To our shareholders:

The management of Saraiva S/A Livreiros Editores presents for your appreciation the Management Report and the related Financial Statements, with the Independent Auditors' Report, for the year ended December 31, 2005.

Saraiva Group has operations in the publishing segment, through Editora Saraiva (Saraiva S/A Livreiros Editores), and in the retail book segment, through Livraria Saraiva (Livraria e Papelaria Saraiva S/A).

The Company's operating and financial information is consolidated and stated in Brazilian reais, in accordance with Corporate Law. All comparisons are made in relation to 2004, except where otherwise specified.

## MESSAGE FROM MANAGEMENT

The year 2005 was a milestone for Saraiva, both from the viewpoint of the results achieved, as well as the structuring of operations, for the Group to be ready for growing generation of value and making the Company increasingly sound.

Net income for 2005 hit record levels for the second year in a row, growing 120% and reaching the R$ 40.0 million mark. Consolidated gross sales reached R$ 505.6 million, which represented growth of 3.4%. Gross operating cash flow (EBITDA) totaled R$ 76.3 million, leaping 52%.

Part of this performance is the upshot of strict control over expenditures, with rationalization of the cost and expense structure, which increased Saraiva's operating efficiency and competitiveness. Cash management programs, conducted over the last two years, have allowed us to develop numerous important actions – such as the restructuring of personnel, rationalization of processes and renegotiation of contracts – and have provided for a significant reduction in expenses and working capital needs for the Company. The consolidated savings generated based on these programs reached R$ 10.6 million, on an annualized basis, and allowed the ratio of operating expenses to net sales to fall from 46.2% for 2003, to 44.2% for 2004, and 40.8% for 2005.

In addition, tax relief, which went into effect at the end of 2004, reducing to zero the PIS and COFINS (taxes on revenue) rates on the book sales chain, contributed to this positive result, benefiting some 76% of our consolidated sales mix.

The strong cash flow and the fact that the Company did not contract new long-term financing for an extensive period (between September 2000 and November 2005), allowed the consolidated financial position to evolve from a net debt of R$ 11.7 million, at the end of 2004, to net cash of R$ 6.1 million, at the end of 2005. In order to optimize management of the capital structure, the Company obtained, through Editora, financing from the National Bank for Economic and Social Development (BNDES), in the total amount of R$ 32.5 million (whose first release of R$ 7.5 million occurred in December 2005), with the purpose of carrying out the investment plan for 2005-2007.

**Editora Saraiva** gained a considerable share in the official government textbook purchasing programs contracted in the second half of 2005 and intended for the 2006 school year, notably the recently-established National High School Textbook Program (PNLEM/06), in which we were the leading company in billings, with 25.1% of the total amount. In 2005, we also started exploring new market niches, aligned with our current operations, with the start of the distance-learning business and partnerships with learning institutions for the sale of customized editions.

The year 2005 represented a significant turnaround for **Livraria Saraiva's** results, which evolved from a net loss of R$ 2.9 million for 2004, to net income of R$ 6.1 million, for 2005. The growing generation of value with the e-tailing division's success (www.saraiva.com.br), the recovery of physical stores' operating performance, better working capital management and savings generated with the rationalization of processes and renegotiation of contracts, as well as benefits with the tax relief on book sales, all contributed to this success.

Over the course of the year, we developed a new expansion model for the physical store chain, with the inclusion of new product categories. This project's first two units have already been opened, located in major commercial centers.

In the second half of 2005, we launched a distinctive loyalty program: *Saraiva Plus*. The initial results evidence the project's successful implementation, and we already have nearly 400,000 associates.

Aware of human capital's importance to expand our achievements, we have intensified training and skilling programs and reinforced our personnel, hiring three new executives, specialized in retail and with broad experience in the segments in which the Company operates.

## OUTLOOK

In 2006, the factors that favored the results achieved in 2005 will remain present, and, joined by the expectation of regained purchasing power in conjunction with government initiatives to encourage education and culture, they set the stage for a positive environment for Saraiva.

Along with this scenario, Saraiva Group companies are in prominent positions in the markets in which they operate, structured for consistent growth. With a brand solidly built over its 91-year history, the Company is present in segments with high growth potential and has a top-notch team of professionals, oriented towards generating value, factors that leverage the optimistic outlooks for the coming year.

In **Editora,** the favorable outlooks are based on:

- The capital structure with low indebtedness, which makes room for new long-term funding, as new investment projects with the expectation of attractive return are identified – with the BNDES financing, at the end of 2005, with favorable term and interest;
- The technical and financial capacity to study new opportunities for associations or acquisitions;

- The scheduled launch of 250 titles (between new and reformulated works) over the course of 2006, the result of ongoing work to renew the catalog and readjust the product range, filling some gaps in the main publishing lines in order to strengthen market share;
- The expansion of government book purchasing programs, notably the recently-created PNLEM. In Brazil, there area approximately 9.2 million students enrolled in high school, 8 million of which in public schools. Considering that only a small portion of these students acquire books in the private market, this program creates additional demand, with an important impact on Saraiva's publishing operations, which have a well-positioned catalog in this segment. The table below shows the program's forecasted evolution and Saraiva's share:
- Government projects, with the expansion of elementary education to nine years (approved at

| School Year | Total Number of Books in the Program (million) | Saraiva's Share (1) |
|---|---|---|
| **2005** | 2.7 | 20.7% |
| **2006** | 12.6 | 25.1% |
| **2007** | 19.0 (2) | Not available (2) |

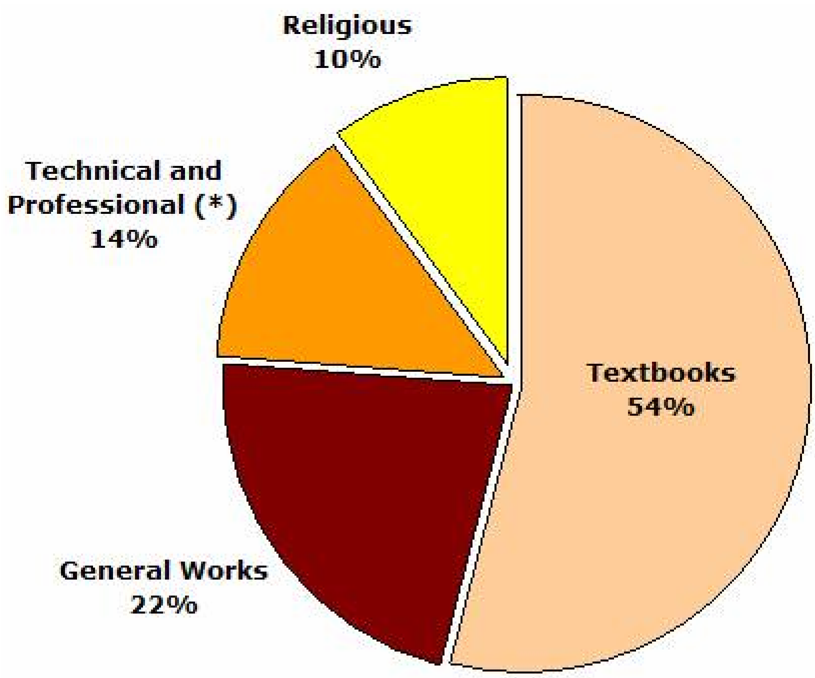
*(1) Percentage share in terms of revenue*
*(2) Although the Government has already released the Program's bid notice, the total number of books to be acquired depends on the approval of funds.*
*Source: FNDE*

the beginning of 2006) and the creation of the Elementary Education Maintenance and Development Fund (FUNDEB – in the final phase of approval), which will provide additional investments of up to R$ 4.5 billion per year in the Education sector;
- The development of new market niches and sectors of operations related to the current business lines, with the entry into the distance-learning market and customized editions of books in partnership with teaching institutions.

In **Livraria**, the positive expectations are based on various points:
- Continuity of the store chain expansion project, with the purpose of gaining scale and improving profitability. The strategic plan also calls for the opening of 7 units in 2006-2007. When the project is concluded, the expectation is for total sales area of 26,000 $m^2$, which will mean a 38% increase in relation to the beginning of the implementation.
- A renovation project in 18 current stores, also for 2006-2007, with the purpose of adapting these units to the new models for Mega Stores and Traditional stores developed by Management. Accordingly, sales areas will be adapted for the expansion of the product categories sold, taking advantage of the complementarity with the books area.
- Reinforcement of the team of professionals, with the recent hiring of executives specialized in retail.
- Maintenance of the strategy for optimizing working capital invested. The considerable gains from the reduction of average inventory turnover and the increase in average supplier payment term have allowed for the adoption of more aggressive marketing actions, with the offer to customers of unique options for sales conditions, which leverage market share gains.
- The success of the *Saraiva Plus* customer loyalty program. Launched in the second half of 2005, the program already has nearly 400,000 associates and considerable potential for growth and value generation with the retention of these customers.
- The e-commerce segment's growth potential in Brazil. The popularization of high-speed Internet access, macroeconomic factors with the reduction of interest rates, the recovery of purchasing power and the expansion of credit form a quite positive scenario for the sector. According to the survey *"X-Ray of Electronic Commerce in 2005"*, conducted by *e-bit*, estimated growth in e-tailing revenue for 2006 is 56%.

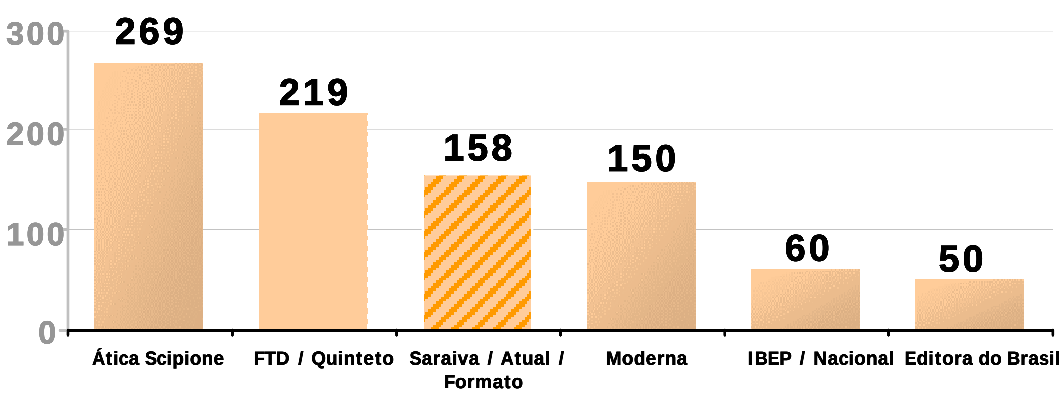
Highlights of the Brazilian publishing and retail book market, and positioning of the main players, are as follows:

**Publishing Market – 2004**
**Composition of Gross Sales – R$ 1.76 billion**



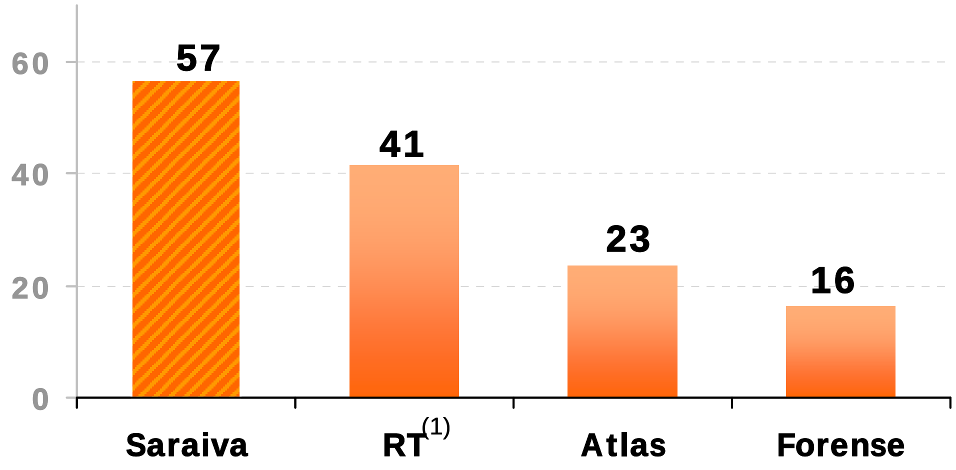

(*) Includes legal books
Source: CBL (Brazilian Chamber of Books)

**Textbook Market – 2004**
**Main Publishers by Net Sales – R$ million**




Sources: Published balance sheets, Serasa

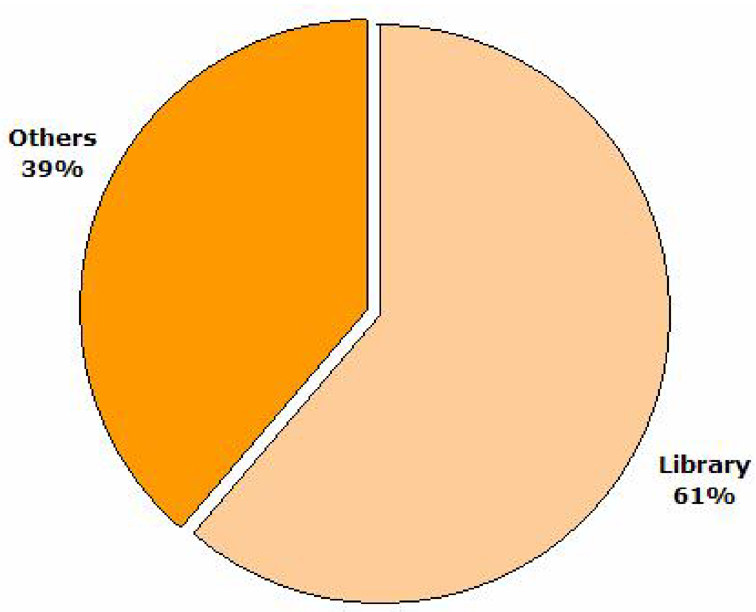
**Legal Book Market – 2004**
**Main Publishers by Net Sales – R$ million**




(1) Amount for 2003

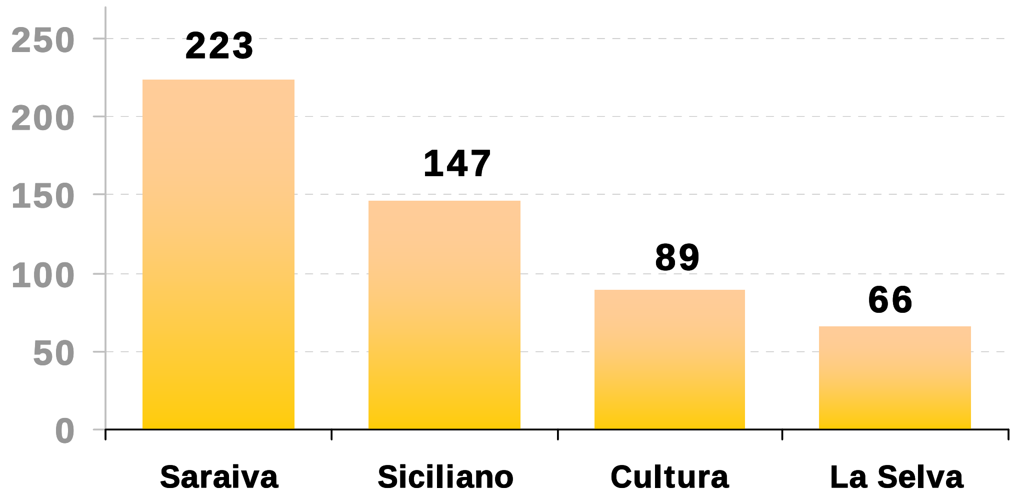
Sources: Published balance sheets, Serasa

**Retail Book Market – 2004**
**Gross Sales by Sales Channel – R$ 2.47 billion**




Source: CBL (Brazilian Chamber of Books)

**Main Bookstores - 2004**
**Net Sales – R$ million**




Source: Published balance sheets, Serasa and Gazeta Mercantil magazine

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

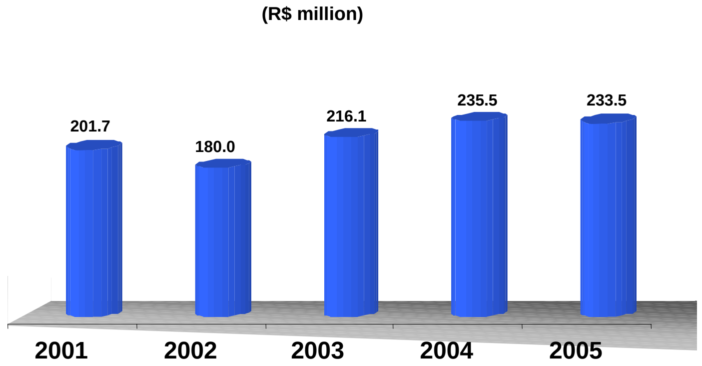
Editora Saraiva is the parent company of Livraria Saraiva, with 99.91% of shares – with distinct business purposes and names.

The following table provides a summary of the main data on economic and financial performance:

| Description | 2005 | | 2004 | | HA % |
|---|---|---|---|---|---|
| | R$ 000 | *VA %* | R$ 000 | *VA %* | |
| Gross sales | 233,516 | *100.1* | 235,482 | *105.7* | -0.8 |
| Net sales | 233,330 | *100.0* | 222,769 | *100.0* | 4.7 |
| Gross profit | 161,594 | *69.3* | 147,234 | *66.1* | 9.8 |
| Operating expenses | 107,286 | *46.0* | 109,294 | *49.1* | -1.8 |
| EBITDA | 60,350 | *25.9* | 45,228 | *20.3* | 33.4 |
| Financial expenses, net | 13,597 | *5.8* | 16,818 | *7.5* | -19.2 |
| Net income before equity in subsidiary | 33,959 | *14.6* | 21,061 | *9.5* | 61.2 |
| Net income | 40,025 | *17.2* | 18,206 | *8.2* | 119.8 |

## Gross Sales

Gross sales totaled R$ 233.5 million, practically stable in relation to 2004.




Net sales grew 4.7%, benefited by the reduction to zero of the PIS and COFINS tax rates on book sales, the segment that accounts for 99% of Editora's product mix.

Overall, Editora's sales performance in 2005 reflected the weakest year of the elementary school textbook sales cycle, within the government purchasing programs (see explanatory table below). On the other hand, there was growth in sales of textbooks and supplementary textbooks to the private market, which almost fully offset the lower sales to the government.

<table>
<tr><th colspan="3">PNLD – Cycle for Purchases of Elementary School Textbooks</th></tr>
<tr><th>Year</th><th>New Purchases(1)</th><th>Replaceme</th></tr>
<tr><td>1</td><td>1st to 4th grade books</td><td>Prior year's 5th to 8th grade books</td></tr>
<tr><td rowspan="2">2</td><td rowspan="2">5th to 8th grade books</td><td>1st grade books – full replacement</td></tr>
<tr><td>2nd to 4th grade books – partial replacement</td></tr>
<tr><td rowspan="2">3</td><td rowspan="2">-</td><td>1st grade books – full replacement</td></tr>
<tr><td>2nd to 8th grade books – partial replacement</td></tr>
</table>

(1) New books purchased to be used for 3 years

As shown in the table, the total volume of books purchased by the government is always lower in the third year of each cycle, since there is only the purchase of replacement books, in an amount sufficient to handle the increase in the number of enrollments and the exchange of damaged copies. The National Textbook Program (PNLD/06), contracted in the second half of 2005, falls under the third year of the cycle, thus presenting a sales volume lower than for the prior two programs.

The evolution of sales to the government in recent years is as follows:

| Program by School Year | Total Sales (Contract Amount) R$ million | Recorded Sales (fiscal year) | |
|---|---|---|---|
| | | 2004 | 2005 |
| 2004 (1) | 85.5 | 28.1 | |
| 2005 (2) | 83.3 | 58.6 | 24.7 |
| 2006 (3) | 64.9 | | 50.3 |
| TOTAL FOR THE YEAR | | 86.7 | 75.0 |

(1) R$ 57.4 million in sales were recorded in 2003

(2) Includes PNLEM/05

(3) Includes PNLEM/06. R$ 14.6 million in sales are being recorded in 2006.

In the legal books segment, sales performance was stable. It is important to point out that an intense product reformulation was implemented to adapt the dynamics of this important publishing line and increase the sales outlook for 2006.

We should also highlight the 37% sales increase in the area of economics, management and accounting books, a segment begun a few years ago and that has been gaining important market share, with the Company currently being ranked second in this segment.

## Gross Profit

Gross profit totaled R$ 161.6 million, a 9.8% increase in relation to the prior year. The gross margin improved significantly and reached 69.3%, surpassing the 66.1% level for 2004. This growth is the upshot of the increase in market share of private-sector sales, whose margins are greater than in sales to the government, aligned with the benefit of tax relief.

## Income from Operations

As a result of the rationalization actions implemented based on the cash management programs developed in 2004/05, the “operating expenses to net sales” ratio dropped significantly, as shown in the table with the performance for the last 3 years:

| Operating Expenses to Net Sales Ratio | 2003 | 2004 | 2005 |
|---|---|---|---|
| | 52.4% | 49.1% | 46.0% |

In absolute amounts, the measures adopted in 2004 and 2005 resulted in estimated annual savings of R$ 6.1 million. In order to enhance strict cost control and obtain efficiency gains, a work team was created, specifically in charge of studying new forms of rationalization, together with each of the Company’s administrators.

### Cash Flow

Gross cash flow measured by EBITDA reached R$ 60.4 million, rising 33.4%, thanks to the improvement in gross profit and reduction of operating expenses. The EBITDA margin reached 25.9% in 2005, which meant a substantial increase in relation to the 20.3% margin for 2004.

| EBITDA Reconciliation - R$ 000 | 2005 | 2004 | Var. |
|---|---|---|---|
| Income from operations after financial expenses, net | 40,762 | 20,490 | 98.9% |
| (+) Depreciation and amortization | 5,991 | 7,920 | -24.4% |
| (+) Financial expenses, net | 13,597 | 16,818 | -19.2% |
| (=) | 60,350 | 45,228 | 33.4% |

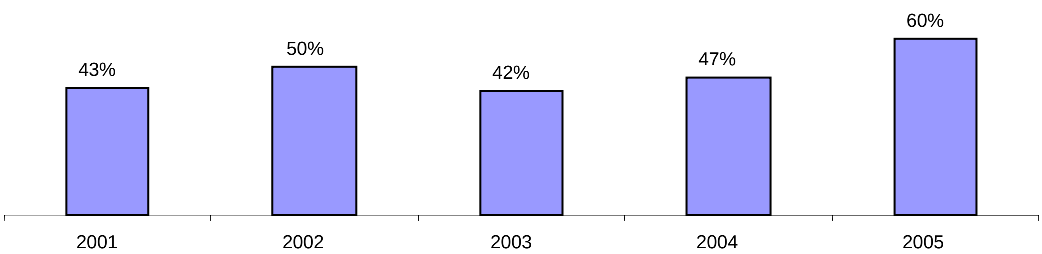
### Financial Income (Expenses)

Financial income (expenses) grew R$ 3.2 million. Financial expenses, net, totaled R$ 13.6 million for 2005, compared to R$ 16.8 million for 2004, due to the considerable cash flow for the year and the lower average indebtedness over the course of the year.

### Net Income

Net income before equity in the subsidiary Livraria Saraiva totaled R$ 34.0 million, rising 61.2%. Editora's return on equity for 2005 reached a record 60%. The graph below presents the evolution of return on equity in the last 5 years, a period in which the average was an excellent 48%.

Editora Saraiva – Return on Equity




Return on Equity = Net income before equity in subsidiary for the year / Shareholders' equity at the beginning of the year, except the investment in Livraria Saraiva.

### Capital Structure

In the last quarter of 2005, the BNDES approved financing of R$ 32.5 million, for the investment plan for 2005-2007. The funds were obtained under the "Pró-Livro" Program, recently created to develop the book production chain, with special conditions in terms of rate (TJLP [Brazilian Long-Term Interest Rate] + 4.0% per year), grace period and payment period.

### New Business

Known for its pioneering spirit, in 2005 Saraiva conducted feasibility studies and identified the opportunity to enter two differentiated segments:

- Distance Learning – Using the ViaSaraiva brand, the first product created for this new line is "Saraiva Legal Conferences", a course transmitted by satellite, offering law schools a solution to meet the need to improve the performance of students at all stages of their academic careers, including preparation for bar exams;

- Customized books – Based on partnership with learning institutions, made-to-order books are produced, under special conditions, which allow for reaching a broader market and without the cost of inventory buildup.

**Awards**
In 2005, Editora won two major awards:
- The “Aliomar Baleeiro” Award, in the category *Publisher of the Year – 2004*, granted by the Brazilian Academy of Tax Law, as well as the award for *Best Tax Law Book – 2004* (Humberto Bergmann Ávila);
- The “Economic Culture Trophy”, granted by *Jornal do Comércio*, of Porto Alegre, and Caixa RS, which selected Editora Saraiva in three categories: *Technical Book Publisher of the Year*; *Best Accounting Book Author* (Dalvio José Bertó and Rolando Beulke) and *Best Marketing Book Author* (Antonio Carlos Barroso de Siqueira).

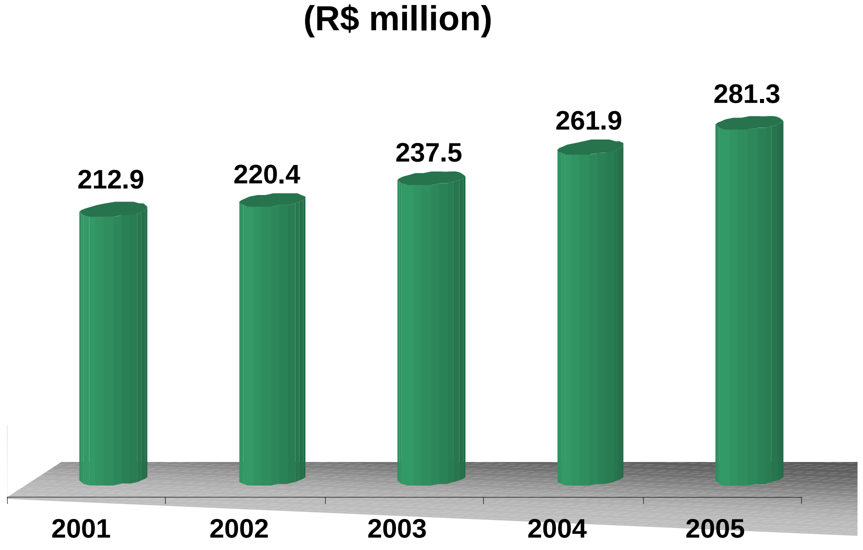
## LIVRARIA SARAIVA (LIVRARIA E PAPELARIA SARAIVA S.A.)

The table below presents the main data on economic and financial performance:

| Description | 2005 | | 2004 | | HA % |
|---|---|---|---|---|---|
| | R$ 000 | *VA* | R$ 000 | *VA* | |
| Gross sales | 281,306 | *111.1* | 261,890 | *117.4* | 7.4 |
| Net sales | 253,115 | *100.0* | 223,153 | *100.0* | 13.4 |
| Gross profit | 98,838 | *39.0* | 82,421 | *36.9* | 19.9 |
| Operating expenses | 87,246 | *34.5* | 84,046 | *37.7* | 3.8 |
| EBITDA | 15,983 | *6.3* | 5,149 | *2.3* | 210.4 |
| Financial expenses, net | 879 | *0.3* | 3,137 | *1.4* | - |
| Net income | 6,072 | *2.4* | (2,858) | *-1.3* | - |

**Gross Sales**

The gross sales of Livraria totaled R$ 281.3 million, with growth of 7.4% in relation to 2004, while same-store sales rose 8.4%.



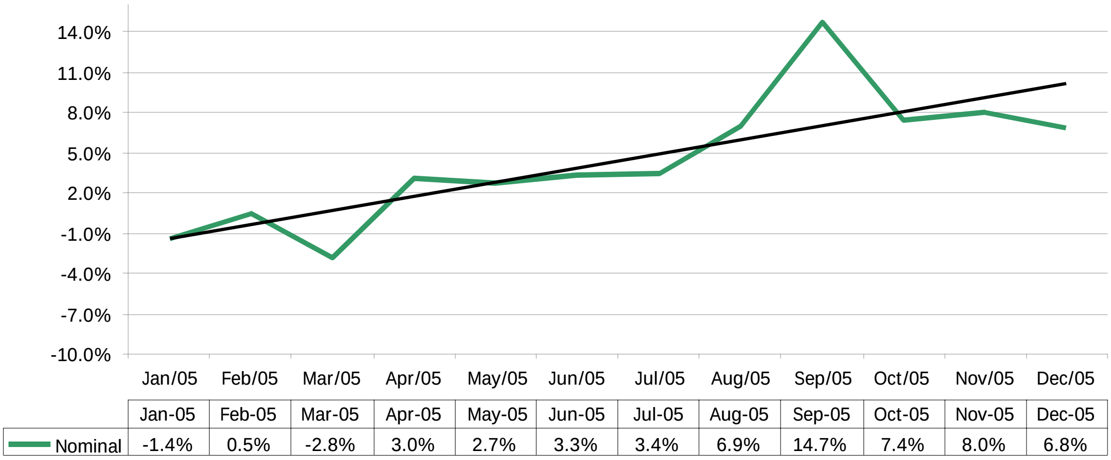
Favored by the reduction to zero of the PIS and COFINS tax rates, net sales rose 13.4% in relation to the prior year and reached R$ 253.1 million.

Analysis of physical stores' performance shows the growth trend over the course of the year, especially in the second half:

Quarterly Evolution of Nominal Growth in Comparable Physical Stores' Gross Sales

| 1Q05 | 2Q05 | 3Q05 | 4Q05 |
|---|---|---|---|
| -1.2% | 3.0% | 8.2% | 7.2% |

Nominal Growth – Gross Sales – Comparable Physical Stores




## Gross Profit

Gross profit totaled R$ 98.8 million, an amount 19.9% greater than that for 2004. The gross margin evolved 2.1 percentage points, reaching 39.0% for 2005, the result of changes in the product sales mix and the intensification of some partnerships with partners.

## Income from Operations

The operating expenses to net sales ratio showed a significant efficiency gain, going from 37.7% for 2004 to 34.5% for 2005. This result achieved and its contribution to increasing Livraria's generation of value demonstrate the importance of strict expense control in retail.

Actions to renegotiate store lease agreements and personnel rationalization measures carried out in 2004 resulted in annualized savings of R$ 4.5 million, which contributed significantly to the performance achieved in 2005. This performance was despite the recording of R$ 0.6 million in preoperating expenses to open two new units in 2005.

Due to the dynamics of operations and the need to obtain continuous operating efficiency gains, actions to rationalize and optimize resources will remain one of Management's priorities in 2006. As an example of this strategy, Livraria contracted, at the end of 2005, a specialized consulting firm to study the optimization of store supply operations (cross-docking) and evaluate a possible merger of logistics activities between physical stores and e-tailing.

## Cash Flow

The gains obtained from the rise in gross profit and the rationalization of operating expenses provided considerable growth of 210% in gross operating cash flow (EBITDA), which reached R$ 16.0 million for 2005, compared to R$ 5.1 million for 2004. The EBITDA margin had the best performance in the last 6 years, 6.3% for 2005, against 2.3% for 2004.

| EBITDA Reconciliation - R$ 000 | 2005 | 2004 | *Var.* |
|---|---|---|---|
| Income from operations after financial expenses, net | 10,239 | (4,095) | *-350.0%* |
| (+) Depreciation and amortization | 4,865 | 6,107 | *-20.3%* |
| (+) Financial expenses, net | 879 | 3,137 | *-72.0%* |
| (=) | 15,983 | 5,149 | *210.4%* |

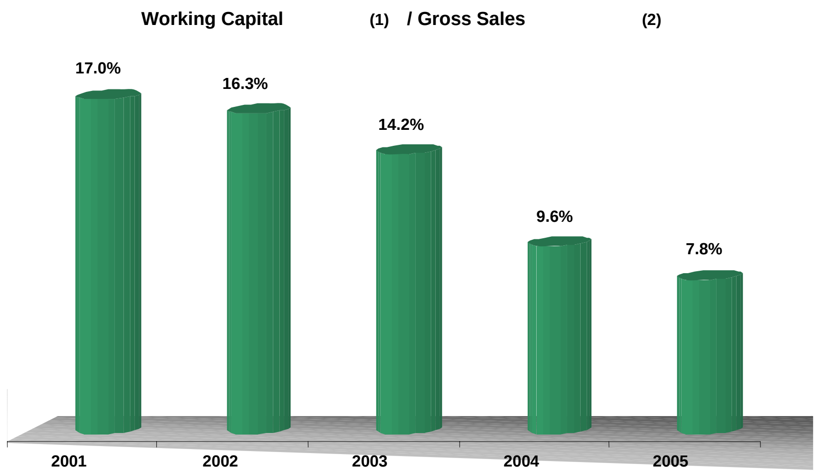
## Financial Income (Expenses)

Financial expenses, net, experienced a major 72.0% drop for the period, going from R$ 3.1 million (2004) to R$ 0.9 million (2005). This performance is the result of the greater cash availability and the fact that long-term financing had not been contracted in recent years, which generated a significant drop in indebtedness.

## Working Capital

The operating cycle continued demonstrating evolution. There was a considerable decrease in inventory turnover and increase in average supplier payment term. These conditions, even with the extension of average collection period, due to the payment facilities granted to customers, allowed for a 32-day reduction in the operating cycle.

The strategic plan of optimizing working capital adopted by the Company has provided major generation of value. The graph below shows the evolution in recent years:




(1) Inventories + Trade accounts receivable – Trade accounts payable
(2) Gross sales

### Net Income
The growth of operations and the e-tailing division's profitability, along with the recovery in physical stores' performance, allowed for major evolution in net income, turning around the R$ 2.9 million loss for 2004 to net income of R$ 6.1 million for 2005.

### Personnel Strategy
With the objective of increasingly skilling the Company, to handle the ambitious growth plans and increase profitability, the executive team was especially strengthened in the second half of 2005 with the hiring of:

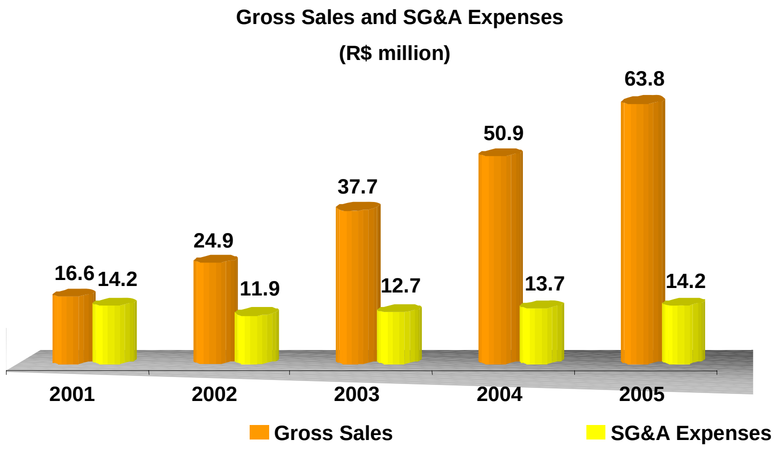
- Marcílio Pousada – Superintendent Director;
- Frederico Indiani – Purchasing Director; and
- Ricardo Daumas – Marketing Director.

### Marketing
In the second half of 2005, Livraria launched the *Saraiva Plus* loyalty program, which had huge acceptance. It is a differentiated loyalty program, which can be used as a customer relationship marketing tool and to obtain information on buying habits. At the end of the year, the program had nearly 400,000 associates.

### Awards
- For the second consecutive year, Livraria Saraiva won the ***Alshop Visa Award***, one of the most highly recognized awards in national retailing. The Company was the winner in the Leisure and Entertainment category, according to a consumer vote.
- Through the Saraiva online store, Livraria also received, in a ceremony held by the online research and marketing firm **e-bit**, the ***Diamond Trophy***, in recognition for quality in e-commerce services.

### Saraiva.com – E-tailing Division
Performance indicators continue to show significant evolution and generation of value. In 2005, gains of scale were intensified. The analysis of the last 5 years demonstrates an annual increase of 40.1% in sales, while operating expenses (SG&A) remained practically constant.

| Indicators | 2005 | 2004 | *Var.* |
|---|---|---|---|
| Gross sales (R$ 000) | 63,826 | 50,907 | *25.4%* |
| EBITDA (R$ 000) | 8,535 | 2,678 | *218.7%* |
| Registered customers (000) | 1,801 | 1,406 | *28.1%* |
| % of gross sales – Livraria | 22.7% | 19.4% | *16.7%* |
| Average ticket (R$) | 81.03 | 73.42 | *10.4%* |



It should also be pointed out that the Company's Management, in order to take better advantage of this segment's growth, adopted a strategic plan in 4Q05, which brings together more aggressive marketing actions, new options in sales conditions, expansion of product categories, and intensified partnerships with suppliers. According to the results, these measures are on target, as shown in the following table, which compares growth in relation with the same period of the prior year:

| **Indicators** | **9M05** | **4Q05** |
|---|---|---|
| Gross sales | 20.4% | 39.4% |
| Average ticket | 6.5% | 21.2% |

## CONSOLIDATED

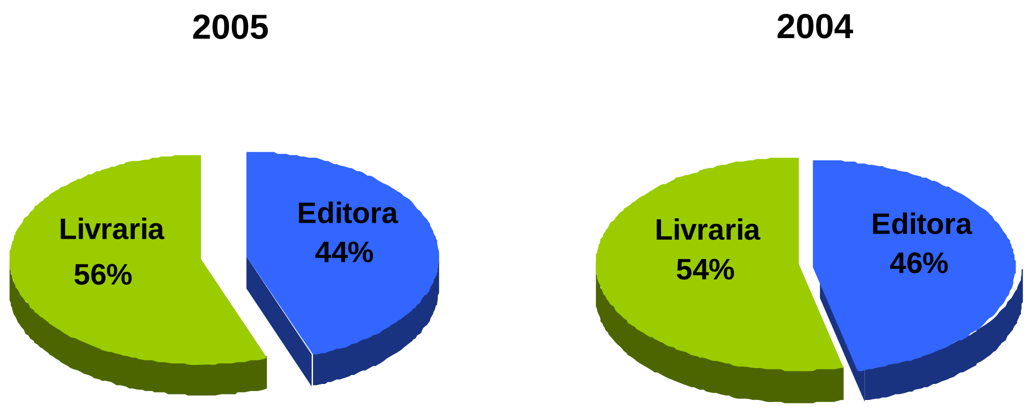
The table below shows the main information on consolidated economic and financial performance:

| **R$ 000** | **2005** | **2004** | ***Var.*** |
|---|---|---|---|
| Gross sales | 505,623 | 489,138 | *3.4%* |
| Net sales | 477,246 | 437,688 | *9.0%* |
| Gross profit | 260,407 | 229,633 | *13.4%* |
| *Gross margin* | *54.6%* | *52.5%* | |
| Income from operations (EBIT) (a) | 65,477 | 36,349 | *80.1%* |
| *Operating margin* | *13.7%* | *8.3%* | |
| Financial expenses, net | (14,476) | (19,954) | *-27.5%* |
| Net income | 40,025 | 18,206 | *119.8%* |
| *Net margin* | *8.4%* | *4.2%* | |
| EBITDA (b) | 76,333 | 50,377 | *51.5%* |
| *EBITDA margin* | *16.0%* | *11.5%* | |
| Total assets | 290,506 | 280,283 | *3.7%* |
| Shareholders' equity | 133,874 | 103,887 | *28.9%* |
| Cash / (indebtedness), net | 6,069 | (11,669) | *-152.0%* |

*(a) Earnings before interest and taxes*

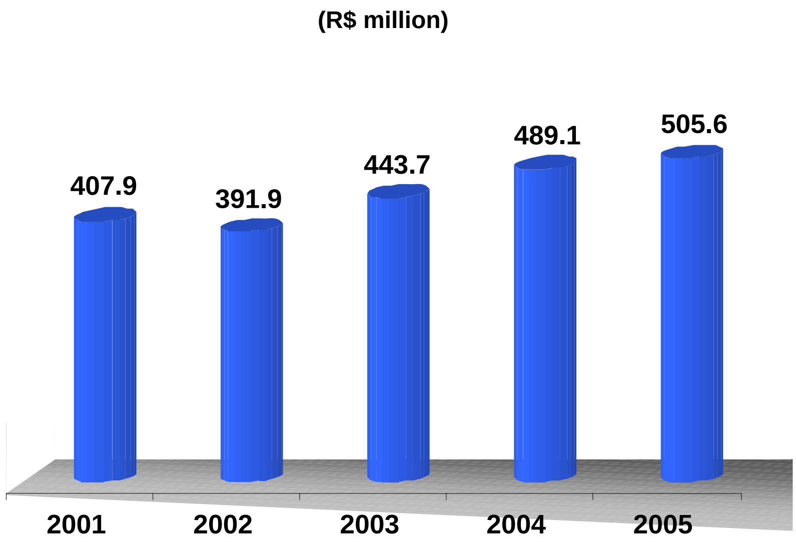
*(b) Earnings before interest, taxes, depreciation and amortization*

### Consolidated Gross Sales




### Gross Sales

Consolidated gross sales totaled R$ 505.6 million, 3.4% higher than for 2004, which mainly reflected Livraria's rise in sales. Net sales, due to PIS and COFINS tax relief, evolved 9.0%, reaching R$ 477.3 million.




### Gross Profit

Consolidated gross profit totaled R$ 260.4 million, up 13.4% in relation to the prior year. The gross margin reflected the gains obtained in Editora and Livraria, going from 52.5% (2004) to 54.6% (2005).

### Income from Operations

Income from operations before financial expenses, net (EBIT) reached R$ 65.5 million, up 80.1%. The improvement in gross margin and savings from the cash management programs provided for this performance.

### Cash Flow

Gross cash flow measured by EBITDA totaled R$ 76.3 million, 51.5% higher than for 2004. The EBITDA margin hit 16.0%, the highest level in Saraiva's history.

| EBITDA Reconciliation - R$ 000 | 2005 | 2004 | Var. |
|---|---|---|---|
| Income from operations after financial expenses, net | 51,001 | 16,395 | *211.1%* |
| (+) Depreciation and amortization | 10,856 | 14,028 | *-22.6%* |
| (+) Financial expenses, net | 14,476 | 19,954 | *-27.5%* |
| (=) EBITDA | 76,333 | 50,377 | *51.5%* |

### Financial Income (Expenses)

Financial expenses, net, fell 27.5% in 2005, from R$ 20.0 million (2004) to R$ 14.5 million (2005), due to the improvement in the cash position over the year.

### Net Income

Consolidated net income leaped to an all-time high for the Company: R$ 40.0 million, 120% higher than for 2004. The considerable growths in profitability achieved in both Editora and Livraria provided for this performance. Consolidated return on equity, for its part, reached 38.5%.

## CAPITAL STRUCTURE

The closing consolidated cash position showed a significant improvement, going from net indebtedness of R$ 11.7 million, at the end of 2004, to net cash of R$ 6.1 million at the end of 2005. The main factors explaining this performance were the record cash flow for the period, contributing to there being no need for short-term funding during the year, and the fact that the Company did not contract new long-term financing between September 2000 and November 2005.

In light of the expectation for new investment products to be carried out with attractive rates of return and in order to decrease the average cost of capital, Editora obtained BNDES financing in the total amount of R$ 32.5 million, in favorable conditions in terms of rate (TJLP plus 4.0% per year), with a two-year grace period and a three-year amortization period.

For the dollar-denominated financial liability, referring to long-term financing from the IFC, the last semi-annual installment will be due in June 2006, for which there is already a hedge against currency fluctuation.

## INVESTMENTS

During 2005, opportunities were identified to invest R$ 8.4 million, in line with the modernization and expansion plans, whose expected return is higher than the Company's cost of capital.

In **Editora**, R$ 3.1 million was invested. Most of the funds went towards information technology projects, whose purpose is to support the Company's operations, with greater dynamism, agility and rationalization of resources.

In **Livraria,** a total of R$ 5.3 million was invested. The highlights are as follows:

- Opening of Mega Store Shopping Recife, located in the city of Recife's best commercial location, with over 1,000 m² of sales area, and adapted to the new Mega Store concept, which explores new product categories, associated with the Company's core business, and sells content related to various forms of culture, education and entertainment;
- Opening of the store located at SuperShopping, in Osasco (Greater São Paulo), with 300 m² of sales area, within the new concept for traditional stores conceived by Management – and successfully tested in the units at Shopping Interlagos and the Itaim district of São Paulo – which include product categories supplementary to books, such as CDs, DVDs and multimedia articles;
- Change in the location of the store in the city of Ribeirão Preto, with more attractive conditions in terms of lease costs, moving from Novo Shopping to Santa Úrsula Shopping;
- New version of the e-tailing site, with modernization of visual aspects and new browsing and search features;
- Conclusion of the implementation of the "Busca Fácil" product location system, favoring customers' shopping experience; and
- Closing of the traditional format unit located in the city of São José dos Campos, due to expectations of the store not indicating potential for generation of value.

## CAPITAL MARKET

We present below the summary of the evolution of Saraiva shares in the last two years:

| Indicators | | 2005 | 2004 | *Var.* |
|---|---|---|---|---|
| Number of trades | (1) | 1,724 | 585 | *194.7%* |
| Participation in trading sessions - % | (1) | 76.7 | 56.6 | *35.5%* |
| Quantity traded – thousand shares | (1) | 4,957 | 3,299 | *50.3%* |
| Volume traded - R$ 000 | (1) | 63,289 | 36,278 | *74.5%* |
| Share price - R$ | (1) (2) | 17.20 | 12.00 | *43.3%* |
| Total shares outstanding - 000 | (2) | 22,937 | 22,937 | *0.0%* |
| **Market value - R$ million** | **(2)** | **394.5** | **275.2** | ***43.3%*** |

*Source: Bovespa*

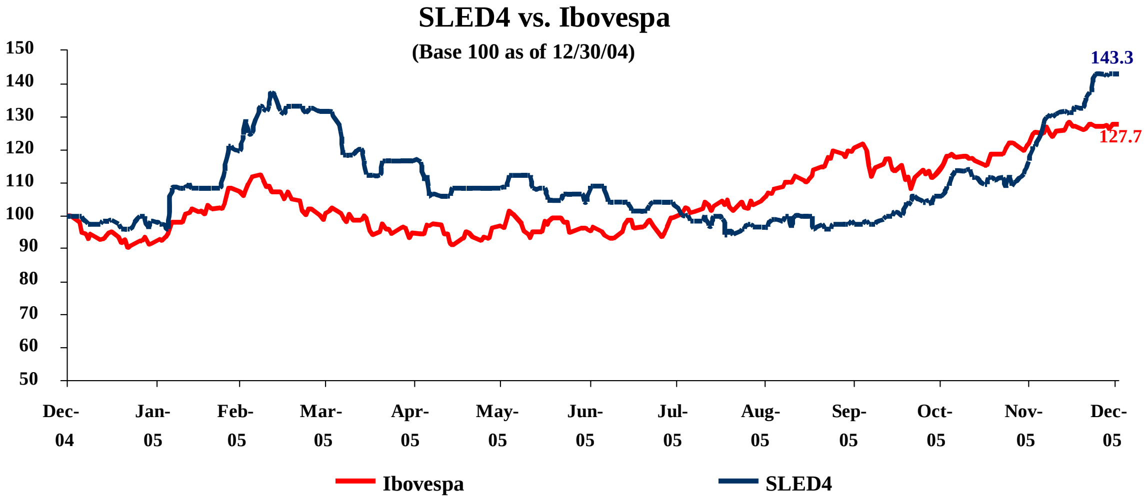
*(1) Referring to preferred shares (SLED4)*

*(2) At end of year*

During 2005, liquidity indicators showed robust growth:

- The number of trades rose 195%;
- The quantity traded grew 50.3%;
- The volume traded went up 74.5%; and
- Preferred shares were traded in 76.7% of trading sessions at BOVESPA.

Saraiva preferred shares appreciated 43.3%, beating the performance of the Ibovespa index, which rose 27.7%.



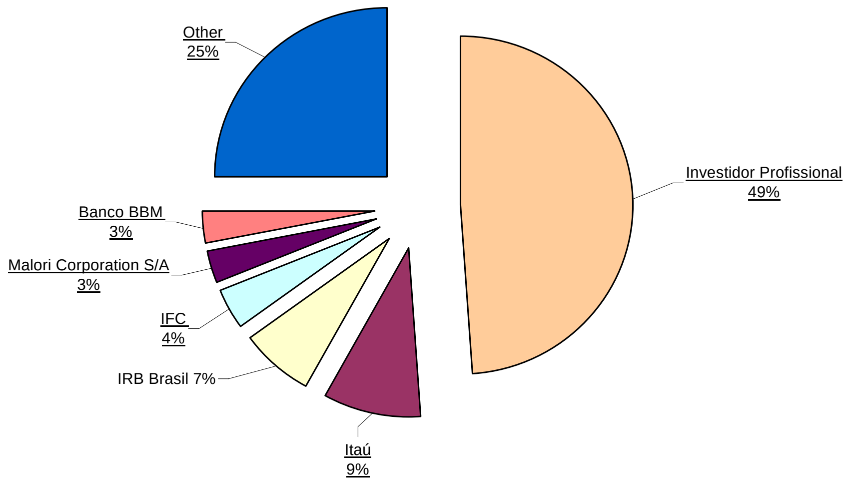

In line with the Company's philosophy of adopting best corporate governance practices, various actions were undertaken in 2005:

- Continuity of annual meetings at APIMEC (Association of Capital Market Investment Analysts and Professionals) and quarterly teleconferences with investors and analysts;
- Holding of the *BOVESPA Goes to You* event, at the Mega Store at Shopping Morumbi in São Paulo, with the purpose of popularizing stock market concepts. This initiative won the **Highlights 2005** award, offered by BOVESPA to the institutions that most contributed to strengthening and publicizing the stock market.

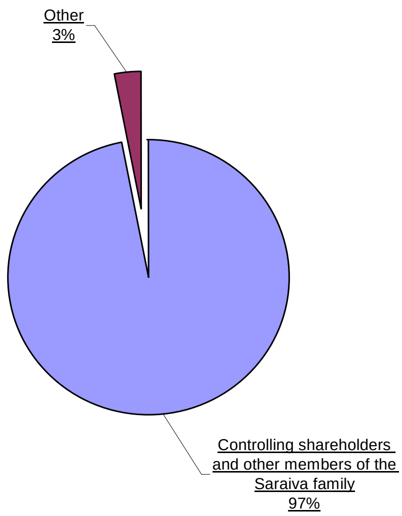
# SHAREHOLDING STRUCTURE

Saraiva's subscribed and paid-up capital was R$ 46,405,000.00 as of December 31, 2005, divided into 23,269,203 registered shares, without par value, of which 9,622,313 are common shares (ON) and 13,646,890 are preferred shares (PN).

**Distribution of Preferred Shares as of 12/31/2005**




**Distribution of Common Shares as of 12/31/2005**



## PAYMENT TO SHAREHOLDERS

The Company's bylaws, in conformity with prevailing legislation, establishes the minimum amount for dividends at 25% of net income for the year, after formation of the legal reserve of 5%. Considering the income for the year, the mandatory minimum dividend is R$ 9,528,708.98. To compose this amount, R$ 8,609,620.56 was calculated as interest on capital* (net of withholding income tax [IRRF] = gross amount of R$ 10,128,965.36 less 15% IRRF). To complement the mandatory minimum dividend, R$ 919,088.50 was allocated as supplementary dividends**.

The gross amount of the payment to shareholders totals R$ 11,048,053.86 (R$ 0.43788706/share***, of which R$ 0.40145920 as interest on capital and R$ 0.03642786 as dividends), equivalent to 27.6% of income for the year and representing a dividend yield of 2.8%. Considering the last 5 years, total payments to shareholders equals 47.1% of net income for the period.

* As approved in the Board of Directors meeting on February 21, 2006
** According to a resolution to be made in the Annual Shareholders' Meeting to be held on April 25, 2006
*** Considering the number of shares after the stock grant occurred on January 6, 2006. (See subsequent event)

## HUMAN RESOURCES

The Group ended the year with a team of 2,311 employees, with a reduction of 4% in relation to the prior year, due to the rationalization measures and the smaller need for temporary employees to handle the National Textbook Program (PNLD/06).

The productivity index, measured by sales/average headcount, grew 8.8%, from R$ 196,800 in 2004 to R$ 214,200 in 2005.

In 2005, Saraiva intensified its training and skilling programs, adopting numerous actions in the human resources area, with the purpose of motivating, skilling and developing a differentiated team, qualified to constantly surpass expectations, even in more competitive scenarios. Over the year, 648 activities were conducted, with 9,864 participations in 19,000 hours of training.

## SOCIAL RESPONSIBILITY

Saraiva Group has adopted numerous initiatives to concretely contribute to increasing the quality of life of its employees and the communities with which the Company has relations. Some projects stood out in 2005:

- Continuity of Instituto Jorge Saraiva's social activities, with focus on the social inclusion of at-risk children;
- Maintenance of the Telecurso 2000 project, in partnership with SENAI and Fundação Roberto Marinho, providing employees with the opportunity to conclude high school and elementary school;
- Continuation of a partnership with the "Company that Educates" project, managed by SENAC to support the preparation of youth for the labor market; and
- Conducting of various community action and solidarity campaigns.

## SUBSEQUENT EVENTS

The Company's management remains dedicated to aligning corporate and shareholders' interests. Accordingly, as decided in the Extraordinary Shareholders' Meeting held on 01/06/2006, a bonus was approved, through the capitalization of reserves, attributing 2,326,920 preferred shares to holders of common and/or preferred shares, in the proportion of 0.10 preferred shares per preferred or common share held.

In light of the capital market's current favorable conditions, other initiatives are being specially developed in early 2006 and will contribute significantly to outlooks for increased liquidity and the enhancement of good corporate governance practices. According to a significant event notice, disclosed on 02/10/06, a public offering* will be conducted, entailing:

- Primary Distribution of Shares: the Company will issue preferred shares and the proceeds will go towards conducting studies for and implementing the investment projects of Editora and Livraria for coming years.
- Secondary Distribution of Shares: some investment funds, managed by Investidor Profissional Gestão de Recursos Ltda., will sell part of their preferred stock positions in the secondary market, benefiting the dilution of the investor base.

The pricing process will be by investment intention (book building).

It is important to point out that the offering must follow the rules of Corporate Governance, Level 1, of BOVESPA, the segment in which Saraiva shares must be registered. Considering the commitment to transparency and the quality of information provided to the market, and the mechanisms that the Company already has in place to protect and respect minority shareholder rights, the intention to adhere to this differentiated level of corporate governance is another important step by the Company to enhance relations with the capital market.

* The offering is subject to the maintenance of favorable capital market conditions.

## INDEPENDENT AUDITORS

In compliance with Brazilian Securities Commission (CVM) Instruction No. 381/2003, we inform that the current agreement with the independent auditors only entails external audit work.

## ACKNOWLEDGEMENTS

Upon the conclusion of another year, Saraiva Group would like to thank all its shareholders, customers, suppliers, and authors, as well as all our employees for their commitment during the year, without which we would not have reached the accomplishments for 2005.

São Paulo, March 2, 2006.

MANAGEMENT