the quota-holder’s name.

Article 16 – The Fund’s quotas shall have their value calculated daily and shall be allowed for trading at a stock exchange or organized over-the-counter market.

Article 17 – The Fund’s quotas that have been subject to public distribution may only be traded at a stock exchange or organized over-the-counter market, except for any private trades between qualified investors, and for such purposes the intermediary shall make sure that the quota purchaser is a qualified investor.

Article 18 – The Fund’s quotas may be amortized or liquidated, at the Administrator’s discretion:

- (i) in kind, through a direct distribution of dividends and/or interest on the quota-holders own equity;
- (ii) in kind, for distribution of income from disposal of FIP Controle’s quotas; or
- (iii) in assets, through a distribution of bonds and securities comprising the Fund’s portfolio from [sic] the quota-holders.

Sole §. Upon the request of any quota-holder to whom the definition of qualified investor applies, the Administrator shall provide for the amortization of the requesting quota-holder’s quotas in assets proportionately to the portfolio mix.<sup>1</sup>

Article 19 – For the issue of the Fund’s quotas, the quota value on the day following the date on which the investor’s funds are actually made available shall be used, observing the time-of-day limit for investments in the Fund.

Sole §. For the purposes of these Regulations, the day’s quota value shall be understood as the result of a division of the net worth amount by the number of the Fund’s quotas, both ascertained at the day’s closing, i.e., the time when the markets in which the Fund operates are closed.

Article 20 – Unless otherwise expressly referred to in these Regulations, the quotas shall be distributed solely to the Corporations’ Class III creditors or their successors at whatsoever design during the time period comprised between [...] and [...] (the “Closing Date”). The issue of new quotas by the Fund shall not be permitted after the Closing Date except upon the express approval by the Meeting of Quota-holders.

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<sup>1</sup> The possibility provided for in this paragraph shall be subject to a special authorization being requested from CVM.

First §. During the time period comprised between the Fund's organization date and the Closing Date the Fund may issue, at the Manager's discretion, at least thirty million reais (R\$30,000,000.00) and at most three billion reais (R\$3,000,000,000.00) in quotas, without the need for approval by the Meeting of Quota-holders.

Second §. The initial issuing value of the quotas upon the Fund's organization ("Initial Subscription") shall be ten reais (R\$10.00) per quota; subsequent issues shall be made according to the value of the quotas on the issuing date.

Third §. The quotas shall be paid in national currency or in credits against the Corporations, substantiated as Qualified Bonds, by the investors who signed the private instrument for commitment of investment as provided under applicable CVM regulations. Qualified Bonds shall be understood as Debt Acknowledgments, Banking Credit Bills, and Certificates of Banking Credit Bills issued by the Corporations, as well as Receipts of Documentary Credit Deposit issued by the Depositary Bank, everything in accordance with the provisions and definitions contained in the Detailed Plan attached to FIP Controle's Regulations. Qualified Bonds shall be given the same valuation as their face value.

Fourth §. The Administrator may, at its own discretion, accept payment of quotas in bonds and securities of unquestionable liquidity, pursuant to the regulations issued by CVM.

Fifth §. No preemptive right shall be given the Fund's quota-holders to subscribe to new quotas.

## **CHAPTER VII – THE MEETING OF QUOTA-HOLDERS**

Article 21 – It shall be exclusively incumbent upon the Meeting of Quota-holders:

- (i) to receive, annually, the Fund's accounts rendered by the Administrator and deliberate on the financial statements submitted by the Administrator;
- (ii) to amend the Fund's Regulations;
- (iii) to pass resolution on the removal and/or replacement of the Administrator and the Manager, and on the selection of their respective replacements;
- (iv) to pass resolution on the Fund's consolidation, merger, split-up or spin-off, or possible liquidation;
- (v) to pass resolution on raising the Administration Fee and Performance Fee;
- (vi) to pass resolution on the issue and distribution of Fund quotas over the maximum limit established in article 20 §1 of these Regulations;



- (vii) to pass resolution on changing the Fund's Investment Policy established in Chapter III of these Regulations, upon a proposal sent by the Manager to that effect;
- (viii) to pass resolution on extending the Fund's duration;
- (ix) to pass resolution on changing the quorum for calling to order and passing resolution at Meetings of Quota-holders;
- (x) to pass resolution, as the case may be, on the information to be provided to the quota-holders, observing the provision under article 14 sole § of CVM Instruction No. 391/03; and
- (xi) to pass resolution on changing the policy for the exercise of voting rights by the Manager or by its lawfully appointed representatives at FIP Controle's meetings of quota-holders, observing the provision under article 3 of these Regulations.

Sole §. These Regulations may be amended, irrespective of a Meeting of Quota-holders or a consultation with the Fund's quota-holders, whenever such amendment is solely the result of a need to meet CVM requirements, or a consequence of statutory or regulatory provisions, and in such cases the necessary notification of the Fund's quota-holders shall be provided for within thirty (30) days.

Article 22 – The Meeting of Quota-holders shall be called by means of a letter sent to each quota-holder and to the Fund's Administrator, as the case may be, and for such purposes any means of communication may be used where proof of receipt by the Fund's quota-holder is possible, and provided that the intended purpose is achieved, such as sending a letter with return receipt, by fax, e-mail, etc.

First §. The call for the meeting, made by any means provided for in the forepart of this article, shall state on a mandatory basis the date, time and place for the Meeting of Quota-holders to be held, and also in summary form the subject matters to be dealt with.

Second §. The call for the Meeting of Quota-holders shall be made at least fifteen (15) days in advance of the date on which said Meeting of Quota-holders is to be held.

Third §. The Meeting of Quota-holders may only be called by the Administrator or by the Fund's quota-holders who hold quotas representing at least five percent (5%) of the total quotas issued by the Fund.

Fourth §. In the case of any resolution involving an amendment to these Regulations, a Meeting of Quota-holders shall be called especially for such a purpose. The call for the meeting, made as provided for in the forepart of this article, shall state the amendments proposed to be made.

Article 23 – At Meetings of Quota-holders, which may be called to order with at least one quota-holder in the Fund, or such quota-holder's legal representative, resolutions are passed

upon the criterion of a majority of quotas held by the Fund's quota-holders in attendance, with each paid up quota being entitled to one vote, observing, as regards a specific quorum, the provisions of the paragraphs below.

First §. Except for the matter provided for in article 21 (i), all resolutions regarding the other matters under such article shall be passed upon the affirmative vote of the holders of at least seventy percent (70%) of the quotas issued by the Fund, duly paid up.

Second §. Any change in the advantages of the quotas, or the creation of new classes, shall only be approved by a Meeting of Quota-holders pursuant to an approval by all the Fund's quota-holders.

Article 24 – Only the Fund's quota-holders whose quotas were deposited in the deposit account by three (3) business days prior to the date scheduled for the Meeting of Quota-holders to be held, provided such quotas are duly paid, may vote at Meetings of Quota-holders.

Sole §. Summarized decisions by the Meeting of Quotaholders shall be sent to each of the Fund's quota-holders, observing the time limit of thirty (30) days from the date it is held, and a monthly statement of account may be used for such purposes.

Article 25 – The legal representatives of the Fund's quota-holders or their lawfully appointed proxies shall have the capacity to vote at Meetings of Quota-holders.

## **CHAPTER VIII – THE FUND'S CHARGES**

Article 26 – In addition to the Administrator's and the Manager's fees provided for in these Regulations, the Fund's charges shall consist of the following expenses, which may be charged to the Fund:

- (i) federal, state, municipal or government-agency rates, taxes or contributions assessed, or as may be assessed, on the Fund's assets, rights and obligations;
- (ii) expenses with the registration of documents at registry offices, printing, issuance and publication of reports, forms and periodic information, as provided under pertinent regulations;
- (iii) mailing expenses in the Fund's interest, including any communication to quota-holders;
- (iv) fees and expenses with the auditors in charge of examining the Fund's financial statements in accordance with auditing standards;
- (v) fees and commissions paid on the trades for the sale and purchase of the bonds and securities comprising the Fund's portfolio;
- (vi) attorney fees, costs and related expenses incurred in the defense of the Fund's interests, in or out of court, including the amount of any judgment award against the Fund, as the case may be;

- (vii) the portion of any losses not covered by an insurance policy and not directly arising from the Administrator's and/or the Manager's fault or malice in the performance of their duties and responsibilities;
- (viii) insurance premiums on valuables, and any expenses relating to a transfer of the Fund's funds between banks;
- (ix) rates and expenses with the custody and settlement of the Fund's bonds and securities;
- (x) any expenses which are inherent to the Fund's organization, consolidation, merger, split-up or spin-off, or liquidation, and to the holding of Meetings of Quota-holders;
- (xi) annual dues of the organized over-the-counter entity where the Fund has its quotas admitted for trading; and
- (xii) expenses with professional services retained which are of a legal, tax, accounting or specialized consulting nature.

Sole §. Any expenses not provided for in these Regulations or in CVM Instruction No. 391/03 as the Fund's charges shall be incurred for the Administrator's account, unless the Meeting of Quota-holders decides otherwise.

## **CHAPTER IX – FINANCIAL STATEMENTS**

Article 27 – The Fund shall have its own bookkeeping, and its accounts and financial statements shall be segregated from the Administrator's and the Manager's accounts and financial statements.

Article 28 – The Fund's fiscal year shall last twelve (12) months, beginning on January 1<sup>st</sup> and ending on December 31<sup>st</sup>, at which time the Fund's financial statements for the preceding period shall be drawn up.

Article 29 – The Fund's financial statements shall be audited annually by a CVM-registered independent auditor in accordance with the standards governing the performance of such activity.

Article 30 – The Fund's net worth consists of the sum total of available funds, plus the value of its portfolio, plus receivables, less liabilities ("Net Worth").

First §. The variable-income assets comprising the Fund's portfolio shall be evaluated, whenever possible, on the basis of their market price. However, and taking into account the possibly low liquidity of the securities issued by the Corporations, the criteria for the economic value of assets under article 3 §9 of CVM Instruction No. 305/99 shall be adopted for purposes of evaluating variable-income investments in non-liquid assets.

Second §. The Administrator assumes the responsibility to CVM and the quota-holders for the criteria, values and premises used in the economic evaluation adopted by the Fund.

Third §. The Administration Fee pertaining to the equity portion comprised of non-liquid variable-income assets, evaluated on the basis of their economic value as provided under §1

above, shall be charged on the basis of the historical costs of investments, and the performance fee, if any, shall be paid only upon the investments in the Fund being fully made.

Fourth §. The criteria of evaluation at the economic value of assets shall be regularly employed during the course of subsequent accounting periods.

Article 31 – Fixed-income bonds shall be evaluated at the investment amount, plus any net earnings ascertained, including premium and discount amortizations, and the accrual of taxes assessed on recognized portions of income, as applicable.

## **CHAPTER X – PUBLICITY AND INFORMATION**

Article 32 – Upon joining the Fund, the investor shall receive from the Administrator, on a mandatory and gratuitous basis, a copy of these Regulations, and shall adhere expressly to its contents. The Fund will not have a prospectus, as admitted under article 4 (V) of CVM Instruction No. 391/03.

Article 33 – The Administrator shall disclose any material act or fact, amply and immediately, by any means, so as to assure for all quota-holders any information which may, directly or indirectly, affect their decisions whether to remain in the Fund or not, and other investors' decisions whether to purchase any quotas or not.

Sole §. The Administrator shall not be required to send the information provided for in this article (i) if the latest information sent was returned because an incorrect address was indicated, and the quota-holder failed to inform the Administrator of its updated address, and/or (ii) in those events under article 31 sole § of CVM Instruction No. CVM 391/03.

Article 34 – The Administrator shall:

- (i) no later than forty-five (45) days after the closing of each quarter, provide the quota-holders with information on the yield ascertained for the month and on the value and mix of the portfolio, itemizing the quantity, kind and value of the quotas, bonds and securities of which it is comprised, their amount and its percentage of the portfolio total, pointing out the investments, if any, in related companies and in funds managed by the Administrator or by companies related to the latter;
- (ii) send on a quarterly basis to the quota-holders, within forty-five (45) days from the closing of the reference quarter, a statement of account containing:
  - (a) the Fund's name and its CNPJ registration number;
  - (b) the Administrator's name, address and CNPJ registration number;
  - (c) the quota-holder's name;
  - (d) balance and value of the quotas at the beginning and at the end of the period, and operations during the course of such period; and
  - (e) place and date of quota issue; and

- (iii) send on a quarterly basis to the quota-holders, within forty-five (45) days from the closing of the reference quarter, a management report containing:
  - (a) the Corporations' unaudited financial statements;
  - (b) opinions on the Corporations' results and operations, issued by the management of said corporations and by FIP Controle's Manager; and
  - (c) an analysis of the industry in which the Corporations operate.

Article 35 – Without prejudice to the reports, opinions and other information sent to the Fund's quota-holders pursuant to articles 8 and 10 of these Regulations, the Administrator shall send to the quota-holders and to CVM, within sixty (60) days from the closing of the fiscal year ended on December 31<sup>st</sup>, a report on the Fund's transactions and results for the previous fiscal year, covering, among such other aspects as the Administrator may deem relevant, the following:

- (i) financial statements accompanied by an independent auditor's opinion;
- (ii) a performance presentation covering the equity value of the quotas on the closing date of the balance sheet, and the evolution of such value on the last day of each one of the last twelve months, indicating the yield for the period;
- (iii) administration fees, identifying fixed and variable fees, as the case may be, in national currency and as a percentage of the Fund's net worth;
- (iv) brokerage expenses, including the total amount charged to the Fund; and
- (v) percentage of the amount charged as brokerage expenses in relation to the average value of the Fund's portfolio.

Article 36 – The Administrator shall send to CVM and the quotaholders, within forty-five (45) days after the closing of the semi-annual periods ended on June 30<sup>th</sup> and December 31<sup>st</sup>, a report on the Fund's transactions and results for the previous semester, covering, among such other aspects as the Administrator may deem relevant, the following:

- (i) basic information, including:
  - (a) value and mix of the portfolio, describing the quantity, kind and quotation of the quotas, bonds and securities comprising it, the value of each investment and its percentage of the total portfolio amount, pointing out investments, if any, in related companies or in funds administered and/or managed by the Administrator and/or by the Manager; and
  - (b) financial statements accompanied by an independent auditor's opinion and a statement from the Administrator confirming that the provisions of CVM Instruction No. 391/03 and these Regulations have been complied with;
- (ii) analysis of the Fund's portfolio vis-à-vis the strategy adopted and goals of its investment policy;
- (iii) administration fees, identifying fixed and variable fees, as the case may be, in national currency and as a percentage of the Fund's net worth;
- (iv) brokerage expenses, including the total amount charged to the Fund;
- (v) percentage of the amount charged as brokerage expenses in relation to the average value of the Fund's portfolio; and

- (vi) list of the institutions in charge of providing services for the custody of the bonds and securities comprising the Fund's portfolio.

First §. The information provided or disclosed by the Fund shall be in accordance with the annual report or semi-annual report filed with CVM, as the case may be.

Second §. If any information from the Fund is disclosed with inaccuracies or improprieties which may be misleading to the investor's evaluation, the Fund shall resort to the same disclosure media through which the erroneous information was provided, and state expressly that the information is being republished as a correction of erroneous and improper information.

## **CHAPTER XI – GENERAL PROVISIONS**

Article 37 – The investor's submission of a private instrument for commitment of investment constitutes its express awareness of and agreement with all clauses of these Regulations, which it shall be bound to comply with from the time of its acceptance into the Fund by the Administrator.

Article 38 – In the event of death or incapacity of a quota-holder in the Fund, the representative of the estate or of the incapacitated quota-holder shall exercise such rights and perform such obligations to the Administrator as were incumbent upon the deceased or incapacitated quota-holders, in observance of statutory provisions.

Article 39 – Quotas may be traded in an organized over-the-counter market by an institution authorized by the CVM to operate, provided that such trading was resolved at a Meeting of Quota-holders.

Article 40 – Any advertising copy for the offering of quotas, the Fund's advertisement or promotion shall be made in accordance with these Regulations and the provisions under article 34 of CVM Instruction No. 391/03, and shall disclose at all times the Customer Service for quota-holders, its mailing address and name of the person in charge.

Article 41 – The Fund's Administrator may organize and administer another fund for investment in securities with the same investment policy as the one covered by these Regulations as regards the Corporations.

Article 42 – These Regulations are governed and interpreted in accordance with Brazilian legislation, and any conflicts arising from or related to the provisions of these Regulations shall be settled by arbitration, and the procedure indicated in Exhibit III attached to these Regulations shall be observed.

**EXHIBIT I – MANNER OF ADMINISTRATOR’S COMPENSATION**

**{THE TEXT OF THIS EXHIBIT WILL BE PROVIDED IN A TIMELY MANNER}**

**EXHIBIT I – MANNER OF MANAGER’S COMPENSATION**

**{THE TEXT OF THIS EXHIBIT WILL BE PROVIDED IN A TIMELY MANNER}**



### **EXHIBIT III – ARBITRATION CLAUSE**

In the event of any litigation, controversy, difference or claim arising from or related to these Regulations, it shall be submitted to the International Court of Arbitration of the International Chamber of Commerce for institutional arbitration pursuant to said Chamber's Rules of Arbitration in effect on the commencement date of arbitration.

Said arbitration shall be conducted by three arbitrators, one of them appointed by the petitioner(s), another by the respondent(s) and the third by the two arbitrators appointed by the parties, with the latter acting as chairman of the Arbitration Court.

The arbitration shall be at law and conducted in the City of Rio de Janeiro, State of Rio de Janeiro, Brazil, in the Portuguese language.

The arbitration award shall not be subject to appeal. The costs and expenditures of arbitration shall be for the account of the party totally defeated in such arbitration. If the award is partly favorable to each party, the award shall indicate the ratio of costs and expenditures to be assumed by each party.

Notwithstanding the provision under the above paragraph, in order to prevent a forfeiture of rights and irreparable losses, the need may arise to seek judicial relief by way of injunctive measures. The adoption of any judicial relief of such nature prior to the installation of the Arbitration Court shall not be deemed inconsistent with this arbitration clause, and moreover shall not imply a waiver of any rights and duties created under the arbitral procedure. After the Arbitration Court is installed, any measures in the nature of injunction already examined by the Courts or submitted to them may be reexamined or decided by the Arbitration Court, and it shall be understood that any new measures shall be sought before the Arbitration Court.

{Date}

Signatures of all the quota-holders, Administrator and Manager

# **REGULATIONS OF VARIG FUNDO DE INVESTIMENTO EM PARTICIPAÇÕES – CRÉDITO II [Varig Private Equity Fund – Credit II]**

## **CHAPTER I – THE FUND**

Article 1 - Varig Fundo de Investimento em Participações – Crédito II (the "Fund") is a private equity fund organized as a private condominium, governed by these regulations (the "Regulations"), by Securities and Exchange Commission ("CVM") Instruction No. 391, of July 16, 2003 ("CVM Instruction No. 391"), and other applicable statutory and regulatory provisions, which shall have a duration of forty (40) years, extendable as provided for in these Regulations.

## **CHAPTER II – TARGET MARKET**

Article 2 – The Fund's quotas are intended for Class II creditors of "VARIG," S.A. (Viação Aérea Rio-Grandense) – undergoing in-court reorganization ("Varig"), Rio Sul Linhas Aéreas S.A. – undergoing in-court reorganization ("Rio Sul") and Nordeste Linhas Aéreas S.A. – undergoing in-court reorganization ("Nordeste") (collectively referred to as "Corporations"), who wish to participate in the Corporations' In-court Reorganization proceeding.

## **CHAPTER III – INVESTMENT POLICY**

Article 3 – The Fund's purpose is to obtain the appreciation of its quotas through the acquisition of quotas in the **Varig Fundo de Investimento em Participações – Controle** ("FIP Controle"), in the manner and for the purposes of the In-court Reorganization Plan approved by the Meeting of Creditors held on December 19, 2005, officially ratified by the Court of the 8<sup>th</sup> Commercial Division for the Judicial District of the Rio de Janeiro State Capital, Case No. 2005.001.072.887-7, and endorsed by the Deliberative College of the Ruben Berta Foundation [Fundação Ruben Berta] on January 5, 2006, with the details approved by the Meeting of Creditors called to order on February 13, 2006 and adjourned on February 23, 2006 (the "Detailed Plan").

First §. The Fund's purpose described above does not constitute a promise, guarantee or suggestion of profitability by the Administrator and the Manager.

Second §. Due to the nature of the Fund and the Corporations, the Fund's quota-holders must be aware that: (i) the assets comprising the Fund's portfolio may have a significantly low liquidity as compared to other types of investments in funds; and (ii) the Fund's portfolio is concentrated on securities issued by a small number of corporations, with investment risks being directly linked to the Corporations' performance.

Third §. The Fund's Manager and Administrator shall perform their duties and responsibilities in the quota-holders' best interests, and agree to exercise the Fund's voting right at Meetings of Quota-holders of FIP-Controle to the effect of directing FIP-Controle toward the implementation, as applicable, of the provisions contained in the Detailed Plan and its exhibits.

Fourth §. Investments in FIP Controle shall be aimed at a participation in the Corporations' in-court reorganization proceeding, pursuant to the guidelines contained in the Detailed Plan, as well as in their decision-making process, effectively influencing their operating and/or strategic management through the exercise of a controlling power over the Corporations, including through the election of members to their boards of directors.

Fifth §. Notwithstanding the care to be exercised by the Manager in the implementation of the investment policy described in these Regulations, the Fund's investments, due to their very nature, shall always be subject to market fluctuations and to the risks which are inherent to the issuers of the bonds comprising the portfolio, and to credit risks in general, and the Manager may not, in any event, be held liable for any depreciation of the assets in the portfolio, or for any losses sustained by the Fund's quota-holders, except in cases of the Manager's bad faith or negligence.

#### **CHAPTER IV – PORTFOLIO MIX**

Article 4 – The Fund shall invest its funds according to the investment policy provided for in these Regulations, at all times in compliance with applicable statutory provisions and the following provisions:

- (i) during the Investment Period, the Fund shall keep at least 90% of its Net Worth in quotas issued by FIP Controle;
- (ii) during the Investment Periods, the Fund may keep at most 10% of its Net Worth in quotas of financial investment funds and/or in fixed-income bonds issued by the National Treasury, the Central Bank of Brazil or a financial institution of the federal government, such as certificates of bank deposit, as may be chosen by the Manager, and in bonds issued by the Corporations, for the sole purpose of providing the Fund's portfolio with the necessary liquidity for the fund to bear its expenses and charges, as provided for in these Regulations and in any applicable regulations;
- (iii) the Fund shall not operate on an overdraft facility nor shall it make any share lending transactions; and
- (iv) the Fund may not trade in derivative markets.

Sole §. The Investment Period shall be the period comprised from the Fund's organization to the achievement of the funding goal set by the Manager.

#### **CHAPTER V - ADMINISTRATION**

Article 5 – The Fund is administered by the Bank [...], with head office in the City of [...], State of [...], at [...], registered in the CNPJ/MF [National Registry of Legal Entities/Ministry of Finance] under No. [...] (the “Administrator”), and its portfolio is managed by [...], with head office in the City of [...], State of [...], at [...], registered in the CNPJ/MF under No. [\*\*\*●\*\*\*] (the “Manager”).

Sole §. The Administrator and/or Manager may, and their own expense, hire companies to provide consulting or other services, whether in Brazil or abroad.

Article 6 – The Manager, upon delegation by the Administrator, has powers to exercise all rights which are inherent to the bonds and securities comprising the portfolio, including the right to act and attend and vote at FIP Controle’s Meetings of Quota-holders, at all times upon complying with the provisions under article 3 of these Regulations. The Manager may also acquire, sell or otherwise dispose of bonds and securities, compromise, grant and be granted release, grant powers of attorney to executive officers [*diretores*], employees and/or lawyers, ultimately to perform all necessary acts for managing the portfolio, observing the statutory and regulatory limitations in effect, as well as the provisions of these Regulations.

Sole §. The Administrator may not, upon a unilateral act, revoke a delegation established under this article. Powers delegated to the Manager may only be modified pursuant to an amendment to these Regulations.

Article 7 – The Administrator and/or the Manager may resign from their respective offices upon at least a sixty (60) days’ prior notice to the Quota-holders and to CVM, and shall be required, upon the same notice, to call a Meeting of Quota-holders, which shall decide on their replacement or the Fund’s liquidation, within the time periods provided under regulations.

Sole §. In the event described under this article, the Administrator and/or Manager shall remain responsible for the Fund’s administration/management until they are actually replaced.

Article 8 – The Administrator’s obligations, among such other obligations as may be imposed upon it under applicable legislation/regulations, are:

- (i) at its own expense, to keep up to date and in perfect order according to sound administrative technique, forthwith and for up to five (5) years after the Fund’s closing:
  - (a) records of quota-holders and quota transfers;
  - (b) minutes books for Meetings of Quota-holders;
  - (c) Quota-holders’ attendance book;
  - (d) file for auditors’ opinions;
  - (e) accounting records and financial statements pertaining to the Fund’s transactions and equity; and
  - (f) documentation on the Fund’s transactions;
- (ii) to fund the Fund’s advertising expenses;

- (iii) to keep the financial assets and/or kinds of transactions comprising the Fund's portfolio under custody, registered and/or in a deposit account in the Fund's name, segregated from the Administrator's account, centered on a single custodian entity authorized by the CVM to engage in such activity;
- (iv) to pay a penal fine for late performance of its duties and responsibilities under these Regulations and CVM Instruction No. 391/03;
- (v) to draw up and send to the Fund's quota-holders and to CVM the semi-annual and annual reports mentioned in Chapter X of these Regulations;
- (vi) to draw up, together with financial statements, an opinion on the Fund's transactions and results, including a statement that the provisions of CVM Instruction No. 391/03 and these Regulations have been complied with;
- (vii) to inform the CVM and the quota-holders of any change of Administrator, Manager or their executive officers in charge;
- (viii) to maintain a Quota-holders' Customer Service in charge of clarifying any questions and receiving any complaints;
- (ix) to observe and comply with the provisions of the Fund's Regulations, CVM Instruction No. 391/03 and applicable regulations; and
- (x) to comply with the resolutions of the Fund's Meeting of Quota-holders.

First §. The Fund's Administrator and Manager shall submit to the Fund's quota-holders for prior approval, upon a Meeting of Quota-holders being held, any proposal for changing its corporate control, subject to the provision of §2 below.

Second §. Notwithstanding the provision under clause (iii) of article 21 below, if any change is made in the corporate control of the Administrator or Manager, without the Meeting of Quota-holders mentioned above being called, or if any change is made in its corporate control otherwise than in accordance with a resolution by the Meeting of Quota-holders mentioned above, the Fund's quota-holders may resolve to replace the Administrator pursuant to approval by a majority of the quotas owned by the Fund's quota-holders in attendance, with each paid up quota being entitled to one vote.

Article 9 – The Administrator and/or Manager may not, in the Fund's name:

- (i) receive deposits to a bank account;
- (ii) incur or make loans, except for those kinds of loans provided for by the CVM;
- (iii) provide surety, "aval" guarantee, acceptance or otherwise become a co-obligor;
- (iv) trade in *duplicatas* [trade acceptances], promissory notes (except for those under CVM Instruction No. 134, of November 1, 1990, and those under article 2 §1 of CVM Instruction No. 391, of July 16, 2003), or other bonds either unauthorized by CVM or not comprised under this Fund's investment policy, as provided for in article 3 of these Regulations;
- (v) promise a pre-determined yield to the quota-holders; and
- (vi) invest funds:
  - (a) abroad;
  - (b) in the acquisition of real property;

- (c) in the subscription to or acquisition of shares or any other security of its own issue.

Article 10 - The Manager's obligations, among such other obligations as may be imposed upon it under applicable legislation/regulations or under other articles of these Regulations, are:

- (i) to perform an analysis of all investment and divestment opportunities arising for the Fund, observing the Investment Policy established under article 3 of these Regulations;
- (ii) to employ, upon defending the rights of the Fund's quota-holders, the diligence required under the circumstances, and perform all necessary acts to assure such rights, including to take any applicable legal and/or arbitral action, and to attend and vote at FIP Controle's Meetings of Shareholders;
- (iii) to exercise all rights which are inherent to the bonds and securities comprising the Fund's portfolio;
- (iv) to make available to the Fund's quota-holders the semi-annual reports on the growth of investments in each Corporation to be produced by FIP Controle's Manager, containing such information as: (a) implementation stage of the Detailed Plan (physical/financial report describing the results of actions already implemented and the schedule for implementing other actions); (b) origins and sources of the Corporations' funds; (c) the Corporations' financial condition; (d) interim balance for the reported period; and (e) relevant technical issues involving the Corporations;
- (v) to provide the material for investment analysis to quota-holders who, individually or jointly, and holding at least ten percent (10%) of issued quotas, request such material, and any updates thereof, upon complying with the provisions under article 14 sole § of CVM Instruction No. 391/03;
- (vi) to keep the performance of the Fund's investments under constant monitoring;
- (vii) to observe and comply with the provisions under the Fund's Regulations, CVM Instruction No. 391/03 and applicable regulations; and
- (viii) to comply with the resolutions by the Fund's Meeting of Quota-holders.

Article 11 – Administrator's Fee – The Administrator's fee shall be as defined in Exhibit I attached to these Regulations.

Article 12 – Manager's Fee – The Manager's fee shall be as defined in Exhibit II attached to these Regulations.

## **CHAPTER VI – QUOTAS**

Article 13 – The Fund's quotas correspond to ideal fractions of its equity, and shall be in book-entry form and registered.

Article 14 – The Fund’s quotas shall be of a single class.

Article 15 – The capacity of quota-holder is verified upon the entry of the holder’s name in the Fund’s record of quota-holders or the quota deposit account opened in the quota-holder’s name.

Article 16 – The Fund’s quotas shall have their value calculated daily and shall be allowed for trading at a stock exchange or organized over-the-counter market.

Article 17 – The Fund’s quotas that have been subject to public distribution may only be traded at a stock exchange or organized over-the-counter market, except for any private trades between qualified investors, and for such purposes the intermediary shall make sure that the quota purchaser is a qualified investor.

Article 18 – The Fund’s quotas may be amortized or liquidated, at the Administrator’s discretion:

- (i) in kind, through a direct distribution of dividends and/or interest on the quota-holders own equity;
- (ii) in kind, for distribution of income from disposal of FIP Controle’s quotas; or
- (iii) in assets, through a distribution of bonds and securities comprising the Fund’s portfolio from [sic] the quota-holders.

Sole §. Upon the request of any quota-holder to whom the definition of qualified investor applies, the Administrator shall provide for the amortization of the requesting quota-holder’s quotas in assets proportionately to the portfolio mix.<sup>1</sup>

Article 19 – For the issue of the Fund’s quotas, the quota value on the day following the date on which the investor’s funds are actually made available shall be used, observing the time-of-day limit for investments in the Fund.

Sole §. For the purposes of these Regulations, the day’s quota value shall be understood as the result of a division of the net worth amount by the number of the Fund’s quotas, both ascertained at the day’s closing, i.e., the time when the markets in which the Fund operates are closed.

Article 20 – Unless otherwise expressly referred to in these Regulations, the quotas shall be distributed solely to the Corporations’ Class II creditors or their successors at whatsoever design during the time period comprised between [...] and [...] (the “Closing Date”). The issue of new quotas by the Fund shall not be permitted after the Closing Date except upon the express approval by the Meeting of Quota-holders.

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<sup>1</sup> The possibility provided for in this paragraph shall be subject to a special authorization being requested from CVM.

First §. During the time period comprised between the Fund's organization date and the Closing Date the Fund may issue, at the Manager's discretion, at least thirty million reais (R\$30,000,000.00) and at most three billion reais (R\$3,000,000,000.00) in quotas, without the need for approval by the Meeting of Quota-holders.

Second §. The initial issuing value of the quotas upon the Fund's organization ("Initial Subscription") shall be ten reais (R\$10.00) per quota; subsequent issues shall be made according to the value of the quotas on the issuing date.

Third §. The quotas shall be paid in national currency or in credits against the Corporations, substantiated as Qualified Bonds, by the investors who signed the private instrument for commitment of investment as provided under applicable CVM regulations. Qualified Bonds shall be understood as Debt Acknowledgments, Banking Credit Bills, and Certificates of Banking Credit Bills issued by the Corporations, as well as Receipts of Documentary Credit Deposit issued by the Depositary Bank, everything in accordance with the provisions and definitions contained in the Detailed Plan attached to FIP Controle's Regulations. Qualified Bonds shall be given the same valuation as their face value.

Fourth §. The Administrator may, at its own discretion, accept payment of quotas in bonds and securities of unquestionable liquidity, pursuant to the regulations issued by CVM.

Fifth §. No preemptive right shall be given the Fund's quota-holders to subscribe to new quotas.

## **CHAPTER VII – THE MEETING OF QUOTA-HOLDERS**

Article 21 – It shall be exclusively incumbent upon the Meeting of Quota-holders:

- (i) to receive, annually, the Fund's accounts rendered by the Administrator and deliberate on the financial statements submitted by the Administrator;
- (ii) to amend the Fund's Regulations;
- (iii) to pass resolution on the removal and/or replacement of the Administrator and the Manager, and on the selection of their respective replacements;
- (iv) to pass resolution on the Fund's consolidation, merger, split-up or spin-off, or possible liquidation;
- (v) to pass resolution on raising the Administration Fee and Performance Fee;
- (vi) to pass resolution on the issue and distribution of Fund quotas over the maximum limit established in article 20 §1 of these Regulations;



- (vii) to pass resolution on changing the Fund's Investment Policy established in Chapter III of these Regulations, upon a proposal sent by the Manager to that effect;
- (viii) to pass resolution on extending the Fund's duration;
- (ix) to pass resolution on changing the quorum for calling to order and passing resolution at Meetings of Quota-holders;
- (x) to pass resolution, as the case may be, on the information to be provided to the quota-holders, observing the provision under article 14 sole § of CVM Instruction No. 391/03; and
- (xi) to pass resolution on changing the policy for the exercise of voting rights by the Manager or by its lawfully appointed representatives at FIP Controle's meetings of quota-holders, observing the provision under article 3 of these Regulations.

Sole §. These Regulations may be amended, irrespective of a Meeting of Quota-holders or a consultation with the Fund's quota-holders, whenever such amendment is solely the result of a need to meet CVM requirements, or a consequence of statutory or regulatory provisions, and in such cases the necessary notification of the Fund's quota-holders shall be provided for within thirty (30) days.

Article 22 – The Meeting of Quota-holders shall be called by means of a letter sent to each quota-holder and to the Fund's Administrator, as the case may be, and for such purposes any means of communication may be used where proof of receipt by the Fund's quota-holder is possible, and provided that the intended purpose is achieved, such as sending a letter with return receipt, by fax, e-mail, etc.

First §. The call for the meeting, made by any means provided for in the forepart of this article, shall state on a mandatory basis the date, time and place for the Meeting of Quota-holders to be held, and also in summary form the subject matters to be dealt with.

Second §. The call for the Meeting of Quota-holders shall be made at least fifteen (15) days in advance of the date on which said Meeting of Quota-holders is to be held.

Third §. The Meeting of Quota-holders may only be called by the Administrator or by the Fund's quota-holders who hold quotas representing at least five percent (5%) of the total quotas issued by the Fund.

Fourth §. In the case of any resolution involving an amendment to these Regulations, a Meeting of Quota-holders shall be called especially for such a purpose. The call for the meeting, made as provided for in the forepart of this article, shall state the amendments proposed to be made.

Article 23 – At Meetings of Quota-holders, which may be called to order with at least one quota-holder in the Fund, or such quota-holder's legal representative, resolutions are passed

upon the criterion of a majority of quotas held by the Fund's quota-holders in attendance, with each paid up quota being entitled to one vote, observing, as regards a specific quorum, the provisions of the paragraphs below.

First §. Except for the matter provided for in article 21 (i), all resolutions regarding the other matters under such article shall be passed upon the affirmative vote of the holders of at least seventy percent (70%) of the quotas issued by the Fund, duly paid up.

Second §. Any change in the advantages of the quotas, or the creation of new classes, shall only be approved by a Meeting of Quota-holders pursuant to an approval by all the Fund's quota-holders.

Article 24 – Only the Fund's quota-holders whose quotas were deposited in the deposit account by three (3) business days prior to the date scheduled for the Meeting of Quota-holders to be held, provided such quotas are duly paid, may vote at Meetings of Quota-holders.

Sole §. Summarized decisions by the Meeting of Quotaholders shall be sent to each of the Fund's quota-holders, observing the time limit of thirty (30) days from the date it is held, and a monthly statement of account may be used for such purposes.

Article 25 – The legal representatives of the Fund's quota-holders or their lawfully appointed proxies shall have the capacity to vote at Meetings of Quota-holders.

## **CHAPTER VIII – THE FUND'S CHARGES**

Article 26 – In addition to the Administrator's and the Manager's fees provided for in these Regulations, the Fund's charges shall consist of the following expenses, which may be charged to the Fund:

- (i) federal, state, municipal or government-agency rates, taxes or contributions assessed, or as may be assessed, on the Fund's assets, rights and obligations;
- (ii) expenses with the registration of documents at registry offices, printing, issuance and publication of reports, forms and periodic information, as provided under pertinent regulations;
- (iii) mailing expenses in the Fund's interest, including any communication to quota-holders;
- (iv) fees and expenses with the auditors in charge of examining the Fund's financial statements in accordance with auditing standards;
- (v) fees and commissions paid on the trades for the sale and purchase of the bonds and securities comprising the Fund's portfolio;
- (vi) attorney fees, costs and related expenses incurred in the defense of the Fund's interests, in or out of court, including the amount of any judgment award against the Fund, as the case may be;

- (vii) the portion of any losses not covered by an insurance policy and not directly arising from the Administrator's and/or the Manager's fault or malice in the performance of their duties and responsibilities;
- (viii) insurance premiums on valuables, and any expenses relating to a transfer of the Fund's funds between banks;
- (ix) rates and expenses with the custody and settlement of the Fund's bonds and securities;
- (x) any expenses which are inherent to the Fund's organization, consolidation, merger, split-up or spin-off, or liquidation, and to the holding of Meetings of Quota-holders;
- (xi) annual dues of the organized over-the-counter entity where the Fund has its quotas admitted for trading; and
- (xii) expenses with professional services retained which are of a legal, tax, accounting or specialized consulting nature.

Sole §. Any expenses not provided for in these Regulations or in CVM Instruction No. 391/03 as the Fund's charges shall be incurred for the Administrator's account, unless the Meeting of Quota-holders decides otherwise.

## **CHAPTER IX – FINANCIAL STATEMENTS**

Article 27 – The Fund shall have its own bookkeeping, and its accounts and financial statements shall be segregated from the Administrator's and the Manager's accounts and financial statements.

Article 28 – The Fund's fiscal year shall last twelve (12) months, beginning on January 1<sup>st</sup> and ending on December 31<sup>st</sup>, at which time the Fund's financial statements for the preceding period shall be drawn up.

Article 29 – The Fund's financial statements shall be audited annually by a CVM-registered independent auditor in accordance with the standards governing the performance of such activity.

Article 30 – The Fund's net worth consists of the sum total of available funds, plus the value of its portfolio, plus receivables, less liabilities ("Net Worth").

First §. The variable-income assets comprising the Fund's portfolio shall be evaluated, whenever possible, on the basis of their market price. However, and taking into account the possibly low liquidity of the securities issued by the Corporations, the criteria for the economic value of assets under article 3 §9 of CVM Instruction No. 305/99 shall be adopted for purposes of evaluating variable-income investments in non-liquid assets.

Second §. The Administrator assumes the responsibility to CVM and the quota-holders for the criteria, values and premises used in the economic evaluation adopted by the Fund.

Third §. The Administration Fee pertaining to the equity portion comprised of non-liquid variable-income assets, evaluated on the basis of their economic value as provided under §1

above, shall be charged on the basis of the historical costs of investments, and the performance fee, if any, shall be paid only upon the investments in the Fund being fully made.

Fourth §. The criteria of evaluation at the economic value of assets shall be regularly employed during the course of subsequent accounting periods.

Article 31 – Fixed-income bonds shall be evaluated at the investment amount, plus any net earnings ascertained, including premium and discount amortizations, and the accrual of taxes assessed on recognized portions of income, as applicable.

## **CHAPTER X – PUBLICITY AND INFORMATION**

Article 32 – Upon joining the Fund, the investor shall receive from the Administrator, on a mandatory and gratuitous basis, a copy of these Regulations, and shall adhere expressly to its contents. The Fund will not have a prospectus, as admitted under article 4 (V) of CVM Instruction No. 391/03.

Article 33 – The Administrator shall disclose any material act or fact, amply and immediately, by any means, so as to assure for all quota-holders any information which may, directly or indirectly, affect their decisions whether to remain in the Fund or not, and other investors' decisions whether to purchase any quotas or not.

Sole §. The Administrator shall not be required to send the information provided for in this article (i) if the latest information sent was returned because an incorrect address was indicated, and the quota-holder failed to inform the Administrator of its updated address, and/or (ii) in those events under article 31 sole § of CVM Instruction No. CVM 391/03.

Article 34 – The Administrator shall:

- (i) no later than forty-five (45) days after the closing of each quarter, provide the quota-holders with information on the yield ascertained for the month and on the value and mix of the portfolio, itemizing the quantity, kind and value of the quotas, bonds and securities of which it is comprised, their amount and its percentage of the portfolio total, pointing out the investments, if any, in related companies and in funds managed by the Administrator or by companies related to the latter;
- (ii) send on a quarterly basis to the quota-holders, within forty-five (45) days from the closing of the reference quarter, a statement of account containing:
  - (a) the Fund's name and its CNPJ registration number;
  - (b) the Administrator's name, address and CNPJ registration number;
  - (c) the quota-holder's name;
  - (d) balance and value of the quotas at the beginning and at the end of the period, and operations during the course of such period; and
  - (e) place and date of quota issue; and

- (iii) send on a quarterly basis to the quota-holders, within forty-five (45) days from the closing of the reference quarter, a management report containing:
  - (a) the Corporations' unaudited financial statements;
  - (b) opinions on the Corporations' results and operations, issued by the management of said corporations and by FIP Controle's Manager; and
  - (c) an analysis of the industry in which the Corporations operate.

Article 35 – Without prejudice to the reports, opinions and other information sent to the Fund's quota-holders pursuant to articles 8 and 10 of these Regulations, the Administrator shall send to the quota-holders and to CVM, within sixty (60) days from the closing of the fiscal year ended on December 31<sup>st</sup>, a report on the Fund's transactions and results for the previous fiscal year, covering, among such other aspects as the Administrator may deem relevant, the following:

- (i) financial statements accompanied by an independent auditor's opinion;
- (ii) a performance presentation covering the equity value of the quotas on the closing date of the balance sheet, and the evolution of such value on the last day of each one of the last twelve months, indicating the yield for the period;
- (iii) administration fees, identifying fixed and variable fees, as the case may be, in national currency and as a percentage of the Fund's net worth;
- (iv) brokerage expenses, including the total amount charged to the Fund; and
- (v) percentage of the amount charged as brokerage expenses in relation to the average value of the Fund's portfolio.

Article 36 – The Administrator shall send to CVM and the quotaholders, within forty-five (45) days after the closing of the semi-annual periods ended on June 30<sup>th</sup> and December 31<sup>st</sup>, a report on the Fund's transactions and results for the previous semester, covering, among such other aspects as the Administrator may deem relevant, the following:

- (i) basic information, including:
  - (a) value and mix of the portfolio, describing the quantity, kind and quotation of the quotas, bonds and securities comprising it, the value of each investment and its percentage of the total portfolio amount, pointing out investments, if any, in related companies or in funds administered and/or managed by the Administrator and/or by the Manager; and
  - (b) financial statements accompanied by an independent auditor's opinion and a statement from the Administrator confirming that the provisions of CVM Instruction No. 391/03 and these Regulations have been complied with;
- (ii) analysis of the Fund's portfolio vis-à-vis the strategy adopted and goals of its investment policy;
- (iii) administration fees, identifying fixed and variable fees, as the case may be, in national currency and as a percentage of the Fund's net worth;
- (iv) brokerage expenses, including the total amount charged to the Fund;
- (v) percentage of the amount charged as brokerage expenses in relation to the average value of the Fund's portfolio; and

- (vi) list of the institutions in charge of providing services for the custody of the bonds and securities comprising the Fund's portfolio.

First §. The information provided or disclosed by the Fund shall be in accordance with the annual report or semi-annual report filed with CVM, as the case may be.

Second §. If any information from the Fund is disclosed with inaccuracies or improprieties which may be misleading to the investor's evaluation, the Fund shall resort to the same disclosure media through which the erroneous information was provided, and state expressly that the information is being republished as a correction of erroneous and improper information.

## **CHAPTER XI – GENERAL PROVISIONS**

Article 37 – The investor's submission of a private instrument for commitment of investment constitutes its express awareness of and agreement with all clauses of these Regulations, which it shall be bound to comply with from the time of its acceptance into the Fund by the Administrator.

Article 38 – In the event of death or incapacity of a quota-holder in the Fund, the representative of the estate or of the incapacitated quota-holder shall exercise such rights and perform such obligations to the Administrator as were incumbent upon the deceased or incapacitated quota-holders, in observance of statutory provisions.

Article 39 – Quotas may be traded in an organized over-the-counter market by an institution authorized by the CVM to operate, provided that such trading was resolved at a Meeting of Quota-holders.

Article 40 – Any advertising copy for the offering of quotas, the Fund's advertisement or promotion shall be made in accordance with these Regulations and the provisions under article 34 of CVM Instruction No. 391/03, and shall disclose at all times the Customer Service for quota-holders, its mailing address and name of the person in charge.

Article 41 – The Fund's Administrator may organize and administer another fund for investment in securities with the same investment policy as the one covered by these Regulations as regards the Corporations.

Article 42 – These Regulations are governed and interpreted in accordance with Brazilian legislation, and any conflicts arising from or related to the provisions of these Regulations shall be settled by arbitration, and the procedure indicated in Exhibit III attached to these Regulations shall be observed.

**EXHIBIT I – MANNER OF ADMINISTRATOR’S COMPENSATION**

**{THE TEXT OF THIS EXHIBIT WILL BE PROVIDED IN A TIMELY MANNER}**

**EXHIBIT I – MANNER OF MANAGER’S COMPENSATION**

**{THE TEXT OF THIS EXHIBIT WILL BE PROVIDED IN A TIMELY MANNER}**



### **EXHIBIT III – ARBITRATION CLAUSE**

In the event of any litigation, controversy, difference or claim arising from or related to these Regulations, it shall be submitted to the International Court of Arbitration of the International Chamber of Commerce for institutional arbitration pursuant to said Chamber's Rules of Arbitration in effect on the commencement date of arbitration.

Said arbitration shall be conducted by three arbitrators, one of them appointed by the petitioner(s), another by the respondent(s) and the third by the two arbitrators appointed by the parties, with the latter acting as chairman of the Arbitration Court.

The arbitration shall be at law and conducted in the City of Rio de Janeiro, State of Rio de Janeiro, Brazil, in the Portuguese language.

The arbitration award shall not be subject to appeal. The costs and expenditures of arbitration shall be for the account of the party totally defeated in such arbitration. If the award is partly favorable to each party, the award shall indicate the ratio of costs and expenditures to be assumed by each party.

Notwithstanding the provision under the above paragraph, in order to prevent a forfeiture of rights and irreparable losses, the need may arise to seek judicial relief by way of injunctive measures. The adoption of any judicial relief of such nature prior to the installation of the Arbitration Court shall not be deemed inconsistent with this arbitration clause, and moreover shall not imply a waiver of any rights and duties created under the arbitral procedure. After the Arbitration Court is installed, any measures in the nature of injunction already examined by the Courts or submitted to them may be reexamined or decided by the Arbitration Court, and it shall be understood that any new measures shall be sought before the Arbitration Court.

{Date}

Signatures of all the quota-holders, Administrator and Manager

[illegible]

Attachment to PRJ Details as per item "21.a.iv"				ATTACHMENT IX
Creditor	Value of Credit Basis for apportionment in R\$ Thousand - Basis Explanatory Notes ITR Varig June 30, 2005	%	Apportionment	1/36
GE-Engines Services Incorporation (*)	135,827	18.33%	14,662,343	407,287
Grupo GE-Capital Aviation Services Incorporation	118,833	16.03%	12,827,864	356,330
Brazilian American Merchant Bank	131,072	17.69%	14,149,047	393,029
INFRAERO- Empresa Brasileira de Infra-Estrutura	171,682	23.17%	18,532,843	514,801
Petrobras Distribuidora S/A	59,048	7.97%	6,374,153	177,060
International Lease Finance Corporation	40,764	5.50%	4,400,419	122,234
PLM Worldwide	2,298	0.31%	248,066	6,891
Sunrock Aircraft Corporation	10,536	1.42%	1,137,347	31,593
Mitsui	17,447	2.35%	1,883,380	52,316
CIT	6,730	0.91%	726,495	20,180
ACG (**)	1,237	0.17%	133,532	3,709
GATX (***)	19,517	2.63%	2,106,834	58,523
Boullioun (****)	14,868	2.01%	1,604,981	44,583
Ansett (*****)	5,343	0.72%	576,770	16,021
Debis Group	4,660	0.63%	503,041	13,973
Nissho Iwai (Sojitz Corporation)	442	0.06%	47,713	1,325
Boeing Group	789	0.11%	85,171	2,366
<b>Total</b>	<b>741,093</b>	<b>100%</b>	<b>80,000,000</b>	<b>2,222,222</b>

(\*) Referring to Creditor GE-Engines Serviços Incorporation, which includes the following companies:

I - General Electric Company

II - CFM International Inc.

III - GE Rio Revisão de Motores Aeronáuticos S/A

IV - GE Celma Ltda.

(\*\*) Referring to the Creditor ACG (Wells Fargo Bank Northwest National Association - aircraft MSN 24377 and 24098)

(\*\*\*) Referring to the Creditor GATX (including GATX Third Aircraft Corporation, East Trust Sub-3 and East Trust Sub-14)

(\*\*\*\*) Referring to the Creditor Boullioun (contract entered into on April 7, 2004 with Wells Fargo Bank Northwest)

(\*\*\*\*\*) Referring to the Creditor Ansett (Ansett Worldwide Aviation Limited; Ansett Worldwide Aviation USA; AWMS I and AWMS II)

Note I Any creditors that may have already received their credits, the amount to which they would be entitled should be apportioned among the others, with due regard for the percentages for each creditor.