QUARTERLY FINANCIAL STATEMENTS

MARCH 31, 2005

INDEX

The Shareholders:

We hereby present the Balance Sheet for March 31, 2005 and the corresponding Income Statement corresponding to the quarter then ended, together with the independent auditors' report on the special review. The amounts are stated in thousands of Reais, unless stated otherwise.

1. ECONOMIC AND FINANCIAL PERFORMANCE

A summary of the results returned by VARIG – parent company – VARIG and the subsidiaries VARIG Log and VEM – consolidated – and VARIG and the affiliated companies Rio Sul and Nordeste for the quarters ended March 31, 2005 and 2004 is presented below:

	VARIG CONSOLIDATED (includes VARIG Log & VEM)		VARIG PARENT COMPANY		VARIG, RIO SUL & NORDESTE - COMBINED	
	2005	2004	2005	2004	2005	2004
Net revenue - Flight operations	**2.118.234**	**1.791.586**	**1.904.973**	**1.552.110**	**1.933.854**	**1.595.216**
Other net revenues	116.893	85.223	51.320	50.136	51.320	50.136
Net revenue	2.235.127	1.876.809	1.956.293	1.602.246	1.985.174	1.645.352
Cost of services rendered - Flight operations	(1.517.487)	(1.251.461)	(1.382.024)	(1.121.855)	(1.411.774)	(1.173.079)
Other operating costs	(95.242)	(64.296)	(62.462)	(42.308)	(60.375)	(42.276)
Sales expenses	(382.645)	(436.360)	(284.477)	(328.957)	(289.753)	(335.052)
Administrative expenses	(57.111)	(50.863)	(44.007)	(40.490)	(45.256)	(43.441)
Result of operating agreements	(36.104)	(29.247)	(36.104)	(29.247)	-	-
Income from the activity - EBIT	**146.538**	**44.582**	**147.219**	**39.389**	**178.016**	**51.504**
Percentage of net revenue	6,6%	2,4%	7,5%	2,5%	9,0%	3,1%
Financial expenses	(135.545)	(144.269)	(127.864)	(142.603)		
Equity gain (loss)	(961)	1.005	(13.932)	2.301		
Others	(61.566)	(72.528)	(56.957)	(70.297)		
Net income	**(51.534)**	**(171.210)**	**(51.534)**	**(171.210)**		

1.1) Net revenue – Flight operations

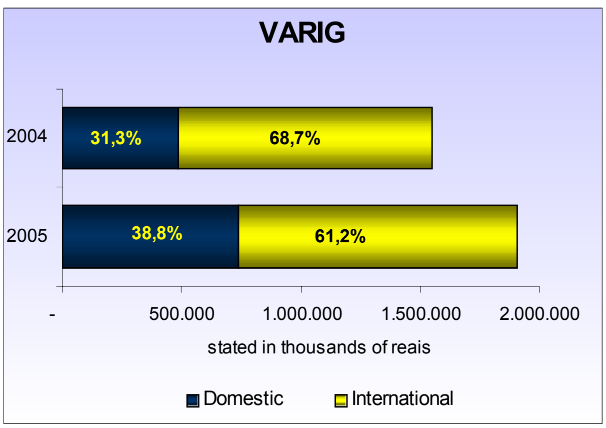
The net revenues – flight operations recorded significant increases in the first quarter of 2005 in relation to the equivalent period of the previous financial year, reaching 22.7% at the Parent company and 21.2% in the combined figures. A significant factor towards obtaining this result, despite fierce price competition, was a sustained improvement in seat occupation rates, as demonstrated below:

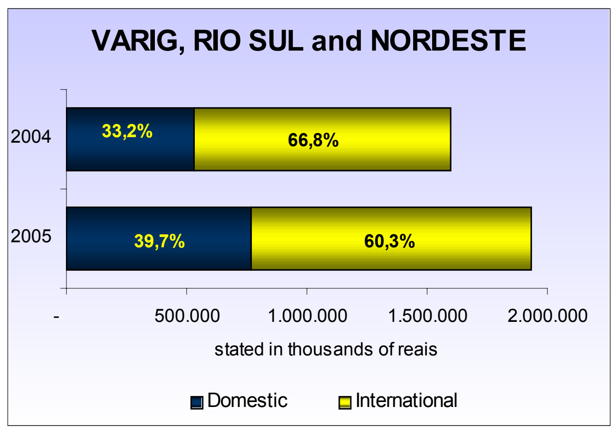
	QUARTER ENDED MARCH		
	2005	**2004**	**2003**
International flights	**79%**	**78%**	**74%**
Domestic flights	**68%**	**62%**	**60%**
	-------------	-------------	------------
Average	**75%**	**73%**	**70%**

In the quarter ended March 31, 2005, VARIG and affiliated companies achieved a 30.73% share of the domestic market, compared with 30.25% in the equivalent period of 2004.

In a highly competitive environment, the performance index (RASK) obtained by the VARIG group companies in the first quarter of 2005, measured by dividing the total net flight revenues by the number of seats offered, at R$0.2201 for domestic flights and R$0.1760 for international flights, showed important progress compared with the results returned in 2004 of R$0,1900 and R$0.1574, respectively.

The net flight revenues for the international and domestic markets showed the following evolution:





1.2) Cost of Services Provided – Flight Operations

The cost of services provided – flight operations, for the quarter ended March 31, 2005, in the amounts of R$1,382,024 for the parent company R$1,411,774 for the combined, represented increases of approximately 23% and 20%, respectively, compared with the equivalent period of the previous year.

The principal components of the costs of services rendered are the following:

	% in relation to total cost	
Components	2005	2004
Fuel	38	34
Aircraft leasing	12	14
Payroll	12	13
Overhaul and maintenance	9	8
Airport charges	6	7
Other	23	24
	100	100

The average cost of a liter of aviation kerosene in the first quarter of 2005 was R$1.24, a 25% increase on the cost of R$0.99 recorded in 2004. The increases in the international prices of oil, partially compensated by the appreciation of the Real against the US dollar, and an increase in the volume of fuel consumed of approximately 8%, are the principal factors of the variation in this component.

1.3) Selling costs

Selling costs recorded a reduction of around 14%, from R$328,957 in the first quarter of 2004 to R$284,477 in 2005, representing 21% and 15% respectively of flight revenues. Renegotiations of commissions with agents located principally in Europe were largely responsible for this increase in operational efficiency.

1.4) Financial result

Amongst the financial expenses the charges for PAES of around R$70 million (R$80 million in 2004) and for AERUS of R$11 million (R$10 million in 2004) can be highlighted.

1.5) Funds generated by operations

A statement of the principal financial performance indicators is shown below:

	Parent company
Loss for the period	(51,534)
Financial result, net	127,864
Nonoperating income (a)	11,895
Other operating expenses (a)	58,994

EBIT – Result of the activity	**147,219**
Depreciation and amortization	6,270
EBITDA	**153,489**
Rentals and leasing	168,290
EBITDAR	**321,779**
	==========
Margins on net revenue	
EBIT	**7.5%**
EBITDA	**7.8%**
EBITDAR	**16.4%**

(a) The Company adopts, as the EBIT concept, the operating cash generation, and therefore excludes the effects caused by amounts recorded in the nonoperating income and net other operating expenses accounts generated by adverse reasons that do not have a recurrent nature.

2. OPERATIONAL PERFORMANCE INDICATORS

In the following table we demonstrate the principal operational performance indicators of VARIG, individually, and VARIG with the affiliated companies Rio Sul and Nordeste.

	VARIG & VARIG Log			VARIG, VARIG Log, RIO SUL & NORDESTE		
	2005	2004	Var. %	2005	2004	Var. %
Hours flown	74.582	73.082	2,1	76.544	78.022	-1,9
INTERNATIONAL	38.345	37.218	3,0	38.345	37.227	3,0
DOMESTIC	36.237	35.864	1,0	38.199	40.795	-6,4
Km flown (000)	54.405	53.756	1,2	55.582	56.641	-1,9
INTERNATIONAL	30.521	29.664	2,9	30.521	29.664	2,9
DOMESTIC	23.884	24.092	-0,9	25.061	26.977	-7,1
Passengers carried	3.413.577	2.885.508	18,3	3.525.930	3.021.139	16,7
INTERNATIONAL	1.139.514	981.804	16,1	1.139.514	981.804	16,1
DOMESTIC	2.274.063	1.903.704	19,5	2.386.416	2.039.335	17,0
Seat x Km offered (000)	9.970.328	9.343.434	6,7	10.099.415	9.476.247	6,6
INTERNATIONAL	6.622.757	6.188.145	7,0	6.622.757	6.188.145	7,0
DOMESTIC	3.347.571	3.155.289	6,1	3.476.658	3.288.102	5,7
Pax x Km carried (000)	7.527.299	6.814.012	10,5	7.602.916	6.898.602	10,2
INTERNATIONAL	5.248.795	4.847.824	8,3	5.248.795	4.847.824	8,3
DOMESTIC	2.278.504	1.966.188	15,9	2.354.121	2.050.778	14,8
Utilization (%) Pax x Km	75%	73%	2p.p.	75%	73%	2p.p.
INTERNATIONAL	79%	78%	1p.p.	79%	78%	1p.p.
DOMESTIC	68%	62%	6p.p.	68%	62%	6p.p.
Ton x Km of cargo + MP (000)	293.266	306.890	-4,4	293.587	307.127	-4,4
INTERNATIONAL	245.159	260.349	-5,8	245.159	260.349	-5,8
DOMESTIC	48.107	46.541	3,4	48.428	46.778	3,5

3 – FLEET

Aircraft model	2005	2004
Operational aircraft		
ERJ 145	-	7
B - 737/300	31	32
B - 737/400	4	-
B - 737/500	10	14
B - 737/700	2	3
B - 737/800	2	2
B - 757-200	4	-
B - 767/300	4	6
B - 777/200	7	4
MD - 11	14	16
B - 727/100 (Cargo)	2	4
B - 727/200 (Cargo)	4	4
DC - 10/30 (Cargo)	3	3
TOTAL	87	95
PASSENGER	78	84
CARGO	9	11

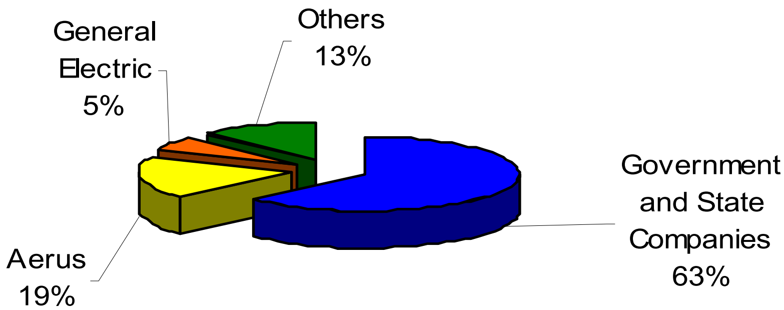
4 - INDEBTEDNESS

The Company's indebtedness is strongly concentrated on creditors, as demonstrated in the following table:

Amounts in millions of Reais		
Creditor	Last due date	Balance as of 31/03/05
PAES	Jul-2018	3.229
INFRAERO	May-2008	160
PETROBRAS	May-2006	37
Banco do Brasil	Oct-2012	161
General Electric	Dec-2009	311
Aerus	Apr-2022	1.058
Other creditors		
.Leasing	various	335
.Other loans	various	316
.Refinanced taxes	various	78
TOTAL		5.685

A graphic visualization of the share of the principal creditors in total debt can be demonstrated as follows:

5 - UNSECURED LIABILITIES (NEGATIVE SHAREHOLDERS' EQUITY)



The unsecured liabilities as of March 31, 2005 were R$6.5 billion. However, the Company has contingent credits, the amounts of which were confirmed by work carried out by independent consultants, which if recorded would have the following effects on the financial statements:

Amounts in millions of Reais	
Unsecured liabilities as of March 31, 2005	(6.496)
- Tax credit represented by recoverable ICMS - Estimated restated value	1.253
- Credit from Outdated Tariff Suit - Estimated net value	3.000
- Tax credit for tax losses, negative social contribution base and temporary differences	2.308
Adjusted Shareholders' Equity	65

If the accounting rules in effect allowed these credits to be recorded, the Company’s Shareholders’ Equity would be considerably improved.

The Management

BALANCE SHEETS
As of March 31, 2005 and December 31, 2004
(Stated in thousands of reais)

ASSETS	Parent company 2005	Parent company 2004	Consolidated 2005	Consolidated 2004
CURRENT ASSETS				
Cash and cash equivalents	63,395	109,834	68,808	127,130
Accounts receivable	622,045	661,267	779,900	819,812
Related companies	84,135	82,059	51,623	21,799
Special deposits	110,522	135,716	120,600	145,823
Recoverable taxes	17,926	41,178	17,926	57,392
Inventories	25,110	25,404	265,532	207,846
Prepaid expenses	180,499	147,737	211,826	158,327
Other credits	67,557	13,653	67,557	33,454
Total of current assets	1,171,189	1,216,848	1,583,772	1,571,583
NONCURRENT ASSETS				
Related companies	537,348	527,801	458,434	448,793
Special deposits	177,560	175,436	177,601	184,115
Recoverable taxes	94,798	87,323	116,987	108,622
Other credits	84,316	71,464	92,541	121,097
Total of noncurrent assets	894,022	862,024	845,563	862,627
PERMANENT ASSETS				
Investments	480,929	495,117	17,148	13,702
Property, plant and equipment	192,564	192,407	532,826	579,806
Total of permanent assets	673,493	687,524	549,974	593,508
UNSECURED LIABILITIES	6,495,621	6,444,092	6,495,621	6,444,092
TOTAL OF ASSETS AND UNSECURED LIABILITIES	9,234,325	9,210,488	9,474,930	9,471,810

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

BALANCE SHEETS
As of March 31, 2005 and December 31, 2004
(Stated in thousands of reais)

LIABILITIES	Parent company 2005	Parent company 2004	Consolidated 2005	Consolidated 2004
CURRENT LIABILITIES				
Trade payables	482,383	427,812	527,710	492,344
Loans, financing and debentures	355,562	353,922	363,981	379,969
Refinancing of tax obligations	251,453	239,490	286,673	265,803
Duties, taxes and contributions	195,136	250,398	235,802	289,348
Payroll and social charges	59,615	76,453	203,170	209,324
Leasing payable	226,101	215,254	256,970	244,191
Related companies	99,482	105,057	91,259	68,710
Accounts payable	129,665	136,014	159,334	178,353
Transport to be provided	415,921	625,904	419,765	648,289
Sundry provisions	311,329	247,538	336,502	272,597
Total of current liabilities	2,526,647	2,677,842	2,881,166	3,048,928
LONG-TERM LIABILITIES				
Loans, financing and debentures	1,687,062	1,716,785	1,697,569	1,734,938
Refinancing of tax obligations	3,055,903	3,053,381	3,103,199	3,110,987
Related companies	227,863	226,561	51,067	32,314
Leasing payable	109,128	103,850	109,128	103,850
Provision for actuarial liabilities	501,828	407,093	501,828	415,350
Sundry provisions	11,255	11,353	9,266	-
Provisions for contingencies	1,114,639	1,013,623	1,121,675	1,020,659
Total of long-term liabilities	6,707,678	6,532,646	6,593,732	6,418,098
MINORITY INTERESTS	-	-	32	4,784
TOTAL LIABILITIES	9,234,325	9,210,488	9,474,930	9,471,810

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

INCOME STATEMENTS
Period from January to March of 2005 and 2004
(Stated in thousands of reais, except loss per share)

	Parent company		Consolidated	
	2005	2004	2005	2004
OPERATING REVENUES				
Flight revenues	1,938,010	1,600,123	2,166,126	1,849,649
Other operating revenues	56,005	53,705	125,089	90,754
Taxes on revenue	(37,722)	(51,582)	(56,088)	(63,594)
Net operating revenue	1,956,293	1,602,246	2,235,127	1,876,809
COST OF SERVICES RENDERED				
Flight costs	(1,382,024)	(1,121,855)	(1,517,487)	(1,251,461)
Result of operating agreement	(36,104)	(29,247)	(36,104)	(29,247)
Other operating costs	(62,462)	(42,308)	(95,242)	(64,296)
	(1,480,590)	(1,193,410)	(1,648,833)	(1,345,004)
GROSS PROFIT	475,703	408,836	586,294	531,805
OPERATING EXPENSES				
Selling expenses	(284,477)	(328,957)	(382,645)	(436,360)
Directors' fees	(870)	(795)	(1,503)	(1,177)
Administrative expenses	(43,137)	(39,695)	(55,608)	(49,686)
OPERATING PROFIT	147,219	39,389	146,538	44,582
FINANCIAL INCOME (EXPENSES)				
AND MONETARY VARIATIONS				
Financial revenues	5,667	3,951	6,146	4,816
Financial expenses	(121,014)	(135,866)	(129,020)	(139,055)
Monetary variations on liabilities and credits	(12,517)	(5,639)	(12,671)	(4,981)
Taxes on financial revenues and monetary variations	-	(5,049)	-	(5,049)
	(127,864)	(142,603)	(135,545)	(144,269)
EQUITY GAIN (LOSS)	(13,932)	2,301	(961)	1,005
OTHER OPERATING EXPENSES, NET	(45,062)	(67,278)	(48,215)	(69,473)
OPERATING LOSS	(39,639)	(168,191)	(38,183)	(168,155)
NONOPERATING INCOME	(11,895)	(3,019)	(13,352)	(3,019)
MINORITY INTEREST	-	-	1	(36)
NET LOSS FOR THE PERIOD	(51,534)	(171,210)	(51,534)	(171,210)
LOSS per share at the end of the period in R$	(0.74)	(2.45)		

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

1. OPERATIONS

"VARIG", S. A. (Viação Aérea Rio-Grandense) and its subsidiaries operate commercially, by means of concessions or authorizations from the competent authorities, air transport in general of passengers, baggage, deliveries, cargo and mailbags, by means of domestic and international airlines and services, and provide maintenance services for civil and military aircraft, repairs, overhauls and conservation of machinery and equipment, technical consultancy, development and execution of engineering designs and training and technical formation programs.

As a result of the difficulties faced by airlines, the Company has been implementing a series of actions to reestablish its economic and financial equilibrium, equity position and the necessary cash flow generation. The principal actions taken by management, considering the pressing need for capitalization, are concentrated on efforts to negotiate with the principal creditors and potential investors.

On December 21, 2004, VARIG and the Civil Aviation Department – DAC signed a Concession Contract whereby the DAC, as the representative of the Aeronautical Command, subordinated to the Ministry of Defense, granted the Company a concession to operate air transport until December 31, 2010.

2. PRESENTATION OF THE FINANCIAL STATEMENTS

a) Parent company

The financial statements were prepared and are being presented in accordance with generally accepted accounting practices in Brazil and complementary provisions of the Brazilian Securities Commission - CVM.

b) Consolidated

The consolidated financial statements were prepared according to generally accepted accounting practices in Brazil.

The statements present balances of the accounts of the Company and the following companies: VARIG Logística S. A. and VEM - Varig Engenharia e Manutenção S. A.

The participation of the minority shareholders was highlighted in the consolidated financial statements and the balances and intercompany transactions were eliminated in the consolidation.

3. PRINCIPAL ACCOUNTING PRACTICES

a) Accounting classification

The realizable rights and liabilities payable 12 months after the balance sheet date are considered to be long-term.

b) Cash and cash equivalents

The short-term cash investments are valued at acquisition cost, plus the yield earned to the balance sheet dates.

c) Provision for doubtful accounts

Posted according to the evaluation of the degree of realization risk of credits with customers, including credits with companies in the process of bankruptcy, filing for protection from creditors or judicial collection, the amount being considered sufficient to cover probable losses on the realization of the accounts receivable.

d) Foreign currency transactions

Are posted at the exchange rate on the date of the transaction. Foreign currency denominated assets and liabilities are translated into reais using the exchange rates in effect on the balance sheet dates. Exchange variations are recognized in the income statement as and when they occur.

e) Gains or losses on the translation of financial statements

Gains or losses on the conversion of the financial statements of the company based abroad, resulting from fluctuations in the real against the US dollar, are allocated to financial income or expenses.

f) Assets and liabilities subject to monetary restatement

Items subject to monetary restatement are restated based on the indices defined legally or in the contract.

g) Inventories

Are valued at the average purchase or production cost, or by the market or replacement values, whichever is the lower. The provision for obsolescence is recorded for consumable and repairable items.

h) Other current and noncurrent assets

The other current and noncurrent assets are stated at cost or realization values, including, where applicable, the yield earned.

i) Investments

Investments in subsidiaries are valued using the equity method. The other investments are stated at acquisition cost and, where applicable, net of the provision for losses necessary to make them compatible with the probable realization value.

j) Property, plant and equipment

Are valued at cost, plus revaluations, monetary restated to December 31, 1995. Depreciation is computed according to the straight-line method, based on the estimated useful lives of the assets. Improvements to existing assets are capitalized, whereas maintenance and repair costs are posted to income. Materials allocated to specific projects are added to fixed assets in progress.

k) Loans, financing and debentures

Restated based on the monetary and exchange variations, plus the corresponding charges incurred to the closing dates of the financial years.

l) Aircraft leasing contracts

The costs with the leasing of aircraft, whose contracts establish purchase options, are recognized under income according to the value of the corresponding repayments and the estimated useful lives of the aircraft. The positive difference between the repayment and the monthly portion of depreciation is recorded under fixed assets and will be amortized during the period between the end of the lease contract and the end of the estimated useful lives of the aircraft.

m) Income tax and social contribution

Are computed based on the provisions of current legislation, at the applicable rates. Deferred tax assets and liabilities are recognized on tax losses, the negative social contribution base and temporary differences to the extent that their realization is probable.

n) Provisions

The provision for the overhaul and repairs of flight equipment is made based on the number of hours flown and represents coverage of the costs to be incurred with future maintenance.

The provision for the mileage program - Smiles is made based on the estimated conversion into awards of the miles accumulated in the program by customers and not redeemed, valued at the additional cost per passenger carried, called the "instrumental cost".

Provisions for contingencies related with labor, tax, civil and commercial cases at the administrative and judicial levels are recognized based on the opinions of the legal advisers and management's best estimates as to the probable outcome of the cases pending on the balance sheet dates.

Other current and long-term liabilities

The current and long-term liabilities are stated at known or demandable values, plus, where applicable, the corresponding interest charges and monetary variations.

Recognition of revenue

Sales revenues are recognized at the time of effective provision of the services, and the amounts corresponding to those services not yet provided remain in the account "Transport to be provided" under current liabilities, limited to the legal validity of the tickets. As a result of the integration of the Company's operations with the affiliated companies Rio Sul Linhas Aéreas S. A. and Nordeste Linhas Aéreas S. A., the overall results obtained are distributed amongst the companies substantially according to share of each in the total combined fleet

q) Pension plan

The Company and its subsidiaries, except for PLUNA Líneas Aéreas Uruguayas S. A., sponsor a defined contribution plan for their employees. The current costs related with the defined contribution plan are established by the amount of the contribution required for the period and posted on the accrual basis.

r) Loss per share

Calculated based on the number of shares in circulation on the closing dates of the periods.

s) Use of estimates

Preparation of the financial statements requires management to calculate estimates and adopt assumptions related with the assets and liabilities reported, the disclosure of contingent assets and liabilities on the dates of the financial statements and amounts of revenues and expenses reported for the corresponding periods. The actual results may differ from these estimates.

(Stated in thousands of reais, except where otherwise indicated)

4. ACCOUNTS RECEIVABLE

	Parent company		Consolidated	
	Mar05	Dec/04	Mar05	Dec/04
In the country	561,465	529,688	736,231	661,175
Abroad	190,745	267,577	190,745	313,058
Other amounts receivable abroad	6,712	5,270	6,712	5,270
Provision for doubtful accounts	(136,877)	(141,268)	(153,788)	(159,691)
	622,045	661,267	779,900	819,812

5. INVESTMENTS

a) Values of investments

	Parent company		Consolidated	
	Mar/05	Dec/04	Mar/05	Dec/04
In subsidiaries:				
VARIG Logística S.A.	-	-	-	-
PLUNA Líneas Aéreas Uruguayas S.A.	3,602	4,564	3,602	-
VEM - Varig engenharia e Manutenção S.A .	463,827	476,851	-	-
Others	13,500	13,702	13,546	13,702
	480,929	495,117	17,148	13,702

(Stated in thousands of reais, except where otherwise indicated)

b) Relevant information about the direct subsidiaries is summarized below:

	March 31, 2005				Equity gain (Loss)	
	Capital	Shareholders' Equity (Unsecured Liabilities)	Income for the period	Interest %	Mar/05	Mar/04
Varig logística S.A .	231,832	(11,269)	100	99.88	100	3,762
PLUNA Líneas aéreas Uruguayas S.A .	8,729	7,351	(1,961)	49.00	(961)	1,005
VEM - Varig Engenharia e Manutenção S.A .	501,294	463,827	(13,072)	99.99	(13,071)	(2,466)
					(13,932)	2,301

The Company's interest in the results of Pluna Líneas Aéreas Uruguayas S.A. was recognized by means of an equity gain (loss), based on the preliminary income statement. The financial information currently available does not demonstrate a need for any significant adjustment that could materially impact the parent company's equity and financial position.

The other investments are principally represented by properties, which are leased to third parties. The properties are recorded at the values net of depreciation.

(Stated in thousands of reais, except where otherwise indicated)

6. RELATED PARTY TRANSACTIONS

The transactions with consolidated related parties are as follows:

	CURRENT				LONG-TERM			
	ASSETS		LIABILITIES		ASSETS		LIABILITIES	
	Mar/05	Dec/04	Mar/05	Dec/04	Mar/05	Dec/04	Mar/05	Dec/04
SATA - Serviços Auxiliares de Transporte Aéreo S.A .	1,238	223	64,831	63,100	-	-	-	22
Rio Sul Linha Aéreas S.A .	-	18,479	-	-	-	-	-	-
Pluna Líneas Aéreas Uruguayas	27,037						17,472	
Fundação Ruben Berta	2,386	5	3,413	4,303	-	-	33,595	32,292
Companhia Tropical de Hotéis	180	104	7	377	-	-	-	-
VARIG Participações em Transportes Aéreos S.A .	-	-	22,866	335	103,074	97,896	-	-
VARIG Participações em Serviços Complementares S.A .	-	2,873	-	-	353,600	349,137	-	-
FRB-Par Investimentos S.A .	-	1	142	102	1,760	1,760	-	-
Rotatur Ltda	20	20	-	-	-	-	-	-
Others	20,762	94	-	493	-	-	-	-
	51,623	21,799	91,259	68,710	458,434	448,793	51,067	32,314

(Stated in thousands of reais, except where otherwise indicated)

	Operating Profit	
	Mar/05	Mar/04
SATA - Serviços Auxiliares de Transporte Aéreo S.A .	(35,424)	(28,530)
Rio Sul Linha Aéreas S.A .	28,525	10,104
Nordeste Linhas Aéreas S.A .	7,579	19,143
Fundação Ruben Berta	(1,811)	(191)
Companhia Tropical de Hotéis	(8)	(472)
Rotatur Ltda	-	5
	(1,139)	59

The short-term liabilities mainly refer to the provision of auxiliary runway and cargo handling services.

The long-term assets refer to loans resulting from assuming debts with annual interest varying between 100% and 101% of the average one day Interbank Deposit rate - DI rate, plus 0.5% per month.

The long-term liabilities refer to commission for guarantees provided for raising loans and financing and intercompany loans, with annual interest of 100% of the DI rate, plus 0.5% per month.

The transactions between the Company and related parties are carried out on a similar basis to those with third parties, considering the volumes, terms and risks involved.

(Stated in thousands of reais, except where otherwise indicated)

7. LOANS, FINANCING AND DEBENTURES

	Parent company				Consolidated	
	Mar/05			Dec/04	Mar/05	Dec/04
	Short-Term	Long-Term	Total	Total	Total	Total
Loans and Financing	191,092	486,524	677,616	717,109	696,542	761,309
Refinancing of taxes and contributions	44,306	1,016,930	1,061,236	1,047,165	1,061,236	1,047,165
Refinancing of leasing	58,460	88,241	146,701	133,935	146,701	133,935
Debentures	61,704	95,367	157,071	172,498	157,071	172,498
	355,562	1,687,062	2,042,624	2,070,707	2,061,550	2,114,907

8. LEASING

The volumes of commitments resulting from financial and operational leasing, as of March 31, 2005, totaled R$242,277 and R$2,092,160, respectively, and the repayments are payable during the following periods:

	Parent company		
Year	Financial	Operational	Total
2005	73,720	629,740	703,460
2006	106,255	442,942	549,197
2007	62,302	312,040	374,342
2008	-	240,159	240,159
2009 onward	-	467,279	467,279
	242,277	2,092,160	2,334,437

(Stated in thousands of reais, except where otherwise indicated)

9. REFINANCING OF TAX OBLIGATIONS

The composition of the refinancing of tax obligations is the following:

	Parent company		Consolidated	
	Mar/05	Dec/04	Mar/05	Dec/04
PAES - Federal Revenue	1,587,004	1,572,957	1,613,814	1,572,957
PAES - National Institute of Social Security - INSS	1,641,994	1,638,472	1,641,994	1,638,472
Refinancing of FGTS	75,348	77,783	75,348	77,783
Refinancing of COFINS	-	-	29,986	56,514
Refinancing of ICMS	232	881	11,036	13,150
Refinancing of ISS	2,778	2,778	7,040	7,422
Refinancing of PIS	-	-	9,569	9,411
Refinancing of IRPJ	-	-	1,085	1,081
	3,307,356	3,292,871	3,389,872	3,376,790
Less - Short-term installments	(251,453)	(239,490)	(286,673)	(265,803)
Long-term liabilities	3,055,903	3,053,381	3,103,199	3,110,987

a) Special refinancing - PAES - Federal Revenue and INSS

On July 30, 2003, based on Law 10,684 dated May 30, 2003, the Company and its subsidiaries filed an application for Special Refinancing – PAES with the Federal Revenue Department and the National Institute of Social Security - INSS, referring to obligations for INSS, INSS, Cofins, Finsocial, CPMF, IRPJ, PIS and CSSL overdue from the base periods prior to January 2003. Since many of these taxes had been previously offset against taxes of the same nature, to establish the amounts to be included in the PAES the Company ignored the offsetting made and calculated, backdated, the penalties and restatement based on the variation of the Selic rate. As a result of the Company joining the PAES scheme, the outstanding balance of taxes and social security refinancing as of January 31, 2003 was also consolidated into the new refinancing. The total amount refinanced was R$3,120,157, payable in 180 monthly installments as from September of 2003, plus interest corresponding to the monthly variation of the Long-Term Interest Rate - TJLP.

Installments corresponding to the INSS refinancing past due between January 2004 and March of 2005 were settled by offsetting with amounts receivable from the airline employees' fund. As a result of this procedure the INSS, in a letter dated December 3, 2004, informed the Company that it was excluded from the PAES due to the fact that the offsetting made was not stated in its Collection System. On February 1, 2005, in a ruling on the civil suit filed by the Company against the INSS, the application for advance relief was granted to enable the Company to continue to settle the installments of the refinancing, thus blocking its exclusion from the PAES until the legitimacy of the offsetting made is confirmed or not. Up to the date of presentation of these financial statements, no final ruling had been made by the competent authorities on this matter. The amount of credits offset from the Airline Employees' Fund is being recorded under the provision for contingencies caption.

(Stated in thousands of reais, except where otherwise indicated)

Despite the fact that the amounts of PAES have not been homologated up to the date of presentation of these financial statements, the declared debt was recorded and classified assuming its acceptance by the competent authorities and considering the repayment period established by the programs.

a) Refinancing of FGTS – Government Severance Indemnity Fund for Employees

During the 2004 financial year, the Company obtained authorization for refinancing the amounts corresponding to the FGTS for the period from June of 2002 to July of 2004. The refinancing was approved in 180 installments as from September of 2004, to which reference rate interest rate is added – TR plus 0.25% per month.

b) Refinancing of federal and municipal taxes

During the 2003 financial year, the Company and its subsidiaries obtained authorization for the refinancing of their obligations related with Cofins, PIS, IRPJ, CSLL and ISS past due in the periods prior to June of 2002. The refinancing was approved in installments varying from 30 to 60 months as from November of 2003, plus interest of 1% on the principal and monthly monetary restatement calculated based on the variation of the Selic rate.

d) Refinancing of ICMS

During the 2003 financial year, based on Law 4.246 of December 16, 2003 and Decree 45,490 of November 30, 2000, the Company and its subsidiaries filed an application for refinancing its ICMS debts past due between the return periods of April 2001 and October 2003 with the State Revenue Departments of Rio de Janeiro and São Paulo. The outstanding balances, where applicable, were restated according to the UFIR-RJ or UFESP plus the Selic rate, plus a fine. The outstanding balance of the refinanced ICMS in Rio de Janeiro is being paid in 60 monthly installments as from January 31, 2004. The Rio de Janeiro State Revenue Department approved the application for refinancing on December 22, 2003 and the São Paulo State Revenue Department approved the application on June 14, 2004.

The payment dates of the balances of the long-term refinanced tax obligations as of March 31, 2005 are as follows:

Year	Parent company
2006	176,227
2007	248,691
2008	248,394
2009 onward	2,382,591
	3,055,903

10. PROVISION FOR CONTINGENCIES

The Company, in the normal course of business, is subject to legal suits of a tax, labor and civil nature. Management, supported by the opinion of its legal advisers and, where applicable, based on specific opinions issued by specialists, evaluates the expected outcome of the cases in progress and establishes the need to make a provision for contingencies or not.

(Stated in thousands of reais, except where otherwise indicated)

On March 31, 2005, the amount of R$1,114,639 (R$1,013,623 as of December 31, 2004) was provisioned, which according to management, based on the opinion of its legal advisers, is sufficient to cover losses expected on the outcomes of the cases in progress. The classification of the amounts provisioned, according to the nature of the cases, is as follows:

	Parent company		Consolidated	
Nature	Mar/05	Dec/04	Mar/05	Dec/04
Taxes not paid due to cases in progress	991,246	887,905	993,098	887,905
Labor	106,193	109,200	109,792	114,651
Civil	17,200	16,518	18,611	18,103
Other tax	-	-	174	-
	1,114,639	1,013,623	1,121,675	1,020,659

Taxes not paid due to cases in progress

The Company is questioning, administratively and judicially, the constitutionality of the nature, calculation base composition, rate modifications and expansion in the calculation based of certain taxes, to avoid payment or secure a rebate of amounts judged to be not due in the past.

The following are the main cases in progress:

i) The Civil Aviation Department - DAC, through an Administrative Rule issued in October of 1999, began to demand the payment of a contribution to the Airline Employees' Fund – FA equivalent to 1% of the tariffs stated on the tickets issued, extending the requirement to regional aviation companies. Previously the rate collected was 3%. The Company is questioning in the courts the collection of this contribution and, based on an injunction obtained, did not make the payments corresponding to the period from May 1999 to March 2005. The unpaid amounts, monetarily restated, amounted to R$198,100 as of March 31, 2005 (R$186,382 as of December 31, 2004) and are provisioned.

ii) Occupational Accident Insurance - SAT - the Company filed a suit for the purpose of obtaining a court ruling that the contribution is non-demandable and preliminarily obtained the right to offset the amounts paid during previous periods against social contributions of the same nature. In a decision handed down on March 20, 2003 in an extraordinary appeal filed by another taxpayer, the Full Session of the Federal Supreme Court, confirming a decision by the TRF of the 4th Region, judged the demandability of the SAT to be constitutional, together with its regulations. Consequently, management, based on the opinion of its legal advisers, decided to provision the accumulated offsetting, monetarily restated, which totaled R$203,723 as of March 31, 2005 (R$196,735 as of December 31, 2004).

iii) Social Integration Program - PIS - Based on an injunction obtained giving advance relief, the Company offset, between February and June 2003, amounts incorrectly paid in prior periods for PIS against the monthly amounts payable for Cofins. As of March 31, 2005, a provision in the amount of R$69,150 (R$66,987 as of December 31, 2004) was recorded by the Company, corresponding to the offsetting made.

iv) Occupational Accident Insurance - SAT - The Company is questioning in the courts the constitutionality of the SAT charged on the payroll and, based on preliminary ruling as obtained, suspended payments during the period from December 1999 to March 2005. The unpaid amounts, monetarily restated, amounted to R$59,309 as of March 31, 2005 and are provisioned (R$55,003 as of December 31, 2004).

v) Airline Employees' Fund - FA - The Company is questioning in the courts the constitutionality of the contribution to the Airline Employees' Fund - FA, levied on the payroll and, based on preliminary ruling as obtained, suspended payments during the period from December 1999 to March 2005. The unpaid amounts, monetarily restated, amounted to R$97,201 as of March 31, 2005 and are provisioned (R$91,306 as of December 31, 2004).

vi) Social Integration Program - PIS - The Company, based on advance relief granted, since it considers unconstitutional Decree Laws 2,445/88 and 2,449/88, which changed the rights and the form of calculation of the amounts of PIS paid during the period from October 1988 to January of 1992, obtained the right to offset the amounts paid against taxes of the same nature. As a result, a provision was recorded, whose amount, equivalent to the amounts offset monetarily restated to March 31, 2005, is R$102,292 (R$98,747 as of December 31, 2004).

vii) Airline Employees' Fund - FA - The Company obtained the right to offset the amounts paid to the Airline Employees' Fund during the period from November 1990 to October of 1999 by means of advance relief. As of March 31, 2005, a provision in the amount of R$248,448 (R$180,793 as of December 31, 2004), corresponding to the offsetting made, was posted by the Company.

Other cases amounting to R$13,023 as of March 31, 2005 (R$11,952 as of December 31, 2004) refer principally to the retention of 0.5% and 10% of FGTS.

In addition to the issues discussed, for which provisions were recorded for probable losses, the Company is bringing against the competent authorities the following principal suit, which in the opinion of its legal advisers, will obtain a favorable outcome, and therefore will not require a provision to be recorded in the accounts:

- The commercial aviation companies are discussing at the Federal Supreme Court the form of collection and definition of the ICMS rates levied on air transport as from January 1, 1997. The Federal Senate established the ICMS rate on interstate air transport at 4%, whilst the National Revenue Policy Council - CONFAZ, through Agreement 120/96, established a rate of 12% for the same kind of transport. The

Company, whilst the applicable rate is being discussed judicially, is adopting the decision handed down by the Federal Senate.

Labor contingencies

As of March 31, 2005, the Company was exposed to labor clams with the most varied characteristics and at different phases of the legal proceedings. These suits constitute a maximum total risk of R$233,112. Based on the opinions of the Company's legal advisers and the expected success of certain cases and negotiations that it is intended to make, the amount provisioned of R$106,193 (R$109,200 as of December 31, 2004) is considered sufficient by management to cover the expected losses.

Civil contingencies

As of March 31, 2005, the Company was the defendant in civil cases with the most varied characteristics and at different phases of the legal proceedings. These suits constitute a maximum total risk of R$103,046. Based on the opinions of the Company's legal advisers and the expected success of certain cases and negotiations that it is intended to make, the amount provisioned of R$17,200 as of March 31, 2005 (R$16,518 as of December 31, 2004) is considered sufficient by management to cover the expected losses.

In addition, the Company is involved in other cases, all resulting from its regular operations that, in the opinion of management, represent a low risk of materialization and are not capable of producing, separately or combined, a relevant effect on its financial position or the results of its operations.

Contingent credits

Tariff difference – Based on the terms of the airline concession contracts, the Company is filing legal action against the granting authority for the purpose of reimbursement of losses derived from insufficient tariffs during the period from 1986 to 1991. The case was judged in favor of the Company at the first and second court levels and the value was fixed at around R$2.3 billion and R$1.4 billion, respectively, at each phase of the proceedings.

To date the Company has not recognized this credit in its financial statements.

ICMS credit – On September 12, 1996, the Federal Supreme Court ruled the levy of ICMS on air transport services provided during the period between May 1989 and December 1996 to be unconstitutional. As a result, the Company considered improper payments of this tax made between May of 1989 and June of 1994 and is filing legal action against the states, to obtain reimbursement of the credits, which amounted to approximately R$1.3 billion as of March 31, 2005. This credit will only be recognized in the financial statements at the time of effective realization.

11. FINANCIAL INSTRUMENTS

a) Fair value of financial instruments

The estimated realization values of the Company's financial assets and liabilities have been determined by means of information available in the market and appropriate valuation methodologies. However, considerable judgment was required in the interpretation of the market data to produce an estimate of the most adequate realization values. Consequently, the estimates presented below do not necessarily indicate demands that could be realized in a current exchange market. The use of different hypotheses and/or market methodologies could have a material effect on the estimated realization values.

As of March 31, 2005, the Company had the following financial instruments:

i) Cash and cash equivalents, accounts receivable, other current assets and accounts payable

The carrying value approximates the realization value.

ii) Investments

Consist principally of interests in subsidiaries and affiliates, recorded using the equity method, which have strategic interest to the Company's operations. Market value considerations are not applicable.

iii) Loans and financing

Subject to interest at normal market rates. The interest rates that are currently available to the Company for forward operations and for similar terms were used to estimate the realization value, which does not differ from the amount posted.

iv) Financing of tax obligations

The conditions are similar to the normal conditions for tax refinancing rates and there are no material differences in relation to the interest rates applied to financing of the same nature.

b) Interest rate risk

This risk is derived from the possibility of the Company incurring losses on account of fluctuations in interest rates that increase financial expenses related with loans and financing raised in the market. The Company has not contracted derivative operations to protect against the risk of volatility in these rates.

c) Exchange rate risk

This risk is derived from the possibility of the Company incurring losses on account of fluctuations in exchange rates that reduce a nominal values billed or increase amounts of loans raised in the market. The

Company's strategy is to protect its position against risks derived from assuming foreign currency denominated liabilities using the part of its billing also denominated in foreign currency.

d) Derivatives

Short-term cash investments indexed to the variation in the US dollar are maintained to partially cover the future maturities of debts in the same currency. The Company does not hold derivatives for speculative purposes.

e) Credit risk

The Company may incur losses on amounts receivable derived from billing for the provision of aircraft maintenance services, cargo transport services and ticket sales through travel agents and/or direct sales. To reduce this risk, a credit analysis of the debtors is made.

To cover possible losses on doubtful accounts, provisions were made to amounts considered sufficient by management to cover this risk.

12. INCOME TAX

As of March 31, 2005, the consolidated tax loss carryforward balance is R$5,762,072 and the negative social contribution base R$5,787,577, for which there is no time limit for utilization.

13. SUPPLEMENTARY PENSION PLAN

Under the terms of the applicable legislation, the Supplementary Pensions Department - SPC establishes that agreements should be signed between the sponsors and the Supplementary Pension entities to cover the actuarial reserve of the benefits granted.

On July 1, 2004, the Company, as a sponsor of AERUS, signed a Private Liability Acknowledgment Instrument and other covenants in which it assumed liability for the technical deficit corresponding to benefits granted in the amount of R$673,282 (Benefits Plan I - R$511,898 and Benefits Plan II - R$161,384). The actuarial commitments were taken as an initial reference, calculated through the Statement of Results of the Actuarial Valuations – DRAA, for the June 30, 2003 base date, positioned for December 31, 2003. The reference values will be reviewed annually according to the applicable legislation and, on March 31, 2005, this deficit corresponded to R$ 734,025.

Despite the fact that the value of the agreement for actuarial coverage signed with AERUS exceeds the total actuarial liability recorded by the Company on March 31, 2005 by R$232,197, the Company will continue to adopt a procedure of calculating and recognizing the actuarial liability in accordance with the provisions of CVM Ruling 371/2002.

As a consequence of the provisions of CVM Ruling 371/2002, principally with respect to the procedures for the accounting recognition of the actuarial gains or losses and past services, the accounting records do not contemplate all the amounts corresponding to the liabilities related with the agreement signed with AERUS, since the regulations of the Complementary Pension Department - SPC established as an assumption contracting all the actuarial commitments assumed by the sponsor related with the benefits granted.

As a result, in order to adjust the accounting records to the total net actuarial liability recorded as of March 31, 2005, in the amount of R$501,828 thousand, the Company recorded under long-term liabilities the total value of the agreement signed with AERUS, in the amount of R$734,025 thousand. The excess amount, of R$232,197 thousand, was treated as a reduction in the actuarial liability as a deferment, and this amount is subject to annual reviews.

The payments for actuarial coverage will only be made as from January 1, 2008 and if Instituto Aerus de Seguridade Social is unsuccessful in the legal case brought against the Federal Government in which it is claiming compensation for damages resulting from elimination of the "third source" and reestablishment of the said revenue. If the claim is not defined by January 1, 2008, a specific instrument will be prepared that will define how the payments will be made to cover the restated technical deficit and conditions that should establish the frequency of payments, as follows:

a) Benefits Plan I – will be revalued and the total paid in 91 equal, monthly and successive installments, restated monthly according to the actuarial target index of AERUS corresponding to the IGP-M/FGV.

b) Benefits Plan II – will be revalued and the total paid in 145 equal, monthly and successive installments, restated monthly according to the actuarial target index of AERUS corresponding to the IGP-M/FGV.

The Company offered as collateral part of its credit with the Federal Government recognized in the case records of civil suit No. 93.00.02252-0, in progress at the Federal Regional Court of the 1st Region, up to the amount agreed in this instrument.

14. OTHER OPERATING EXPENSES, NET

The principal components of other operating expenses, net are:

(Stated in thousands of reais, except where otherwise indicated)

	Parent company		Consolidated	
	Mar/05	Mar/04	Mar/05	Mar/04
Provision for contingencies	(30,851)	(25,930)	(30,851)	(25,930)
Actuarial liability – AERUS	(94,737)	(56,889)	(95,746)	(56,889)
Revenue from the expiry of tickets issued (a)	54,176	-	54,176	-
Provision for losses	(382)	-	(634)	-
Other revenues	26,732	15,541	24,840	13,346
	(45,062)	(67,278)	(48,215)	(69,473)

a) Refers to the write-off of air tickets recorded in the balance sheet under the transport to be provided caption, issued but not flown within the legal validity of the ticket.

15. INSURANCE

The Company maintains insurance cover for amounts considered by management sufficient to cover any risks on its assets and/or liabilities.

Expenses for third-party civil liability, limited to the equivalent in Reais of one billion US dollars, caused by terrorist attacks or acts of war that could be claimed against the Company will be the responsibility of the Brazilian Government, as stipulated in Law 10,744, dated October 9, 2003 and Decree 5035, dated April 5, 2004.

This law is a result of the terrorist attacks that occurred in the United States on September 11, 2001, since the insurance companies limited the cover for aircraft hulls and third-party liability after this event to approximately 150 million US dollars per claim and for large cover cash payment is necessary, which makes taking out insurance unviable.

16. SUBSEQUENT EVENTS

On May 14, 2005, FRB-Par Investimentos S.A., the parent company of “VARIG”, S.A. (Viação Aérea Rio-Grandense), of VARIG Participações em Transportes Aéreos S. A. (VPTA) and VARIG Participações em Serviços Complementares S.A. (VPSC) signed a memorandum of understanding with TAP, SGPS, S.A. for the purpose of conducting negotiations aimed at the direct or indirect capitalization of the companies mentioned above.

VARIG Brasil

BOARD OF DIRECTORS

David Zylbersztajn – Chairman
Omar Carneiro da Cunha Sobrinho – Deputy Chairman
Eleazar de Carvalho Filho
Gesner José de Oliveira
Harro Fouquet
Marcos Castrioto de Azambuja
Sérgio de Almeida Bruni
Sérgio Xavier Ferolla

EXECUTIVE COMMITTEE

Henrique Neves – President
Alberto Fajerman – Executive Vice President Commercial and Planning
Miguel Dau – Vice President Operations and Technical and Flight Operations Director

DIRECTORS

Ricardo José Bullara - Director of Controllership and Investor Relations
Faustino Albano Pereira Junior – Director of Marketing
José Dolabela Portela – Director of Customer Services
Marcelo Willian Bottini – Director of Sales

Agostinho A. P. Leite Neto
Accountant
CRC-SP –159.319-S/RS
CPF 047.866.998-45

The Shareholders and Directors
"VARIG", S. A. (Viação Aérea Rio-Grandense)
Porto Alegre – RS

1. We have performed a special review of the Quarterly Information - ITRs of "VARIG", S.A. (Viação Aérea Rio-Grandense) and subsidiaries (parent Company and consolidated) for the quarter ended March 31, 2005, comprising the balance sheet, income statements, performance report and relevant information prepared under the responsibility of the management of the Company and its subsidiaries. Our responsibility is to issue a report, without expressing an opinion, on this Quarterly Information-ITR.

2. Our review was performed according to the specific regulations established by the Institute of Independent Auditors of Brazil - IBRACON, together with the Federal Accounting Council, and principally consisted of: (a) questions and discussions with the officers responsible for the accounting, financial and operating areas of the Company and its subsidiaries with respect to the principal criteria adopted in preparing the Quarterly Information; and (b) review of information and subsequent events that have or could have significant effects on the financial situation and operations of the Company and its subsidiaries.

3. Based on our special review, we have no knowledge of any relevant modification that should be made to the Quarterly Information – ITR referred to in paragraph 1 for it to be in accordance with generally accepted accounting practices in Brazil, applied in a manner compatible with the regulations issued by the Brazilian Securities Commission – CVM specifically applicable to disclosure of the Quarterly Information - ITR.

4. The Company has been returning significant net losses, and as of March 31, 2005, the current liabilities exceeded current assets by R$1,355,458 thousand and the unsecured liabilities were R$6,495,621 thousand. Furthermore, the Company's cash flow projections indicate the need to raise significant funds in the short-term to enable the business to be maintained. Actions that are being taken by management to overcome the current difficulties are described in note 1. As of March 31, 2005, the Company had a balance receivable of R$294,138 thousand from related companies that are also experiencing operating difficulties and, consequently, the realization of this asset is uncertain. In addition, as described in note 9, maintaining the Company in the special refinancing scheme with respect to the contributions to the National Social Security Institute depends on suits in progress. Also on March 31, 2005, although the amounts included in the Application for Special Refinancing – PAES have not been ratified by the competent authorities and certain current taxes and PAES installments had been settled by offsetting, the accounting and classification of the debts were carried out according to the conditions established in the program, based on management's expectation of a satisfactory solution to this issue. The continuity of the Company's business will depend on the success of the measures that are being taken by management, and therefore the

financial statements for March 31, 2005 do not include any adjustment related with the realization and classification of the amounts of assets or the amounts and classification of liabilities that would be required if it became impossible for the Company to continue operating.

5. The balance sheets (parent company and consolidated) for December 31, 2004, presented for comparison purposes, were examined by us and our opinion issued on March 15, 2005 contains a paragraph of emphasis similar to the matter mentioned in paragraph 4. The income statements (parent company and consolidated) referring to the quarter and the three-month period ended March 31, 2004 presented for comparison purposes, were reviewed by other independent auditors and the special review report issued on May 18, 2004 contains a paragraph of emphasis similar to the matter mentioned in paragraph 4.

São Paulo, May 16, 2005.

Orlando Octavio de Freitas Jr.
Partner - Accountant
CRC nº 1 SP 178871/O-4 S/RS

BDO TREVISAN AUDITORES INDEPENDENTES
CRC nº 2 SP 013439/O-5