

SUBMARINO NET INCOME RISES 316% IN THE THIRD QUARTER 2005

São Paulo, November 07th, 2005 - Submarino S.A. (Bovespa: SUBA3), the leading pure-play online retailer in Brazil, announces today its 3Q05 results. Submarino has built a strong brand and a premium customer base by offering a superior breadth and depth of product selection combined with best-in-class customer service. Through its website at www.submarino.com.br, it offers more than 700,000 items across 24 product categories that we source directly from more than 1,100 suppliers. Submarino's financial statements are prepared in accordance with the Brazilian Corporation Law, the rules and regulations of the Brazilian Securities and Exchange Commission ("CVM") and the accounting standards issued by the Brazilian Institute of Accountants.

3Q05 Results

Conference Calls:

November 7, 2005

**7:00 a.m. US EST
Portuguese**

**9:00 a.m. US EST
English**

Investor Relations:

Martín E. Escobari
C.F.O. & Investor Relations
Officer

Erik Pineda
Investor Relations

ri@submarino.com.br



- ✓ Gross revenues were R\$ 156.5 million (US\$ 66.9 million) in the quarter (3Q05) and R\$ 383.0 million (US\$ 153.8 million) in the nine-month period (9M05), an increase of 71% and 63%, respectively, compared to the same periods of 2004. We highlight that our active customer base posted a 54% growth and the average ticket was 15% higher.
- ✓ EBITDA¹ was R\$ 10.4 million (US\$ 4.4 million) in 3Q05 and R\$ 28.3 million (US\$ 11.4 million) in 9M05, a growth of 58% and 75%, respectively, compared to the same periods of the prior year.
- ✓ Net income for the quarter was a record R\$ 8.6 million (US\$ 3.7 million) representing a growth of 316% over the R\$ 2.1 million (US\$ 0.7 million) recorded in 3Q04.
- ✓ We continued to expand capacity, expanding our order entry system (integrated to our Oracle ERP) and implementing a new customer relationship management software (CRM provided by Siemens).
- ✓ The perfume category launched in July had a better than expected performance, reaching the break even in three weeks. We reformulated the jewelry and watch store. We are in the process of increasing our product assortment in this category.
- ✓ In the quarter we increased our offline marketing investment with our "Pode Imaginar. Aqui Tem" (Whatever You Imagine, We Have It) campaign. We are satisfied with the preliminary results of this campaign, which emphasized our wide assortment and, because it is offline, aims at attracting new customers to the experience of buying through the Internet.
- ✓ We announced the acquisition of Ingresso.com, the leading online retailer of entertainment tickets. This acquisition expands our entertainment offering and helps bring a differentiated service to our customers.

¹ EBITDA - Earnings Before Interest, Tax, Depreciation and Amortization, and excluding extraordinary expenses, is presented as additional information because we believe that it is an important indicator of our operating performance, besides being useful to compare our performance with other companies of the e-retail sector. However, no figure should be considered alone as a substitute to net income calculated in accordance with US GAAP or Brazilian Corporate Legislation (BR GAAP) or yet as a measure of the Company's profitability. In addition, our calculations may not be comparable to other similar methods adopted by other companies.

ACQUISITION OF INGRESSO.COM

Submarino has acquired Ingresso.com, an online retailer of entertainment tickets (cinema and theaters) and leader in its segment. The main reasons that motivated the acquisition are:

We will provide a differentiated service to our clients. Ingresso.com is currently the only company selling movie theater through the Internet in Brazil. Besides offering our clients the widest selection of books, music and DVDs, we will, from now on, provide them with the convenience of purchasing tickets at home. Their film preferences will give us valuable information, which we can use to offer them customized suggestions. One of Submarino's priorities is to offer its customers a unique shopping experience.

We will enter a new and attractive market. Resale of tickets represents a R\$ 1 billion market with a very low online penetration. Ingresso.com's growth will be driven by the growth of the entertainment industry plus any gains in online penetration from today's 1%. We believe penetration can increase since consumption of tickets is concentrated in class A and B consumers, most of whom already have Internet access.

We believe that wider awareness of Ingresso.com's services will increase the number of tickets sold online, especially considering that low number of movie theaters often leads to long lines and sell outs during weekends and for blockbuster films. Additionally, we believe that Ingresso.com can grow in other segments of entertainment (musical shows, soccer) as well as develop the technology to sell tickets via alternative media (e.g. mobile phones).

We will obtain sale synergies. Ingresso.com's users (131 thousand active users by the end of 2004) are potential clients to purchase merchandise from Submarino's assortment. Additionally, Submarino's clients (approximately 1.2 million active clients) will also be able to use the services provided by Ingresso.com.

We like the Ingresso.com team. The company has a highly qualified team, with deep knowledge of the entertainment market and will continue to manage day-to-day operations of Ingresso.com. Jorge Reis and Mauro Gonzalez, founding partners of Ingresso.com, are great entrepreneurs and we believe they will help us expand the business as well as the range of services that we offer.

The acquisition price is equivalent to R\$ 8.3 million (base price, equivalent to the price of R\$ 8.8 million less Ingresso.com cash position of R\$ 0.5 million) plus an additional amount of up to R\$ 2.1 million due in December 2007 if the company substantially exceeds the financial projections used to justify the price. The base price is equivalent to 7.0x projected EBITDA for 2005.

REVENUES AND GROSS PROFIT

Gross revenues amounted to R\$ 156.5 million in the quarter (3Q05) and R\$ 383.0 million in the nine-month period (9M05), a growth of 71% and 63%, respectively, when compared to the same periods of 2004.

The Company's growth was primarily driven by an increase in the number of people buying online. In 3Q05, our active customers base reached 1.2 million people, representing a growth of 54% compared to 3Q04. Additionally, average ticket increased 15% reaching R\$ 233 per order. This growth resulted from faster growth in consumer electronics (including white goods and IT) in the mix of our sales. We believe that the improved sales performance of consumer electronics is related to consumer expectations of further reductions in interest rates.

Gross profit was R\$ 31.0 million (27.1% of net revenues) in 3Q05, and R\$ 78.4 million (28.0% of net revenues) in 9M05, a growth of 66% and 61%, respectively. Gross margin remained stable when compared to 3Q04, despite improving margins in most categories, due to the higher share of consumer electronics in our mix of sales, which yield a lower margin as a percent of net sales but higher gross profit Reais per order. The change in product mix, which yields higher gross profit Reais per order, is benign to long-term profitability.

OPERATIONAL EXPENSES

Selling Expenses

Selling expenses amounted to R\$ 18.5 million in 3Q05 and R\$ 44.4 million in 9M05, representing 16.2% and 15.8% of net sales respectively. In 3Q04 and 9M04, selling expenses were equivalent to 13.9% and 14.6% of net sales. Specifically in 3Q05, marketing expenses increased in comparison to 3Q04 due to the offline marketing campaign. In 3Q05, gross marketing expenses (before marketing rebates from suppliers) were 3.9% of net sales, compared to 2.3% in 3Q04. Excluding the net increase in marketing expenses of 2.5% of net sales, our selling expenses would have been 13.7% of net sales.

We believe the incremental marketing investment helped accelerate our growth thru faster client acquisition. Our acquisition cost per client (before supplier rebates) is still lower than the gross profit we obtain from each new client on her first order. Despite the positive results, we believe there is room to improve in the productivity our offline investment.

The free freight expenses (as shown in the table below) remained stable and still reflect the seasonality of our business.

R\$ MM	3Q05	3Q04	9M05	9M04
Freight revenue	5.5	3.4	15.0	8.9
Freight revenue deductions	(1.4)	(0.8)	(3.9)	(2.0)
Freight costs	(5.6)	(3.5)	(14.3)	(8.8)
	-	-	-	-
Net freight costs	(1.5)	(0.9)	(3.2)	(1.9)
% Net sales	-1.3%	-1.3%	-1.1%	-1.0%

In September, the Brazilian post service went on strike for nine days. Our operational team, working together with our courier partners, managed to deliver all the orders, minimizing the impact to our clients and our revenues.

General and Administrative Expenses

General and administrative expenses decreased when compared to the prior year, totaling R\$ 2.0 million in 3Q05 against the R\$ 2.3 million posted in 3Q04, representing 1.7% and 3.3% of net revenues, respectively. In 9M05, general and administrative expenses totaled R\$ 5.2 million compared to R\$ 5.5 million in 9M04, equivalent to 1.8% and 3.0% of net revenues, respectively. Once more we point out that the decrease in general and administrative expenses as a percentage of net revenues shows the significant gains in scale of our business model.

FINANCIAL RESULTS

In 3Q05, financial expenses amounted to R\$ 1.0 million, less than the R\$ 4.1 million posted in 3Q04, representing a decrease of 75%. That reduction is due to the payment of loans and financial operations such as leasing contracts. In 9M05, financial expenses amounted to R\$ 8.8 million compared to R\$ 10.9 million in 9M04.

Financial income in 3Q05 amounted to R\$ 2.7 million, higher than the R\$ 0.3 million reported in 3Q04. In this quarter, financial income exceeded financial expenses by R\$ 1.7 million as a result of the investments of our cash balance compared to net financial expense of R\$ 3.9 million in 3Q04. In 9M05, the net financial expense amounted to R\$ 1.5 million compared to R\$ 10.3 million in 9M04.

EBITDA, NET INCOME AND NET INCOME PER SHARE

EBITDA has risen 58% in 3Q05 compared to the same period of the prior year, totaling R\$ 10.4 million. EBITDA in 3Q05 is equivalent to 9.1% of net sales compared to 9.4% in 3Q04, mainly due to the offline marketing campaign. Excluding the effects of the increase in marketing expenditure, the EBITDA margin would be 11.6%.

In 9M05, EBITDA went up 75% compared to the same period of the prior year, totaling R\$ 28.3 million. EBITDA in 9M05 is equivalent to 10.1% of net sales against 8.8% in 9M04.

Net income in 3Q05 was R\$ 8.6 million versus R\$ 2.1 million net income posted in 3Q04. Net income in 9M05 was R\$ 6.1 million and R\$ 2.8 million in 9M04. Net income per share in 3Q05 was R\$ 0.19 compared to R\$ 0.17 in 3Q04.

BALANCE SHEET

The Company's balance sheet continued to register significant improvements in this quarter. The balance of cash and banks and trade accounts receivable (which are highly liquid because they are basically receivables from credit card administrators), less indebtedness, increased from R\$ 192.4 million to R\$ 206.6 million on a quarter-over-quarter basis, as shown below:

R\$ MM	Net balance		
	3Q05	2Q05	3Q04
Cash and banks	47.7	64.7	0.1
Trade account Receivables	159.2	128.1	67.9
Indebtedness ⁽¹⁾	(0.3)	(0.4)	(59.9)
	206.6	192.4	8.1

⁽¹⁾ Taxes installments included

The Company did not have any significant loans and financing by the end of 3Q05. The Company's net equity increased from R\$ 2.4 million in 3Q04 to R\$ 180.2 million in 3Q05 mostly due to the capital increase resulting from the IPO.

R\$ MM	Net balance		
	3Q05	2Q05	3Q04
Gross account receivables	161.5	133.2	90.9
Receivables discounts	(2.3)	(5.1)	(23.0)
Net account receivables	159.2	128.1	67.9
Days of gross account receivables	91	90	89

The Company's working capital did not show significant change (adjusted by revenues growth) when compared to both 3Q04 and 2Q05. Trade account receivable slightly increased from 89 days in 3Q04 to 91 days in 3Q05. It should be noted that we ended 3Q05 with only R\$ 2.3 million in discounted trade accounts receivable compared with R\$ 23.0 million in 3Q04.

The inventory levels and accounts payable follow the seasonal demand of our monthly sales and do not show any significant change (adjusted by the growth in revenues) compared to 3Q04. The increase in suppliers' days from 55 days in 3Q04 to 65 days in 3Q05 represents neither a significant nor a permanent increase. We still believe that significant improvements in this indicator depend on a consistent increase in our sales performance.

CASH FLOW

Cash provided in operational activities

The cash flow reflects the maintenance of working capital ratios and increase in Company's revenues. The cash provided in operating activities, excluding the effect of changes in discounts of receivables since these are, in fact, a financing activity, was negative R\$ 14.7 million in 3Q05 and negative R\$ 4.9 million in 3Q04. Including capital expenditures, the free cash flow was negative R\$ 19.7 million in 3Q05 and negative R\$ 2.4 million in 3Q04.

Net cash used in investing activities

The net cash used in capital expenditure was R\$ 2.2 million in the 3Q05 and R\$ 0.8 million in 3Q04. The investments in the 3Q05 are related to the acquisition of new computer servers (in order to be prepared to Christmas seasonality), the order processing system upgrade and our new CRM. We are in line with to our total investment guidance of R\$ 6.0 million in 2006.

Net cash used in financing activities

There were no relevant transactions with impact on financing activities during the 3Q05.

3Q05 RESULTS EVENTS

Portuguese Conference Call:

Today, November 7, 2005, at 07:00 a.m. US EST (10h00 Brasília time)
Connecting Number: +55 (11) 2101-1490
Code: Submarino

English Conference Call:

Today, November 7, 2005, at 09:00 a.m. US EST (12h00 Brasília time)
Connecting Number: +1 (973) 409-9258
Code: Submarino

Average US Dollar: R\$ 2.34 to 3T05; R\$ 2.97 to 3T04; R\$ 2.49 to 9M05 and R\$ 2.97 to 9M04.

We make forward-looking statements that are subject to risks and uncertainties. These statements are based on the beliefs and assumptions of our management, and on information currently available to us. Forward-looking statements include statements regarding our intent, belief or current expectations or that of our directors or executive officers. Forward-looking statements also include information concerning our possible or assumed future results of operations, as well as statements preceded by, followed by, or that include the words "believes", "may," "will," "continues," "expects," "anticipates," "intends," "plans," "estimates" or similar expressions.

Forward-looking statements are not guarantees of performance. They involve risks, uncertainties and assumptions because they relate to future events and therefore depend on circumstances that may or may not occur. Our future results and shareholder values may differ materially from those expressed in or suggested by these forward-looking statements. Many of the factors that will determine these results and values are beyond our ability to control or predict.

ANNEX I - INCOME STATEMENT

Submarino S/A
Income Statement
 In thousand of Reais

	<u>3T04</u>	<u>3T05</u>	<u>9M04</u>	<u>9M05</u>
Gross Sales	91,520	156,516	234,593	382,954
Deductions	(21,571)	(41,966)	(50,707)	(102,906)
Net sales	69,949	114,550	183,886	280,048
Cost of sales	(51,225)	(83,498)	(135,094)	(201,632)
Gross profit	18,724	31,052	48,792	78,416
Operating expenses / income				
Selling	9,728	18,503	26,857	44,382
General and administrative	2,295	1,980	5,451	20,166
Extraordinary expenses	-	7	-	14,995
Others general and administrative	2,295	1,973	5,451	5,171
Financial expenses	4,141	1,023	10,934	8,777
Financial income	(251)	(2,743)	(640)	(7,303)
Depreciation and amortization	971	978	2,605	3,097
	16,884	19,741	45,207	69,119
Operating profit	1,840	11,311	3,585	9,297
Non-operating results	5	-	4	(10)
Income tax and social contribution	322	(2,530)	(518)	(2,682)
Participations	(100)	(175)	(300)	(525)
Net income for the period	2,067	8,606	2,771	6,080
EBITDA	6,601	10,401	16,185	28,337
Orders	451,048	672,957	1,170,232	1,777,283
Average ticket	203	233	200	215
Active client basis	802,484	1,235,232	802,484	1,235,232

ANNEX II - BALANCE SHEET

Submarino S/A		
Balance Sheet		
In thousand of Reais		
	<u>9/30/2004</u>	<u>9/30/2005</u>
ASSETS		
Current assets		
Cash and banks	113	47,743
Account receivables	90,884	161,490
Account receivables discounts	(23,032)	(2,301)
Other current assets	704	216
Inventories	22,848	40,206
Prepaid expenses	1,623	347
	<u>93,140</u>	<u>247,701</u>
Non-current assets		
Related parties	1,509	-
Deferred charges	178	248
Other receivables	115	269
	<u>1,802</u>	<u>517</u>
Permanent assets		
property and equipment	9,326	11,536
Deferred charges	1,021	979
	<u>10,347</u>	<u>12,515</u>
Total Assets	<u><u>105,289</u></u>	<u><u>260,733</u></u>
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities		
Suppliers	31,567	60,060
Salaries and social charges payables	4,234	4,897
Taxes payable	1,002	3,327
Loans and financing	38,005	159
Taxes and social charges payable in installments	3,167	-
Accounts payable	3,107	7,019
Other accounts payable	2,813	4,880
	<u>83,895</u>	<u>80,342</u>
Long-term liabilities		
Loans and financing	18,313	38
Taxes and social charges payable in installments	392	-
Provision for contingencies	285	145
	<u>18,990</u>	<u>183</u>
Stockholders' equity		
Capital	12,271	180,376
Accumulated deficit	(9,867)	(168)
	<u>2,404</u>	<u>180,208</u>
Total liabilities and stockholders' equity	<u><u>105,289</u></u>	<u><u>260,733</u></u>

ANNEX III - CASH FLOW

Submarino S/A		
Cash Flow Statement		
In thousand of Reais		
	<u>3Q04</u>	<u>3Q05</u>
Operational activities		
Net income (loss) for the period	2,067	8,606
Adjustments to reconcile net income to cash	-	-
Depreciation and amortization	971	978
Residual value of fixed assets disposals	(4)	-
Provision for doubtful accounts	152	103
Provision for loss on inventories	131	180
IPO expenses	-	-
Interest from loans and financing	3,395	165
Interest on related parties loans	(15)	-
Financial income	(251)	(2,743)
Provision for contingencies	-	-
	<u>6,446</u>	<u>7,289</u>
Increase (decrease)		
Trade accounts receivable	(10,325)	(28,410)
Discounting of accounts receivable	3,311	(2,821)
Inventories	(4,634)	(11,333)
Prepaid expenses	(15)	(98)
Other receivables	(564)	690
Suppliers	2,714	17,440
Accounts payable	171	(874)
Taxes and social charges payable in installments	(694)	-
Salaries and social charges payables	1,009	850
Taxes payable	184	6
Other accounts payable	770	(231)
	<u>(1,627)</u>	<u>(17,492)</u>
Net cash used in operating activities		
Investing activities		
Acquisition of machinery and equipment	(216)	(62)
Acquisition of computers and peripherals	(248)	(548)
Acquisition of softwares	(281)	(1,067)
Other	(65)	(547)
	<u>(810)</u>	<u>(2,224)</u>
Net cash used in investing activities		
Financing activities		
Loans and financing	16,726	-
Payment of loans and financing	(11,503)	(6)
Interest paid on loans	(2,034)	-
Prepaid interest	(1,278)	-
Increase (decrease) in non-current assets	(45)	(48)
Increase (decrease) in long-term liabilities	285	-
IPO expenses	-	-
Paid-up capital	-	39
Financial income	251	2,743
	<u>2,402</u>	<u>2,728</u>
Net cash provided by financing activities		
Increase (decrease) in cash	(35)	(16,989)
Cash and cash equivalents at the beginning of the period	140	64,731
Cash and cash equivalents at the end of the period	113	47,743