

*(Convenience Translation into English from  
the Original Previously Issued in Portuguese)*

***Saraiva S.A.***  
***Livreiros Editores***

*Interim Financial Statements for the Quarter and  
Six-month Period Ended June 30, 2005 and  
Independent Accountants' Review Report*

Deloitte Touche Tohmatsu Auditores Independentes

(Convenience Translation into English from the Original Previously Issued in Portuguese)

INDEPENDENT ACCOUNTANTS' REVIEW REPORT

To the Shareholders and Board of Directors of  
Saraiva S.A. Livreiros Editores  
São Paulo - SP

1. We have performed a special review of the accompanying interim financial statements of Saraiva S.A. Livreiros Editores and subsidiary (Company and Consolidated), consisting of the balance sheets as of June 30, 2005, and the related statements of income for the quarter and six-month period then ended and the performance report, all expressed in Brazilian reais and prepared in accordance with Brazilian accounting practices under the responsibility of the Company's management.
2. We conducted our review in accordance with specific standards established by the Brazilian Institute of Independent Auditors (IBRACON), together with the Federal Accounting Council, which consisted principally of: (a) inquiries of and discussions with persons responsible for the accounting, financial and operating areas as to the criteria adopted in preparing the interim financial statements, and (b) review of the information and subsequent events that had or might have had material effects on the financial position and results of operations of the Company and its subsidiary.
3. Based on our special review, we are not aware of any material modifications that should be made to the interim financial statements referred to in paragraph 1 for them to be in conformity with Brazilian accounting practices and standards established by the Brazilian Securities Commission (CVM), specifically applicable to the preparation of mandatory interim financial statements.
4. We had previously reviewed the Company and consolidated balance sheets as of March 31, 2005 and the Company and consolidated statements of income for the quarter and six-month period ended June 30, 2004, presented for comparative purposes, and issued unqualified review reports thereon, dated May 13, 2005 and August 12, 2004, respectively.
5. The accompanying interim financial statements have been translated into English for the convenience of readers outside Brazil.

São Paulo, August 11, 2005

DELOITTE TOUCHE TOHMATSU  
Auditores Independentes

Marco Antonio Brandão Simurro  
Engagement Partner

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**FEDERAL PUBLIC SERVICE  
BRAZILIAN SECURITIES COMMISSION (CVM)  
INTERIM FINANCIAL STATEMENTS (ITR) - 06/30/2005  
COMMERCIAL, INDUSTRIAL AND OTHER COMPANIES**

**Corporate Law**

**REGISTRATION WITH THE CVM DOES NOT IMPLY ANY ANALYSIS OF THE COMPANY. COMPANY MANAGEMENT IS RESPONSIBLE FOR THE ACCURACY OF THE INFORMATION PROVIDED.**

**01.01 - IDENTIFICATION**

1 - CVM CODE <b>001047-2</b>	2 - COMPANY NAME <b>SARAIVA S.A. LIVREIROS EDITORES</b>	3 - Federal Corporate Taxpayers' Registration Number (CNPJ) <b>60.500.139/0001-26</b>
64 - State Registration Number (NIRE) <b>35300025300</b>		

**01.02 - HEAD OFFICE**

1 - ADDRESS <b>Av. Marquês de São Vicente n. 1697</b>		2 - SUBURB OR DISTRICT <b>Barra Funda</b>		
3 - POSTAL CODE <b>01139-904</b>	4 - MUNICIPALITY <b>São Paulo</b>		5 - STATE <b>SP</b>	
6 - AREA CODE <b>011</b>	7 - TELEPHONE <b>3611-3344</b>	8 - TELEPHONE <b>-</b>	9 - TELEPHONE <b>-</b>	10 - TELEX
11 - AREA CODE <b>011</b>	12 - FAX <b>3611-3308</b>	13 - FAX <b>-</b>	14 - FAX <b>-</b>	
15 - E-MAIL <a href="http://www.editorasaraiva.com.br">http://www.editorasaraiva.com.br</a>				

**01.03 - INVESTOR RELATIONS OFFICER (Company Mail Address)**

1 - NAME <b>João Luís Ramos Hopp</b>				
2 - ADDRESS <b>Rua Edgar Teotônio Santana, 206</b>			3 - SUBURB OR DISTRICT <b>Barra Funda</b>	
4 - POSTAL CODE <b>01140-030</b>	5 - MUNICIPALITY <b>São Paulo</b>		6 - STATE <b>SP</b>	
7 - AREA CODE <b>011</b>	8 - TELEPHONE <b>3611-3344</b>	9 - TELEPHONE <b>-</b>	10 - TELEPHONE <b>-</b>	11 - TELEX
12 - AREA CODE <b>011</b>	13 - FAX <b>3619-3062</b>	14 - FAX <b>-</b>	15 - FAX <b>-</b>	
16 - E-MAIL <a href="mailto:jlhopp@editorasaraiva.com.br">jlhopp@editorasaraiva.com.br</a>				

**01.04 - GENERAL INFORMATION / INDEPENDENT ACCOUNTANT**

CURRENT YEAR		CURRENT QUARTER			PRIOR QUARTER		
1 - BEGINNING	2 - END	3 - QUARTER	4 - BEGINNING	5 - END	6 - QUARTER	7 - BEGINNING	8 - END
01/01/2005	12/31/2005	2	04/01/2005	30/06/2005	1	01/01/2005	03/31/2005
9 - INDEPENDENT ACCOUNTANT <b>Deloitte Touche Tohmatsu Auditores Independentes</b>					10 - CVM CODE <b>00385-9</b>		
11 - PARTNER RESPONSIBLE <b>Marco Antonio Brandão Simurro</b>					12 - INDIVIDUAL TAXPAYERS' REGISTRATION NUMBER OF THE PARTNER RESPONSIBLE <b>755.400.708-44</b>		

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BRAZILIAN SECURITIES COMMISSION (CVM)  
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COMMERCIAL, INDUSTRIAL AND OTHER COMPANIES**

**Corporate Law**

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**01.05 - CAPITAL COMPOSITION**

<b>NUMBER OF SHARES (THOUSAND)</b>	<b>1 - CURRENT QUARTER 06/30/2005</b>	<b>2 - PRIOR QUARTER 03/31/2005</b>	<b>3 - SAME QUARTER IN PRIOR YEAR 06/30/2004</b>
<b>Paid-up Capital</b>			
1 - Common	9,622	9,622	9,622
2 - Preferred	13,647	13,647	13,647
3 - Total	23,269	23,269	23,269
<b>Treasury Shares</b>			
4 - Common	0	0	0
5 - Preferred	333	333	333
6 - Total	333	333	333

**01.06 - CHARACTERISTICS OF THE COMPANY**

1 - TYPE OF COMPANY Commercial, Industrial and Other Companies
2 - SITUATION Operating
3 - NATURE OF OWNERSHIP National Private
4 - ACTIVITY CODE 110 - Printing and Publishing Houses
5 - MAIN ACTIVITY Publishing and printing of books
6 - TYPE OF CONSOLIDATION Full
7 - TYPE OF REPORT OF INDEPENDENT ACCOUNTANT Unqualified

**01.07 - COMPANIES EXCLUDED FROM THE CONSOLIDATED FINANCIAL STATEMENTS**

1 - ITEM	2 - CNPJ	3 - NAME
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**01.08 - DIVIDENDS APPROVED AND/OR PAID DURING AND AFTER THE QUARTER**

<b>1 - ITEM</b>	<b>2 - EVENT</b>	<b>3 - APPROVAL</b>	<b>4 - INCOME</b>	<b>5 - BEGINNING OF THE PAYMENT</b>	<b>6 - SHARE TYPE</b>	<b>7 - INCOME PER SHARE</b>
01	Board of Directors' meeting	01/26/2005	Interest on capital	05/31/2005	Registered common	0.4076920600
02	Board of Directors' meeting	01/26/2005	Interest on capital	05/31/2005	Registered preferred	0.4076920600

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**01.09 - SUBSCRIBED CAPITAL AND ALTERATIONS IN THE CURRENT YEAR**

1 - ITEM	2-DATE OF ALTERATION	3 -CAPITAL (In thousands of Brazilian reais - R\$)	4 - AMOUNT OF THE ALTERATION (In thousands of Brazilian reais - R\$)	5 - NATURE OF ALTERATION	7 - NUMBER OF SHARES ISSUED (Thousands)	7 - SHARE PRICE ON ISSUE DATE (Reais)
01	04/26/2005	46,405	4,428	Profit Reserve	0	0.000000000

**01.10 - INVESTORS RELATIONS OFFICER**

1 - DATE 08/11/2005	2 - SIGNATURE
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**02.01 - BALANCE SHEETS - ASSETS (In thousands of Brazilian reais - R\$)**

Code	Description	06/30/2005	03/31/2005
1	Total assets	171,114	204,573
1.01	Current assets	94,968	125,273
1.01.01	Cash and cash equivalents	10,146	28,618
1.01.01.01	Cash and banks	481	3,981
1.01.01.02	Temporary cash investments	9,665	24,637
1.01.02	Receivables	24,068	45,413
1.01.02.01	Trade accounts receivable	16,990	42,850
1.01.02.02	Dividends receivable from subsidiary	0	0
1.01.02.03	Recoverable taxes	6,842	2,298
1.01.02.05	Other	236	265
1.01.03	Inventories	59,397	51,181
1.01.03.01	Finished products	26,584	26,653
1.01.03.02	Products for resale	18	10
1.01.03.03	Work in process	16,936	15,757
1.01.03.04	Raw materials	15,264	8,162
1.01.03.05	Packing and consumption materials	595	599
1.01.04	Other	1,357	61
1.01.04.01	Deferred charges	1,331	0
1.01.04.02	Other	26	61
1.02	Long-term assets	839	2,961
1.02.01	Sundry receivables	0	0
1.02.02	Intercompany receivables	0	0
1.02.02.01	Affiliates	0	0
1.02.02.02	Subsidiaries	0	0
1.02.02.03	Other related parties	0	0
1.02.03	Other	839	2,961
1.02.03.01	Tax incentive deposits	0	0
1.02.03.02	Escrow deposits	244	232
1.02.03.03	Deferred income and social contribution taxes	520	506
1.02.03.04	Recoverable taxes	0	2,148
1.02.03.05	Other	75	75
1.03	Permanent assets	75,307	76,339
1.03.01	Investments	48,825	48,960
1.03.01.01	In affiliates	0	0
1.03.01.02	In subsidiaries	48,417	48,552
1.03.01.02.01	Livraria e Papelaria Saraiva S.A.	48,417	48,552
1.03.01.03	Other investments	408	408
1.03.01.03.01	Tax incentives	352	352
1.03.01.03.02	Other	56	56
1.03.02	Property, plant and equipment	23,943	24,641
1.03.02.01	Land	2,029	2,029
1.03.02.02	Buildings	4,980	5,053
1.03.02.03	Furniture, fixtures and installations	3,481	3,691
1.03.02.04	Vehicles	1,418	1,435
1.03.02.05	Machinery and equipment	3,213	3,257

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**02.01 - BALANCE SHEETS - ASSETS (In thousands of Brazilian reais - R\$)**

<b>Code</b>	<b>Description</b>	<b>06/30/2005</b>	<b>03/31/2005</b>
1.03.02.06	Software and IT equipment	7,980	8,459
1.03.02.07	Other	842	717
1.03.03	Deferred charges	2,539	2,738
1.03.03.01	Unamortized goodwill	1,565	1,672
1.03.03.02	Other	974	1,066

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**02.02 - BALANCE SHEETS - LIABILITIES (In thousands of Brazilian reais - R\$)**

<b>Code</b>	<b>Description</b>	<b>06/30/2005</b>	<b>03/31/2005</b>
2	Total liabilities and shareholders' equity	171,114	204,573
2.01	Current liabilities	38,674	62,074
2.01.01	Loans and financing	6,399	7,311
2.01.02	Debentures	0	0
2.01.03	Trade accounts payable	16,468	10,252
2.01.04	Taxes payable	1,392	1,684
2.01.04.01	Income tax	0	0
2.01.04.02	Social contribution tax	0	0
2.01.04.03	Payroll charges	1,392	1,684
2.01.05	Dividends payable	0	0
2.01.06	Provisions	13,056	16,399
2.01.06.01	Accrued vacation and related charges	2,725	2,996
2.01.06.02	Income tax provision	6,447	8,907
2.01.06.03	Social contribution tax provision	1,742	2,766
2.01.06.04	Management profit sharing	1,732	866
2.01.06.05	Provision for 13th salary and related charges	410	864
2.01.07	Intercompany payables	0	6,812
2.01.07.01	Intercompany loan	0	6,812
2.01.08	Other	1,359	19,616
2.01.08.01	Accounts and expenses payable	464	474
2.01.08.02	Copyright payable	445	7,017
2.01.08.03	Interest on capital	35	9,351
2.01.08.04	Management profit sharing payable	0	2,023
2.01.08.05	Losses on derivatives	415	751
2.02	Long-term liabilities	5,563	8,830
2.02.01	Loans and financing	58	3,333
2.02.02	Debentures	0	0
2.02.03	Provisions	5,505	5,497
2.02.03.01	Reserve for contingencies	2,273	2,235
2.02.03.02	Deferred income and social contribution taxes	3,232	3,262
2.02.04	Intercompany payables	0	0
2.02.04.01	Subsidiary	0	0
2.02.05	Other	0	0
2.03	Deferred income	0	0
2.05	Shareholders' equity	126,877	133,669
2.05.01	Capital	46,405	41,977
2.05.02	Capital reserves	13,947	13,947
2.05.02.01	Tax incentive reserve	4,427	4,427
2.05.02.02	Share premium reserve	8,653	8,653
2.05.02.03	Working capital reserve	724	724
2.05.02.04	Other	143	143
2.05.03	Revaluation reserves	0	0
2.05.03.01	Owned assets	0	0
2.05.03.02	Subsidiaries/affiliates	0	0
2.05.04	Profit reserves	42,298	46,726
2.05.04.01	Legal reserve	7,890	7,890

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**02.02 - BALANCE SHEETS - LIABILITIES (In thousands of Brazilian reais - R\$)**

<b>Code</b>	<b>Description</b>	<b>06/30/2005</b>	<b>03/31/2005</b>
2.05.04.02	Statutory reserve	0	0
2.05.04.03	Reserve for contingencies	0	0
2.05.04.04	Unrealized profit reserve	0	0
2.05.04.05	Profit retention reserve	0	0
2.05.04.06	Special reserve for undistributed dividends	0	0
2.05.04.07	Other profit reserves	34,408	38,836
2.05.04.07.01	Reserve for capital increase	37,278	41,706
2.05.04.07.02	Treasury stock	(2,870)	(2,870)
2.05.05	Retained earnings/accumulated deficit	24,227	31,019

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**03.01 - STATEMENTS OF INCOME (In thousands of Brazilian reais - R\$)**

Code	Description	3-04/01/2005 to 06/30/2005	4-01/01/2005 to 06/30/2005	5-04/01/2004 to 06/30/2004	6-01/01/2004 to 06/30/2004
3.01	Gross revenue from sales and/or services	18,320	130,502	16,820	132,528
3.02	Deductions from gross revenue	(59)	(103)	(1,555)	(9,883)
3.03	Net revenue from sales and/or services	18,261	130,399	15,265	122,645
3.04	Cost of sales and/or services	(4,960)	(37,786)	(4,058)	(35,342)
3.05	Gross profit	13,301	92,613	11,207	87,303
3.06	Operating (expenses) income	(22,426)	(56,642)	(31,036)	(66,987)
3.06.01	Selling expenses	(12,064)	(35,405)	(12,828)	(35,688)
3.06.02	General and administrative expenses	(11,104)	(20,919)	(11,731)	(21,405)
3.06.02.01	Management compensation	(866)	(1,732)	(987)	(1,937)
3.06.02.02	Other	(10,238)	(19,187)	(10,744)	(19,468)
3.06.03	Financial	711	(811)	(1,529)	(3,682)
3.06.03.01	Financial income	1,129	1,555	519	916
3.06.03.02	Financial expenses	(418)	(2,366)	(2,048)	(4,598)
3.06.04	Other operating income	1,679	1,714	60	103
3.06.05	Other operating expenses	(1,513)	(3,060)	(2,140)	(4,114)
3.06.05.01	Depreciation and amortization	(1,508)	(3,052)	(2,112)	(4,057)
3.06.05.02	Other	(5)	(8)	(28)	(57)
3.06.06	Equity in subsidiaries	(135)	1,839	(2,868)	(2,201)
3.07	Income (loss) from operations	(9,125)	35,971	(19,829)	20,316
3.08	Nonoperating income (expenses)	28	77	(106)	(98)
3.08.01	Income	28	77	0	0
3.08.02	Expenses	0	0	(106)	(98)
3.09	Income before taxes and profit sharing	(9,097)	36,048	(19,935)	20,218
3.10	Provision for income and social contribution taxes	3,033	(12,820)	5,778	(7,501)
3.11	Deferred income tax	138	1,494	41	38

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**03.01 - STATEMENTS OF INCOME (In thousands of Brazilian reais - R\$)**

Code	Description	3-04/01/2005 to 06/30/2005	4-01/01/2005 to 06/30/2005	5-04/01/2004 to 06/30/2004	6-01/01/2004 to 06/30/2004
3.12	Profit sharing/contributions	(866)	(1,732)	(325)	(1,275)
3.12.01	Profit sharing	(866)	(1,732)	(325)	(1,275)
3.12.01.01	Management profit sharing	(866)	(1,732)	(325)	(1,275)
3.12.02	Contributions	0	0	0	0
3.13	Reversal of interest on capital	0	0	0	0
3.15	Net income (loss)	(6,792)	22,990	(14,441)	11,480
	NUMBER OF SHARES, EX-TREASURY (THOUSANDS)	22,936	22,936	22,936	22,936
	EARNINGS PER SHARE		1.00235		0.50052
	LOSS PER SHARE	(0.29613)		(0.62962)	

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06/30/2005

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010470-2 SARAIVA S.A. LIVREIROS E EDITORES

60.500.139/0001-26

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#### **04.01 - NOTES TO THE INTERIM FINANCIAL STATEMENTS**

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(Amounts in thousands of Brazilian reais - R\$)

### **1. Operations**

Saraiva S.A. Livreiros Editores (the “Company”) is engaged in publishing elementary and high school textbooks, supplementary textbooks, legal textbooks and economics/management textbooks.

The Company experiences seasonality in its business, with 80% of its sales concentrated between the last quarter of the year and the first quarter of the next year. This sales concentration is due to two factors: (a) the back-to-school period in the first quarter; and (b) the sale of textbooks to the government in the fourth and first quarters of the year.

### **2. Presentation of interim financial statements**

The accompanying interim financial statements have been prepared in accordance with Brazilian accounting practices and standards established by the Brazilian Securities Commission (CVM).

### **3. Significant accounting practices**

#### *a) Current and long-term assets*

##### **Temporary cash investments**

Stated at cost plus income earned through the balance sheet date.

##### **Allowance for doubtful accounts**

Recorded in an amount considered sufficient to cover potential losses on the realization of trade accounts receivable. Uncollectible receivables are charged directly to income.

##### **Inventories**

Stated at average acquisition or production cost, which does not exceed market value.

##### **Other**

Stated at net realizable value.

**04.01 - NOTES TO THE INTERIM FINANCIAL STATEMENTS**

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***b) Permanent assets***

**Investments**

Investment in subsidiary is accounted for using the equity method, and other investments are stated at cost less valuation allowance.

**Property, plant and equipment**

Recorded at acquisition or construction cost plus monetary restatement through December 31, 1995. Depreciation is computed under the straight-line method based on the useful lives of the assets.

**Deferred charges**

Stated at cost and refers to unamortized goodwill and preoperating expenses associated with commercial assignment and expenses incurred prior to the start-up of the new stores. Preoperating expenses are amortized over five years or over the terms of the lease contracts, beginning upon the start-up of the new stores.

The goodwill resulting from the acquisition of investments is based on the projected earnings capacity of the acquired business over the estimated period for return on investment and is amortized using the straight-line method in 60 monthly installments.

***c) Current and long-term liabilities***

**Copyright**

Recognized when sales are made and, in some cases, when publication rights are acquired. In the first case, copyright are considered selling expenses and, in the second case, production cost.

**Other**

Stated at known or estimated amounts plus charges, monetary and/or exchange variations incurred through the balance sheet date, if applicable.

**04.01 - NOTES TO THE INTERIM FINANCIAL STATEMENTS**

***d) Income and social contribution taxes***

Taxes on net income (loss) include current and deferred amounts.

Income tax is calculated at the rate of 15% on taxable income plus a 10% surtax, and social contribution tax is calculated at the rate of 9% on adjusted net income.

Deferred income and social contribution taxes are recorded in current assets, long-term assets and long-term liabilities, as stated in Note 12, to reflect future tax effects on temporary differences between the reported amounts of assets and liabilities and their tax bases, and tax loss carryforwards.

Deferred tax assets are based on expected future taxable income at the tax rates in effect at yearend and are reviewed and adjusted annually in the event there is any substantial change in expected profits.

***e) Use of estimates***

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates.

***f) Earnings per share***

Calculated based on the number of shares outstanding at the end of the period.

**4. Consolidated financial statements**

The consolidated financial statements include the accounts of the Company and its subsidiary, as follows:

	<b><u>Ownership interest - %</u></b>
Livraria e Papelaria Saraiva S.A.	99.91

The consolidated financial statements have been prepared in accordance with Brazilian accounting practices and standards established by the CVM, which comprise:

Elimination of intercompany balances and transactions.

**04.01 - NOTES TO THE INTERIM FINANCIAL STATEMENTS**

Elimination of the Company's investment against subsidiary's shareholders' equity.

Minority interest in shareholders' equity and in net income of the subsidiary is reported separately in the balance sheets and statements of income, respectively.

**5. Trade accounts receivable**

	<u>Company</u>	<u>Consolidated</u>
Trade accounts receivable	14,189	13,309
Credit cards	74	16,696
Checks receivable	3,431	4,572
Allowance for doubtful accounts	<u>(704)</u>	<u>(911)</u>
	<u>16,990</u>	<u>33,666</u>

**6. Inventories**

	<u>Company</u>	<u>Consolidated</u>
Finished products	26,584	26,584
Products for resale	18	30,516
Work in process	16,936	16,936
Raw materials	15,264	15,264
Packing and consumption materials	<u>595</u>	<u>878</u>
	<u>59,397</u>	<u>90,178</u>

**7. Investments**

	<u>Company</u>	<u>Consolidated</u>
Investment in subsidiary	48,417	-
Other investments	1,810	2,480
Valuation allowance	<u>(1,402)</u>	<u>(1,937)</u>
	<u>48,825</u>	<u>543</u>

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**04.01 - NOTES TO THE INTERIM FINANCIAL STATEMENTS**

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The investment in subsidiary refers to the equity interest in Livraria e Papelaria Saraiva S.A., as detailed below:

Number of shares - thousands	57,540
Number of shares held - thousands	57,490
Ownership interest - %	99.91
Capital - R\$	51,210
Shareholders' equity - R\$	48,459
Investment - R\$	<u>48,417</u>
Net income, calculation basis for equity in subsidiary	1,841
<b>Equity in subsidiary</b>	<u><u>1,839</u></u>

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**04.01 - NOTES TO THE INTERIM FINANCIAL STATEMENTS**

LIVRARIA E PAPELARIA SARAIVA S.A.

BALANCE SHEET AS OF JUNE 30, 2005

(In thousands of Brazilian reais - R\$)

<b>ASSETS</b>	<b>98,314</b>	<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>98,314</b>
<b>CURRENT ASSETS</b>	<b>62,611</b>	<b>CURRENT LIABILITIES</b>	<b>29,453</b>
Cash and cash equivalents	12,155	Loans and financing	3,160
Trade accounts receivable	17,677	Trade accounts payable	20,796
Inventories	30,780	Taxes payable	1,375
Recoverable taxes	508	Accrued vacation and related charges	
Deferred income and social contribution taxes	1,290	Accounts and expenses payable	2,415
Other receivables	177	Management profit sharing	205
Prepaid expenses	24		
<b>LONG-TERM ASSETS</b>	<b>16,788</b>	<b>LONG-TERM LIABILITIES</b>	<b>20,402</b>
Escrow deposits	8,986	Loans and financing	1,760
Deferred income and social contribution taxes	7,800	Reserve for contingencies	18,642
Other receivables	2		
<b>PERMANENT ASSETS</b>	<b>18,915</b>	<b>SHAREHOLDERS' EQUITY</b>	<b>48,459</b>
Investments	135	Capital	51,210
Property, plant and equipment	16,028	Capital reserves	2,190
Deferred charges	2,752	Accumulated deficit	(4,941)

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**04.01 - NOTES TO THE INTERIM FINANCIAL STATEMENTS**

**8. Property, plant and equipment**

	Annual depreciation rate - %	Company		
		Cost	Depreciation	Net
Buildings	4	8,171	(3,191)	4,980
Machinery and equipment	10	14,955	(11,742)	3,213
Furniture, fixtures and installations	10	21,471	(17,990)	3,481
Vehicles	20	2,975	(1,557)	1,418
Software and IT equipment	20	23,263	(15,283)	7,980
Land	-	2,029	-	2,029
Advances to suppliers	-	32	-	32
Other	-	810	-	810
		<u>73,706</u>	<u>(49,763)</u>	<u>23,943</u>

	Annual depreciation rate - %	Company		
		Cost	Depreciation	Net
Buildings	4	9,613	(3,735)	5,878
Machinery and equipment	10	15,246	(11,972)	3,274
Furniture, fixtures and installations	10	66,063	(51,748)	14,315
Vehicles	20	3,132	(1,664)	1,468
Software and IT equipment	20	36,409	(24,983)	11,426
Land	-	2,032	-	2,032
Advances to suppliers	-	154	-	154
Other	-	1,424	-	1,424
		<u>134,073</u>	<u>(94,102)</u>	<u>39,971</u>

**9. Deferred charges**

	Company	Consolidated
Preoperating expenses and other deferred charges	2,691	25,403
Unamortized goodwill	10,066	10,066
Accumulated amortization	(10,218)	(30,178)
	<u>2,539</u>	<u>5,291</u>

04.01 - NOTES TO THE INTERIM FINANCIAL STATEMENTS

**10. Loans and financing**

	<u>Company</u>	<u>Consolidated</u>
Current:		
Financing:		
In local currency-		
BNDES - FINEM	960	4,119
In foreign currency-		
International Finance Corporation - IFC	<u>5,439</u>	<u>5,439</u>
	<u>6,399</u>	<u>9,558</u>
Long-term-		
Financing-		
In local currency-		
BNDES - FINEM	<u>58</u>	<u>1,819</u>

BNDES - National Economic and Social Development Bank

FINEM - Business Financing

Financing from the BNDES - FINEM is collateralized by mortgage and bears interest of 3.5% per year plus TJLP (long-term interest rate). Financing obtained by the subsidiary Livraria e Papelaria Saraiva S.A. from the BNDES - FINEM is 100% guaranteed by the Company and bears interest of 3% to 3.5% per year, plus TJLP. With respect to the financing obtained by the Company, pursuant to the contract amendment made on July 29, 2002, the use and grace periods of the remaining subloans were extended, and additional covenants were included, such as the Company may not reduce capital; may not participate in merger, spin-off or consolidation processes; and may not encumber or sell its permanent assets without prior authorization of the BNDES.

Financing from the IFC is subject to U.S. dollar variation and interest of 3% per year above LIBOR. The agreement is not secured by any collateral and, until the financing is fully repaid, the Company must maintain the current ownership interest in Livraria e Papelaria Saraiva S.A. and the controlling shareholders must together hold at least 50% of the Company's common shares with voting rights. The agreement also requires compliance with performance indicators related to: (a) current ratio; (b) indebtedness ratio; and (c) interest coverage ratio. In the period, the Company complied with the performance indicators established in the agreement.

**04.01 - NOTES TO THE INTERIM FINANCIAL STATEMENTS**

Financing from the BNDES - FINEM has been used for the acquisition and implementation of an integrated business management system (ERP) and to build a distribution center. Financing obtained by the Company from the IFC and financing obtained by the subsidiary from the BNDES - FINEM was used for investment in megastores and modernization of the subsidiary's conventional stores.

**11. Related-party transactions**

Transactions with related parties include purchase, sale, consignment and intercompany loan operations, made under usual market conditions. Loans payable to the subsidiary Livraria e Papelaria Saraiva S.A., which were obtained in the prior year, were repaid in the period. The main balances and transactions with related parties are as follows:

	<u>Livraria e Papelaria Saraiva S.A.</u>
Current liabilities-	
Accounts payable	1,001
Sales of products	5,286
Purchases of products	4
Financial expenses	156

**12. Deferred income and social contribution taxes**

Deferred income and social contribution taxes are derived from:

	<u>Company</u>	<u>Consolidated</u>
Current assets	<u>141</u>	<u>1,431</u>
Long-term assets:		
Tax loss carryforwards	-	2,795
Reserve for contingencies	<u>520</u>	<u>5,525</u>
	<u>520</u>	<u>8,320</u>
Long-term liabilities:		
Provision for book inventory losses - Law No. 10,753/03	3,015	3,015
Deferral of accelerated depreciation	52	52
Unamortized goodwill - article 7 of Law No. 9532/97	<u>165</u>	<u>165</u>
	<u>3,232</u>	<u>3,232</u>

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The Company, based on the opinion of its outside attorneys, considered the tax incentive established by Law No. 10,753/03, amended by Law No. 10,833/03, as a temporary difference between the tax basis and the respective book value, recognizing the tax effect in accordance with CVM Regulatory Instruction No. 371/02.

Reconciliation of the expense calculated by applying the combined tax rate and the tax expense charged to income is as follows:

	<u>Company</u>	<u>Consolidated</u>
Income before taxes on income	36,048	37,298
Combined tax rate - %	34.00	34.00
Taxes computed at the combined tax rate	(12,258)	(12,258)
Permanent additions- Nondeductible expenses	(72)	(109)
Permanent deductions:		
Equity in subsidiary	626	-
Other deductions	156	174
	<u>222</u>	<u>248</u>
	<u>(11,326)</u>	<u>(12,370)</u>
Income and social contribution taxes:	(12,820)	(13,697)
Current	<u>1,494</u>	<u>1,327</u>
Deferred	<u>(11,326)</u>	<u>(12,370)</u>
Effective tax rate	<u>31.4%</u>	<u>33.2%</u>

The Company and its subsidiary Livraria e Papelaria Saraiva S.A., based on the expectation of future taxable income and positive cash flows discounted to present value and pursuant to CVM Instruction No. 371/02, maintained in their financial statements the deferred tax asset.

Management considers the carrying amount of the Company's deferred tax assets for temporary differences realizable in proportion to the final resolution of lawsuits.

In the event of a definitive decision on the lawsuits, 99% of the subsidiary's deferred tax asset is expected to be realized until 2007 and the remaining 1% in 2008, as follows:

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	<u>Realization of deferred tax asset</u>	<u>Deferred tax asset</u>
June 30, 2005	-	9,090
December 31, 2005	2,362	6,728
December 31, 2006	4,274	2,454
December 31, 2007	2,402	52
December 31, 2008	52	-

**13. Reserve for contingencies**

The Company and its subsidiary Livraria e Papelaria Saraiva S.A. are challenging in court the constitutionality of federal taxes, such as PIS and COFINS (taxes on revenue), IR (income tax) and CSLL (social contribution tax). Escrow deposits were made for the subsidiary's PIS/COFINS lawsuit and classified in long-term assets.

The residual contingent liability is composed of:

	<u>Company</u>	<u>Consolidated</u>
PIS/COFINS - expansion of tax basis and rate increase	189	9,115
IR/CSLL - "Plano Real" (economic plan) - Law No. 8880/94	<u>2,084</u>	<u>11,799</u>
Total	<u>2,273</u>	<u>20,914</u>

Due to a Supreme Federal Court decision that acknowledged the constitutionality of the increase in COFINS rate, as established by Law No. 9718/98, the Company, based on the opinion of its attorneys, reversed on December 31, 2003 part of the liabilities against the respective escrow deposits. The subsidiary's COFINS lawsuit is still pending court decision and the respective contingency reserve has been maintained.

**14. Shareholders' equity**

**a) Capital**

A capital increase to R\$46,405 was approved at the Extraordinary Shareholders' Meeting on April 26, 2005, through the absorption of the profit reserve in the amount of R\$4,428, without any change in the number of shares.

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**04.01 - NOTES TO THE INTERIM FINANCIAL STATEMENTS**

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Fully paid-up capital as of June 30, 2005 is R\$46,405, represented by 23,269,203 shares, of which 9,622,313 are common and 13,646,890 are preferred without par value. The Company is authorized to increase its capital by up to 10,000,000 shares through the issuance of new shares for subscription, regardless of amendment to bylaws.

Preferred shares cannot exceed 2/3 of total shares issued; are nonvoting, except in the circumstances specified by law or bylaws; are nonconvertible into common shares; and entitle their holders to: (a) special treatment in the event of sale of control of the Company, according to the terms of the bylaws; (b) dividends equal to those paid on common shares; and (c) share in the distribution of bonus shares resulting from capitalization of reserves, retained earnings and any other funds, under the same conditions as the holders of common shares.

Any change in preference, rights and advantages of preferred shares is subject to prior approval, or ratification for a nonextendible term of one year, of the holders of more than a half of these shares at a special meeting.

All shares are entitled to a minimum dividend of 25% of adjusted net income for each year.

The remaining balance of retained earnings is prior to the effective date of Law No. 6404/76.

***b) Treasury shares - CVM Instructions No. 10/80 and No. 298/97 (included under the caption "Profit reserves")***

At the Board of Directors' meeting on August 21, 2002 and according to bylaws, the Company was authorized to acquire 500,000 of its own preferred shares to be held in treasury.

In the six-month period ended June 30, 2005 there was no share purchase transaction. Treasury shares as of June 30, 2005 total 332,500 with market value of R\$4,356 (R\$13.10 per share as of June 30, 2005).

***c) Interest on capital and dividends***

The payment of interest on capital starting on May 31, 2005, in the amount of R\$9,351, calculated based on the financial statements as of December 31, 2004, was approved at the Annual Shareholders' Meeting held on April 26, 2005.

**04.01 - NOTES TO THE INTERIM FINANCIAL STATEMENTS**

**15. Financial instruments**

**a) Derivatives**

The Company enters into operations recorded in balance sheet accounts in order to meet its operating needs and hedge against risks of foreign currency and interest rate changes. The operations are conducted with sound financial institutions and managed by the finance area by setting position and exposure limits and monitoring the risks involved.

Derivatives operations conducted by the Company in the quarter were as follows:

Foreign exchange hedge contract - noncash swap to hedge the amortization of the financing with the International Finance Corporation - IFC. The operation was contracted in August 2004 and April 2005, in the amount of US\$2,430,000, and matures in June 2005 and December 2005, respectively. A loss of R\$944 was incurred in the six-month period.

The amount subject to exchange variation corresponds to the last installment of the agreement with the IFC falling due in June 2006, in the amount of US\$1,153,846, equivalent to R\$2,712.

Interest rate swap agreements linked to loans obtained under BACEN Resolution No. 2770 in 2003 and 2004 and settled in January 2005. Financial expenses recorded in the quarter were R\$70, equivalent to the variation of CDI (interbank deposit rate).

The fair values for swap agreements on June 30, 2005 approximate carrying amounts and there are no significant differences.

**b) Other financial instruments**

The carrying amounts and fair values of the financial instruments recorded in the consolidated balance sheet as of June 30, 2005 are as follows:

	<u>Carrying amount</u>	<u>Fair value</u>
Cash and banks	22,300	22,300
Loans and financing:		
Local currency	5,938	5,938
Foreign currency	5,439	5,439

**04.01 - NOTES TO THE INTERIM FINANCIAL STATEMENTS**

*Criteria, assumptions and limitations used in calculating fair values*

a) *Cash and cash equivalents*

Cash and cash equivalents are represented by unrestricted bank deposits.

b) *Loans and financing*

The carrying amounts of loans and financing correspond substantially to financing from the BNDES and IFC. The fair value of this financing does not significantly differ from the carrying amounts as of June 30, 2005.

c) *Limitations*

The fair values were estimated at a specific time, based on relevant market information. Changes in assumptions can significantly affect those estimates.

**16. Financial expenses**

Financial expenses are comprised of:

	<u>Company</u>	<u>Consolidated</u>
Financial expenses - operations under BACEN Resolution No. 2770	70	70
Loss on temporary cash investments - hedge	944	944
Interest, monetary and exchange variations on loans and financing	(613)	(256)
Other interest and monetary variation	1,029	1,240
CPMF (tax on bank transactions)/IOC (tax on credit operations)	785	1,349
Other financial expenses	<u>151</u>	<u>447</u>
	<u>1,948</u>	<u>3,794</u>

**17. Insurance**

As of June 30, 2005, the Company and its subsidiary had insurance coverage against fire and sundry risks for fixed assets and inventories, in amounts considered sufficient to cover potential losses.

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**05.01 - COMMENTS ON COMPANY'S PERFORMANCE FOR THE QUARTER**

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See Comments on Consolidated Performance - 08.01/ITR.

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**06.01 - CONSOLIDATED BALANCE SHEETS - ASSETS ( In thousands of Brazilian reais - R\$)**

<b>Code</b>	<b>Description</b>	<b>06/30/2005</b>	<b>03/31/2005</b>
1	Total assets	220,010	260,154
1.01	Current assets	156,578	192,691
1.01.01	Cash and cash equivalents	22,300	34,533
1.01.01.01	Cash and banks	1,006	4,709
1.01.01.03	Temporary cash investments	21,294	29,824
1.01.02	Receivables	42,719	72,608
1.01.02.01	Trade accounts receivable	33,666	67,968
1.01.02.02	Recoverable taxes	8,640	4,080
1.01.02.04	Other	413	560
1.01.03	Inventories	90,178	85,436
1.01.03.01	Finished products	57,100	60,683
1.01.03.02	Work in process	16,936	15,757
1.01.03.03	Raw materials	15,264	8,162
1.01.03.04	Packing and consumption materials	878	834
1.01.04	Other	1,381	114
1.01.04.01	Deferred charges	1,331	0
1.01.04.02	Other	50	114
1.02	Long-term assets	17,627	19,593
1.02.01	Sundry receivables	0	0
1.02.02	Intercompany receivables	0	0
1.02.02.01	Affiliates	0	0
1.02.02.02	Subsidiaries	0	0
1.02.02.03	Other related parties	0	0
1.02.03	Other	17,627	19,593
1.02.03.01	Tax incentive deposits	0	0
1.02.03.02	Escrow deposits	9,229	9,165
1.02.03.03	Deferred income and social contribution taxes	8,320	8,202
1.02.03.04	Recoverable taxes	0	2,148
1.02.03.05	Other	78	78
1.03	Permanent assets	45,805	47,870
1.03.01	Investments	543	543
1.03.01.01	In affiliates	0	0
1.03.01.02	In subsidiaries	0	0
1.03.01.02.01	Goodwill from investment in subsidiary	0	0
1.03.01.03	Other investments	543	543
1.03.01.03.01	Tax incentives	487	487
1.03.01.03.02	Other	56	56
1.03.02	Property, plant and equipment	39,971	41,640
1.03.02.01	Land	2,032	2,032
1.03.02.02	Buildings	5,878	5,966
1.03.02.03	Furniture, fixtures and installations	14,315	15,129
1.03.02.04	Vehicles	1,468	1,490
1.03.02.05	Machinery and equipment	3,274	3,325
1.03.02.06	Software and IT equipment	11,426	12,200

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**06.01 - CONSOLIDATED BALANCE SHEETS - ASSETS (In thousands of Brazilian reais - R\$)**

<b>Code</b>	<b>Description</b>	<b>06/30/2005</b>	<b>03/31/2005</b>
1.03.02.07	Other	1,578	1,498
1.03.03	Deferred charges	5,291	5,687
1.03.03.01	Unamortized goodwill	1,565	1,672
1.03.03.02	Other	3,726	4,015

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**06.02 - CONSOLIDATED BALANCE SHEETS - LIABILITIES AND SHAREHOLDERS' EQUITY (In thousands of Brazilian reais - R\$)**

Code	Description	06/30/2005	03/31/2005
2	Total liabilities and shareholders' equity	220,010	260,154
2.01	Current liabilities	67,126	96,595
2.01.01	Loans and financing	9,558	10,447
2.01.02	Debentures	0	0
2.01.03	Trade accounts payable	36,263	41,268
2.01.04	Taxes payable	2,767	2,842
2.01.04.01	Income tax	0	0
2.01.04.02	Social contribution tax	0	0
2.01.04.03	Payroll charges	2,767	2,842
2.01.05	Dividends payable	0	0
2.01.06	Provisions	14,979	19,892
2.01.06.01	Accrued vacation and related charges	4,227	4,871
2.01.06.02	Income tax provision	6,447	9,269
2.01.06.03	Social contribution tax provision	1,742	3,018
2.01.06.04	Management profit sharing	1,937	1,086
2.01.06.05	Provision for 13th salary and related charges	626	1,288
2.01.07	Intercompany payables	0	0
2.01.08	Other	3,559	22,146
2.01.08.01	Accounts and expenses payable	1,107	1,339
2.01.08.02	Copyright payable	445	7,017
2.01.08.03	Proposed interest on capital	35	9,351
2.01.08.05	Loss on derivatives	415	751
2.01.08.06	Rents payable	1,557	1,665
2.01.08.07	Management profit sharing payable	0	2,023
2.02	Long-term liabilities	25,965	29,848
2.02	Loans and financing	1,819	5,857
2.02.02	Debentures	0	0
2.02.03	Provisions	24,146	23,952
2.02.03.01	Reserve for contingencies	20,914	20,690
2.02.03.02	Deferred income and social contribution taxes	3,232	3,262
2.02.04	Intercompany payables	0	0
2.02.05	Other	0	39
2.03	Deferred income	0	0
2.04	Minority interest	42	42
2.05	Shareholders' equity	126,877	133,669
2.05.01	Capital	46,405	41,977
2.05.01.01	Updated capital	46,405	41,977
2.05.02	Capital reserves	13,947	13,947
2.05.02.01	Tax incentive reserve	4,427	4,427
2.05.02.02	Share premium reserve	8,653	8,653
2.05.02.03	Working capital reserve	724	724
2.05.02.04	Other	143	143
2.05.03	Revaluation reserves	0	0
2.05.03.01	Owned assets	0	0
2.05.03.02	Subsidiaries/affiliates	0	0

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**01.01 - IDENTIFICATION**

1 - CVM CODE <b>01047-2</b>	2 - COMPANY NAME SARAIVA S.A. LIVREIROS EDITORES	3 - Federal Corporate Taxpayers' Registration Number (CNPJ) <b>60.500.139/0001-26</b>
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**06.02 - CONSOLIDATED BALANCE SHEETS - LIABILITIES AND SHAREHOLDERS' EQUITY (In thousands of Brazilian reais - R\$)**

<b>Code</b>	<b>Description</b>	<b>06/30/2005</b>	<b>03/31/2005</b>
2.05.04	Profit reserves	42,298	46,726
2.05.04.01	Legal reserve	7,890	7,890
2.05.04.02	Statutory reserve	0	0
2.05.04.03	Reserve for contingencies	0	0
2.05.04.04	Unrealized profit reserve	0	0
2.05.04.05	Profit retention reserve	0	0
2.05.04.06	Special reserve for undistributed dividends	0	0
2.05.04.07	Other profit reserves	34,408	38,836
2.05.04.07.01	Reserve for capital increase	37,278	41,706
2.05.04.07.02	Treasury stock	(2870)	(2,870)
2.05.05	Retained earnings/accumulated deficit	24,227	31,019

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**010470-2 SARAIVA S.A. LIVREIROS E EDITORES**

**60.500.139/0001-26**

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**07.01 - CONSOLIDATED STATEMENTS OF INCOME (In thousands of Brazilian reais - R\$)**

Code	Description	3-04/01/2005 to 06/30/2005	4-01/01/2005 to 06/30/2005	5-04/01/2004 to 06/30/2004	6-01/01/2004 to 06/30/2004
3.01	Gross revenue from sales and/or services	73,537	257,136	70,912	255,480
3.02	Deductions from gross revenue	(5,425)	(12,026)	(10,370)	(28,521)
3.03	Net revenue from sales and/or services	68,112	245,110	60,542	226,959
3.04	Cost of sales and/or services	(34,182)	(106,595)	(32,344)	(99,148)
3.05	Gross profit	33,930	138,515	28,198	127,811
3.06	Operating expenses	(43,051)	(101,136)	(49,617)	(108,591)
3.06.01	Selling expenses	(27,991)	(68,604)	(28,650)	(68,529)
3.06.02	General and administrative expenses	(14,489)	(27,223)	(15,053)	(27,690)
3.06.02.01	Management compensation	(1,111)	(2,222)	(1,277)	(2,558)
3.06.02.02	Other	(13,378)	(25,001)	(13,776)	(25,132)
3.06.03	Financial	478	(1,678)	(2,332)	(5,351)
3.06.03.01	Financial income	1,469	2,116	566	991
3.06.03.02	Financial expenses	(991)	(3,794)	(2,898)	(6,342)
3.06.04	Other operating income	1,808	2,193	237	510
3.06.05	Other operating expenses	(2,857)	(5,824)	(3,819)	(7,531)
3.06.05.01	Depreciation and amortization	(2,739)	(5,570)	(3,669)	(7,212)
3.06.05.02	Other	(118)	(254)	(150)	(319)
3.06.06	Equity in subsidiary	0	0	0	0
3.07	Income from operations	(9,121)	37,379	(21,419)	19,220
3.08	Nonoperating (expenses) income	(48)	(81)	(97)	(92)
3.08.01	Income	27	77	0	0

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**07.01 - CONSOLIDATED STATEMENTS OF INCOME (In thousands of Brazilian reais - R\$)**

Code	Description	3-04/01/2005 to 06/30/2005	4-01/01/2005 to 06/30/2005	5-04/01/2004 to 06/30/2004	6-01/01/2004 to 06/30/2004
3.08.02	Expenses	(75)	(158)	(97)	(92)
3.09	Income before taxes/profit sharing	(9,169)	37,298	(21,516)	19,128
3.10	Provision for income and social contribution taxes	3,136	(13,697)	5,778	(7,501)
3.11	Deferred income tax	92	1,327	1,545	1,126
3.12	Profit sharing/contributions	(851)	(1,937)	(251)	(1,275)
3.12.01	Profit sharing	(851)	(1,937)	(251)	(1,275)
3.12.01.01	Management profit sharing	(851)	(1,937)	(251)	(1,275)
3.12.02	Contributions	0	0	0	0
3.13	Reversal of interest on capital	0	0	0	0
3.14	Minority interest	0	(1)	3	2
3.15	Net income/loss	(6,792)	22,990	(14,441)	11,480
	NUMBER OF SHARES, EX-TREASURY (THOUSANDS)	22,936	22,936	22,936	22,936
	EARNINGS PER SHARE		1.00235		0.50052
	LOSS PER SHARE	(0.29613)		(0.62962)	

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## COMMENTS ON CONSOLIDATED PERFORMANCE FOR THE QUARTER

Saraiva Group operates in the book publishing segment through Saraiva S.A. Livreiros Editores (the “Company”) and in the bookstore industry through Livraria e Papelaria Saraiva S.A. The Company’s operational and financial information refers to the first half of 2005 (1H05) and is consolidated, expressed in Brazilian reais and prepared in conformity with Brazilian corporate law, unless otherwise stated. All comparisons were made with the first half of 2004 (1H04), unless otherwise specified. Please note that, due to the high seasonality experienced by the book publishing segment, the isolated analysis of the second quarter is not representative in relation to the year-to-date result.

### HIGHLIGHTS

The results for the first half of 2005 show a significant improvement when compared to the first half of 2004. The focus to increase operating efficiency and competitiveness of the Saraiva Group companies, coupled with the tax exemption for the book production chain, produced excellent results.

**Revenue** - Consolidated gross revenue totaled R\$257.1 million, representing an increase of 0.6% in relation to 1H04. Net revenue increased 8.0%, due to the reduction to zero of the PIS/COFINS (taxes on revenue) rates on book sales.

**EBITDA** - Consolidated gross cash flow (EBITDA) reached R\$44.6 million in 1H05, an increase of 40.4% in relation to the same period of 2004. The EBITDA margin increased from 14.0% (1H04) to 18.2% (1H05). This significant increase in EBITDA was primarily due to the cost rationalization plan started in 2004.

**Net income** - Consolidated net income for the six-month period achieved a new record of R\$23.0 million, an increase of 100.3%.

### EDITORA SARAIVA (SARAIVA S.A. LIVREIROS EDITORES)

Editora Saraiva is the controlling shareholder of Livraria Saraiva, holding 99.91% of the shares - two different business activities and corporate names.

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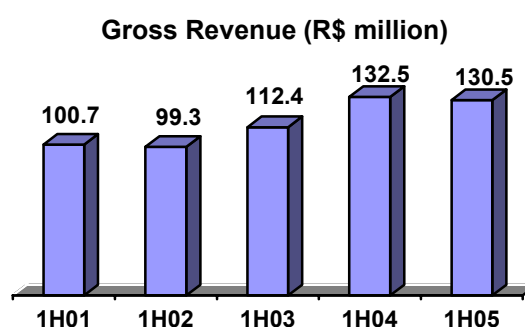
The table below summarizes the main financial and economic performance data:

Description	1H05		1H04		HA %
	R\$ 000	VA %	R\$ 000	VA %	
Gross revenue	130,502	100.1	132,528	108.1	-1.5
Net revenue	130,399	100.0	122,645	100.0	6.3
Gross profit	92,613	71.0	87,303	71.2	6.1
Operating expenses	59,376	45.5	61,150	49.9	-2.9
EBITDA	37,995	29.1	30,256	24.7	25.6
Financial expenses, net	811	0.6	3,682	3.0	-78.0
Income before equity in subsidiary	21,151	16.2	13,681	11.2	54.6
Net income	22,990	17.6	11,480	9.4	100.3

VA - vertical analysis

HA - horizontal analysis

### Gross Revenue



Gross revenue totaled R\$130.5 million in 1H05, a decrease of 1.5% compared to 1H04. The main reason for this variation was the performance in the textbook segment; the higher revenue from sales in the private market was not sufficient to offset the lower revenue from sales to the Government under the PNLD (National Textbook Program), as shown below:

PNLD by school year	Total sales (contract value) R\$ million	Allocation of sales by fiscal year R\$ million			
		2H03	1H04	2H04	1H05
2004	85.5	57.4	28.1		
2005	83.3			58.6	24.7

Net revenue increased 6.3%, due to the reduction to zero (pursuant to Law No. 11,033 of December 21, 2004) of the PIS/COFINS rates on book sales. This tax rate reduction affects 99% of the mix of products sold by the Company.

### Gross Profit

Gross profit was R\$92.6 million, which represents an increase of 6.1% in relation to 1H04. Gross margin remained practically unchanged: 71.0% in 1H05 and 71.2% in 1H04.

### Income from Operations

The successful implementation of the cash management program in 2004 and the adoption of cost rationalization actions led to a significant operating efficiency gain in the first half of this year. The operating expenses/net revenue ratio decreased from 49.9% (1H04) to 45.5% (1H05). For the Company's management, efforts to achieve efficiency gains through strict cost control are a competitive advantage under ongoing development. To closely follow up on this strategy, a managing group was created with the mission of periodically interacting with the main individuals responsible for expenditures in order to identify new opportunities for gains.

### Cash Flow

Gross cash flow (EBITDA) increased 25.6%, amounting to R\$38.0 million in 1H05. The EBITDA margin grew from 24.7% (1H04) to 29.1% (1H05).

EBITDA Reconciliation - R\$ 000	1H05	1H04	Var.
Income from operations after net financial expenses	34,132	22,517	51.6%
(+) Depreciation and amortization	3,052	4,057	-24.8%
(+) Net financial expenses	811	3,682	-78.0%
(=) EBITDA	37,995	30,256	25.6%

### Financial Expenses/Capital Structure

Net financial expenses fell significantly by 78.0%, from R\$3.7 million (1H04) to R\$0.8 million (1H05). There were two determining factors for the improvement of the Company's performance: a significant reduction in indebtedness and the appreciation of the Brazilian real relative to the US dollar in 1H05, which had a favorable effect on the liability denominated in US dollars. The financial position improved from net indebtedness of R\$ 32.1 million at the end of 1H04 to net cash of R\$ 3.3 million at the end of 1H05.

### Net Income

Zero rate tax on sale of books, coupled with increased efficiency in expense management and improved financial income, led to a significant increase of 54.6% in income before equity in the subsidiary Livraria Saraiva, from R\$ 13.7 million (1H04) to R\$ 21.2 million at the end of the 1H05.

Net income after equity in subsidiary also showed an improvement in Livraria's result, increasing 100.3%, from R\$ 11.5 million in 1H04 to R\$ 23.0 million in 1H05.

### Investments

Total investments in 1H05 were R\$1.2 million, allocated mainly to information technology projects.

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### Awards

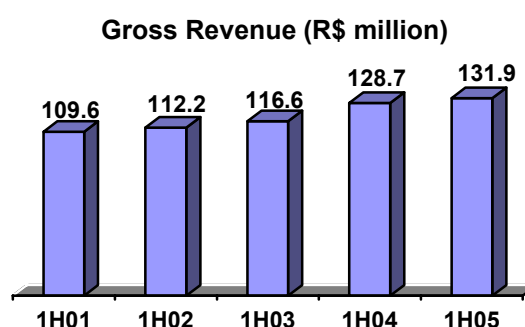
Editora Saraiva was elected the Publishing Company of the Year for 2004 and received the “Aliomar Baleeiro” award from the Brazilian Academy of Tax Law. In the same event, Editora Saraiva’s work “Constitutional Tax System” by Humberto Bergmann Ávila received the “Gilberto de Ulhôa Canto” award as the best Tax Law book of 2004.

## LIVRARIA SARAIVA (LIVRARIA E PAPELARIA SARAIVA S.A.)

Shown below are the main financial and economic performance data:

Description	1H05		1H04		HA %
	R\$ 000	VA %	R\$ 000	VA %	
Gross revenue	131,924	109.9	128,742	116.9	2.5
Net revenue	120,002	100.0	110,104	100.0	9.0
Gross profit	45,907	38.3	40,516	36.8	13.3
Operating expenses	42,026	35.0	42,288	38.4	-0.6
EBITDA	6,632	5.5	1,528	1.4	334.0
Financial expenses, net	866	0.7	1,669	1.5	-48.1
Net income	1,841	1.5	(2,202)	-2.0	-183.6

### Gross Revenue



Gross sales revenue of Livraria increased 2.5% in 1H05, totaling R\$131.9 million. In terms of same-store sales, the increase was 5.3%, considering that the Company had three stores less than in 1H04. The main highlight was the performance of the electronics division, which reported an increase of 24.4%.

With the PIS/COFINS rate reduction to zero for book sales, which applies to about 57% of Livraria’s mix of products, net revenue increased 9.0%.

### Gross Profit

Gross profit in 1H05 was R\$45.9 million, a 13.3% growth over 1H04. As a result of changes in the mix of products sold, gross margin increased from 36.8% (1H04) to 38.3% (1H05).

### Income (Loss) from Operations

The operating expenses/net revenue ratio showed a significant improvement, decreasing from 38.4% in 1H04 to 35.0% in 1H05. This operating efficiency gain is a result of the cash management program started in 2004, which includes cost rationalization actions. Highlights were actions implemented for the two main expense accounts of the Company (personnel and rent of stores):

Personnel restructuring with redefinition of store staff and cost rationalization; and  
Intense renegotiation of the lease contracts of the stores - some with success at the end of 2004 and others to be completed in 2005, with positive effects on future results.

Despite the current gain margin, the Company continues searching for new opportunities to increase its operating efficiency.

### Cash Flow

Gross cash flow (EBITDA) grew 334.0%, amounting to R\$ 6.6 million in 1H05, as a result of the increase in operating efficiency and zero rate tax for sale of books. The EBITDA margin increased from 1.4% to 5.5%.

<b>EBITDA reconciliation - R\$ 000</b>	<b>1H05</b>	<b>1H04</b>	<b>Var.</b>
Income from operations after net financial expenses	3,248	-3,295	-198.6%
(+) Depreciation and amortization	2,518	3,154	-20,2%
(+) Net financial expenses	866	1,669	-48,1%
(=) EBITDA	6,632	1,528	334,0%

### Financial Expenses/Capital Structure

Gains derived from the decrease in expenses and lower working capital need had a positive effect on net financial expenses, which decreased 48.1% in the period. The final cash position also improved, from net indebtedness of R\$ 6.3 million (1H04) to net cash of R\$ 7.2 million (1H05).

### Working Capital

The strategic working capital optimization plan enabled the Company to achieve a significant reduction of 38 days in the operating cycle (average term of inventory turnover + accounts receivable - accounts payable), considering the period from July 2004-June 2005 in relation to July 2003-June 2004.

### Net Income

Net income in 1H05 was R\$1.8 million, against a loss of R\$2.2 million in 1H04. The net margin went from -2.0% in 1H04 to 1.5% in 1H05.

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### **Personnel Strategy/Subsequent Event**

To streamline the retail business and continue the process of intensifying generation of value, Livraria increased its staff with the hiring of 2 new executives, who are specialists in retail and have wide experience in the segments in which Saraiva operates:

Marcílio Pousada - Superintendent Director, and  
Frederico Indiani - Purchasing Director.

### **Investments**

Investments in 1H05 totaled R\$0.7 million and the highlights were:

The new version of the retail electronic commerce site ([www.saraiva.com.br](http://www.saraiva.com.br)), with a modern layout and new functional resources.

Completion of the book location system “Busca Fácil”, which adds value to the customer’s buying experience, facilitating location of products available in the stores.

Change of the location of the Ribeirão Preto store, to be nearer the target consumers - moving from Novo Shopping to Santa Ursula Shopping.

Closing of the traditional format store, located in São José dos Campos, state of São Paulo, since the future outlook of the store did not indicate potential for generation of value.

The opening of two new stores is expected for October 2005, located in important commercial areas:

Traditional store in SuperShopping Osasco, in Greater São Paulo, with a 300 m<sup>2</sup> sales area, and

Megastore in Shopping Recife, the most important commercial location of the city of Recife, with a more than 1,000 m<sup>2</sup> sales area.

### **Marketing**

A new customer loyalty program is expected to be launched in 2H05: Saraiva Plus. It is a modern customer loyalty program that rewards customers of the Saraiva chain (physical stores and on-line retail) with points and exclusive sales items to boost sales and strengthen the relationship with these consumers.

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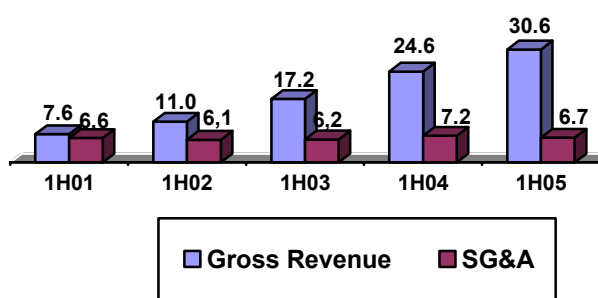
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### Saraiva.com - e-commerce Division (On-line Retail Sales)

The following indicators show the scale gains achieved and the significant increase in operating cash flow:

Indicators	1H05	1H04	VAR.
Gross revenue (R\$ 000)	30,638	24,633	24.4%
EBITDA (R\$ 000)	4,607	815	465.3%
Customers (000)	1,603	1,228	30.5%
% of Livraria's gross revenue	23.2%	19.1%	21.4%
Average purchase amount (R\$)	83,15	77,36	7.5%

Gross Revenue and SG&A (R\$ million)



## CONSOLIDATED

The table below shows the main consolidated financial and economic performance data:

R\$ 000	1H05	1H04	VAR.
Gross revenue	257,136	255,480	0.6 %
Net revenue	245,110	226,959	8.0%
Gross profit	138,515	127,811	8.4%
<i>Gross margin</i>	56.5%	56.3%	
Income from operations (EBIT) (a)	39,057	24,571	59.0%
<i>Operating margin</i>	15.9%	10.8%	
Financial expenses	(1,678)	(5,351)	-68.6%
Net income	22,990	11,480	100.3%
<i>Net margin</i>	9.4%	5.1%	
EBITDA (b)	44,627	31,783	40.4%
<i>EBITDA margin</i>	18.2%	14.0%	
Total assets	220,010	222,286	-1.0%
Shareholders' equity	126,877	106,512	19.1%
Cash/Net indebtedness	10,508	(38,416)	-127.4%

(a) Before financial income (expenses).

(b) Income (loss) from operations before interest, taxes, depreciation and amortization.

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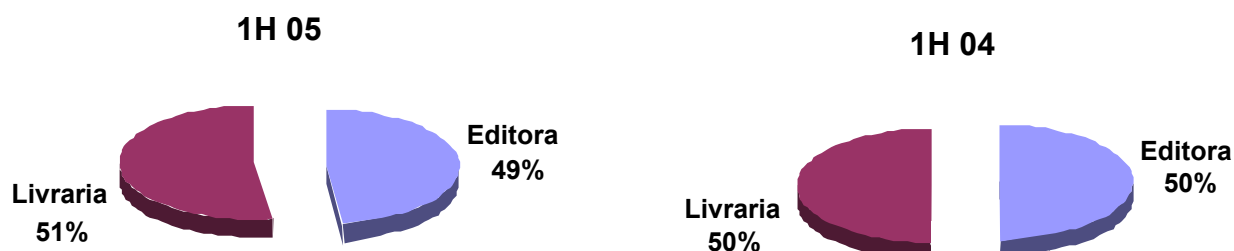
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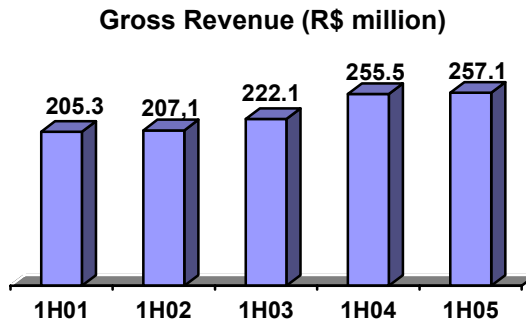
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### Consolidated Gross Revenue



### Gross Revenue

Consolidated gross revenue was R\$257.1 million in 1H05, an increase of 0.6% compared with 1H04. Net revenue increased 0.8%, amounting to R\$ 245.1 million, as a result of the zero rate of PIS and COFINS.



### Gross Profit

Gross profit totaled R\$138.5 million in 1H05, increasing 8.4% in relation to the same period in 2004. Gross margin was practicably stable: 56.3% in 1H04 and 56.5% in 1H05.

### Income (Loss) from Operations

Income (loss) from operations before financial expenses (EBIT) was R\$39.1 million, which represents a 59.0% increase compared with 1H04. This significant increase is due to the successful implementation of the cash management programs in Editora and in Livraria.

### Cash Flow

Gross cash flow (EBITDA) increased 40.4%, reaching R\$44.6 million in 1H05. The EBITDA margin also had an improvement, growing from 14.0% in 1H04 to 18.2% in 1H05.

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<b>EBITDA reconciliation - R\$ 000</b>	<b>1H05</b>	<b>1H04</b>	<b>Var.</b>
Income from operations after net financial expenses	37,379	19,220	94.5%
(+) Depreciation and amortization	5,570	7,212	-22.8%
(+) Net financial expenses	1,678	5,351	-68.6%
(=) EBITDA	44,627	31,783	40.4%

### Financial Expenses

Financial expenses in 1H05 were R\$1.7 million, against R\$5.4 million in 1H04. This decrease of 68.6% is due to:

A significant decrease in indebtedness level, favored by gains from cash generation and reduction in expenses of Editora and Livraria, as well as the decrease in working capital used by Livraria; and

Appreciation of the Brazilian real relative to the dollar in 1H05, which had a positive effect on the dollar-denominated liability of Editora.

### Net Income

Consolidated net income achieved a new record of R\$23.0 million, representing an increase of 100.3% over 1H04. The main factors that contributed to this increase were the operating efficiency gains resulting from the cost rationalization efforts and the PIS/COFINS tax rate reduction to zero for book sales.

## CAPITAL STRUCTURE

With the strong consolidated cash flow and without new borrowings - the Company did not obtain long-term financing in the last years - there was a significant reduction in indebtedness. The consolidated financial position evolved from net indebtedness of R\$38.4 million at the end of 1H04 to net cash of R\$10.5 million at the end of 1H05, which allowed for future long-term funding operations, as new investment projects with attractive return prospects are identified.

At the end of 1H05, the liability subject to exchange variation was US\$1.2 million, corresponding to the last semiannual installment (maturing in June 2006) of the long-term financing from the IFC. The installment maturing in December 2005 was hedged against fluctuations in exchange rates.

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## CAPITAL MARKET

The table below summarizes the movement of the Company's shares:

INDICATORS	1H05	1H04	Var. %
Number of trades <sup>(1)</sup>	461	248	85.9%
Participation in trading sessions - % <sup>(1)</sup>	73.2	51.6	41.9%
Quantity traded - thousand shares <sup>(1)</sup>	1,569	941	66.7%
Amount traded - R\$ 000 <sup>(1)</sup>	20,366	9,026	125.6%
Share price - R\$ <sup>(1) (2)</sup>	13,10	9.80	33.7%
Total shares outstanding - thousands <sup>(2)</sup>	22,937	22,937	0.0%
Market value - R\$ million <sup>(2)</sup>	300.5	224.8	33.7%

Source: Bovespa

(1) Refers to registered preferred shares (SLED4).

(2) At the end of the period.

The liquidity ratios of the Company's shares increased significantly in the period. The quantity traded grew 66.7%, the amount traded had an accumulated rise of 125.6% and preferred shares were traded in 73.2% of Bovespa's trading sessions. Focused on its role as a publicly-traded company, Saraiva has endeavored to continuously improving the best corporate governance practices and strengthening relations with the entire capital market community. In the last 12 months, the appreciation of preferred shares reached 33.7%, higher than the Ibovespa (São Paulo Stock Exchange index) rise of 18.5% in the period, in addition to the payment of interest on capital, which represented a dividend yield of 3.4% on the share value as of December 31, 2004.

## OUTLOOK

The macroeconomic scenario in which the book publishing and bookstore industries are inserted is experiencing enthusiastic period with several governmental actions and initiatives of reading and education incentives, which enables significant growth potential and generation of value.

Coupled with the significant tax exemption (PIS and COFINS) for the book production chain, which covered about 76% of the mix of consolidated sales of the Company and is benefiting the results and the investment capacity of the Group companies, other fundamental initiatives being developed are as follows:

Fundeb: the Federal Government proposed the creation of Fundeb (Maintenance and Development Fund for Basic Education). This fund provides for a gradual increase in the budget allocation to education, so as to have, by 2009, an additional R\$4.3 billion in funds. The initiative will benefit 47 million students and increase investments in qualification and compensation of the public teaching professionals.

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PNLEM - the PNLEM (National High School Textbook Program) is being expanded. Implemented in 2004, this program acquires books for the public high school students and, in its first year, benefited 1.3 million students (2.7 million books) in the subjects of Portuguese and Mathematics. For 2005, the estimate is to acquire books of these subjects for 8.4 million students (14.8 million books). For 2006, the FNDE (National Education Development Fund) has already announced its intention to gradually expand the program with the acquisition of books of other high school subjects.

Vivaleitura - The Federal Government's targets, with respect to the Ibero-American Reading Year (called "Vivaleitura" in Brazil) celebrated in 2005, were to reduce to zero the number of municipalities without libraries by the end of this year and increase, by 2007, by 50% the national reading rate.

Elementary school - The Ministry of Education (MEC) proposed a bill that extends elementary school to nine years, with enrollment at the age of six. The bill favors children staying in school, which increases the chances of success in learning and increase in education level.

BNDES-ProLivro - The BNDES created BNDES-ProLivro, a program for supporting the production chain, with special lines of credit to finance the production of books and opening of new bookstores.

This favorable scenario, in which numerous concrete initiatives are being implemented, generates an optimistic outlook for the Group. This scenario, coupled with the Company's efforts to constantly increase operating efficiency, rationalize costs and expenses, and optimize working capital management, strengthens the favorable outlook for Saraiva.