



# **VARIG, RIO SUL & NORDESTE In-Court Reorganization Plan**

**( Restated from Debtors' Proposal  
and Creditors' Objections )**

*December 19, 2005*

*Note:*

*All objections entered by creditors are an integral part of this Plan, including any added changes contained in this Final Presentation.*



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*Presentation*  
***IN-COURT REORGANIZATION PLAN***

- 1. Operational Plan;**
- 2. Economic and Financial Plan;**
- 3. Management and Control Plan;**
- 4. Other Actions**



## ***1. OPERATIONAL PLAN***

**The operational reorganization is based on the contribution of Lufthansa Consulting with final improvements by VARIG's technical staff ("scheme 63 / 69", with 75 aircraft on the fleet in 2006).**



## ***1. OPERATIONAL PLAN - I***

**The Operational Plan contemplates:**

- **Airworthy operating revenues adjusted to the 63 / 69 scheme;**
- **Current expenses fully forecast and covered;**
- **Total costs for this reorganization fully absorbed into cash flow.**





## ***1. OPERATIONAL PLAN - II***

**The operational plan will enable:**

- **Recovery of an Operating Margin of:**
  - **-4.6% ( in 2005 ) to 3.7% ( in 2006 ); and**
  - **8.6% ( in 2010 ).**



# Projeção do Resultado Operacional (2006/2010)

Plano de Recuperação Plano de Negócios de 2006 a 2010 - versão revisada Projeção de Resultado Operacional em 12 de dezembro de 2005						
Domestic + International ( US\$ 000 )	2005	2006	2007	2008	2009	2010
passageiros pagos	13,055,819	13,263,986	14,499,200	15,024,873	15,775,117	16,796,007
% variação versus ano anterior		1.6%	9.3%	3.6%	5.0%	6.5%
Taxa de Ocupação	74.5%	73.2%	75.4%	77.1%	75.6%	76.5%
<b>RECEITA DE VÔO</b>	<b>2,382,130</b>	<b>2,558,837</b>	<b>2,834,646</b>	<b>3,010,475</b>	<b>3,215,282</b>	<b>3,539,093</b>
IMPOSTOS	54,806	58,039	65,382	69,570	74,296	81,923
SMILES	60,586	61,809	69,630	74,089	79,123	87,245
<b>RECEITA LÍQUIDA DE VÔO</b>	<b>2,387,910</b>	<b>2,562,607</b>	<b>2,838,894</b>	<b>3,014,995</b>	<b>3,220,109</b>	<b>3,544,415</b>
% variação versus ano anterior	11.3%	7.3%	10.8%	6.2%	6.8%	10.1%
<b>CUSTO DIRETO DE VÔO</b>	<b>1,497,375</b>	<b>1,484,121</b>	<b>1,610,708</b>	<b>1,673,207</b>	<b>1,806,902</b>	<b>1,947,912</b>
<b>AERONAVES</b>	<b>1,269,799</b>	<b>1,253,583</b>	<b>1,353,969</b>	<b>1,400,582</b>	<b>1,507,165</b>	<b>1,617,526</b>
<b>OPERAÇÕES DE AERONAVES</b>	<b>80,947</b>	<b>83,280</b>	<b>88,523</b>	<b>90,944</b>	<b>100,848</b>	<b>109,869</b>
<b>ATENDIMENTO DE VÔO</b>	<b>146,629</b>	<b>147,258</b>	<b>168,216</b>	<b>181,681</b>	<b>198,888</b>	<b>220,517</b>
<b>MARGEM DE CONTRIBUIÇÃO ( CUSTO DIRETO )</b>	<b>890,535</b>	<b>1,078,486</b>	<b>1,228,185</b>	<b>1,341,788</b>	<b>1,413,207</b>	<b>1,596,503</b>
<b>% SOBRE A RECEITA LÍQUIDA</b>	<b>37%</b>	<b>42%</b>	<b>43%</b>	<b>45%</b>	<b>44%</b>	<b>45%</b>
<b>CUSTO ESTRUTURAL DE AERONAVES</b>	<b>733,329</b>	<b>758,109</b>	<b>813,456</b>	<b>895,078</b>	<b>941,155</b>	<b>990,311</b>
<b>AERONAVES</b>	<b>380,008</b>	<b>421,099</b>	<b>459,586</b>	<b>529,866</b>	<b>557,057</b>	<b>584,457</b>
<b>ESTRUTURAL OPERAÇÕES DE AERONAVES</b>	<b>198,649</b>	<b>180,739</b>	<b>183,447</b>	<b>192,556</b>	<b>202,820</b>	<b>213,039</b>
<b>ATENDIMENTO DE VÔO</b>	<b>154,673</b>	<b>156,271</b>	<b>170,423</b>	<b>172,656</b>	<b>181,278</b>	<b>192,815</b>
<b>MARGEM DE CONTRIBUIÇÃO</b>	<b>157,206</b>	<b>320,376</b>	<b>414,729</b>	<b>446,710</b>	<b>472,052</b>	<b>606,192</b>
<b>% SOBRE A RECEITA LÍQUIDA</b>	<b>6.6%</b>	<b>12.5%</b>	<b>14.6%</b>	<b>14.8%</b>	<b>14.7%</b>	<b>17.1%</b>
<b>CUSTO ESTRUTURAL CENTRALIZADO + FILIAIS</b>	<b>267,639</b>	<b>226,617</b>	<b>242,048</b>	<b>254,903</b>	<b>270,615</b>	<b>299,797</b>
<b>CUSTO TOTAL</b>	<b>2,498,343</b>	<b>2,468,848</b>	<b>2,666,213</b>	<b>2,823,188</b>	<b>3,018,672</b>	<b>3,238,020</b>
% variação versus ano anterior		-1.2%	8.0%	5.9%	6.9%	7.3%
<b>LUCRO OPERACIONAL LÍQUIDO</b>	<b>(110,433)</b>	<b>93,759</b>	<b>172,680</b>	<b>191,807</b>	<b>201,437</b>	<b>306,395</b>
<b>% LUCRO LÍQUIDO / RECEITA LÍQUIDA DE VÔO</b>	<b>-4.6%</b>	<b>3.7%</b>	<b>6.1%</b>	<b>6.4%</b>	<b>6.3%</b>	<b>8.6%</b>

Fonte: Lufthansa/ VARIG



# Fluxo de Caixa Operacional Livre

<b>ITENS - US\$ 000</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
<b>Resultado de Linha</b>	93,759	172,680	191,807	201,437	306,395
(+) Arrendamentos	239,723	266,885	320,596	333,309	348,982
(+) Deprec. e Amortiz.	14,882	15,460	16,287	17,058	17,674
(+) Outras Receitas Operacionais	118,614	123,404	125,344	128,084	131,744
Receitas Operacionais - SMILES	103,000	107,790	109,730	112,470	116,130
Outras Receitas Operacionais - Milhagem de Terceiros	15,614	15,614	15,614	15,614	15,614
(-) Outras Despesas Operacionais	(88,076)	(91,633)	(93,073)	(95,108)	(97,826)
<b>EDITDAR</b>	378,902	486,796	560,961	584,780	706,969
Arrendamentos	(239,723)	(266,885)	(320,596)	(333,309)	(348,982)
<b>EBITDA</b>	139,179	219,911	240,365	251,471	357,987
Receitas / Despesas Financeiras	(15,309)	(15,309)	(15,309)	(15,309)	(15,309)
Resultado Nao Operacional	15,821	15,821	15,821	15,821	15,821
<b>CAIXA DO RESULTADO DO EXERCICIO</b>	<b>139,691</b>	<b>220,423</b>	<b>240,877</b>	<b>251,983</b>	<b>358,499</b>
(-) TOTAL INVESTIMENTO	(72,969)	(44,480)	(51,520)	(57,280)	(62,280)
(+/-) Variacao do Capital Circulante	(15,929)	0	0	0	0
(-) Investimentos Gerais	(10,000)	(20,000)	(35,000)	(45,000)	(50,000)
(-) Padronizacao da Frota	(27,040)	0	0	0	0
(-) Depositos Especiais	(20,000)	(24,480)	(16,520)	(12,280)	(12,280)
<b>CAIXA OPERACIONAL LIVRE</b>	<b>66,722</b>	<b>175,943</b>	<b>189,357</b>	<b>194,703</b>	<b>296,219</b>

Fonte: VARIG



## ***2. ECONOMIC AND FINANCIAL PLAN***

**The objections submitted by creditors and incorporated hereto form the basis of the Economic and Financial Plan.**



## ***2. ECONOMIC AND FINANCIAL PLAN - I***

### **Class 1 Creditors:**

**All Ground Personnel** will be paid up, without changing the original payment amount or terms of their credits, within the maximum period under Law 11.101.

**All On-Board Personnel** will be paid up according to the following changes:

**FGTS:** as provided in the contract already executed with CEF, or in cash in cases of withdrawals as provided in the Fund's regulations.

**PIA:** in the same conditions as originally agreed upon.

**Other Credits:** conversion into FIP-Auction/Credits, for those who want it, or within 3 years, at face value, or yet, within 1 year for those so limited under Law 11.101.



## ***2. ECONOMIC AND FINANCIAL PLAN - II***

### **Class 2 Creditors:**

#### **AERUS:**

Full payment according to the latest re agreements executed with Debtors. For 2006, payment of the minimum flow established by the creditor was considered for AERUS, on the originally agreed terms.

#### **Others:**

Payment in 7 years, with a 36-month grace period.

Foreign-currency debts will be indexed at the dollar exchange rate + 4.75 % interest, and national-currency debts at the IGPM + 4.75 % interest.

Banco do Brasil will be offered, as Gift in payment, Non-Operational Real Properties Pledged in Guarantee, conditional upon the release of all Rio Sul shares of stock also held in guarantee by the same creditor.



## ***2. ECONOMIC AND FINANCIAL PLAN - III***

### **Class 3 Creditors:**

Payment in 10 years, with a 36-month grace period.

Hard-currency debts will be indexed at the dollar exchange rate + 4.75 % interest, and national-currency debts at the IGPM + 4.75 % interest.

Note: Creditors referred to as “secured” creditors in the Explanatory Notes to Debtors’ Balance Sheets, as of June 2005, will be given the same treatment as Class 2 Creditors.



## ***2. ECONOMIC AND FINANCIAL PLAN - IV***

### **Provisions Common to Both Secured and Unsecured Creditors**

Manner of Pro-Rating among creditors (except Aerus)

The amount of R\$ 100 million will be earmarked for Class II and Class III Creditors, and paid in 36 consecutive monthly installments, beginning on February 2006, as follows:

- 80 % paid to Class II Creditors, pro-rated proportionately to their corresponding credits.
- 20% paid to Class III Creditors, half pro-rated proportionately to their corresponding credits and the other half proportionately to the total number of creditors.
- Note: Creditors referred to as “secured” creditors in the Explanatory Notes to Debtors’ Balance Sheets, as of June 2005, will be given the same treatment as Class 2 Creditors.





## ***2. ECONOMIC AND FINANCIAL PLAN - V***

“Restructuring the credits in the 3 classes, as proposed herein, provides comfortable coverage for all commitments undertaken in this Reorganization”





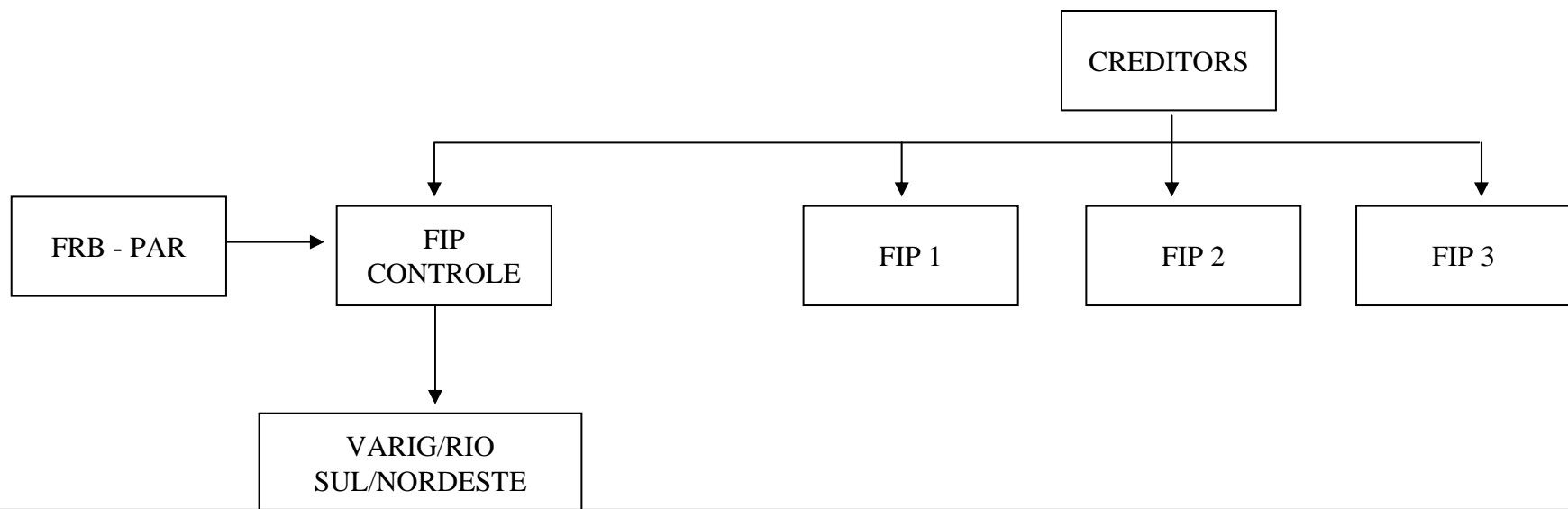
### ***3. MANAGEMENT AND CONTROL***



### 3. MANAGEMENT AND CONTROL - I

#### FIPs and Interim Manager:

- A FIP-Controle will be organized with the investment of ALL Debtors' shares of stock, having as ADMINISTRATOR a prime Commercial Bank, and a MANAGER chosen by mutual agreement by the representatives of the 3 classes of creditors.
- The FIP-Controle will have a *golden share* of each FIP-Crédito organized.
- The FIP-Crédito's will be created and regulated by creditors who decide to participate in this structure by converting their current credits.
- **Varig's current president is given a mandate by the Creditors' Meeting for a certain time period and with powers, as INTERIM MANAGER, to create a structure for the FIPs and make sure that the Reorganization is implemented according to the guidelines established by this Plan and by the Representatives of FIP-Créditos.**





## ***4. OTHER ACTIONS***



## ***4. OTHER ACTIONS***

### **Legal Wording of the Reorganization Plan and Ratification of its Terms**

The Interim Manager is assigned the task of providing a proper legal wording for this Plan, once approved, and the resulting document shall be distributed to creditors by January 25, 2006, and the Creditors' Meeting called for January 31, 2006, having on the agenda solely the ratification of its language.



***THE END***