

THE REGISTRATION WITH CVM DOES NOT IMPLY EVALUATION OF THE COMPANY, THE PERTINENT OFFICERS BEING RESPONSIBLE FOR THE TRUTHFULNESS OF THE INFORMATION SUBMITTED.

**01.01 – IDENTIFICATION**

1 – CVM CODE 01047-2	2 – CORPORATE NAME SARAIVA S.A. LIVREIROS EDITORES	3 - CNPJ 60.500.139/0001-26
4 – NIRE		

**01.02 – PRINCIPAL PLACE OF BUSINESS**

1- FULL ADDRESS Av. Marquês de São Vicente, No. 1697		2- BOROUGH OR DISTRICT Barra Funda		
3 - ZIP CODE 01139-904	4 - MUNICIPALITY São Paulo			5- UF SP
6 - AREA CODE 011	7 - TELEPHONE 3613-3344	8 - TELEPHONE -	9 - TELEPHONE	10- TELEX
11 - AREA CODE 011	12 – FAX 3611-3308	13 – FAX -	14 – FAX -	
15- E-MAIL <a href="http://www.editorasaraiva.com.br">http://www.editorasaraiva.com.br</a>				

**01.03 – CHIEF OFFICER FOR INVESTORS RELATIONS (Address for Correspondence with the Company)**

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

**01.04 – REFERENCE / AUDITOR**

Fiscal Year	1 – Fiscal Year Beginning Date	2 - Fiscal Year Ending Date
1 – Last	01/01/2006	12/31/2006
2 – Penultimate	01/01/2005	12/31/2005
3 – Antepenultimate	01/01/2004	12/31/2004

4 – AUDITOR NAME/ AUDIT FIRM NAME DELOITTE TOUCHE TOHMATSU AUDITORES INDEPENDENTES	5 – CVM CODE 00385-9
6 – NAME OF TECHNICIAN IN CHARGE Maurício Pires de Andrade Resende	7 – TAXPAYER CARD OF TECHNICIAN 603.835.426-34

**01.05 – CAPITAL STOCK COMPOSITION**

Number of Shares (Thousand)	1 12/31/2006	2 12/31/2005	3 12/31/2004
<b>From the Paid-in capital</b>			
1- Ordinary	9,622	9,622	9,622
2 – Preferred	18,974	13,647	13,647
3 – Total	28,596	23,269	23,269
<b>In Treasury</b>			
4- Ordinary	0	0	0
5 – Preferred	366	332	332
6 – Total	366	332	332

**01.06 – COMPANY'S CHARACTERISTICS**

1 – COMPANY TYPE Commercial, Industrial Company and Others
2- TYPE OF CONDITION Operating
3 – NATURE OF THE SHARE CONTROL National Private

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4 – ACTIVITY CODE 1100 – Printers and Publishers
5 – MAIN ACTIVITY Publication and printing of books
6 – CONSOLIDATED TYPE Total

**01.07 – CORPORATIONS NOT INCLUDED IN THE CONSOLIDATED FINANCIAL STATEMENTS**

1 – ITEM	2 – CNPJ	3 – CORPORATE NAME
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**01.08 – PROFITS IN CASH**

1 – ITEM	2 – EVENT	3 – APPROVAL	4 – PROFITS	5 – PAYMENT BEGINNING	6 – SORT AND CATEGORY OF SHARE	7 – PROFIT'S AMOUNT FOR SHARE
01	RCA	02/28/2007	Interests on Own capital		ON	0.4954928100
02	RCA	02/28/2007	Interests on Own capital		PN	0.4954928100

**01.09 – CHIEF INVESTOR RELATION OFFICER**

1 – DATE 03/09/2007	2 – SIGNATURE
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**02.01 – BALANCE SHEET – ASSETS (Thousand Reais)**

1- CODE	2- DESCRIPTION	3 – 12/31/2006	4 – 12/31/2005	5 – 12/31/2004
1	Total Assets	333,994	217,324	230,078
1.01	Current Assets	244,637	138,540	151,395
1.01.01	Cash Equivalents	97,094	8,641	43,170
1.01.02	Credits	80,069	67,040	39,633
1.01.02.01	Clients	71,054	59,213	34,140
1.01.02.02	Miscellaneous Credits	9,015	7,827	5,493
1.01.02.02.01	Dividends receivables from parent company	1,572	0	0
1.01.02.02.02	Taxes to recover	5,311	7,440	5,346
1.01.02.02.03	Deferred income tax and social contribution	636	0	0
1.01.02.02.04	Others	1,496	387	147
1.01.03	Inventory	63,427	62,439	65,902
1.01.04	Others	4,047	420	2,690
1.01.04.01	Expenses prom. advertising to appropriate	2,922	316	2,595
1.01.04.02	Anticipated expenses	1,125	104	95
1.02	Non-Current Assets	89,357	78,784	78,683
1.02.01	Long-Term Assets	12,813	941	2,784
1.02.01.01	Miscellaneous Credits	0	0	0
1.02.01.02	With Related Persons	5,008	0	0
1.02.01.02.01	With Associated/ Affiliated	0	0	0
1.02.01.02.02	With Subsidiaries	5,008	0	0
1.02.01.02.03	With Other Related Persons	0	0	0
1.02.01.03	Others	7,805	941	2,784
1.02.01.03.01	Legal deposits	1,237	290	49
1.02.01.03.02	Deferred income tax and social contribution	753	651	495

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1.02.01.03.03	Taxes to recover	0	0	2,165
1.02.01.03.04	Accounts receivables of property, plant and equipments sale	5,725	0	0
1.02.01.03.05	Others	90	0	75
1.02.02	Permanent Assets	76,544	77,843	75,899
1.02.02.01	Investments	58,810	53,052	46,986
1.02.02.01.01	Interests in Associated/ Affiliated	0	0	0
1.02.02.01.02	Interests in Associated/ Affiliated– Premium	0	0	0
1.02.02.01.03	Interests in Subsidiaries	58,402	52,644	46,578
1.02.02.01.04	Interests in Subsidiaries – Premium	0	0	0
1.02.02.01.05	Other Investments	408	408	408
1.02.02.02	Property, plant and equipment	13,516	18,626	20,564
1.02.02.03	Intangible	3,312	4,802	6,435
1.02.02.04	Deferred	906	1,363	1,914

02.02 – BALANCE SHEET – LIABILITIES (Thousand Reais)

1- CODE	2- DESCRIPTION	3 – 12/31/2006	4 – 12/31/2005	5 – 12/31/2004
2	Total Liabilities	333,994	217,324	230,078
2.01	Current Liabilities	77,083	71,754	115,834
2.01.01	Loans and Financings	737	3,261	43,220
2.01.02	Debentures	0	0	0
2.01.03	Suppliers	41,452	20,860	37,029
2.01.04	Taxes, Fees and Tax Contributions	10,331	11,035	3,739
2.01.04.01	Provision for Income tax and Social contribution	5,141	6,804	0
2.01.04.02	Other taxes and social contributions	5,190	4,231	3,739
2.01.05	Dividends Payable	13,988	11,048	9,351
2.01.05.01	Interests on own capital	13,988	10,129	9,351
2.01.05.02	Dividends	0	919	0
2.01.06	Provisions	3,600	3,383	2,023
2.01.07	Debts with Related Persons	0	11,446	11,736
2.01.07.01	Loans from the subsidiary	0	11,446	11,736
2.01.08	Others	6,975	10,721	8,736
2.01.08.01	Copyrights payable	4,617	5,443	4,762
2.01.08.02	Sales to deliver	0	4,828	0
2.01.08.03	Losses in operations with derivatives	0	0	3,515
2.01.08.04	Other Liabilities	2,358	450	459
2.02	Non-Current Liabilities	25,475	12,615	10,357
2.02.01	Long-term Liabilities	25,475	12,615	10,357
2.02.01.01	Loans and Financings	18,578	7,510	3,565
2.02.01.02	Debentures	0	0	0
2.02.01.03	Provisions	6,897	5,105	6,792
2.02.01.03.01	Provision for contingencies	112	1,290	2,021
2.02.01.03.02	Deferred income tax and social contribution	4,755	3,815	4,771

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01047-2	SARAIVA SA LIVREIROS EDITORES	60.500.139/0001-26		
2.02.01.03.03	Taxes and contributions to collect	2,030	0	0
2.02.01.04	Debts with Related Persons	0	0	0
2.02.01.05	Advance for Future Capital Increase	0	0	0
2.02.01.06	Others	0	0	0
2.02.02	Incomes of Future Years	0	0	0
2.04	Shareholder's Equity	231,436	132,955	103,887
2.04.01	Paid-in Capital	147,774	46,405	41,977
2.04.02	Capital Reserves	0	13,947	13,947
2.04.03	Revaluation Reserves	0	0	0
2.04.03.01	Own Assets	0	0	0
2.04.03.02	Subsidiaries/ Associated/ Affiliated	0	0	0
2.04.04	Profit Reserves	82,425	71,366	46,726
2.04.04.01	Legal	12,215	9,892	7,890
2.04.04.02	Statutory	0	0	0
2.04.04.03	For Contingencies	0	0	0
2.04.04.04	From unrealized Profits	0	0	0
2.04.04.05	Profits Retention	0	0	0
2.04.04.06	Special for Non-Distributed Dividends	0	0	0
2.04.04.07	Other Profits Reserves	70,210	61,474	38,836
2.04.05	Accrued Profits/ Losses	1,237	1,237	1,237
2.04.06	Advance for Future Capital Increase	0	0	0

**03.01 – INCOME STATEMENT (Thousand Reais)**

1- CODE	2- DESCRIPTION	3 – 01/01/2006 to 12/31/2006	4 – 01/01/2005 to 12/31/2005	5 – 01/01/2004 to 12/31/2004
3.01	Gross Revenue from Sales and/or Services	247,770	233,516	235,482
3.02	Deductions from Gross Revenue	(263)	(186)	(12,713)
3.03	Net Revenue from Sales and/or Services	247,507	233,330	222,769
3.04	Cost of Goods and/or Services Sold	(79,819)	(71,736)	(75,535)
3.05	Gross Income	167,688	161,594	147,234
3.06	Operating Expenses/Revenues	(122,333)	(114,766)	(129,599)
3.06.01	With Sales	(69,976)	(62,286)	(60,309)
3.06.02	Overhead and Administrative	(43,030)	(39,009)	(41,065)
3.06.02.01	Managers' Remuneration	(3,600)	(3,383)	(3,632)
3.06.02.02	Others	(39,430)	(35,626)	(37,433)
3.06.03	Financial	(11,710)	(13,597)	(16,818)
3.06.03.01	Financial Revenues	12,065	2,034	995
3.06.03.02	Financial Expenses	(23,775)	(15,631)	(17,813)
3.06.04	Other Operating Revenues	968	1,924	985
3.06.05	Other Operating Expenses	(5,915)	(7,864)	(9,537)
3.06.05.01	Depreciations and amortizations	(5,084)	(5,991)	(7,920)
3.06.05.02	Others	(831)	(1,873)	(1,617)
3.06.06	Income of Equity accounting	7,330	6,066	(2,855)

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3.07	Operating Income	45,355	46,828	17,635
3.08	Non-Operating Income	5,530	25	259
3.08.01	Revenues	5,530	25	259
3.08.02	Expenses	0	0	0
3.09	Income Before Taxation/Participations	50,885	46,853	17,894
3.10	Provision for Income and Social Contribution Taxes	(14,619)	(14,294)	(2,827)
3.11	Deferred Income Tax	(185)	720	(4,189)
3.12	Statutory Participations/Contributions	(3,600)	(3,383)	(2,023)
3.12.01	Participations	(3,600)	(3,383)	(2,023)
3.12.02	Contributions	0	0	0
3.13	Reversal of Interest on Own Capital	13,988	10,129	9,351
3.15	Profit/(Loss) of the Period	46,469	40,025	18,206
	NUMBER OF SHARES, EX-TREASURY (Thousand)	28,230	22,937	22,937
	PROFIT PER SHARE (Reais)	1.64609	1.74500	0.79374
	LOSS PER SHARE (Reais)			

04.01 – CASH FLOW STATEMENT (Thousand Reais)

1- CODE	2- DESCRIPTION	3 – 01/01/2006 to 12/31/2006	4 – 01/01/2005 to 12/31/2005	5 – 01/01/2004 to 12/31/2004
4.01	Origins	128,197	49,906	42,331
4.01.01	From Operations	49,771	39,819	35,157
4.01.01.01	Profit/ Loss of the Period	46,469	40,025	18,206
4.01.01.02	Amounts that do not represent mov. of Current Capital	3,302	(206)	16,951
4.01.01.02.01	Depreciations and amortizations	5,592	7,013	9,352
4.01.01.02.02	Residual cost of the property, plant and equipments	2,924	165	251
4.01.01.02.03	Deferred Assets Write-off	43	0	650
4.01.01.02.04	Deferred Income tax and social contribution	838	(1,112)	4,490
4.01.01.02.05	Equity accounting net dividends	(5,758)	(6,066)	2,855
4.01.01.02.06	Financial charges monetary and exchange value RLP and ELP	(457)	(206)	(647)
4.01.01.02.07	Provision for losses on investments	120	0	0
4.01.02	From Shareholders	66,000	0	2,525
4.01.02.01	Increase of capital public subscription	66,000	0	0
4.01.02.02	Incorp. net stock subsidiary	0	0	2,525
4.01.03	From Third Parties	12,426	10,087	4,649
4.01.03.01	Financings obtained	11,388	7,500	0
4.01.03.02	Prescribed dividends – jcp not objected	0	91	0
4.01.03.03	Increase of long-term liabilities	1,038	332	73
4.01.03.04	Decrease of the long term assets	0	2,164	4,576
4.02	Investments	27,429	18,681	24,444
4.02.01	Acquisition of property, plant and equipment assets	1,502	3,056	5,188
4.02.02	Loan to subsidiary	4,341	0	0

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4.02.03	Transf. from ELP for current liabilities	1,038	3,221	7,740
4.02.04	Dividends and jcp	13,988	11,048	9,351
4.02.05	Increase of long-term assets	6,560	1,356	2,165
4.02.06	Decrease of the long term liabilities	0	0	0
4.03	Increase/ Decrease in the Current Capital	100,768	31,225	17,887
4.04	Variation of the Current Assets	106,097	(12,855)	45,306
4.04.01	Current Assets in the Beginning of the Period	138,540	151,395	106,089
4.04.02	Current Assets in the End of the Period	244,637	138,540	151,395
4.05	Variation of the Current Liabilities	5,329	(44,080)	27,419
4.05.01	Current Liabilities in the Beginning of the Period	71,754	115,834	88,415
4.05.02	Current Liabilities in the End of the Period	77,083	71,754	115,834

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05.01 – STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY FROM 01/01/2006 TO 12/31/2006 (Thousand Reais)

1- CODE	2- DESCRIPTION	3- SHARE CAPITAL	4- CAPITAL RESERVES	5- REVALUATION RESERVES	6- PROFIT RESERVES	7- PROFIT/LOSS ACCUMULATED	8- TOTAL SHAREHOLDERS' EQUITY
5.01	Initial Balance	46,405	13,947	0	71,366	1,237	132,955
5.02	Adjustments to Previous Fiscal Years	0	0	0	0	0	0
5.03	Increase/Reduction of Share Capital	101,369	(13,947)	0	(21,422)	0	66,000
5.03.01	Bonus for reserve capitalization	35,369	(13,947)	0	(21,422)	0	0
5.03.02	Public subscription	66,000	0	0	0	0	66,000
5.04	Realization of Reserves	0	0	0	0	0	0
5.05	Treasury Shares	0	0	0	0	0	0
5.06	Profit/Loss in the Period	0	0	0	0	46,469	46,469
5.07	Allocations	0	0	0	32,481	(46,469)	(13,988)
5.07.01	Legal reserve	0	0	0	2,323	(2,323)	0
5.07.02	Transfer for profits reserves	0	0	0	30,158	(30,158)	0
5.07.03	Interests on own capital	0	0	0	0	(13,988)	(13,988)
5.08	Others	0	0	0	0	0	0
5.09	Final Balance	147,774	0	0	82,425	1,237	231,436

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05.02 – STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY FROM 01/01/2005 TO 12/31/2005 (Thousand Reais)

1- CODE	2- DESCRIPTION	3- SHARE CAPITAL	4- CAPITAL RESERVES	5- REVALUATION RESERVES	6- PROFIT RESERVES	7- PROFIT/LOSS ACCUMULATED	8- TOTAL SHAREHOLDERS' EQUITY
5.01	Initial Balance	41,977	13,947	0	46,726	1,237	103,887
5.02	Adjustments to Previous Fiscal Years	0	0	0	0	91	91
5.02.01	Prescribed dividends – jcp not objected	0	0	0	0	91	91
5.03	Increase/Reduction of Share Capital	4,428	0	0	(4,428)	0	0
5.04	Realization of Reserves	0	0	0	0	0	0
5.05	Treasury Shares	0	0	0	0	0	0
5.06	Profit/Loss in the Fiscal Year	0	0	0	0	40,025	40,025
5.07	Allocations	0	0	0	29,068	(40,116)	(11,048)
5.07.01	Legal reserve	0	0	0	2,001	(2,001)	0
5.07.02	Transfer for profit's reserves	0	0	0	27,067	(27,067)	0
5.07.03	Interests on own capital	0	0	0	0	(10,129)	(10,129)
5.07.04	Dividends proposed	0	0	0	0	(919)	(919)
5.08	Others	0	0	0	0	0	0
5.09	Final Balance	46,405	13,947	0	71,366	1,237	132,955

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05.03 – STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY FROM 01/01/2004 TO 12/31/2004 (Thousand Reais)

1- CODE	2- DESCRIPTION	3- SHARE CAPITAL	4- CAPITAL RESERVES	5- REVALUATION RESERVES	6- PROFIT RESERVES	7- PROFIT/LOSS ACCUMULATED	8- TOTAL SHAREHOLDERS' EQUITY
5.01	Initial Balance	39,721	13,947	0	40,127	1,237	95,032
5.02	Adjustments to Previous Fiscal Years	0	0	0	0	0	0
5.03	Increase/Reduction of Share Capital	2,256	0	0	(2,256)	0	0
5.04	Realization of Reserves	0	0	0	0	0	0
5.05	Treasury Shares	0	0	0	0	0	0
5.06	Profit/Loss in the Fiscal Year	0	0	0	0	18,206	18,206
5.07	Allocations	0	0	0	8,855	(18,206)	(9,351)
5.07.01	Legal reserve	0	0	0	910	(910)	0
5.07.02	Transfer for profit's reserves	0	0	0	7,945	(7,945)	0
5.07.03	Interests on own capital proposed	0	0	0	0	(9,351)	(9,351)
5.08	Others	0	0	0	0	0	0
5.09	Final Balance	41,977	13,947	0	46,726	1,237	103,887

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06.01 – CONSOLIDATED BALANCE SHEET ASSETS (Thousand Reais)

1- CODE	2- DESCRIPTION	3 – 12/31/2006	4 – 12/31/2005	5 – 12/31/2004
1	Total Assets	415,920	280,161	271,233
1.01	Current Assets	363,940	226,479	209,768
1.01.01	Cash Equivalents	109,004	20,194	45,016
1.01.02	Credits	135,284	102,965	63,042
1.01.02.01	Clients	123,379	90,044	55,895
1.01.02.02	Miscellaneous Credits	11,905	12,921	7,147
1.01.02.02.01	Taxes to recover	5,715	7,553	5,387
1.01.02.02.02	Deferred income tax and social contribution	4,280	4,853	1,409
1.01.02.02.03	Others	1,910	515	351
1.01.03	Inventories	115,515	102,817	98,934
1.01.04	Others	4,137	503	2,776
1.01.04.01	Expenses prom. advertising to appropriate	2,922	316	2,595
1.01.04.02	Anticipated expenses	1,215	187	181
1.02	Non-Current Assets	51,980	53,682	61,465
1.02.01	Long-Term Assets	13,630	7,498	10,873
1.02.01.01	Miscellaneous Credits	0	0	0
1.02.01.02	Credits With Related Persons	0	0	0
1.02.01.02.01	With Associated/ Affiliated	0	0	0
1.02.01.02.02	With Subsidiaries	0	0	0
1.02.01.02.03	With Other Related Persons	0	0	0
1.02.01.03	Others	13,630	7,498	10,873
1.02.01.03.01	Deferred income tax and social contribution	5,761	6,683	8,553
1.02.01.03.02	Legal Deposits	2,042	815	78
1.02.01.03.03	Accounts receivables of property, plant and equipments sale	5,725	0	0
1.02.01.03.04	Taxes to recover	0	0	2,165
1.02.01.03.05	Others	102	0	77
1.02.02	Permanent Assets	38,350	46,184	50,592
1.02.02.01	Investments	543	543	543
1.02.02.01.01	Interests in Associated/ Affiliated	0	0	0
1.02.02.01.02	Interests in Associated/ Affiliated– Premium	0	0	0
1.02.02.01.03	Interests in Subsidiaries	0	0	0
1.02.02.01.04	Interests in Subsidiaries – Premium	0	0	0
1.02.02.01.05	Other Investments	543	543	543
1.02.02.02	Property, plant and equipment	31,202	36,469	37,946
1.02.02.03	Intangible	4,994	6,883	8,968
1.02.02.04	Deferred	1,611	2,289	3,135

01.01 – IDENTIFICATION

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06.02 – CONSOLIDATED BALANCE SHEET LIABILITIES (Thousand Reais)

1- CODE	2- DESCRIPTION	3 – 12/31/2006	4 – 12/31/2005	5 – 12/31/2004
2	Total Liabilities	415,920	280,161	271,233
2.01	Current Liabilities	148,146	125,501	144,166
2.01.01	Loans and Financings	2,097	5,585	46,332
2.01.02	Debentures	0	0	0
2.01.03	Suppliers	97,933	70,022	66,800
2.01.04	Taxes, Fees and Tax Contributions	16,954	20,207	8,094
2.01.04.01	Provision for Income tax and Social contribution	5,286	9,939	0
2.01.04.02	Other taxes and social contributions	11,668	10,268	8,094
2.01.05	Dividends Payable	13,988	11,048	9,351
2.01.05.01	Interests on own capital	13,988	10,129	9,351
2.01.05.02	Dividends	0	919	0
2.01.06	Provisions	4,336	4,057	2,023
2.01.07	Debts with Related Persons	0	0	0
2.01.08	Others	12,838	14,582	11,566
2.01.08.01	Copyrights payable	4,617	5,443	4,762
2.01.08.02	Sale to deliver	0	4,828	0
2.01.08.03	Losses in operations with derivatives	0	0	3,515
2.01.08.04	Rents Payable	2,428	2,119	1,959
2.01.08.05	Other Liabilities	5,793	2,192	1,330
2.02	Non-Current Liabilities	36,287	21,659	23,139
2.02.01	Long-term Liabilities	36,287	21,659	23,139
2.02.01.01	Loans and Financings	22,759	8,591	6,838
2.02.01.02	Debentures	0	0	0
2.02.01.03	Provisions	13,528	13,068	16,301
2.02.01.03.01	Deferred income tax and social contribution	4,755	3,815	4,771
2.02.01.03.02	Provision for contingencies	1,729	2,840	11,411
2.02.01.03.03	Taxes and contributions to collect	7,044	6,413	0
2.02.01.03.04	Others	0	0	119
2.02.01.04	Debts with Related Persons	0	0	0
2.02.01.05	Advance for Future Capital Increase	0	0	0
2.02.01.06	Others	0	0	0
2.02.02	Incomes of Future Years	0	0	0
2.03	Interest of Non-Controlling Shareholders	51	46	41
2.04	Shareholder's Equity	231,436	132,955	103,887
2.04.01	Paid-in Capital	147,774	46,405	41,977
2.04.02	Capital Reserves	0	13,947	13,947
2.04.03	Revaluation Reserves	0	0	0
2.04.03.01	Own Assets	0	0	0
2.04.03.02	Subsidiaries/ Associated/ Affiliated	0	0	0

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2.04.04	Profits' Reserves	82,425	71,366	46,726
2.04.04.01	Legal	12,215	9,892	7,890
2.04.04.02	Statutory	0	0	0
2.04.04.03	For Contingencies	0	0	0
2.04.04.04	From unrealized Profits	0	0	0
2.04.04.05	Profits Retention	0	0	0
2.04.04.06	Special for Non-Distributed Dividends	0	0	0
2.04.04.07	Other Profits Reserves	70,210	61,474	38,836
2.04.05	Accrued Profits/ Losses	1,237	1,237	1,237
2.04.06	Advance for Future Capital Increase	0	0	0

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07.01 – CONSOLIDATED INCOME STATEMENT (Thousand Reais)

1- CODE	2- DESCRIPTION	3 – 01/01/2006 to 12/31/2006	4 – 01/01/2005 to 12/31/2005	5 – 01/01/2004 to 12/31/2004
3.01	Gross Revenue from Sales and/or Services	587,290	505,623	489,138
3.02	Deductions from Gross Revenue	(36,349)	(28,377)	(51,450)
3.03	Net Revenue from Sales and/or Services	550,941	477,246	437,688
3.04	Cost of Goods and/or Services Sold	(267,963)	(216,839)	(208,055)
3.05	Gross Income	282,978	260,407	229,633
3.06	Operating Expenses/Revenues	(233,207)	(209,406)	(213,238)
3.06.01	With Sales	(148,445)	(130,705)	(125,500)
3.06.02	Overhead and Administrative	(59,637)	(52,946)	(53,792)
3.06.03	Financial	(14,001)	(14,476)	(19,954)
3.06.03.01	Financial Revenues	12,192	3,579	1,176
3.06.03.02	Financial Expenses	(26,193)	(18,055)	(21,130)
3.06.04	Other Operating Revenues	1,356	3,082	2,176
3.06.05	Other Operating Expenses	(12,480)	(14,361)	(16,168)
3.06.05.01	Depreciations and amortizations	(10,034)	(10,856)	(14,028)
3.06.05.02	Others	(2,446)	(3,505)	(2,140)
3.06.06	Income of Equity accounting	0	0	0
3.07	Operating Income	49,771	51,001	16,395
3.08	Non-Operating Income	5,501	(170)	154
3.08.01	Revenues	5,501	0	154
3.08.02	Expenses	0	(170)	0
3.09	Income Before Taxation/Participations	55,272	50,831	16,549
3.10	Provision for Income and Social Contribution Taxes	(16,031)	(19,221)	(2,827)
3.11	Deferred Income Tax	(2,418)	2,348	(2,846)
3.12	Statutory Participations/Contributions	(4,336)	(4,057)	(2,023)
3.12.01	Participations	(4,336)	(4,057)	(2,023)
3.12.02	Contributions	0	0	0
3.13	Reversal of Interests on Own Capital	13,988	10,129	9,351
3.14	Interests of Non-Controlling Shareholders	(6)	(5)	2
3.15	Profit/Loss of the Period	46,469	40,025	18,206
	NUMBER OS SHARES, EX-TREASURY (Thousand)	28,230	22,937	22,937
	PROFIT PER SHARE (Reais)	1.64609	1.74500	0.79374
	LOSS PER SHARE (Reais)			

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08.01 – CONSOLIDATED CASH FLOW STATEMENT (Thousand Reais)

1- CODE	2- DESCRIPTION	3 – 01/01/2006 to 12/31/2006	4 – 01/01/2005 to 12/31/2005	5 – 01/01/2004 to 12/31/2004
4.01	Origins	146,611	64,528	40,545
4.01.01	From Operations	63,758	54,334	39,555
4.01.01.01	Profit/ Loss of the Period	46,469	40,025	18,206
4.01.01.02	Amounts that do not represent mov. of Current Capital	17,289	14,309	21,349
4.01.01.02.01	Depreciations and amortizations	10,764	12,175	16,271
4.01.01.02.02	Residual cost of the property, plant and equipments	3,655	603	367
4.01.01.02.03	Deferred Assets Write-off	43	0	650
4.01.01.02.04	Deferred Income tax and social contribution	1,862	914	3,865
4.01.01.02.05	Financial charges monetary and exchange value RLP and ELP	792	612	198
4.01.01.02.06	Provision for losses on investments	168	0	0
4.01.01.02.07	Minority interest in subsidiary	5	5	(2)
4.01.02	From Shareholders	66,000	0	0
4.01.02.01	Increase of capital for public subscription	66,000	0	0
4.01.03	From Third Parties	16,853	10,194	990
4.01.03.01	Financings obtained	15,815	7,500	382
4.01.03.02	Prescribed dividends – jcp not objected	0	91	0
4.01.03.03	Increase of long-term liabilities	1,038	439	177
4.01.03.04	Decrease of the long term assets	0	2,164	431
4.02	Investments	31,795	29,152	28,291
4.02.01	Acquisition of property, plant and equipment assets	6,628	8,370	5,421
4.02.02	Transf. from ELP for current liabilities	4,262	7,780	11,248
4.02.03	Dividends and interests on own capital	13,988	11,048	9,351
4.02.04	Increase of long-term assets	6,701	1,954	2,271
4.02.05	Decrease of the long term liabilities	216	0	0
4.03	Increase/ Decrease in the Current Capital	114,816	35,376	12,254
4.04	Variation of the Current Assets	137,461	16,711	28,521
4.04.01	Current Assets in the Beginning of the Period	226,479	209,768	181,247
4.04.02	Current Assets in the End of the Period	363,940	226,479	209,768
4.05	Variation of the Current Liabilities	22,645	(18,665)	16,267
4.05.01	Current Liabilities in the Beginning of the Period	125,501	144,166	127,899
4.05.02	Current Liabilities in the End of the Period	148,146	125,501	144,166

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SARAIVA S.A. LIVREIROS EDITORES

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**09.01 – Independent Auditors Opinion – Without Qualification**

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

1. We examined the individual and consolidated balance sheets of Saraiva S.A. Livreiros Editores and the subsidiary, raised on December 31, 2006 and 2005, and the respective income, changes of the shareholders' equity (parent company) and the cash flows statements corresponding to the fiscal years ended on that dates, prepared under the responsibility of its Management. Our responsibility is to express an opinion regarding these accounting statements.
2. Our examinations were carried out according to the Brazilian rules of Audit and comprised: (a) the works planning, considering the balances relevance, the transactions volume and the accounting systems and internal controls of the Company and subsidiary; (b) verification, based on tests, of the evidences and the records that support the amounts and the accounting information disclosed; and (c) the assessment of the accounting practices and estimations more representative adopted by the Managements of the Company and subsidiary, as well as, the presentations of the accounting statements taken as a whole.
3. In our opinion, the accounting statements referred to on paragraph 1 properly represent, in all relevant aspects, the equity and financial, individual and consolidated position, of Saraiva S.A. Livreiros Editores and subsidiary on December 31, 2006 and 2005, the result of its operations, the changes on its shareholders' equity (subsidiary) and the cash flows corresponding to the fiscal years ended on that dates, according to the accounting practices adopted in Brazil.
4. Our examinations were performed with the purpose of issuing an opinion on the basic accounting statements referred to on paragraph 1, taken as a whole. The statements of the cash flows are being presented in the explanatory note No. 22 in order to render supplementary information regarding the Company, they are not required as integrating part of the basic accounting statements, according to the accounting practices adopted in Brazil. The cash flows statements were submitted to the same audit procedures described on paragraph 2 and, in our opinion, these supplementary statements are properly presented, in all its relevant aspects, related to the basic accounting statements regarding the fiscal years ended on December 31, 2006 and 2005, taken as a whole.

São Paulo, March 9, 2007.

DELOITTE TOUCHE TOHMATSY  
Independent Auditors  
CRC (Regional Board of Accountants) No. 2  
SP 011609/O-8

Maurício Pires de Andrade Resende  
Accountant

CRC No. 1 MG 049699/O-2 "T" SP

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## 10.01 - MANAGEMENT'S REPORT

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Dear Shareholders,

The Management of Saraiva S/A Livreiros Editores submits to your appreciation the Management's Report and the corresponding Accounting Statements, with the Opinion of the Independent Auditors, regarding the fiscal year ended on December 31, 2006.

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

The operating and financial information of the Company are consolidated and presented in Brazilian Reais, according to the Corporate Law. All the comparisons were performed regarding the year of 2005, except when otherwise specified.

## MANAGEMENT'S MESSAGE

In the year of 2006, we registered important advancements in the consolidation process of our main operations and strength of the competitive strategy.

The consolidated net profit added up R\$ 46.5 million, which meant an accomplishment for the third successive year, growing 16.1% if compared to 2005. The gross consolidated revenue reached R\$ 587.3 million, 16.2% higher than the previous year, supported by Livraria Saraiva's performance, with 25.2% growth. The adjusted Ebitda (profit before interests, taxes, depreciations, amortizations, adjusted for extraordinary expenses and provision - do not represent cash exit - for bonus redemption of "Saraiva Plus") accumulated R\$ 77.8 million, which represented an increase of 0.4% if compared to the obtained on 2005.

In the capital structure management, we developed our partnership with the Brazilian Bank for Economic and Social Development (BNDES) on obtaining, through Livraria, long-term financing in the amount of R\$ 22.1 million (whose first release, of R\$ 4.4 million, occurred on December 2006), destined to the expansion and restructuring project of stores for the 2005/2008 period. This event, along with the contract in force signed with Editora in the end of 2005, contributes for the reduction of our weighed average cost of capital and collaborates with the capacity of investment in projects with expectation of attractive refund.

We maintained the focus in the expenditures control and in the development of the operating efficiency with the extension of the cash management program, through which actions that generate savings of expenses and costs are developed. The actions adopted in 2006 provided the current consolidated savings estimated in R\$ 2.4 million. This result, added up to the one obtained two years before, is allowing continuous profits regarding the operating expenses on net revenues. The index, that reached 46.2% in 2003, was reduced to 39.6% in 2006.

We closed the fiscal year of 2006 well ranked for the acceleration of the sustained growth. The Company has approved the Differentiated Practices of Corporate Governance Level 2 of Bovespa, strengthening its ranking as a Company deeply committed with the transparency and quality of information rendered to the market, besides being holder of modern mechanisms of protection to the minority shareholders rights. We successfully performed an operation of capital increase, which reinforced the cash for the execution of new investments. Along with this, we developed another initiatives with the capital market that promoted strong growth of liquidity of the Company's shares, evidenced by the inclusion of Saraiva in the Brazil Index (IBrX-100), composed by 100 shares selected between the ones most traded at Bovespa.

In the national educational scenery, the year of 2006 proved itself as especially important. There was the approval of the Fund of Maintenance and Development of Basic Education and

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## 10.01 – MANAGEMENT'S REPORT

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Valorization of the Education Professionals (Fundeb), which foresees the gradual increase of governmental funds destined to education. With estimations of operating R\$ 56 billions since the fourth year of implementation, Fundeb will benefit 48 million of students, from the nursery up to high school.

Another important event was the disclosure of Resolution No. 1, from 01/15/2007, by the National Fund for Education Development (FNDE), defining the schedule of progressive support of the complete syllabuses of high schools for all schools of the public network (around 8 million students). The National Program of Didactic Book for High School (PNLEM) started as a pilot-project in 2004 and began to support, even partially, a segment that was not reached by the governmental programs of didactic books acquisition. The disclosure of the Resolution is significant, because it pointed out to the federal government commitment\* in order to make the program recurring and integrally supportive to all grades of high school. This fact is important for **Editora Saraiva**, which counts on the expressive participation in this market and occupied the leadership in the contracts for the school year of 2007, such as for sales to the Federal Government in the PNLEM scope (around 27% of the total of acquired books), as in the program *Livro na Escola* (Book at School) from State Department of Education of Minas Gerais (around 24%).

\* The acquisition of books accomplishment as foreseen in the Resolution depends on the appropriation.

The year of 2006 also represents significant growth in **Livraria Saraiva's** activities. We consolidated the recovery process that began on 2005 and we structured the operations in order to gain scale and accelerate the value generation.

We invested in the improvement of logistics and services in the electronic retail division, which presented a large growth of 52.5% on sales. We negotiated the contraction of five new units to be launched in the first semester of 2007. We successfully enlarged the categories mix of sold products. We intensified the investments in marketing and exceeded the mark of 1.1 million clients affiliated to our fidelization program "Saraiva Plus".

Aligned with our pioneering tradition and seeking to be more and more the best experience and the first memory of each consumer on reaching culture, entertainment and information, we entered into the partnership contract in order to shelter one of the two first stores with the Starbucks brand in Brazil. In the beginning of December, a Starbucks store was launched inside Saraiva Mega Store of Shopping Morumbi in São Paulo. Starbucks is the worldwide leader retail brand of special coffees.

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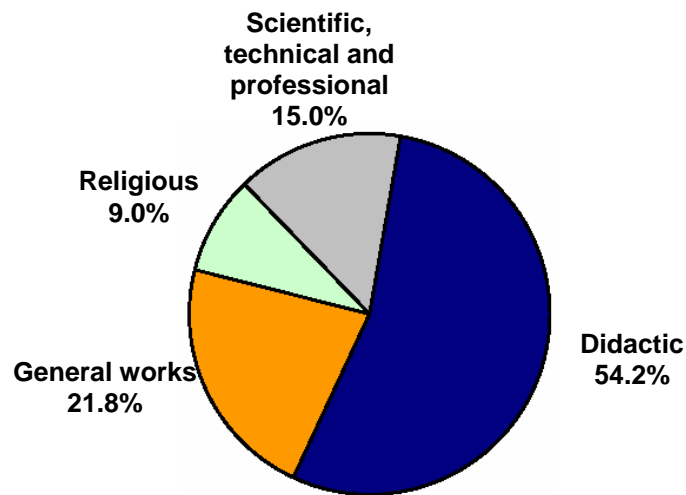
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**10.01 – MANAGEMENT’S REPORT**

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Achievements of the publishing and bookseller market and the positioning of the main participants:

**Publishing Market – 2005**  
**Composition of the Gross Billing – R\$ 1.8 billion**



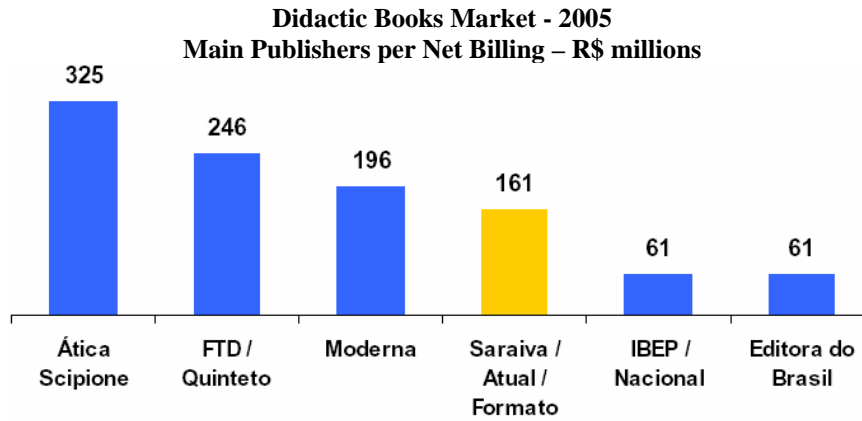
Source: CBL (Brazilian Chamber of Books)

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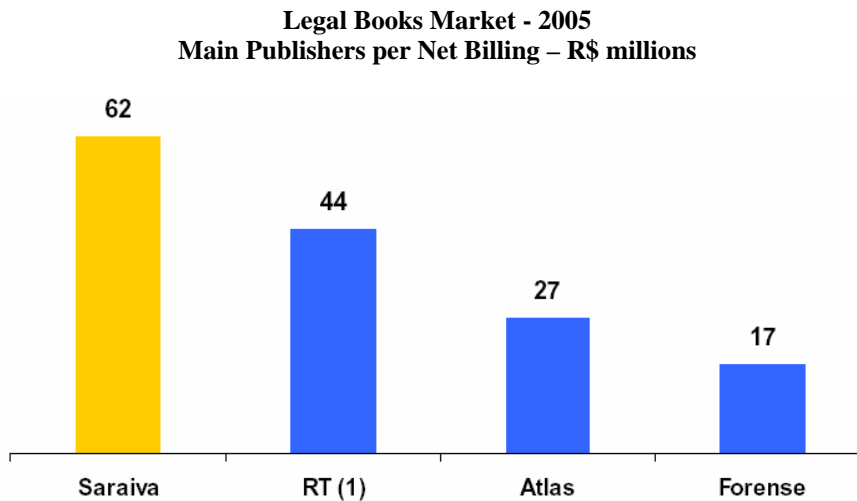
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**10.01 - MANAGEMENT'S REPORT**



Source: Balances published and Serasa



(1) Year of 2004

Source: Balances published, Saraiva and Serasa

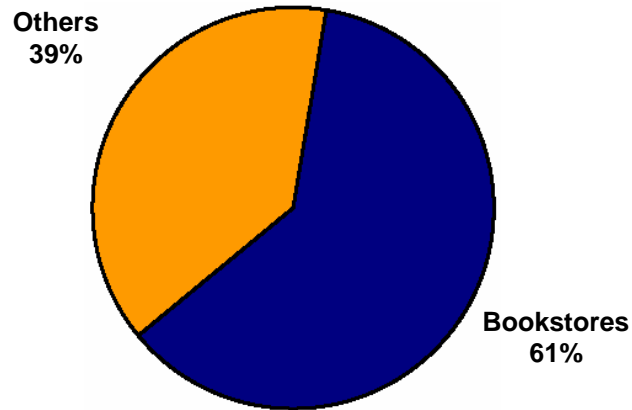
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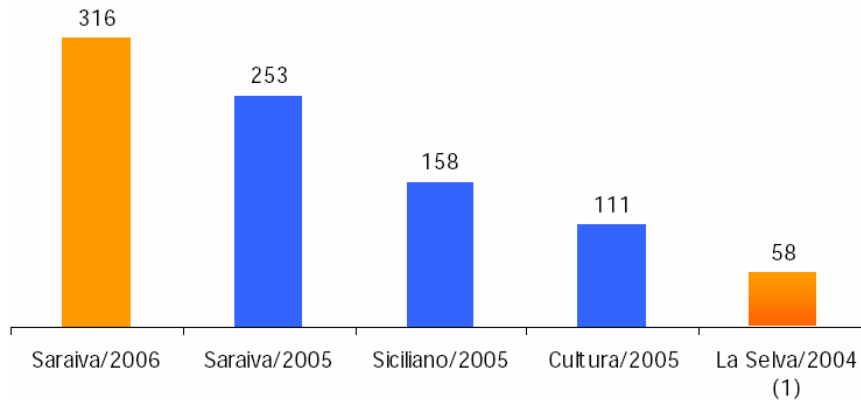
**10.01 - MANAGEMENT'S REPORT**

**Bookseller Market - 2005**  
**Gross Billing per Sales Channel - R\$ 2.6 billion**



Source: CBL (Brazilian Chamber of Books)

**Main Bookstores**  
**Net Billing - R\$ million**



(1) Year of 2005 not available  
Sources: Saraiva and Serasa

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**10.01 – MANAGEMENT’S REPORT**

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

Editora Saraiva is the parent company of Livraria Saraiva, holding 99.91% of the shares – the companies have distinct activities and business names.

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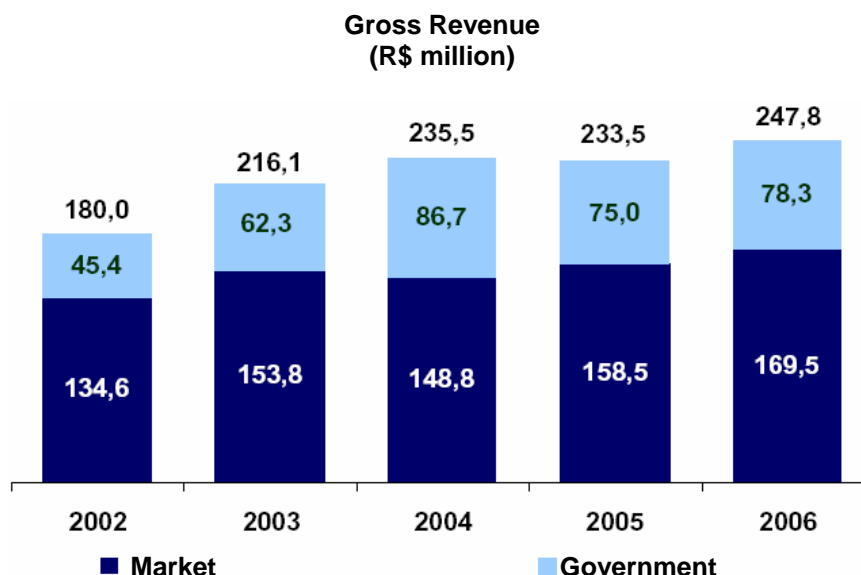
The table below summarizes the main data of the economical-financial performance of Editora:

Description	2006		2005		AH %
	R\$ thousand	AV %	R\$ thousand	AV %	
Gross Revenue	247,770	100.1	233,516	100.1	6.1
Net Revenue	247,507	100.0	233,330	100.0	6.1
Gross Profit	167,688	67.8	161,594	69.3	3.8
Operating Expenses	118,090	47.7	107,286	46.0	10.1
Adjusted EBITDA (1)	57,225	23.1	60,350	25.9	-5.2
Net Financial Expenses	(2,278)	-0.9	3,468	1.5	-165.7
Net Profit before the Equity Equivalence	39,139	15.8	33,959	14.6	15.3
Net Profit	46,469	18.8	40,025	17.2	16.1

(1) Adjusted per extraordinary expenses with the provision for rescissions with the printing house deactivation (1,870) + related expenditures with the public offer (536)

**Gross Profit**

The gross revenue totaled R\$ 247.8 million, with increase of 6.1% related to the previous year. The sales performance to the private market was important for this performance. The following graph shows the evolution of the gross revenue, in the last years, segregating the participation of the obtained revenues on sales to the government of the commercialization performed in the private market.



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## 10.01 – MANAGEMENT'S REPORT

### Sales to the private market

The books' sales to the private market reached R\$ 169.5 million, amount 6.9% superior to the one registered in 2005. The distinction in the period was the performance in the legal books area, which presented increase of 8.4%.

### Sales to the Government

The books' sales to the government totaled R\$ 78.3 million in 2006, which meant an increase of 4.4% in comparison with the previous fiscal year. During the second semester of 2006, the main contracts were negotiated for the school year of 2007. The governmental programs of didactic books acquisition are divided into two large segments: elementary and high school.

The supply to students of the public network of **elementary school** takes place in the National Program of Didactic Book (PNLD), established since 1985 and serves 28.6 million students. The acquisitions are based on triennial cycles, so that in the third year of each cycle only reposition purchases are performed, except for 1<sup>st</sup> grade students, as detailed below.

### Elementary School

Education Range	Students Number (MM)	Subjects	Market Potential Books Number (MM)	% of the Market Potential acquired in each year		
				PNLD2007	PNLD2008	PNLD2009
1 <sup>st</sup> Grade	4.1	Alphabetization, Portuguese, Mathematics, Sciences, History and Geography	24.7	100%	100%	100%
2 <sup>nd</sup> – 4 <sup>th</sup> Grade	11.1	Portuguese, Mathematics, Sciences, History, Geography and Regional Books	60.7	100%	12%*	12%*
5 <sup>th</sup> – 8 <sup>th</sup> Grade	13.4	Portuguese, Mathematics, Sciences, History and Geography	66.9	12%*	100%	12%*

Source: FNDE/ MEC/ INEP (Scholar Census 2006)

\* % Reposition History

Saraivas' sales of didactic books on PNLD/07 represent approximated market share of 8.4%, below the historical average in books from 1<sup>st</sup> to 4<sup>th</sup> grade. In 2007, it is scheduled the books choice for students from 5<sup>th</sup> to 8<sup>th</sup> grade (PNLD/08), segment in which Saraiva's catalogue is having market share superior than the 1<sup>st</sup> to 4<sup>th</sup> grade.

For **high school**, the supply for almost 8 million students of the public network started in 2004, through the pilot-project of the federal government, the National Program of Books for High School (PNLEM/05). In the next two years the government performed books acquisitions for partial supply of the syllabus. After the disclosure of FNDE Resolution, the Government demonstrates commitment on supplying for high school, which counts on the definition of the progressive schedule of books' acquisition until, at least, the year of 2012.

The fiscal year of 2006 was positively influenced by the sales in the PNLEM/07 scope. Saraiva's sales corresponded to a market share of around 27% of the books total acquired by the federal government. Also in the segment directed to high school, a similar performance was obtained in the program *Livro na Escola*, from the State Department of Education of Minas Gerais (history and geography books), in which Saraiva reached share of 24% of the total of acquired books.

The general evolution of the Company's sales to the government, in the last years, is demonstrated below.

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**10.01 – MANAGEMENT’S REPORT**

PROGRAM PER SCHOOL YEAR		SALES APPROPRIATION (FISCAL YEAR)	
ELEMENTARY SCHOOL (+) HIGH SCHOOL	TOTAL SALE (CONTRACTS VALUE)	2006	2005
2005 (1) (2)	83.3		24.7
2006 (1)	65.0	14.8	50.3
2007 (1) (3)	82.6	63.5	
<b>YEAR’S TOTAL</b>		<b>78.3</b>	<b>75.0</b>

(1) Comprises PNLD, PNLEM, *Livro na Escola* Program – SEE/MG, PNBE (Library at School National Program)

(2) R\$ 58.6 million of sales were appropriated in 2004

(3) R\$ 19.1 million of sales is being appropriated in 2007.

**Gross Profit**

Gross profit totaled R\$ 167.7 million and overcame in 38.1% the gross profit of the previous year. The gross margin presented a decrease of 69.3% in 2005, for 67.8% in 2006, influenced by the largest volume of books for disclosure in the PNLD scope. The years in which occur the acquisition of new books (PNLD/07, contracted in 2006) require a quantity of books offer for disclosure superior to the years in which only acquisitions of books for replacement are performed (PNLD/06, contracted in 2005), according to the governmental purchase cycle.

**Operating Income**

The operating expenses accumulated R\$ 118.1 million, which correspond to the increase of 10.1%. Some extraordinary events impacted the operating expenses total:

- Provision for rescissions related to the deactivation of the printing house unit of R\$ 1.9 million (see comment in the Investments section);
- Administrative expenditures in the amount of R\$ 0.5 million, related to the public offer of shares performed in April 2006 (do not include the brokerage expenses).

Besides the factors mentioned above, the Company's Management decided to expressively invest in marketing, comparing to the previous years, in order to strength more and more the relationship with the teachers and to promote positive effects in the results of 2007.

Saraiva keeps developing continuous efforts from the cash management program, aiming at the gain of efficiency and competitiveness. During the year of 2006, this program generated actions with foreseen annual savings of R\$ 0.9 million.

The relation “operating expenses on net revenue” was 46.0% in 2005 and 47.7% in 2006. Excluding the extraordinary expenses, the relation, in 2006, decreases to 46.7%. The following table displays the evolution of this relation in the last four years.

Ratio % Operating Expenses on Net Revenue	2003	2004	2005	2006*
	52.4%	49.1%	46.0%	46.7%

\* the extraordinary events were excluded

**Ebitda**

The adjusted Ebitda totaled R\$ 57.2 million in 2006, and the Ebitda margin on net revenue of 23.1%, in 2006, was inferior to 25.9% in 2005.

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**10.01 – MANAGEMENT’S REPORT**

Reconciliation EBITDA – R\$ thousand	2006	2005	Var.
Operating Income after Net Financial Expense	52,013	50,891	2.2%
(+) Depreciation and Amortization	5,084	5,991	-15.1%
(+) Net Financial Income	-2,278	3,468	-165.7%
(=) EBITDA	54,819	60,350	-9.2%
(+) Extraordinary Expenses (1)	2,406	0	
(=) Adjusted EBITDA	57,225	60,350	-5.2%

(1) Provision for rescissions with the printing house deactivation + expenditures related to the public offer.

**Financial Income/ Capital Structure**

The financial income was developed from a net expense of R\$ 3.5 million to net revenue of R\$ 2.3 million. The funds entry after the capital increase, in the net amount of R\$ 63.6 million, occurred in April 2006, provided an average cash position much superior to the 2005 position, which generated increase in the financial revenues and more that compensated the accounting impact of expenses of R\$ 2.4 million with the financial intermediation of the public offer of shares.

The financial position was developed from a net indebtedness of R\$ 2.1 million, in the end of 2005, to a net cash of R\$ 77.8 million, as a result of the operating cash generation and capital increase.

During 2006, R\$ 11.4 million was released from the financing obtained with BNDES, destined to the implementation of the investments plan for the 2005/2007 period. The total contract foresees R\$ 32.5 million, of which were released R\$ 18.9 million.

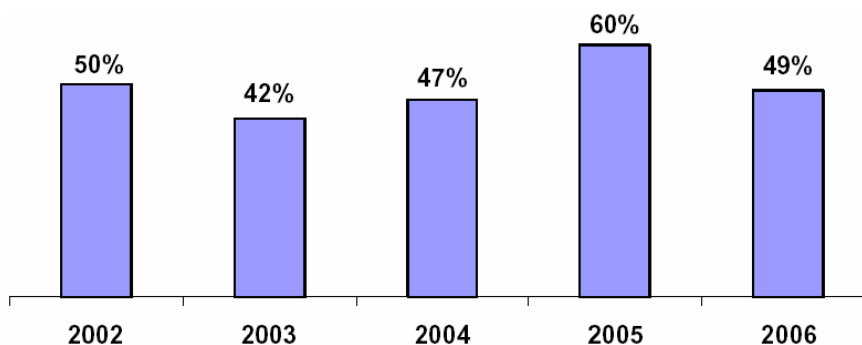
**Non-Operating Income**

The non-operating income in the year of 2006 is supported by extraordinary events in the net amount of R\$ 5.3 million, mainly related to the profit on sale of assets due to the project of deactivation of the printing house unit.

**Net Profit**

The net profit before the equity accounting of Livraria Saraiva’s subsidiary reached R\$ 39.1 million, 15.3% superior to the profit obtained in the previous period. The equity profitability of Editora, in 2006, reached 49.0%, aligned with the average equity profitability of the last 5 years.

**Editora Saraiva – Equity Profitability\***



Equity Profitability = Net Profit before the equity accounting/ Net Equity of the beginning of the year, excluding the investment in Livraria Saraiva.

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## 10.01 – MANAGEMENT’S REPORT

### New Businesses

One of the strategic vectors of the Company’s growth is the establishment of associations and partnerships that have large synergy potential with the current operations. Along 2006, important steps were taken, such as:

- Co-edition and distribution agreement with the publisher Letras & Lucros, specialized in the promising segment of personal finances;
- Partnership for the exclusive distribution of works of Saint Paul, publisher that has known best-sellers in the finances and business area;
- Co-edition and distribution agreement in the legal books area with publisher Rio, belonging to the group of Universidade Estácio de Sá, the largest education private institution of the country.

Besides these partnerships, the commercialization of the product “Jornadas Jurídicas Saraiva” (Saraiva Legal Journeys) was continued in the segment of distance education and the system of customized editions was enlarged, which incorporates quality editorial content and special conditions of customized supply for companies and education institutions.

### Awards

During the year of 2006, four Saraiva’s publications (*Contabilidade - Teoria e Prática Básicas, Ética e Responsabilidade Social nos Negócios, Gestão de Negócios Internacionais and Gestão do Fator Humano*) were rewarded with the *Cultura Econômica* trophy, granted by *Jornal do Comércio* of Porto Alegre and Caixa-RS.

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

Livraria predominantly performs in the retail of books, DVDs, music, stationary, computing articles and electro-electronic products.

The table below presents the main data on financial-economical performance:

Description	2006		2005		AH %
	R\$ thousand	AV %	R\$ thousand	AV %	
Gross Revenue	352,202	111.4	281,306	111.1	25.2
Net Revenue	316,116	100.0	253,115	100.0	24.9
Gross Profit	115,344	36.5	98,838	39.0	16.7
Operating Expenses	100,081	31.7	87,246	34.5	14.7
Adjusted EBITDA	20,560	6.5	17,091	6.8	20.3
Net Financial Expenses	2,290	0.7	879	0.3	160.5
Net Profit	6,662	2.1	6,072	2.4	9.7

### Gross Profit

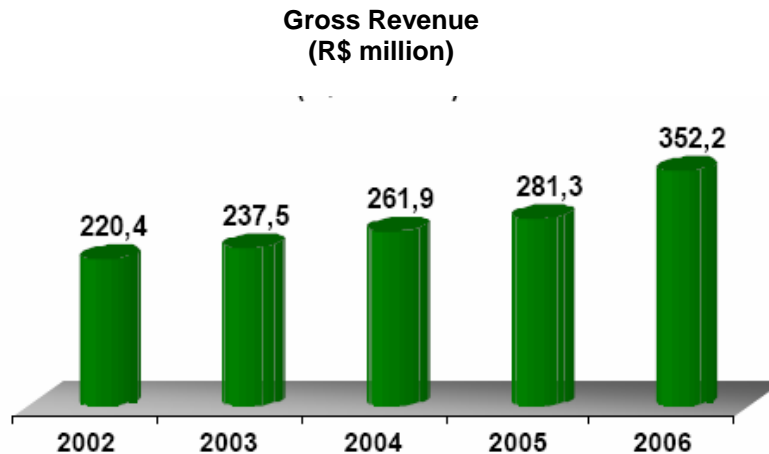
Livraria’s gross revenue totaled R\$ 352.2 million, equivalent to an increase of 25.2% in comparison with 2005.

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The sales growth was supported by the development in the electronic retail division (+52.5%) and in the physical stores (+17.2%). The analysis of comparable sales (physical stores + Saraiva.com) also registered a positive performance; with a growth of 21.1%. The comparable sale only of physical stores indicated an increase of 11.8%.

The nominal growth index of the books, newspapers and stationary sector, disclosed by IBGE in the monthly research of commerce, indicated variation of 5.6% in 2006, inferior to the increase of Saraiva in these segments that reached 13.7% and demonstrates the profit in market share.

The sales growth obtained in 2006 is a direct result of a set of actions adopted since 2005. New products categories were added in the sales mix, standing out the computing, electric electronic and imported books areas, which, added up, represented 12.4% of the sales total of the Company. In addition to this, the marketing investments were remodeled and intensified, being created the successful fidelization program "Saraiva Plus", and the payment terms offered to the clients were also enlarged. Moreover, the investments in staff recruitment and training were reinforced, aiming at the adaptation of the profile of the store attendants to the target public of each unit.

The chart below shows the sales evolution of comparable physical stores, analyzing the growth of the quarterly revenue on the same period of the previous year.

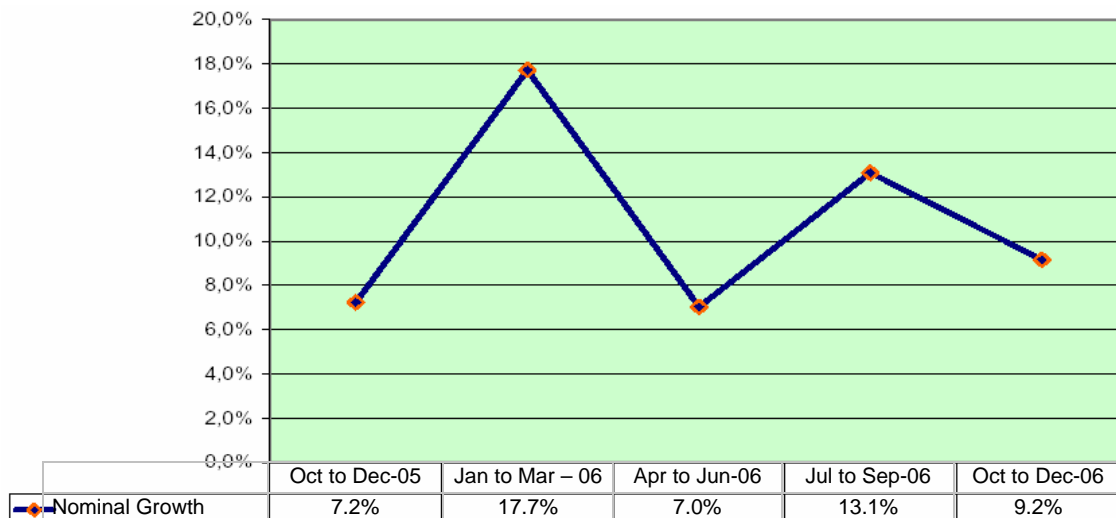
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**10.01 – MANAGEMENT’S REPORT**

**Nominal Growth of comparable stores – per quarter**



**Gross Profit**

Gross profit accumulated R\$ 115.3 million, an amount 16.7% higher than the recorded in the previous year. Gross margin was assigned from 39.0% in 2005 to 36.5%, due to a larger participation of the computing and electro-electronic categories in the sales mix. According to the Management’ plans, the introduction of these segments added important value to the gross profit growth in absolute amounts, even when regards to products that present margins inferior to the books.

With the fast growth observed in the sales volume of these categories, Saraiva already starts having higher representation before its suppliers, which provides opportunities to intensify the partnerships and, possibly, enlarge the trade margins.

**Operating Income**

As a result of the rationalization actions, effected since the programs of cash management developed in the last years and the profits of scale obtained with the expressive increase on sales, the relation “operating expenses on net revenue” presented significant decrease, as per below.

Ratio % Operating Expenses on Net Revenue	2003	2004	2005	2006
	37.9%	37.7%	34.5%	31.7%

The actions adopted in the program of cash management in 2006 resulted in annual savings estimated in R\$ 1.5 million. The Company’s Management understands that the effective control of expenses is essential to achieve competitive capacity in segments of high competition. For this purpose, other actions are under analysis, besides being foreseen for 2007 the implementation of one more program of cash management so that the operating development be continuously improved.

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## 10.01 - MANAGEMENT'S REPORT

### Ebitda

The adjusted Ebitda reached R\$ 20.6 million, which corresponds to an increase of 20.3% compared to the previous year. The adjusted Ebitda margin came from 6.8% to 6.5%.

Reconciliation EBITDA - R\$ thousand	2006	2005	Var.
Operating Income after Net Financial Expense	11,746	10,239	14.7%
(+) Depreciation and Amortization	4,950	4,865	1.7%
(+) Net Financial Expense	2,290	879	160.5%
(=) EBITDA	18,986	15,983	18.8%
(+) Provision for redemption of "Saraiva Plus" bonus (1)	1,574	1,108	42.1%
(=) Adjusted EBITDA	20,560	17,091	20.3%

(1) It refers to the provision related to the future redemption of bonus. It does not represent effective exit of cash.

### Financial Income/ Capital Structure

Net financial expenses increased R\$ 0.9 million in 2005 and R\$ 2.3 million in 2006. The financial position in the end of 2006 was similar to a net cash of R\$ 6.4 million, before the R\$ 8.1 million verified in the 2005 closing.

Within the strategy designed to the sales and average ticket increase, a tool that demonstrated efficiency is the offer of different conditions to the clients, increasing the payment terms. As expected, this action also caused the verified alteration in the financial income and in the net financial position.

With the purpose of optimizing the capital structure in order to fund new investments, Livraria obtained a BNDES financing, in the amount of R\$ 22.1 million, destined to the expansion program (under execution) of the physical stores network within the period 2005/2008 and to the project of restoration and modernization of some important units of the network. The first resources release took place in December 2006 in the amount of R\$ 4.4 million.

### Working Capital

In the last years, the Company has been strongly investing to gain efficiency in the working capital administration. Efforts were undertaken in the logistic improvement, in a better adjustment of the products mix of each store, besides the renegotiation and intensification of partnerships with suppliers. This work had results that made possible the adoption of a more aggressive policy in the term of accounts receivable, integrating a group of actions that are providing expressive interest profits of market share.

The graph below shows the evolution of the relation of working capital invested on gross revenue in the last years. After several years of expressive profits, the 2006 result was impacted by the new policy of medium term of payment granted to the clients, which was amplified in 18 days, when comparing to the previous year. The Company's Management understands that there are opportunities of new profits in the inventories rotation, which can efficiently support even more the strategy of financing the sales to clients.

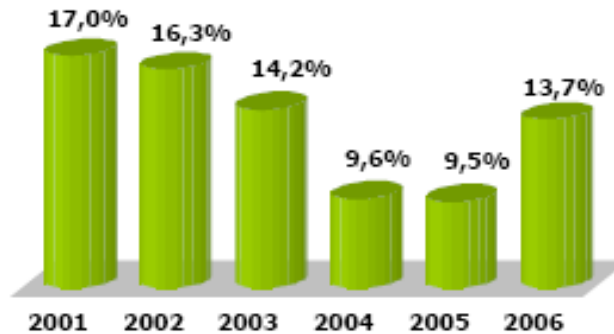
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## 10.01 – MANAGEMENT'S REPORT

### Working Capital (1) / Gross Revenue (2)



(1) Inventory + Clients – Suppliers (monthly average in the last 12 months)

(2) Gross Sales in the last 12 months

### Net Profit

The net profit reached R\$ 6.7 million, which meant an elevation of 9.7% related to the previous year.

### Marketing/ Partnership

The year of 2006 was marked by important events in the marketing area and by the settled partnerships, as per below:

- The fidelization program “Saraiva Plus” was consolidated as an important tool of attraction and retention of clients. The clients associated basis increased 124% and counted, in the end of December 2006, on 1,146 thousand clients associated.
- In line with the pioneer history in its business, it was celebrated a partnership with Starbucks, worldwide leader retail brand of special coffees. It was launched, in December 2006, one of the first two Starbucks stores in Brazil inside Saraiva Mega Store of Shopping Morumbi, in São Paulo.
- Realization of more than two thousand cultural events in the stores network, among books, CDs, DVDs release, pocket shows, chats, small courses, debates and infantile activities, which represented an increase of 110% related to the quantity of events of the previous year and contributed to attract a higher flow of people to the stores.
- Contracting of the publicity agency Taterka that started to respond for the organization of the communication with clients and for the increment of the visual identity of the stores and the website.
- Release of the magazine “Almanaque”. With monthly printing of 70 thousand copies, this publication points out the main Saraiva’s events, besides the most important releases of the editorial, musical and movies business.
- Increase of the partnership with Ticketmaster, a leader company in the sale of tickets for shows and events. Presently, Ticketmaster is performing in five Saraiva’s stores, which reinforces the Company’s view to offer the most modern matters in entertainment, culture and convenience.

### Saraiva.com – Electronic retail division of Livraria Saraiva

The national electronic commerce is still growing at effusive rates (the amount of people buying through Internet has grown 46%) and Saraiva has actively participated in this process. The scale profit obtained in 2006 was expressive.

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**10.01 – MANAGEMENT’S REPORT**

Indicators Saraiva.com	2006	2005	Var.
Gross Revenue (R\$ thousand)	97,349	63,826	52.5%
Operating Expenses (SG&A)	19,307	14,228	35.7%
Adjusted EBITDA (R\$ thousand) <sup>(1)</sup>	10,901	8,787	24.1%
Active clients (thousand) <sup>(2)</sup>	941	851	10.5%
% on Livraria's Gross Revenue	27.6%	22.7%	21.8%
Average Ticket (R\$)	111.93	81.03	38.1%

(1) Adjusted Ebitda: sum in the calculation the provision for future redemption of "Saraiva plus" bonus (R\$ 256 thousand in 2006 and R\$ 252 thousand in 2005) that does not represent cash exit.

(2) Active clients: user that performed at least one purchase per year in the last two years.

The strategy to increase the products category, initiated in the second semester of 2005 and intensified along 2006, has significantly contributed to the sales growth, standing out the areas of computing, electro-electronics and imported books areas. These segments, added up, represented 23.6% of the sales total in the website in 2006, against 7.6% in 2005. Presently, more than 1.5 million available items are registered for sale.

Another important action adopted in 2006 was the strategy of performing with emphasis in the didactic books segment, having benefits from the recognition that Saraiva has for being the most complete Bookstore, especially in the 'back to class' period. The Company's management will develop efforts to intensify this action in 2007.

Associated to the factors mentioned above, the clients' basis increase and the enlargement of marketing actions, including the increment of partnerships with the main search websites, promoted an elevation of 38.1% in the average ticket and contributed for the increase of 52.5% in the gross revenue.

The graph below shows the quarterly evolution of the sales growth when comparing to the same quarter of the previous year.

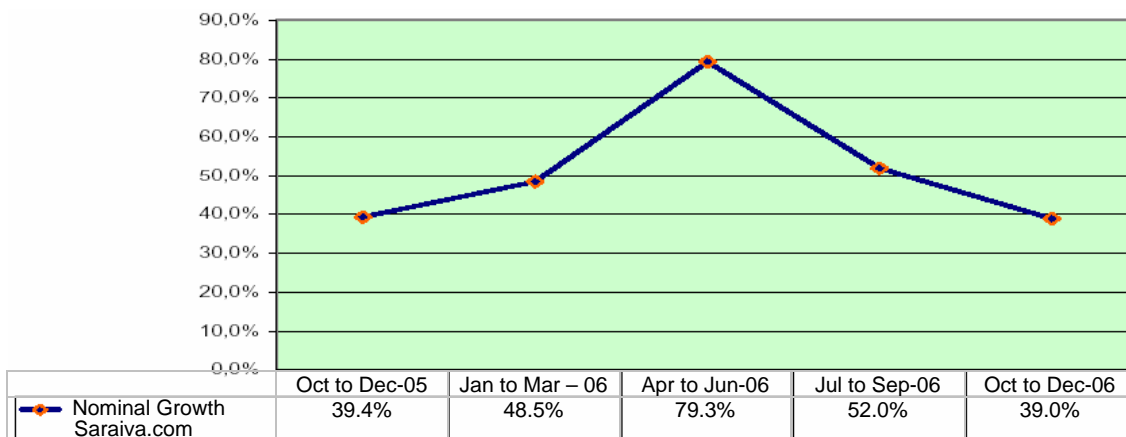
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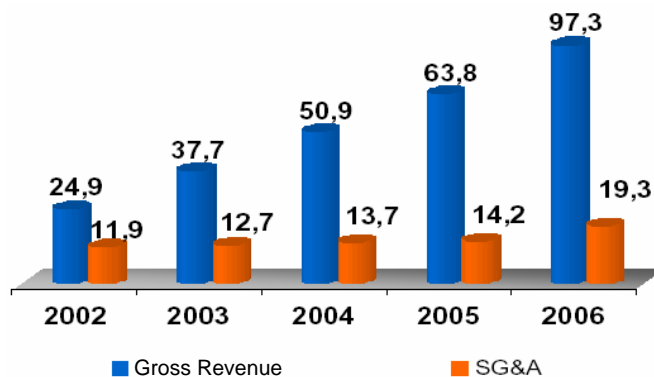
**10.01 – MANAGEMENT’S REPORT**

**Nominal growth of Saraiva.com – per quarter**



The chart below clearly shows the scale profits obtained with the operations increment, in the last years.

**Saraiva.com  
 Gross Revenue x SG&A (\*)  
 (R\$ million)**



(\*) Expenses with Sales, General and Administrative

On August 2006, Saraiva.com received the classification of “Diamond” company (the highest available), in an assessment regarding the quality and excellence of the support, held by the e-bit company, specialized in Internet.

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## 10.01 – MANAGEMENT'S REPORT

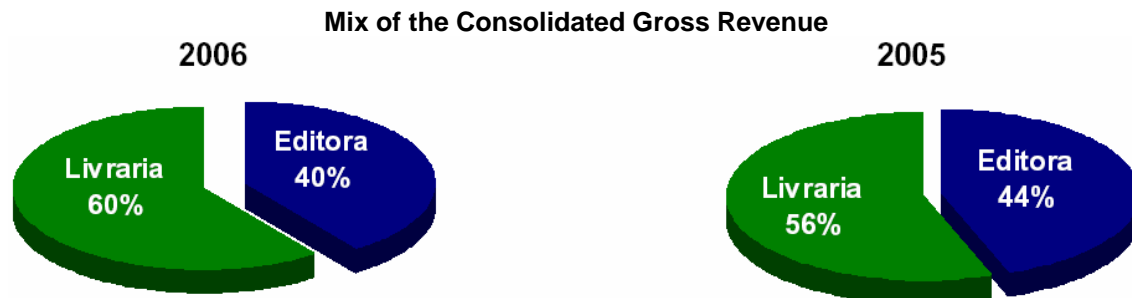
### CONSOLIDATED

The table below presents the main data of the consolidated financial-economical performance.

R\$ Thousand	2006	2005	Var.
Gross Revenue	587,290	505,623	16.2%
Net Revenue	550,941	477,246	15.4%
Gross Profit	282,978	260,407	8.7%
<i>Gross Margin</i>	<i>51.4%</i>	<i>54.6%</i>	
Operating Income (EBIT) (a)	63,772	65,477	-2.6%
<i>Operating Margin</i>	<i>11.6%</i>	<i>13.7%</i>	
Financial Income	(13)	(4,347)	-99.7%
Net Profit	46,469	40,025	16.1%
<i>Net Margin</i>	<i>8.4%</i>	<i>8.4%</i>	
Adjusted EBITDA (b)	77,786	77,441	0.4%
<i>EBITDA Margin</i>	<i>14.1%</i>	<i>16.2%</i>	
Total Assets	425,744	290,506	46.6%
Net Worth	231,436	132,955	74.1%
Net Cash/ (Indebtedness)	84,147	6,096	1286.5%

(a) Profit before interests and taxes

(b) Profit before interests, taxes, depreciations, amortizations, adjusted for extraordinary expenses and provision for bonus redemption of "Saraiva Plus".



#### Gross Revenue

The consolidated gross revenue added up R\$ 587.3 million, with increase of 16.2% in comparison with 2005, and mainly reflects the sales addition by Livraria Saraiva.

#### Gross Profit

The consolidated gross profit reached R\$ 283.0 million and presented an increase of 8.7% on 2005. The consolidated gross margin reflected the major weighed share of Livraria in the consolidated, in addition to smaller margins observed at Editora and Livraria, and passed from 54.6%, in 2005, to 51.4%, in 2006.

#### Operating Income

The operating income before the financial (Ebit) totaled R\$ 63.8 million in 2006, against R\$ 65.6 million, reached in the previous year.

#### Ebitda

The adjusted Ebitda accumulated R\$ 77.8 million, indicating a small rise of 0.4% in comparison with the previous year. With the largest weighed share of Livraria, the adjusted Ebitda margin passed from 16.2% to 14.1%.

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## 10.01 – MANAGEMENT’S REPORT

Reconciliation EBITDA – R\$ thousand	2006	2005	Var.
Operating Income after Net Financial Expense	63,759	61,130	4.3%
(+) Depreciation and Amortization	10,034	10,856	-7.6%
(+) Net Financial Expense	13	4,347	-99.7%
(=) EBITDA	73,806	76,333	-3.3%
(+) Adjustments (1)	3,980	1,108	259.2%
(=) Adjusted EBITDA	77,786	77,441	0.4%

(1) In 2006: Provision for redemption of “Saraiva Plus” bonus + Provision for rescissions with the printing house deactivation + administrative expenditures related to the public offer. In 2005: provision for redemption of bonus “Saraiva Plus”.

### Financial Income

The consolidated net financial expenses registered a significant decrease of approximately R\$ 4.3 million, due to the addition observed in the financial revenues of Editora recurring from the capital increase, which provided and expressive increase in the cash position.

### Net Profit

The consolidated net profit registered an accomplishment for the third consecutive year: totaled R\$ 46.5 million and overcame in 16.1% the registered profit in the year of 2005. The final income took advantage of Livraria’s growth, the improvement of the financial income of Editora and the non-operating profit obtained on the printing house unit deactivation.

## CAPITAL STRUCTURE

The consolidated financial position, reflecting the cash operating generation and the net entry of R\$ 63.6 million, related to the funds derived from the capital increase, was developed from a net cash of R\$ 6.1 million in the end of 2005 for R\$ 84.1 million in the end of 2006.

On June 2006, the last installment of the financing obtained with IFC was paid, which allowed the pay-off of the financial liabilities in foreign currency of the Company.

Aligned with the strategy of adapting the capital structure to face the investments’ projects needed for the continuity of the sustainable growth, the Company settled important partnerships in order to obtain the long-term financings with BNDES, through Editora and Livraria. In consolidated terms, R\$ 15.8 million was released during the year of 2006.

## SUBSEQUENT INVESTMENTS/ EVENTS

During 2006, R\$ 6.6 million was invested in the projects execution with expectation of refund superior to the capital cost of the Company.

At **Editora**, R\$ 1.5 million was invested, mainly in projects of information technology.

As much as in the decision of performing new investments, as in following up the execution of the ones already performed, the Company’s administration performs the evaluations supported in concepts of the management system based on the value, using the GVA® methodology (Management of the Shareholder Value).

Based on the evaluation that the technological update of the own printing house unit would require the performance of large investments, and considering that the national graphic plant is plenty modernized and was strongly enlarged last years, the Company’s management decided,

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## 10.01 - MANAGEMENT'S REPORT

in the end of 2006, to deactivate it (it took place in the end of January/ 07) of the own graphic unit, with the sale of all its equipments.

At **Livraria**, R\$ 5.1 million were invested, highlighting the investments in two of the five stores already contracted to be launched in the first semester of 2007, as per the expansion plan of the stores network:

- store located at Norte Shopping in the city of Rio de Janeiro, with 620m<sup>2</sup> of sales area and launched in January 2007.
- store located in the building of IBMEC school, in the city of Rio de Janeiro, with 200m<sup>2</sup> of total area, launched in the end of February 2007.
- rebuild of Mega Store located at Shopping Morumbi, in São Paulo, adaptation the store's space in order to shelter Starbucks and adjusting the new concept of Mega Store developed by the Management, which explores categories of complementary products to the book;
- closing the unit in the Traditional format, located in the Shopping West Plaza, due to the fact that the future perspectives of the store did not indicate potential of value generation.

With the opening of two more stores in the city of Rio de Janeiro, Saraiva totaled eight units in the *fluminense* capital and consolidates itself on the leadership of this important consuming market. In addition to these stores launched in the beginning of the first semester of 2007, another three units will be opened in the first semester of 2007, in privileged locations in the city of Florianópolis (Shopping Iguatemi) and Salvador (Shopping Salvador), and also one store in the countryside of the State of São Paulo.

## CAPITAL MARKETS

The summary of the operations of Saraiva's shares of the last two years is as follows:

Indicators	2006	2005	Var.
Businesses Number <sup>(1)</sup>	28,164	1,724	1533.6%
Auctions Participation - % <sup>(1)</sup>	100.0	76.7	23.3 p.p.
Negotiated Quantity – thousand <sup>(1)</sup>	20,314	4,957	309.8%
Negotiated Volume – R\$ thousand <sup>(1)</sup>	410,861	63,289	549.2%
Shares Price – R\$ <sup>(1)</sup> <sup>(2)</sup>	23.90	17.20	39.0%
Total of Outstanding Shares – thousand <sup>(2)</sup> <sup>(3)</sup>	28,230	22,937	23.1%
<b>Market Value – R\$ millions <sup>(2)</sup></b>	<b>674.7</b>	<b>394.5</b>	<b>71.0%</b>

Source: Bovespa.

(1) Referring to PN Share (SLED4)

(2) In the end of the period

(3) There was a bonus of 2,326,920 preferred shares in 01/06/06 according to decision of the Annual Shareholder's Meeting. There was issuance of 3,000,000 of preferred shares in April/ 2006.

The initiatives developed by Saraiva in the capital markets, during the year of 2006 improved even more the good practices of Corporate Governance and promoted a strong growth of liquidity of the Company's shares:

- According to Annual Shareholders' Meeting decision, held on January 6, 2006, a bonus was approved, with the attribution of 2,326,920 preferred shares to the common and/or preferred shareholders, in the proportion of 0.10 preferred share for each held preferred or ordinary share;

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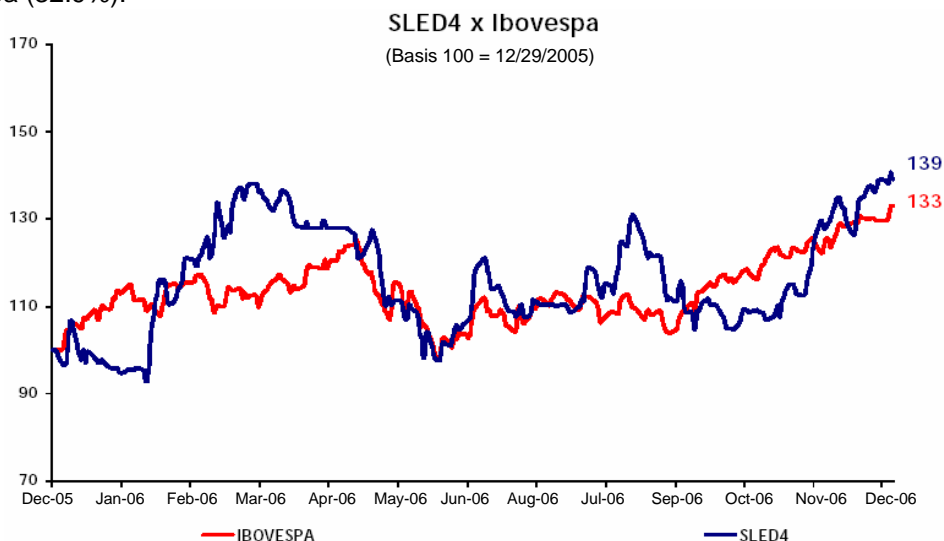
- Adhesion, in March 2006, to the Differentiate Practices of Corporate Governance Level 2 of Bovespa\*;
- Successful performance, on April 2006, of a primary distribution of three million of preferred shares, strengthening the Company's financial position for the studies development and implementation of investment projects;
- Secondary distribution of shares, also on April 2006, held by a few preferred shareholders, which benefited the dilution of the investor's basis.

\* With the Level 2 adhesion, the Company, its shareholders, managers and members of the Statutory Audit Committee assume an obligation of resolving, by means of arbitration, all the conflicts established in the Arbitration Clause contained in the Articles of Incorporation under the terms of the Regulation of the Arbitration Chamber of the Market of Bovespa.

The results of the continuous work that has been developed by the Management in order to narrow the relationship with the capital market were visible during the year, as per described below.

- Saraiva became part, on September 2006, of the Brazil Index (IbrX-100) composed by 100 selected shares among the most traded at Bovespa.
- Saraiva received Honors in two categories (best program and best executive of relations with investors of small and mid cap companies) in the award performed by IBRI (Brazilian Institute of Relations with the Investors) and by IR Magazine, in association with PR Newswire and *Revista RI*, during the IR Magazine Awards 2006 Brasil.
- Saraiva received the Apimec Attendance Seal, granted for companies that present themselves continuously in public meeting with investors.
- For the first time in its history, Saraiva's shares were traded in all auctions of Bovespa.

The valorization of the preferred shares (SLED4) reached 39.0%, superior to the performance of Ibovespa (32.9%).



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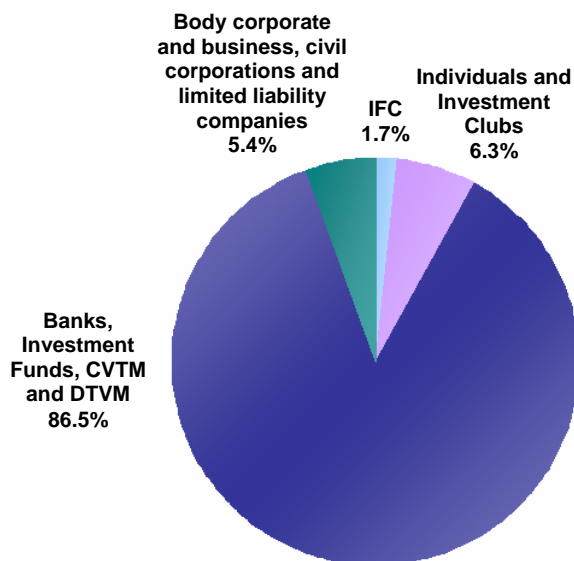
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## 10.01 - MANAGEMENT'S REPORT

### SHARE STRUCTURE

The subscribed and realized capital stock of Saraiva was R\$ 147,774,184.00 on December 31, 2006, represented by 28,596,123 shares, all nominative, book-entry and without nominal value, which 9,622,313 are ordinary shares (ON), and 18,973,810 are preferred shares (PN).

#### Free Float Composition – SLED4 (December 2006)



### REMUNERATION TO SHAREHOLDERS

The Board of Directors, in a meeting held on February 28, 2007, has approved the payment of R\$ 14.0 million (R\$ 0.49549281/share) for the shareholders remuneration, under interests on own capital already imputed in the amount the mandatory minimum dividend. This amount is equivalent to 30.1% of the year's income and represents a dividend yield of 2.1% on the price of preferred shares on 12/31/2006.

### HUMAN RESOURCES

The consolidated staff closed the year with 2,342 collaborators, representing an addition of 31 employees in comparison with the previous year, which was motivated by hiring temporary employees in order to meet the governmental programs for the school year of 2007.

The productivity indicated by the relation billing/ average number of employees presented an growth of 17.9% and reached R\$ 252.4 thousand, in 2006.

The fundamental principles that lead the policies of the Company's human resources are the promotion of continuous learning and recognition, in order to create an environment that

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## 10.01 – MANAGEMENT'S REPORT

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stimulates the abilities development and the challenges overcoming. Focused on that, Saraiva invested, along the year, in 482 activities, that counted on 9,459 participations in 29 thousand hours of training.

## SOCIAL RESPONSIBILITY

Saraiva's Group philosophy is concretely contributing with the life quality of its collaborators and of the communities related to the Company. In this spirit, Saraiva has been performing several campaigns of communitarian action and solidarity, besides supporting and investing in social activities of *Instituto Jorge Saraiva*, that performs in the social insertion of destitute children.

Editora Saraiva participated in the campaign promoted by *Itaú Criança* and donated 2 thousand children's books to *Pastoral da Criança*, an entity that supports destitute children supported by Unicef.

It is important to mention the plan developed for the deactivation of the printing house unit, which involves several supporting actions and replacement of the collaborators – several employees were invited to enter in the company that acquired the equipments.

## INDEPENDENT AUDITORS

In accordance with Instruction CVM 381/2003, we inform that the contract in force with the independent auditors is only related to the external audition works.

## SUBSEQUENT EVENTS

Aligned with the philosophy of alignment of interests among the managers and the shareholders of the Company, the Management's Committee of the Plan of Option to Purchase Saraiva's Shares has approved, in a meeting held on March 5, 2007, from the suggestion performed by the Board of Directors in a meeting held on February 28, 2007, the conditions and the beneficiaries of the 3<sup>rd</sup> Program of this Plan, granting options to purchase 123,800 preferred shares to managers and employees. The options will be exercised by means of the issuance of new shares and/or by the disposal of treasury shares held by the Company.

## PERSPECTIVES

Saraiva is now strongly positioned to maintain the sustainable expansion of its businesses models, by means of the organic growth of its activities and eventual opportunities for strategic acquisitions in the publishing and retail sector.

Supported in the solid financial platform and permanently seeking for costs reduction and productivity increase, in addition to the excellence of the professionals' team, the Company is mobilized to implement a consistent plan of growth and value generation.

At **Editora**, the perspectives were increased with the Fundeb approval, which shall significantly contribute to the advance in the education quality in long and medium term. Moreover, the

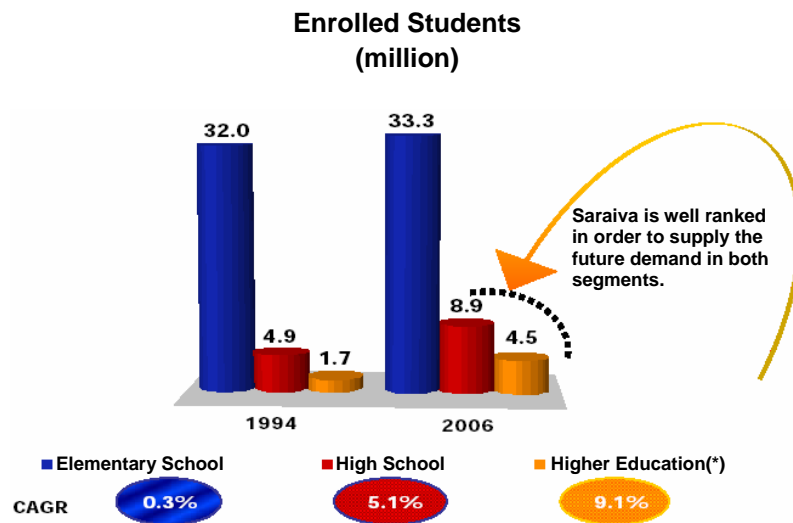
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regulation of the program of books acquisition for students of the public network of high school is another important step so that this segment is regularly and increasingly supplied. The following graph presents the expressive increase of the number of students verified in the last decade. Although there are still deficiencies in the education quality, the investments that the government has been performing in education collaborates with the scenery of growth potential for companies related to education and culture and that are well structured and positioned in order to concretize the opportunities that shall be generated.



Students enrolled adding up the public and private network (millions)

(\*) Higher Education 2005 data

Source: MEC/ INEP (school census 2006 and 2005)

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Another factor that contributed to Editora's perspective is the significant investments that have been performed in the constant work to strengthen the relationship with teachers, on renewing the catalogue and attracting new authors. The prediction is to release 261 titles (new and reformulated works) during 2007.

At **Livraria**, the perspectives are positive for the expansion of the physical stores network and also for the electronic commerce segment.

The project of acceleration of the organic growth foresees the opening of 11 new stores among 2007 and 2008. The aim is to reach a sales area 30% larger in the end of this expansion stage, which shall provide significant profits of scale and profitability.

The expectations of strong growth for the electronic commerce remain present. According to the e-bit company, the number of electronic consumer increased 46%, only in 2006, and several ingredients contribute to the popularization of this market. For 2007, the e-bit prediction is that the billing of the national electronic commerce increases 45%. Saraiva successfully implemented new products categories in its platform of electronic retail last year and there are opportunities of increasing even more the range of products offered, this contributes to the potential of value generation.

Along with this scenery, the relationship actions with the clients are developed, through the successful program "Saraiva Plus" and through the intensification of partnerships that add even more value to the purchase experience of Saraiva's clients.

## ACKNOWLEDGEMENTS

Saraiva is still optimist about its businesses and investments that has been performed in favor of the education in the Country. Our collaborators are motivated and attentive to new investments opportunities that may bring better benefits to our shareholders. At last, we would like to thank all shareholders, clients, suppliers, financial institutions, authors, collaborators and communities for the support given in 2006, we could never have reached the excellent results obtained without all this support.

São Paulo, March 9, 2007.

THE MANAGEMENT

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## 11.01 – EXPLANATORY NOTES

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### 1. OPERATING CONTEXT

Saraiva S.A. Livreiros Editores (“Editora”) has as main activity the publication of books for elementary and high school, paradidactic, legal and economy and administration.

Editora's operations are seasonal, concentrating 80% of sales in the first and last quarters of the year. This billing's concentration is determined by two factors: (a) “back to school” period in the first quarter/ and (b) sale of didactic books for the government in the fourth and first quarters.

Livraria e Papelaria Saraiva S.A. (“Livraria”), Editora's subsidiary company, predominantly performs in the retail of books, DVDs, music, stationary, computing articles and electro-electronic products. The distribution is performed through the sales platform by Internet and through a network composed by 30 stores; being 15 of “Mega Stores” type and 15 are conventional.

### 2. PRESENTATION OF THE ACCOUNTING STATEMENTS

The individual and consolidated accounting statements of Editora were prepared and are presented according to the accounting practices adopted in Brazil and to the rules of the Securities and Exchange Commission – CVM. These accounting statements incorporate the changes brought by the Accounting Rules and Procedures – NPC No. 27. “Presentation and Disclosures”, and NPC No. 22, “Provisions, Liabilities, Liabilities Contingencies and Assets Contingencies”, issued on October 3, 2005 by IBRACON – Institute of Independent Auditors of Brazil and, respectively, approved by the Deliberations CVM No. 488 and 489, of that same date. The accounting statements regarding the year ended on December 31, 2005 were adapted to the accounting rules mentioned, in order to allow comparison with the current year. The main changes resulting from the application of these Deliberations were the following:

- Presentation of the “Non-current” group in the assets and liabilities.
- Presentation of the “Intangible” account, classified in the “Non-current” group.
- Reclassification of the legal deposits, previously classified in the assets, for the liabilities, as reducers of the “Provision for contingencies” account, when applicable.

The accounting estimations used in the preparation of the accounting statements related to deferred fiscal assets and liabilities, liabilities provisions and contingencies, consider the best evidences available and are based on premises existing in the closing dates of the years. The final results, when performed, may differ from the estimated amounts.

### 3. MAIN ACCOUNTING PRACTICES

#### a) General principles

The result of the operations is assessed according to the accordance with the accounting system of years' competency. The sales revenues and the corresponding costs are registered in the transfer of risks and benefits.

#### b) Current and non-current assets

- Financial investments

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Registered at cost, added by the earnings obtained until the closing dates of the years.

- Provision for credits of doubtful liquidation

Constituted in and amount considered sufficient to face eventual losses on payment of accounts receivables of clients. The credits considered irrecoverable are directly taken to the years' incomes.

- Inventories

Assessed at the average cost of acquisition or production, deducted from the provision to adjust it to the market value, when it is inferior.

- Other long term non-current assets

Presented by the net value of the realization.

- Investments

The investment in subsidiary company is assessed by the equity method and other investments are assessed by the acquisition cost, deducted from the provision for depreciation.

- Property, plant and equipment and intangible

After the acquisition, formation or construction cost, monetarily indexed up to December 31, 1995 and deducted from depreciation and amortization, computed by the straight-line method the rates that consider the time of useful-economical life of assets and rights.

- Deferred

Registered by the capital value applied, deducted from the amortization. Includes premium to amortize, pre-operating expenditures and expenses incurred before the beginning of the operations of the subsidiary's stores launched until 2001. Since 2002, the expenditures incurred before the beginning of the operations of the new Livraria's stores are directly appropriated to the current year income.

The pre-operating expenditures amortization is computed in the term of five years or according to contractual dispositions of real estates lease, since the beginning of the commercial operations of Livraria's stores.

The premium results from the incorporation of the investments performed, with economical reasoning based on the projection of the capacity and generation of future profits in the term foreseen for the investment return and straight-line amortized in 60 monthly installments.

c) Current and non-current liabilities

- Copyrights

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Computed and registered in compliance with the competency system as operating expenses at the time of the sales performance and, in some cases, as production cost, at the time of publishing.

- Other current and non current liabilities

Presented by the amounts known or computable, added, when applicable, by the corresponding charges and monetary or currency variations incurred up to the closing dates of the years.

d) Income tax and social contribution

The taxes on profits of the year comprise the current and deferred amounts.

The income tax and social contribution of the year are computed, respectively, to the rate of 15% on the taxable profit, added by the additional of 10% and by the rate of 9% on the taxable profit.

The deferred income tax and social contribution are presented in the current assets, long term assets, current liabilities and long term liabilities, according to the explanatory note No. 14.a. They are registered in order to reflect the future tax effects attributable on temporary differences between the tax basis of assets and liabilities and the respective accounting value and on tax losses and negative basis of social contribution.

The deferred tax assets is based on the expectation of realization of the future taxable profit, considering the tax rates in force in the closing date of the years, being revised annually and adjusted if occurs a substantial change of the expected profits.

e) Net profit per share

Computed based on the amount of outstanding shares in the closing dates of the years,

#### 4. CONSOLIDATED ACCOUNTING STATEMENTS

The consolidated accounting statements correspond to the accounting statements of Editora and Livraria, in which Editora holds interest in the capital of 99.91%. The accounting statements of Livraria used in the consolidation were closed in the same basis-date and are in accordance with the accounting practices described in the explanatory note No. 3.

The consolidated accounting statements comprise the following procedures:

- Elimination of the rights and liabilities, as well as the revenues, costs and expenses recurring from business performed between the companies included in the consolidation.
- Elimination of the parent company's investment against the shareholders' equity of the subsidiary.
- Standing out of the minority shareholders interest in the shareholders' equity and in the income of the year of Livraria presented in separated lines in the balance sheets and in the income statement, respectively.

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**11.01 - EXPLANATORY NOTES**

5. CASH EQUIVALENTS

	Editora		Consolidated	
	2006	2005	2006	2005
Cash and banks operations account	1,565	8,641	10,467	10,132
Certificates of Bank Deposits - CDBs	80,956	-	83,964	10,062
Financial Investment Funds - FIF	14,573	-	14,573	-
	<u>97,094</u>	<u>8,641</u>	<u>109,004</u>	<u>20,194</u>

6. ACCOUNTS RECEIVABLE FROM CLIENTS

	Editora		Consolidated	
	2006	2005	2006	2005
Trade notes receivable	64,638	56,254	65,227	56,484
Trade notes receivable from Livraria	3,916	1,041	-	-
Credit cards	54	50	55,273	31,151
Checks receivable	4,035	3,356	4,841	4,288
Provision for doubtful accounts	(1,589)	(1,488)	(1,962)	(1,879)
	<u>71,054</u>	<u>59,213</u>	<u>123,379</u>	<u>90,044</u>

Balances by maturity:

	Editora		Consolidated	
	2006	2005	2006	2005
To due	67,888	56,838	120,059	87,542
Past due:				
Up to 60 days	2,264	1,426	2,329	1,470
Above 60 days	902	949	991	1,032
	<u>71,054</u>	<u>59,213</u>	<u>123,379</u>	<u>90,044</u>

7. INVENTORIES

	Editora		Consolidated	
	2006	2005	2006	2005
Ended products	41,844	33,514	42,059	33,514
Goods for resale	91	28	51,664	40,108
In-process products	15,794	18,697	15,794	18,697
Raw materials	5,198	9,814	5,198	9,814
Packages and consumption materials	500	386	800	684
	<u>63,427</u>	<u>62,439</u>	<u>115,515</u>	<u>102,817</u>

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**11.01 - EXPLANATORY NOTES**

**8. INVESTMENT IN SUBSIDIARY COMPANY**

The interest in a subsidiary company is represented by the investments in Livraria, being the main information presented as follows:

	2006	2005
Amount of shares of corporate capital – thousand	57,540	57,540
Amount of held shares – thousand	57,490	57,490
Interest in the corporate capital	99.91%	99.91%
Interest of the investment in the shareholders' equity of Editora	25.23%	39.60%
Updated corporate capital	51,210	51,210
Dividends to be distributed	1,574	-
Shareholders' equity (net of dividends to be distributed)	58,452	52,690
Dividends receivable	1,572	-
Investments value (net of dividends receivable)	58,402	52,644
Calculation basis of the value of the equity accounting:		
Net profit of the year of the subsidiary	6,662	6,072
Adjustments in the shareholders' equity of the subsidiary that did not passed by the year's income (adjustment of the previous year) (*)	674	-
Total	<u>7,336</u>	<u>6,072</u>
Equity accounting income	<u>7,330</u>	<u>6,066</u>

(\*) According to deliberation of the Annual Shareholders' Meeting of April 27, 2006, the interest of the managers of Livraria for the year of 2005 was not approved.

The income statements of Livraria for the years ended on December 31, 2006 and 2005 are presented below:

	2006	2005
SALES GROSS REVENUE	352,202	281,306
DEDUCTION OF GROSS REVENUE		
Taxes incident on sales (ICMS, PIS, Cofins and ISS)	(36,086)	(28,191)
NET OPERATING REVENUE	316,116	253,115
COST OF THE GOODS AND SERVICES SOLD	(200,772)	(154,277)
GROSS PROFIT	<u>115,344</u>	<u>98,838</u>
OPERATING EXPENSES		
Sales	(78,522)	(68,444)
General and administrative	(14,745)	(12,584)
Managers' remunerations	(1,864)	(1,353)
Depreciations and amortizations	(4,950)	(4,865)
Other operating expenses, net	<u>(1,227)</u>	<u>(474)</u>

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	(101,308)	(87,720)
OPERATING PROFIT BEFORE THE FINANCIAL INCOME	14,036	11,118
FINANCIAL INCOME		
Financial revenues	923	2,174
Financial expenses	(3,213)	(3,053)
	(2,290)	(879)
OPERATING PROFIT	11,746	10,239
NON-OPERATING EXPENSES, NET	(703)	(194)
PROFIT BEFORE INCOME TAX AND SOCIAL CONTRIBUTION	11,043	10,045
INCOME TAX AND SOCIAL CONTRIBUTION		
Current	(1,412)	(4,927)
Deferred	(2,233)	1,628
NET PROFIT OF THE YEAR BEFORE THE STATUTORY INTEREST OF THE MANAGERS	7,398	6,746
STATUTORY INTEREST OF THE MANAGERS IN THE NET PROFIT OF THE YEAR	(736)	(674)
NET PROFIT OF THE YEAR	6.662	6.072

9. PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE

	Editora				
	2006		2005		
	Annual rate of depreciation/ amortization - %	Cost	Accrued depreciation/ amortization	Net amount	Net amount
Property, plant and equipment:					
Lands	-	2,029	-	2,029	2,029
Buildings and constructions	4	8,172	(3,630)	4,542	4,834
Machines and equipments	10	1,564	(1,147)	417	2,861
Furniture, fixture and facilities	10	21,500	(18,767)	2,733	3,285
Vehicles	20	3,230	(2,128)	1,102	1,860
Computing equipment	20	10,096	(7,820)	2,276	3,000
Advance to suppliers	-	417	-	417	336
Other property, plant and equipment	-	-	-	-	421
		47,008	(33,492)	13,516	18,626
Intangible:					
Rights assignment	20	1,246	(710)	536	779
Software	20	12,648	(10,057)	2,591	3,838
Brands and patents	-	185	-	185	185
		14,079	(10,767)	3,312	4,802

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	2006			2005	
	Annual rate of depreciation/ amortization - %	Cost	Accrued depreciation/ amortization	Net amount	Net amount
Property, plant and equipment:					
Lands	-	2,032	-	2,032	2,032
Buildings and constructions	4	9,613	(4,260)	5,353	5,703
Machines and equipments	10	1,853	(1,410)	443	2,910
Furniture, fixture and facilities	10	70,897	(56,666)	14,231	16,050
Vehicles	20	3,775	(2,279)	1,496	1,899
Computing equipment	20	20,440	(15,181)	5,259	6,344
Advance to suppliers	-	2,388	-	2,388	565
Other property, plant and equipment		-	-	-	966
		<u>110,998</u>	<u>(79,796)</u>	<u>31,202</u>	<u>36,469</u>
Intangible:					
Commercial assignment	20	12,414	(11,337)	1,077	1,502
Rights assignment	20	1,246	(710)	536	779
Software	20	14,115	(10,986)	3,129	4,350
Brands and patents	-	252	-	252	252
		<u>28,027</u>	<u>(23,033)</u>	<u>4,994</u>	<u>6,883</u>

In December 2006, Editora performed the sale of its printing machines, for the amount of R\$ 7,870, of which R\$1,000 were received on December 2006. R\$ 1,145 are registered in the rubric "Miscellaneous Credits" in the current assets and R\$ 5,725 are registered in a specific rubric of the non-current assets. The balance receivable will be readjusted by the rate of 100% of the Certificate of Interbank Deposit - CDI. The operation's income was a profit of R\$ 5,768, registered in the non-operating income of the year.

10. DEFERRED

	Editora		Consolidated	
	2006	2005	2006	2005
Pre-operating expenses and other deferred amounts	1,445	1,445	11,744	11,744
Premium to amortize	2,091	2,135	2,091	2,135
Premium amortization	(1,185)	(783)	(1,185)	(783)
Accrued amortization	(1,445)	(1,434)	(11,039)	(10,807)
	<u>906</u>	<u>1,363</u>	<u>1,611</u>	<u>2,289</u>

The premium to amortize is derived from the acquisition of Formato Editorial Ltda., transferred to the deferred assets by the company's incorporation performed on February 3, 2004 and adjusted on March 14, 2006 for R\$ 2,091 according to contractual dispositions related to acquisition.

The premium amortization registered in the deferred assets is linear in 60 monthly installments and began after the referred incorporation date.

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**11.01 – EXPLANATORY NOTES**

**11. FINANCINGS**

	Editora		Consolidated	
	2006	2005	2006	2005
Current:				
National currency – BNDES – FINEM	737	551	2,097	2,875
Foreign currency – IFC	-	2,710	-	2,710
Non-current:				
National currency – BNDES – FINEM	737	3,261	2,097	5,585
	18,578	7,510	22,759	8,591

The non-current liabilities composition by maturity year is the following:

	2008	2009	2010	Total
Editora	6,370	6,370	5,838	18,578
Consolidated	8,092	7,846	6,821	22,759

The other information on financings are the following:

Financing	Purpose	Warranties	Maturity	Charges
Editora:				
BNDES – FINEM – contract of 10/00	Acquisition and establishment of the Integrated System of Corporate Management – ERP and construction of the Distribution Center	Mortgage of goods of the property, plant and equipment	07/06	3.5% + TJLP
BNDES – FINEM – contract of 11/05	Publishing plan – 2005/ 2007 and information systems	Mortgage of goods of the property, plant and equipment and bank guarantee	11/10	4% + TJLP
IFC – contract of 04/98	Project of investment in stores “Mega Stores” type and modernization of the conventional stores of the subsidiary	Free of collaterals	06/06	Exchange variation and LIBOR + 3%
Livraria:				
BNDES – FINEM – contract of 11/06	Projects of investment on opening 11 stores, rebuild and modernization of 19 stores of the network and centralization of logistics operations	Editora's Aval	08/10	3.1% + TJLP
BNDES – FINEM – contract of 04/00	Project of investment in stores “Mega Stores” type and modernization of the conventional stores	Editora's Aval	04/08	3.5% + TJLP

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**11.01 – EXPLANATORY NOTES**

The releases of the years ended on December 31, 2006 and 2005 are the following:

	Editora		Consolidated	
	2006	2005	2006	2005
Releases in 2005	-	7,500	-	7,500
February 20, 2006	3,500	-	3,500	-
June 23, 2006	3,501	-	3,501	-
September 15, 2006	2,000	-	2,000	-
December 22, 2006	2,387	-	6,814	-
Total	11,388	7,500	15,815	7,500

12. FIDELITY PROGRAM – SARAIVA PLUS

Livraria implemented in 2005 the clients' fidelity program ("Saraiva Plus") by which the purchases of products performed by the client in the stores or through the website become points for discount in future purchases. The accumulated points, net of redemptions, are provisioned considering the redemption estimations. On December 31, 2006, Livraria had a provision for the fidelity program in the amount of R\$ 2,683 (R\$1,108 in 2005), registered under the rubric "Other liabilities".

13. RELATED PARTIES

The transactions between the related parties comprise business operations of purchase, sale and mutual loan. The loans performed in 2005 from Livraria were totally settled in June 2006, registering financial expense of interests in the amount of R\$ 127, equivalent to 100% of the CDI variation. The loans granted to Livraria in 2006 has undetermined maturity term and the interests charged are equivalent to 101% of the variation of CDI.

Loans granted to Livraria – registered in the non-current assets:

	2006
Loans granted net of refund	4,341
Financial revenues	667
Balance receivable on December 31	5,008

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**11.01 - EXPLANATORY NOTES**

The main balances and transactions with related parties are displayed below:

Balances:

Assets:

Accounts receivable (current)	3,916	1,041
Granted loans – loan agreement (non-current)	5,008	-

Liabilities:

Suppliers (current)	6	-
Borrowings (current)	-	11,446

Operations:

Products' sales	12,627	9,174
Goods' purchase	55	25
Financial revenues	667	-
Financial expenses	127	629

14. INCOME TAX AND SOCIAL CONTRIBUTION

a) Deferred

The deferred income tax and social contribution has the following source:

	Editora		Consolidated	
	2006	2005	2006	2005
Current assets	636	-	4,280	4,853
Current liabilities	-	18	-	18
Non-current assets – long term assets:				
Fiscal loss and negative basis of social contribution	-	-	387	1,023
Provision for contingencies	753	651	5,374	5,660
Non-current liabilities – long term liabilities:				
Provision for losses with books' inventories – Law No. 10.753/03	4,753	3,802	4,753	3,802
Deferral of encouraged accelerated depreciation	2	13	2	13
	<u>4,755</u>	<u>3,815</u>	<u>4,755</u>	<u>3,815</u>

Editora, based on the opinion of its external lawyers, considered the fiscal incentive instituted by Law No. 10.753/03, with composition amended by Law No. 10.833/03, related to the deductibility of the provision for losses on inventories, as a temporal difference between the fiscal basis and the respective accounting value, recognizing the fiscal effect under the terms of the Normative Instruction CVM No. 371/02.

Editora and Livraria, reasoned in the expectation of the generation of taxable profits and positive future cash flows, brought at the present value, as established in the CVM Instruction No. 371/02, maintained in their accounting statements the deferred fiscal assets.

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**11.01 - EXPLANATORY NOTES**

The Managements considers the accounting value of the deferred fiscal assets constituted at Editora, regarding the temporary differences, realizable in the proportion of the final solution of the petitioned legal actions.

Regarding the deferred fiscal assets of Livraria, in case of a definitive decision for the petitioned legal actions, the estimation of realization is the following:

Balance's date	Realization of the deferred fiscal assets
December 31, 2007	5,404
December 31, 2008	3,248
	<u>8,652</u>

b) Expense conciliation

The expense conciliation computed by the application of combined fiscal rates and the expense of income tax and social contribution debited in result is demonstrated as follows:

	Editora		Consolidated	
	2006	2005	2006	2005
Accounting profit before income tax and social contribution	64,873	56,982	69,260	60,960
Combined fiscal rate	34%	34%	34%	34%
Income tax and social contribution by the combined fiscal rate	(22,057)	(19,375)	(23,549)	(20,727)
Permanent additions – non deductible expenses	(183)	(145)	(224)	(202)
Permanent exclusions:				
Interests on own capital	4,672	3,383	4,672	3,383
Equity accounting	2,493	2,063	-	-
Other exclusions	324	304	390	365
Other items	(53)	196	262	308
	(14,804)	(13,574)	(18,449)	(16,873)
Income tax and social contribution in the year's income:				
Current	(14,619)	(14,294)	(16,031)	(19,221)
Deferred	(185)	720	(2,418)	2,348
	(14,804)	(13,574)	(18,449)	(16,873)
Effective rate on net profit	22.8%	23.8%	26.6%	27.7%

15. PROVISION FOR CONTINGENCIES

Editora and Livraria argue in court certain aspects related to the duties of federal nature related to the Social Integration Program – PIS, Contribution for the Social Security Financing – Cofins, Income Tax – IR and Social Contribution on Net Profit – CSLL, whose composition is the following:

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	Editora				2006
	2005	Constitution	Legal Deposits	Reversion	
PIS/ Cofins – increase of the calculation basis	512	34	-	(360)	186
IR/ CSLL – Real Plan – Law No. 8.800/94	2,148	-	-	(1,287)	861
Civil and labor contingencies	-	112	-	-	112
Legal deposits	(1,370)	-	(37)	360	(1,047)
	<u>1,290</u>	<u>146</u>	<u>(37)</u>	<u>(1,287)</u>	<u>112</u>

	Consolidated					2006
	2005	Constitution	Legal Deposits	Reversion	Interests and charges	
PIS/ Cofins – increase of basis and rate raise	9,504	40	-	(583)	-	8,961
IR/ CSLL – Real Plan – Law No. 8.800/94	3,681	-	-	(1,287)	84	2,478
Civil and labor contingencies	-	112	-	-	-	112
Legal deposits	(10,345)	-	(60)	583	-	(9,822)
	<u>2,840</u>	<u>152</u>	<u>(60)</u>	<u>(1,287)</u>	<u>84</u>	<u>1,729</u>

16. TAXES AND CONTRIBUTIONS TO COLLECT

	Editora		Consolidated	
	2006	2005	2006	2005
IR and CSLL (i)	-	-	6,837	8,123
CSLL (ii)	2,538	-	2,538	-
ICMS	4	-	1,652	1,271
PIS/ Cofins	26	24	93	487
Others	60	35	150	89
	<u>2,628</u>	<u>59</u>	<u>11,270</u>	<u>9,970</u>
Current liabilities	598	59	4,226	3,557
Non-current liabilities	2,030	-	7,044	6,413
	<u>2,628</u>	<u>59</u>	<u>11,270</u>	<u>9,970</u>

(i) Payment in installments order instructed in October 2005 in General Treasury Attorney's Office for the payment of the amounts provisioned related to the petitioned

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legal actions for discussion of the effects of IR and CSLL derived from Real Plan, Law 8.880/94.

- (ii) On October 2006, Editora became aware of the non-deferral of the administrative appeal related to the tax assessment notice that constituted tax credit of CSLL related to the deduction of interests amount on own capital of the calculation basis of CSLL, basis 1996. Upon decision of the Management, Editora constituted a provision and will instruct a payment in installments order for the payment of the concerned debit, as soon as the tax credit is under charge in the records of the Federal Revenue.

**17. SHAREHOLDERS' EQUITY**

**a) Capital stock**

In Extraordinary Shareholders' Meeting held on January 6, 2006, it was approved the capital stock increase in R\$35,369 by the capitalization of capital and profits reserve, with attribution of 2,326,920 preferred shares for purpose of bonus to the ordinary and/ or preferred shareholders, in the proportion of 0.10 preferred share for each ordinary or preferred share held until the ending of the auction of the Stock Market of São Paulo – BOVESPA of January 6, 2006.

On April 11, 2006, Editora completed the primary and secondary public offer process of shares at BOVESPA, with the main purpose of collecting funds for eventual acquisitions of publishers, bookstores and publishing catalogues, unification of corporate activities, investments in information technology, consolidation of the Internet operations (Livraria and Editora), expansion of physical stores, enlarging the catalogue with release of new titles and working capital.

On this date, in a Board of Directors' meeting, the increase of the capital stock of the Company was approved, within the limit of the authorized capital, in the amount of R\$66,000, corresponding to the issuance of 3,000,000 preferred shares, at the price R\$ 22.00 per share. The funds entered in Editora on April 18, 2006, decreased in R\$2,422 related to the financial intermediation commission, registered as financial expense (explanatory note No. 19).

The totally paid-in capital stock on December 31, 2006, in the amount of R\$147,774 (R\$46,405 on December 31, 2005) is represented by 28,596,123 shares, being 9,622,313 ordinary shares and 18,973,810 preferred shares without nominal value.

In a Board of Directors' meeting held on March 9, 2006, there was the resolution and approval of proposals of statutory changes needed for the adequacy of the Articles of Incorporation of Editora to the Differentiated Practices of Corporate Governance Level 2 of BOVESPA.

Among the main changes there is the extension to the voting right to the preferred shares for specific matters defined in the bylaws, authorized capital stock change,

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limit of financial availability retention, and adhesion to the arbitration chamber of the market for the resolution of corporate conflicts.

Editora is authorized to increase the capital stock, upon the issuance of new shares for subscription, and, regardless the statutory reform, in up to 4,000,000 shares, from this total it can be destined up to 500,000 shares for the grant of purchase options, under the terms of the bylaws.

The preferred shares of Editora, whose number may not exceed 2/3 of the total of issued shares, grant to their holders the following rights or advantages:

- Right of restrict vote, under the bylaws.
- Right of disposing of the preferred shares in case of disposal of the controlling power of Editora.
- Dividends equal to the ones attributed to ordinary shares.
- Interest in the distribution of assisted shares derived from capitalization of reserves, accrued profits and any other funds, in equality of conditions with the shareholders of ordinary shares.

The conversion of ordinary shares into preferred and vice-versa is forbidden.

The remaining balance of the accrued profits is previously to the validity of the Law No. 6.404/76.

- b) Treasury shares – CVM Instructions No. 10/80 and No. 298/97.

Editora maintains 365,750 (332,500 on December 31, 2005) preferred treasury shares, already considered the bonus of 33,250 held in Extraordinary Shareholders' Meeting of January 6, 2006. The shares were acquired by the amount of R\$2,870 with market value equivalent to R\$8,741 (R\$23.90 per share – quotation on December 29, 2006). In the years ended on December 31, 2006 and 2005 new operations of shares acquisition were not performed.

- c) Interests on own capital and dividends

It is certified to the shareholders the minimum dividend of 25% of the adjusted net profit of each year.

Editora cannot, unless authorized by the majority of votes in special shareholders' meeting of preferred shares, held, for more than four successive quarters, financial availability in an amount higher than 25% of its total assets, since it permits its economical and financial status. The financial availability will correspond to the sum of amounts registered under the rubric "Cash Equivalents", exceeding the sum of the accounted amounts under the rubric "Financings" of the current and non-current liabilities.

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According to the statutory disposition, the interests on own capital included to the mandatory dividend are net of income tax.

In the Annual Shareholders' Meeting celebrated on April 6, 2006, it was defined the payment to the shareholders of the interests on own capital in the amount of R\$8,610, net of income tax and dividends in the amount of R\$919. The referred payment occurred on April 28, 2006.

In a Board of Directors' meeting on February 28, 2007, it was approved the payment to the shareholders of the interests on own capital in the amount of R\$ 13,988 (R\$0.49549281 per share) including the income tax of R\$2,098, being imputed to the mandatory dividend the amount of R\$11,890 (R\$0.42116889 per share).

The mandatory dividend was computed as follows:

Net profit of the year	46,469
Legal reserve	(2,323)
Adjusted net profit	<u>44,146</u>
Minimum mandatory dividend – 25% (R\$0.39094525 per share)	<u>11,037</u>

The interests effect on own capital on calculation of provisions of income tax and social contribution in the year was a decrease of R\$4,672 (R\$3,383 in 2005).

d) Constitution of profits reserves

From the remaining balance of the net profit of the year, after the destination for the legal reserve, in the amount of R\$ 2,323, and from the proposal of interests payment on own capital, it has been constituted a profits reservation of R\$ 30,158 (R\$ 27,067 in 2005) destined for investment in acquisitions of companies, information technology, consolidation of operations on Internet, expansion of physical stores of Livraria, enlargement of a catalogue with release of new titles and working capital.

18. FINANCIAL INSTRUMENTS

a) Operations with derivatives

Editora performed operations registered in equity accounts that had as purpose the support of its operational needs and reduction of the exposure to risks of currency and interest rates fluctuation, overall as a result of the borrowing obtained with International Finance Corporation – IFC, in U.S. dollars, liquidated in June 2006.

The operation with derivatives performed by Editora with financial reflexes in the period was related to exchange hedge contract – “swap” without cash to offer coverage to the last amortization installment of the financing with IFC. The operation,

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in the amount of US\$1,160,000, contracted on September 2005 and liquidated in June 2006, resulted in a loss of R\$183 in 2006, classified in financial expenses.

### b) Other financial instruments

The accounting balances and the market values of the financial instruments included in the shareholders' equity consolidated on December 31, 2006 are identified below:

Description	Accounting Balance	Market Value
Cash equivalents	109,004	109,004
Financings with national currency	24,856	24,856

The criteria, premises and limitations used in the calculation of the market values are as follows:

- Cash equivalents  
The cash equivalents are represented by bank deposits free for operation and financial investments of immediate liquidity.
- Financings

The accounting balances of financings correspond to the funds obtained with the Brazilian Bank for Economic and Social Development – BNDES. The financings are specific and have differentiated interest rates, damaging the comparison with the market values, if the conventional loan rates are assumed for realization of calculation. Thus, the market values for this financings do not represent significant variations in connection with the respective accounting balances on December 31, 2006.

- Limitations

The market values were evaluated in a specific moment, based on "market relevant information". The changes in the premises may affect the presented estimations.

### c) Market risk factors

- Credit risk – in order to minimize possible losses with default of their clients, Editora and Livraria adopt policies of rigorous management in the credit's concession, which consist in discerning analysis of the clients' profile, as well as the seasonable monitoring of the balances receivable.
- Risk of inventories obsolency – discontinuity of products and new technologies may cause excess and obsolete of inventories. In order to minimize such conditions, Editora and Livraria periodically monitor the inventories level and take the needed steps for its realization.

## 19. FINANCIAL INCOME

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The “financial expenses and financial revenues” composition is the following:

	Editora		Consolidated	
	2006	2005	2006	2005
Financial revenues:				
Revenues on financial investments	9,475	1,379	10,086	2,756
Interests on loans to the subsidiary company	667	-	-	-
Profits on financial investments – hedge	-	51	-	51
Interests received from clients	628	449	654	476
Interests on taxes to recover	1,247	133	1,247	133
Other financial expenses	48	22	205	163
	<u>12,065</u>	<u>2,034</u>	<u>12,192</u>	<u>3,579</u>
Financial expenses:				
Financial expenses – operations of BACEN Resolution No. 2.770	-	(70)	-	(70)
Losses on financial investments – hedge	(183)	(1,280)	(183)	(1,280)
Interests and monetary and exchange variations on financings	(1,570)	483	(1,806)	(141)
Other interests and passive monetary variations	(3,175)	(3,056)	(3,696)	(3,168)
CPMF/ IOC	(1,275)	(1,081)	(2,646)	(2,259)
Commission of financial intermediation (explanatory note No. 17)	(2,422)	-	(2,422)	-
Other financial commissions	(179)	(123)	(214)	(134)
Other financial expenses	(983)	(375)	(1,238)	(874)
	<u>(9,787)</u>	<u>(5,502)</u>	<u>(12,205)</u>	<u>(7,926)</u>
	<u>2,278</u>	<u>(3,468)</u>	<u>(13)</u>	<u>(4,347)</u>

20. INSURANCE COVERAGE

On December 31, 2006, Editora and Livraria had insurances coverage against fire and several risks for the property, plant and equipment goods and for the inventories, in amounts considered sufficient to cover eventual losses.

21. SUBSEQUENT EVENT

In a meeting held on March 5, 2007 and according to Relevant Fact published on March 6, 2007, the Management’s Committee of the Option Plan of Purchase of Shares of Editora approved the conditions and the beneficiaries of the Third Program of this Plan, granting purchase options of 123,800 preferred book entry shares to nineteen managers and employees for exercise between 03/08/2010 and 05/07/2010. The fixed price for each share is R\$ 21.50, subject to restatement by the variation of the Prices Index to the Ample Consumer - IPCA since February 2007 up to the month previous to the exercise month. The options will be exercised by means of the issuance of new shares and/or by the disposal of treasury shares held by Editora.

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22. CASH FLOWS STATEMENTS FOR THE YEARS ENDED ON DECEMBER 31, 2006 AND 2005

(In thousands of Reais)

	Editora		Consolidated	
	2006	2005	2006	2005
<b>CASH FLOW OF OPERATING ACTIVITIES</b>				
Net profit of the year	46,469	40,025	46,469	40,025
Adjustments to conciliate the net profit of the year with the cash generated by the operating activities:				
Depreciations and amortizations (includes value appropriate to the cost)	5,592	7,013	10,764	12,175
Deferred income tax and social contribution	184	(885)	2,417	(2,513)
Provision for credits of doubtful liquidation	1,044	1,077	1,343	1,395
Equity accounting	(7,330)	(6,066)	-	-
Income on sale of property, plant and equipment	(5,649)	(22)	(4,961)	172
Financial charges and exchange variation on balances with related companies, financings, loans and tax liabilities	(330)	341	792	612
Other operational provisions	4,320	(1,845)	6,022	(1,231)
Minority interest in subsidiary company	-	-	5	5
	40,300	39,638	62,851	50,640
Decrease (increase) in operating assets:				
Accounts receivable from clients	(10,010)	(25,126)	(34,678)	(35,544)
Accounts receivable from subsidiary company for the goods sale	(2,875)	(1,024)	-	-
Inventories	(988)	3,463	(12,698)	(3,883)
Other operating assets	(9,008)	586	(9,674)	205
Increase (decrease) in operating liabilities:				
Suppliers	20,592	(16,169)	27,911	3,222
Income tax and social contribution	(1,663)	6,804	(4,653)	9,939
Other operating liabilities	(4,887)	6,919	(4,071)	8,479
Cash generated by the operational activities	35,461	15,091	24,988	33,058
<b>CASH FLOW OF THE INVESTMENT ACTIVITIES</b>				
Property, plant and equipment acquisition	(1,502)	(3,056)	(6,628)	(8,370)
Acquisition of investments in tax incentives long term realizable	(30)	-	(42)	-
Receipt for sales of the property, plant and equipment	1,703	186	1,746	431
Accounts receivable on property, plant and equipment sale	6,870	-	6,870	-
Cash generated by (invested on) investment activities	7,041	(2,870)	1,946	(7,939)
<b>CASH FLOW OF THE FINANCING ACTIVITIES</b>				
Capital increase by public subscription	66,000	-	66,000	-
Financings obtained	11,388	7,500	15,815	7,500
Borrowings obtained from the subsidiary company	-	10,898	-	-
Loans granted	(4,400)	-	(60)	-
Amortization of financings	(3,190)	(43,617)	(7,414)	(46,955)

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**11.01 – EXPLANATORY NOTES**

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Payment of borrowings obtained from the subsidiary company	(11,573)	(11,736)	-	-
Payment of interests by financings	(1,226)	(535)	(1,418)	(1,226)
Payment of dividends and interests on own capital (net of prescribed dividends)	(11,048)	(9,260)	(11,047)	(9,260)
Cash generated by (applied on) financings activities	45,951	(46,750)	61,876	(49,941)
<b>INCREASE (DECREASE) OF CASH EQUIVALENTS BALANCE</b>	<b>88,453</b>	<b>(34,529)</b>	<b>88,810</b>	<b>(24,822)</b>
<b>STATEMENT OF INCREASE (DECREASE) OF THE CASH EQUIVALENTS BALANCE</b>				
Initial balance	8,641	43,170	20,194	45,016
Final balance	97,094	8,641	109,004	20,194
<b>INCREASE (DECREASE) OF THE CASH EQUIVALENTS BALANCE</b>	<b>88,453</b>	<b>(34,529)</b>	<b>88,810</b>	<b>(24,822)</b>

**01.01 – IDENTIFICATION**

1 – CVM CODE 01047-2	2 – CORPORATE NAME SARAIVA SA LIVREIROS EDITORES	3 - CNPJ 60.500.139/0001-26
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