

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

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

*Financial Statements for the Years Ended  
December 31, 2008 and 2007 and  
Independent Auditors' Report*

Deloitte Touche Tohmatsu Auditores Independentes

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

INDEPENDENT AUDITORS' REPORT

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

1. We have audited the accompanying individual (Company) and consolidated balance sheets of Saraiva S.A. Livreiros Editores (the "Company") and subsidiaries as of December 31, 2008 and 2007, and the related statements of income, changes in shareholders' equity (Company), cash flows and value added for the years then ended, all expressed in Brazilian reais and prepared under the responsibility of the Company's Management. Our responsibility is to express an opinion on these financial statements.
2. Our audits were conducted in accordance with applicable auditing standards in Brazil and comprised: (a) planning of the work, taking into consideration the significance of the balances, volume of transactions, and the accounting and internal control systems of the Company and its subsidiaries; (b) checking, on a test basis, the evidence and records that support the amounts and accounting information disclosed; and (c) evaluating the significant accounting practices and estimates adopted by the Company's and its subsidiaries' Management, as well as the presentation of the financial statements taken as a whole.
3. In our opinion, the financial statements referred to in paragraph 1 present fairly, in all material respects, the individual (Company) and consolidated financial positions of Saraiva S.A. Livreiros Editores and subsidiaries as of December 31, 2008 and 2007, and the results of their operations, the changes in its shareholders' equity (Company), their cash flows and the value added in operations for the years then ended, in conformity with Brazilian accounting practices.
4. As mentioned in note 2, in view of the changes in Brazilian accounting practices in 2008, the financial statements for the year ended December 31, 2007, presented for comparative purposes, have been adjusted and are being restated as set forth in NPC 12 - Accounting Policies, Changes in Accounting Estimates and Errors.
5. The accompanying financial statements have been translated into English for the convenience of readers outside Brazil.

São Paulo, March 18, 2009

DELOITTE TOUCHE TOHMATSU  
Auditores Independentes

Maurício Pires de Andrade Resende  
Engagement Partner

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

SARAIVA S.A. LIVREIROS EDITORES

BALANCE SHEETS AS OF DECEMBER 31, 2008 AND 2007

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

ASSETS	Note	Company		Consolidated		LIABILITIES AND SHAREHOLDERS' EQUITY	Note	Company		Consolidated	
		2008	2007	2008	2007			2008	2007	2008	2007
<b>CURRENT ASSETS</b>						<b>CURRENT LIABILITIES</b>					
Cash and cash equivalents	5	31,730	108,474	37,823	119,627	Trade accounts payable		49,160	29,301	173,927	106,673
Trade accounts receivable	6	64,162	92,162	199,643	177,255	Loans and financing	10	11,269	10,909	42,317	15,122
Inventories	7	82,381	59,994	216,331	131,032	Payroll and related charges		5,832	4,557	12,521	8,289
Recoverable taxes		4,780	4,228	19,211	6,559	Taxes payable	15	1,742	1,354	4,669	6,262
Deferred income tax and social contribution	13.a	1,174	788	10,923	4,619	Provision for income tax and social contribution		4,703	9,800	4,703	12,090
Dividends receivable	8	-	4,335	-	-	Copyrights payable		10,803	8,559	11,515	8,610
Loans to subsidiaries	12	-	5,743	-	-	Management profit sharing		3,956	3,517	3,956	5,397
Other receivables		2,178	1,823	5,690	3,521	Dividends and interest on capital	16.c	19,776	18,887	19,776	18,891
Prepaid expenses		123	196	367	460	Other payables		6,864	4,813	21,726	13,013
Total current assets		<u>186,528</u>	<u>277,743</u>	<u>489,988</u>	<u>443,073</u>	Total current liabilities		<u>114,105</u>	<u>91,697</u>	<u>295,110</u>	<u>194,347</u>
<b>NONCURRENT ASSETS</b>						<b>NONCURRENT LIABILITIES</b>					
Loans to subsidiaries	12	52,167	14,736	-	-	Loans and financing	10	10,247	20,686	21,822	31,420
Deferred income tax and social contribution	13.a	1,324	783	19,454	4,831	Deferred income tax and social contribution	13.a	5,891	4,340	13,034	7,647
Escrow deposits		7,240	1,335	7,986	1,669	Reserve for contingencies	14	1,258	112	5,578	114
Receivables for sale of property, plant and equipment		4,192	4,973	4,192	4,973	Taxes payable	15	1,481	2,003	2,618	5,043
Other		133	331	145	1,511	Other payables		209	2,797	8,336	3,244
		65,056	22,158	31,777	12,984	Total noncurrent liabilities		<u>19,086</u>	<u>29,938</u>	<u>51,388</u>	<u>47,468</u>
Investments:						<b>MINORITY INTEREST</b>					
In subsidiaries	8	178,778	69,769	-	-			-	-	61	63
Other		408	408	543	543	<b>SHAREHOLDERS' EQUITY</b>					
Property, plant and equipment	9	18,327	13,528	67,682	44,348	Capital	16.a	147,774	147,774	147,774	147,774
Intangible assets	9	19,976	20,785	92,451	23,686	Treasury shares	16.b	(2,870)	(2,870)	(2,870)	(2,870)
Total noncurrent assets		<u>282,545</u>	<u>126,648</u>	<u>192,453</u>	<u>81,561</u>	Earnings reserve		190,978	136,986	190,978	136,986
						Retained earnings		-	866	-	866
						Total shareholders' equity		<u>335,882</u>	<u>282,756</u>	<u>335,882</u>	<u>282,756</u>
<b>TOTAL ASSETS</b>		<u>469,073</u>	<u>404,391</u>	<u>682,441</u>	<u>524,634</u>	<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<u>469,073</u>	<u>404,391</u>	<u>682,441</u>	<u>524,634</u>

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

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

SARAIVA S.A. LIVREIROS EDITORES

STATEMENTS OF INCOME  
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007  
(Amounts in thousands of Brazilian reais - R\$, except earnings per share)

	Note	Company		Consolidated	
		2008	2007	2008	2007
GROSS REVENUE FROM SALES		352,317	309,265	1,153,682	779,375
DEDUCTIONS FROM GROSS REVENUE					
Sales taxes (ICMS, PIS, COFINS and ISS)		(115)	(184)	(60,204)	(45,883)
NET REVENUE		352,202	309,081	1,093,478	733,492
COST OF SALES AND SERVICES		(114,925)	(106,749)	(584,245)	(370,522)
GROSS PROFIT		237,277	202,332	509,233	362,970
OPERATING (EXPENSES) INCOME					
Sales		(104,079)	(89,555)	(255,274)	(189,348)
General and administrative expenses		(40,405)	(36,395)	(111,436)	(56,596)
Management fees		(4,646)	(3,622)	(7,126)	(5,503)
Stock option plan	16.f	(869)	(371)	(869)	(371)
Depreciation and amortization		(7,341)	(4,320)	(18,669)	(10,359)
Equity in subsidiaries	8	16,497	17,732	-	-
Other operating income (expenses), net		(793)	473	(876)	1,818
		(141,636)	(116,058)	(394,250)	(260,359)
INCOME FROM OPERATIONS BEFORE FINANCIAL INCOME (EXPENSES)		95,641	86,274	114,983	102,611
FINANCIAL INCOME (EXPENSES)					
Financial income	18	9,873	15,374	6,863	14,126
Financial expenses	18	(8,044)	(7,092)	(18,741)	(10,695)
		1,829	8,282	(11,878)	3,431
INCOME BEFORE INCOME TAX AND SOCIAL CONTRIBUTION		97,470	94,556	103,105	106,042
INCOME TAX AND SOCIAL CONTRIBUTION					
Current	13.b	(20,857)	(21,798)	(27,184)	(27,309)
Deferred	13.b	(624)	595	73	(3,484)
INCOME BEFORE MANAGEMENT PROFIT SHARING		75,989	73,353	75,994	75,249
MANAGEMENT PROFIT SHARING		(3,956)	(3,517)	(3,956)	(5,397)
INCOME BEFORE MINORITY INTEREST		72,033	69,836	72,038	69,852
MINORITY INTEREST		-	-	(5)	(16)
NET INCOME		72,033	69,836	72,033	69,836
EARNINGS PER SHARE - R\$		2.55	2.47		
NUMBER OF OUTSTANDING SHARES (IN THOUSANDS)		28,230	28,230		

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

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

SARAIVA S.A. LIVREIROS EDITORES

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (COMPANY)  
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007  
(Amounts in thousands of Brazilian reais - R\$)

	Note	Earnings reserve					Retained earnings	Total
		Capital	Treasury shares	Legal reserve	Reserve for future capital increase	Reserve for stock option plan		
BALANCES AS OF DECEMBER 31, 2006		147,774	(2,870)	12,215	73,080	-	1,237	231,436
Net income for the year		-	-	-	-	-	69,836	69,836
Stock option plan	16.f	-	-	-	-	371	-	371
Proposed allocation of net income:								
Legal reserve	16.c and d	-	-	3,510	-	-	(3,510)	-
Transfer to profit reserves	16.e	-	-	-	47,810	-	(47,810)	-
Interest on capital	16.c	-	-	-	-	-	(14,754)	(14,754)
Dividends	16.c	-	-	-	-	-	(4,133)	(4,133)
BALANCES AS OF DECEMBER 31, 2007		147,774	(2,870)	15,725	120,890	371	866	282,756
Net income for the year		-	-	-	-	-	72,033	72,033
Stock option plan	16.f	-	-	-	-	869	-	869
Proposed allocation of net income:								
Legal reserve	16.c and d	-	-	3,602	-	-	(3,602)	-
Transfer to profit reserves	16.e	-	-	-	49,521	-	(49,521)	-
Interest on capital	16.c	-	-	-	-	-	(17,785)	(17,785)
Dividends	16.c	-	-	-	-	-	(1,991)	(1,991)
BALANCES AS OF DECEMBER 31, 2008		147,774	(2,870)	19,327	170,411	1,240	-	335,882

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

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

SARAIVA S.A. LIVREIROS EDITORES

STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007  
(Amounts in thousands of Brazilian reais - R\$)

	Note	Company		Consolidated	
		2008	2007	2008	2007
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>					
Net income for the year		72,033	69,836	72,033	69,836
Adjustments to reconcile net income to net cash provided by (used in) operating activities:					
Depreciation and amortization (including amount allocated to cost)	9	7,512	4,468	19,218	10,715
Deferred income tax and social contribution		624	(597)	(15,540)	3,483
Allowance for doubtful accounts		1,701	1,664	3,059	1,991
Equity in subsidiaries	8	(16,504)	(17,732)	-	-
Realization of goodwill on acquisition of companies		-	-	15,455	-
Proceeds from sale of property, plant and equipment		(480)	(72)	(1,084)	(65)
Financial charges and exchange variation on intercompany balances, financing, loans and taxes payable		(3,556)	(1,922)	740	(109)
Stock option plan	16.f	869	371	869	371
Other provisions		5,108	4,585	9,232	3,905
Minority interest in subsidiaries		-	-	5	16
Decrease (increase) in assets:					
Trade accounts receivable		26,059	(21,747)	(25,711)	(55,867)
Receivables from subsidiaries due to sales of goods		240	(1,025)	-	-
Dividends received from subsidiaries		4,335	1,572	-	-
Inventories		(22,387)	3,433	(87,252)	(15,517)
Other receivables		(4,827)	4,324	(17,178)	(29)
Increase (decrease) in liabilities:					
Trade accounts payable		19,858	(12,151)	67,381	8,740
Income tax and social contribution		(5,096)	4,659	(7,386)	6,804
Payment of interest on financing		(2,658)	(2,337)	(4,590)	(3,443)
Payment of dividends and interest on capital		(18,887)	(13,952)	(18,891)	(13,954)
Other payables		3,141	7,348	(10,391)	11,890
Net cash provided by (used in) operating activities		<u>67,085</u>	<u>30,725</u>	<u>(31)</u>	<u>28,767</u>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>					
Purchase of property, plant and equipment	9	(10,062)	(3,699)	(36,508)	(23,999)
Acquisition of companies		-	(15,404)	(51,140)	(17,434)
Sale of property, plant and equipment		736	1,333	1,858	1,731
Net cash used in investing activities		<u>(9,326)</u>	<u>(17,770)</u>	<u>(85,790)</u>	<u>(39,702)</u>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>					
Capital contribution to subsidiaries	9	(90,000)	-	-	-
Loans and financing		1,017	13,190	60,572	29,392
Loans to subsidiaries, net of amounts returned	8	(34,398)	(13,869)	-	-
Amortization of loans and financing		(11,122)	(896)	(56,555)	(7,834)
Net cash provided by (used in) financing activities		<u>(134,503)</u>	<u>(1,575)</u>	<u>4,017</u>	<u>21,558</u>
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>		<u>(76,744)</u>	<u>11,380</u>	<u>(81,804)</u>	<u>10,623</u>
<b>STATEMENT OF CHANGES IN CASH AND CASH EQUIVALENTS</b>					
Beginning balance		108,474	97,094	119,627	109,004
Ending balance		31,730	108,474	37,823	119,627
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>		<u>(76,744)</u>	<u>11,380</u>	<u>(81,804)</u>	<u>10,623</u>

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

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

SARAIVA S.A. LIVREIROS EDITORES

STATEMENTS OF VALUE ADDED  
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007  
(Amounts in thousands of Brazilian reais - R\$)

	Note	Company		Consolidated	
		2008	2007	2008	2007
<b>VALUE ADDED CREATED</b>					
Sale of products, goods and services		352,317	309,265	1,153,682	779,375
Allowance for doubtful accounts, net of reversals		(1,701)	(1,664)	(2,845)	(1,948)
Other operating income		1,441	840	4,487	3,612
		<u>352,057</u>	<u>308,441</u>	<u>1,155,324</u>	<u>781,039</u>
<b>INPUTS PURCHASED FROM THIRD PARTIES</b>					
(Include recoverable or unrecoverable taxes)					
Raw materials consumed		(63,449)	(51,054)	(49,240)	(42,776)
Cost of sales and services		(140)	(382)	(534,246)	(311,171)
Materials, electric energy, outside services and other		(139,707)	(127,599)	(253,103)	(186,811)
Other operating expenses		-	(116)	(362)	(521)
		<u>148,761</u>	<u>129,290</u>	<u>318,373</u>	<u>239,760</u>
<b>GROSS VALUE ADDED CREATED</b>					
<b>RETENTIONS</b>					
Depreciation and amortization		(7,358)	(4,322)	(18,843)	(10,361)
		<u>141,403</u>	<u>124,968</u>	<u>299,530</u>	<u>229,399</u>
<b>NET VALUE ADDED CREATED</b>					
<b>VALUE ADDED RECEIVED IN TRANSFER</b>					
Equity in subsidiaries	18	16,497	17,732	-	-
Financial income	18	9,873	15,374	6,863	14,126
		<u>26,370</u>	<u>33,106</u>	<u>6,863</u>	<u>14,126</u>
		<u>167,773</u>	<u>158,074</u>	<u>306,393</u>	<u>243,525</u>
<b>VALUE ADDED TO BE DISTRIBUTED</b>					
<b>DISTRIBUTION OF VALUE ADDED</b>					
Personnel - payroll and related charges		54,452	50,240	117,109	85,192
Government - taxes and contributions		26,038	25,688	64,495	58,989
Creditors - financial expenses, excluding CPMF and IOC	18	7,972	5,676	16,420	7,270
Lessees - rentals		3,322	2,746	32,375	16,454
Shareholders - dividends and interest on capital	16.c	19,776	18,887	19,776	18,891
Management profit sharing		3,956	3,517	3,956	5,397
Minority interest		-	-	5	16
Shareholders - recognition of earnings reserve	16.e	52,257	51,320	52,257	51,316
		<u>167,773</u>	<u>158,074</u>	<u>306,393</u>	<u>243,525</u>

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

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

SARAIVA S.A. LIVREIROS EDITORES

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007  
(Amounts in thousands of Brazilian reais - R\$, unless otherwise stated)

---

1. OPERATIONS

a) Core business

Saraiva S.A. Livreiros Editores (the “Company”) is primarily engaged in publishing elementary and high school textbooks, supplementary textbooks, legal books and economics and management books. The Company experiences seasonality in its business, with about 80% of its sales concentrated in the first and last quarters of the year. This sales concentration is due to two factors: (i) the back-to-school period in the first quarter; and (ii) the sale of textbooks to the government in the first and fourth quarters of the year.

Saraiva e Siciliano S.A. (“Saraiva e Siciliano”), a subsidiary of the Company, is engaged in retail sale of books, DVDs, music, periodicals, stationery, multimedia and computer and electro-electronic products. Distribution is conducted through an Internet-based sales platform and a chain of 98 stores, of which 35 are megastores, 53 are conventional stores and 10 are franchises.

b) Business acquisition

On March 6, 2008, Livraria e Papelaria Saraiva S.A. (“Livraria Saraiva”) acquired Siciliano S.A. (“Siciliano”), the main activity of which, until November 30, 2008, was the sale of books, newspapers and periodicals of any kind, and the sale of products via web commerce, with a chain of 56 stores, of which 46 were owned stores and 10 were franchises.

c) Corporate restructuring

On February 1, 2008, the Company merged, at book value, the subsidiary Pigmento Editorial S.A. (“Ético”), acquired on December 7, 2007, which is responsible for the sale of “Ético Sistema de Ensino” (Ético Teaching System), consisting of teaching material for elementary and high schools, and preparation courses for college admission test, as well as a service line that meets the needs of the accredited schools, including pedagogical and administrative support, which enrich the educational practice and facilitate the work of teachers and managers.

On November 30, 2008, Siciliano merged, at book value, the subsidiary Livraria Saraiva, thus resulting in the creation of Saraiva e Siciliano, with no accounting effects on the Company’s consolidated financial statements.

## 2. PRESENTATION OF FINANCIAL STATEMENTS

The Company's and its subsidiaries' individual and consolidated financial statements have been prepared in accordance with the Brazilian accounting practices, including all changes in accounting practices introduced by Law 11638/07 and Provisional Act 449/08, regulated by the technical pronouncements of the Accounting Pronouncements Committee (CPC) and the Brazilian Securities and Exchange Commission (CVM).

Some of the main changes that affected the Company and Saraiva e Siciliano are:

- a) Changes in the presentation of financial statements
  - Replacement of the statement of changes in financial position by the statement of cash flows.
  - New requirement for the presentation of the statement of value added, the purpose of which is to present the value added generated and its distribution.
  - Requirement of the account group, "Intangible assets", to record rights in intangible assets that are maintained or used in the operations of the Company's business.
  - Elimination of the caption "Nonoperating income (expenses)" in the statement of income.
- b) Changes to accounting practices affecting the financial statements
  - Requirement of periodic analysis, by means of specific procedures, of the recoverability of amounts recorded in property, plant and equipment and intangible assets, in order to ensure that these assets are recorded at amounts that can be recovered through use or sale.
  - Recording of the costs related to share-based compensation, granted to the Company's executives under a stock option plan.

Management elected to present the individual (Company) and consolidated financial statements for the year ended December 31, 2007 on a comparative basis and, accordingly, the application of Law 11638/07 had retrospective effect. The only accounting effect of the first-time adoption refers to the recording of the stock option plan, as follows:

	<u>Balances as of December 31, 2007</u>		
	<u>Earnings</u>	<u>Net</u>	<u>Shareholders'</u>
	<u>reserve</u>	<u>income</u>	<u>equity</u>
Balances originally reported	136,615	70,207	282,756
Stock option plan	<u>371</u>	<u>(371)</u>	<u>-</u>
Adjusted balances	<u>136,986</u>	<u>69,836</u>	<u>282,756</u>

c) Changes to accounting practices not affecting the financial statements

- Adjustment to present value: the Company's and Saraiva e Siciliano's Management, based on analyses and on the best estimate, concluded that the impacts of the adjustment to present value of assets and liabilities on net income and shareholders' equity are irrelevant in relation to the financial statements as a whole, so it did not record this adjustment.
- Leasing operations: the Company's and Saraiva e Siciliano's Management, based on technical reports prepared by a specialized firm and on the procedures defined by Technical Pronouncement CPC 06 - Leases, concluded that the lease of the commercial premises where their stores and branches are operated fit into the classification of operating lease, and did not identify any finance leases to be recorded.
- Creation of the account group, "Valuation adjustments to shareholders' equity", in shareholders' equity, to record fair value adjustments, mainly for financial instruments, there being no transactions to be recorded for the fiscal years ended December 31, 2008 and 2007.
- Procedures required to record financial instruments, including derivatives: (i) recording at fair value, or equivalent, for trading securities or available-for-sale securities; and (ii) recording at the lower of acquisition or historical cost, adjusted for contractual interest and other contractual provisions, and realizable value for other investments, for held-to-maturity securities. There were no transactions to be recorded for the fiscal years ended December 31, 2008 and 2007.

Estimates used in the preparation of the financial statements with regard to adjustment to present value, allowance for doubtful accounts, provision for inventory losses, useful lives of property, plant and equipment and intangible assets, and reserves for contingencies, as necessary to make projections and determine the impairment of property, plant and equipment, deferred charges and deferred income tax assets, as well as to determine the provision for current and deferred income tax and social contribution, were based on the best available evidence and assumptions at the balance sheet dates. Actual results could differ from those estimates.

3. SIGNIFICANT ACCOUNTING PRACTICES

a) General principles

Results of operations are determined on the accrual basis. Sales revenues and costs are recorded upon the transfer of risks and benefits associated to the products and services.

b) Current and noncurrent assets

- Cash and cash equivalents

Represent cash, banks and highly liquid cash investments, with maturities of up to 90 days after the investment date, as stated in note 5. Temporary cash investments are stated at cost, plus income earned through the balance sheet dates.

- Allowance for doubtful accounts

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

- Inventories

Stated at average acquisition or production cost, less provision for write-down to market or realizable value, when lower.

- Other noncurrent assets

Stated at net realizable value.

- Investments

Investments in subsidiaries are accounted for under the equity method, and other investments are stated at cost, less a provision for write-down to market value, when applicable.

- Property, plant and equipment and intangible assets

Stated at acquisition or construction cost, less depreciation and amortization and, when applicable, provision for reduction to recoverable value. Depreciation and amortization are calculated under the straight-line method, based on the estimated useful lives of the assets and rights.

Carrying amounts of intangible assets with a defined useful life and property, plant and equipment indicating impairment losses are reviewed to make sure that a provision for losses in the carrying amount in relation to the recoverable value is recognized in the statements of income.

The cash generating units defined by Management and used to evaluate the recoverability of the carrying amount of the related assets correspond to the operation of the Company and each of the stores, and the website of Ponto.Com, in the case of Saraiva e Siciliano. The evaluation process uses operating and financial performance indicators established by Management and, upon indication of an impairment loss, a comparative analysis is performed for each cash generating unit between the amount determined by the cash flow discounted to present value and the respective carrying amount. As of December 31, 2008 and 2007, Management, in its best judgment, did not identify assets recorded at amounts higher than their recoverable value.

Deferred charges as of December 31, 2007 were reclassified to the account group “Intangible assets”, according to their nature and in compliance with the procedures set forth by Technical Pronouncement CPC 04 - Intangible Assets.

- Goodwill

Goodwill resulting from the acquisition of investments is based on the projected earnings capacity of the acquired businesses over the estimated period for return on investment in 60 months. Goodwill is amortized under the straight-line method at the rate of 20% per year until December 31, 2008. After January 1, 2009, goodwill will no longer be amortized and will be tested for recoverable value on an annual basis.

The write-down to recoverable value of the goodwill resulting from acquisition of companies is tested annually, regardless of the existence of impairment indicators.

The cash generating units defined by Management and used to evaluate the recoverability of the carrying amount of the goodwill correspond to the operation of the stores purchased from Siciliano and Ético’s operations, and, as of December 31, 2008 and 2007, Management, in its best judgment, did not identify the need to recognize a provision for reduction of the carrying amount of the recorded goodwill.

c) Current and noncurrent liabilities

- Copyrights

Calculated and recognized as operating expenses when sales are made and, in some cases, as production cost when the work is published.

- Leasing operations

Lease agreements for the Company’s and Saraiva e Siciliano’s commercial units are classified as operating leases, and the respective costs are recognized in the statements of income as operating expenses.

- Other current and noncurrent liabilities

Stated at known or estimated amounts plus charges and monetary or exchange variations incurred through the balance sheet dates.

d) Income tax and social contribution

Taxes on income include current and deferred amounts.

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

Deferred income tax and social contribution are calculated on tax loss carryforwards of Saraiva e Siciliano and on temporary differences of the Company and Saraiva e Siciliano. Deferred taxes are recorded in current and noncurrent assets and noncurrent liabilities, according to note 13.a). Deferred tax assets are supported by a study on the expected realization of future taxable income, which is reviewed annually and adjusted in the event that a significant reduction in the projected income is expected.

e) Share-based payments

Fair value for stock option plans is calculated on the grant date of each plan and based on the binomial pricing model. The model is based on the different paths that the price of an asset can follow during the acquisition period. The effects are reflected in the net income and shareholders' equity for the period comprised between the grant date and the date on which all eligibility conditions under each plan are met.

f) Earnings per share

Calculated based on the number of shares outstanding at the balance sheet dates.

#### 4. CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements have been prepared in accordance with the consolidation criteria set forth by Brazilian accounting practices, and include the accounts of the Company and its subsidiaries listed below, whose financial statements are as of the same base date and were prepared in accordance with the accounting practices described in note 3:

	<u>Ownership interest - %</u>	
	<u>2008</u>	<u>2007</u>
Livraria e Papelaria Saraiva S.A.	-	99.91
Pigmento Editorial S.A.	-	100.00
Saraiva e Siciliano S.A. (*)	99.97	-

(\*) The financial statements of Saraiva e Siciliano used in the consolidation correspond to the period from March 7 to December 31, 2008.

The following procedures were adopted in the preparation of the consolidated financial statements:

- Elimination of intercompany balances and transactions.
- Elimination of the Company's investment against the subsidiaries' shareholders' equity.
- Minority interest in shareholders' equity and net income of Livraria Saraiva and Saraiva e Siciliano is recorded in a separate caption in the balance sheets and statements of income, respectively.

#### 5. CASH AND CASH EQUIVALENTS

	Company		Consolidated	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Cash and banks	1,693	717	7,786	11,870
Bank certificates of deposit (CDBs)	30,037	89,175	30,037	89,175
Investment Funds (FIF)	-	18,582	-	18,582
	<u>31,730</u>	<u>108,474</u>	<u>37,823</u>	<u>119,627</u>

#### 6. TRADE ACCOUNTS RECEIVABLE

	Company		Consolidated	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Trade notes receivable	56,773	85,045	62,794	86,073
Trade notes receivable - Livraria Saraiva and Saraiva e Siciliano	4,706	4,941	-	-
Credit cards	117	60	137,254	88,775
Checks receivable	<u>4,911</u>	<u>4,191</u>	<u>6,717</u>	<u>4,887</u>
	66,507	94,237	206,765	179,735
Allowance for doubtful accounts	<u>(2,345)</u>	<u>(2,075)</u>	<u>(7,122)</u>	<u>(2,480)</u>
	<u>64,162</u>	<u>92,162</u>	<u>199,643</u>	<u>177,255</u>

Aging list of accounts receivable:

	Company		Consolidated	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Current	60,733	88,783	195,758	173,632
Past-due:				
Up to 60 days	2,527	2,022	2,799	2,104
Over 60 days	<u>3,247</u>	<u>3,432</u>	<u>8,208</u>	<u>3,999</u>
	<u>66,507</u>	<u>94,237</u>	<u>206,765</u>	<u>179,735</u>

## 7. INVENTORIES

	<u>Company</u>		<u>Consolidated</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Finished products	47,173	38,082	47,173	38,082
Goods for resale	4,784	215	137,789	70,940
Work in process	23,408	15,197	23,408	15,197
Raw materials	6,181	5,830	6,181	5,830
Packing and consumption materials	835	670	1,780	983
	<u>82,381</u>	<u>59,994</u>	<u>216,331</u>	<u>131,032</u>

## 8. INVESTMENTS IN SUBSIDIARIES

Investments in, and main information on, subsidiaries are presented as follows:

	<u>2008</u>	<u>2007</u>		
	<u>Saraiva e Siciliano</u>	<u>Livraria</u>	<u>Ético</u>	<u>Total</u>
Number of shares - in thousands	145,775	57,540	5,107	
Number of shares held - in thousands	145,725	57,490	5,107	
Ownership interest	99.97%	99.91%	100.00%	
Percentage of this investment in the Company's shareholders' equity (includes intercompany loans)	68.76%	30.35%	7.31%	
Capital	238,317	51,210	5,107	
Dividends payable	-	4,335	-	
Shareholders' equity (deficit), net of dividends payable	178,839	72,337	(2,505)	
Dividends receivable	-	4,335	-	4,335
Investment value (net of dividends receivable)	178,778	72,274	(2,505)	69,769
Calculation basis for equity in subsidiaries	16,502	18,223	(475)	17,748
Equity in subsidiaries	16,497	18,207	(475)	17,732

Changes in investments during the years ended December 31 were as follows:

	Company	
	<u>2008</u>	<u>2007</u>
Beginning balance	69,769	58,402
Capital increase in subsidiary - Livraria Saraiva	90,000	-
Acquisition of subsidiary - Ético, with shareholders' deficit	-	(2,030)
Merger of subsidiary - Ético	2,505	-
Interest in subsidiaries' results	16,497	17,732
Capital gain	7	-
Dividends received	-	(4,335)
Balance at end of year	<u>178,778</u>	<u>69,769</u>

On March 5, 2008, the Company increased Livraria Saraiva's capital by R\$90,000, recording a capital gain in "Other operating income", in the amount of R\$7, as a result of a change in the percentage interest held.

On November 30, 2008, Livraria Saraiva was merged with and into its subsidiary Siciliano, based on the shareholders' equity at book value as of October 31, 2008, appraised by independent experts, in the amount of R\$172,532, which, as adjusted to the write-off of the interest held by Livraria Saraiva in the capital of Siciliano, represented a capital increase of R\$201,359 in Siciliano. Due to the merger of Livraria Saraiva, Siciliano's capital was increased from R\$36,958 to R\$238,317, equal to 145,775,138 common shares. All of the shares issued as a result of the capital increase were allocated to the Company, proportionally to the respective interest then held in Livraria Saraiva.

The calculation basis for the equity in subsidiaries recognized by the Company is as follows:

Net income of Livraria Saraiva in the period from January 1 to October 31, 2008, before the equity interest in Siciliano	14,755
Equity interest in Siciliano in the period from March 7 to October 31, 2008	<u>(4,561)</u>
Net profit of Livraria Saraiva as of October 31, 2008	10,194
Net profit of Saraiva e Siciliano in the period from November 1 to December 31, 2008, including Livraria Saraiva's operations on and after November 1, 2008	<u>6,308</u>
Calculation basis of Company's equity in subsidiaries	<u>16,502</u>

The statements of income of Saraiva e Siciliano for the years ended December 31, 2008 and 2007 are as follows:

	<u>2008 (a)</u>	<u>2007 (b)</u>
GROSS REVENUE FROM SALES	827,294	487,376
Deductions from gross revenue	(60,089)	(45,699)
NET REVENUE	<u>767,205</u>	<u>441,677</u>
Cost of products and services	(495,026)	(281,012)
GROSS PROFIT	<u>272,179</u>	<u>160,665</u>
Operating expenses	(235,153)	(126,148)
INCOME FROM OPERATIONS BEFORE FINANCIAL EXPENSES	<u>37,026</u>	<u>34,517</u>
Financial expenses	(13,708)	(4,824)
INCOME BEFORE INCOME TAX AND SOCIAL CONTRIBUTION	<u>23,318</u>	<u>29,693</u>
Income tax and social contribution	(5,630)	(9,590)
INCOME BEFORE MANAGEMENT PROFIT SHARING	<u>17,688</u>	<u>20,103</u>
MANAGEMENT PROFIT SHARING	(1,186)	(1,880)
NET INCOME	<u><u>16,502</u></u>	<u><u>18,223</u></u>

(a) Comprises the income from January 1 to October 31, 2008 for Livraria Saraiva, from March 7 to October 31, 2008 for Siciliano, and from November 1 to December 31, 2008 for Saraiva e Siciliano.

(b) Comprises the income of Livraria Saraiva for the year ended December 31, 2007.

## 9. PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

	Company				
	Annual depreciation/ amortization rate - %	2008		2007	
		Cost	Accumulated depreciation/ amortization	Net	Net
Property, plant and equipment:					
Land	-	2,011	-	2,011	2,011
Buildings and construction	4	8,172	(4,216)	3,956	4,249
Machinery and equipment	10	1,854	(1,436)	418	325
Furniture, fixtures and installations	10	22,681	(20,125)	2,556	2,250
Vehicles	20	5,978	(2,418)	3,560	2,316
IT equipment	20	11,133	(9,359)	1,774	1,825
Property, plant and equipment in progress	-	<u>4,052</u>	<u>-</u>	<u>4,052</u>	<u>552</u>
		<u>55,881</u>	<u>(37,554)</u>	<u>18,327</u>	<u>13,528</u>
Intangible assets:					
Assignment of rights	20	2,932	(1,562)	1,370	292
Goodwill on acquisition of company:					
Formato (a)	20	2,091	(2,021)	70	-
Ético (b)	20	17,431	(2,905)	14,526	17,434
Other	20	-	-	-	488
Software	20	16,040	(12,218)	3,822	2,386
Trademarks and patents	-	<u>188</u>	<u>-</u>	<u>188</u>	<u>185</u>
		<u>38,682</u>	<u>(18,706)</u>	<u>19,976</u>	<u>20,785</u>
Consolidated					
	Annual depreciation/ amortization rate - %	2008		2007	
		Cost	Accumulated depreciation/ amortization	Net	Net
Property, plant and equipment:					
Land	-	2,014	-	2,014	2,014
Buildings and construction	4	9,613	(4,957)	4,656	5,005
Machinery and equipment	10	2,855	(2,170)	685	536
Furniture, fixtures and installations	10	122,429	(85,055)	37,374	24,565
Vehicles	20	6,743	(2,751)	3,992	2,598
IT equipment	20	32,383	(23,953)	8,430	5,736
Property, plant and equipment in progress	-	<u>10,531</u>	<u>-</u>	<u>10,531</u>	<u>3,894</u>
		<u>186,568</u>	<u>(118,886)</u>	<u>67,682</u>	<u>44,348</u>
Intangible assets:					
Goodwill on acquisition of company:					
Formato (a)	20	2,091	(2,021)	70	-
Ético (b)	20	17,431	(2,905)	14,526	17,434
Siciliano (c)	20	82,823	(16,578)	66,245	-
Other	20	-	-	-	488
Goodwill	20	24,009	(22,083)	1,926	1,506
Assignment of rights	20	2,932	(1,562)	1,370	292
Software	20	27,428	(19,643)	7,785	3,227
Trademarks and patents	-	<u>323</u>	<u>(63)</u>	<u>260</u>	<u>255</u>
Other	-	<u>269</u>	<u>-</u>	<u>269</u>	<u>484</u>
		<u>157,306</u>	<u>(64,855)</u>	<u>92,451</u>	<u>23,686</u>

- (a) Goodwill based on expected future earnings from the acquisition of Formato Editorial Ltda., which was merged on February 3, 2004. Amortization is calculated under the straight-line method over 60 months beginning on the merger date.
- (b) Goodwill based on expected future earnings from the acquisition of Ético, which was merged on February 1, 2008. Amortization is calculated under the straight-line method over 60 months beginning in March 2008.
- (c) Goodwill based on expected future earnings from the acquisition of Siciliano by Livraria Saraiva on March 6, 2008, calculated based on Siciliano's shareholders' deficit as of the date of its acquisition, in the amount of R\$24,266. The purchase price was R\$60,030, adjusted to R\$58,557 according to contractual price adjustment provisions. From the total price negotiated, an amount of R\$8,890, adjusted to R\$7,317 according to contractual provision, was initially retained to secure contractual indemnification obligations. The retained amount will be paid to sellers after six years counted from the acquisition date. The purchase price will also be adjusted up or down as a result of the analysis by the parties of possible variations of net debt and working capital of Siciliano between the balance sheets as of November 30, 2007 and March 6, 2008.

After the acquisition of Siciliano and the merger of Livraria Saraiva, Management considered that the resulting company Saraiva e Siciliano met the requirements for recognition of deferred income tax and social contribution assets on tax loss carryforwards and temporary differences as of December 31, 2007, in the amount of R\$15,455. Due to the recognition of said asset, an equivalent amount was realized in the year as goodwill related to the acquisition of Siciliano.

Deferred assets as of December 31, 2007, in the amount of R\$717 (Company) and R\$1,201 (consolidated), were reclassified to the account group "Intangible assets", according to their nature.

Changes in the accounts "Property, plant and equipment" and "Intangible assets" during the years ended December 31 were as follows:

	Company		Consolidated	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Beginning balance	34,313	17,734	68,034	37,807
Additions	10,062	3,699	36,508	23,999
Write-offs	(256)	(116)	(773)	(521)
Depreciation and amortization	(7,512)	(4,468)	(19,218)	(10,715)
Adjustment for amortization of goodwill	(2)	30	(2)	30
Realization of goodwill from Siciliano	-	-	(15,455)	-
Goodwill on acquisition of companies	-	17,434	82,823	17,434
Transfer from noncurrent assets	-	-	1,325	-
Merger of subsidiary	<u>1,698</u>	<u>-</u>	<u>6,891</u>	<u>-</u>
Balance at end of year	<u>38,303</u>	<u>34,313</u>	<u>160,133</u>	<u>68,034</u>

## 10. LOANS AND FINANCING

	<u>Company</u>		<u>Consolidated</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Current:				
In local currency - BNDES - FINEM	11,269	10,909	17,765	14,933
Secured account - Banco do Brasil	-	-	24,552	189
	<u>11,269</u>	<u>10,909</u>	<u>42,317</u>	<u>15,122</u>
Noncurrent-				
In local currency - BNDES - FINEM	<u>10,247</u>	<u>20,686</u>	<u>21,822</u>	<u>31,420</u>

The noncurrent portion matures as follows:

	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>Total</u>
Company	<u>10,247</u>	<u>-</u>	<u>-</u>	<u>10,247</u>
Consolidated	<u>17,067</u>	<u>3,751</u>	<u>1,004</u>	<u>21,822</u>

Additional information on financing is as follows:

<u>Financing</u>	<u>Purpose</u>	<u>Guarantees</u>	<u>Maturity</u>	<u>Charges</u>
Company- BNDES - FINEM - contract of 11/2005	Publishing Plan - 2005 to 2007, and information systems	Pledge of property, plant and equipment items and bank guarantee	11/2010	4% + TJLP (*)
Livraria- BNDES - FINEM - contract of 11/2006	Investment projects for opening of 11 stores, renovation and modernization of 19 stores of the chain, and centralization of logistics operations	Company's guarantee	08/2010	3.1% + TJLP (*)

(\*) The Long-term Interest Rate (TJLP) for the year ended December 31, 2008 was 6.25% per year.

Releases of funds from financing obtained with the National Bank for Economic and Social Development (BNDES) for the years ended December 31 were as follows:

	<u>Company</u>		<u>Consolidated</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Releases in 2007	-	13,190	-	23,711
January 18, 2008	1,017	-	1,017	-
February 15, 2008	-	-	1,800	-
May 27, 2008	-	-	1,804	-
December 26, 2008	-	-	3,616	-
	<u>1,017</u>	<u>13,190</u>	<u>8,237</u>	<u>23,711</u>

In the year ended December 31, 2008, working capital loans - secured account - were obtained by Saraiva e Siciliano, subject to an average rate of 125% of the interbank deposit rate (CDI).

## 11. LOYALTY PROGRAM - SARAIVA PLUS

Saraiva e Siciliano assumed the customer loyalty program (“Saraiva Plus”) launched by Livraria Saraiva. Under said program, purchases made by customers in stores and the Company’s website earn points that can be discounted in future purchases. Accumulated points, net of redemptions and valued in accordance with the program regulation, are accrued considering redemption estimates. As of December 31, 2008, the provision for loyalty program in the amount of R\$2,681 (R\$2,128 as of December 31, 2007) is recorded in current liabilities under the caption “Other payables” in the consolidated financial statements.

## 12. RELATED-PARTY TRANSACTIONS

Related-party transactions include purchases, sales and intercompany loans. Loans granted to Ético, Livraria Saraiva and Saraiva e Siciliano have indeterminate maturity and bear interest of 101% of the CDI variation. Loans to Ético in 2007 were settled upon the merger of said company on February 1, 2008.

Loans granted and recorded in current and noncurrent assets are as follows:

	2008			2007		
	<u>Saraiva e Siciliano</u>	<u>Ético</u>	<u>Total</u>	<u>Livraria Saraiva</u>	<u>Ético</u>	<u>Total</u>
Balances as of December 31 of the prior year	14,736	5,743	20,479	5,008	-	5,008
Loans to subsidiary, net of receipts	34,398	(5,743)	28,655	8,126	5,743	13,869
Financial income	<u>3,033</u>	<u>-</u>	<u>3,033</u>	<u>1,602</u>	<u>-</u>	<u>1,602</u>
Balances receivable as of December 31	<u>52,167</u>	<u>-</u>	<u>52,167</u>	<u>14,736</u>	<u>5,743</u>	<u>20,479</u>
Current assets	-	-	-	-	5,743	5,743
Noncurrent assets	<u>52,167</u>	<u>-</u>	<u>52,167</u>	<u>14,736</u>	<u>-</u>	<u>14,736</u>
	<u>52,167</u>	<u>-</u>	<u>52,167</u>	<u>14,736</u>	<u>5,743</u>	<u>20,479</u>

The main balances and transactions with related parties are as follows:

	2008	2007		
	Saraiva e Siciliano	Livraria	Ético	Total
<b>Balances:</b>				
<b>Assets:</b>				
Trade accounts receivable (current)	3,786	4,941	-	4,941
Loans to subsidiary (noncurrent and current)	52,167	14,736	5,743	20,479
<b>Liabilities-</b>				
Trade accounts payable (current)	920	5	-	5
<b>Transactions:</b>				
Sale of products	25,706	17,245	-	17,245
Purchase of products	223	31	-	31
Financial income	3,900	1,602	-	1,602

### 13. INCOME TAX AND SOCIAL CONTRIBUTION

#### a) Deferred

Deferred income tax and social contribution are derived from:

	Company		Consolidated	
	2008	2007	2008	2007
Current assets - operating provisions	<u>1,174</u>	<u>788</u>	<u>10,923</u>	<u>4,619</u>
<b>Noncurrent assets:</b>				
Tax loss carryforwards	-	-	13,431	27
Reserves for contingencies and taxes payable	<u>1,324</u>	<u>783</u>	<u>6,023</u>	<u>4,804</u>
	<u>1,324</u>	<u>783</u>	<u>19,454</u>	<u>4,831</u>
<b>Noncurrent liabilities:</b>				
Provision for book inventory losses - Law 10753/03	5,888	4,340	13,031	7,647
Other	<u>3</u>	<u>-</u>	<u>3</u>	<u>-</u>
	<u>5,891</u>	<u>4,340</u>	<u>13,034</u>	<u>7,647</u>

The Company and Saraiva e Siciliano, based on the opinion of their outside attorneys, considered the tax incentive established by Law 10753/03, amended by Law 10833/03, concerning the deductibility of the provision for inventory losses, as a direct adjustment to the tax base. The tax effects of deferred liabilities were recognized in the financial statements in accordance with CVM Instruction 371/02.

Based on the expectation of future taxable income and positive cash flows discounted to present value and pursuant to CVM Instruction 371/02, the Company and Saraiva e Siciliano maintained in their financial statements the deferred tax assets.

Management believes that the carrying amount of the Company's and Saraiva e Siciliano's deferred tax assets from temporary differences is realizable in proportion to the final resolution of lawsuits and the settlement of liabilities.

With regard to deferred tax assets from tax loss carryforwards of Saraiva e Siciliano, Management, based on the best estimates existing at the end of 2008, considers their realization based on future taxable income.

The expected realization is as follows:

<u>Balance sheet date</u>	<u>Realization of deferred tax asset</u>
December 31, 2009	9,749
December 31, 2010	3,102
December 31, 2011	7,754
December 31, 2012	<u>7,274</u>
	<u>27,879</u>

b) Expense reconciliation

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

	<u>Company</u>		<u>Consolidated</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Income before income tax and social contribution	97,470	94,556	103,105	106,042
Adjustment for presentation purposes - Law 11638/07 (note 2)	<u>-</u>	<u>371</u>	<u>-</u>	<u>371</u>
Income before income tax and social contribution - calculation basis	97,470	94,927	103,105	106,413
Combined tax rate	<u>34%</u>	<u>34%</u>	<u>34%</u>	<u>34%</u>
Taxes computed at the combined tax rate	(33,140)	(32,275)	(35,056)	(36,180)
Permanent additions - nondeductible expenses	(654)	(381)	(757)	(464)
Permanent deductions:				
Interest on capital	5,940	4,928	5,940	4,928
Equity in subsidiaries	5,609	6,029	-	-
Other deductions	356	317	463	686
Deferred taxes on income as of March 6, 2008 not recorded by subsidiary due to uncertainties concerning their realizability	-	-	3,092	(161)
Other items	<u>408</u>	<u>179</u>	<u>(793)</u>	<u>398</u>
	<u>(21,481)</u>	<u>(21,203)</u>	<u>(27,111)</u>	<u>(30,793)</u>

	Company		Consolidated	
	2008	2007	2008	2007
Income tax and social contribution:				
Current	(20,857)	(21,798)	(27,184)	(27,309)
Deferred	(624)	595	73	(3,484)
	<u>(21,481)</u>	<u>(21,203)</u>	<u>(27,111)</u>	<u>(30,793)</u>
Effective tax rate on net income	<u>22.0%</u>	<u>22.3%</u>	<u>26.3%</u>	<u>28.9%</u>

#### 14. RESERVE FOR CONTINGENCIES

Reserve for contingencies is as follows:

	Company					
	2007	Recognition	Acquisition of Siciliano	Escrow deposits	Payments/ Reversal	2008
PIS/COFINS - increase in tax basis (a)	197	26	-	-	-	223
IR/CSLL - "Plano Real" (economic plan) - Law 8880/94 (b)	861	-	-	-	-	861
PIS - Supplementary Law 7/70 (c)	-	1,015	-	-	-	1,015
Civil and labor contingencies	112	131	-	-	-	243
Escrow deposits	(1,058)	-	-	(26)	-	(1,084)
	<u>112</u>	<u>1,172</u>	<u>-</u>	<u>(26)</u>	<u>-</u>	<u>1,258</u>
	Consolidated					
	2007	Recognition	Acquisition of Siciliano	Escrow deposits	Payments/ Reversal	2008
PIS/COFINS - increase in tax basis (a)	9,236	182	-	-	-	9,418
IR/CSLL - "Plano Real" (economic plan) - Law 8880/94 (b)	861	-	-	-	-	861
PIS - Supplementary Law 7/70 (c)	-	2,529	-	-	-	2,529
Civil and labor contingencies	112	131	1,557	-	(201)	1,599
Other	-	119	2,655	-	(1,345)	1,429
Escrow deposits	(10,095)	-	-	(163)	-	(10,258)
	<u>114</u>	<u>2,961</u>	<u>4,212</u>	<u>(163)</u>	<u>(1,546)</u>	<u>5,578</u>

- (a) The Company and Saraiva e Siciliano are challenging in court certain aspects related to federal taxes, such as PIS and COFINS (taxes on revenue), with regard to the increase in the tax base and in the tax rate.
- (b) According to a Decision of the Federal Revenue Service, dated August 21, 2006, Livraria Saraiva was required to pay part of the accrued amount for the lawsuit challenging the "Plano Real" (Brazilian economic plan) - Law 8880/94, in the amount of R\$4. The same decision tacitly approved the credit under discussion represented by the reserve of R\$1,613, which was reversed and recorded in 2007 under the caption "Other operating income (expenses)". The Company's challenge is awaiting a final decision.
- (c) The Company and Livraria Saraiva, which was merged with and into Saraiva e Siciliano, filed in 1989 a lawsuit requesting the Court to declare the nonexistence of the obligation to pay the PIS, pursuant to Supplementary Law 7/70. Escrow deposits made between April 1989 and May 1992 were withdrawn upon court authorization. A final decision on the merits was rendered acknowledging the validity and applicability of Supplementary Law 7/70 and, by virtue of the granting of the National Treasury's appeal, the case is now in the stage of calculation of the amounts due to the Federal Government. Therefore, all companies recognized the respective amounts as a provision, according to the opinion from the counsel handling the case and considering the best estimates existing on the balance sheet dates to calculate the amount necessary to settle the tax credits.

The Company's and Saraiva e Siciliano's Management did not consider necessary to recognize a provision for losses to cover possible losses on pending lawsuits, in the total amount of R\$2,700, for which, in the opinion of their counsel, the likelihood of loss is possible.

## 15. TAXES PAYABLE

	<u>Company</u>		<u>Consolidated</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Installment payment of IR (income tax) and CSLL (social contribution) (a)	-	-	3,044	4,954
Installment payment of CSLL (b)	2,008	2,571	2,008	2,571
Withholding income tax (IRRF)	1,043	727	1,715	1,183
State VAT (ICMS)	21	-	21	2,396
Taxes on revenues (PIS and COFINS)	97	44	296	128
Other	<u>54</u>	<u>15</u>	<u>203</u>	<u>73</u>
	<u>3,223</u>	<u>3,357</u>	<u>7,287</u>	<u>11,305</u>
Current liabilities	1,742	1,354	4,669	6,262
Noncurrent liabilities	<u>1,481</u>	<u>2,003</u>	<u>2,618</u>	<u>5,043</u>
	<u>3,223</u>	<u>3,357</u>	<u>7,287</u>	<u>11,305</u>

(a) Request filed with the National Treasury Attorney General in October 2005 for the installment payment of the accrued amounts related to lawsuits brought to discuss the effects of IR and CSLL arising from the "Plano Real" - Law 8880/94.

(b) Request filed with Federal Revenue Service in November 2007 for the installment payment of the debt arising from the denial of the administrative appeal against the tax delinquency notice related to the deduction of interest on capital from the CSLL tax basis for 1996.

## 16. SHAREHOLDERS' EQUITY

### a) Capital

Fully paid-up capital as of December 31, 2008, in the amount of R\$147,774 (R\$147,774 as of December 31, 2007), is represented by 28,596,123 shares, of which 9,622,313 are common shares and 18,973,810 are preferred shares, without par value.

The Company's bylaws comply with São Paulo Stock Exchange's (BOVESPA) Level 2 Differentiated Corporate Governance Practices.

The Company is authorized to increase capital, through a new issue of shares for subscription and regardless of any amendment to the bylaws, by up to 4,000,000 shares. Of this total, up to 500,000 shares can be granted as stock options, pursuant to the bylaws.

The Company's preferred shares, which cannot surpass 2/3 of the total shares issued, entitle their holders to the following rights or advantages.

- Restricted voting rights, pursuant to the bylaws.
- Right to sell the preferred shares in the case of sale of the Company's controlling interest.
- Dividends equal to those paid on common shares.
- Share in the distribution of bonus shares out of capitalization of reserves, retained earnings and any other funds, under the same conditions as holders of common shares.

Common shares are not allowed to be converted into preferred shares, and vice versa.

The remaining balance of retained earnings as of December 31, 2007 is prior to the enactment of Law 6404/76.

b) Treasury shares - CVM Instructions 10/80 and 298/97

The Company holds 365,750 (365,750 in 2007) preferred shares in treasury, acquired for R\$2,870, with market value of R\$6,086 (R\$16.64 per share - quotation as of December 31, 2008). In the years ended December 31, 2008 and 2007, no new acquisitions of shares were conducted.

c) Dividends and interest on capital

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

The Company cannot, unless authorized by a majority vote in a special preferred shareholders' meeting, retain, for more than four successive quarters, cash and cash equivalents in an amount greater than 25% of total assets, provided that its financial condition allows this. Cash and cash equivalents will correspond to the amounts recorded under the caption "Cash and cash equivalents" exceeding the sum of the amounts recorded under the caption "Loans and financing" in current and noncurrent liabilities.

Pursuant to the bylaws, interest on capital included in mandatory dividends is net of income tax.

At the Meeting held on January 28, 2009, the Board of Directors approved the accrual for payment to shareholders of interest on capital for the year ended December 31, 2008. The payment will be made within a timeframe to be established at the Annual Shareholders' Meeting.

The mandatory dividend for the years ended December 31, 2008 and 2007 was calculated as follows:

	<u>2008</u>	<u>2007</u>
Net income for the year	72,033	69,836
Adjustment for presentation purposes - Law 11638/07 (note 2)	<u>-</u>	<u>371</u>
Net income for the year - calculation basis	72,033	70,207
Legal reserve	<u>(3,602)</u>	<u>(3,510)</u>
Adjusted net income	<u>68,431</u>	<u>66,697</u>
Mandatory minimum dividend - 25%	<u>17,108</u>	<u>16,674</u>
 Mandatory minimum dividend per share	 <u>0.60600877</u>	 <u>0.59064754</u>

Proposed dividends are as follows:

	<u>2008</u>	<u>2007</u>
Interest on capital, net of withholding income tax	15,117	12,541
Dividends	<u>1,991</u>	<u>4,133</u>
Proposed dividends and interest on capital	17,108	16,674
Withholding income tax on interest on capital	<u>2,668</u>	<u>2,213</u>
	<u>19,776</u>	<u>18,887</u>
 Total per share (R\$)	 <u>0.70051041</u>	 <u>0.66904341</u>

The effect of interest on capital on the calculation of income tax and social contribution for the year was a reduction of R\$5,940 (R\$4,928 in 2007).

d) Legal reserve

In accordance with Brazilian Corporate Law and the Company's bylaws, 5% of net income for each year will be allocated for the recognition of a legal reserve.

e) Recognition of earnings reserve

Of the remaining balance of net income, after allocation to the legal reserve, in the amount of R\$3,602 (R\$3,510 in 2007), and the proposal for payment of interest on capital and dividends, in the amount of R\$19,776 (R\$18,887 in 2007), an earning reserve of R\$49,521 (R\$47,810 in 2007) was recognized for use in business acquisitions, information technology, increase in Internet operations, expansion and refurbishment of Saraiva e Siciliano's stores and new publishing segments that are compatible with our competences, and working capital.

## f) Company's stock option plan

According to the 3<sup>rd</sup> Stock Option Plan approved on March 5, 2007, 19 officers and employees were granted stock options to buy 123,800 preferred shares in the exercise period from March 8 to May 7, 2010, at the fixed price of R\$21.50, subject to adjustment based on the IPCA (extended consumer price index) variation, with vesting period for free trading until May 6, 2012, when trading will be permitted only for up to 50% of the exercised options. The options will be exercised by means of the issuance of new shares and/or sale of treasury shares held by the Company, at the discretion of the Board of Directors at the time of exercise.

The Company's stock option plan Management Committee approved the conditions and beneficiaries of the 4<sup>th</sup> Stock Option Plan, according to a significant event notice published on February 28, 2008, granting call options on 126,400 preferred shares to 22 officers and employees for exercise from March 8 to May 7, 2011, at the fixed price of R\$30.00, subject to adjustment based on the IPCA variation, with vesting period for free trading until May 6, 2013, when trading will be permitted only for up to 50% of the exercised options. The options will be exercised by means of the issuance of new shares and/or sale of treasury shares held by the Company, at the discretion of the Board of Directors at the time of exercise.

Fair value for stock option plans was calculated on the grant date of each plan and based on the binomial pricing model. The effects were reflected in the net income, under the caption "Operating expenses", and in the shareholders' equity, under the caption "Earnings reserve", as follows:

<u>Year of grant</u>	<u>Year ended 12/31/07</u>	<u>Year ended 12/31/08</u>	<u>Future years</u>	<u>Total</u>
2007	371	451	532	1,354
2008	-	418	1,086	1,504
	<u>371</u>	<u>869</u>	<u>1,618</u>	<u>2,858</u>

In determining the fair value of stock options, the following economic assumptions were used:

	<u>3<sup>rd</sup> Plan</u>	<u>4<sup>th</sup> Plan</u>
Date of grant	03/05/07	02/28/08
Beginning of option exercise period	03/08/10	03/08/11
End of option exercise period	05/07/10	05/07/11
Risk-free interest rate	12.01%	12.45%
Vesting period	1.35 years	2.35 years
Number of outstanding options	<u>123,800</u>	<u>124,600</u>
Option fair value on grant date - per option - R\$	<u>11.20</u>	<u>12.61</u>
Option value for exercise, adjusted by the IPCA until December 31, 2008 - R\$	<u>23.67</u>	<u>31.45</u>

## 17. FINANCIAL INSTRUMENTS

### a) Derivative transactions

The Company conducted a derivative transaction, recorded in balance sheet accounts, aiming at reducing the exposure to foreign currency risks in an import of graphic services made in September 2008, in the amount of US\$1,374 thousand.

The Forward Currency Sale Without Physical Delivery transaction was contracted from Banco do Brasil S.A. for the period between September 17 and October 10, 2008, on which date the transaction was settled, in the amount of US\$860 thousand. Upon settlement of the contract, the financial revenue was R\$280, against a financial expense from the import of R\$487.

In the year ended December 31, 2007, no derivative transactions were conducted.

### b) Other financial instruments

The fair value of temporary cash investments, trade accounts receivable and current liabilities approximates their carrying amount, since the maturity of a significant portion of these balances is close to the balance sheet dates. The carrying amounts of financing correspond to funds obtained from the BNDES, which are adjusted to inflation based on the contracted interest rates, which do not differ significantly from the rates currently available in the market.

### c) Market risks

- Credit risk: to minimize possible losses on customer default, the Company adopts strict policies for granting credit, consisting of careful analyses of customer profiles, as well as timely monitoring of accounts receivable.
- Inventory obsolescence risk: discontinued products and new technologies may lead to excess and obsolete inventories. To minimize these conditions, the Company and Saraiva e Siciliano periodically monitor inventory levels and take necessary actions for inventory realization.

### d) Interest rate

The Company and its subsidiaries are exposed to normal market risks arising from changes in interest rates on secured account loans, which were repaid on January 5, 2009.

The sensitivity analysis was developed based on the exposure to the CDI variation, which is the only index applicable to loans obtained by Saraiva e Siciliano.

<u>Transaction</u>	<u>Risk</u>	<u>Scenarios</u>		
		<u>Probable (i)</u>	<u>Possible (ii)</u>	<u>Remote (iii)</u>
Balance of secured account loans subject to CDI variation	CDI increase	<u>24,552</u>	<u>24,676</u>	<u>24,810</u>

Balances include interest calculated as follows:

- (i) Based on current average CDI variation.
- (ii) Considering a 25% increase in CDI variation.
- (iii) Considering a 50% increase in CDI variation.

## 18. FINANCIAL INCOME (EXPENSES)

	<u>Company</u>		<u>Consolidated</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Financial income:				
Income from temporary cash investments	4,159	12,542	4,344	12,584
Interest on loans to subsidiary	2,711	1,602	-	-
Interest received from customers	1,441	1,143	1,378	1,168
Interest on recoverable taxes	-	17	7	17
Interest on escrow deposits	298	-	300	-
Financial discounts obtained	843	41	165	-
Other	<u>421</u>	<u>29</u>	<u>669</u>	<u>357</u>
	<u>9,873</u>	<u>15,374</u>	<u>6,863</u>	<u>14,126</u>
Financial expenses:				
Interest, monetary and exchange variations on financing	(2,692)	(2,324)	(5,686)	(3,330)
Financial discounts granted	(1,159)	(1,217)	(1,652)	(1,217)
Other interest and monetary variation	(3,644)	(1,810)	(7,917)	(2,099)
CPMF (tax on banking transactions)/IOC (tax on credit operations)	(72)	(1,416)	(2,321)	(3,425)
Other financial commissions	(320)	(223)	(470)	(223)
Other	<u>(157)</u>	<u>(102)</u>	<u>(695)</u>	<u>(401)</u>
	<u>(8,044)</u>	<u>(7,092)</u>	<u>(18,741)</u>	<u>(10,695)</u>
	<u>1,829</u>	<u>8,282</u>	<u>(11,878)</u>	<u>3,431</u>

## 19. OPERATING LEASE - STORES

As of December 31, 2008, Saraiva e Siciliano had 89 lease agreements with third parties for its stores. Management analyzed said agreements and concluded that they fit into the classification of operating lease. Most of the store lease agreements provide for a variable rental expense, based on sales, or a minimum amount adjusted to inflation on an annual basis by several indexes, and are effective for five years, subject to renewal. Rentals under lease agreements for Saraiva e Siciliano's logistics and administrative areas and Company's stores are fixed, with annual adjustments to inflation according to the variation of the main indexes.

In the year ended December 31, 2008, rental expenses, net of recoverable taxes, totaled R\$2,262 (R\$1,739 as of December 31, 2007) - Company, and R\$21,451 (R\$15,369 as of December 31, 2007) - consolidated. The balance of "Rentals payable" as of December 31, 2008 is R\$50 (R\$48 as of December 31, 2007) - Company, and R\$6,542 (R\$2,421 as of December 31, 2007) - consolidated.

## 20. INSURANCE (UNAUDITED)

As of December 31, 2008 and 2007, the Company and Saraiva e Siciliano had insurance coverage against fire and sundry risks for property, plant and equipment items and inventories, in amounts considered sufficient to cover potential losses.

## 21. SUBSEQUENT EVENTS

In February 2009, the Company and Saraiva e Siciliano entered into new agreements with BNDES, in the amount of R\$71.9 million and R\$69.7 million, respectively. The funds obtained from said financing will be used in the development of new content for several publishing lines, refurbishment and expansion of the store chain, and working capital.

---

To the Shareholders,

Saraiva S.A. Livreiros Editores present for examination the management report, the individual and consolidated financial statements, and the independent auditors' report for the year ended December 31, 2008.

Saraiva's shares are traded under BOVESPA's level 2 for Corporate Governance and its consolidated operations reflect results of the parent company, Saraiva S.A. Livreiros Editores ("Publisher") and its subsidiary, ("Saraiva and Siciliano"), the latter being the result of the merger of Livraria e Papelaria Saraiva S.A. ("Livraria Saraiva") into Siciliano S.A. ("Siciliano") as of November 30, 2008.

The Company's operating and financial information is consolidated and stated in Brazilian reais, in accordance with Brazilian Corporate Law. All comparisons relate to 2007 unless specified otherwise.

## MESSAGE FROM MANAGEMENT

Important strategic changes were implemented in 2008 in order to expand our operations in markets where we do business. We successfully completed the acquisition of Siciliano and the integration of its operations with those of Livraria Saraiva, opened five new stores, and the Publisher achieved excellent market share under the government program for purchase of books for public high schools - National High School Book Program (PNLEM/2009). We also invested in new areas of the publishing business that have the potential to create value in the medium and long term, including the *Ético Sistema de Ensino* and the Saraiva Multimedia Education Seal to mention some examples.

Our consolidated gross revenue totaled R\$1.2 billion in 2008 and exceeded the prior year figure by 48.0%. EBITDA<sup>1</sup> (net income before net financial income (expense), social contribution, income tax, depreciation, and amortization) totaled R\$133.7 million, which represented a rise of 18.3% in relation to 2007. Total investments reached R\$98.2 million in 2008.

The demand for content offered by **Editora Saraiva** is in large part linked to adoption by private elementary, high schools, and college of official programs for public school book purchases, as well as the need for updating by professionals who use technical content as a tool for work. Accordingly, operations of the Publisher are less subject to adverse economic cycles - an important competitive differential of Saraiva.

The year 2008 was exceptional for publishing operations. We successfully performed our business plans and consolidated the Saraiva brand in markets for educational, scientific, technical, and professional books. We invested in our publishing teams, renewed our catalog, and strengthened partnerships with our authors.

---

<sup>1</sup> EBITDA represents earnings before interest, taxes, depreciation, and amortization. It is not a measure used under Brazilian accounting practices or generally accepted accounting standards of other countries and it does not represent cash flow for the periods presented nor should it be considered as an alternative to net income as an indicator of the quality of the Company's operating performance or other alternative to cash flow as an indicator of liquidity. EBITDA does not have a standard definition and the meaning given to it might not be comparable to EBITDA as defined by other companies.

We efficiently promoted our catalog in relation to the Federal Government's Public High School Book Purchase Program, which with the adoption of new content for Portuguese, Mathematics, Geography, Physics, and Biology, allowed us to secure a market share of 29%. The total amount for the contract to supply books to public elementary and high schools (PNLD2009 and PNLEM2009) reached R\$140.9 million, the highest in our history.

We obtained excellent results with private sector book sales in the scientific, technical, and professional areas ("CTP"), as well as with educational and supplementary book lines aimed at private schools. Growth in gross revenue from the private sector reached 11.2% in 2008.

Throughout 2008 we invested in the catalog for the *Ético Sistema de Ensino* ("*Ético*"), which now has complete educational solutions from preschool to high school for the 2009 school year, even including preparatory courses for college entrance. Our objective is to position the brand as one of the best alternatives for schools that wish to use a teaching system. Our strategies for this segment are based on a well structured business plan as well as excellent human capital for its execution. The *Ético* operation is expected to enter its return on investment phase in the next three years.

Simultaneously to investment in the *Ético* educational solution, the Publisher is investing in multimedia solutions for elementary and high schools. Our objective is to offer quality digital educational content that can be used together with print media, thus adding value to traditional learning processes.

Brazilian retailing has benefited from the extremely favorable economic environment in recent years. We have been able to take advantage of this situation to make significant investments in our operations and differentiate ourselves from competitors. It was not by chance that **Livraria Saraiva** has presented substantial revenue growth in recent years. In addition to the increase in sales considering the same store concept, our retail operations also grew organically in 2008, when we inaugurated five new stores. The year was marked by important conceptual changes in our business model.

The stores in the Paulista and Ibirapuera shopping centers in the city of São Paulo and the Iguatemi Shopping Center in the city of Campinas already show their reformulated visual layout that positively stimulates the shopping experience of our customers even more.

In addition to renovation and expansion of our chain of stores, there are a series of alternatives for creating value at the retail level. We understand that a better assortment of products and services and greater attention paid to customer service, as well as marketing and adequate communication, can leverage performance for our portfolio of stores.

This strategy allowed real growth in almost all our stores over the year even without large expenditures for fixed assets. Same store growth was 14.5% for Livraria Saraiva in 2008.

Livraria Saraiva acquired Siciliano for R\$60 million in March 2008 and assumed a debt of approximately R\$14 million - already settled. The improvement in performance of Siciliano stores after the acquisition only corroborated our feeling that this strategic investment would add value to our retail operations. Same store sales for Siciliano presented a negative performance of around 8% in March but by the fourth quarter of 2008 they had grown by a substantial 26%. This performance is primarily supported by the improvement in selections at stores and training of the sales team.

When we decide on an investment, we expected to add value to business and obtain a satisfactory return for our shareholders. This assumption is valid not only for opening new stores but also for existing operations, including renovations. In the case of the Siciliano chain, we decided on a pilot project for the store in the Jardim Sul Shopping Center in São Paulo (SP) before embarking on a program involving higher expenditures. The outcome of this pilot project exceeded our expectations. The store reopened in May showed revenue growth from June to December of around 121% compared to the same period in the prior year. In the third quarter of 2008, we renovated two more Siciliano stores, both of which are located in Porto Alegre (RS), in the Moinhos and Iguatemi shopping centers. Revenue from these stores in 4Qtr08 grew 104% and 120%, respectively, in relation to 4Qtr07.

Our business focus for Siciliano was to improve information systems and logistics, invest in training, and conclude the merger of operations with Livraria Saraiva. After these actions and the results obtained in pilot projects, it is our intention to carry out an aggressive plan for renovation of up to 30 stores of the Siciliano chain in 2009.

Our plan for organic expansion in the two year period 2009-2010 has been maintained until now and we intend to inaugurate up to 11 new stores and add approximately 6 thousand m<sup>2</sup> of sales area to our retail operations - they covered 41.7 thousand m<sup>2</sup> in December 2008. We are very selective with our investments and have maintained our expansion plan for this reason. Even in light of the adverse economic scenario, we continue to believe in consolidation for the retail book sector in Brazil.

Sales results at Saraiva.com confirmed the success of product mix diversification strategies. In 2008, Gross revenue - including revenue of Siciliano.com - increased 74.1%. We believe in the success of our multichannel retail concept in which the consumer can find attributes inherent to Internet operations, as well as take advantage of the sensorial experience of physical stores.

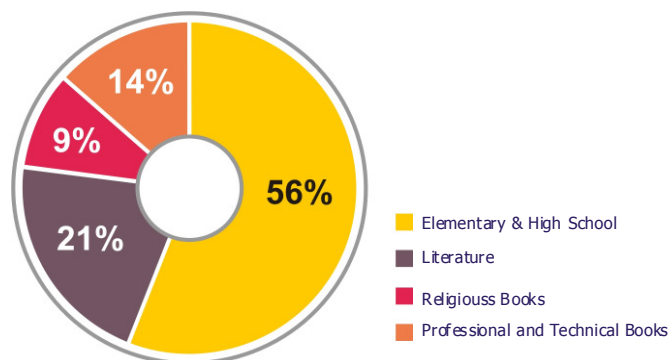
Our focus on creating value, our solid balance sheet, and diversification of our business lines are important competitive differentials in times of economic difficulties. The National Bank for Economic and Social Development (BNDES) approved a loan for our group companies totaling R\$141.6 million in February 2009. This situation allows us to evaluate business opportunities that might become available, thus optimizing resources invested in our operations.

At Saraiva, the alignment between shareholders and managers is reflected in the way we measure our performance. We use the GVA<sup>®</sup> methodology, which considers operating cash flow, investment in fixed assets, working capital employed, and average weighted cost of capital for our operations. Over 2008, we managed to strengthen the Saraiva brand even more, which is synonymous with publishing quality and excellence in retail operations. We remain focused on opportunities existing in our markets and confident in the capacity of our employees to continuously excel. Notwithstanding, we remain focused on the economic scenario so that we can make prompt adjustments as they become necessary.

## PUBLISHING AND BOOKSTORE MARKET

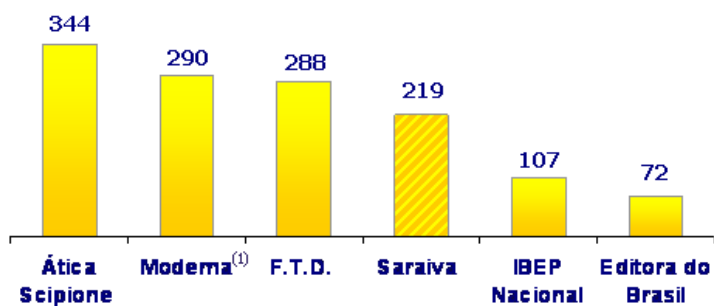
Highlights of the publishing and bookstore market and ranking for the main participants:

### Brazilian Publishing Market - 2007 Breakdown of Gross Sales: R\$3.0 billion



Source: CBL

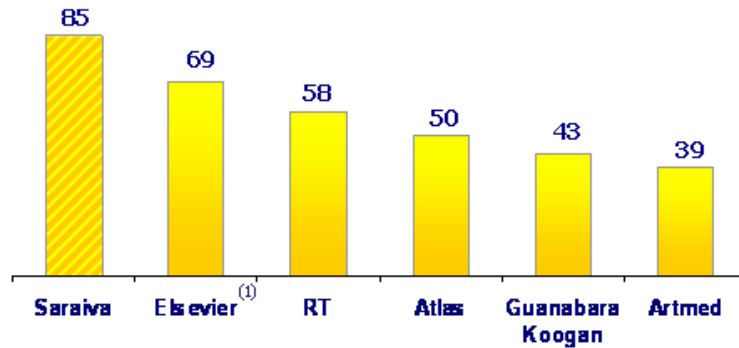
### Textbook and Supplementary Textbook Market - 2007 Main Publishers by Net Sales Revenue (R\$ million)



Source: CBL / Balance sheets of companies and Serasa.

<sup>(1)</sup> 2006

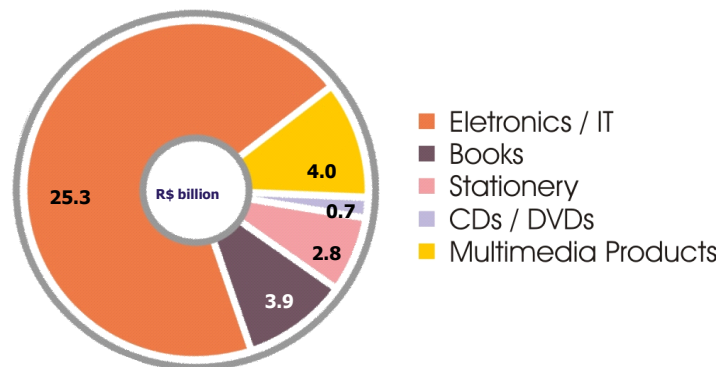
**Market for Scientific, Technical, and Professional Books - 2007  
Main Publishers by Net Sales Revenue (R\$ million)**



Source: CBL / Balance sheets of companies and Serasa.

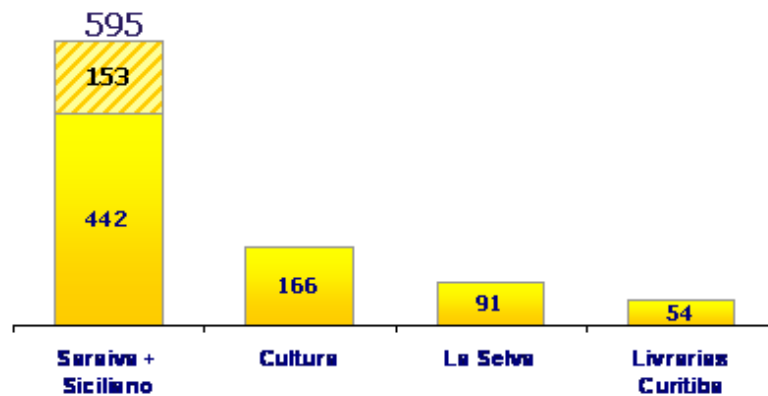
<sup>(1)</sup> 2006

**Bookstore Market and Other Categories in which Saraiva does Business - 2007  
Breakdown of Gross Sales: R\$36.7 billion**



Source: CBL / Balance sheets of companies and Serasa.

**Main Bookstores  
Net Sales Revenue - 2007 (R\$ million)**



Source: CBL, Saraiva, Serasa, Papel e Arte magazine, and ACNielsen data.

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

The fourth quarter of the Publisher is quite representative of the performance accumulated for the year, due to strongly seasonal characteristics of publishing segments.

The table below summarizes the main data on Editora Saraiva's business and financial performance:

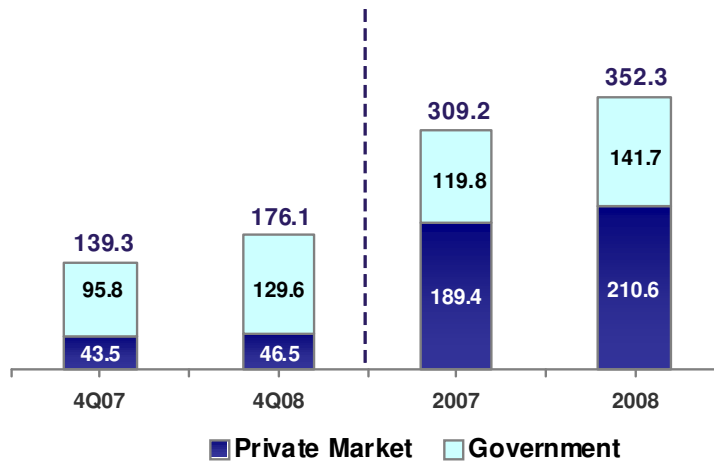
*Table 1*

<i>Editora Saraiva (R\$ thousand)</i>	<i>4Q08</i>	<i>4Q07</i>	<i>Chg.</i>	<i>2008</i>	<i>2007</i>	<i>Chg.</i>
Gross Revenue	176,143	139,320	26.4%	352,317	309,265	13.9%
Net Revenue	176,116	139,261	26.5%	352,202	309,081	14.0%
Gross Profit	105,083	79,456	32.3%	237,277	202,332	17.3%
<b>Gross Margin</b>	<b>59.7%</b>	<b>57.1%</b>	<b>2.6p.p.</b>	<b>67.4%</b>	<b>65.5%</b>	<b>1.9p.p.</b>
Operating Expenses	56,673	44,673	26.9%	158,133	133,790	18.2%
EBITDA	50,341	35,804	40.6%	86,485	72,862	18.7%
Net Financial (Revenue) Expenses	175	(1,235)	-	(1,829)	(8,282)	-77.9%
Net Income Before Equity in Subsidiaries	36,983	27,669	33.7%	55,536	52,104	6.6%
Net Income	40,650	33,573	21.1%	72,033	69,836	3.1%

**Gross Revenue**

Gross revenue reached R\$176.1 million in 4Qtr08, 26.4% above 4Qtr07 and accumulated R\$352.3 million for the year, 13.9% above 2007. This performance was attributable to growth in both private sector sales as well as sales to the government. The table below demonstrates performance of gross revenue, separating public and private sector sales channels.

## Gross Revenue (R\$ million)



### Private Sector

In 4Qtr08, revenue from private sector book sales of R\$46.5 million represented growth of 7%. Gross revenue with special note to scientific, technical, and professional books (“CTP”) totaled R\$210.6 million in 2008, exceeding 2007 by 11.2%. In the CTP sub-segment of books on economics, administration, accounting, and business, gross revenue showed a substantial increase of 52.5% in 2008.

### Government

Sales of educational textbooks to the government were 35.3% higher than in the year 2007 and 18.2% above 4Qtr07, reaching R\$129.6 million in 4Qtr08 and R\$141.7 million for 2008. The supply contracts for educational textbooks for the 2009 school year were negotiated with the National Fund for Development of Education (FNDE) during 3Qtr08 and fully recognized in 2008. *Table 2* shows recognition of revenue for these contracts.

Table 2

Program School Year		Recorded Sales (fiscal year)	
Elementary School (PNLD) and High School (PNLEM)	Total Sales - Contract Value ( R\$ million) <sup>(*)</sup>	2007	2008
<b>PNLD and PNLEM 2007</b>	84.6	20.9	
<b>PNLD and PNLEM 2008</b>	100.3	98.9	0.8
<b>PNLD and PNLEM 2009</b>	140.9		140.9
<b>Total</b>		<b>119.8</b>	<b>141.7</b>

(\*) Includes PNLD, PNLEM, FDE/SP, PNBE, and PNBEM (National Library in School Program).

The Publisher obtained excellent results from government programs in 2008. The record contract of R\$140.9 million was the largest in the Company's history due to the strength of its high school catalog (market share of 29%). The amount of the contract was also affected by the characteristics of books within PNLEM, which have more content and, therefore, a higher average unit price than those in the PNLD.

A new cycle for elementary education adoptions was begun in 2009. The program will be contracted in the second half of 2009 and its objective is to acquire content to be used by public school students in grades 1 through 5 during 2010 (PNLD2010), as demonstrated in *Table 3*. Three years ago when public school teachers decided adoptions for the same grade levels in PNLD2007, the Publisher obtained a market share of 8.6%. Since then, work was carried out to renew the catalog focused on elementary education with the objective of improving the Company's performance in relation to PNLD through launching of new collections and better service.

Even with the work to renew the catalog, market share for elementary education should be less than that achieved in relation to high school level education. It should also be noted that the contract for the 2007 school year - in the total amount to R\$84.6 million, as demonstrated in *Table 2* - included a pilot project within PNLEM that will not be repeated in 2009. It is, therefore, natural to assume that the amount contracted under the government program for PNLD2010 will be less than the record amount for the previous year (PNLEM2009).

**Purchasing Cycle for Elementary Education - Table 3**

Grades	Number of Students (MM)	Subjects	Market Potential Number of books (MM)	% of Market Potential Acquired Each Year		
				PNLD2010	PNLD2011	PNLD2012
1st Grade	4.5	Portuguese and Mathematics	9.0	100%	100%	100%
2nd Grade	4.1	Portuguese and Mathematics	8.2	100%	100%	100%
		Science, History and Geography	12.3	100%	12% *	12% *
3rd - 5th Grades	10.9	Portuguese, Mathematics, Science, History, Geography and Regional Books <sup>(1)</sup>	59.9	100%	12% *	12% *
6th - 9th Grades	13.4	Portuguese, Mathematics, Science, History and Geography	66.9	12% *	100%	12% *
		Foreign Languages	13.4	-	100%	100%

Source: FNDE/MEC/INEP (2006 School Census).

(\*) % Replacement history.

(1) History and Geography

Government purchases of books for public elementary school grades 6 to 9 should grow as a result of new choices for content related to teaching of foreign languages, especially English and or Spanish. This content should be acquired annually through PNLD2011 and the potential estimated by Saraiva is 13.4 million volumes.

In 2009, content purchases for public high schools will only involve replacing books no longer fit for use and or to meet possible increases in enrollment (PNLEM2010), as can be seen in Table 4. It is important to note that adoptions already implemented for PNLEM2009 will continue for replacements in PNLEM2010 and PNLEM2011. New adoptions for students enrolled in high schools will only occur for PNLEM2012.

**Purchasing Cycle for High School Education - Table 4**

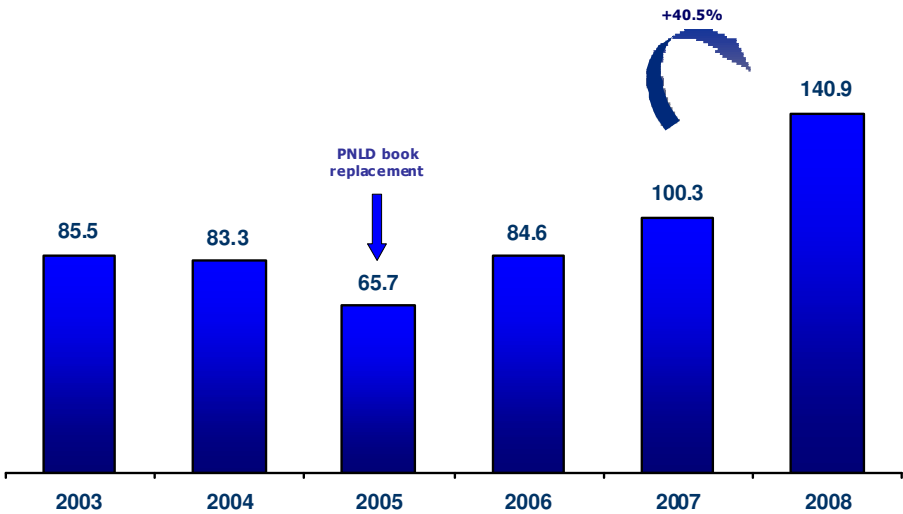
Grades	Number of Students (MM)	Subjects	Market Potential Number of books (MM)	% of Market Potential Acquired Each Year		
				PNLEM2010	PNLEM2011	PNLEM2012
1st - 3rd Grades	7.8	Chemistry & History	15.6	12% *	12% *	100%
		Portuguese & Math	15.6	12% *	12% *	100%
		Biology	7.8	12% *	12% *	100%
		Physics & Geography	15.6	12% *	12% *	100%

Source: FNDE/MEC/INEP (2006 School Census).

(\*) % Replacement history.

Purchases under PNLEM will be recurring and could reduce fluctuations seen until now under annual contracts for the supply of books to the Federal Government. As can be seen in the table below, the Publisher’s contracts follow a three year cycle in which the third year only involves replacement of content for elementary education (PNLD), which has traditionally decreased the value of contracts. Since adoptions for high school content will coincide with replacements for elementary education, contracts should present more constant behavior in the future.

**Contract Amounts (in R\$ million) - PNLD/PNLEM**



**Gross Income**

Gross income reached R\$105.1 million in 4Qtr08, growing 32.3% when compared to 4Qtr07. The gross margin went from 57.1 to 59.7%. Comparing years, gross income totaled R\$237.3 million, which represents growth of 17.3% and the gross margin rose 1.9% - from 65.5 to 67.4%. Considering the increase in the portion of sales under supply contracts related to PNLD and PNLEM2009, books for which the gross margin is lower than for private sector sales, this performance is positive.

**Operating Expenses**

Operating expenses totaled R\$56.7 million in 4Qtr08 and R\$158.1 million for the year, increases of 26.9% and 18.2% in relation to the same periods in 2007, respectively. The relation between operating expenses and net revenue remained practically stable in 4Qtr08 in relation to 4Qtr07, 32.2% and 32.1%, respectively. Comparing years, this ratio rose from 43.3% in 2007 to 44.9% in 2008. Despite the full billing for PNLD and PNLEM programs in 2008, operating expenses of the Publisher are under pressure from investments in new publishing business such as the *Ético Sistema de Ensino* and the *Saraiva Multimedia Education Seal*.

Operating expenses were negatively affected in 2008 by amortization over the year of goodwill in the amount of R\$2.9 million from the merger of Pigmento Editorial (Ético), and the establishing of extraordinary provisions of R\$1.0 million in 4Qtr08 related to declaratory actions filed in 1989 and R\$0.9 million - R\$0.4 million in 2007 - attributable to the stock option plan. (See *item Consolidated Operating Expense*)

The ratio of operating expenses to net revenue - not considering the amortization expense resulting from the merger of Ético, extraordinary provision for PIS, and the stock option plan - went from 43.2% in 2007 to 43.5% in 2008 as can be seen in *Table 5*.

*Table 5*

<i>Editora Saraiva (R\$ thousand)</i>	<i>4Q08</i>	<i>4Q07</i>	<i>Chg.</i>	<i>2008</i>	<i>2007</i>	<i>Chg.</i>
Operating Expenses	56,673	44,673	26.9%	158,133	133,790	18.2%
(-) Goodwill from Investments	872	-	-	2,906	-	-
(-) PIS Provision	1,015	-	-	1,015	-	-
(-) Stock Options Provision	869	371	134.2%	869	371	134.2%
(=) Adjusted Operating Expenses	53,917	44,302	21.7%	153,343	133,419	14.9%
Adjusted Operating Expenses / Net Revenue	30.6%	31.8%	-1.2p.p.	43.5%	43.2%	0.3p.p.

## EBITDA

EBITDA reached R\$50.3 million in 4Qtr08 and R\$86.5 million for 2008, amounts 40.6% and 18.7% greater than in 2007. The EBITDA margin was 28.6% in 4Qtr08 and 24.6% in 2008, compared to 25.7% in 4Qtr07 and 23.6% for 2007. This result for EBITDA is the best nominal performance of the Publisher in its history.

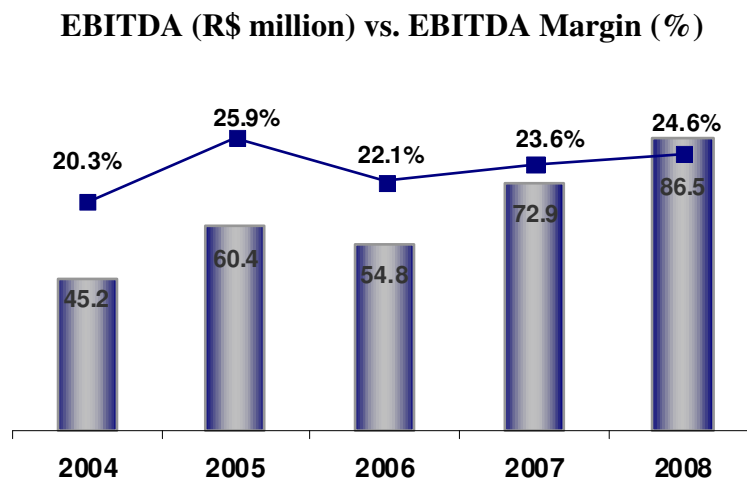


Table 6

<b>Editora Saraiva (R\$ thousand)</b>	<b>4Q08</b>	<b>4Q07</b>	<b>Chg.</b>	<b>2008</b>	<b>2007</b>	<b>Chg.</b>
Operating Income <sup>(1)</sup>	48,235	36,018	<b>33.9%</b>	80,973	76,824	<b>5.4%</b>
(+) Depreciation and Amortization Expenses	1,931	1,021	<b>89.1%</b>	7,341	4,320	<b>69.9%</b>
(+) Net Financial (Revenues) Expenses	175	(1,235)	-	(1,829)	(8,282)	<b>-77.9%</b>
(=) EBITDA	50,341	35,804	<b>40.6%</b>	86,485	72,862	<b>18.7%</b>
<b>EBITDA Margin</b>	<b>28.6%</b>	<b>25.7%</b>	<b>2.9p.p.</b>	<b>24.6%</b>	<b>23.6%</b>	<b>1.0p.p.</b>
(+) PIS Provision	1,015	-	-	1,015	-	-
(+) Stock Options Provision	869	371	<b>134.2%</b>	869	371	<b>134.2%</b>
(=) Adjusted EBITDA	52,225	36,175	<b>44.4%</b>	88,369	73,233	<b>20.7%</b>
<b>Adjusted EBITDA Margin</b>	<b>29.7%</b>	<b>26.0%</b>	<b>3.7p.p.</b>	<b>25.1%</b>	<b>23.7%</b>	<b>1.4p.p.</b>

(1) Does not include provision for interest on shareholder capital (financial expense).

In 4Qtr07 Company Management chose to present financial statements for the year ended as of 12/31/2007 in comparative form; it therefore, showed effects applicable to Law 11368/07 retroactively, recognizing the effects of the stock option plan in the amount of R\$371 thousand.

In order to improve the effectiveness of comparing EBITDA with publishing activities in previous years, the extraordinary provisions already mentioned were excluded from *Table 6*. The performance of the Publisher's adjusted EBITDA was even better: R\$88.4 million in 2008, a margin 25.1% in relation to net revenue.

### Financial Income (Expenses)/Capital Structure

Financial income in 4Qtr08 showed a net expense of R\$175 thousand, compared to net financial income of R\$1.2 million for the same quarter of the prior year. Comparing years, we see net financial income of R\$1.8 million in 2008 and R\$8.3 million for 2007. The decrease in financial income reflects the lower cash position in the period.

The net cash position (cash and cash equivalents - borrowings) evolved from R\$76.9 million at the end of 2007 to R\$10.2 million at the end of 2008. Investments made in 2008 and the capital increase in the subsidiary, Livraria Saraiva, in the amount of R\$90 million, which made possible the acquisition of Siciliano, placed pressure on the net cash position for publishing operations.

### Net Income

Net income **before** equity income in the subsidiary, Saraiva e Siciliano, totaled R\$37.0 million in 4Qtr08 (+33.7%). In 2008, net income of the Publisher **before** equity income in subsidiary resulted in income of R\$55.5 million, an increase of 6.6% in relation to the same period in the prior year.

Net income **after** equity income in the subsidiary, Saraiva e Siciliano, totaled R\$40.7 million in 4Qtr08 (+21.1%). Net income from publishing operations totaled R\$72 million in 2008, an increase of 3.1% in relation to net income in 2007.

Net income of publishing operations of R\$576 thousand in 4Qtr08 and R\$1.9 million for 2008 was affected by amortization of goodwill from the merger of Pigmento Editorial (*Ético Sistema de Ensino*), acquired in December 2007 and merged into the Publisher in February 2008. The goodwill resulting from this merger in the **gross** amount of R\$291 thousand is being amortized over 60 equal installments since March of 2008. In addition to the amortization expense with *Ético*, net income was also affected by the establishing of a provision for PIS and recognition of the stock option program in the amounts of R\$1 million and R\$869 thousand (R\$371 thousand in 4Qtr07), respectively.

## Investments

Investments made in 2008 reached R\$11.8 million and were mainly focused on information systems, structuring of operations for *Ético* and Saraiva Multimedia Education Seal, and the purchase of vehicles for the promotional team.

## SARAIVA E SICILIANO S.A. (SARAIVA e SICILIANO)

Saraiva e Siciliano is primarily engaged in retail sale of books, DVDs, music, stationery, and IT and electronics products.

*Table 7* presents the main information on consolidated financial and business performance of retail operations. The parent company, Livraria Saraiva, was merged into the subsidiary, Siciliano, on November 30, 2008. The consequence of this reverse merger was the use of tax loss carryforwards of Siciliano, and a new name, which changed from Siciliano S.A. to Saraiva e Siciliano S.A.

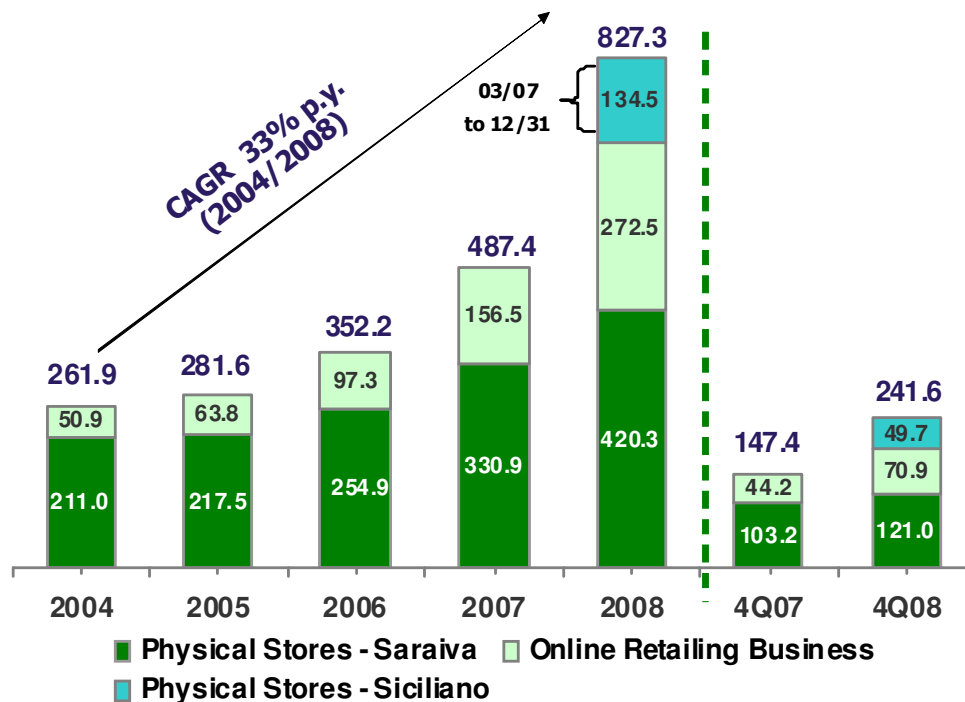
The balance of Saraiva e Siciliano's tax loss carryforwards totaled R\$39.2 million as of December 31, 2008 and the same will be offset against future income of this company following the limit of 30% of annual income before income tax and social contribution, thus establishing an important tax asset for retail operations.

*Table 7*

<b>Saraiva e Siciliano S.A. - Consolidated * (R\$ thousand)</b>	<b>4Q08</b>	<b>4Q07</b>	<b>Chg.</b>	<b>2008</b>	<b>2007</b>	<b>Chg.</b>
Gross Revenue	241,614	147,402	<b>63.9%</b>	827,294	487,376	<b>69.7%</b>
Net Revenue	223,760	131,262	<b>70.5%</b>	767,205	441,677	<b>73.7%</b>
Gross Profit	77,194	47,741	<b>61.7%</b>	272,179	160,665	<b>69.4%</b>
<b>Gross Margin</b>	<b>34.5%</b>	<b>36.4%</b>	<b>-1.9 p.p.</b>	<b>35.5%</b>	<b>36.4%</b>	<b>-0.9 p.p.</b>
Operating Expenses	70,015	36,304	<b>92.9%</b>	235,153	126,148	<b>86.4%</b>
EBITDA	11,094	13,146	<b>-15.6%</b>	48,354	40,536	<b>19.3%</b>
Net Financial (Revenue) Expenses	6,623	1,368	<b>384.1%</b>	13,708	4,824	<b>184.2%</b>
Net Income	3,667	6,384	<b>-42.6%</b>	16,502	18,223	<b>-9.4%</b>

(\*) Income for 2008 includes income of Siciliano (from March 6 to November 30), Livraria Saraiva (January 1 to November 30), and Saraiva e Siciliano (December 1 to 30). Comparisons are made based on operations of Livraria Saraiva in 2007.

**Gross Revenue (+69.7% in 2008)  
(R\$ million)**



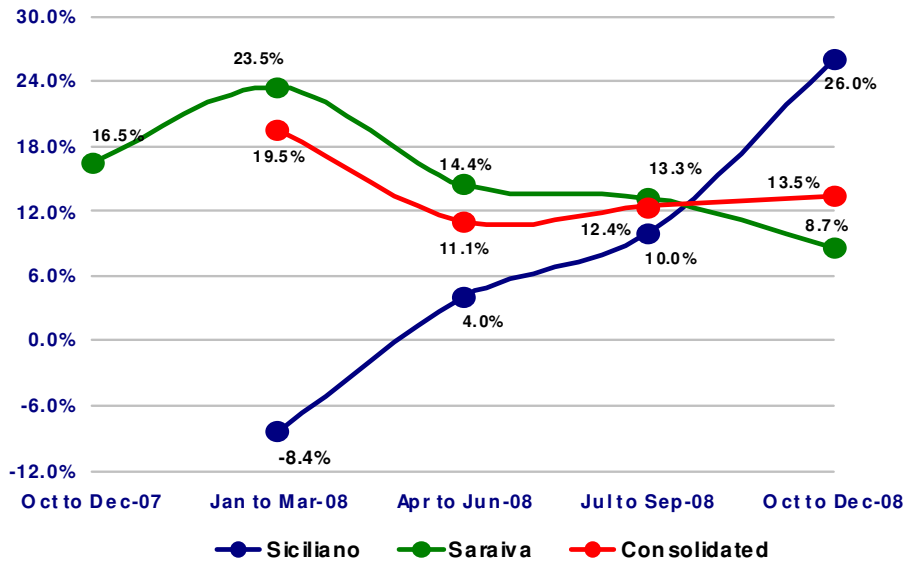
**Saraiva e Siciliano**

Analyzing comparable sales, the increase in Livraria Saraiva’s stores without including sales of Siciliano reached 8.7% in 4Qtr08 and 14.5% for 2008 despite the worsening economic crisis. The demand for products sold by the Company has a low correlation with availability of credit and it is less susceptible to increases in interest rates. In 2008, the average purchase in physical stores was approximately R\$65 - 7% above 2007.

Gross revenue of Siciliano grew 21.5% in 4Qtr08 in relation to 4Qtr07 to R\$49.7 million. This good performance is the result of a series of measures implemented during the year that were intended to improve services offered to customers of the Siciliano chain. These initiatives included improving the selection available at points of sale, especially with respect to technical books, as well as investments related to training of personnel, information systems, and logistics processes, and unifying of the purchasing department.

The table below demonstrates quarterly growth in sales of comparable physical stores of Livraria Saraiva and Siciliano throughout 2008. It also presents the total comparable sales for retail operations as a whole.

### Nominal Growth for Comparable Stores - by Quarter



Nominal growth in the book, newspaper, magazine and stationery segments, released by the IBGE (Brazilian Institute of Geography and Statistics) in its monthly survey of commerce, showed a 13.0% change in the first five months of 2008. Livraria Saraiva presented an increase of 28% for this segment in the same period, which demonstrates the important gain in market share.

In 2008, three stores of the Siciliano chain were renovated to adjust them to Saraiva store standards: Jardim Sul Shopping Center in São Paulo and the Iguatemi and Moinhos shopping centers, both in Porto Alegre (RS). New product categories were introduced in these stores - CDs, DVDs, stationary, multimedia, and IT products -, as were benefits currently available to customers of Livraria Saraiva such as the Saraiva Plus credit card.

Table 8 shows more details of performance for Siciliano stores that have already been adapted to Saraiva standards.

Table 8

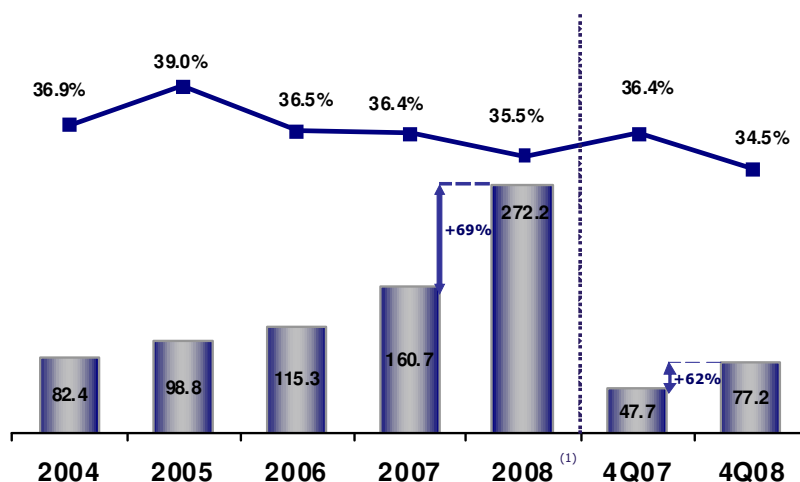
	Jardim Sul (São Paulo/SP)	Moinhos (Porto Alegre/RS)	Iguatemi (Porto Alegre/RS)
Reopening	May/29/2008	Sep/15/2008	Sep/29/2008
Comparative Period 2008/2007	Jun/01 to Dec/31	Oct/01 to Dec/31	Oct/01 to Dec/31
Revenue Growth (y.o.y.)	121.4 %	103.9 %	120.4 %

Sales by m<sup>2</sup> of Livraria Saraiva stores presented a performance even better than that of the Siciliano chain in 2008. Sales of Livraria Saraiva stores were R\$16.7 thousand per m<sup>2</sup> on average, compared to R\$9.3 thousand per m<sup>2</sup> for Siciliano stores, a difference of 79.3%.

### Gross Income

Consolidated Gross income reached R\$77.2 million in 4Qtr08, 61.7% above 4Qtr07. Gross income totaled R\$272.2 million in 2008, 69.4% greater than in the same period of 2007. The gross margin in 4Qtr08 was 34.5%, lower than the 36.4% for 4Qtr07. Gross margin was 35.5% in 2008, compared to 35.5% in 2007. This reduction is the result of greater participation of the electronics/IT category in the revenue mix over the course of 2008.

Gross Income (R\$ million) vs. Gross Margin (%)

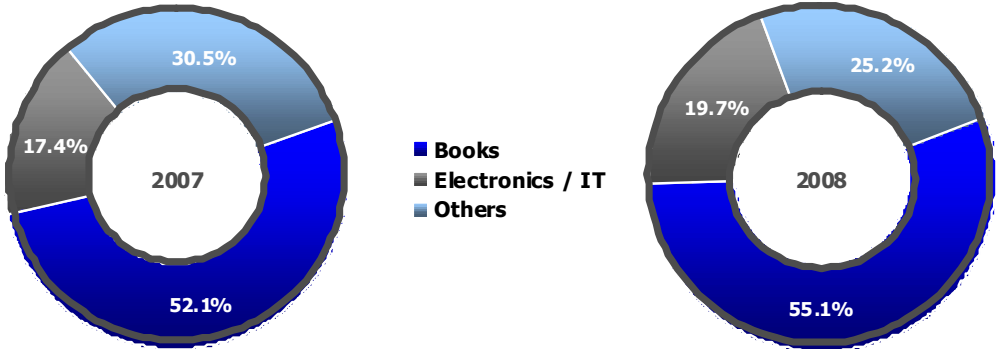


<sup>(1)</sup> Includes Siciliano from March 2008 onward

The change in the product mix of retail operations that began in 2005 has been important for the Company’s performance. The good economic times of the past three years allowed Livraria Saraiva to win over an important *share of mind* for product lines with which it did not traditionally operate, such as information technology and electronics. The growing share of these products in the mix has brought a higher contribution margin for gross income, even when gross margins considered in relative terms have fallen.

The increase in gross income for retail operations has permitted greater gains of scale and significant increases in EBITDA in absolute terms. The mission of Saraiva e Siciliano is to bring to the consumer a shopping experience that is increasingly better, which involves a product mix that makes sense from the point of view of logistics and brand image. This is one of the reasons why there will be ongoing studies for introduction of new categories in new market segments without, however, ignoring the main business of the Company - the sale of books.

**Makeup of Gross Revenue**



Including the Siciliano operation - which practically sold only books in its stores -, participation of the “book” category in the consolidated mix for retail operations rose from 52.1% in 2007 to 55.1% in 2008.

**Operating Expenses**

The consolidated operating expense to net revenue ratio went from 27.7% in 4Qtr07 to 31.3 percent in 4Qtr08. For the year, this ratio went from 28.6% in 2007 to 30.7% in 2008.

Dilution of operating expenses has been negatively influenced by non-recurring expenses related to the process of acquiring Siciliano’s operations and adapting them to taxpayer substitution system introduced by the state of São Paulo for sales of CDs and DVDs, which resulted in advance recognition of ICMS for these categories, and pre-operating expenses related to the opening and renovation of stores. Non-recurring expenses in 4Qtr08 were R\$1.8 million.

Operating expenses were negatively influenced by the establishing of an extraordinary provision of R\$1.5 million related to declaratory actions filed in 1989. (See Consolidated Operating Expense item)

Operating income from retail operations was also affected by amortization of the first installment - of a total of sixty - of goodwill in the amount of R\$1.1 million resulting from the merger of Livraria Saraiva into Siciliano. As of December 31, 2008, the balance of this goodwill considered for tax purposes was R\$81.4 million.

Table 9 demonstrates the performance of operating expenses for Saraiva's retail activities adjusted for non-recurring and pre-operating expenses.

Table 9

<b>Saraiva e Siciliano S.A. - Consolidated (R\$ thousand)</b>	<b>4Q08</b>	<b>4Q07</b>	<b>Chg.</b>	<b>2008</b>	<b>2007</b>	<b>Chg.</b>
Operating Expenses	70,015	36,304	<b>92.9%</b>	235,153	126,148	<b>86.4%</b>
(-) Non Recurring Expenses	1,762	-	-	6,753	-	-
(-) Provisão PIS	1,514	-	-	1,514	-	-
(-) Siciliano Goodwill	1,123	-	-	1,123	-	-
(=) Adjusted Operating Expenses	65,616	36,304	<b>80.7%</b>	225,763	126,148	<b>79.0%</b>
Adjusted Operating Expenses / Net Revenue	29.3%	27.7%	<b>1.6p.p.</b>	29.4%	28.6%	<b>0.8p.p.</b>

Investments in renovation and opening of stores over the past two years and the acquisition of the Siciliano chain resulted in a need for additional resources to support operations. The total number of Company owned stores was 36 in December 2007 and 88 in December 2008. The plan for expansion foresees the inauguration of 11 new stores in the two year period of 2009-2010. Therefore, investments in administrative infrastructure to support these new business perspectives were made over the course of 2008. Nevertheless, Saraiva remains firmly committed to its search for gains in scale.

Other aspects that deserve attention in relation to the analysis of the Company's operating expenses are the investment made in the administrative structure, which is now based on various business areas. Without losing sight of the multi-channel concept, management has a clear responsibility to monitor in an independent manner the performance of stores, operations of the website Saraiva.com, organic expansion, and future businesses, as is the case of sale of content in digital format, launching of which is foreseen for 2Qtr09.

The marketing team has been reinforced in recent years with results already visible in terms of communication and customer relationships. The importance of investment in individuals and training of staff that interact with customers is recognized as one of the ways to bring competitiveness to retail operations over the long run, regardless of the macroeconomic scenario. In other words, expenditures with administrative structures will be marginally lower over the next few years.

Greater efficiency is expected for retail operations with the unification of information systems and even more importantly centralization of logistics activities. Expenses in 4Qtr08 were also pressured by the operation of various distribution centers because the rationalization process for logistics operations of Saraiva's physical stores and Siciliano's operations was only concluded in December 2008.

## EBITDA

EBITDA reached R\$11.1 million in 4Qtr08, a drop of 15.6% in relation to the same period in the prior year and the EBITDA margin reached 5.0%, compared to 10.0% in 4Qtr07. EBITDA totaled R\$48.4 million in 2008, 19.3% higher than in 2007. The EBITDA margin reached 6.3% compared to 9.2% in 2007.

Table 10

<b>Saraiva e Siciliano S.A. - Consolidated (R\$ thousand)</b>	<b>4Q08</b>	<b>4Q07</b>	<b>Chg.</b>	<b>2008</b>	<b>2007</b>	<b>Chg.</b>
Income from Operations after Net Financial Income	556	10,069	-94.5%	23,318	29,693	-21.5%
(+) Depreciation and Amortization Expenses	3,915	1,709	129.1%	11,328	6,019	88.2%
(+) Net Financial (Revenues) Expenses	6,623	1,368	384.1%	13,708	4,824	184.2%
(=) EBITDA	11,094	13,146	-15.6%	48,354	40,536	19.3%
<b>EBITDA Margin</b>	<b>5.0%</b>	<b>10.0%</b>	<b>-5.0p.p.</b>	<b>6.3%</b>	<b>9.2%</b>	<b>-2.9p.p.</b>
(+) Non Recurring Expenses	1,762	-	-	6,753	-	-
(+) PIS Provision	1,514	-	-	1,514	-	-
(=) Adjusted EBITDA	14,370	13,146	9.3%	56,621	40,536	39.7%
<b>Adjusted EBITDA Margin</b>	<b>6.4%</b>	<b>10.0%</b>	<b>-3.6p.p.</b>	<b>7.4%</b>	<b>9.2%</b>	<b>-1.8p.p.</b>

Adjusted EBITDA, which excluded non-recurring expenses related to the Siciliano acquisition process, pre-operating expenses for opening and renovating stores, effects of taxpayer substitution system for sales of CDs and DVDs in the state of São Paulo, and establishing of a provision for PIS, showed growth of 39.7% in relation to the prior year, reaching R\$56.6 million.

Centralization of logistics activities and results achieved in 2008 for stores of the Siciliano chain already transformed to Saraiva standards- Jardim Sul Shopping Center (São Paulo), Moinhos Shopping Center (Porto Alegre), and Iguatemi Shopping Center (Porto Alegre) -, as well as renovation of up to 30 Siciliano stores during 2009, point to good perspectives beginning in 2010, when we expect to present the full improvement in productivity of operations, greater dilution of fixed costs, and reduction of operating cycles.

Points of sale of Siciliano still operate with EBITDA margins that are lower than standards for Livraria Saraiva. The company expects that renovations will bring performance of the Siciliano chain up to standards for Livraria Saraiva stores over the next two years.

## Financial Income (Expenses)/Capital Structure

Net financial expenses reached R\$6.6 million in 4Qtr08, compared to R\$1.4 million in 4Qtr07. In 2008, net expenses were R\$13.7 million, compared to R\$4.8 million in 2007.

The financial position went from a net debt of R\$3.9 million at the end of 2007 to net debt of R\$36.5 million at the end of 2008.

The changes seen in financial expenses and net debt are the result of intensifying of investments in expansion of the chain of physical stores, increase in the need for working capital due to the rapid growth in sales, investment in the selection of books for Siciliano's stores.

Financial expenses were especially affected by the increase in short-term borrowing costs in 4Qtr08, which was aggravated by the unfavorable economic environment in this period. Retail operations normally need to invest in inventory in this quarter as well as in various marketing actions that precede the Christmas season. A capital structure will tend to improve with the arrival of new long-term resources borrowed from the BNDES in February 2009 and which could reduce short-term pressure on financial income.

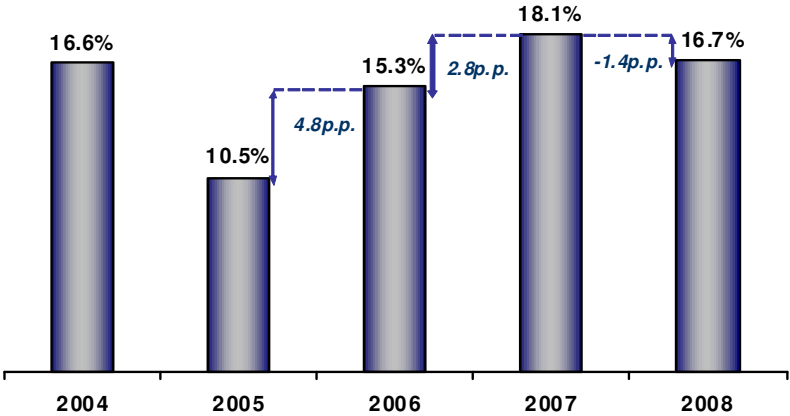
**Working Capital**

The growing participation of the IT product segment in the sales mix and more customer financing has contributed decisively to this rapid increment in sales. At the same time, these factors have resulted in a need to employ more working capital. The working capital to gross sales ratio was 16.7% in 2008 compared to 18.1% in the prior year. The table below shows the behavior of working capital to net revenue for the past five years.

It is interesting to note the improvement in 2008 of the ratio of working capital employed to net sales when compared to the same period in the prior year, that is, a reduction of 1.4%, which is practically the same level as 2004.

Retail operations ended 2008 with an operating cycle of 72 days, compared to 71 days in the same period of the prior year. Centralization of logistics activities should bring greater gains in relation to inventory management beginning in the second half of 2009. Saraiva e Siciliano continue to look for new opportunities for negotiation with suppliers and partners in order to improve the operating cycle.

**Working Capital <sup>(1)</sup>/Net Sales <sup>(2)</sup>**



(1) Inventories + Accounts receivable - Accounts payable (monthly average for the last 12 months)  
 (2) Net sales for the past 12 months.

## Net Income

Consolidated net income for retail operations was R\$3.7 million in 4Qtr08 and R\$6.4 million in 4Qtr07.

Income for 2008 was R\$16.5 million, compared to R\$18.2 million in 2007.

Net income was affected by the increase in financial expenses and non-recurring expenses related to the acquisition process for Siciliano; by pre-operating expenses related to stores renovated over the year; and by effects of the introduction of taxpayer substitution system for CDs and DVDs segments in the state of São Paulo; as well as the establishing of an extraordinary provision for PIS.

## Investments

The total amount invested in 2008 was R\$86.5 million, with special note of the Siciliano acquisition for approximately R\$60 million - an amount still subject to adjustment due to differences in working capital and net debt of this company between November 30, 2007 and March 6, 2008, the date on which the deal was closed. In 2008, investments of note also included the following:

- Inaugurating of the super store in the Juiz de Fora Shopping Center in the city of Juiz de Fora (MG) with an areas for sales of 426 m<sup>2</sup> in April.
- Opening in July of the super store in the Plaza Sul Shopping Center in São Paulo with sales area of 629 m<sup>2</sup>. This store substituted a small Siciliano store that operated in the same shopping center.
- Renovation of Siciliano stores: in Jardim Sul Shopping Center in São Paulo with 370 m<sup>2</sup> of selling area and at the Moinhos and Iguatemi shopping centers in Porto Alegre (RS), in September.
- Renovation of the Saraiva store in the Ibirapuera Shopping Center in São Paulo (SP) re-inaugurated in August. Sales of this store from September to December reported growth of 15.6% in relation to the same period in the prior year.
- Inaugurating of the traditional Saraiva store at the *Faculdade de Direito do Largo de São Francisco* (Law School) in São Paulo (SP) with 90 m<sup>2</sup> of sales area.
- Opening of the super store at the Barra Sul Shopping Center in the city of Porto Alegre (RS) with 793 m<sup>2</sup> of sales area in November.
- Inaugurating of the super store at the São José do Rio Preto Shopping Center (SP) with 587 m<sup>2</sup> of sales area in November. This store substituted a small Siciliano store that operated in the same shopping center.

In addition to closing the stores in the São José do Rio Preto and Plaza Sul shopping centers in 2008, which were substituted by larger Livraria Saraiva stores, the Company also wound up activities for two stores of the Siciliano chain that did not show perspectives for creating value or overlapped operations of Livraria Saraiva: in Vila Olímpia (SP), in June and at the Praia de Belas Shopping Center (RS) in August. Up to the moment, there are no perspectives for additional closings of points of sale of Saraiva e Siciliano.

## Marketing/Partnerships

The “Saraiva Plus” preferred customer program launched in the second half of 2005 already has 2.5 million affiliated customers, growth 8.8% in relation to the number at the end of 2008. This tool with a system that facilitates accumulating of points and simplifies redemption has been successful in retaining of old customers and attracting new consumers.

## Saraiva.com - Electronic Retail Division of Saraiva e Siciliano

Table 11

<sup>(1)</sup> Include revenue of Siciliano.com in the amount of R\$2.1 million in 4Qtr08 and R\$6.3 million for 2008.

<sup>(2)</sup> Active customer: user that has made at least one purchase in the past year.

Saraiva.com (R\$ thousand)	4Q08	4Q07	Chg.	2008	2007	Chg.
Gross Revenue <sup>(1)</sup>	70,915	44,156	<b>60.6%</b>	272,492	156,524	<b>74.1%</b>
Net Revenue	63,784	38,549	<b>65.5%</b>	246,743	140,219	<b>76.0%</b>
Operating Expenses	13,654	7,831	<b>74.4%</b>	48,928	28,268	<b>73.1%</b>
EBITDA	5,088	3,627	<b>40.3%</b>	25,693	17,627	<b>45.8%</b>
Active Customers (thousand) <sup>(2)</sup>	1,048	793	<b>32.1%</b>	1,048	793	<b>32.1%</b>
% of Revenue - Livraria Saraiva Consolidated	29.4%	30.0%	<b>-0.6p.p.</b>	32.9%	32.1%	<b>0.8p.p.</b>
Average Ticket (R\$)	136.69	125.29	<b>9.1%</b>	151.65	130.93	<b>15.8%</b>

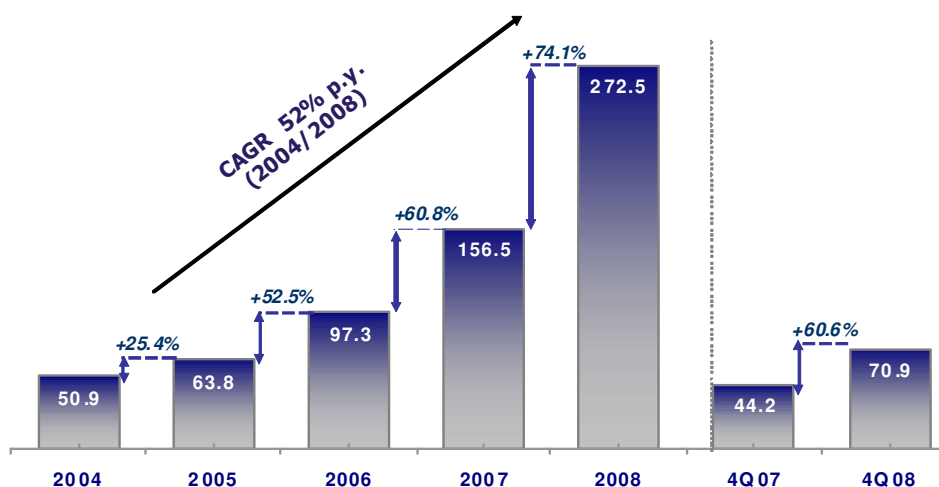
Gross sales totaled R\$70.9 million in 4Qtr08, which equaled growth of 60.6% above 4Qtr07. Gross revenue reached R\$272.5 million in 2008, an amount 74.1% higher than the amount reported in 2007. Operations of Siciliano.com reached R\$2.1 million in 4Qtr08 and R\$6.3 million accumulated from March 6, 2008, the date of acquisition of this company. Gross revenue for Saraiva.com in 4Qtr08 and accumulated over the year reached, R\$68.8 million (+55.7%) and R\$266.1 million (+70%), respectively.

The strategy of increasing the number of product categories has resulted in a consistent increase in the average purchase, which rose 9.1% in 4Qtr08 and 15.8% for 2008. The total number of items for sale reached the Mark of 1.5 million at the end of 2008, a rise of 4.8% in relation to the end of 2007.

The high point among new categories continues to be the IT product segment, which grew 78.6% in 4Qtr08 and 102.8% for 2008. Our mobile phone line, sales of which were initiated in 3Qtr07, represented 8.1% of total retail sales for electronics in 2008.

E-commerce has achieved a growing representativeness in operations of the Livraria. Its participation in total gross revenue reached 29.4% in 4Qtr08 and 32.9% for the year. The table below demonstrates revenue growth for Saraiva.com.

## Nominal Growth in Gross Revenue of Saraiva.com (R\$ million)



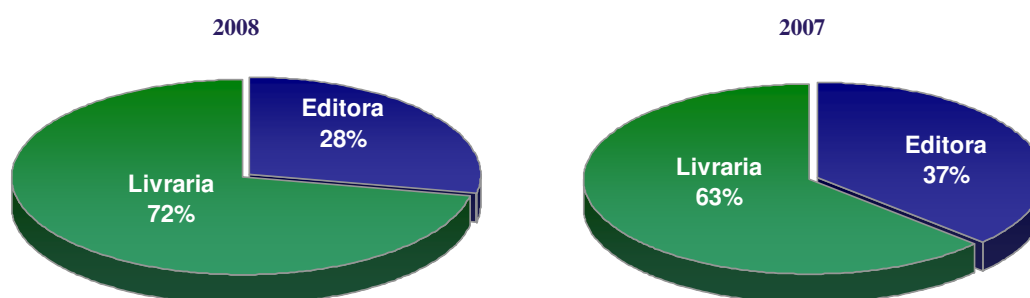
## CONSOLIDATED

The table below presents the main indicators of consolidated business and financial performance.

Table 12

Consolidated (R\$ thousand)	4Q08	4Q07	Chg.	2008	2007	Chg.
Gross Revenue	413,614	283,826	45.7%	1,153,682	779,375	48.0%
Net Revenue	395,733	267,626	47.9%	1,093,478	733,492	49.1%
Gross Profit	182,077	127,184	43.2%	509,233	362,970	40.3%
<b>Gross Margin</b>	<b>46.0%</b>	<b>47.5%</b>	<b>-1.5p.p.</b>	<b>46.6%</b>	<b>49.5%</b>	<b>-2.9p.p.</b>
Operating Expenses	127,674	81,411	56.8%	394,250	260,359	51.4%
EBITDA	60,249	48,523	24.2%	133,652	112,970	18.3%
(+) Non Recurring Expenses	1,762	-	-	6,753	-	-
(+) PIS Provision	2,529	-	-	2,529	-	-
(+) Stock Options Provision	869	371	134.2%	869	371	134.2%
Adjusted EBITDA	65,409	48,894	33.8%	143,803	113,341	26.9%
Net Financial (Revenue) Expenses	6,797	160	-	11,878	(3,431)	-
Net Income	40,650	33,573	21.1%	72,033	69,836	3.1%
Total Assets	682,441	524,634	30.1%	682,441	524,634	30.1%
Shareholders' Equity	335,882	282,756	18.8%	335,882	282,756	18.8%
Net Debt	(26,317)	73,085	-	(26,317)	73,085	-

## Makeup of Consolidated Gross Revenue



### Gross Revenue

Gross revenue reached R\$413.6 million in 4Qtr08, 74.1% higher than the amount reported in 4Qtr07. Gross revenue totaled R\$1.2 billion in 2008, an increase of 48.0% in relation to the same period of the prior year. This was positively influenced by the strong growth in revenue from retail operations, which represented 72% of the consolidated total, including revenue of stores of the Siciliano chain.

### Gross Income

Gross income reached R\$182.1 million in 4Qtr08, growing 43.2% in relation to 2007. Gross income reached R\$509.2 million in 2008, 40.3% higher than in 2007. Gross margin was 46.0% in 4Qtr08 compared to 47.5% in 4Qtr07. The gross margin for the year reached 46.6% compared to 49.5% in 2007. This drop mainly reflects the greater weighted participation of the Livraria in the Group consolidated.

### Operating Expenses

The ratio of operating expenses to net revenue adjusted for non-recurring events, the extraordinary provision for PIS, and the stock option program, as well as goodwill resulting from the acquisition of Siciliano and Ético Sistema de Ensino, reached 30.5% in 4Qtr08 (30.3% in 4Qtr07) and 34.8% for 2008 (35.4% in 2007), showing improvement of approximately 0.2 and -0.6 tenths of a percent in the periods analyzed.

An extraordinary provision of R\$2.5 million related to declaratory actions filed in 1989 was established in 4Qtr08. These suits sought to prove the lack of a legal basis for the contribution to PIS as set forth in Supplementary Law 7/1970. The escrow deposits made by Livraria Saraiva and the Publisher in the period from April 1989 to May 1992 were raised by court order.

The merit of the case was decided and a final unappealable decision recognizing the validity and force of the system in Supplementary Law 7/1970 was handed down. Accordingly, the National Treasury claim was approved and the proceedings are presently in the process of calculating amounts owed to the Federal Government. Therefore, according to the procedure foreseen in CVM Resolution 489/2005, the respective amounts were provisioned in accordance with the legal opinion of the attorneys responsible for the case and considered the best estimate existing as of the yearend closing to calculate the disbursement required to settle this tax debt.

## Stock Option Plan

A provision of R\$0.9 million related to the expense with the stock option plan was established in 4Qtr08 (R\$0.4 million in 4Qtr07). The fair value of this plan is calculated as of the date the respective options are granted based on a binomial option pricing model. The model uses different trajectories that the price could follow over the life of the asset. This method complies with changes in Law 11638/07 and CPC Pronouncement 10 approved CVM Resolution 562 dated December 17, 2008.

Table 13

<b>Consolidated (R\$ thousand)</b>	<b>4Q08</b>	<b>4Q07</b>	<b>Chg.</b>	<b>2008</b>	<b>2007</b>	<b>Chg.</b>
Operating Expenses	127,674	81,411	<b>56.8%</b>	394,250	260,359	<b>51.4%</b>
(-) Goodwill from Investments (Ético and Siciliano)	1,995	-	-	4,029	-	-
(-) Non Recurring Expenses	1,762	-	-	6,753	-	-
(-) PIS Provision	2,529	-	-	2,529	-	-
(-) Stock Options Provision	869	371	<b>134.2%</b>	869	371	<b>134.2%</b>
(=) Adjusted Operating Expenses	120,519	81,040	<b>48.7%</b>	380,071	259,988	<b>46.2%</b>
Adjusted Operating Expenses / Net Revenue	30.5%	30.3%	<b>0.2p.p.</b>	34.8%	35.4%	<b>-0.6p.p.</b>

## EBITDA

EBITDA was positive in the amount of R\$60.2 million in 4Qtr08, compared to R\$48.5 million in 4Qtr07. EBITDA totaled R\$133.7 million in 2008, an increase of 18.3% in relation to the prior year.

Table 14

<b>Consolidated (R\$ thousand)</b>	<b>4Q08</b>	<b>4Q07</b>	<b>Chg.</b>	<b>2008</b>	<b>2007</b>	<b>Chg.</b>
Operating Income <sup>(1)</sup>	47,606	45,613	<b>4.4%</b>	103,105	106,042	<b>-2.8%</b>
(+) Depreciation and Amortization Expenses	5,846	2,750	<b>112.6%</b>	18,669	10,359	<b>80.2%</b>
(+) Net Financial (Revenues) Expenses	6,797	160	<b>0.0%</b>	11,878	(3,431)	<b>-446.2%</b>
(=) EBITDA	60,249	48,523	<b>24.2%</b>	133,652	112,970	<b>18.3%</b>
<b>EBITDA Margin</b>	<b>15.2%</b>	<b>18.1%</b>	<b>-2.9p.p.</b>	<b>12.2%</b>	<b>15.4%</b>	<b>-3.1p.p.</b>
(+) Non Recurring Expenses	1,762	-	-	6,753	-	-
(+) PIS Provision	2,529	-	-	2,529	-	-
(+) Stock Options Provision	869	371	<b>134.2%</b>	869	371	<b>134.2%</b>
(=) Adjusted EBITDA	65,409	48,894	<b>33.8%</b>	143,803	113,341	<b>26.9%</b>
<b>Adjusted EBITDA Margin</b>	<b>16.5%</b>	<b>18.3%</b>	<b>-1.7p.p.</b>	<b>13.2%</b>	<b>15.5%</b>	<b>-2.3p.p.</b>

Does not include provision for interest on shareholder capital (financial expense).

EBITDA adjusted for non-recurring expenses, establishing of a provision for PIS, and the stock option program amounted to R\$65.4 million in 4Qtr08 and R\$143.8 million for the year 2008, growth of 33.8% and 26.9%, respectively.

## Financial Income (Expenses)/Capital Structure

The net financial expense was R\$6.8 million in 4Qtr08 compared to a net expense of R\$160 thousand in 4Qtr07. Net financial income for the year went from R\$3.4 million in 2007 to a net financial expense of R\$11.9 million in 2008, reflecting recent investments made in Group companies and which negatively influenced the cash position.

The consolidated financial position evolved from net cash of R\$73.1 million at the end of 2007 to a negative position of R\$26.3 million at the end of December 2008.

New borrowing from the BNDES in the amount of R\$141.6 million for use through December 2010 will readjust Saraiva's capital structure.

## Net Income

Net income for 4Qtr08 was R\$40.7 million, compared to R\$33.6 million in 4Qtr07. Income for 2008 totaled R\$72.0 million, compared to R\$69.8 million in 2007 (+3.1%).

Consolidated net income from operations was affected by R\$10.5 million related to non-recurring expenses, amortization of goodwill related to the acquisition of Ético Sistema de Ensino and Siciliano, establishing of an extraordinary provision for PIS, and the provision for the stock option program.

## Investments

Investments totaled R\$98.2 million in 2008, including R\$60.0 million for acquisition of Siciliano and R\$38.2 million for expansion and renovation of the store chain, the Saraiva Multimedia Education Seal, the Teaching System Division, IT projects, and purchase of vehicles for promotional teams.

## CAPITAL MARKETS

The following indicators summarize the trading of Saraiva's shares in 2008 compared to 2007.

<b>Indicators</b>	<b>2008</b>	<b>2007</b>	<b>Chg.</b>
Number of Trades <sup>(1)</sup>	9,335	14,619	-36.1%
Participation in Trading Sessions - % <sup>(1)</sup>	100.0	100.0	0.0%
Quantity Traded - thousand shares <sup>(1)</sup>	12,719	18,215	-30.2%
Volume Traded - R\$ thousand <sup>(1)</sup>	337,123	507,281	-33.5%
Shares Price - R\$ <sup>(1) (2)</sup>	16.64	35.00	-52.5%
Total Shares Outstanding - thousand <sup>(2)</sup>	28,230	28,230	0.0%
<b>Market Cap - R\$ million <sup>(2) (3)</sup></b>	<b>469.7</b>	<b>988.1</b>	<b>-52.5%</b>

Source: Bovespa

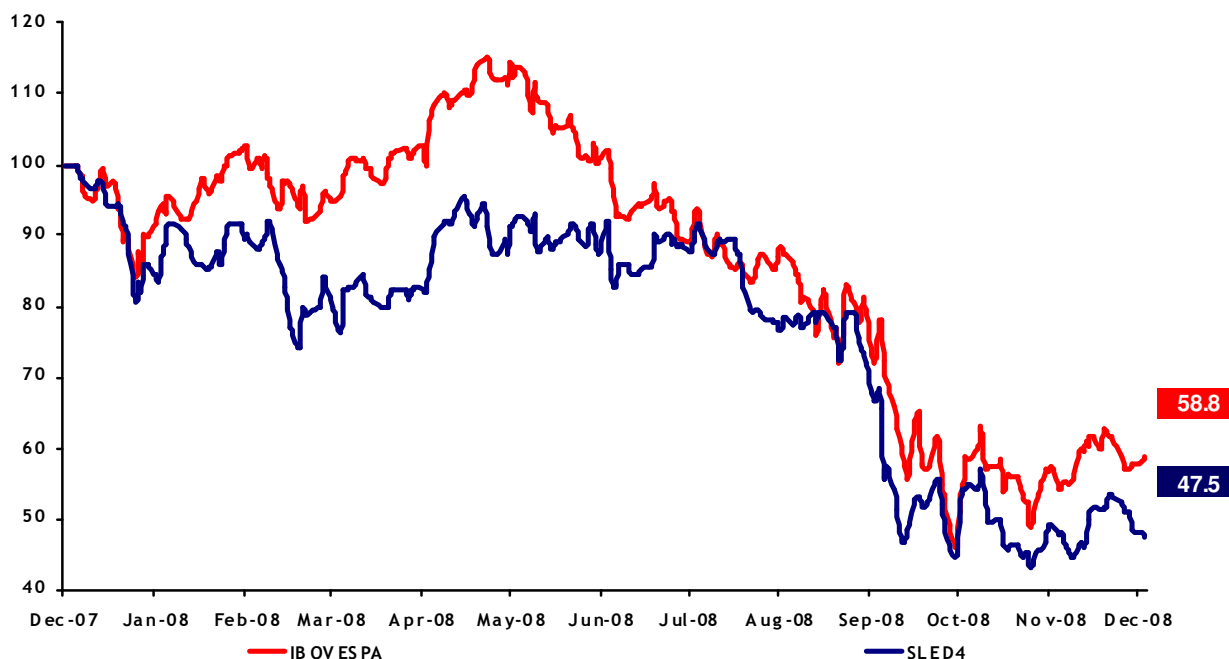
<sup>(1)</sup> Relates to Share PN (SLED4).

<sup>(2)</sup> At yearend

<sup>(3)</sup> Calculation based on quotation for the preferred share as well as for common shares.

Preferred shares of Saraiva (SLED4) fell in value by 52.5% over 2008, while Ibovespa fell 41.2%.

**SLED4 versus Ibovespa**  
**From (base 100) 12/28/2007 to 12/30/2008**



Instability and uncertainty in relation to the global economy caused a high degree of volatility in the stock market in 2008 and negatively influenced both performance and trading volume for shares. Notwithstanding, these uncertainties did not affect the investment decisions of the Company, which continues to be confident in its strategies for the medium and long-term based on the solid fundamentals of the business.

### **SUBSEQUENT EVENTS**

Saraiva’s corporate offices were transferred to a new head office which will allow better communication among areas and greater operational efficiency. The new head office is located on Rua Henrique Schaumann, 270, Pinheiros District, in São Paulo (SP).

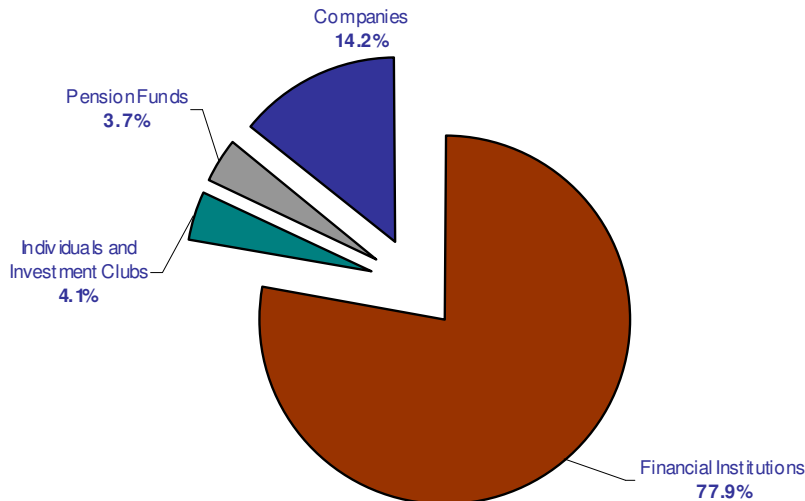
In February 2009, the Publisher and Saraiva e Siciliano entered into new long-term borrowing contracts with the BNDES in the amounts of R\$71.9 million and R\$69.7 million, respectively. These funds will be used to develop new content for various publishing lines, renovation and expansion of the store chain, as well as working capital, and they will benefit the Group’s capital structure since financial leverage will remain at conservative levels with favorable costs.

In 2009, Saraiva e Siciliano will begin to sell movies in digital format. This virtual business environment will allow interactive purchase and or rental of downloaded movies. Customers will also be able to comment on and classify films as well as interact within a real social network focused on movies. This has been made possible through a partnership with Truetech - interface developer - and the support of Microsoft. The project foresees a second stage in which other products will be sold in digital format.

## SHAREHOLDING STRUCTURE

Saraiva's subscribed and paid-up capital was R\$147.8 million as of December 31, 2008, represented by 28,596,123 registered no-par shares, 9,622,313 of which are common shares (ON) and 18,973,810 are preferred shares (PN). The Company holds 365,750 preferred shares in treasury.

### Breakdown of Free Float - SLED4 December 2008



## SHAREHOLDER REMUNERATION

The Board of Directors, in a meeting held on January 28, 2009, approved the payment of R\$17.8 million (R\$0.63000841 per share) to shareholders in the form of interest on shareholders' capital. Considering results for the year, an additional R\$2.0 million (R\$0.070502 per share) for supplementary dividends will be set aside to meet legal and statutory requirements for minimum dividends and for approval at the Annual Shareholders' Meeting scheduled for April 23, 2009.

The total gross amount for payment to shareholders will be R\$18.9 million (R\$0.70051041 per share), equivalent to 27.5% of income for the year; this will represent a dividend yield of 4.2% on the price of preferred shares as of December 31, 2008.

## OUTLOOK

The velocity of change in the economic scenario in past months and the volatility generated by the uncertainties in relation to the behavior of economic agents in the near future will require that companies constantly monitor their activities. The Company is aware of this reality and prepared to make adjustments that can mitigate the effects of these uncertainties on its performance. However, it is necessary to call the attention of shareholders to the ever present dichotomy between short- and long-term decisions.

The Company continues to seek value through projects with returns above our cost of capital, invariably achieved through long-term investment.

Over the past two years and most certainly more intensely in 2008, decisions on investment have definitely repositioned Saraiva in the segments in which it does business.

The mission of **Editora Saraiva** has been reaffirmed in previous discussions of performance, that is, to provide content for education from preschool through college, as well as scientific, technical, and professional content regardless of the media. Investments for the next several years are intended to consolidate the position in markets in which the Publisher does business and seek opportunities in new areas of publishing that are compatible with our competencies.

We are in the process of executing intense work on the foundations of the Publishers main business lines, including reinforcing of publishing teams for the launch of new products. Renewal of the catalog is based on strategies for differentiated relationships with the public, including pedagogical support and more aggressive marketing actions. These actions have already produced practical results in 2008 with a significant market share for new adoptions under PNLEM2009.

Perspectives exist for broadening of programs for elementary education (PNLD) and high schools (PNLEM) through the purchase of new content for foreign languages. Students enrolled in elementary school grades 6 through 9 are expected to receive content for English and or Spanish beginning as of PNLD2011 and students enrolled in high schools will probably be included beginning with PNLEM2012.

New book adoptions for public elementary schools will be decided in 2009 for use in the 2010 school year (PNLD2010). This will be the first year of a three year cycle that begins with the purchase of new content for students enrolled in grades 1 through 5. Three years ago, under the PNLD2007 that represented the start of this same purchasing cycle, the Publishers market share was 8.6%. New book collections have been developed to reinforce the competitive position of the Company. If these new collections are approved by the Ministry of Education (MEC) in the pedagogical evaluation that will soon be announced, there are good chances for improving the Publisher's performance in PNLD2010, for which we estimate a market share of from 13 to 15%.

Publishing activities include new lines of business. Ético has completed its product catalog for the 2009 school year with differentiated educational solutions for schools that wish to adopt teaching systems. The Company truly believes in the potential of this business to create value. The business plan is aligned with estimates, financial resources are available for greater investment, and more importantly, we have excellent human capital to execute the project.

Over the next several years, the Publisher will also invest in technological resources that can make a difference in classroom learning processes, especially for elementary and high schools. We understand that pedagogical projects that are well structured and which utilize new technologies can together with printed media, bring significant gains to students, teachers, and school administrators. The "Destino" series, which includes very interesting tools for use in math and English classrooms, is already on sale in 2009.

In addition to possibilities for organic growth, the Publisher continues to focus on and could possibly study opportunities for acquisitions or strategic partnerships.

In closing, publishing activities are less susceptible to macroeconomic fluctuations, since a large portion of revenue comes from educational textbooks, demand for which is determined by adoptions of private schools and public programs for the acquisition of books. This is an important differential of Saraiva in times of crisis. Saraiva's publishing business has significant barriers to entry and a low need for capital investment.

The retail market for books in Brazil offers good opportunities for capitalized companies with flexible business models and well constructed strategies for the short- and long-term. Investment in Siciliano broadened possibilities for consolidation in this market since the book merchant segment is extremely fragmented in Brazil. It is estimated that the Group holds a market share of approximately 10%.

**Saraiva e Siciliano** took advantage of opportunities offered by the favorable economic environment of the past several years and invested in reformulating its business to introduce new product categories and improve service. The Saraiva Plus credit card is an example of how the Company intends to relate to its customers who gain real advantages from a clear policy for discounts while they remain loyal to both physical as well as Internet channels over the long-term. In addition to adding to the number of stores, the Company has reinforced its administrative structure and increased training of staff.

Despite the uncertainties in the short-term, investments in the Company's retail operations continue unchanged until now. Even if the economic situation does not allow goals to be met in the short-term, the company will continue to study projects with a return that exceeds its cost of capital and which allow it to consolidate the position of its retail business.

The Project for expansion of physical stores in the Saraiva e Siciliano chain foresees the opening of 11 new stores in the two year period 2009-2010. Those already engaged include the following:

1. Paralela Shopping Center (Salvador -BA) with an estimated sales area of 600 m<sup>2</sup> and inauguration foreseen for March 2009.
2. Beiramar Shopping Center (Florianópolis, SC), with an estimated sales area of 500 m<sup>2</sup> and inauguration foreseen for March 2009. This store will substitute a Siciliano operation in the same shopping center.
3. Manauara Shopping Center (Manaus, AM) with an estimated sales area of 1,500 m<sup>2</sup> and inauguration foreseen for April 2009.
4. Iguatemi Caxias Shopping Center (Caxias, RS) with an estimated sales area of 1,200 m<sup>2</sup> and inauguration foreseen for April 2009.
5. Granja Viana Shopping Center (São Paulo, SP) with an estimated sales area of 750 m<sup>2</sup> and inauguration foreseen for 2010.

Expectations for Siciliano's operations are positive for 2009. Up to 30 stores will be renovated and consumers will have the same shopping experience as customers of Livraria Saraiva.

The renovation plan for Siciliano stores was conceived so as to minimize logistics and efforts of in-house personnel in relation to these changes. Consequently, the same will be implemented using geographic criteria. The stores in the Brasília Federal District are already being renovated. The schedule for the first half also includes work at the store in the Higienópolis Shopping Center (concluded in March 2009) and at Cidade Jardim in São Paulo (SP). Following this, stores will be reformed in the states of Paraná and Santa Catarina, Rio de Janeiro, Bahia and Ceará, São Paulo, Minas Gerais, and finally, Paraíba.

It is evident that it is impossible to guarantee the same sales results achieved by pilot projects for all of the thirty stores that will probably be renovated over the year. Some information deserves note: (i) sales per m<sup>2</sup> for Livraria Saraiva are still 79.3% higher than for the Siciliano chain. Even considering the current economic scenario, which will certainly affect Brazilian retailers that sell discretionary goods, we believe in good sales performance for Siciliano units that have been transformed; (ii) Siciliano has excellent points of sale, many of which are located in cities where the Company did not previously do business or in which its presence was insignificant. History demonstrates that the Groups retail activities are highly competitive in new geographic areas.

In the retail electronics division, the focus will continue to be on extending operations, including new products categories, and strengthening business for lines in which the Company already works. Saraiva e Siciliano will begin to sell movies over the web and consumer relationship actions will be intensified using this project.

The Company will continue to monitor store operations in a persistent manner throughout 2009. The book category will continue to be the lead product area for physical store operations. Migration of consumption to average sales of lower amounts could attenuate the effects of the crisis on operations of Saraiva e Siciliano. Nevertheless, it would be optimistic to assume continuation of recent growth seen in categories with higher average prices such as electronics and computers for example.

Moreover, several preventive actions have already been taken in 4Qtr08 in order to preserve the Company's cash, such as an increase in the minimum payment for installment sales and negotiation with suppliers to reduce inventories. Other actions under study will be carried out as required, including review of marketing expenditures and reevaluation of possible temporary hires.

There are important operating gains to be achieved in 2009, especially in relation to logistics, which will be completely centralized as of April. The acquisition process for Siciliano and the strong growth in operations made reformulating of plans originally drawn up a necessity, which slowed the integration process as a whole. It is our intention to prepare the Company for consistent growth in all channels in which it does business over the next several years. For this reason, warehouses will be the main focus of management's attention in 2009.

Investments will be financed by cash from operations as well as long-term debt already contracted from the BNDES. The first tranche of these funds is expected to be received in March. This new contract will provide a total of R\$141.6 million for operations that can be used up to December 2010. The average grace period for these loans is 30 months with average amortization of principal over an additional 36 months. The Group's financial position is strengthened by the arrival of these funds, which permits new investment opportunities that may be available to be evaluated *vis-à-vis* the current financial crisis.

## **INDEPENDENT AUDITORS**

To comply with CVM Regulatory Instruction 381/03, Saraiva entered into a service contract for advisory and analysis of differences between Brazilian accounting standards and international accounting standards (IFRS) in March 2008. The total estimated value of this contract is R\$334 thousand, equivalent to 70% of fees for independent audit services.

The scope of these services does not include expressing an opinion or making any type of judgment with respect to the treatment that should be given to comply with international standards, nor with respect to decisions involving conversion of the financial statements, preparation of a note for reconciliation, adherence to notes, and format for presentation of the financial statements.

## **ACCEPTANCE OF MARKET ARBITRATION PANEL**

By adhering to Level 2, the Company, its shareholders, management, and members of the supervisory board agree to resolve all conflicts set forth in the Commitment Clause of the Company's Statutes in accordance with Regulations for the Arbitration Panel of the Bovespa Exchange.

## **ACKNOWLEDGEMENTS**

We thank all our shareholders, customers, suppliers, financial institutions, authors, employees, and communities for the support given in 2008, without which we would not have achieved the excellent results obtained for the year.

São Paulo, March 18, 2009

MANAGEMENT