

MANAGEMENT REPORT

To our Shareholders:

The Management of Saraiva S.A. Livreiros Editores submits for your appreciation the Management Report and the related Financial Statements and Independent Auditors' Report for the year ended December 31, 2007.

Saraiva Group operates in the publishing segment, through Saraiva S.A. Livreiros Editores ("the Company" or "Editora Saraiva"), and in the retail segment, through Livraria e Papelaria Saraiva S.A. ("Livraria Saraiva").

The Company's operating and financial information is consolidated and stated in Brazilian reais, in accordance with Brazilian Corporate Law. All comparisons relate to 2006, unless otherwise specified.

MESSAGE FROM MANAGEMENT

2007 was a year of great accomplishments for Saraiva. While the Company achieved a solid performance, breaking several profitability and growth records, we identified unique investment opportunities which strengthen our competitive capacity and contribute to the continuity of sustainable growth.

Saraiva's performance was favored by the environment of economic growth and income recovery, positively reflecting on the consumption of products and services associated to education, culture and information, with the increase of public sector investments in education.

Consolidated net income was R\$70.2 million, a growth of 51.1%, which represents a record for the fourth consecutive year. Consolidated gross profit totaled R\$779.4 million, up 32.7% in relation to the prior year. EBITDA (Earnings before Interest, Taxes, Depreciation and Amortization) totaled R\$113.3 million, representing a 53.5% increase in relation to 2006. Total investments in 2007 reached a record of R\$41.4 million.

Editora Saraiva has always been known for the high quality standards and publishing excellence of its products. During 2007, Editora Saraiva took two important strategic steps in order to add value to the education solutions offered, purchasing Pigmento Editorial S.A., responsible for the selling the *Ético Sistema de Ensino* (Ético Teaching System), and entering in the multimedia educational content segment by means of a partnership with Houghton Mifflin Harcourt International Publishers, one of the world's leading companies in the segment of education software.

Editora Saraiva's traditional business areas also achieved positive performance in 2007. The legal book area consolidated its leadership position even more, and the line of economics, business administration and business books rose significantly. In the textbook market, the highlight was the record amount negotiated with the National Education Development Fund (FNDE), which totaled almost R\$100 million, for the supply of textbooks for school year 2008, under the PNLD (elementary schools) and PNLEM (high schools) programs.

2007 was a year of great accomplishments for **Livraria Saraiva**. The rapid sales growth and effective cost and expense control boosted profitability, surpassing initial expectations. The EBITDA margin evolved from 6.0% in 2006 to 9.2% in 2007.

The expansion of the chain of physical stores achieved record figures. Seven stores were opened during the year, consolidating the leading position in São Paulo and Rio de Janeiro markets even more, and enabling the entry in important consumer markets, such as Salvador and Florianópolis. In addition, comparable sales of the stores existing in the two years showed a significant growth of 16.2%.

Livraria Saraiva's electronic retail division showed again robust growth in income and value generation, reaching a 60.8% increase in sales.

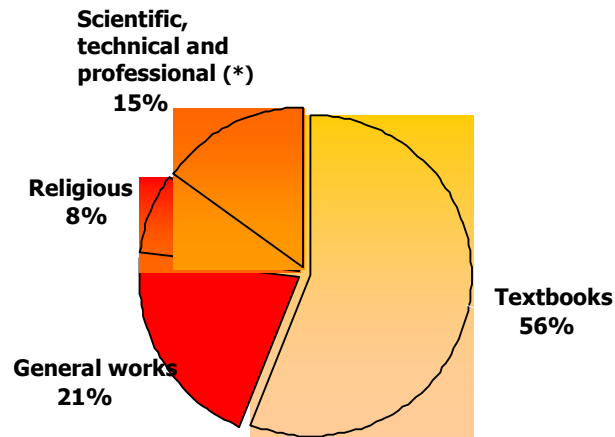
The "Saraiva Plus" loyalty program surpassed 1.77 million members and is consolidating as one of the most efficient customer retention programs in domestic retail.

Saraiva exceeded expectations in one more year of strong growth and record results. We went further with efficiency to additionally strengthen the Saraiva brand, synonym of publishing quality and excellence in retail operations. We are still optimistic about the existing opportunities in our marketplaces and confident in the continuous capacity of our employees to excel.

PUBLISHING AND BOOKSTORE MARKET

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

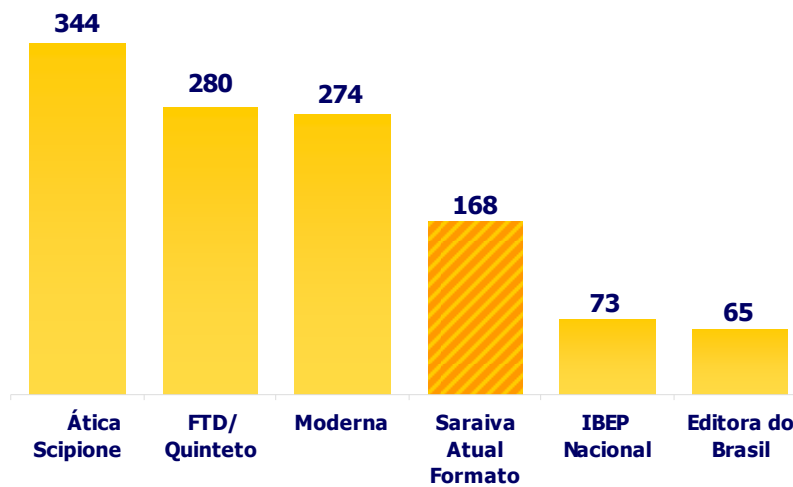
Publishing Market – 2006
Components of Gross Sales: R\$2.1 billion



(*) Includes legal books

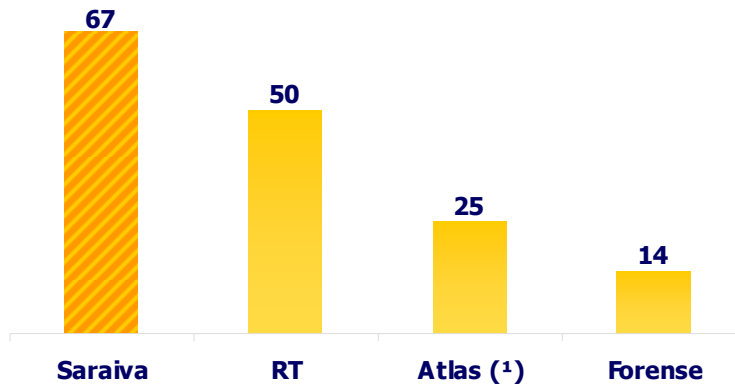
Source: CBL (Brazilian Book Chamber)

Textbook and Supplementary Textbook Market – 2006
Main Publishers by Net Sales – R\$ million



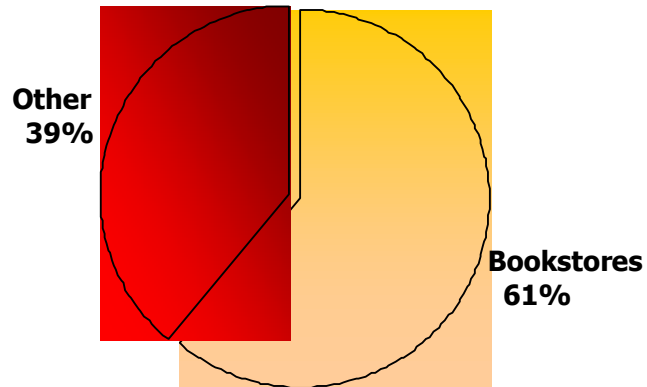
Source: Published balance sheets and Serasa

Legal Book Market – 2006
Main Publishers by Net Sales – R\$ million

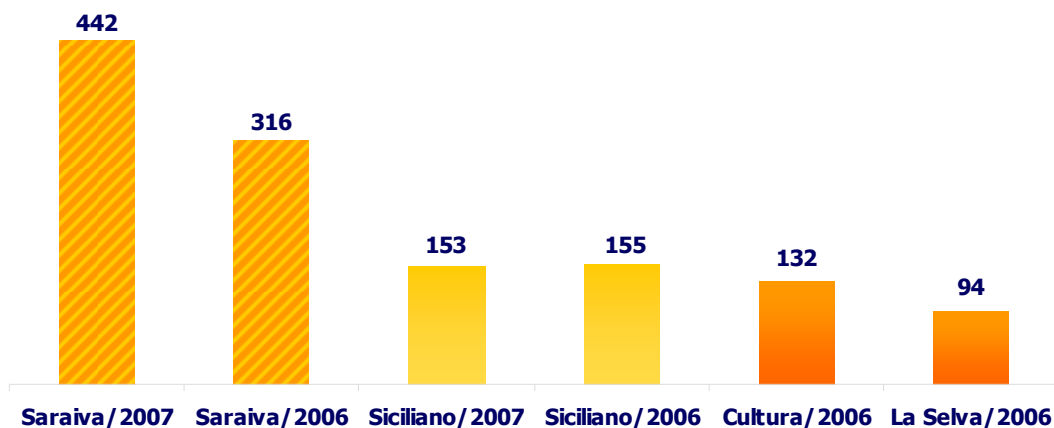


(1) Only legal books (Saraiva's estimate)
Source: Published balance sheets and Serasa

Book Market – 2006
Gross Sales by Sales Channel: R\$2.9 billion



**Main Bookstores
Net Sales – R\$ million**



Source: Published balance sheets, Saraiva and Serasa

SARAIVA S/A LIVREIROS EDITORES (EDITORA SARAIVA)

Editora Saraiva is the parent company of Livraria Saraiva, with 99.91% of its shares – the companies have different activities and corporate names.

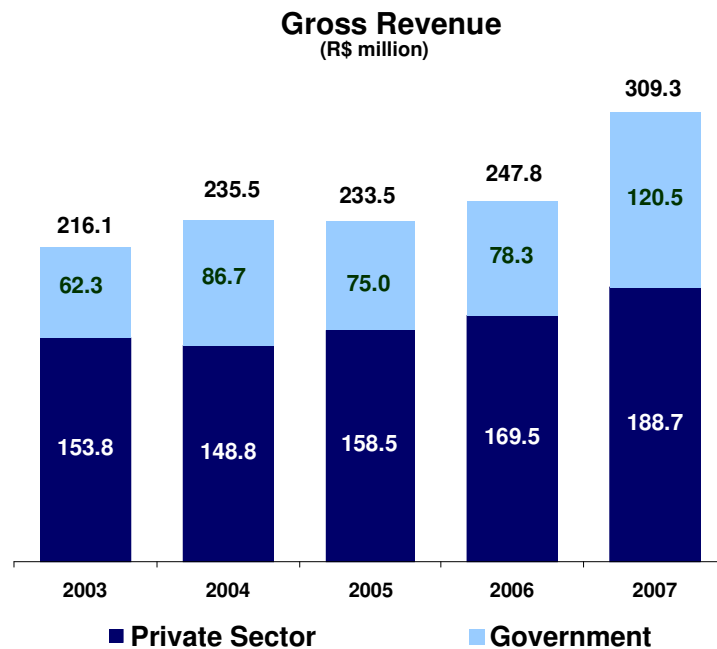
The table below summarizes the main data on Editora Saraiva's economic and financial performance:

	2007		2006		HA %
	R\$ thousand/A	%	R\$ thousand/A	%	
Gross Revenue	309,265	100.1	247,770	100.1	24.8
Net Revenue	309,081	100.0	247,507	100.0	24.9
Gross Profit	202,332	65.5	167,688	67.8	20.7
Operating Expenses	133,892	43.3	118,090	47.7	13.4
EBITDA	73,161	23.7	54,819	22.1	33.5
Financial Income (Expenses), net	8,282	2.7	2,278	0.9	263.6
Income before Equity in Subsidiaries	52,475	17.0	39,139	15.8	34.1
Net Income	70,207	22.7	46,469	18.8	51.1

Gross revenue

Gross revenue totaled R\$309.3 million, 24.8% higher than in the prior year.

The graph below shows that both book sales to the private sector and sales to the government contributed to the significant increase in total revenue for the period.



Private Sector

Book sales to the private sector were R\$188.7 million, an 11.3% increase as compared to the prior year. Highlights in the period were the legal books (+12.6%) and economics, business administration and business books (+43.2%).

Government

Book sales to the government totaled R\$120.5 million, a 53.9% increase in relation to 2006.

The table below summarizes the total contracted for each school year and the related revenue recognition schedule.

Program by School Year		Recording of Sales (fiscal year)	
Elementary and High Schools (1)	Total Sales (Contract Amounts)	2007	2006
2006	65.7		14.8
2007	84.6	21.1	63.5
2008	99.4	99.4	
Total		120.5	78.3

R\$ million

(1) Comprises PNLD, PNLEM, Books in School Program - SEE/MG and PNBE (National School Library Program).

Besides the fact that the total amount negotiated in the textbooks supply contracts for school year 2008 represented a historical record for the Company, sales of the related contracts were fully recognized in 2007, representing an advance of the supply calendar in relation to prior programs.

Therefore, 2007 was favored by the recognition of part of the revenue from the programs for the school year 2007, recorded in 1Q07, and by the full record, during 4Q07, of sales related to the government programs for school year 2008. Thus, 2008 will virtually not have revenue from sales to the government during 1Q08, and the program revenue for the school year 2009 will be recognized in the last quarter of 2008.

Based on the calendars already disclosed by the government, the expectation is to continue to fully recognize revenue for the next school years in the last quarter of the year prior to the corresponding school year.

The main government textbook purchasing programs are the PNLD (elementary education), which serves public elementary school students, and the PNLEM (high schools), which serves public high school students.

Government acquisitions for **elementary school** (32.9 million students) follow a three-year cycle. The tables below briefly present the purchasing potential, showing the current cycle and the new cycle beginning 2009, which considers the new nine-year elementary school and the estimated purchase of foreign language textbooks.

Elementary School – Current Cycle

Grade	# of Students (million)	Subjects	Market Potential # of Books (million)	% of Market Potential acquired each year		
				PNLD2007	PNLD2008	PNLD2009
1 st Grade	4.1	Literacy, Portuguese, Mathematics, Science, History and Geography	24.7	100%	100%	100%
2 nd - 4 th Grades	10.9	Portuguese, Mathematics, Science, History, Geography and Regional Books ⁽¹⁾	59.9	100%	12%*	12%*
5 th - 8 th Grades	13.4	Portuguese, Mathematics, Science, History and Geography	66.9	12%*	100%	12%*

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

* Historical Percentage of Replacement

(1) History and Geography

Elementary School – New Cycle

Grade	# of Students (million)	Subjects	Market Potential # of Books (million)	% of Market Potential acquired each year		
				PNLD2010	PNLD2011	PNLD2012
1 st Grade	4.5	Portuguese and Mathematics	9.0	100%	100%	100%
2 nd Grade	4.1	Portuguese and Mathematics	8.2	100%	100%	100%
		Science, History, and Geography	12.3	100%	12%	12%
3 rd – 5 th Grades	10.9	Portuguese, Mathematics, Science, History, Geography and Regional Books ⁽¹⁾	59.9	100%	12%	12%
6 th - 9 th Grades	13.4	Portuguese, Mathematics, Science, History and Geography	66.9	12% *	100%	12% *
		Foreign Language ⁽²⁾	13.4	-	100%	12% *

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

* Historical Percentage of Replacement

(1) History and Geography

(2) Actual purchase of textbooks depends on budget appropriation.

Saraiva's share in the market of textbooks adopted by elementary schools for the 5th to 8th grades (PNLD/2008) was 13.1%, in line with the market share in PNLD/2005 (previous program for these grades of elementary education).

Government acquisitions for **high schools** began in 2004 through a federal government pilot project. In 2007, FNDE issued a Resolution defining the progressive book purchasing calendar until at least 2012. The table below shows the purchasing cycle and the market potential for this segment, which has currently 7.8 million students enrolled.

High School

Grade	# of Students (million)	Subjects	Market Potential # of Books (million)	% of Market Potential acquired each year		
				PNLEM2007	PNLEM2008	PNLEM2009
1 st – 3 rd Grades	7.8	Chemistry and History	15.6	-	100%	12% *
		Portuguese and Mathematics	15.6	12% *	12% *	100%
			7.8	100%	12% *	100%
		Physics and Geography	15.6	-	-	100%

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

* Historical Percentage of Replacement

History and Chemistry textbooks were purchased under PNLEM/2008. Saraiva obtained a market share of 22.4% of the total History textbooks (Saraiva had no market share in Chemistry textbooks). Under PNLEM/2009, textbooks for five subjects will be purchased, representing a record of the total government acquisition volume for high schools and good prospects for Saraiva, with textbooks approved for five subjects of this program.

Gross Profit

Gross profit totaled R\$202.3 million, an increase of 20.7% in relation to the prior year. The gross profit margin, income to net revenue ratio, decreased from 67.8% to 65.5% due to the larger share of sales to the Government in the period, whose margins are lower than in sales to the private sector.

Income from Operations

Operating expenses amounted to R\$133.9 million, up 13.4% in relation to expenses recorded in 2006. The “operating expenses to net revenue” ratio improved, by going from 46.7%* in 2006 to 43.3% in 2007.

The focus on continuous cost management and control has improved significantly the cost to sales ratio, favoring the Company’s competitiveness to grow efficiently and with appropriate profitability. The table below shows the evolution in recent years, nine percentage points lower in the last five years.

Operating Expenses to Net Revenue Ratio	2003	2004	2005	2006*	2007
	52.4%	49.1%	46.0%	46.7%	43.3%

* excluding extraordinary events

EBITDA*

EBITDA accumulated R\$73.2 million, which represents a 33.5% increase in relation to 2006. EBITDA was R\$23.7% in 2007, which meant a 1.6 percentage point increase in relation to the prior year.

Reconciliation of EBITDA (R\$ thousand)	2007	2006	Var.
Income from Operations after Net Financial Expenses	77,123	52,013	48.3%
(+) Depreciation and Amortization	4,320	5,084	-15.0%
(-) Financial Income, net	8,282	2,278	263.6%
(=) EBITDA	73,161	54,819	33.5%

Financial Income (Expenses) / Capital Structure

Financial income (expenses) evolved from net financial income of R\$2.3 million to R\$8.3 million, reflecting the best cash position in the period.

Net cash (cash and cash equivalents less loans) evolved from R\$77.8 million at the end of 2006 to R\$76.9 million at the end of 2007. Note that the last installment (in the amount of R\$46.4 million) of the sale contracts with the government (PNLD and PNLEM/08) was paid at the beginning of January 2008. If the related amount was received during 2007, net cash position would improve considerably.

In 2007, R\$13.2 million was released from the BNDES financing, to carry out the investment plan of the period 2005/2007. In January 2008, R\$1.0 million was released and the full amount contracted of R\$32.5 million was made available.

** EBITDA represents earnings before interest, taxes, depreciation and amortization. EBITDA is not a measure used under Brazilian accounting practices or under accounting principles generally accepted in other countries, not representing cash flows for the reporting periods, and should not be considered as an alternative to net income as an indicator of the Company’s operating performance or as an alternative to cash flows as an indicator of liquidity. EBITDA does not have a standardized meaning and this definition of EBITDA may not be comparable to EBITDA as defined by other companies.*

Nonoperating Income

Nonoperating income for 2007 was R\$72 thousand as compared to R\$5.5 million recorded in the prior year. The result for 2006 is mainly explained by the profit from the sale of assets due to the shutdown of the Company's printing unit.

Net income

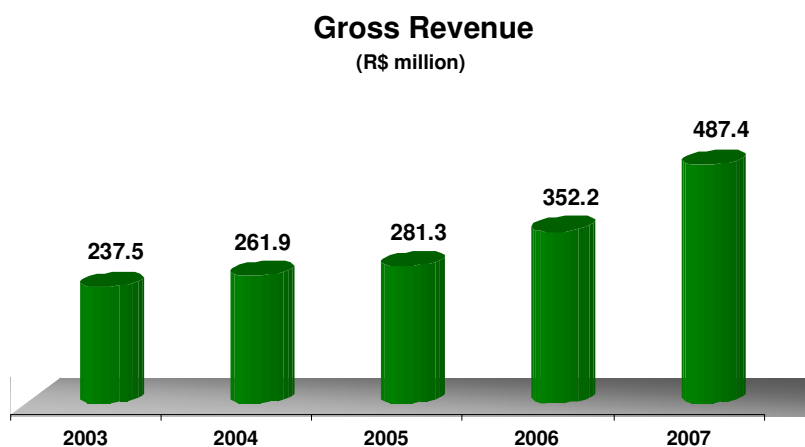
Net income before equity in the subsidiaries Livraria Saraiva and Pigmento Editorial totaled R\$52.5 million, representing a 34.1% increase. Editora Saraiva's return on equity (net income before equity in subsidiary/shareholders' equity at beginning of year, less investments in Livraria Saraiva) reached 30.4%.

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

Livraria is primarily engaged in retail sale of books, DVDs, music, periodicals, stationery, multimedia, and computer and electric-electronic products.

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

	2007		2006		HA %
	R\$ thousand	VA %	R\$ thousand	VA %	
Gross Revenue	487,376	110.3	352,202	111.4	38.4
Net Revenue	441,677	100.0	316,116	100.0	39.7
Gross Profit	160,665	36.4	115,344	36.5	39.3
Gross Profit	127,496	28.9	100,081	31.7	27.4
EBITDA	40,543	9.2	18,986	6.0	113.5
Financial Income (Expenses), net	(4,824)	-1.1	(2,290)	-0.7	110.7
Net Income	18,223	4.1	6,662	2.1	173.5

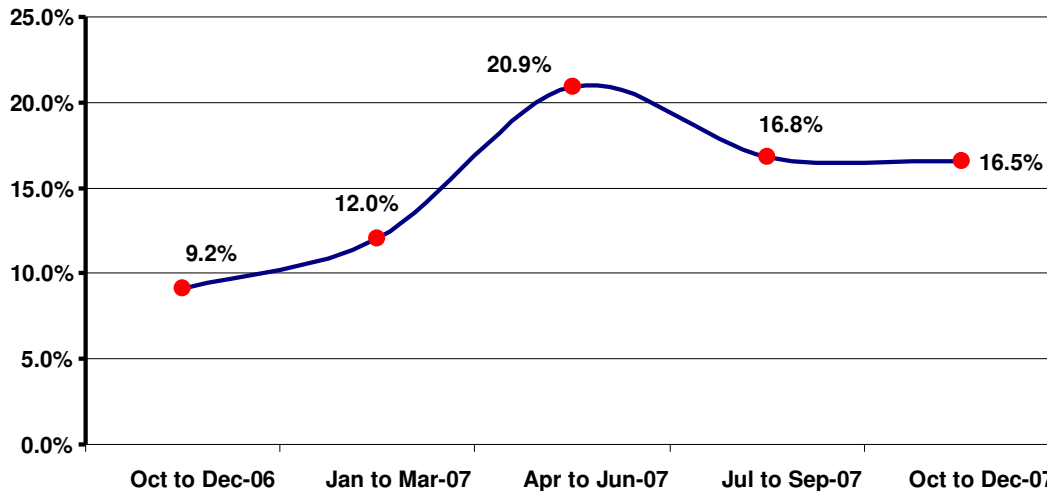


Livraria' gross revenue totaled R\$487.4 million, up 38.4% in relation to 2006. The exceptional growth was due to the sales boost of the electronic retail division (+ 60.8%) and physical stores (+ 29.8%).

The significant growth rate for sales of the physical stores is the result of the store expansion project, with seven new units opened during 2007, and of the revenue increase of 16.2% for comparable stores (existing since the beginning of 2006).

The graph below shows the sales growth evolution of comparable physical stores for the quarter compared to the same quarter of the prior year.

Nominal growth of comparable stores - by quarter



The nominal growth index in the book, newspaper, and stationery sector, released by the IBGE (Brazilian Institute of Geography and Statistics) in the monthly survey of commerce, showed a variation of 8.8% in 2007 as compared to the Saraiva's 32.4% growth in the same areas, evidencing the market share acquired in these segments.

The consistent growth in revenue achieved in 2007 is due to the strategic plan designed from 2005, comprising the hiring of a new executive team, and which increased aggressiveness in marketing actions and decided for the expansion of the mix of product categories. In addition, Management opted to increase the pace of the stores opening and extend the payment terms for customers, which contributed to creating favorable conditions for a quick sales boost. Due to an also favorable economy, the growth scenario was enhanced.

Gross Profit

Gross profit totaled R\$160.7 million, up 39.3% in relation to the prior year. Gross margin was 36.4% in 2007, remaining virtually the same as in 2006 (36.5%).

The gross margin was positive, since the rapid sales growth of the new product categories, especially IT products, which have lower sales margins than books, generated a natural pressure on the margin. This trend was offset by the efforts made to increase sales margins of traditional products added to Saraiva's greater clout with suppliers of the more recent product lines, favoring the negotiation of better commercial conditions.

Income from Operations

The operating expenses to net revenue ratio has continuously improved in the last years as a result of the focus on cost control and streamlining, and of the rapid revenue growth, favoring the dilution of fixed costs. The table below shows the evolution, nine percentage points lower in the last five years.

	2003	2004	2005	2006	2007
Operating Expenses to Net Revenue Ratio	37.9%	37.7%	34.5%	31.7%	28.9%

The Company's management understands that effective cost control contributes significantly to the Company's sustainability in the long term and is still aware of the opportunities for new efficiency gains.

EBITDA

EBITDA totaled R\$40.5 million, an increase of 113.5% in relation to the prior year. The EBITDA margin evolved from 6.0% to 9.2% in 2007.

Reconciliation of EBITDA (R\$ thousand)	2007	2006	Var.
Income from Operations after Net Financial Expenses	29,700	11,746	152.9%
(+) Depreciation and Amortization	6,019	4,950	21.6%
(-) Financial Income, net	(4,824)	(2,290)	110.7%
(=) EBITDA	40,543	18,986	113.5%

Financial Income (Expenses)/Capital Structure

Financial expenses, net, increased from R\$2.3 million to R\$4.8 million in 2007. Net cash evolved from R\$6.4 million at the end of 2006, to a net debt of R\$3.6 million at the end of 2007.

Changes in net financial result and in financial position result from the intensification of investments in store chain expansion and the increase in working capital requirements due to the rapid sales growth.

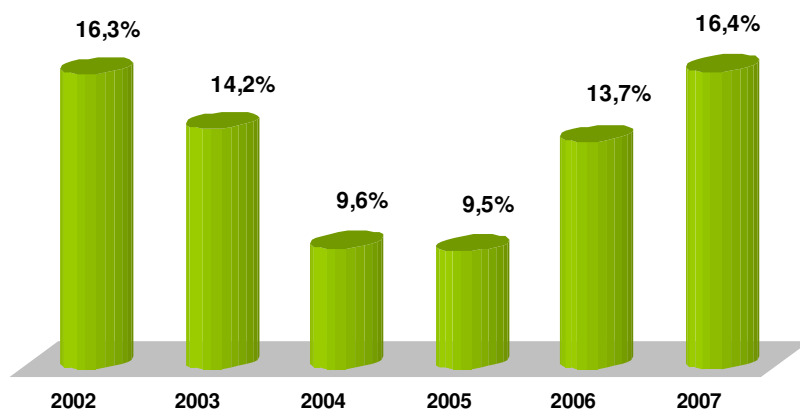
During 2007, R\$10.5 million was released from the BNDES financing for the store chain expansion in the period 2005 to 2008 and for the project to renovate and modernize some important units of the chain. Financing from the BNDES is in line with Management's strategy to optimize the capital structure in order to support the new investments.

Working capital

The working capital to gross sales ratio was 16.4% in 2007 against 13.7% in the prior year. The increasing share of the IT products line in the sales mix and the expansion of customer financing are some of the measures responsible for the successful action plan designed to foster sales and, as expected, explain the improvement of the working capital indicator used.

In order to effectively support the strategy of financing sales to customers, the Company is striving to improve logistics and intensifying partnerships with suppliers that result in gains on inventory turnover.

Working Capital (1) / Gross Revenue (2)



- (1) Inventories + Trade accounts receivable – Trade accounts payable (monthly average for the last 12 months)
(2) Gross sales in the last 12 months

Net income

As a result of the strong sales growth and the effective cost control, net income reached R\$18.2 million, an increase of 173.5% in relation to the prior year. Net margin almost doubled, evolving from 2.1% to 4.1%.

Awards

Livraria Saraiva was awarded the Alshop/Visa Award by the vote of the member of the Academy, in the category “Leisure and Entertainment Products”, during the ceremony held in April 2007 by the Brazilian Association of Shopping Mall Storeowners.

Marketing/Partnerships

One of the strategies that contributed to Livraria Saraiva being top of mind for culture, entertainment and information is the increased aggressiveness in marketing actions and the expansion of important partnerships. The highlights in 2007 were:

- The growth of 54.6% of the “Saraiva Plus” loyalty program’s membership base. At the end of December 2007, the program had more than 1,770 thousand members;
- Holding of over 2,700 cultural events in the chain of stores, among book, CD and DVD launches, pocket shows, live sets, mini-courses, debates and children’s activities, which contributed to attracting more people to stores;

- Expansion of the partnership with Ticketmaster, the world’s leader in the sale of tickets for concerts. At the end of 2007, Ticketmaster was present in nine Saraiva’s stores, adding value to customers’ buying experience and reinforcing the Company’s image as a convenience and culture center;
- Beginning of a partnership with the renowned coffee shops “Café Havanna”, in the shopping mall Crystal in Curitiba, and “Suplicy Cafés Especiais”, in the Paulista shopping mall megastore in São Paulo;
- Agreement entered into with Apple designating Saraiva as an authorized dealer. This partnership enabled Saraiva to be one of the few companies to buy directly from Apple in Brazil.
- Agreement entered with Banco do Brasil to launch the Saraiva credit card. With its broad range of advantages, this international credit card helps increasing the institutional value of the Saraiva brand, in addition to reducing the management fee and allowing the Company to have an even closer relationship with customers. Launched as a pilot project in October 2007, more than 11.5 thousand cards had already been issued by the end of February 2008.

Saraiva.com – Livraria Saraiva’s Electronic Retail Division

Indicators - Saraiva.com	2007	2006	Var.
Gross Revenue (R\$ thousand)	156,524	97,349	60.8%
Operating Expenses (SG&A)	27,956	19,307	44.8%
EBITDA (R\$ thousand)	17,627	10,645	65.6%
Active customers (thousands) ⁽¹⁾	1,197	941	27.2%
% of Gross Sales - Livraria	32.1%	27.6%	4.5 p.p.
Average Ticket (R\$)	130.93	111.93	17.0%

⁽¹⁾ Active customers: users who have made at least one purchase per year in the last two years.

2007 was a period of significant growth for electronic retail in the domestic market. The drop in computer prices and in the broad-band access subscription cost, together with economic stability and consumer credit expansion, produced a growth rate above management’s expectations. For the first time in history, in 2007 more computers than television sets were sold in Brazil.

Saraiva was one of the pioneers in the domestic e-commerce with an advanced logistics operation, in addition to a strong and reliable brand associated to books, which are one of the Internet-based best sellers.

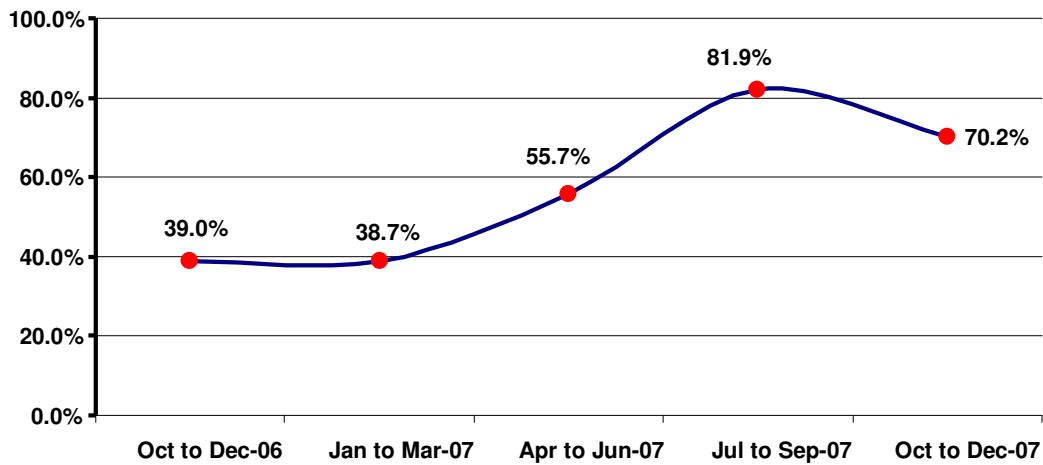
Based on the favorable environment and Saraiva’s technical capacity in online transactions, gross sales reached R\$156.5 million, with a significant increase of 60.8% as compared to prior year. The share in the Livraria’s total gross revenue reached 32.1% in 2007 against 27.6% in 2006.

The strategy of expanding the categories of products supplementing books continued to produce significant results, notably IT products, which increased 234%. Among the segments started in 2007, the main highlight was the cell phone line which already represented 4.0% of total e-commerce sales in 2H07. The number of items registered and available for sale at the end of 2007 exceeded 1,455 thousand products, a 33.9% rise in relation to the end of 2006.

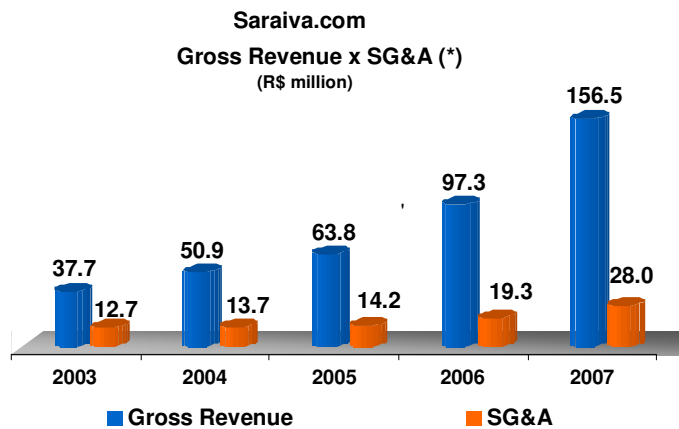
Note also the positive performance of the book line, which is the Company's flagship both at physical stores and electronic retail. This segment growth through Internet-based sales was 46.7%.

The graph below shows the sales growth evolution for the quarter compared to the same quarter of the prior quarter.

Nominal growth of Saraiva.com - by quarter



The graph below shows the gains of scale resulting from the rapid sales growth.



(*) Selling, General and Administrative Expenses

Awards in Electronic Retail

In recognition for the continuous investments in order to improve services provided by the electronic retail division, Saraiva received the following awards:

- “Infoweb 2007”, as the best on-line store in Brazil, elected by readers of INFO magazine;
- “Excellence in B2C Electronic Commerce Quality – 2007”, an award received from e-bit, company specialized in the Internet, elected by consumers as one of the best on-line stores in terms of service standard.
- “Diamond” company, based on customer service quality and excellence, granted by e-bit.

CONSOLIDATED

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

R\$ thousand	2007	2006	Var.
Gross Revenue	779.375	587.290	32.7%
Net Revenue	733.492	550.941	33.1%
Gross Profit	362.970	282.978	28.3%
<i>Gross Margin</i>	<i>49.5%</i>	<i>51.4%</i>	
Income from Operations (EBIT) (a)	102.917	63.772	61.4%
<i>Operating Margin</i>	<i>14.0%</i>	<i>11.6%</i>	
Financial Income (Expenses)	3.431	(13)	
Net Income	70.207	46.469	51.1%
<i>Net Margin</i>	<i>9.6%</i>	<i>8.4%</i>	
EBITDA (b)	113.276	73.806	53.5%
<i>EBITDA Margin</i>	<i>15.4%</i>	<i>13.4%</i>	
Total Assets	524.634	415.920	26.1%
Shareholders' Equity	282.756	231.436	22.2%
Cash (Indebtedness), Net	73.086	84.147	-13.1%

(a) Earnings before interest and taxes

(b) Earnings before interest, taxes, depreciation and amortizations

Note: Consolidated data include the results of operations of Pigmento Editorial for the period from December 7, 2007 to December 31, 2007

Mix of Consolidated Gross Revenue



Gross Revenue

Consolidated gross revenue totaled R\$779.4 million, a 32.7% increase as compared to the prior year, reflecting Editora Saraiva's and Livraria Saraiva's growth.

Gross Profit

Consolidated gross profit totaled R\$363.0 million, a growth of 28.3%. Consolidated gross margin was 49.5% in 2007, against 51.4% in 2006, due to Livraria Saraiva's higher weighted share in total consolidated and the lower gross margin recorded by Editora Saraiva, which was the result of the larger share of sales to the government in the revenue mix.

Income from Operations

Income from operations before financial income/expenses (EBIT) reached R\$102.9 million, a 61.4% increase in relation to 2006. The margin was 2.4 percentage points higher than in 2006, due to greater operational efficiency.

EBITDA

EBITDA reached R\$113.3 million, an increase of 53.5% in relation to the prior year. The EBITDA margin evolved from 13.4% in 2006 to 15.4% in 2007.

Reconciliation of EBITDA (R\$ thousand)	2007	2006	Var.
Income from Operations after Net Financial Expenses	106,348	63,759	66.8%
(+) Depreciation and Amortization	10,359	10,034	3.2%
(-) Financial Income, net	3,432	(13)	
(=) EBITDA	113,275	73,806	53.5%

Financial Income (Expenses)/Capital Structure

Consolidated financial income (expenses) improved by R\$3.4 million due to Editora Saraiva's net financial income growth that exceeded the increase in Livraria Saraiva's net financial expenses in the period.

Net cash went from R\$84.1 million at the end of 2006, to R\$73.1 million at the end of 2007, and reflected the increase in investments in 2007 both in Editora Saraiva and in Livraria Saraiva. Current consolidated leverage is 0.4 times EBITDA.

In 2007 the Company received approximately R\$23.7 million from the BNDES long-term financing for investment plans of Editora Saraiva and Livraria Saraiva. Since 2006 R\$40.5 million was released by the BNDES.

Saraiva intends to seek new financing similar to the ones obtained from the BNDES, in order to effectively support the investment opportunities in its different marketplaces. The ideal capital structure defined by Management allows for a leverage level of up to 1.5 times EBITDA.

Net income

Consolidated net income reached a record for the fourth consecutive year totaling R\$70.2 million, a growth of 51.1%. The final result was favored by the positive performance of Editora Saraiva and Livraria Saraiva.

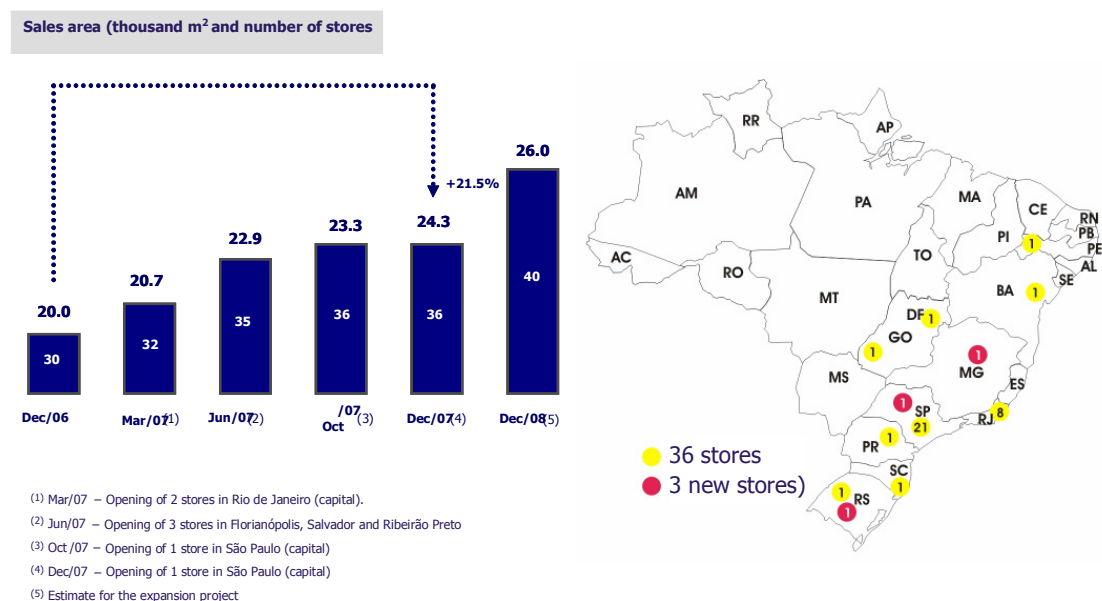
INVESTMENTS

Pursuant to the investment program established since the capital increase made in April 2006, Saraiva identified opportunities to invest R\$41.4 million during 2007 in projects with attractive return prospects.

The total amount invested in **Editora Saraiva** was R\$19.1 million, notably the entry in two new market niches that supplement the set of high quality education solutions offered to schools:

- **Ético Sistema de Ensino.** According to a significant event notice published on December 7, 2007, Saraiva acquired Pigmento Editorial S.A., responsible for selling the “*Ético Sistema de Ensino*” (Ético Teaching System), consisting of teaching materials published under the strictest conceptual criterion, and a high quality pedagogical support service line. Saraiva maintained this business unit under the responsibility of Pigmento’s founder, José Arnaldo Favaretto, a highly-experienced professional in the education field, who worked as teacher, textbook author and publishing director of well-known publishers in the field of textbooks and education solutions. This acquisition is Saraiva’s way into the Teaching System market, which, according to Company’s estimates, trades approximately R\$500 million per year in Brazil;
- **Editora Saraiva Educação Multimídia.** Another important strategic step in 2007 was Saraiva’s initiative to create products that meet and anticipate the educational market demand for digital content. As a result of the partnership with Houghton Mifflin Harcourt International Publishers, one of the world’s leading companies in the segment of education software, the first two products launched are multimedia teaching materials for Mathematics and English. Fully in line with Brazilian syllabuses, these products represent digital pedagogical solutions which follow world trends on the use of new technologies in education for more dynamic teaching and learning in schools. The first contacts with private elementary and high schools are underway for sales for school year 2009. With total investments estimated at R\$4 million, Saraiva expects to cover the main subjects in the coming years.

The investment in **Livraria** was R\$19.9 million, mainly in store chain expansion, with a record opening of seven units in 2007. The graph below shows the significant sales growth with the implementation of the expansion project.



The new stores have the following characteristics:

- Norte shopping mall in the city of Rio de Janeiro, with 620m² of sales area, opened in January 2007;
- Building of the IBMEC college, in the city of Rio de Janeiro, with a total area of 200m², opened at the end of February 2007;
- Iguatemi shopping mall in Florianópolis, with 610m² of sales area, opened in April 2007;
- Salvador shopping mall, with 1,280m² of sales area, the largest bookstore in Salvador, opened in May 2007;
- Novo Shopping, an important trading center in the city of Ribeirão Preto, with 400m² of sales area, opened in June 2007;
- Santana shopping mall, with 450m² of sales area, in the city of São Paulo, opened in October 2007;
- Paulista shopping mall, in São Paulo, with 1,000 m² of sales area in a strategic location, opened in November 2007. With the opening of this megastore, the traditional format store in this shopping mall was closed.

Another important investment was the renovation of the Megastore in Iguatemi shopping mall in Campinas, State of São Paulo. With cutting-edge interior design and an atmosphere that favors the comfort of customers, the store was renovated according to the current layout design and product mix standards defined by Management, which already had a positive impact on sales performance at the end of the year.

CAPITAL MARKET

The following indicators summarize the trading of Saraiva's shares in the last three years:

Indicators	2007	2006	2005	2007/ 2006	2007/ 2005
Number of Trades ¹	14.619	28.164	1.724	-48.1%	748.0%
Participation in Trading Sessions ¹ (%)	100.0	100.0	76.7	-	23.3 p.p.
Quantity Traded - thousand shares	18.215	20.314	4.957	-10.3%	267.5%
Volume Traded (R\$ thousand) ¹	507.281	410.861	63.289	23.5%	701.5%
Share Price (R\$) ^{1 2}	35.00	23.90	17.20	46.4%	103.5%
Total Shares Outstanding - thousand	28.230	28.230	22.937	-	23.1%
Market Value (R\$ million) ^{2 4}	988.1	674.7	394.5	46.4%	150.4%

Source: Bovespa

(¹) Referring to preferred shares (SLED4)

(²) At end of year

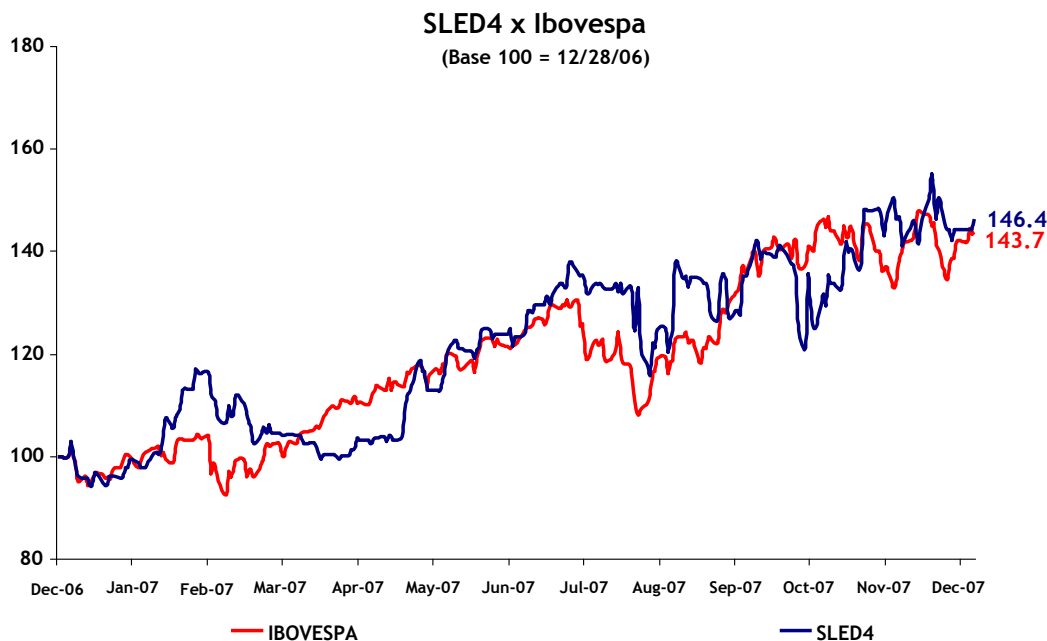
(³) There was a bonus of 2,326,920 preferred shares in January 2006. 3,000,000 preferred shares were issued in April 2006.

(⁴) Calculation estimated based on the preferred share price also apply to common shares

The indicators for 2006 are positively impacted by the successful capital increase. Accordingly, the comparison between 2007 and 2005 reflects more fairly the significant improvement of Company's shares' liquidity.

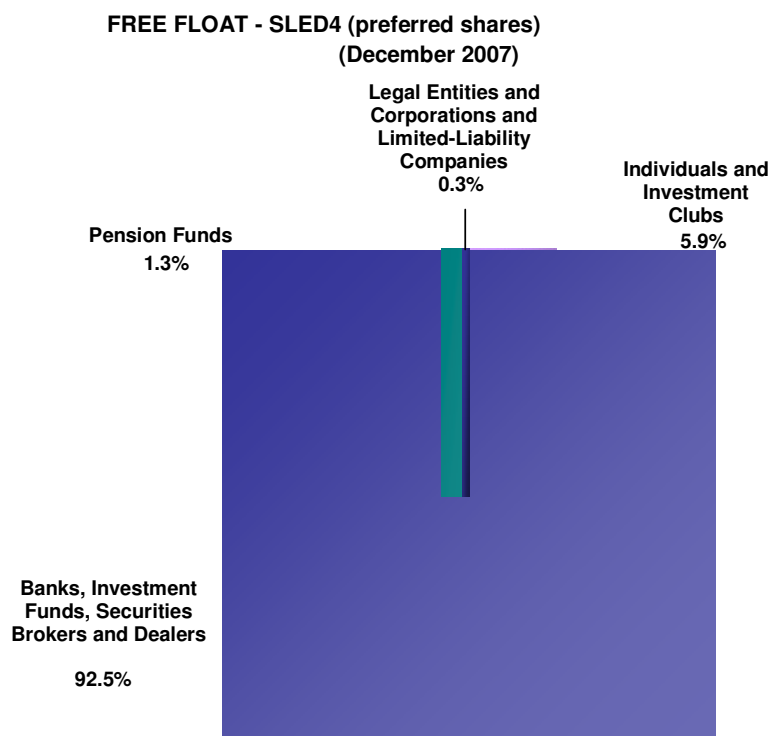
Saraiva's commitment to the excellence of corporate governance practices, together with a sound operating performance, has resulted in a positive perception from investors and consistently improved the company's market value. In 2007 Saraiva's shares were traded in all Bovespa's trading sessions for the second consecutive year.

The appreciation of preferred shares (SLED4) reached 46.4% in 2007, as compared to Ibovespa's appreciation of 43.7%.



SHAREHOLDING STRUCTURE

Saraiva's subscribed and paid-up capital was R\$147,774,184.00 as of December 31, 2007, represented by 28,596,123 registered shares, without par value, of which 9,622,313 are common shares (ON) and 18,973,810 are preferred shares (PN). The Company holds 365,750 preferred shares in treasury.



PAYMENT TO SHAREHOLDERS

The Board of Directors, in a meeting held on March 6, 2008, approved the payment of R\$14.8 million (R\$0.52263911 per share) to shareholders, in the form of interest on capital. In order to meet legal and statutory requirements as regards minimum dividend and considering the income for the year, additional R\$4.1 million (R\$0.14640430 per share) will be allocated as supplementary dividends, in accordance with resolution to be passed at the Annual Shareholders' Meeting scheduled for April 23, 2008.

The total gross amount of payment to shareholders will be R\$18.9 million (R\$0.66904341 per share), equivalent to 26.9% of income for the year, and will represent a dividend yield of 1.9% on the price of preferred shares as of December 31, 2007.

HUMAN RESOURCES

Consolidated headcount ended the year at 2,368, representing an additional 26 employees in relation to the prior year. **Editora Saraiva** ended 2007 with 852 employees, a decrease of 198 employees, due to the shutdown of the Company's printing unit in January 2007. **Livraria Saraiva** ended the year with 1,516 employees, an increase of 224 employees, due to professionals hired for the new stores.

Consolidated productivity indicated by the ratio of revenue to average employees evolved 31.1% and reached R\$330.9 thousand, in 2007.

In view of the Company's ambitious growth plans, it is essential to provide conditions to motivate employees to continually overcome challenges and meet the requirements of ever more competitive markets. Training, innovation and acknowledgement are key words that support every Saraiva's human resource project. In 2007 Saraiva invested in 538 activities, with 12,383 enrollments in 43 thousand hours of training.

SOCIAL RESPONSIBILITY

Saraiva has focused investments in projects developed by Instituto Jorge Saraiva, which works with social and educational insertion of needy children. The other social projects are promoted by means of community action and solidarity campaigns with the active participation of the employees.

INDEPENDENT AUDITORS

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

SUBSEQUENT EVENTS

Acquisition of Siciliano

According to a significant event notice published on March 6, 2008, the negotiations of Livraria e Papelaria Saraiva S.A. to purchase 100% of the shares of Siciliano S.A. were successfully closed.

Siciliano, a traditional domestic company engaged in the retail sale of books, was established in 1928 and has 52 own stores and 11 franchise stores, in 13 Brazilian states, including the Federal District.

Siciliano's and Livraria Saraiva's operations are complementary, with little overlapping and high level of operating synergy. Siciliano has excellent commercial locations and an interesting penetration in the states where Saraiva does not operate.

The purchase price for Siciliano's shares was R\$60.0 million, and Livraria Saraiva also assumed Siciliano's net debt in the amount of R\$13.6 million (as of December 31, 2007 – unaudited). In 2007, Siciliano's gross revenue (unaudited) was approximately R\$156 million - R\$151 million from retail activities and R\$5 million from publishing activities represented by the labels Arx, Futura, Caramelo and Arxjovem.

The purchase price will be adjusted up or down due to possible variations of net debt and working capital position of Siciliano between November 30, 2007 and the acquisition date, and the result of this possible adjustment will be timely reported by means of a new significant event notice.

Livraria Saraiva will use its best efforts to provide Siciliano's customers a buying experience even more complete, increasing the assortment of products available and investing in professional qualification and expansion of services offered.

With this important acquisition, Saraiva significantly strengthens its position in the domestic retail market and shows its confidence in the future of the book market and in the growth of the publishing market in Brazil.

Merger of Pigmento (Ético Teaching System)

According to the Minutes of the Extraordinary Shareholders' Meeting held on February 1, 2008, Pigmento Editorial S.A. was merged into Saraiva S.A. Livreiros Editores, becoming a business unit of Editora Saraiva. The purpose of this measure is to streamline activities and reduce administrative costs, using existing synergies.

Fourth Stock Option Plan

The Company's stock option plans for the main officers are an important strategy to retain talents and continuously align officers' and shareholders' interests.

The first two plans, launched in 1998 and 2000, respectively, are already closed.

The Third Stock Option Plan was disclosed on March 5, 2007, granting call options on 123,800 preferred shares to 19 officers and employees for exercise from March 8 to May 7, 2010, with restriction on free trading until May 6, 2012. The price set for each share is R\$21.50 (Share Price), subject to adjustment based on the IPCA (extended consumer price index) from February 2007 to the month prior to the option exercise.

Dividend and/or interest on capital which may be approved by Saraiva, from grant date to the exercise of the option, will be subtracted from the Share Price adjusted until then on the same date of the related approvals, and from then on Share Price will be subject to the IPCA variation.

The Saraiva's Stock Option Plan Management Committee approved, in a meeting held on February 28, 2008, based on a recommendation by the Board of Directors in a meeting held on February 25, 2008, the conditions and beneficiaries of the Fourth Plan, granting call options on 124,600 preferred shares to 22 officers and employees, to be exercised from March 8 to May 7, 2011, with restriction on free trading until May 6, 2013. The price set for each share is R\$30.00 (Share Price), subject to adjustment based on the IPCA from March 1, 2008 to the last day of the month prior to the option exercise. Dividend and/or interest on capital which may be approved by Saraiva, from grant date to the exercise of the option, will be subtracted from the Share Price adjusted until then on the same date of the related approvals, and from then on Share Price will be subject to the IPCA variation. The options will be exercised through a new issue of shares and/or sale of treasury shares held by the Company.

OUTLOOK

The Company is confident regarding the opportunities and outlook for its business areas. The economic scenario is especially favorable, with the recovery of income and the strengthening of middle class, which increases the demand for products related to education, culture and leisure. Government investments in education are consistently growing. The different economic agents of the country are genuinely concerned with finding ways to improve education quality in Brazil.

In addition to excellent results achieved in 2007, Saraiva was able to make record investments feasible, which enhanced the growth possibilities and prepared the company to efficiently compete in the markets where it usually operates, in addition to creating new prospects in niches complementary to its product lines.

At **Editora Saraiva**, PNLEM (textbook purchasing for high schools) evolved from a program intended to partially meet school syllabuses to a program that meets the needs of all subjects and grades in high school, and is regulated and organized following the established program PNLD (textbook purchasing for elementary schools).

The PNLEM for 2009 will purchase textbooks for five subjects for all high school grades, which is positive to Saraiva because of its history of a strong market share in almost all the high school subjects. In addition, the government announced the intention of also purchasing English and Spanish textbooks from PNLD 2011 and PNLEM 2012.

Saraiva is developing an intense base work in its main publishing lines, by increasing its editorial staff, renewing the publishing catalog, aligning market lines and making partnerships with new authors. The forecast is to launch 297 titles (new works and reformulated ones) only in 2008.

Entering the Teaching Systems segment also creates new prospects and adds value to the education solutions offered by Saraiva, which now include a differentiated Teaching System in addition to the traditional and renowned quality of its books.

Under the label Editora Saraiva Educação Multimídia, Saraiva is a pioneer by investing in the domestic market in a segment with attractive return prospects over the medium and long terms, aligned with the success trend of these products in the North American and European markets.

Livraria Saraiva presents opportunities to continue growing and consolidating its marketplaces. The strategy of accelerating the pace of the store chain expansion using the new megastore concept and the new model for the traditional stores, with diversification and adaptation of the product mix, was well accepted by customers and produced an important gain of scale and profitability to operations.

The expansion project for 2007/2008 includes eleven new stores, of which seven are opened, one is contracted and two are in the final contracting phase. There is still the possibility of exceeding the initial target if Management identifies good investment opportunities. Domestic book market is still very dispersed, with very few bookstores in relation to the population potential.

For 2009/2010 Management expects to open 11 stores, adding 6 thousand m² of sales area and totaling about 32 thousand m² at the end of 2010 (without considering the increase with the acquisition of Siciliano).

The expectations for the electronic commerce are the continuity of the high growth rates, due to the rapid popularization of computer and Internet use and the increase in customers trust on on-line sales. Saraiva will keep the strategy of introducing new product categories and continually investing in improving services offered in order to effectively follow this growth potential.

ACKNOWLEDGEMENTS

We thank all our shareholders, customers, suppliers, financial institutions, authors, employees and communities for the support given in 2007, without which we would not have achieved the excellent results obtained.

São Paulo, March 7, 2008

Management