

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

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

*Financial Statements for the Years Ended  
December 31, 2009 and 2008 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 subsidiary as of December 31, 2009 and 2008, 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 subsidiary; (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 subsidiary's 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 subsidiary as of December 31, 2009 and 2008, 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 accounting practices adopted in Brazil.
4. The accompanying financial statements have been translated into English for the convenience of readers outside Brazil.

São Paulo, March 17, 2010

  
DELOITTE TOUCHE TOHMATSU  
Auditores Independentes

  
Maurício Pires de Andrade Resende  
Engagement Partner

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SARAIVA S.A. LIVREIROS EDITORES

BALANCE SHEETS AS OF DECEMBER 31, 2009 AND 2008

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

ASSETS	Note	Company		Consolidated		LIABILITIES AND SHAREHOLDERS' EQUITY	Note	Company		Consolidated	
		2009	2008	2009	2008			2009	2008	2009	2008
<b>CURRENT ASSETS</b>						<b>CURRENT LIABILITIES</b>					
Cash and cash equivalents	6	30,063	31,730	38,762	37,823	Trade accounts payable		35,655	49,160	197,851	173,927
Trade accounts receivable	7	62,974	64,162	216,331	199,643	Loans and financing	12	10,344	11,269	81,458	42,317
Inventories	8	102,779	82,381	297,597	216,331	Payroll and related charges		6,755	5,832	14,774	12,521
Recoverable taxes	9	5,824	4,780	24,154	19,211	Taxes payable	17	1,651	1,742	5,719	4,669
Deferred income tax and social contribution	15.a	630	1,174	12,345	10,923	Provision for income tax and social contribution		703	4,703	703	4,703
Other receivables		8,116	2,178	13,592	5,690	Copyrights payable		6,342	10,803	7,090	11,515
Prepaid expenses		530	123	845	367	Management profit sharing		4,065	3,956	4,065	3,956
Total current assets		<u>210,916</u>	<u>186,528</u>	<u>603,626</u>	<u>489,988</u>	Dividends and interest on capital	18.c	20,724	19,776	20,724	19,776
<b>NONCURRENT ASSETS</b>						<b>NONCURRENT LIABILITIES</b>					
Loans to subsidiary	14	6,964	52,167	-	-	Other payables		<u>2,631</u>	<u>6,864</u>	<u>19,342</u>	<u>21,726</u>
Deferred income tax and social contribution	15.a	741	1,324	19,692	19,454	Total current liabilities		<u>88,870</u>	<u>114,105</u>	<u>351,726</u>	<u>295,110</u>
Judicial deposits	16	8,512	7,240	9,950	7,986	<b>NONCURRENT LIABILITIES</b>					
Recoverable taxes	9	-	-	8,954	-	Loans and financing	12	43,203	10,247	92,348	21,822
Receivables for sale of property and equipment		1,535	4,192	1,535	4,192	Deferred income tax and social contribution	15.a	7,741	5,891	20,817	13,034
Other		30	133	42	145	Reserve for contingencies	16	1,276	1,258	2,844	5,578
		17,782	65,056	40,173	31,777	Taxes payable	17	958	1,481	958	2,618
Investments:						Other payables		137	209	5,688	8,336
In subsidiary	10	242,138	178,778	-	-	Total noncurrent liabilities		<u>53,315</u>	<u>19,086</u>	<u>122,655</u>	<u>51,388</u>
Other		408	408	543	543	<b>NONCONTROLLING INTEREST</b>					
Property and equipment	11	18,575	18,327	104,331	67,682			-	-	63	61
Intangible assets	11	21,497	19,976	94,902	92,451	<b>SHAREHOLDERS' EQUITY</b>					
Total noncurrent assets		<u>300,400</u>	<u>282,545</u>	<u>239,949</u>	<u>192,453</u>	Paid-up capital	18.a	190,978	147,774	190,978	147,774
						Treasury shares	18.b	(2,870)	(2,870)	(2,870)	(2,870)
						Earnings reserve		<u>181,023</u>	<u>190,978</u>	<u>181,023</u>	<u>190,978</u>
						Total shareholders' equity		369,131	335,882	369,131	335,882
<b>TOTAL ASSETS</b>		<u><u>511,316</u></u>	<u><u>469,073</u></u>	<u><u>843,575</u></u>	<u><u>682,441</u></u>	<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<u><u>511,316</u></u>	<u><u>469,073</u></u>	<u><u>843,575</u></u>	<u><u>682,441</u></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, 2009 AND 2008

(Amounts in thousands of Brazilian reais - R\$, except earnings per share)

	Note	Company		Consolidated	
		2009	2008	2009	2008
GROSS REVENUE FROM SALES		335,757	352,317	1,317,109	1,153,682
DEDUCTIONS FROM GROSS REVENUE					
Sales taxes (ICMS, PIS, COFINS and ISS)		(132)	(115)	(64,120)	(60,204)
NET REVENUE		335,625	352,202	1,252,989	1,093,478
COST OF SALES AND SERVICES		(103,708)	(114,925)	(692,424)	(584,245)
GROSS PROFIT		231,917	237,277	560,565	509,233
OPERATING (EXPENSES) INCOME					
Sales		(111,740)	(104,079)	(350,207)	(255,274)
General and administrative expenses		(44,880)	(40,405)	(94,370)	(111,436)
Management compensation		(5,725)	(4,646)	(10,095)	(7,126)
Stock option plan	18.f	(966)	(869)	(966)	(869)
Depreciation and amortization		(4,637)	(7,341)	(21,420)	(18,669)
Equity in subsidiary	10	5,360	16,497	-	-
Other operating income (expenses), net	20	10,114	(793)	14,078	(876)
		(152,474)	(141,636)	(462,980)	(394,250)
INCOME FROM OPERATIONS BEFORE FINANCIAL INCOME (EXPENSES)		79,443	95,641	97,585	114,983
FINANCIAL INCOME (EXPENSES)					
Financial income	21	3,488	9,873	2,531	6,863
Financial expenses	21	(9,930)	(8,044)	(23,079)	(18,741)
		(6,442)	1,829	(20,548)	(11,878)
INCOME BEFORE INCOME TAX AND SOCIAL CONTRIBUTION		73,001	97,470	77,037	103,105
INCOME TAX AND SOCIAL CONTRIBUTION					
Current	15.b	(12,952)	(20,857)	(13,840)	(27,184)
Deferred	15.b	(2,977)	(624)	(6,123)	73
INCOME BEFORE MANAGEMENT PROFIT SHARING		57,072	75,989	57,074	75,994
MANAGEMENT PROFIT SHARING		(4,065)	(3,956)	(4,065)	(3,956)
INCOME BEFORE NONCONTROLLING INTERESTS		53,007	72,033	53,009	72,038
NONCONTROLLING INTERESTS		-	-	(2)	(5)
NET INCOME		53,007	72,033	53,007	72,033
EARNINGS PER SHARE - R\$		1.88	2.55		
NUMBER OF OUTSTANDING SHARES (IN THOUSANDS)		28,230	28,230		

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

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SARAIVA S.A. LIVREIROS EDITORES

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (COMPANY)

FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

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

	Note	Paid-up capital	Treasury shares	Earnings reserve			Retained earnings	Total
				Legal reserve	Income reserve	Reserve for stock option plan		
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	18.f	-	-	-	-	869	-	869
Proposed allocation of net income:								
Legal reserve	18.c/e	-	-	3,602	-	-	(3,602)	-
Transfer to income reserves	18.e	-	-	-	49,521	-	(49,521)	-
Interest on capital	18.c	-	-	-	-	-	(17,785)	(17,785)
Dividends	18.c	-	-	-	-	-	(1,991)	(1,991)
BALANCES AS OF DECEMBER 31, 2008		147,774	(2,870)	19,327	170,411	1,240	-	335,882
Capital increase - Extraordinary Shareholders' Meeting held on April 23, 2009	18.a	43,204	-	-	(43,204)	-	-	-
Net income for the year		-	-	-	-	-	53,007	53,007
Stock option plan	18.f	-	-	-	-	966	-	966
Proposed allocation of net income:								
Legal reserve	18.c/e	-	-	2,650	-	-	(2,650)	-
Transfer to income reserves	18.e	-	-	-	29,633	-	(29,633)	-
Interest on capital	18.c	-	-	-	-	-	(20,724)	(20,724)
BALANCES AS OF DECEMBER 31, 2009		190,978	(2,870)	21,977	156,840	2,206	-	369,131

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SARAIVA S.A. LIVREIROS EDITORES

STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008  
(Amounts in thousands of Brazilian reais - R\$)

	Note	Company		Consolidated	
		2009	2008	2009	2008
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>					
Net income for the year		53,007	72,033	53,007	72,033
Adjustments to reconcile net income to net cash provided by (used in) operating activities:					
Depreciation and amortization (including amount allocated to cost)	11	4,865	7,512	22,747	19,218
Deferred income tax and social contribution	15.b	2,977	624	6,123	(15,540)
Allowance for doubtful accounts		1,269	1,701	2,139	3,059
Equity in subsidiaries	10	(5,360)	(16,497)	-	-
Realization of goodwill on acquisition of companies	11	-	-	-	15,455
Proceeds from sale of property and equipment		(10,248)	(480)	(10,940)	(1,084)
Financial charges and exchange variation on intercompany balances, financing, loans and taxes payable		(766)	(3,556)	2,741	740
Stock option plan	18.f	966	869	966	869
Other provisions		1,510	5,101	6,388	9,232
Noncontrolling interests in subsidiaries		-	-	2	5
Decrease (increase) in assets:					
Trade accounts receivable		2,521	26,059	(18,827)	(25,711)
Receivables from subsidiary due to sales of goods		(2,602)	240	-	-
Dividends received from subsidiary		-	4,335	-	-
Inventories		(20,398)	(22,387)	(81,266)	(87,252)
Other receivables		(2,642)	(4,827)	(18,555)	(17,178)
Increase (decrease) in liabilities:					
Trade accounts payable		(13,505)	19,858	23,924	67,381
Income tax and social contribution		(4,000)	(5,096)	(4,000)	(7,386)
Payment of interest on financing		(2,749)	(2,658)	(7,042)	(4,590)
Other payables		(6,766)	3,141	(4,999)	(10,391)
Net cash provided by (used in) operating activities		(1,921)	85,972	(27,592)	18,860
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>					
Purchase of property and equipment	11	(7,986)	(10,062)	(66,791)	(36,508)
Acquisition of companies		-	-	-	(51,140)
Sale of property and equipment		8,629	736	9,339	1,858
Net cash provided by (used in) investing activities		643	(9,326)	(57,452)	(85,790)
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>					
Capital contribution to subsidiary	10	-	(90,000)	-	-
Payment of dividends and interest on capital		(19,776)	(18,887)	(19,776)	(18,891)
Loans and financing - BNDES	12	41,498	1,017	83,364	8,237
Loans and financing	12	-	-	77,000	52,335
Loans to subsidiary, net of amounts returned	14	(10,923)	(34,398)	-	-
Amortization of loans and financing		(11,188)	(11,122)	(54,605)	(56,555)
Net cash provided by (used in) financing activities		(389)	(153,390)	85,983	(14,874)
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>		<u>(1,667)</u>	<u>(76,744)</u>	<u>939</u>	<u>(81,804)</u>
<b>STATEMENT OF CHANGES IN CASH AND CASH EQUIVALENTS</b>					
Beginning balance		31,730	108,474	37,823	119,627
Ending balance		30,063	31,730	38,762	37,823
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>		<u>(1,667)</u>	<u>(76,744)</u>	<u>939</u>	<u>(81,804)</u>

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

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SARAIVA S.A. LIVREIROS EDITORES

STATEMENTS OF VALUE ADDED  
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008  
(Amounts in thousands of Brazilian reais - R\$)

	Note	Company		Consolidated	
		2009	2008	2009	2008
<b>VALUE ADDED CREATED</b>					
Sale of products, goods and services		335,757	352,317	1,317,109	1,153,682
Allowance for doubtful accounts, net of reversals		(1,269)	(1,701)	(2,139)	(2,845)
Other operating income		12,483	1,441	22,287	4,487
		<u>346,971</u>	<u>352,057</u>	<u>1,337,257</u>	<u>1,155,324</u>
<b>INPUTS PURCHASED FROM THIRD PARTIES</b> (Include recoverable or unrecoverable taxes)					
Raw materials consumed		(36,108)	(63,449)	(24,402)	(49,240)
Cost of sales and services		(165)	(140)	(661,120)	(534,246)
Materials, electric energy, outside services and other		(157,317)	(139,707)	(303,369)	(253,103)
Other operating expenses		(1,352)	-	(1,369)	(362)
		<u>152,029</u>	<u>148,761</u>	<u>346,997</u>	<u>318,373</u>
<b>GROSS VALUE ADDED CREATED</b>					
		<u>152,029</u>	<u>148,761</u>	<u>346,997</u>	<u>318,373</u>
<b>RETENTIONS</b>					
Depreciation and amortization (including amount allocated to cost)		(4,693)	(7,358)	(22,306)	(18,843)
		<u>147,336</u>	<u>141,403</u>	<u>324,691</u>	<u>299,530</u>
<b>VALUE ADDED RECEIVED IN TRANSFER</b>					
Equity in subsidiary	10	5,360	16,497	-	-
Financial income	21	3,488	9,873	2,531	6,863
		<u>8,848</u>	<u>26,370</u>	<u>2,531</u>	<u>6,863</u>
<b>VALUE ADDED FOR DISTRIBUTION</b>					
		<u>156,184</u>	<u>167,773</u>	<u>327,222</u>	<u>306,393</u>
<b>VALUE ADDED DISTRIBUTED</b>					
Personnel - payroll and related charges		60,886	54,452	140,978	117,109
Government - taxes and contributions		22,790	26,038	65,738	64,495
Lenders - financial expenses, excluding IOF	21	9,514	7,972	21,209	16,420
Lessors - rentals		5,922	3,322	42,223	32,375
Shareholders - dividends and interest on capital	18.c	20,724	19,776	20,724	19,776
Management profit sharing		4,065	3,956	4,065	3,956
Noncontrolling interests		-	-	2	5
Shareholders - recognition of income reserve, including stock options	18.e	32,283	52,257	32,283	52,257
		<u>156,184</u>	<u>167,773</u>	<u>327,222</u>	<u>306,393</u>

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

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SARAIVA S.A. LIVREIROS EDITORES

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

(Amounts in thousands of Brazilian reais - R\$, unless otherwise stated)

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1. OPERATIONS

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, development of digital content as well as development of content for the “Ético” teaching system, comprising a didactic material portfolio to be used by elementary and high schools and pre-admission courses to universities. 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. (“Livraria”), 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 100 stores, of which 39 are megastores, 53 are conventional stores and 8 are franchises.

2. PRESENTATION OF FINANCIAL STATEMENTS

The Company’s and its subsidiary’s individual and consolidated financial statements have been prepared in accordance with accounting practices adopted in Brazil, in compliance with the provisions of Corporate Law and Brazilian Securities and Exchange Commission (CVM) and including all changes in accounting practices introduced by Laws 11638/07 and 11941/09.

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

Comprises cash balances, bank deposits and short-term investments. Short-term investments can be immediately converted into a known cash amount and are subject to immaterial risk of change in value. These short-term investments refer to bank certificates of deposit (CDBs) and repurchase agreements, which are characterized by the sale of a bond with the commitment of the seller (bank) to buy it back and of the buyer to resell it in the future.

- Trade accounts receivable and allowance for doubtful accounts

Trade accounts receivable are recorded and stated in balances sheets at their original amounts. Accounts receivable are controlled by aging, and an allowance for losses is recognized for receivables past due for more than 180 days. Uncollectible receivables are charged directly to income.

Receivables are not adjusted to present value as they have a short-term maturity and do not materially impact the financial statements.

- Inventories

Stated at average acquisition or production cost, less allowance for adjustment write-down to fair or realizable value, when lower, and allowance for losses with slow-moving items, excessive, or not realizable, based on periodic analysis conducted by Management.

- Other noncurrent assets

Recorded at cost or at the net realizable value, when the latter is lower.

- Investments

Investments in subsidiary 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 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. Livraria's facilities and leasehold improvements are depreciated over the shortest of the lease term or the economic useful lives of the assets.

Carrying amounts of intangible assets with a defined useful life and property and equipment indicating impairment losses are reviewed to make sure that a provision for losses in their 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 "Saraiva.com", in the case of Livraria. 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, 2009 and 2008, Management, in its best judgment, did not identify assets recorded at amounts higher than their recoverable value.

- 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, regardless the existence or not of indicators of any loss in its carrying value.

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 S.A. (“Siciliano”) and Ético’s operations. As of December 31, 2009 and 2008, 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

- Loans and financing

Adjusted based on the contractual interest and financial charges incurred through the balance sheet dates.

- 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 Livraria’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 Livraria and on temporary differences of the Company and Livraria. Deferred taxes are recorded in current and noncurrent assets and noncurrent liabilities, according to note 15.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 average price of the Company's shares 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) Reserve for contingencies

Adjusted through the balance sheet date for the probable loss amount, according to the nature of each contingency and based on the opinion of the Company's legal counsel. For financial statement purposes, the reserve is stated net of related judicial deposits. The bases for and nature of the reserves for tax, civil, and labor risks are described in note 16.

g) Earnings per share

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

h) Use of estimates

The preparation of financial statements requires the Management of the Company and Livraria to make estimates and assumptions that affect the reported amounts of assets, liabilities and other transactions. Accordingly, the financial statements include several estimates related to the allowance for doubtful accounts, allowance for inventory losses, reserve for contingencies, assessment of the useful lives of property and equipment and intangible assets, and related projections to determine the impairment of property and equipment, intangible assets, goodwill, and deferred income tax assets. These estimates consider the best available indications and are based on assumptions existing at yearend. Actual results in the realization or settlement of the underlying assets and liabilities could differ from those estimates.

#### 4. CHANGES IN ACCOUNTING PRACTICES ADOPTED IN BRAZIL

With the enactment of Law 11638/07, which introduced changes in Brazilian Corporate Law to enable convergence of accounting practices adopted in Brazil with the International Financial Reporting Standards (IFRS), new accounting standards and technical pronouncements have been issued in conformity with IFRS by the Accounting Pronouncements Committee (CPC).

During 2009, 26 new technical pronouncements and 12 technical interpretations were issued by CPC and approved by CVM Resolutions for mandatory adoption beginning January 1, 2010. The CPCs and ICPCs applicable to the Company and its subsidiary Livraria, considering its operations, are:

CPC	Title
16	Inventories
20	Borrowing Costs
21	Interim Financial Reporting
22	Operating Segments
23	Accounting Policies, Changes in Estimates and Correction of Errors
24	Subsequent Events
25	Provisions, Contingent Liabilities and Contingent Assets
26	Presentation of Financial Statements
27	Property, Plant and Equipment
30	Revenue
32	Income Taxes
33	Employee Benefits
38	Financial Instruments: Recognition and Measurement
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43	First-time Adoption of CPC 15 to 40 Technical Pronouncements
ICPC	Title
03	Supplementary Aspects of Leases
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08	Accounting for Proposed Dividend Payments
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10	Clarifications on CPC 27 - Property, Plant and Equipment and CPC 28 - Properties for Investment
12	Changes in Liabilities due to Decommissioning, Restoration and Other Similar Liabilities

The Company's and Livraria's Management is evaluating the impact of the changes introduced by these new pronouncements. For adjustments from adopting new accounting practices beginning January 1, 2010, the Company and Livraria will assess the need to remeasure the effects thereof on its individual and consolidated financial statements for 2009, for comparative purposes, as if these new procedures would be effective since the beginning of the year ending December 31, 2009.

## 5. CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were prepared in accordance to consolidation criteria determined by the accounting practices adopted in Brazil and include the accounts of the Company and Livraria, in which the Company has equity interest of 99.97%.

The financial statements of Livraria, used in the preparation of the consolidated financial statements, were prepared as of the same date, and in accordance with the accounting practices described in note 3.

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 subsidiary's shareholders' equity.
- Minority interest in shareholders' equity and net income of Livraria is recorded in a separate caption in the balance sheets and statements of income, respectively.

## 6. CASH AND CASH EQUIVALENTS

	Company		Consolidated	
	2009	2008	2009	2008
Cash and banks	1,044	1,693	9,743	7,786
Bank certificates of deposit - CDBs (*)	<u>29,019</u>	<u>30,037</u>	<u>29,019</u>	<u>30,037</u>
	<u>30,063</u>	<u>31,730</u>	<u>38,762</u>	<u>37,823</u>

(\*) As of December 31, 2009 and 2008, these investments refer to bank certificates of deposit (CDB) with yield from 100% to 102% of interbank deposit rate (CDI) variation.

## 7. TRADE ACCOUNTS RECEIVABLE

	Company		Consolidated	
	2009	2008	2009	2008
Trade notes receivable	53,485	56,773	59,608	62,794
Trade notes receivable - Livraria	7,308	4,706	-	-
Credit cards	90	117	157,774	137,254
Checks receivable	<u>4,000</u>	<u>4,911</u>	<u>5,801</u>	<u>6,717</u>
	64,883	66,507	223,183	206,765
Allowance for doubtful accounts	<u>(1,909)</u>	<u>(2,345)</u>	<u>(6,852)</u>	<u>(7,122)</u>
	<u>62,974</u>	<u>64,162</u>	<u>216,331</u>	<u>199,643</u>

Aging list of accounts receivable:

	Company		Consolidated	
	2009	2008	2009	2008
Current	58,930	60,733	211,613	195,758
Past-due:				
Up to 60 days	2,014	2,527	2,525	2,799
Over 180 days	<u>3,939</u>	<u>3,247</u>	<u>9,045</u>	<u>8,208</u>
	<u>64,883</u>	<u>66,507</u>	<u>223,183</u>	<u>206,765</u>

## 8. INVENTORIES

	Company		Consolidated	
	2009	2008	2009	2008
Goods for resale	145	4,784	193,614	137,789
Finished products	57,464	47,173	57,464	47,173
Work in process	32,831	23,408	32,831	23,408
Raw materials	11,487	6,181	11,487	6,181
Packing and consumption materials	852	835	2,201	1,780
	<u>102,779</u>	<u>82,381</u>	<u>297,597</u>	<u>216,331</u>

## 9. RECOVERABLE TAXES

	Company		Consolidated	
	2008	2009	2008	2009
Taxes on revenues (COFINS)	3,238	3,083	21,306	11,749
Taxes on revenues (PIS)	1,393	1,697	5,939	4,005
Income Tax (IRPJ)	-	-	2,825	801
Social contribution on net income (CSLL)	1,193	-	2,326	113
State VAT (ICMS)	-	-	624	2,447
Others	-	-	88	96
	<u>5,824</u>	<u>4,780</u>	<u>33,108</u>	<u>19,211</u>
Current assets	5,824	4,780	24,154	19,211
Noncurrent assets	-	-	8,954	-
	<u>5,824</u>	<u>4,780</u>	<u>33,108</u>	<u>19,211</u>

## 10. INVESTMENTS IN SUBSIDIARY

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

	2009	2008
Number of shares - in thousands	193,053	145,775
Number of shares held - in thousands	193,003	145,725
Ownership interest	99.97%	99.97%
Percentage of this investment in the Company's shareholders' equity (includes intercompany loans)	67.48%	68.76%
Paid-in capital	296,317	238,317
Shareholders' equity at December 31	242,201	178,839
Ownership interest	<u>242,138</u>	<u>178,778</u>

	<u>2009</u>	<u>2008</u>
Equity calculation (*):		
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>-</u>	<u>(4,561)</u>
Net profit of Livraria Saraiva as of October 31, 2008	-	10,194
Net profit of Livraria in the period from November 1 to December 31, 2008, including Livraria Saraiva's operations as from November 1, 2008		6,308
Livraria's net income	<u>5,362</u>	<u>-</u>
Calculation basis for equity in subsidiary	<u>5,362</u>	<u>16,502</u>
Equity results in subsidiary	<u>5,360</u>	<u>16,497</u>

(\* ) On November 30, 2008, Livraria e Papelaria Saraiva S.A. ("Livraria Saraiva") was merged with 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. As a result of this merger, the current subsidiary Livraria was formed.

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

	<u>Company</u>	
	<u>2009</u>	<u>2008</u>
Opening balance	178,778	69,769
Capital increase in subsidiary - Livraria	58,000	90,000
Merger of subsidiary - Ético	-	2,505
Interest in subsidiary's results	5,360	16,497
Capital gain	<u>-</u>	<u>7</u>
Balance at end of year	<u>242,138</u>	<u>178,778</u>

The statements of income of Livraria for the years ended December 31, 2009 and 2008 are as follows:

	<u>2009</u>	<u>2008 (*)</u>
GROSS REVENUE FROM SALES	1,014,996	827,294
Deductions from gross revenue	(63,988)	(60,089)
NET REVENUE	<u>951,008</u>	<u>767,205</u>
Cost of products and services	(622,287)	(495,026)
GROSS PROFIT	<u>328,721</u>	<u>272,179</u>
Operating expenses	(305,219)	(235,153)
INCOME FROM OPERATIONS BEFORE FINANCIAL EXPENSES	<u>23,502</u>	<u>37,026</u>
Financial expenses, net	(14,106)	(13,708)
INCOME BEFORE INCOME TAX AND SOCIAL CONTRIBUTION	<u>9,396</u>	<u>23,318</u>
Income tax and social contribution	(4,034)	(5,630)
INCOME BEFORE MANAGEMENT PROFIT SHARING	<u>5,362</u>	<u>17,688</u>
MANAGEMENT PROFIT SHARING	-	(1,186)
NET INCOME	<u><u>5,362</u></u>	<u><u>16,502</u></u>

(\*) 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 Livraria.

## 11. PROPERTY AND EQUIPMENT AND INTANGIBLE ASSETS

	Annual depreciation/ amortization rate - %	Company					
		2009			2008		
		Cost	Accumulated depreciation/ amortization	Net	Cost	Accumulated depreciation/ amortization	Net
Property and equipment:							
Land	-	1,438	-	1,438	2,011	-	2,011
Buildings and construction	4	7,361	(3,704)	3,657	8,172	(4,216)	3,956
Machinery and equipment	10	1,916	(1,538)	378	1,854	(1,436)	418
Furniture, fixtures and installations	10	16,159	(10,431)	5,728	22,681	(20,125)	2,556
Vehicles	20	6,485	(3,031)	3,454	5,978	(2,418)	3,560
IT equipment	20	12,843	(10,014)	2,829	11,133	(9,359)	1,774
Property and equipment in progress	-	<u>1,091</u>	<u>-</u>	<u>1,091</u>	<u>4,052</u>	<u>-</u>	<u>4,052</u>
		<u>47,293</u>	<u>(28,718)</u>	<u>18,575</u>	<u>55,881</u>	<u>(37,554)</u>	<u>18,327</u>
Intangible assets:							
Assignment of rights	20	2,932	(1,792)	1,140	2,932	(1,562)	1,370
Goodwill on acquisition of company:							
Formato (a)	-	2,091	(2,021)	70	2,091	(2,021)	70
Ético (b)	-	17,431	(2,905)	14,526	17,431	(2,905)	14,526
Software	20	15,149	(13,091)	2,058	16,040	(12,218)	3,822
Trademarks and patents	-	188	-	188	188	-	188
Other intangibles	20	1,722	(344)	1,378	-	-	-
Intangible in progress		<u>2,137</u>	<u>-</u>	<u>2,137</u>	<u>-</u>	<u>-</u>	<u>-</u>
		<u>41,650</u>	<u>(20,153)</u>	<u>21,497</u>	<u>38,682</u>	<u>(18,706)</u>	<u>19,976</u>

	Annual depreciation/ amortization rate - %	Consolidated					
		2009			2008		
		Cost	Accumulated depreciation/ amortization	Net	Cost	Accumulated depreciation/ amortization	Net
<b>Property and equipment:</b>							
Land	-	1,441	-	1,441	2,014	-	2,014
Buildings and construction	4	8,802	(4,501)	4,301	9,613	(4,957)	4,656
Machinery and equipment	10	2,917	(2,337)	580	2,855	(2,170)	685
Furniture, fixtures and installations	10	159,966	(87,916)	72,050	122,429	(85,055)	37,374
Vehicles	20	7,250	(3,476)	3,774	6,743	(2,751)	3,992
IT equipment	20	37,240	(26,117)	11,123	32,383	(23,953)	8,430
Property and equipment in progress	-	<u>11,062</u>	<u>-</u>	<u>11,062</u>	<u>10,531</u>	<u>-</u>	<u>10,531</u>
		<u>228,678</u>	<u>(124,347)</u>	<u>104,331</u>	<u>186,568</u>	<u>(118,886)</u>	<u>67,682</u>
<b>Intangible assets:</b>							
<b>Goodwill on acquisition of company:</b>							
Formato (a)	-	2,091	(2,021)	70	2,091	(2,021)	70
Ético (b)	-	17,431	(2,905)	14,526	17,431	(2,905)	14,526
Siciliano (c)	-	79,249	(16,578)	62,671	82,823	(16,578)	66,245
Commercial assignment	20	25,952	(22,665)	3,287	24,009	(22,083)	1,926
Assignment of rights	20	2,932	(1,792)	1,140	2,932	(1,562)	1,370
Software	20	27,395	(22,133)	5,262	27,428	(19,643)	7,785
Trademarks and patents	-	323	(64)	259	323	(63)	260
Other intangibles	-	1,722	(344)	1,378	269	-	269
Intangible in progress		<u>6,309</u>	<u>-</u>	<u>6,309</u>	<u>-</u>	<u>-</u>	<u>-</u>
		<u>163,404</u>	<u>(68,502)</u>	<u>94,902</u>	<u>157,306</u>	<u>(64,855)</u>	<u>92,451</u>

- (a) Goodwill based on expected future earnings from the acquisition of Formato Editorial Ltda., which was merged with the Company on February 3, 2004.
- (b) Goodwill based on expected future earnings from the acquisition of Ético, which was merged with the Company on February 1, 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. From the total price negotiated, an amount of R\$8,890 was initially retained to secure contractual indemnification obligations, according to contractual provision. The retained amount will be paid to sellers after six years counted from the acquisition date. Pursuant to contractual price adjustment provisions, as a result of the analysis by the parties of possible changes in net debt and working capital of Siciliano between the balance sheets as of November 30, 2007 and March 6, 2008, on October 15, 2009, the purchase price was written down by R\$3,574.

In December 2008, after the acquisition of Siciliano and the merger of Livraria Saraiva, Management considered that the resulting company Livraria 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.

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

	Company		Consolidated	
	2009	2008	2009	2008
Opening balance	38,303	34,313	160,133	68,034
Additions	7,986	10,062	66,791	36,508
Disposals (*)	(1,352)	(256)	(4,944)	(773)
Depreciation and amortization	(4,865)	(7,512)	(22,747)	(19,218)
Adjustment for amortization of goodwill	-	(2)	-	(2)
Realization of goodwill from Siciliano	-	-	-	(15,455)
Goodwill on acquisition of companies	-	-	-	82,823
Transfer from noncurrent assets	-	-	-	1,325
Merger of subsidiary	-	1,698	-	6,891
Balance at end of year	<u>40,072</u>	<u>38,303</u>	<u>199,233</u>	<u>160,133</u>

- (\*) The Company sold the building and facilities that were formerly used as headquarters for R\$11,080, upon an agreement signed on June 29, 2009. Out of this amount, R\$580 was received on the agreement execution date while the remaining will be payable in installments as set forth in the agreement, with the last installment scheduled for the deed transfer date, by May 2010. As of December 31, 2009, the balance to receive is R\$4,500 and the results from this transaction, recorded in the line account "Other operating income", are composed as follows:

	<u>Amount</u>
Selling price, under the agreement	11,080
Carrying amount of assets	<u>(1,032)</u>
Gain on sale	<u>10,048</u>

## 12. LOANS AND FINANCING

	<u>Company</u>		<u>Consolidated</u>	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
Current:				
In local currency - BNDES - FINEM	10,344	11,269	17,251	17,765
Loans	<u>-</u>	<u>-</u>	<u>64,207</u>	<u>24,552</u>
	<u>10,344</u>	<u>11,269</u>	<u>81,458</u>	<u>42,317</u>
Noncurrent-				
In local currency - BNDES - FINEM	<u>43,203</u>	<u>10,247</u>	<u>92,348</u>	<u>21,822</u>

The noncurrent portion matures as follows:

	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>Total</u>
Company	<u>2.915</u>	<u>14.401</u>	<u>14.401</u>	<u>11.486</u>	<u>43.203</u>
Consolidated	<u>7.665</u>	<u>30.201</u>	<u>29.196</u>	<u>25.286</u>	<u>92.348</u>

Additional information on financing is as follows:

<u>Financing</u>	<u>Purpose</u>	<u>Guarantees</u>	<u>Due date</u>	<u>Charges</u>
Company:				
BNDES - FINEM - contract of 11/2005	Publishing Plan - 2005 to 2007, and information systems	Bank guarantee	11/2010	4% + TJLP (i)
BNDES - FINEM - contract of 02/2009 subcredits E/F	Publishing plan - 2008/2010/working capital	None	09/2014	2.32% + TJLP (i)
BNDES - FINEM contract of 02/2009 subcredits A/B/C/D	Publishing plan - 2008/2010/working capital	None	09/2014	2.32% + BNDES rate (ii)
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	05/2012	3.1% + TJLP (i)
BNDES - FINEM contract of 02/2009 subcredits A/B/C	Expansion of store chain/working capital	Company's guarantee	09/2014	2.32% + BNDES rate (ii)
BNDES - FINEM - contract of 02/2009 subcredits E/F	Expansion of store chain/working capital	Company's guarantee	09/2014	2.32% + TJLP (i)
BNDES - FINAME contract of 02/2009 subcredit D	Expansion of stores chain	Company's guarantee	09/2014	1.42% + TJLP (i)

(i) Long-term interest rate (TJLP) for the year ended in December 31, 2009 was 6.00% per year (6.25% in 2008).

(ii) Reference rate disclosed by BNDES at the date subloans are used, which will be equivalent to the average cost of funds without being subject to onlending under specific conditions, in addition to derivatives from BNDES and BNDES Participações S.A. - BNDESPAR, indexed to the IPCA (Extended Consumer Price Index).

In February 2009, the Company and Livraria entered into new loan agreements with the National Bank for Economic and Social Development (BNDES) totaling R\$71,900 and R\$69,700, respectively, of which R\$83,364 were released in 2009. The funds obtained will be used for working capital purposes, the development of new publishing projects, and the refurbishment and expansion of Livraria's store chain.

In the year ended December 31, 2009, releases from financing facilities from the National Bank for Economic and Social Development (BNDES) to the Company totaled R\$41,498 (R\$1,017 in 2008) and R\$83,364 (R\$8,237 in 2008) on a consolidated basis.

In the year ended December 31, 2009, Livraria raised working capital loans totaling R\$77,000 (R\$24,426 in 2008), which bear average interest equivalent to 119% (125% in 2008) of the interbank deposit rate (CDI). The amount recorded in financial expenses for the year ended December 31, 2009 was R\$2,481 (R\$114 in 2008).

Contractual covenants for the Company, including those related to the agreement signed with Livraria

As of December 31, 2009, the Company and Livraria are required to meet the covenants set forth in the financing agreements with BNDES. As of that date, the Company and Livraria are compliant with such covenants, the main of which are as follows:

- Maintain the following financial ratios: (i) current liquidity equal or higher than 1.5 in 2009 and equal or higher than 1.7 in 2010; (ii) capitalization level equal or higher than 0.43; and (iii) indebtedness level equal or lower than 0.22.
- Provide periodic information, such as: (i) annual financial statements audited by external auditors; (ii) maintenance of staff; and (iii) holding valid business licenses for stores.

### 13. LOYALTY PROGRAM - SARAIVA PLUS

The loyalty program "Saraiva Plus" promotes purchases made by customers at the Livraria's stores and its website, which are converted into bonus points to be used as discounts 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, 2009, the provision for loyalty program in the amount of R\$3,776 (R\$2,681 as of December 31, 2008) is recorded in current liabilities under the line account "Other payables" in the consolidated financial statements.

### 14. RELATED-PARTY TRANSACTIONS

Related-party transactions include purchases, sales and intercompany loans. Loans granted to Livraria have indeterminate maturity and bear interest of 101% of the CDI variation.

Loans granted and recorded in noncurrent assets are as follows:

	2009	2008		Total
	<u>Livraria</u>	<u>Livraria</u>	<u>Ético</u>	
Balances in the beginning of the year	52,167	14,736	5,743	20,479
Loans to subsidiary, net of receipts	10,923	34,398	(5,743)	28,655
Transfer for capital increase in subsidiary	(58,000)	-	-	-
Financial income	<u>1,874</u>	<u>3,033</u>	<u>-</u>	<u>3,033</u>
Balances at the end of the year	<u>6,964</u>	<u>52,167</u>	<u>-</u>	<u>52,167</u>

Borrowing raised with Livraria from August to December 2009, fully repaid in December 2009 plus interest equivalent to 101% of CDI fluctuation, generated financial expenses of R\$475.

The main balances and transactions with Livraria are as follows:

	<u>2009</u>	<u>2008</u>
Balances:		
Assets:		
Trade accounts receivable (current)	7,308	3,786
Loans to subsidiary (noncurrent)	6,964	52,167
Liabilities-		
Trade accounts payable (current)	1	920
Transactions:		
Sale of products	33,571	25,706
Purchase of products	73	223
Financial expenses	1,874	3,900
Financial income	475	-

#### Management compensation

Under Brazilian Corporate Law and the Company's bylaws, establishing the total annual amount of directors' and officers' compensation is shareholders' responsibility. Management is also entitled to a profit sharing of up to 10% of net income for the year.

The Annual Shareholders' Meeting held on April 23, 2009 approved the monthly and total compensation limit of R\$250 for Management and R\$400 for the Board of Directors in 2009.

Management compensation is presented as a separate line account of the statements of income for the years ended December 31, 2009 and 2008.

## 15. INCOME TAX AND SOCIAL CONTRIBUTION

## a) Deferred

Deferred income tax and social contribution are derived from:

	<u>Company</u>		<u>Consolidated</u>	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
Current assets:				
Accrued sale costs of products received on consignment	-	-	7,670	5,490
Loyalty program Saraiva Plus	-	-	1,284	911
Provision for inventory obsolescence	-	-	826	1,260
Allowance for doubtful accounts	124	-	1,589	1,581
Other provisions	<u>506</u>	<u>1,174</u>	<u>976</u>	<u>1,681</u>
	<u>630</u>	<u>1,174</u>	<u>12,345</u>	<u>10,923</u>
Noncurrent assets:				
Tax loss carryforwards	-	-	14,924	13,431
Reserves for contingencies and taxes payable	<u>741</u>	<u>1,324</u>	<u>4,768</u>	<u>6,023</u>
	<u>741</u>	<u>1,324</u>	<u>19,692</u>	<u>19,454</u>
Noncurrent liabilities:				
Provision for book inventory losses - Law 10753/03	6,529	5,888	14,149	13,031
Tax amortization of goodwill on business acquisitions	1,209	-	6,665	-
Other	<u>3</u>	<u>3</u>	<u>3</u>	<u>3</u>
	<u>7,741</u>	<u>5,891</u>	<u>20,817</u>	<u>13,034</u>

The Company and Livraria, 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, the Company and Livraria maintained in their financial statements the deferred tax assets.

Management believes that the carrying amount of the Company's and Livraria's deferred tax assets from temporary differences is realizable through December 31, 2010 in proportion to the final resolution of lawsuits and the settlement of liabilities.

With regard to deferred tax assets from tax loss carryforwards and temporary differences of Livraria, Management 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, 2010	13,617
December 31, 2011	7,266
December 31, 2012	5,565
December 31, 2013	<u>4,218</u>
	<u>30,666</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>	
	2009	2008	2009	2008
Income before income tax and social contribution	73,001	97,470	77,037	103,105
Combined tax rate	<u>34%</u>	<u>34%</u>	<u>34%</u>	<u>34%</u>
Taxes computed at the combined tax rate	(24,820)	(33,140)	(26,192)	(35,056)
Permanent additions - nondeductible expenses	(560)	(654)	(776)	(757)
Permanent deductions:				
Interest on capital	6,922	5,940	6,922	5,940
Equity pick-up results	1,822	5,609	-	-
Other deductions	366	356	366	463
Deferred taxes on income as of March 6, 2008 not recorded by subsidiary due to uncertainties concerning their realizability	-	-	-	3,092
Other items	<u>341</u>	<u>408</u>	<u>(283)</u>	<u>(793)</u>
	<u>(15,929)</u>	<u>(21,481)</u>	<u>(19,963)</u>	<u>(27,111)</u>
Income and social contribution taxes:				
Current	(12,952)	(20,857)	(13,840)	(27,184)
Deferred	<u>(2,977)</u>	<u>(624)</u>	<u>(6,123)</u>	<u>73</u>
	<u>(15,929)</u>	<u>(21,481)</u>	<u>(19,963)</u>	<u>(27,111)</u>
Effective tax rate on net income	<u>21.82%</u>	<u>22.0%</u>	<u>25.91%</u>	<u>26.3%</u>

## 16. RESERVE FOR CONTINGENCIES

Reserve for contingencies is as follows:

	Company									
	2007	Recognition	Judicial deposits	2008	Recognition	Payment	Judicial deposits	2009		
PIS/COFINS - increase in tax basis (a)	197	26	-	223	29	-	-	252		
IR/CSLL - "Plano Real" (economic plan) - Law 8880/94 (b)	861	-	-	861	-	(861)	-	-		
PIS - Supplementary Law 7/70 (c)	-	1,015	-	1,015	18	-	-	1,033		
Civil and labor contingencies	112	131	-	243	-	-	-	243		
Judicial deposits	(1,058)	-	(26)	(1,084)	-	861	(29)	(252)		
	<u>112</u>	<u>1,172</u>	<u>(26)</u>	<u>1,258</u>	<u>47</u>	<u>-</u>	<u>(29)</u>	<u>1,276</u>		
Consolidated										
	2007	Recognition	Siciliano Acquisition	Judicial deposits	Payment/reversal	2008	Recognition	judicial deposits	Payment/reversal	2009
PIS/COFINS - increase in tax basis (a)	9,236	182	-	-	-	9,418	366	-	-	9,784
IR/CSLL - "Plano Real" (economic plan) - Law 8880/94 (b)	861	-	-	-	-	861	-	-	(861)	-
PIS - Supplementary Law 7/70 (c)	-	2,529	-	-	-	2,529	48	-	-	2,577
Civil and labor contingencies (d)	112	131	1,557	-	(201)	1,599	-	-	(1,356)	243
Other (d)	-	119	2,655	-	(1,345)	1,429	-	-	(1,429)	-
Judicial deposits	(10,095)	-	-	(163)	-	(10,258)	-	(363)	861	(9,760)
	<u>114</u>	<u>2,961</u>	<u>4,212</u>	<u>(163)</u>	<u>(1,546)</u>	<u>5,578</u>	<u>414</u>	<u>(363)</u>	<u>(2,785)</u>	<u>2,844</u>

(a) The Company and Livraria 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. These lawsuits were initiated in 1999 and are guaranteed by judicial deposits.

(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 line account "Other operating income (expenses)". The Company's lawsuit was paid on November 30, 2009, utilizing the benefits set forth by Law 11941/09, totaling R\$538. Requests were filed for the withdrawal of the lawsuit and the realized judicial deposit.

(c) The Company and Livraria Saraiva, which was merged with and into Livraria, 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. Judicial 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, the 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 debits.

On February 19, 2010, the Company and Livraria were ordered to recompose judicial deposits, pursuant to the final and unappealable decision, by R\$99 and R\$1,237, respectively. The accrued balances as of December 31, 2009 were R\$1,033 and R\$1,544, respectively. The amount that settles the tax debt is still under discussion.

(d) Reversal of the reserve recognized by Siciliano before it was acquired by Livraria Saraiva for civil, labor, and tax contingencies guaranteed by the purchase and sale agreement and represented by the installment retained to secure contractual indemnification obligations.

The Company and Livraria made an application for the payment of taxes in accordance with the terms of Law 11941/09 relating to administrative and judicial proceedings, which, in accordance with Management's judgment and its legal outside advisers' opinion, are likely to have unfavorable final decisions. Currently there are petitions for withdrawal of administrative proceedings and the respective judicial decisions not yet released. The accrued amounts will be maintained in the financial statements and the eventual gains will not be recorded until the formal acknowledgement of the tax authorities on the amounts effectively owed.

The Management of the Company and Livraria did not consider necessary to recognize a reserve to cover possible losses on ongoing lawsuits, totaling approximately R\$23,024, for which, in the opinion of its legal counsel, the likelihood of loss is possible.

The Company and Livraria are challenging the payment of certain taxes, contributions and labor obligations, guaranteed by judicial deposits made for the appeals filed in equivalent amounts, which await final court decisions, which total R\$8,512, Company, and R\$9,950, on a consolidated basis (R\$7,240 and R\$7,986 in 2008) that are recorded in noncurrent assets.

## 17. TAXES PAYABLE

	<u>Company</u>		<u>Consolidated</u>	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
State VAT (ICMS) (a)	-	21	1,703	21
Installment payment of IR (income tax) and CSLL (social contribution) (b)	-	-	1,193	3,044
Installment payment of CSLL (c)	1,491	2,008	1,491	2,008
Withholding income tax (IRRF)	1,038	1,043	1,601	1,715
Taxes on revenues (PIS and COFINS)	40	97	442	296
Others	<u>40</u>	<u>54</u>	<u>247</u>	<u>203</u>
	<u>2,609</u>	<u>3,223</u>	<u>6,677</u>	<u>7,287</u>
Current liabilities	1,651	1,742	5,719	4,669
Noncurrent liabilities	<u>958</u>	<u>1,481</u>	<u>958</u>	<u>2,618</u>
	<u>2,609</u>	<u>3,223</u>	<u>6,677</u>	<u>7,287</u>

(a) Includes ICMS payable calculated on product inventories existing on April 30 and May 31, 2009, as a result of the change in São Paulo State legislation requiring that the products sold by Livraria be taxed under the tax substitution system (payment of VAT on behalf of the final consumer). This amount will be settled in 10 monthly installments, starting June 30, 2009 for the amount calculated on inventories as of April 30, and starting July 31 for the amount calculated on inventories as of May 31, 2009.

(b) 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.

- (c) 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.

## 18. SHAREHOLDERS' EQUITY

### a) Paid-up capital

At the Extraordinary Shareholders' Meeting held on April 23, 2009, a capital increase to R\$190,978 was approved using R\$43,204 of the profit reserves, without changes in the number of shares.

Fully paid-up capital as of December 31, 2009, in the amount of R\$190,978 (R\$147,774 as of December 31, 2008), 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.

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

The Company holds 365,750 (365,750 in 2008) preferred shares in treasury, acquired for R\$2,870, with market value of R\$12,435 (R\$34.00 per share - quotation as of December 30, 2009). In the years ended December 31, 2009 and 2008, 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 line account "Cash and cash equivalents" exceeding the sum of the amounts recorded under the line account "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 December 18, 2009, the Board of Directors approved the accrual for payment to shareholders of interest on capital for the year ended December 31, 2009. 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, 2009 and 2008 was calculated as follows:

	<u>2009</u>	<u>2008</u>
Net income for the year	53,007	72,033
Legal reserve	<u>(2,650)</u>	<u>(3,602)</u>
Adjusted net income	<u>50,357</u>	<u>68,431</u>
Mandatory minimum dividend - 25%	<u>12,589</u>	<u>17,108</u>
Mandatory minimum dividend per share	<u>0.44594489</u>	<u>0.60600877</u>

Proposed dividends are as follows:

	<u>2009</u>	<u>2008</u>
Interest on capital, net of withholding income tax	17,615	15,117
Dividends	<u>-</u>	<u>1,991</u>
Proposed dividends and interest on capital	17,615	17,108
Withholding income tax on interest on capital	<u>3,109</u>	<u>2,668</u>
	<u>20,724</u>	<u>19,776</u>
Total per share (R\$)	<u>0.73410209</u>	<u>0.70051041</u>

The effect of interest on capital on the calculation of income tax and social contribution for the year was a reduction of R\$6.922 (R\$5,940 in 2008).

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\$2,650 (R\$3,602 in 2008), and the proposal for payment of interest on capital and dividends, in the amount of R\$20,724 (R\$19,776 in 2008), an earning reserve of R\$29,633 (R\$49,521 in 2008) was recognized for use in future capital increases, as provided in the Company's bylaws. This allocation will be presented to the annual shareholders' meeting for approval.

## f) Company's stock option plan

The Company's Board of Directors approved the 3<sup>rd</sup>, 4<sup>th</sup>, and 5<sup>th</sup> Stock Option Plans. The options were granted to officers and employees and 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 line account "Operating expenses", and in the shareholders' equity, under the line account "Earnings reserve", as follows:

<u>Year of grant</u>	<u>Year ended 12/31/07</u>	<u>Year ended 12/31/08</u>	<u>Year ended 12/31/09</u>	<u>Future years</u>	<u>Total</u>
2007	371	451	427	81	1,330
2008	-	418	482	578	1,478
2009	-	-	57	1,451	1,508
	<u>371</u>	<u>869</u>	<u>966</u>	<u>2,110</u>	<u>4,316</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>	<u>5<sup>th</sup> Plan</u>
Date of grant	050/3/2007	28/02/2008	30/11/2009
Beginning of option exercise period	08/03/2010	08/03/2011	08/03/2012
End of option exercise period	07/05/2010	07/05/2011	10/05/2012
Risk-free interest rate	12.01%	12.45%	12.20%
Number of eligible managers and employees	19	22	27
Fixed price - R\$	21.50	30.00	26.27
Index	IPCA	IPCA	IPCA
Number of outstanding options (*)	<u>121,600</u>	<u>122,500</u>	<u>125,000</u>
Option fair value on grant date - per option - R\$	<u>11,20</u>	<u>12,61</u>	<u>12,06</u>
Option value for exercise, adjusted by the IPCA until December 31, 2009 - R\$	<u>23,23</u>	<u>32,03</u>	<u>27,00</u>

- (\*) The number of options for the 3<sup>rd</sup> and 4<sup>th</sup> Plans was adjusted by 2,200 options for the 3<sup>rd</sup> Plan and 2,100 options for the 4<sup>th</sup> Plan due to the withdrawal of one beneficiary in 2009.

## 19. 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, totaling US\$1,374,000.

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, totaling US\$860,000. 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, 2009, 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 based on the contracted interest rates, which do not differ significantly from the rates currently used by the BNDES.

### 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 Livraria periodically monitor inventory levels and take necessary actions for inventory realization.

### d) Interest rate

Livraria is exposed to normal market risks arising from changes in interest rates on loans obtained during 2009.

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

<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>65,676</u>	<u>66,076</u>	<u>66,474</u>

Balances include interest calculated as follows:

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

## 20. OTHER OPERATING REVENUES AND EXPENSES

	<u>Company</u>		<u>Consolidated</u>	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
Other income:				
Gain on sale of permanent assets	10,248	511	10,957	878
Royalties on franchise operations	-	-	647	493
Gift card and other cash advancements not requested by customers	-	-	2,483	276
Indemnities for product losses	52	-	1,099	418
Sale of excessive and obsolete products	177	270	271	286
Income from favorable court decisions	87	-	207	108
Reversal of operating accruals	-	-	2,670	-
Other operating income	<u>567</u>	<u>670</u>	<u>2,583</u>	<u>2,243</u>
	<u>11,131</u>	<u>1,451</u>	<u>20,917</u>	<u>4,702</u>
Other expenses:				
Provision for loyalty program - Saraiva Plus	-	-	(1,095)	(553)
Operating provisions	-	-	(2,883)	(432)
Taxes paid in administrative proceedings	(974)	(1,359)	(1,475)	(2,605)
Other operating provisions	<u>(43)</u>	<u>(885)</u>	<u>(1,386)</u>	<u>(1,988)</u>
	<u>(1,017)</u>	<u>(2,244)</u>	<u>(6,839)</u>	<u>(5,578)</u>
	<u>10,114</u>	<u>(793)</u>	<u>14,078</u>	<u>(876)</u>

## 21. FINANCIAL INCOME (EXPENSES)

	<u>Company</u>		<u>Consolidated</u>	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
Financial income:				
Income from temporary cash investments	429	4,159	494	4,344
Interest on loans to subsidiary	1,874	2,711	-	-
Interest received from customers	1,097	1,441	1,127	1,378
Interest on recoverable taxes	-	-	62	7
Interest on judicial deposits	-	298	-	300
Financial discounts obtained	31	843	356	165
Other	<u>57</u>	<u>421</u>	<u>492</u>	<u>669</u>
	<u>3,488</u>	<u>9,873</u>	<u>2,531</u>	<u>6,863</u>

	Company		Consolidated	
	2009	2008	2009	2008
Financial expenses:				
Interest, monetary and exchange variations on financing	(3,995)	(2,692)	(10,945)	(5,686)
Financial discounts granted	(1,257)	(1,159)	(1,705)	(1,652)
Other interest and monetary variation	(3,939)	(3,644)	(7,654)	(7,917)
IOC (tax on credit operations)	(416)	(72)	(1,870)	(2,321)
Other financial commissions	(73)	(320)	(87)	(470)
Other	(250)	(157)	(818)	(695)
	<u>(9,930)</u>	<u>(8,044)</u>	<u>(23,079)</u>	<u>(18,741)</u>
	<u>(6,442)</u>	<u>1,829</u>	<u>(20,548)</u>	<u>(11,878)</u>

## 22. OPERATING LEASE - STORES

As of December 31, 2009, Livraria had 91 lease agreements with third parties for its stores. Said agreements were reviewed by Management, who 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 Livraria'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, 2009, rental expenses, net of recoverable taxes, totaled R\$4,780 (R\$2,262 in 2008) - Company and R\$40,783 (R\$21,451 in 2008) - consolidated. The balance of "Rentals payable" included in "Other liabilities" as of December 31, 2009 is R\$517 (R\$50 as of December 31, 2008) - Company, and R\$7,565 (R\$6,542 as of December 31, 2008) - consolidated.

Future obligations (consolidated), from these agreements, totaled the minimum amount of R\$142,610 as of December 31, 2009, as follows R\$38,404 in 2010; R\$31,841 in 2011; R\$24,808 in 2012; R\$18,391 in 2013 and R\$29,166 for the period between 2014 until 2018.

## 23. STATEMENTS OF CASH FLOWS

The Company's Management defines as "cash and cash equivalents" amounts maintained for the purpose of meeting short-term commitments and not for investment or any other purposes. Short-term investments can be immediately converted into a known cash amount and are not subject to significant changes in value. As of December 31, this line account is broken down as described in note 6.

Changes in equity that did not impact cash flows are as follows:

	<u>Company</u>		<u>Consolidated</u>	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
Price adjustment of goodwill on acquisition of Siciliano	-	-	3,574	-
Capital increase with conversion of intercompany loans	-	-	58,000	-
Reversal of prior years' provision for tax credits	-	-	-	15,455
Write-off on revaluation reserve, net of taxes	-	-	-	349
Receivables for sale of property and equipment transferred to current assets	3,075	1,418	3,075	1,418
Portion of financing transfer to current liabilities	10,068	14,978	17,462	26,841

#### 24. INSURANCE (UNAUDITED INFORMATION)

The Company and Livraria have an insurance policy that considers risk concentration and its materiality, obtained in amounts considered sufficient by Management taking into consideration the nature of their activities and the advice of insurance brokers.

As of December 31, 2009, insurance coverage is as follows:

<u>Year</u>	<u>2009</u>	<u>2008</u>
Loss of profits	45,000	45,000
Fire - maximum amount per store	47,595	37,335
Vehicles - only civil liability - maximum amount per vehicle	1,025	800

Dear Shareholders,

Saraiva S.A. Livreiros Editores (“Editora”), in accordance with corporate legislation, presents hereby the Management Report, the individual and consolidated Financial Statements for the business year ended on December 31, 2009 followed by the Independent Auditors’ report.

Editora’s shares are traded at Corporate Governance Level 2 of the São Paulo Stock Exchange (BM&FBOVESPA) and its consolidated operations reflect the results of the parent company and its subsidiary, Saraiva e Siciliano S.A. (“Livraria”).

Editora’s operating and financial information are individual and consolidated and stated in Brazilian Real, in accordance with Brazilian corporate law. All comparisons relate to 2008, except when specified otherwise.

## MESSAGE FROM MANAGEMENT

The year of 2009 represented important gains for Saraiva on its business fronts. Investments in new book collections for elementary students from 1<sup>st</sup> to 5<sup>th</sup> grade enabled Editora to increase its market share under the scope of the National Textbook Program (PNLD 2010), as well as achieve an excellent sales performance in the private market. Livraria gave priority to improving the customers’ shopping experience of the Siciliano’s chain store, acquired in 2008, through a vast store remodeling program, staff training and the introduction of new product and service categories.

Consolidated gross revenue totaled R\$ 1.3 billion in 2009, up 14.2% in comparison with the previous year. EBITDA<sup>1</sup> totaled R\$ 119.0 million, down 11.0% in relation to 2008. Total amount invested in 2009 reached R\$ 66.8 million. Saraiva’s results in 2009 were influenced by expenses related to the remodeling of the Siciliano’s chain stores and by investments in new editorial businesses, which present good return prospects in the medium and long-term. Saraiva’s EBITDA was also influenced by lower sales under the scope of PNLD 2010, which was already expected by Management due to the program’s purchase cycle.

In the government’s public school textbook acquisition program (PNLD 2010), **Editora** efficiently promoted its catalogue and increased its market share to 11.6% in new adoptions for students enrolled from 1<sup>st</sup> to 5<sup>th</sup> grade (8.4% in PNLD 2007). The total book supply contract for public elementary and high schools (PNLD 2010) reached R\$ 88.1 million.

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<sup>1</sup> EBITDA represents net income before financial result, social contribution, income tax, depreciation and amortization. It is not a measure used according to the adopted accounting practices in Brazil or in the generally-accepted accounting principles of other countries and does not represent the cash flow for the periods shown and must not be considered as an alternative for net profit as an indicator of operational performance of the company or as an alternative for cash flow as an indicator of liquidity. EBITDA has no standard definition and our definition of EBITDA may not be comparable with that of other companies.

In private market sales, Editora obtained excellent results in the scientific, technical and professional book lines (“CTP”), as well as in educational books for private schools. Gross revenue from the private market grew 16.3% in 2009.

Throughout 2009, Saraiva’s publishing operations obtained important gains in the teaching system segment. Solutions offered by the Ético Teaching System (“Ético”) were readily accepted by the private market, with a 90% growth in the amount of students in 2009. Strategies for this segment are based on a well-structured business plan, as well as excellent human capital for its execution.

Concurrently with the investment in Ético educational solutions, Editora continues to invest in multimedia solutions for elementary and high schools, offering quality digital pedagogical contents that can be used together with printed media, adding value to the traditional learning processes.

A significant slowdown in the consumption of discretionary goods occurred in 2009 mostly due to a decline in consumer confidence in the country's economic performance. **Livraria**, however, obtained a revenue growth in all its business channels and boosted its market share in the book category. The year was marked by important conceptual changes in the Company’s business model, mainly in the Siciliano chain stores. In addition to the 13.7% sales increase in the same-store concept, Livraria’s operations grew organically in 2009, when five new stores were opened. Livraria’s same-store sales performance is mostly due to the remodeling process that took place in the Siciliano chain stores during the year. In 2009, twenty eight important Siciliano sales locations were remodeled and now offer attributes similar to those of the Saraiva chain. Interventions in these sales locations significantly improved customers’ shopping experience by introducing new product and service categories. Sales growth of the stores remodeled to meet Saraiva’s standards was of 90.2% by December 2009 in comparison with the same period in 2008.

Saraiva.com’s sales results confirm the success of the strategies to diversify the product mix. Gross revenue of the electronic retailing site increased 24.0% in relation to that registered in 2008. In May 2009, Livraria launched Saraiva Digital, an innovative alternative for the sale and rental of movies through downloads. The partial results of Saraiva Digital sales confirm the possibilities of selling contents in new medias.

Referring to Livraria, Management believes in the advantages of a multichannel and multi-format retail model, where customers are offered attributes inherent to the operations through the Internet, as well as can take advantage of the sensorial experience of physical stores adapted to different markets.

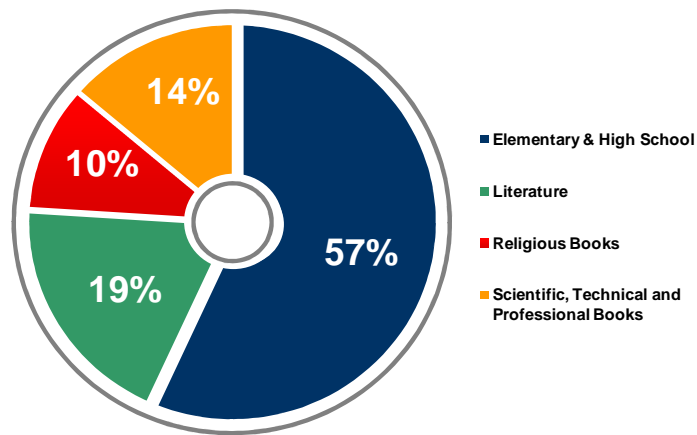
In February 2009, Saraiva contracted a new loan from the National Development Bank (BNDES) amounting to R\$ 141.6 million, of which R\$ 83.4 million was disbursed by December 2009. This credit line will finance part of Saraiva’s investments until December 2010 and will enable the Group to appraise business opportunities that may possibly arise, optimizing resources invested in its operations.

Despite the adverse economic scenario of 2009, Saraiva has managed to strengthen its brand even further and will continue to invest with a long-term outlook. The Group is aware of the future challenges and is confident in its employees' ongoing capacity to overcome such challenges.

## EDITORIAL AND BOOKSTORE MARKET

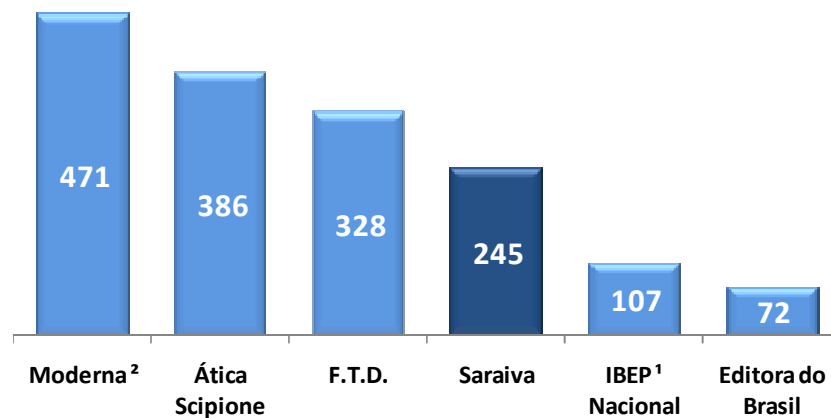
Highlights of the publishing and bookstore market and rank of the main participants:

### Publishing Market in Brazil – 2008 Gross Revenue Breakdown: R\$ 3.3 billion



Source: CBL

### Textbook Market - 2008 Net Revenue by Main Publishers (R\$ million)

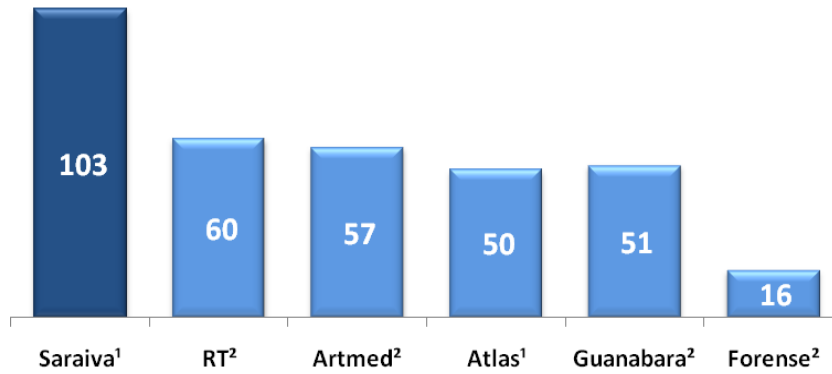


<sup>1</sup> 2007 (includes Graphic Operations)

<sup>2</sup> Source: Valor Econômico newspaper

Source: CBL, Company Reports and Serasa Experian

**Scientific, Technical and Professional Books Market - 2008 and 2009  
Net Revenue Breakdown by Main Publishers (R\$ million)**

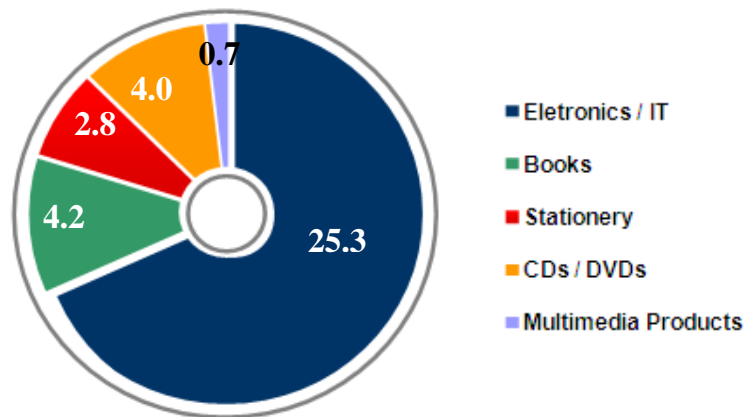


<sup>1</sup> 2009 data

<sup>2</sup> 2008 data

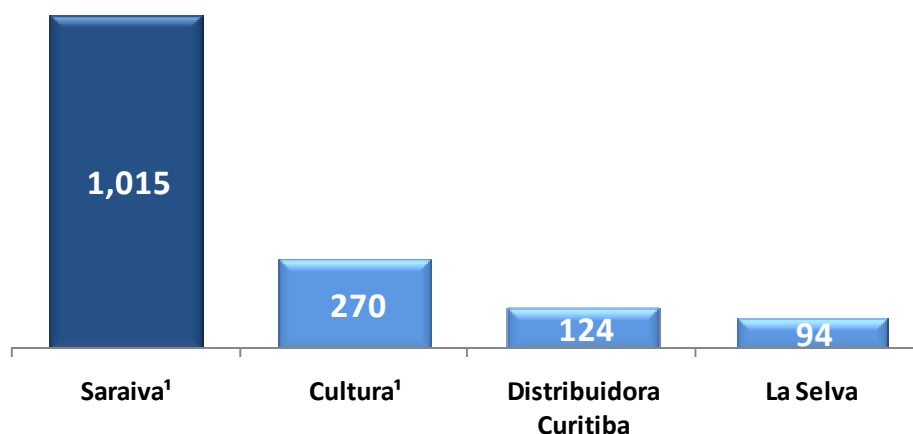
Source: Serasa Experian and Diário Oficial newspaper

**Bookstore Market and Other Categories in which Livraria Operates - 2008  
Gross Revenue Breakdown: R\$ 37.0 billion**



Source: CBL, Company Reports and Serasa Experian

**Main Bookstores**  
**Net Revenue 2008 (R\$ million)**



<sup>1</sup> 2009 data  
Source: CBL, Saraiva, Papel e Arte magazine and ACNielsen

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

Editoria's fourth quarter is very representative in relation to the year's total, when the textbooks under the PNLD National Textbook Program are traditionally delivered to the elementary and high schools.

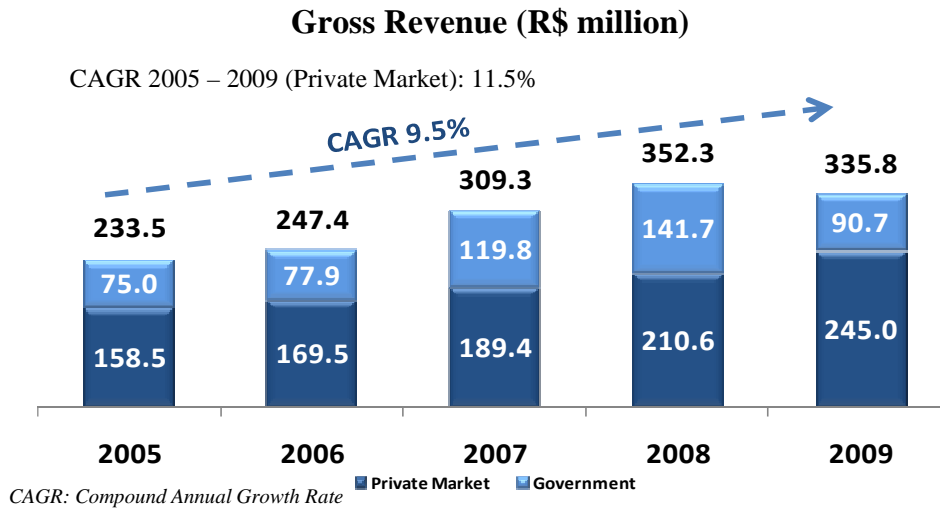
The following table summarizes Editoria's main economic-financial performance data.

<i>Editoria (R\$ thousand)</i>	<i>4Q09</i>	<i>4Q08</i>	<i>Chg.</i>	<i>2009</i>	<i>2008</i>	<i>Chg.</i>
Gross Revenue	140,258	176,143	-20.4%	335,757	352,317	-4.7%
Net Revenue	140,208	176,116	-20.4%	335,625	352,202	-4.7%
Gross Profit	85,609	105,083	-18.5%	231,917	237,277	-2.3%
<b>Gross Margin</b>	<b>61.1%</b>	<b>59.7%</b>	<b>139 b.p.</b>	<b>69.1%</b>	<b>67.4%</b>	<b>173 b.p.</b>
Operating Expenses	48,661	56,673	-14.1%	157,834	158,133	-0.2%
E BITDA	38,070	50,341	-24.4%	78,720	86,485	-9.0%
Net Financial (Revenue) Expenses	2,620	175	>500%	6,442	(1,829)	-
Net Income (Loss) Before Equity in Subsidiaries	28,079	36,983	-24.1%	47,647	55,536	-14.2%
Net Income (Loss)	33,110	40,650	-18.5%	53,007	72,033	-26.4%

**Gross Revenue**

Gross revenue reached R\$ 140.3 million in 4Q09, up 20.4% over 4Q08 and totaled R\$ 335.8 million in the year, down 4.7% from that registered in 2008. This already expected performance is due to Editoria's lower sales under the scope of PNLD 2010, the textbook acquisition program for students from 1<sup>st</sup> to 5<sup>th</sup> grade enrolled in public elementary schools.

The graph below shows the gross revenue evolution, separating the contribution of the public and private markets for Editora's revenue. Over the past four months, revenues registered a 9.5% annual growth.



### Private Market

Revenue from private market book sales reached R\$ 245.0 million in 2009, a 16.3% growth as compared with that of the previous year. In the past four years, the annual growth from private market revenues was of 11.5%, reflecting Editora's consistent investments in new contents for private schools, universities and professional use in several areas.

In 2009, Editora successfully launched legal books of acclaimed authors, new audio book titles and new releases, such as “Pockets Jurídicos” (Legal Pocketbooks) and the “SOS - Síntese Organizada Saraiva” (SOS - Organized Saraiva Synthesis) and “Resposta Certa” (Right Answer) collections.

In the book segment aimed at the elementary and high school level, highlights were the launches of new collections, in particular novelties such as the “Prosa” and “Descobrir” projects in addition to the book renovation of acclaimed authors in several subjects.

### Government

Editora's market share in the government's textbook acquisition program for public elementary schools (PNLD 2010), reached 11.6% through the adoption of contents for students enrolled from 1<sup>st</sup> to 5<sup>th</sup> grade, up 320 basis points in comparison with the book adoptions for the same teaching levels under the PNLD 2007 program (8.4%). Total book supply contract for public elementary and high schools textbooks (PNLD 2010) reached R\$ 88.1 million.

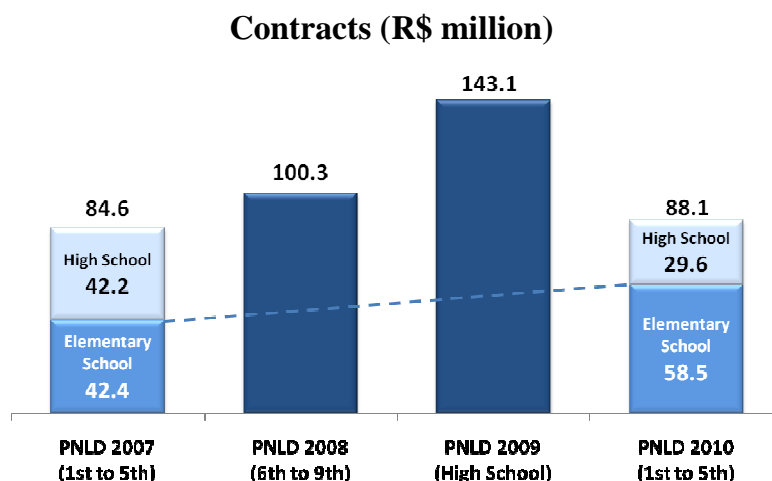
Revenue from textbooks sold to the government reached R\$ 90.7 million in 2009, comprised of the amount referring to PNLD 2010 and of R\$ 2.6 million related to the contractual amendment of PNLD 2009, as shown in the table below.

PNLD, PNLEM and PNBE		Recorded Sales - Fiscal Year (R\$ million)		
School Year	Total Sales - Contract Value (R\$ million)	2007	2008	2009
Program 2007	84.6	20.9		
Program 2008	100.3	98.9	0.8	
Program 2009	143.1	-	140.9	2.6
Program 2010	88.1			88.1
Total	-	119.8	141.7	90.7

This result is mainly due to the cyclical nature of the purchases under the scope of PNLD. A new book adoption cycle started in 2009 for students enrolled from 1<sup>st</sup> to 5<sup>th</sup> grade in public schools that take part in the program, in which Editora's share is traditionally lower (11.6% for PNLD 2010), different from 2008 when high school textbooks were chosen (PNLD 2009), a program where Editora's market share was greater (27.1%).

In addition to the differences in Editora's market share in several teaching levels, textbooks aimed at elementary students enrolled from 1<sup>st</sup> to 5<sup>th</sup> grade include less content and, therefore, have less pages per book and a lower average price than that of high school textbooks.

The graph below shows the evolution of Editora's contracts within the scope of government programs. Revenues from PNLD 2010 are comparable with those of PNLD 2007. It is worth pointing out that in PNLD 2007, new high school textbooks were adopted, still in a pilot program stage, and, in PNLD 2010, textbooks were only replaced proportionally to the choices under the scope of PNLD 2009.



## Government Purchase Cycle

Grades	Market Potential Number of books (MM)	% of Market Potential Acquired Each Year		
		PNLD 2010	PNLD 2011	PNLD 2012
1st and 2nd Grades of Elementary School (Portuguese and Mathematic)	11.2	100%	100%	100%
2nd Grade of Elementary School (Science, History and Geography)	9.7	100%	13% *	13% *
3rd - 5th Grades of Elementary School	49.8	100%	13% *	13% *
6th - 9th Grades of Elementary School	67.0	13% *	100%	13% *
Foreign Languages (English and/or Spanish)	13.4	-	100%	100%
<hr style="border-top: 1px dashed black;"/>				
High School	53.4	13% *	13% *	100%
Foreign Languages (English and/or Spanish)	7.6	-	-	100%
Sociology or Philosophy	15.2	-	-	100%
Performance		1st - 5th Grades (PNLD2010)	6th - 9th Grades (PNLD2008)	High School (PNLD2009)
Last Cycle's Market Share		11.6%	13.1%	27.1%
Average Price (R\$)		4.74	5.35	9.68

*Source: FNDE/MEC/INEP*  
\* Historical Replacement

The textbook acquisitions trend for public schools is of growth in the next year. As of PNLD 2011, students enrolled from 6<sup>th</sup> to 9<sup>th</sup> grade in public elementary schools will receive books for the study of foreign languages in the subjects of English and/or Spanish. Saraiva's estimate of the total annual purchase potential is of 13.4 million copies for this category.

The outlook for high schools is equally positive. In addition to the acquisition of books for teaching English and/or Spanish, sociology and philosophy books as of PNLD 2012 will also be purchased. The total annual purchase potential for the teaching of these subjects is estimated at 22.8 million copies.

### Gross Profit

Gross profit of R\$ 85.6 million in 4Q09 declined 18.5% in relation to 4Q08. This performance is primarily due to lower revenue under the scope of the government's textbook acquisition programs. Gross margin, however, evolved to 61.1% in 4Q09 from 59.7% in 4Q08.

In the annual comparison, the R\$ 231.9 million gross profit was lower than the previous year by 2.3%. Gross margin grew to 69.1% in 2009 from 67.4% in 2008 due to a greater contribution of the private market in Editora's revenue mix generating higher margins than those from government sales.

## Operating Result

Operating expenses totaled R\$ 48.7 million in 4Q09, representing a 14.1% drop in comparison with the same period of the previous year. The operating expense to net revenue ratio rose from 32.2% in 4Q08 to 34.7% in 4Q09. In the 12-month period, operating expenses totaled R\$ 157.8 million, down 0.2% as compared with 2008.

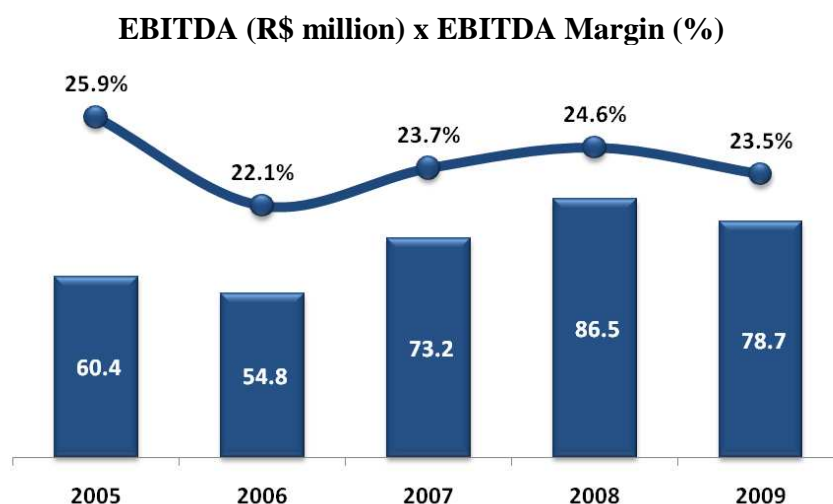
<i>Editora (R\$ thousand)</i>	<i>4Q09</i>	<i>4Q08</i>	<i>Chg.</i>	<i>2009</i>	<i>2008</i>	<i>Chg.</i>
Operating Expenses	48,661	56,673	-14.1%	157,834	158,133	-0.2%
(+) Write-off Inventory	-	-	-	3,510	-	-
(-) Building's sale (Headquarters)	-	-	-	(10,048)	-	-
(=) Adjusted Operating Expenses	48,661	56,673	-14.1%	164,372	158,133	3.9%
<b>Adjusted Operating Expenses/ Net Income</b>	<b>34.7%</b>	<b>32.2%</b>	<b>253 b.p.</b>	<b>49.0%</b>	<b>44.9%</b>	<b>408 b.p.</b>

Operating expenses in 2009 were negatively affected by the extraordinary inventory write-off, amounting to R\$ 3.5 million, caused by the orthographic reform that occurred in 2Q09. The accounting result from the sale of the head office's former building, totaling R\$ 10.0 million, must also be considered.

Editora continued to invest in new editorial businesses throughout 2009, particularly in the Teaching System Division and in the Saraiva Educação Multimídia Imprint. The operating expenses of these new businesses also put pressure on the Company's results in 2009, but present good prospects of generating value in the long term. Publishing activities are characterized by preliminary expenses to format contents and sales efforts and, therefore, it is common for new businesses to pressure results in the initial investment stage.

## EBITDA

EBITDA reached R\$ 38.1 million in 4Q09, against R\$ 50.3 million in the same period of last year. In the 12-month period EBITDA totaled R\$ 78.7 million, down 9.0% in relation to 2008. EBITDA margin was of 27.2% in 4Q09 and of 23.5% in 2009, against 28.6% in 4Q08 and 24.6% in 2008.



In order to better compare EBITDA and EBITDA margin in 2009 with those of the previous year, the table below excludes the extraordinary gains mentioned earlier. Without considering the effects of these gains, the adjusted EBITDA margin reached 21.5% in 2009, against 24.6% in the previous year.

<i>Editora (R\$ thousand)</i>	<b>4Q09</b>	<b>4Q08</b>	<b>Chg.</b>	<b>2009</b>	<b>2008</b>	<b>Chg.</b>
Income from Operations after Net Financial Income	34,328	48,235	<b>-28.8%</b>	67,641	80,973	<b>-16.5%</b>
(+) Depreciation and Amortization Expenses	1,122	1,931	<b>-41.9%</b>	4,637	7,341	<b>-36.8%</b>
(+) Net Financial Expenses	2,620	175	<b>&gt;500%</b>	6,442	(1,829)	<b>-</b>
(=) EBITDA	38,070	50,341	<b>-24.4%</b>	78,720	86,485	<b>-9.0%</b>
<b>EBITDA Margin</b>	<b>27.2%</b>	<b>28.6%</b>	<b>-143 b.p.</b>	<b>23.5%</b>	<b>24.6%</b>	<b>-110 b.p.</b>
(+) Write-off Inventory	-	-	<b>-</b>	3,510	-	<b>-</b>
(-) Building's sale (Headquarters)	-	-	<b>-</b>	(10,048)	-	<b>-</b>
(=) Adjusted EBITDA	38,070	50,341	<b>-24.4%</b>	72,182	86,485	<b>-16.5%</b>
<b>Adjusted EBITDA Margin</b>	<b>27.2%</b>	<b>28.6%</b>	<b>-143 b.p.</b>	<b>21.5%</b>	<b>24.6%</b>	<b>-305 b.p.</b>

<sup>1</sup> Excludes the provision of Interest on Equity (financial expenses)

## Financial Result / Capital Structure

Editora's financial result, without considering the provision for interest on equity, represented an expense of R\$ 2.6 million in 4Q09, against an expense of R\$ 0.2 million in 4Q08. In 2009, financial result posted an expense of R\$ 6.4 million, as compared with a revenue of R\$ 1.8 million in 2008. This performance reflects mostly the capital increase of R\$ 58.0 million in the subsidiary Saraiva e Siciliano S.A. aimed at expanding its activities and consequently reversing the net cash position (cash and cash equivalents minus loans), which went from R\$ 10.2 million at the end of 2008 to a net debt of R\$ 23.5 million at the end of 2009. A total of R\$ 41.5 million was raised in the year, or approximately 58% of the amount borrowed from BNDES in February 2009. Company's Management considers Editora's indebtedness level, which is based on long-term debts, to be adequate.

## Net Profit

Net profit before equity income of Livraria totaled R\$ 28.1 million in 4Q09, against R\$ 37.0 million in the same quarter of the previous year. In the annual comparison, net profit before equity income reached R\$ 47.6 million against R\$ 55.5 million in 2008, down 14.2%.

Net profit after equity income of the subsidiary Saraiva e Siciliano reached R\$ 33.1 million in 4Q09 and R\$ 40.7 million in 4Q08. In the annual comparison, net profit after equity income was of R\$ 53.0 million in 2009 and of R\$ 72.0 million in 2008. This result was already expected by Management and reflects the pressured results of Livraria in light of the process to improve the shopping experience of the Siciliano chain stores, as well as lower revenues under the scope of the official textbook acquisition programs for public schools in comparison with the previous year.

## Investments

Investments in 2009 reached R\$ 8.0 million and were basically aimed at updates for the corporate information systems (ERP).

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

Saraiva e Siciliano operates predominantly in the retail of books, DVDs, CDs, stationery, information technology and electronic goods.

The table below shows the main economic-financial performance data of the retail operations.

<i>Livraria (R\$ thousand)</i>	<i>4Q09</i>	<i>4Q08</i>	<i>Chg.</i>	<i>2009</i>	<i>2008</i>	<i>Chg.</i>
Gross Revenue	297,412	241,614	<b>23.1%</b>	1,014,996	827,294	<b>22.7%</b>
Net Revenue	276,285	223,760	<b>23.5%</b>	951,008	767,205	<b>24.0%</b>
Gross Profit	91,645	77,194	<b>18.7%</b>	328,721	272,179	<b>20.8%</b>
<b>Gross Margin</b>	<b>33.2%</b>	<b>34.5%</b>	<b>-133 b.p.</b>	<b>34.6%</b>	<b>35.5%</b>	<b>-91 b.p.</b>
Operating Expenses	79,301	70,020	<b>13.3%</b>	305,219	235,520	<b>29.6%</b>
EBITDA	17,362	11,094	<b>56.5%</b>	40,285	48,354	<b>-16.7%</b>
Net Financial (Revenue) Expenses	4,670	6,623	<b>-29.5%</b>	14,106	13,708	<b>2.9%</b>
Net Income (Loss)	5,033	3,667	<b>37.3%</b>	5,362	16,502	<b>-67.5%</b>

*2008 results include the results from Siciliano (from March 6 to November 30), Livraria Saraiva (from January 1 to November 20) and Saraiva e Siciliano (from December 1 to 30).*

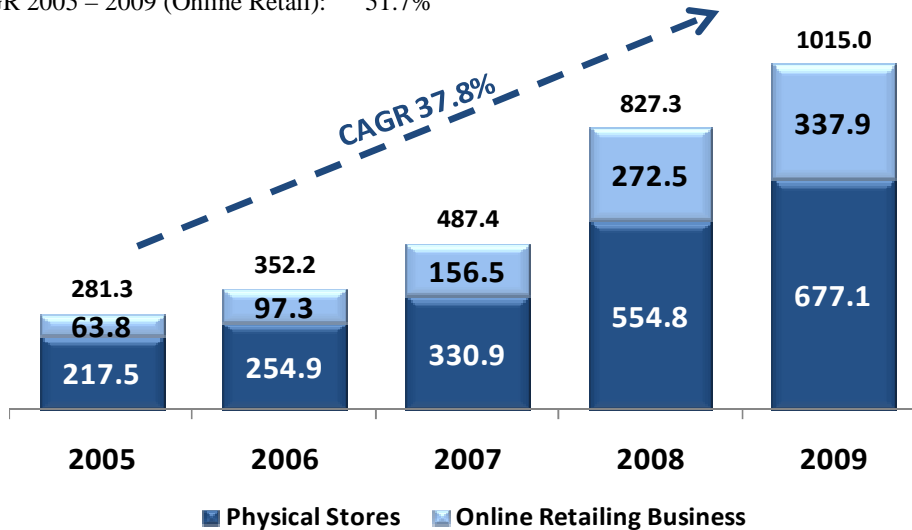
## Gross Revenue

Gross revenue reached R\$ 297.4 million in 4Q09, up 23.1% over 4Q08, and R\$ 1.0 billion in the 12-month period, 22.7% up from that of 2008. Livraria's good sales performance stems from the remodeling program of the Siciliano chain stores, the revenue increase from the Saraiva.com e-commerce website and the opening of five new stores in prominent Brazilian cities.

The graph below shows the evolution of gross revenue, separating the share of physical stores and online sales, as well as its annual compound growth.

### Gross Revenue (R\$ million)

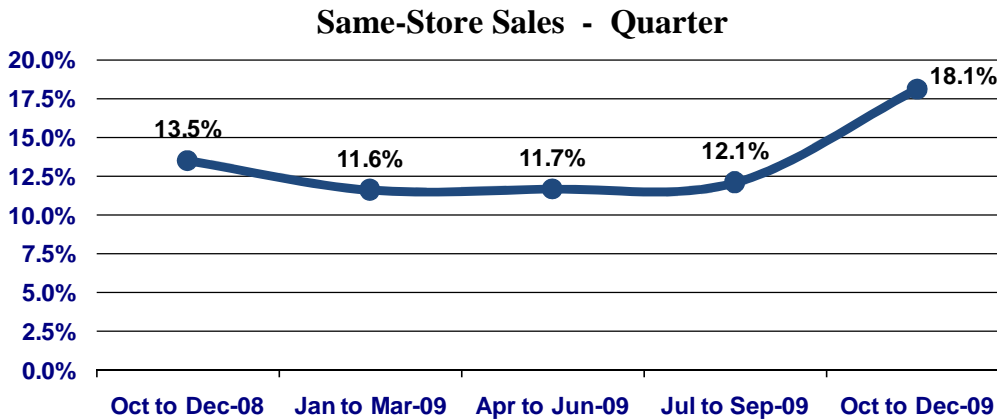
CAGR 2005 – 2009 (Physical Stores): 32.8%  
 CAGR 2005 – 2009 (Online Retail): 51.7%



CAGR: Compound Annual Growth Rate

The remodeling of the Siciliano chain stores has been essential for Livraria’s same-store sales growth. A total of 28 Siciliano stores were remodeled in 2009 and now provide a differentiated shopping experience to its customers, including, among other attributes, a greater book assortment, new product and service categories, the Saraiva Plus loyalty card and a more qualified customer care through an extensive training program for employees.

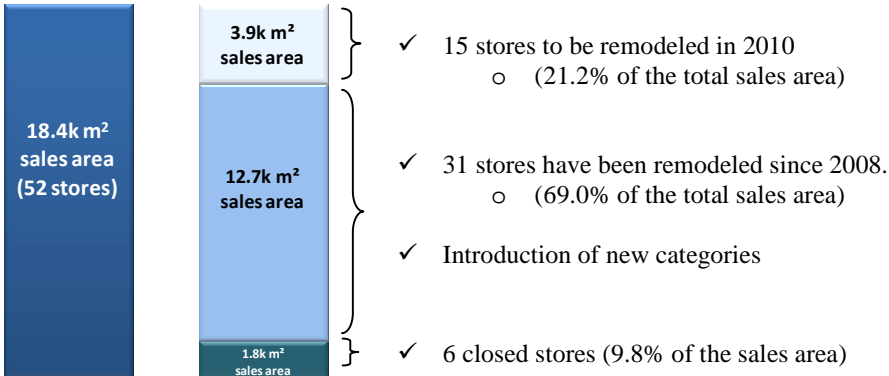
The graph below shows the quarterly evolution of physical same-store sales as of October 2008:



Siciliano store sales, after the remodeling carried out throughout the year, rose 90.2% as compared with the same period of the previous year, confirming the Siciliano chain’s sales locations’ potential.

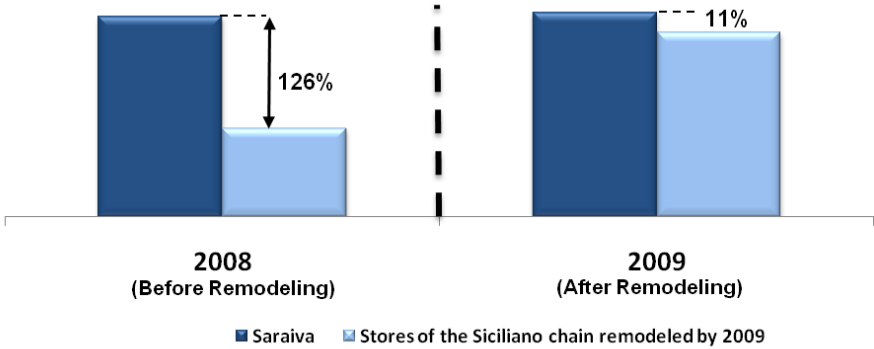
Since Siciliano’s acquisition until the end of 2009, 69% of its stores’ sales area had already been adapted to Saraiva’s standard. For 2010, the remodeling of another 15 stores is scheduled, representing 21% of the original Siciliano sales area. These 15 sales locations are less representative in revenue terms, which is why the interventions will be on a lesser scale than those carried out in the Siciliano stores that were remodeled in 2009. The graph below shows the current stage of the Siciliano chain store remodeling process.

**Siciliano Chain Stores Remodeling Program**



Sales per square meter of the remodeled Siciliano chain stores are getting closer to those of the Saraiva chain stores. The remodeled stores may, however, offer additional gains, as these sales locations consolidate themselves as good options for products linked to culture, leisure and information in their respective regions. The evolution of sales per square meter of the Saraiva and Siciliano chains is shown below.

**Sales per Square Meter**



Another material fact was the important market share gain obtained in the book, newspaper, magazine and stationery market in 2009. The monthly survey published by the Brazilian Statistics Bureau (IBGE) registered a 14.1% growth from January to December of 2009 in these categories, as compared with a 21.0% growth of Livraria in the same period.

## Gross Profit

Livraria's gross profit hit R\$ 91.6 million in 4Q09, up 18.7% in relation to that of the same period in 2008. Gross profit totaled R\$ 328.7 million in the year's total, up 20.8% over that of the previous year.

Gross margin in 4Q09 was of 33.2%, against 34.5% in 4Q08, down 133 basis points. In the annual comparison, Livraria's gross margin reached 34.6% against a gross margin of 35.5% in 2008, down 91 basis points.

The more competitive environment as of the second half of 2009, mainly in the e-commerce channel, as well as the introduction of a mechanism named Tax Replacement in the São Paulo state affected Livraria's margins. Through this mechanism, the goods and services tax was incorporated to the cost of products instead of reducing gross sales.

## Operating Result

The operating expenses to net revenue ratio went from 31.3% in 4Q08 to 28.7% in 4Q09, a gain of 260 basis points. In the 12-month period, this ratio rose to 32.1% in 2009 from 30.7% in 2008.

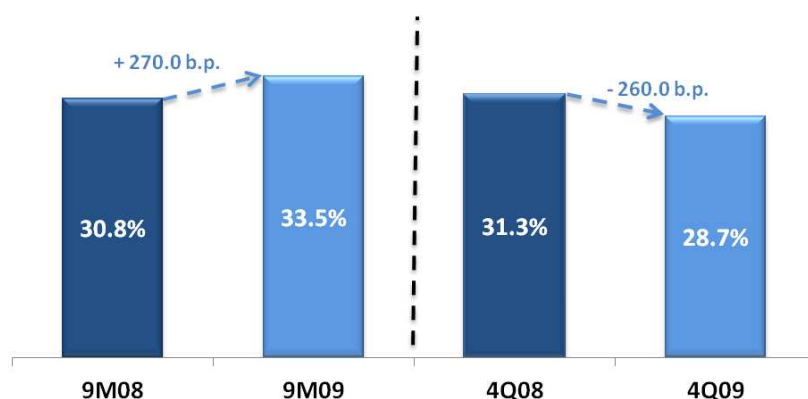
The operating expenses to net revenue ratio – without considering nonrecurring expenses from the remodeling process of the Siciliano chain stores – dropped to 28.0% in 4Q09 from 30.6% in 4Q08. In the annual comparison, it went from 29.8% in 2008 to 31.2% in 2009.

The table below shows the evolution of operating expenses in Saraiva's retail activities adjusted by the effects of nonrecurring expenses generated by remodeling and opening of new stores.

<i>Livraria (R\$ thousand)</i>	<i>4Q09</i>	<i>4Q08</i>	<i>Chg.</i>	<i>2009</i>	<i>2008</i>	<i>Chg.</i>
Operating Expenses	79,301	70,020	<b>13.3%</b>	305,219	235,520	<b>29.6%</b>
(-) Non-recurring expenses	1,893	1,581	<b>19.7%</b>	8,680	6,572	<b>32.1%</b>
Adjusted Operating Expenses	77,408	68,439	<b>13.1%</b>	296,540	228,948	<b>29.5%</b>
<b>Adjusted Operating Expenses / Net Revenue</b>	<b>28.0%</b>	<b>30.6%</b>	<b>-257 b.p.</b>	<b>31.2%</b>	<b>29.8%</b>	<b>135 b.p.</b>

The dilution of Livraria's expenses was affected throughout the year by the great effort made to change the shopping experience of Siciliano's sales locations. However, the 4Q09 numbers are already pointing to an upward trend in relation to the rest of the year, as shown in the graph below.

### Operating Expenses / Net Revenue

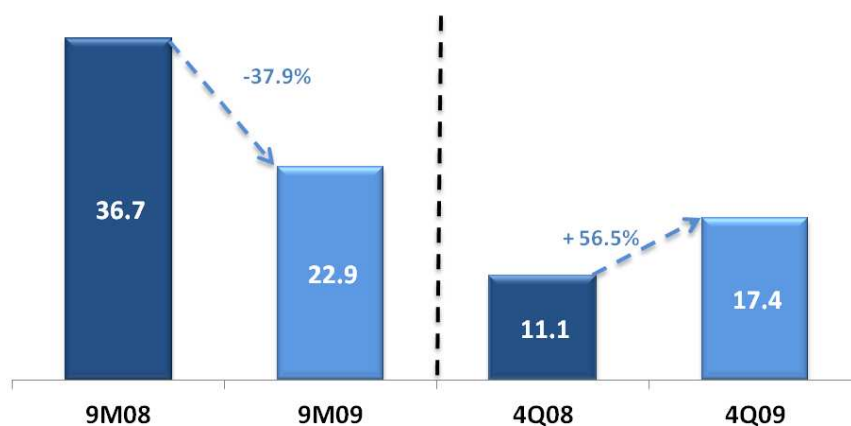


### EBITDA

Livraria's EBITDA reached R\$ 17.4 million in 4Q09, up 56.5% in comparison with the same period of the preceding year, and the EBITDA margin reached 6.3%, against 5.0% in 4Q08. In 2009, EBITDA totaled R\$ 40.3 million, 16.7% lower than that posted in 2008. EBITDA margin was of 4.2% in 2009, against 6.3% in 2008.

EBITDA in 2009 was negatively influenced by Siciliano's wide store remodeling program and by the adoption of more aggressive commercial policies, in particular in the online channel. Sales growth of the remodeled Siciliano stores contributed to the improvement in Livraria's profitability in 4Q09, as shown in the graph below.

### EBITDA (R\$ million) x EBITDA Growth (%)



Without considering the effects of nonrecurring expenses, adjusted EBITDA margin reached 7.0% in 4Q09 – 122 basis points greater than that in 4Q08 – and 5.1% in 2009, against 7.2% in the previous year, as demonstrated in the table below.

<i>Livraria (R\$ thousand)</i>	<b>4Q09</b>	<b>4Q08</b>	<b>Chg.</b>	<b>2009</b>	<b>2008</b>	<b>Chg.</b>
Income from Operations after Net Financial Income	7,674	556	<b>&gt;500%</b>	9,396	23,318	<b>-59.7%</b>
(+) Depreciation and Amortization Expenses	5,018	3,915	<b>28.2%</b>	16,783	11,328	<b>48.2%</b>
(+) Net Financial Expenses	4,670	6,623	<b>-29.5%</b>	14,106	13,708	<b>2.9%</b>
(=) EBITDA	17,362	11,094	<b>56.5%</b>	40,285	48,354	<b>-16.7%</b>
<b>EBITDA Margin</b>	<b>6.3%</b>	<b>5.0%</b>	<b>133 b.p.</b>	<b>4.2%</b>	<b>6.3%</b>	<b>-207 b.p.</b>
(+) Non Recurring Expenses	1,893	1,762	<b>7.4%</b>	8,680	6,753	<b>28.5%</b>
(=) Adjusted EBITDA	19,255	12,856	<b>49.8%</b>	48,965	55,107	<b>-11.1%</b>
<b>Adjusted EBITDA Margin</b>	<b>7.0%</b>	<b>5.7%</b>	<b>122 b.p.</b>	<b>5.1%</b>	<b>7.2%</b>	<b>-203 b.p.</b>

## Financial Result / Capital Structure

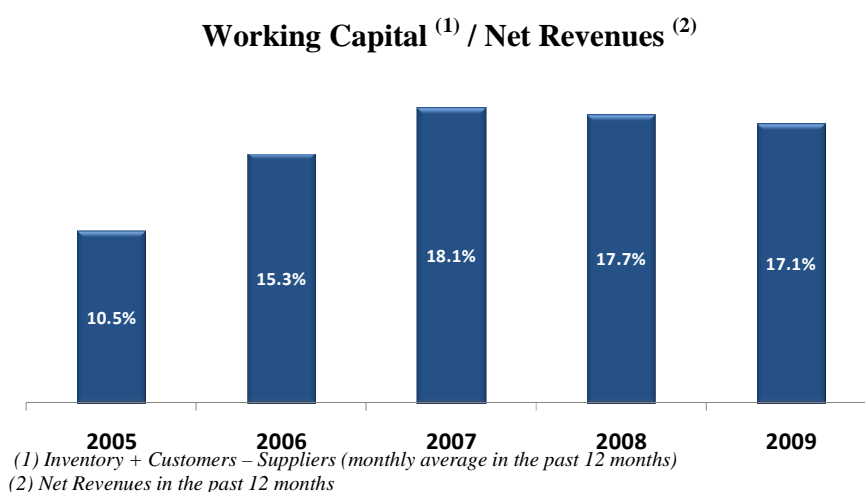
Net financial expenses reached R\$ 4.7 million in 4Q09, against R\$ 6.6 million in 4Q08. In 2009, net expenses totaled R\$ 14.1 million as compared with R\$ 13.7 million in 2008.

The financial position went from a net debt of R\$ 36.5 million, at the end of 2008, to a net debt of R\$ 111.6 million at the end of 2009. A total of R\$ 41.9 million, or approximately 60% of the amount contracted from BNDES in February 2009, was raised throughout the year.

Changes in financial expenses and in net debt result from an increase in investments to expand the physical store chain, a greater need for working capital due to the rapid sales growth and investments to reposition the Siciliano chain stores.

## Working Capital

The working capital to net sales ratio reached 17.1% in 2009, against 17.7% in the same period of the prior year. The graph below shows the evolution of working capital to net revenue over the past five years.



Accounts Receivable reached 45 days in the 12-month period ended on December 31, 2009, against 53 days in the 12-month period ended on December 31, 2008. The average term of inventory coverage rose from 79 to 93 days in the 12-month period ended on December 31, 2008 and 2009, in that order. Temporary increase in the average term of inventory coverage was necessary to maintain customer service standards throughout the centralization process of the logistics operations, concluded in 2Q09, and to remodel stores throughout the year.

The supplier payment period rose to 62 days in the 12-month period ended on December 31, 2009 from 57 days in the 12-month period ended on December 31, 2008, reflecting the new structure in supplier periods due to changes in product mix.

## **Net Profit**

Consolidated net profit of retail operations was of R\$ 5.0 million in 4Q09 and of R\$ 3.7 million in 4Q08. Livraria's net profit reached R\$ 5.4 million in 2009, against R\$ 16.5 million in 2008.

Net profit was mainly impacted by pre-operating expenses related to the adjustment process of Siciliano's operations, as well as greater financial expenses due to a cash position that was pressured by investments on several business fronts.

## **Investments**

In 2009, Livraria made important investments, amounting to R\$ 58.5 million, mostly for the opening of five new stores:

- BeiraMar Shopping mall in Florianópolis –Santa Catarina state (March/2009);
- Manaura Shopping mall in Manaus –Amazon state (April/2009);
- Paralela Shopping mall in Salvador –Bahia state (April/2009);
- Caxias do Sul Shopping mall in Caxias do Sul –Rio Grande do Sul state (April/2009);
- Vila Olímpia Shopping mall in São Paulo – city and state (November/2009).

Investments were also aimed at updating two prominent Saraiva sales locations:

- Praia de Belas Shopping mall in Porto Alegre –Rio Grande do Sul state (October/2009);
- Center Norte Shopping mall in São Paulo – city and state (November/2009).

Livraria also concluded the remodeling of 28 important Siciliano sales locations in the year, as well as invested in information systems to support sales processes in its business channels and centralized the logistic activities of its operations.

## Marketing / Partners

The “Saraiva Plus” loyalty program, launched in the second half of 2005, has a membership base of 3.5 million customers, up 40% over the base registered at the end of December 2008. With a system that facilitates the accumulation of bonus points and simplifies their redemption, this tool has been efficient in retaining old customers and attracting new ones.

Saraiva’s international credit card, a partnership between Saraiva, Banco do Brasil and Visa, offers differentiated characteristics to the market and a wide range of benefits and advantages.

At the end of 2009, this initiative included 69.4 thousand active cards, representing an increase of 119.1% in comparison with 2008.

## Saraiva.com - Livraria’s Electronic Retailing Division

Gross revenue totaled R\$ 87.1 million in 4Q09, representing an increase of 22.9% as compared with 4Q08. Gross revenue hit R\$ 337.9 million in 2009, up 24.0% over that registered in 2008.

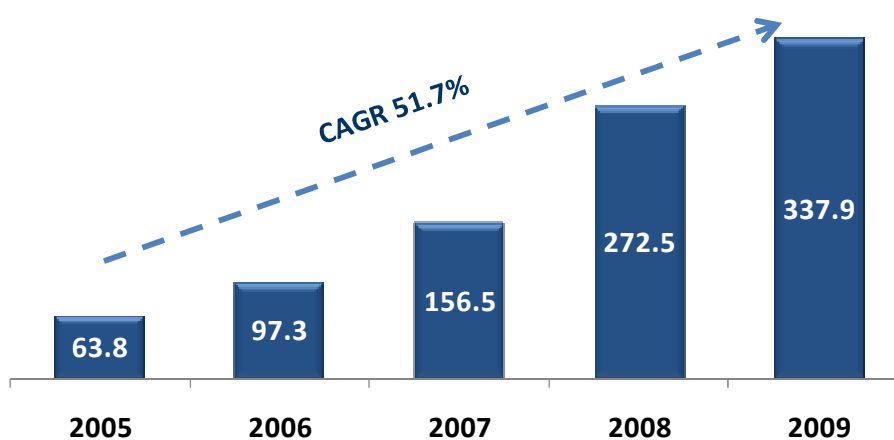
<i>Saraiva.com (R\$ thousand)</i>	<i>4Q09</i>	<i>4Q08</i>	<i>Chg.</i>	<i>2009</i>	<i>2008</i>	<i>Chg.</i>
Gross Revenue (1)	87,124	70,915	<b>22.9%</b>	337,905	272,492	<b>24.0%</b>
Active Customers (thousand) (2)	1,284	1,048	<b>22.5%</b>	1,284	1,048	<b>22.5%</b>
% of Revenue - Livraria Saraiva Consolidated	29.3%	29.4%	<b>-6 b.p.</b>	33.3%	32.9%	<b>37 b.p.</b>
Average Ticket (R\$)	159	137	<b>16.3%</b>	144	152	<b>-5.2%</b>

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

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

E-commerce has been gaining more importance in Livraria’s operations. The share in total gross revenue reached 29.3% in 4Q09 and 33.3% in 2009. The graph below shows the annual evolution of Saraiva.com sales.

**Saraiva.com Gross Revenue (R\$ million)**



CAGR: Compound Annual Growth Rate

The adverse macroeconomic environment that lasted until mid-2009, as well as the highly competitive environment in the second half, affected Livraria's average ticket in 2009. Saraiva.com's operations grew in line with the Brazilian e-commerce market, benefitting from consumer migration to lower average tickets, particularly in the book category, in which Saraiva.com grew 35.6% in 2009.

On the other hand, Saraiva.com's margins were pressured by a more intense competitive scenario as of the second half of the year. The introduction of new competitors led the company to adopt more aggressive commercial policies in order to maintain its market share in the "computer technology" and "electronic goods" categories. This strategy resulted in a 16.3% increase in the average ticket in 4Q09 as compared with the same period of the previous year. In 2009, Saraiva.com's average ticket was of R\$ 143.80, against an average ticket of R\$ 151.70 in 2008.

## Acknowledgment

Saraiva was acknowledged as the best e-commerce store according to the "Excelência em Qualidade Comércio Eletrônico B2C – 2009" award (Excellence in B2C E-Commerce) – and was awarded with the Blue Diamond medal. This prize is organized annually by e-bit and is particularly special to Livraria, which maintained the quality of its services during the centralization of its logistic activities.

## CONSOLIDATED

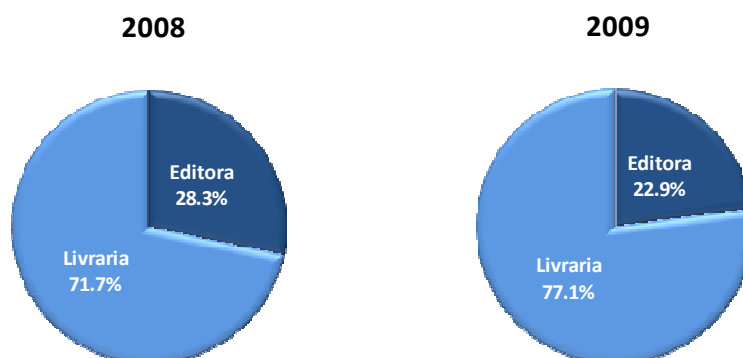
The following table shows the major consolidated economic and financial performance indicators.

<i>Consolidated (R\$ thousand)</i>	<b>4Q09</b>	<b>4Q08</b>	<b>Chg.</b>	<b>2009</b>	<b>2008</b>	<b>Chg.</b>
Gross Revenue	432,859	413,614	<b>4.7%</b>	1,317,109	1,153,682	<b>14.2%</b>
Net Revenue	411,682	395,733	<b>4.0%</b>	1,252,989	1,093,478	<b>14.6%</b>
Gross Profit	177,247	182,077	<b>-2.7%</b>	560,565	509,233	<b>10.1%</b>
<b>Gross Margin</b>	<b>43.1%</b>	<b>46.0%</b>	<b>-296 b.p.</b>	<b>44.7%</b>	<b>46.6%</b>	<b>-183 b.p.</b>
Operating Expenses	127,955	127,674	<b>0.2%</b>	462,980	394,250	<b>17.4%</b>
EBITDA	55,432	60,249	<b>-8.0%</b>	119,005	133,652	<b>-11.0%</b>
Net Financial (Revenue) Expenses	7,290	6,797	<b>7.3%</b>	20,548	11,878	<b>73.0%</b>
Net Income (Loss)	33,110	40,650	<b>-18.5%</b>	53,007	72,033	<b>-26.4%</b>
Total Assets	843,575	682,441	<b>23.6%</b>	843,575	682,441	<b>23.6%</b>
Shareholders' Equity	369,131	335,882	<b>9.9%</b>	369,131	335,882	<b>9.9%</b>
Net Debt	(135,044)	(26,316)	<b>413.2%</b>	(135,044)	(26,316)	<b>413.2%</b>

## Gross Revenue

Gross revenue reached R\$ 432.9 million in 4Q09, up 4.7% in relation to 4Q08. In 2009, gross revenue totaled R\$ 1.3 billion, 14.2% higher in relation to the same period of the previous year. The increase in revenues is related to the sharp growth in retail operations, which accounted for 77.1% of total consolidated revenues.

## Consolidated Gross Revenue Mix



## Gross Profit

Consolidated gross profit amounted to R\$ 177.2 million in 4Q09, down 2.7% in relation to that registered in 2008. In 2009, gross profit reached R\$ 560.6 million, 10.1% higher than 2008. Gross margin was of 43.1% in 4Q09, against 46.0% in 4Q08. In the 12-month period, gross margin reached 44.7%, against 46.6% in 2008. The greater contribution of retail in the Group's consolidated figure accounts for the differences seen in the gross consolidated margins of 2009.

Gross Margin %	4Q09	4Q08	Chg.	2009	2008	Chg.
Editora	61.1%	59.7%	139 b.p.	69.1%	67.4%	173 b.p.
Livraria	33.2%	34.5%	-133 b.p.	34.6%	35.5%	-91 b.p.
<b>Total</b>	<b>43.1%</b>	<b>46.0%</b>	<b>-296 b.p.</b>	<b>44.7%</b>	<b>46.6%</b>	<b>-183 b.p.</b>

## Operating Result

The operating expense to net revenue ratio reached 31.1% in 4Q09, while in 4Q08 it was of 32.3%, an improvement of 118 basis points in the annual comparison, the operating expense to net revenue ratio reached 37.0% in 2009, against 36.1% in 2008, down 90 basis points.

The Group's operating expense to net revenue ratio was negatively affected during the year by expenses linked to the remodeling of the Siciliano stores and to Editora's investments in the Teaching Systems Division and in the Saraiva Educação Multimídia Label.

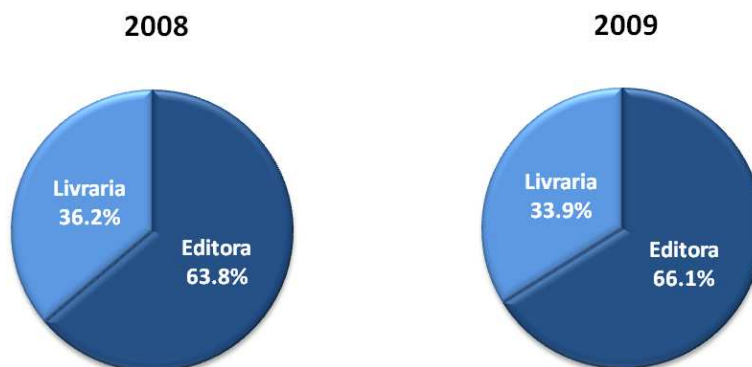
## Stock Option Plan

In 4Q09, a provision of R\$ 56 thousand related to expenses with the Stock Option Plan was established. In the 12-month period, the amount reached R\$ 965 thousand. The fair value of these plans is calculated on the date of the respective approvals and based on the Binomial pricing model.

## EBITDA

EBITDA was a positive R\$ 55.4 million in 4Q09, against R\$ 60.2 million in 4Q08. In 2009, EBITDA totaled R\$ 119.0 million, against R\$ 133.7 million in 2008, down 11.0%.

### Consolidated EBITDA Mix



Adjusted EBITDA by nonrecurring expenses totaled R\$ 57.3 million in 4Q09 and R\$ 121.1 million in 2009.

Consolidated (R\$ thousand)	4Q09	4Q08	Chg.	2009	2008	Chg.
Income from Operations after Net Financial Income <sup>1</sup>	42,002	47,606	-11.8%	77,037	103,105	-25.3%
(+) Depreciation and Amortization Expenses	6,140	5,846	5.0%	21,420	18,669	14.7%
(+) Net Financial Expenses	7,290	6,797	7.3%	20,548	11,878	73.0%
(=) EBITDA	55,432	60,249	-8.0%	119,005	133,652	-11.0%
<b>EBITDA Margin</b>	<b>13.5%</b>	<b>15.2%</b>	<b>-176 b.p.</b>	<b>9.5%</b>	<b>12.2%</b>	<b>-272 b.p.</b>
(+) Retail's Non Recurring Expenses	1,893	1,581	19.7%	8,680	6,572	32.1%
(+) Publishing's Write-off Inventory	-	-	-	3,510	-	-
(-) Building's sale (Headquarters)	-	-	-	(10,048)	-	-
(=) Adjusted EBITDA	57,325	61,830	-7.3%	121,146	140,224	-13.6%
<b>Adjusted EBITDA Margin</b>	<b>13.9%</b>	<b>15.6%</b>	<b>-170 b.p.</b>	<b>9.7%</b>	<b>12.8%</b>	<b>-316 b.p.</b>

<sup>1</sup> Excludes provision for Interest on Equity (financial expenses)

## Financial Result / Capital Structure

Financial result presented net financial expenses of R\$ 7.3 million in 4Q09 as compared with R\$ 6.8 million in 4Q08. The financial result for the 12-month period registered expenses of R\$ 20.5 million in 2009 and of R\$ 11.9 million in 2008, due to investments recently made in the Group's companies which reduced the net cash position.

The consolidated financial position went from a net debt of R\$ 26.3 million at the end of 2008 to R\$ 135.0 million at the end of December 2009.

This result arises from greater financial expenses for long-term loans borrowed from BNDES, in an agreement entered into in February 2009, amounting to R\$ 141.6 million and with a usage term that extends to December 2010, as well as investments in fixed assets and working capital in several of the Group's businesses.

## Net Profit

Net profit in 4Q09 totaled R\$ 33.1 million, compared with R\$ 40.7 million in 4Q08. Profit in 2009 totaled R\$ 53.0 million, against R\$ 72.0 million in 2008, a reduction of 26.4%.

## Investments

Investments summed R\$ 66.8 million in 2009 and were basically aimed at computer technology systems, at organic expansion of retail operations and at repositioning of the Siciliano chain stores.

## CAPITAL MARKETS

Below is a market summary of Saraiva's shares in 2009 in comparison with 2008.

Indicators *	2009	2008	Chg.
Number of trades <sup>(1)</sup>	16,939	9,335	<b>81.5%</b>
Participation in trading sessions - % <sup>(1)</sup>	100.0	100.0	-
Quantity traded - thousand shares <sup>(1)</sup>	15,610	12,719	<b>22.7%</b>
Volume traded - R\$ thousand <sup>(1)</sup>	365,019	337,123	<b>8.3%</b>
Share Price - R\$ <sup>(1)</sup>	34.00	16.64	<b>104.3%</b>
Total shares outstanding - thousand	28,230	28,230	-
<b>Market Value - R\$ million</b>	<b>959.8</b>	<b>469.7</b>	<b>104.3%</b>

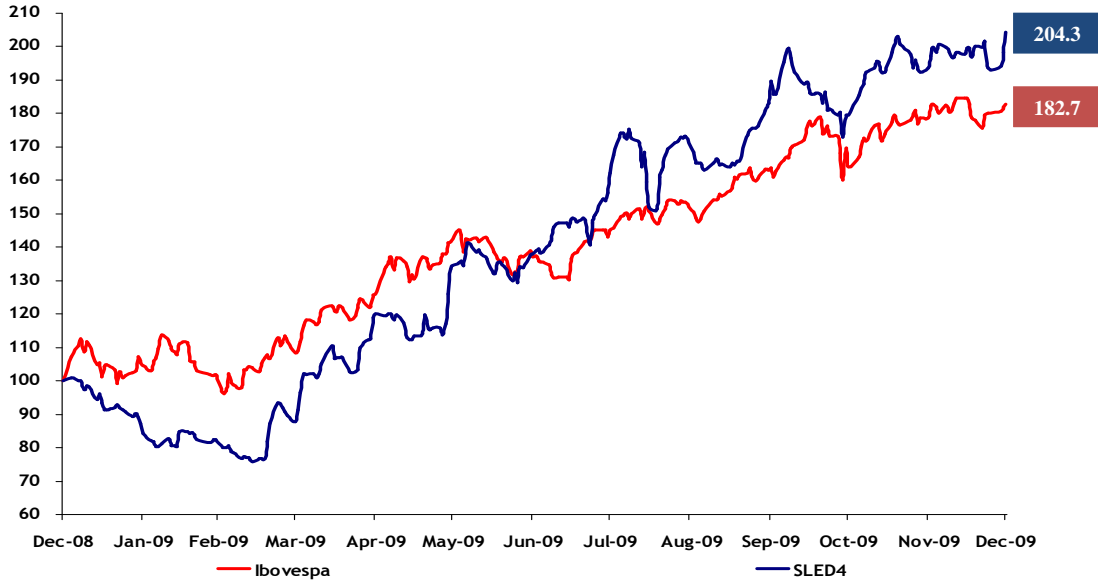
Source: BM&F Bovespa

(1) Referring to preferred shares (SLED4)

(\*) Not reviewed by the independent auditors

Saraiva's preferred shares (SLED4) appreciated 104.3% in 2009, above Ibovespa, which appreciated 82.7% in the same period.

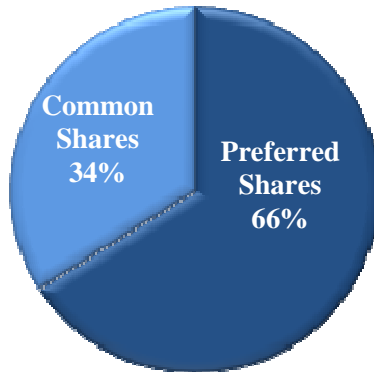
**SLED4 versus Ibovespa**  
**From (100 basis) 12/30/2008 to 12/30/2009**



The year of 2009 was a period of recovery for Saraiva’s shares in the stock market after the economic uncertainties that marked the previous year. The traded volume of Saraiva’s shares was 22.7% greater than that registered in 2008. It is worth pointing out that the recent macroeconomic uncertainties did not influence the Company’s investment decisions, which, based on its solid foundations, continues confident in its medium and long-term strategies.

**SHAREHOLDING STRUCTURE**

Saraiva’s subscribed and paid-in capital was of R\$ 191.0 million on December 31, 2009, represented by 28,596,123 registered nominative, book-entry shares, without par value, of which 9,622,313 are common shares (ON) and 18,973,810 are preferred shares (PN). The Company holds 365,750 preferred shares in treasury.



## **PROPOSED DIVIDENDS**

The Board of Directors, at a meeting held on December 18, 2009, approved the proposal to pay dividends in the amount of R\$ 20.7 million (R\$ 0.73410209 per share) in the form of interest on equity.

Total gross payment will represent a dividend yield of 2.16% on the price of preferred shares on December 31, 2009.

## **EMPLOYEES**

The Company ended 2009 with 4,110 employees – 3,641 in December 2008. The Group has been investing in qualification programs and training, creating opportunities and valuing the shopping experience of its customers, especially in the retail business, as well as attending the needs of educators, students and professionals of several areas through renowned quality publishing contents.

## **SUBSEQUENT EVENTS**

In order to offer a complete shopping experience in the digital world, Saraiva.com launched its Iphone and Ipod Touch application in February 2010 and, in March, the “Compre com 1 Clique” (One-Click Buying) service. Practical, fast and safe, these functionalities enable the customer to see the main launches and access thousands of products in the book, DVD, CD, game and other categories, as well as shop by clicking only once without having to spend time filling out forms.

Saraiva.com is the only e-commerce operation in Brazil that has the security certificate of Cielo and Redecard for the “Compre com 1 Clique” service. For this reason only Visa credit cards, including the Saraiva credit card and Mastercard can be used to register for this service. Internet users can purchase books, films, DVDs and CDs, games and download videos that can be rented or purchased.

## **OUTLOOK**

The Saraiva Group is confident in its business model, in the potential operating improvement of Siciliano’s sales locations and in the consolidation of the Brazilian book retail through organic expansion and e-commerce activities, in the prospects to expand its market share in the editorial segments where it operates or plans to operate and in the development of the Teaching Systems Division and activities and products that use new technologies. The Group’s investment decisions over the past few years have enabled it to expand its business fronts and gain new markets.

The work to restructure **Editora**'s editorial departments with the support of the teams, aimed at launching new products, has shown steady results over the past years. The renewal of Editora's catalogue is based on differentiated relationship strategies with the public, including educational support and more aggressive marketing actions.

The public textbook acquisition programs will be expanded over the next years, which may reflect positively on Editora's revenue. Elementary students enrolled from 6<sup>th</sup> to 9<sup>th</sup> grade are expected to receive English and/or Spanish contents as of PNLD 2011, and high school students will receive textbooks as of PNLD 2012. In addition to content for foreign language teaching, high school students will receive sociology and philosophy books, which enhance the possibilities of increasing Editora's revenue, given that it has competitive contents for these new programs.

Still in 2010, the new adoption of books for public elementary schools will be decided for the 2011 school year (PNLD 2011). In this program, new contents for elementary students enrolled from 6<sup>th</sup> to 9<sup>th</sup> grade will be acquired. Editora's market share three years ago was 13.1% in PNLD 2008. Since then, new projects have been developed to strengthen the Company's competitive edge. If approved by the Education Ministry (MEC), in an educational evaluation to be announced shortly, such projects have a good chance of improving Editora's performance in PNLD 2011, a program in which a 13% to 15% market share is expected.

In 2010, Saraiva's Teaching Systems Division will invest in differentiated contents for the public school market, offering quality options for municipalities that wish to adopt educational solutions in the form of teaching systems as of the 2011 school year. This initiative will create another business front and open new opportunities for Saraiva's publishing operations.

As part of the strategy to diversify its businesses, Editora will strengthen the publishing and sale of fiction and nonfiction books, segments that account for approximately 19% of revenue from the Brazilian publishing market according to data of the Brazilian Book Chamber (CBL), through the search of national and foreign authors.

Over the next years, Editora will also invest in technological resources that can make a difference in classroom learning processes, primarily in elementary and high schools. It is understood that well-structured educational projects and those that use new technologies can, together with printed media, provide significant gains for students, teachers and school administrators. The "Série Destino", which includes differentiated tools to be applied in classrooms in the areas of Math and English, is now being used in renowned schools in many Brazilian states.

In addition to the possibilities for organic growth, Editora continues attentive and may possibly study opportunities for strategic acquisition or association.

The Brazilian retail book market offers good opportunities for capitalized companies, with a flexible business model and well-structured short and long-term strategies. **Livraria** is geared towards offering a unique shopping experience, based on complementary products, differentiated services and customer care.

The revenue increase of the Siciliano chain stores, which now offer a new shopping experience to its customers, undoubtedly shows the success of Livraria's business model.

Livraria may expand its retail activities and operate in the sale of products that present logistic similarities with its operations, in addition to strong brand image. The first iTown store, a Livraria operation entirely dedicated to the sale of Apple products, will be opened in March 2010 at the Iguatemi Shopping mall in Salvador, Bahia state. Livraria has been successfully selling computer technology and electronic goods since 2006. The partnership with Apple is based on the wide acceptance of this brand's products in Brazil and the possibility of greater profitability through the differentiated conditions of an "Apple Premium Reseller" operation.

The Company will continue to evaluate projects with a return above its cost of capital that enable it to consolidate its retail business position. The expansion project of the physical store chain plans to open up to six stores over the next 12 months and this expansion plan may be concluded by the first half of 2011, depending on the availability of space in future enterprises (shopping malls). The next stores to be opened and that are already contracted are:

- the iTown store at the Iguatemi Shopping mall (Salvador, Bahia state) – March 2010;
- the Granja Viana Shopping mall store (Cotia, São Paulo state) – November 2010.

Livraria's organic expansion plan beyond 2010 will be duly announced. The Company has already entered into agreements for two new sales locations to be opened in 2011, both at the city of Barueri (São Paulo state):

- at Tamboré Shopping mall;
- at Iguatemi Alphaville Shopping mall.

Siciliano's remodeled stores should contribute greatly to Livraria's profitability in 2010. Revenue growth in the same-store concept will be benefitted by a comparison base that partially captured the sales increase of the stores remodeled throughout the year. Another 15 stores will be remodeled in 2010, however, at a lesser degree of physical intervention, given that they are less important points.

In the electronic retailing division, the target is to continue boosting operations, including new product categories and increase operations in lines where the Company already has business. The intense competitive environment in e-commerce operations, after the introduction of new companies, has negatively influenced Saraiva.com's margins.

Initiatives to revise Livraria's supply chain, with the probable hiring of a specialized consultancy company, as well as the development of Customer Relationship Management tools (CRM) will be implemented in 2010 and may add value to the Group's retail operations and increase Livraria's competitive edge in the online market.

Recent technological advances create great challenges for companies whose main business is the production and sale of content. The **Saraiva Group** is basing itself on developing activities and products that use these new technologies, for example the sale and/or rental of movies through downloads on the Saraiva.com website and fragmented sales (in chapters) and customized content for universities as is the case of the "Pasta do Professor" project, of which Editora participates along with other publishers under the coordination of the Brazilian Copyright Association (ABDR). Management's initiatives are aimed at adapting Editora's and Livraria's activities to the new realities. Regarding particularly the announced growth in the number of e-readers in the United States market as of 2009, the Company has sought to foresee how the use of these resources will occur in Brazil with the concern to be an important content generator and distributor agent of these new reading instruments. Management is also alert to enhance its customers' shopping experience as a way to overcome possible impacts deriving from the introduction of these new technologies in its businesses through measures such as, among others, introducing new product lines and stimulating customers to attend its physical spaces.

## **INDEPENDENT AUDITORS**

In order to comply with CVM Regulatory Instruction 381/03, Editora entered into an advisory service agreement in July 2009 to monitor the conversion and development process of the consolidated financial statements of the year ended on December 31, 2009 according to the International Financial Reporting Standards (IFRS). The total amount contracted for this advisory service is of R\$ 114 thousand, equal to 28% of fees for external auditing services for Editora and Livraria.

It is not part of the scope of the services hired to express any opinion or value judgments regarding the treatment that must be given to the compliance of the international standards, neither about the decisions related to the conversion of the financial statements, preparation of reconciliation notes, adhesion to explanatory notes and presenting format of the financial statements.

## **ADHERENCE TO MARKET ARBITRATION PANEL**

By adhering to Corporate Governance Level 2, the Company, its shareholders, managers and members of the Statutory Audit Committee agree to resolve, through arbitration, all conflicts set forth in the Commitment Clause of the Company's Bylaws in accordance with the Regulations of the Arbitration Panel of the São Paulo Stock Exchange (BM&F BOVESPA).

## **MANAGEMENT'S STATEMENT ABOUT THE FINANCIAL STATEMENTS**

In compliance with the provisions of article 25 of CVM Instruction number 480/09, the Board declares that it has revised, discussed and agrees with Editoras individual and consolidated Accounting Statements, authorizing its conclusion on this date.

## **MANAGEMENT'S STATEMENT ABOUT THE INDEPENDENT AUDITOR'S REPORT**

In compliance with the provisions of article 25 of CVM Instruction number 480/09, the Board declares that it has revised, discussed and agrees with the opinions stated in the independent auditors report concerning these statements, issued on this date.

## **ACKNOWLEDGEMENTS**

We thank all our shareholders, customers, suppliers, financial institutions, authors, employees and communities for the support given in 2009, without which we would not have achieved the excellent results of the year.

São Paulo, March 17, 2010.

Management