

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

SARAIVA S.A. LIVREIROS EDITORES

BALANCE SHEETS AS OF DECEMBER 31, 2006 AND 2005

(In thousands of Brazilian reais - R\$)

ASSETS	Note	Company		Consolidated		LIABILITIES AND SHAREHOLDERS' EQUITY	Note	Company		Consolidated	
		2006	2005	2006	2005			2006	2005	2006	2005
CURRENT ASSETS						CURRENT LIABILITIES					
Cash and cash equivalents	5	97,094	8,641	109,004	20,194	Trade accounts payable		41,452	20,860	97,933	70,022
Trade accounts receivable	6	71,054	59,213	123,379	90,044	Financing	11	737	3,261	2,097	5,585
Inventories	7	63,427	62,439	115,515	102,817	Accrued vacation and related charges		4,592	4,172	7,442	6,711
Recoverable taxes		5,311	7,440	5,715	7,553	Taxes payable	16	598	59	4,226	3,557
Deferred income and social contribution taxes	14	636	-	4,280	4,853	Provision for income and social contribution taxes		5,141	6,804	5,286	9,939
Dividends receivable	8	1,572	-	-	-	Deferred income and social contribution taxes	14	-	18	-	18
Other receivables		1,496	387	1,910	515	Copyrights payable		4,617	5,443	4,617	5,443
Prepaid expenses		4,047	420	4,137	503	Loans from subsidiary	13	-	11,446	-	-
Total current assets		<u>244,637</u>	<u>138,540</u>	<u>363,940</u>	<u>226,479</u>	Management profit sharing		3,600	3,383	4,336	4,057
NONCURRENT ASSETS						NONCURRENT LIABILITIES					
Loans to subsidiary	13	5,008	-	-	-	Dividends and interest on capital	17	13,988	11,048	13,988	11,048
Deferred income and social contribution taxes	14	753	651	5,761	6,683	Other payables		2,358	5,260	8,221	9,121
Escrow deposits		1,237	290	2,042	815	Total current liabilities		<u>77,083</u>	<u>71,754</u>	<u>148,146</u>	<u>125,501</u>
Receivables from sale of property, plant and equipment	9	5,725	-	5,725	-	NONCURRENT LIABILITIES					
Other		60	-	60	-	Financing	11	18,578	7,510	22,759	8,591
		12,783	941	13,588	7,498	Deferred income and social contribution taxes	14	4,755	3,815	4,755	3,815
Investments:						Reserve for contingencies	15	112	1,290	1,729	2,840
In subsidiary	8	58,402	52,644	-	-	Taxes payable	16	2,030	-	7,044	6,413
Other		438	408	585	543	Total noncurrent liabilities		<u>25,475</u>	<u>12,615</u>	<u>36,287</u>	<u>21,659</u>
Property, plant and equipment	9	13,516	18,626	31,202	36,469	MINORITY INTEREST					
Intangible assets	9	3,312	4,802	4,994	6,883			-	-	51	46
Deferred charges	10	906	1,363	1,611	2,289	SHAREHOLDERS' EQUITY					
Total noncurrent assets		<u>89,357</u>	<u>78,784</u>	<u>51,980</u>	<u>53,682</u>	Capital	17	147,774	46,405	147,774	46,405
TOTAL ASSETS						TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY					
		<u>333,994</u>	<u>217,324</u>	<u>415,920</u>	<u>280,161</u>	Treasury shares	17	(2,870)	(2,870)	(2,870)	(2,870)
						Capital reserves		-	13,947	-	13,947
						Profit reserves		85,295	74,236	85,295	74,236
						Retained earnings		1,237	1,237	1,237	1,237
						Total shareholders' equity		231,436	132,955	231,436	132,955
						TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY					
		<u>333,994</u>	<u>217,324</u>	<u>415,920</u>	<u>280,161</u>			<u>333,994</u>	<u>217,324</u>	<u>415,920</u>	<u>280,161</u>

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

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SARAIVA S.A. LIVREIROS EDITORES

STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005
(In thousands of Brazilian reais - R\$, except earnings per share)

	Note	Company		Consolidated	
		2006	2005	2006	2005
GROSS REVENUE FROM SALES		247,770	233,516	587,290	505,623
DEDUCTIONS FROM GROSS REVENUE					
Sales taxes (ICMS, PIS, Cofins and ISS)		(263)	(186)	(36,349)	(28,377)
NET OPERATING REVENUE		247,507	233,330	550,941	477,246
COST OF SALES AND SERVICES		(79,819)	(71,736)	(267,963)	(216,839)
GROSS PROFIT		167,688	161,594	282,978	260,407
OPERATING (EXPENSES) INCOME					
Selling expenses		(69,976)	(62,286)	(148,445)	(130,705)
General and administrative expenses		(39,430)	(35,626)	(54,174)	(48,210)
Management fees		(3,600)	(3,383)	(5,463)	(4,736)
Depreciation and amortization		(5,084)	(5,991)	(10,034)	(10,856)
Equity in subsidiary	8	7,330	6,066	-	-
Other operating income (expenses), net		137	51	(1,090)	(423)
		(110,623)	(101,169)	(219,206)	(194,930)
INCOME FROM OPERATIONS BEFORE FINANCIAL INCOME (EXPENSES)		57,065	60,425	63,772	65,477
FINANCIAL INCOME (EXPENSES)					
Financial income	19	12,065	2,034	12,192	3,579
Financial expenses	19	(9,787)	(5,502)	(12,205)	(7,926)
		2,278	(3,468)	(13)	(4,347)
INCOME FROM OPERATIONS		59,343	56,957	63,759	61,130
NONOPERATING INCOME (EXPENSES), NET		5,530	25	5,501	(170)
INCOME BEFORE INCOME AND SOCIAL CONTRIBUTION TAXES		64,873	56,982	69,260	60,960
INCOME AND SOCIAL CONTRIBUTION TAXES					
Current	14	(14,619)	(14,294)	(16,031)	(19,221)
Deferred	14	(185)	720	(2,418)	2,348
INCOME BEFORE MANAGEMENT PROFIT SHARING		50,069	43,408	50,811	44,087
MANAGEMENT PROFIT SHARING		(3,600)	(3,383)	(4,336)	(4,057)
INCOME BEFORE MINORITY INTEREST		46,469	40,025	46,475	40,030
MINORITY INTEREST		-	-	(6)	(5)
NET INCOME		46,469	40,025	46,469	40,025
EARNINGS PER SHARE - R\$		1.65	1.74		
NUMBER OF SHARES OUTSTANDING (IN THOUSANDS)		28,230	22,937		

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

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

SARAIVA S.A. LIVREIROS EDITORES

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (COMPANY)

FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

(In thousands of Brazilian reais - R\$, except per share data)

	<u>Note</u>	<u>Capital reserves</u>					<u>Retained earnings</u>	<u>Total</u>
		<u>Capital</u>	<u>Treasury shares</u>	<u>Share premium reserve</u>	<u>Other reserves</u>	<u>Profit reserves</u>		
BALANCES AS OF DECEMBER 31, 2004		41,977	(2,870)	8,653	5,294	49,596	1,237	103,887
Resolution of the Annual and Extraordinary Shareholders' Meeting on April 26, 2005-								
Capital increase with reserves		4,428	-	-	-	(4,428)	-	-
Net income		-	-	-	-	-	40,025	40,025
Prescribed dividends - reversal of unclaimed interest on capital		-	-	-	-	-	91	91
Proposed allocation of net income:								
Legal reserve		-	-	-	-	2,001	(2,001)	-
Transfer to profit reserves		-	-	-	-	27,067	(27,067)	-
Interest on capital		-	-	-	-	-	(10,129)	(10,129)
Dividends		-	-	-	-	-	(919)	(919)
BALANCES AS OF DECEMBER 31, 2005		46,405	(2,870)	8,653	5,294	74,236	1,237	132,955
Resolution of the Extraordinary Shareholders' Meeting on January 6, 2006 -								
Bonus for capitalization of reserves of 0.10 preferred share per preferred share or common share	17	35,369	-	(8,653)	(5,294)	(21,422)	-	-
Resolution of the Board of Directors' Meeting on April 11, 2006-								
Primary offering with issuance of 3,000,000 preferred shares for R\$22.00 per share	17	66,000	-	-	-	-	-	66,000
Net income		-	-	-	-	-	46,469	46,469
Proposed allocation of net income:								
Legal reserve	17	-	-	-	-	2,323	(2,323)	-
Transfer to profit reserves	17	-	-	-	-	30,158	(30,158)	-
Interest on capital (R\$0.49549281 per share)	17	-	-	-	-	-	(13,988)	(13,988)
BALANCES AS OF DECEMBER 31, 2006		<u>147,774</u>	<u>(2,870)</u>	<u>-</u>	<u>-</u>	<u>85,295</u>	<u>1,237</u>	<u>231,436</u>

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SARAIVA S.A. LIVREIROS EDITORES

STATEMENTS OF CHANGES IN FINANCIAL POSITION
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005
(In thousands of Brazilian reais – R\$)

	Note	Company		Consolidated	
		2006	2005	2006	2005
SOURCES OF FUNDS					
From operations:					
Net income		46,469	40,025	46,469	40,025
Items not affecting working capital:					
Depreciation and amortization (including amount allocated to cost)		5,592	7,013	10,764	12,175
Net book value of property, plant and equipment written off		2,924	165	3,655	603
Write-off of deferred charges		43	-	43	-
Deferred income and social contribution taxes	14	838	(1,112)	1,862	914
Equity in subsidiary, net of dividends receivable	8	(5,758)	(6,066)	-	-
Financial charges and exchange and monetary variations on noncurrent assets and liabilities		(457)	(206)	792	612
Provision for investment losses		120	-	168	-
Minority interest in subsidiary		-	-	5	5
		<u>49,771</u>	<u>39,819</u>	<u>63,758</u>	<u>54,334</u>
From third parties:					
Capital increase by public subscription	17	66,000	-	66,000	-
Financing	11	11,388	7,500	15,815	7,500
Prescribed dividends - unclaimed interest on capital		-	91	-	91
Increase in noncurrent liabilities		1,038	332	1,038	439
Decrease in noncurrent assets		-	2,164	-	2,164
Total sources		<u>128,197</u>	<u>49,906</u>	<u>146,611</u>	<u>64,528</u>
USES OF FUNDS					
Purchase of property, plant and equipment		1,502	3,056	6,628	8,370
Loans to subsidiary	13	4,341	-	-	-
Transfer from noncurrent to current liabilities		1,038	3,221	4,262	7,780
Dividends and interest on capital	17	13,988	11,048	13,988	11,048
Increase in noncurrent assets		6,560	1,356	6,701	1,954
Decrease in noncurrent liabilities		-	-	216	-
Total uses		<u>27,429</u>	<u>18,681</u>	<u>31,795</u>	<u>29,152</u>
INCREASE IN WORKING CAPITAL		<u>100,768</u>	<u>31,225</u>	<u>114,816</u>	<u>35,376</u>
REPRESENTED BY					
Current assets		106,097	(12,855)	137,461	16,711
Current liabilities		5,329	(44,080)	22,645	(18,665)
INCREASE IN WORKING CAPITAL		<u>100,768</u>	<u>31,225</u>	<u>114,816</u>	<u>35,376</u>

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

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NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

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

1. OPERATIONS

Saraiva S.A. Livreiros Editores (the “Company” or “Editora”) is primarily engaged in publishing elementary and high school textbooks, supplementary textbooks, legal books and economics and management books.

The Company experiences seasonality in its business, with 80% of its sales concentrated in the first and last quarters of the year. This sales concentration is due to two factors: (a) the back-to-school period in the first quarter; and (b) the sale of textbooks to the government in the fourth and first quarters of the year.

Livraria e Papelaria Saraiva S.A. (“Livraria”), a subsidiary of the Company, is engaged in retail sale of books, DVDs, music, stationery, and computer and electro-electronic products. Distribution is conducted through an Internet-based sales platform and a chain of 30 stores, of which 15 are megastores and 15 are conventional stores.

2. PRESENTATION OF FINANCIAL STATEMENTS

The individual and consolidated financial statements of the Company have been prepared and are presented in conformity with Brazilian accounting practices and standards established by the Brazilian Securities Commission (CVM). These financial statements reflect the changes introduced by Accounting Standard and Procedure (NPC) No. 27, “Presentation and Disclosures”, and NPC No. 22, “Provisions, Liabilities, Contingent Liabilities and Contingent Assets”, both issued by the Brazilian Institute of Independent Auditors (IBRACON) on October 3, 2005, and approved by CVM Resolutions No. 488 and No. 489, respectively, on the same date. Certain adjustments have been made to the financial statements for the year ended December 31, 2005 to conform them to the aforementioned accounting standards and allow comparability with the current year. The main changes resulting from applying these standards are as follows:

- Presentation of the group “Noncurrent” in assets and liabilities.
- Presentation of the account “Intangible assets”, classified in the group “Noncurrent assets”.
- Reclassification of escrow deposits, previously classified in assets, to liabilities, as a reduction of the account “Reserve for contingencies”, when applicable

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of deferred tax assets and liabilities, provisions and contingent liabilities, considering the best available evidence and assumptions at the balance sheet dates. Actual results could differ from those estimates.

3. SIGNIFICANT ACCOUNTING PRACTICES

a) General principles

Results of operations are determined on the accrual basis of accounting. Sales revenues and the corresponding costs are recorded upon the transfer of risks and benefits.

b) Current and noncurrent assets

- Temporary cash investments

Stated at cost, plus income earned through the balance sheet dates.

- Allowance for doubtful accounts

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

- Inventories

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

- Other noncurrent assets

Stated at net realizable value.

- Investments

Investment in subsidiary is accounted for under the equity method, and other investments are stated at cost, less a valuation allowance.

- Property, plant and equipment and intangible assets

Recorded at acquisition or construction cost, plus monetary adjustment through December 31, 1995. Depreciation and amortization are computed under the straight-line method based on the economic useful lives of the assets.

- Deferred charges

Stated at cost, less amortization, and include unamortized goodwill, preoperating costs and expenses incurred before the start-up of the subsidiary's stores opened through 2001. Beginning 2002, expenses incurred before the start-up of Livraria's new stores are recorded directly in income for the current year.

Preoperating expenses are amortized over five years or according to the provisions of the properties' lease contracts, beginning upon the start-up of Livraria's stores.

Goodwill resulting from the acquisition of investments is based on the projected earnings capacity of the acquired businesses over the estimated period for return on investment and is amortized using the straight-line method in 60 monthly installments.

c) Current and noncurrent liabilities

- Copyrights

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

- Other current and noncurrent liabilities

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

d) Income and social contribution taxes

Taxes on income include current and deferred amounts.

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

Deferred income and social contribution taxes are recorded in current and noncurrent assets and current and noncurrent liabilities, as stated in Note 14.a), to reflect future tax effects on temporary differences between the carrying amount and the tax basis of assets and liabilities, and tax loss carryforwards.

Deferred tax assets are based on expected future taxable income at the tax rates in effect at the balance sheet dates, and are reviewed annually and adjusted to reflect any substantial change in expected profits.

e) Earnings per share

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

4. CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements include the accounts of the Company and Livraria, in which the Company has equity interest of 99.91%. The financial statements of Livraria as of the same date and prepared in accordance with the accounting practices described in Note 3 were used in the preparation of the consolidated financial statements.

The consolidated financial statements comprise the following procedures:

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

5. CASH AND CASH EQUIVALENTS

	<u>Company</u>		<u>Consolidated</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Cash and banks	1,565	8,641	10,467	10,132
Bank certificates of deposit (CDBs)	80,956	-	83,964	10,062
Investment funds (FIF)	<u>14,573</u>	<u>-</u>	<u>14,573</u>	<u>-</u>
	<u>97,094</u>	<u>8,641</u>	<u>109,004</u>	<u>20,194</u>

6. TRADE ACCOUNTS RECEIVABLE

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

Aging list of accounts receivable:

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

7. INVENTORIES

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

8. INVESTMENTS IN SUBSIDIARY

Investments in subsidiary refer to the equity interest in Livraria and the main information is as follows:

	<u>2006</u>	<u>2005</u>
Number of shares - thousand	57,540	57,540
Number of shares held - in thousands	57,490	57,490
Ownership interest - %	99.91%	99.91%
Percentage of this investment in the Company's shareholders' equity	25.23%	39.60%
Capital	51,210	51,210
Dividends payable	1,574	-
Shareholders' equity (net of dividends payable)	58,452	52,690
Dividends receivable	1,572	-
Investment value (net of dividends receivable)	58,402	52,644
Calculation basis for equity in subsidiary:		
Net income of subsidiary	6,662	6,072
Adjustments to subsidiary's shareholders' equity not recorded in income for the year (prior year adjustment) (*)	<u>674</u>	<u>-</u>
Total	<u>7,336</u>	<u>6,072</u>
Equity in subsidiary	<u>7,330</u>	<u>6,066</u>

(*) The Annual Shareholders' Meeting held on April 27, 2006 did not approve the profit sharing of Livraria's management for 2005.

The statements of income of Livraria for the years ended December 31, 2006 and 2005 are as follows:

	<u>2006</u>	<u>2005</u>
GROSS REVENUE FROM SALES	352,202	281,306
DEDUCTIONS FROM GROSS REVENUE		
Sales taxes (ICMS, PIS, Cofins and ISS)	(36,086)	(28,191)
NET OPERATING REVENUE	<u>316,116</u>	<u>253,115</u>
COST OF SALES AND SERVICES	(200,772)	(154,277)
GROSS PROFIT	<u>115,344</u>	<u>98,838</u>
OPERATING EXPENSES		
Selling expenses	(78,522)	(68,444)
General and administrative expenses	(14,745)	(12,584)
Management fees	(1,864)	(1,353)
Depreciation and amortization	(4,950)	(4,865)
Other, net	<u>(1,227)</u>	<u>(474)</u>
	(101,308)	(87,720)
INCOME FROM OPERATIONS BEFORE FINANCIAL INCOME (EXPENSES)	<u>14,036</u>	<u>11,118</u>
FINANCIAL INCOME (EXPENSES)		
Financial income	923	2,174
Financial expenses	<u>(3,213)</u>	<u>(3,053)</u>
	(2,290)	(879)
INCOME FROM OPERATIONS	<u>11,746</u>	<u>10,239</u>
NONOPERATING EXPENSES, NET	(703)	(194)
INCOME BEFORE INCOME AND SOCIAL CONTRIBUTION TAXES	<u>11,043</u>	<u>10,045</u>
INCOME AND SOCIAL CONTRIBUTION TAXES		
Current	(1,412)	(4,927)
Deferred	<u>(2,233)</u>	<u>1,628</u>
INCOME BEFORE MANAGEMENT PROFIT SHARING	<u>7,398</u>	<u>6,746</u>
MANAGEMENT PROFIT SHARING	(736)	(674)
NET INCOME	<u><u>6,662</u></u>	<u><u>6,072</u></u>

9. PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

	Company				
	Annual depreciation/ amortization rate - %	2006		2005	
		Cost	Accumulated depreciation/ amortization	Net book value	Net book value
Property, plant and equipment:					
Land	-	2,029	-	2,029	2,029
Buildings and constructions	4	8,172	(3,630)	4,542	4,834
Machinery and equipment	10	1,564	(1,147)	417	2,861
Furniture, fixtures and installations	10	21,500	(18,767)	2,733	3,285
Vehicles	20	3,230	(2,128)	1,102	1,860
IT equipment	20	10,096	(7,820)	2,276	3,000
Advances to suppliers	-	417	-	417	336
Other	-	-	-	-	421
		<u>47,008</u>	<u>(33,492)</u>	<u>13,516</u>	<u>18,626</u>
Intangible assets:					
Assignment of rights	20	1,246	(710)	536	779
Software	20	12,648	(10,057)	2,591	3,838
Trademarks and patents	-	185	-	185	185
		<u>14,079</u>	<u>(10,767)</u>	<u>3,312</u>	<u>4,802</u>
Consolidated					
	Annual depreciation/ amortization rate - %	2006		2005	
		Cost	Accumulated depreciation/ amortization	Net book value	Net book value
Property, plant and equipment:					
Land	-	2,032	-	2,032	2,032
Buildings and constructions	4	9,613	(4,260)	5,353	5,703
Machinery and equipment	10	1,853	(1,410)	443	2,910
Furniture, fixtures and installations	10	70,897	(56,666)	14,231	16,050
Vehicles	20	3,775	(2,279)	1,496	1,899
IT equipment	20	20,440	(15,181)	5,259	6,344
Advances to suppliers	-	2,388	-	2,388	565
Other	-	-	-	-	966
		<u>110,998</u>	<u>(79,796)</u>	<u>31,202</u>	<u>36,469</u>
Intangible assets:					
Goodwill	20	12,414	(11,337)	1,077	1,502
Assignment of rights	20	1,246	(710)	536	779
Software	20	14,115	(10,986)	3,129	4,350
Trademarks and patents	-	252	-	252	252
		<u>28,027</u>	<u>(23,033)</u>	<u>4,994</u>	<u>6,883</u>

In December 2006, the Company sold its printing machines for R\$7,870, of which R\$1,000 was received in December 2006, R\$1,145 is recorded under the caption “Other receivables” in current assets, and R\$5,725 is recorded under a specific caption in noncurrent assets. The balance receivable will be adjusted based on 100% of the interbank deposit rate (CDI). This transaction resulted in a gain of R\$5,768, recorded in “Nonoperating income (expenses)”.

10. DEFERRED CHARGES

	<u>Company</u>		<u>Consolidated</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Preoperating expenses and other deferred charges	1,445	1,445	11,744	11,744
Unamortized goodwill	2,091	2,135	2,091	2,135
Amortization of goodwill	(1,185)	(783)	(1,185)	(783)
Accumulated 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 unamortized goodwill balance refers to the acquisition of Formato Editorial Ltda., transferred to deferred charges due to the merger of this company on February 3, 2004, and adjusted to R\$2,091 on March 14, 2006, according to contractual provisions related to the acquisition.

The amortization of goodwill recorded in deferred charges is made on a straight-line basis over 60 months and was started after the merger date.

11. FINANCING

	<u>Company</u>		<u>Consolidated</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Current:				
In local currency - BNDES (a) - FINEM (b)	737	551	2,097	2,875
In foreign currency - IFC (c)	-	<u>2,710</u>	-	<u>2,710</u>
	<u>737</u>	<u>3,261</u>	<u>2,097</u>	<u>5,585</u>
Noncurrent-				
In local currency - BNDES - FINEM	<u>18,578</u>	<u>7,510</u>	<u>22,759</u>	<u>8,591</u>

(a) BNDES - National Bank for Economic and Social Development

(b) FINEM - Financing for Projects

(c) IFC - International Finance Corporation

The noncurrent portion matures as follows:

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>Total</u>
Company	<u>6,370</u>	<u>6,370</u>	<u>5,838</u>	<u>18,578</u>
Consolidated	<u>8,092</u>	<u>7,846</u>	<u>6,821</u>	<u>22,759</u>

Additional information on financing is as follows:

<u>Financing</u>	<u>Purpose</u>	<u>Guarantees</u>	<u>Maturity</u>	<u>Charges</u>
Company:				
BNDES - FINEM - contract of 10/00	Acquisition and implementation of Integrated Business Management System (ERP) and construction of Distribution Center	Mortgage of property, plant and equipment items	07/06	3.5% + TJLP
BNDES - FINEM - contract of 11/05	Publishing Plan - 2005 to 2007 and information systems	Mortgage of property, plant and equipment items and bank guarantee	11/10	4% + TJLP
IFC - contract of 04/98	Project for investment in megastores and modernization of conventional stores of the subsidiary	Free of collaterals	06/06	Exchange variation and LIBOR + 3%
Livraria:				
BNDES - FINEM - contract of 11/06	Projects for investment for opening of 11 stores, renovation and modernization of 19 stores of the chain, and centralization of logistics operations	Company's guarantee	08/10	3.1% + TJLP
BNDES - FINEM - contract of 04/00	Project for investment in megastores and modernization of conventional stores	Company's guarantee	04/08	3.5% + TJLP

Credit releases for the years ended December 31, 2006 and 2005 are as follows:

	<u>Company</u>		<u>Consolidated</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
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	<u>2,387</u>	-	<u>6,814</u>	-
Total	<u>11,388</u>	<u>7,500</u>	<u>15,815</u>	<u>7,500</u>

12. LOYALTY PROGRAM - SARAIVA PLUS

In 2005, Livraria implemented a customer loyalty program (“Saraiva Plus”) whereby purchases made by customers in stores and the Company’s website earn points that can be discounted in future purchases. Accumulated points, net of redemptions, are accrued considering redemption estimates. As of December 31, 2006, Livraria has a provision for the loyalty program in the amount of R\$2,683 (R\$1,108 in 2005) recorded under the caption “Other payables”.

13. RELATED-PARTY TRANSACTIONS

Related-party transactions include purchases, sales and intercompany loans. Loans obtained from Livraria in 2005 were fully paid in June 2006, and financial expenses related to interest in the amount of R\$127, equivalent to 100% of the CDI variation, were recorded. Loans granted to Livraria in 2006 have indeterminate maturity and bear interest of 101% of the CDI.

Loans granted to Livraria - recorded in noncurrent assets:

	<u>2006</u>
Loans granted	4,341
Financial income	<u>667</u>
Balance receivable as of December 31	<u>5,008</u>

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

	<u>2006</u>	<u>2005</u>
Balances:		
Assets:		
Trade accounts receivable (current)	3,916	1,041
Loans granted - loan agreement (noncurrent)	5,008	-
Liabilities:		
Trade accounts payable (current)	6	-
Loans obtained (current)	-	11,446
Transactions:		
Sale of products	12,627	9,174
Purchase of products	55	25
Financial income	667	-
Financial expenses	127	629

14. INCOME AND SOCIAL CONTRIBUTION TAXES

a) Deferred

Deferred income and social contribution taxes are derived from:

	<u>Company</u>		<u>Consolidated</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Current assets	<u>636</u>	<u>-</u>	<u>4,280</u>	<u>4,853</u>
Current liabilities	<u>-</u>	<u>18</u>	<u>-</u>	<u>18</u>
Noncurrent assets:				
Tax loss carryforwards	-	-	387	1,023
Reserve for contingencies	<u>753</u>	<u>651</u>	<u>5,374</u>	<u>5,660</u>
	<u>753</u>	<u>651</u>	<u>5,761</u>	<u>6,683</u>
Noncurrent liabilities:				
Provision for book inventory losses - Law No. 10,753/03	4,753	3,802	4,753	3,802
Deferral of accelerated depreciation	<u>2</u>	<u>13</u>	<u>2</u>	<u>13</u>
	<u>4,755</u>	<u>3,815</u>	<u>4,755</u>	<u>3,815</u>

The Company, based on the opinion of its outside lawyers, considered the tax incentive established by Law No. 10,753/03, amended by Law No. 10,833/03, relating to the deductibility of the provision for inventory losses, as a temporary difference between the carrying amount and the tax basis of assets and liabilities, recognizing the tax effect in accordance with CVM Instruction No. 371/02.

The Company and Livraria, based on the expectation of future taxable income and positive cash flows discounted to present value and pursuant to CVM Instruction No. 371/02, maintained in their financial statements the deferred tax asset.

Management considers the carrying amount of the Company's deferred tax assets from temporary differences realizable in proportion to the final resolution of lawsuits.

In the event of a definitive decision on the lawsuits, Livraria's deferred tax asset is expected to be realized as follows:

<u>Balance sheet date</u>	<u>Realization of deferred tax asset</u>
December 31, 2007	5,404
December 31, 2008	<u>3,248</u>
	<u>8,652</u>

b) Expense reconciliation

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

	<u>Company</u>		<u>Consolidated</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Income before income and social contribution taxes	64,873	56,982	69,260	60,960
Combined tax rate	<u>34%</u>	<u>34%</u>	<u>34%</u>	<u>34%</u>
Taxes computed at the combined tax rate	(22,057)	(19,375)	(23,549)	(20,727)
Permanent additions - nondeductible expenses	(183)	(145)	(224)	(202)
Permanent deductions:				
Interest on capital	4,672	3,383	4,672	3,383
Equity in subsidiary	2,493	2,063	-	-
Other deductions	324	304	390	365
Other items	<u>(53)</u>	<u>196</u>	<u>262</u>	<u>308</u>
	<u>(14,804)</u>	<u>(13,574)</u>	<u>(18,449)</u>	<u>(16,873)</u>
Income and social contribution taxes:				
Current	(14,619)	(14,294)	(16,031)	(19,221)
Deferred	<u>(185)</u>	<u>720</u>	<u>(2,418)</u>	<u>2,348</u>
	<u>(14,804)</u>	<u>(13,574)</u>	<u>(18,449)</u>	<u>(16,873)</u>
Effective tax rate on net income	<u>22.8%</u>	<u>23.8%</u>	<u>26.6%</u>	<u>27.7%</u>

15. RESERVE FOR CONTINGENCIES

The Company and Livraria are challenging in court certain aspects related to federal taxes, such as taxes on revenue (PIS and Cofins), income tax (IR) and social contribution tax (CSLL), as follows:

	<u>Company</u>				
	<u>2005</u>	<u>Recognition</u>	<u>Escrow deposits</u>	<u>Reversal</u>	<u>2006</u>
PIS/Cofins - increase in tax basis	512	34	-	(360)	186
IR/CSLL - "Plano Real" (economic plan) - Law No. 8,880/94	2,148	-	-	(1,287)	861
Civil and labor contingencies	-	112	-	-	112
Escrow deposits	<u>(1,370)</u>	<u>-</u>	<u>(37)</u>	<u>360</u>	<u>(1,047)</u>
	<u>1,290</u>	<u>146</u>	<u>(37)</u>	<u>(1,287)</u>	<u>112</u>

	Consolidated					2006
	2005	Recognition	Escrow deposits	Reversal	Interest and charges	
PIS/Cofins - increase in tax basis and rate increase	9,504	40	-	(583)	-	8,961
IR/CSLL - "Plano Real" - Law No. 8,880/94	3,681	-	-	(1,287)	84	2,478
Civil and labor contingencies	-	112	-	-	-	112
Escrow deposits	<u>(10,345)</u>	<u>-</u>	<u>(60)</u>	<u>583</u>	<u>-</u>	<u>(9,822)</u>
	<u>2,840</u>	<u>152</u>	<u>(60)</u>	<u>(1,287)</u>	<u>84</u>	<u>1,729</u>

16. TAXES PAYABLE

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

- (i) Request filed with the National Treasury Attorney General in October 2005 for the installment payment of the accrued amounts related to lawsuits brought to discuss the effects of IR and CSLL arising from "Plano Real" - Law No. 8,880/94.
- (ii) In October 2006, the Company was informed of the denial of the administrative appeal related to the tax delinquency notice which established the CSLL tax credit related to the deduction of interest on capital from the CSLL tax basis for 1996. As decided by management, the Company recognized a provision and will file a request for installment payment of the debt as soon as the tax credit is acknowledged as debt to the Federal Revenue Service.

17. SHAREHOLDERS' EQUITY

a) Capital

The Extraordinary Shareholders' Meeting held on January 6, 2006 approved a capital increase of R\$35,369, through the capitalization of capital reserves and profit reserves. 2,326,920 preferred shares were granted as a bonus to the holders of common and/or preferred shares in the proportion of 0.10 preferred share per common or preferred share held by the closing of the trading session on the São Paulo Stock Exchange (BOVESPA) on January 6, 2006

On April 11, 2006, the Company concluded the process of primary and secondary public offering of shares on BOVESPA, with the main purpose of raising funds for possible acquisitions of publishing companies, bookstores and publishing catalogs, combining of corporate activities, investments in information technology, consolidation of Internet operations (Livraria and the Company), expansion of physical stores, expansion of catalog with launch of new titles, and working capital.

On that date, in a meeting of the Board of Directors, the increase in the Company's capital was approved, within the limit of authorized capital, in the amount of R\$66,000, corresponding to the issuance of 3,000,000 preferred shares, at the price of R\$22.00 per share. The funds entered the Company on April 18, 2006, less R\$2,422 related to the financial intermediation commission, recorded as financial expenses (Note 19).

Fully paid-up capital as of December 31, 2006, in the amount of R\$147,774 (R\$46,405 as of December 31, 2005) is represented by 28,596,123 shares, of which 9,622,313 are common shares and 18,973,810 are preferred shares, without par value.

In a meeting of the Board of Directors held on March 9, 2006, proposed amendments necessary for conforming the Company's bylaws to BOVESPA's Level 2 of Differentiated Corporate Governance Practices were approved.

Among the main amendments are the extension of voting rights to preferred shares for specific matters defined in the bylaws, change in authorized capital, limit for retention of cash and cash equivalents, and adhesion to the Market Arbitration Chamber for resolution of corporate conflicts.

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

The Company's preferred shares, whose number may not surpass 2/3 of the total shares issued, grant their holders the following rights or advantages:

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

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

The remaining balance of retained earnings is prior to the enactment of Law No. 6,404/76.

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

The Company holds 365,750 (332,500 as of December 31, 2005) preferred shares in treasury, already considering the 33,250 bonus shares approved in the Extraordinary Shareholders' Meeting held on January 6, 2006. The shares were acquired for R\$2,870, with a fair value of R\$8,741 (R\$23.90 per share - quotation on December 29, 2006). In 2006 and 2005 no new acquisitions of shares were conducted.

c) Interest on capital and dividends

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

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

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

In the Annual Shareholders' Meeting held on April 6, 2006, the payment of interest on capital to shareholders was approved, in the amount of R\$8,610, net of income tax and dividends in the amount of R\$919. Said payment occurred on April 28, 2006.

At the Board of Directors' Meeting held on February 28, 2007, the Board approved the payment of interest on capital to shareholders in the amount of R\$13,988 (R\$0.49549281 per share), including income tax of R\$2,098, and the amount of R\$11,890 will be attributed to mandatory dividends (R\$0.42116889 per share).

Mandatory dividends were calculated as follows:

Net income for the year	46,469
Legal reserve	<u>(2,323)</u>
Adjusted net income	<u>44,146</u>
Mandatory minimum dividend - 25% (R\$0.39094525 per share)	<u>11,037</u>

The effect of interest on capital on the calculation of the provision for income and social contribution taxes for the year was a reduction of R\$4,672 (R\$3,383 in 2005).

d) Recognition of profit reserves

Of the remaining balance of net income, after allocation to the legal reserve, in the amount of R\$2,323, and the proposal for payment of interest on capital, a profit reserve of R\$30,158 (R\$27,067 in 2005) is being recognized for investments in acquisition of companies, information technology, consolidation of Internet operations, expansion of Livraria's physical stores, expansion of catalog with launch of new titles, and working capital.

18. FINANCIAL INSTRUMENTS

a) Derivative transactions

The Company entered into transactions recorded in balance sheet accounts in order to meet its operating needs and hedge against risks of foreign currency and interest rate changes, mainly due to a loan obtained from the International Finance Corporation - IFC in U.S. dollars, settled in June 2006.

The derivative transaction conducted by the Company in the period was a swap contract to hedge against foreign exchange variation, without cash, for coverage of the last installment of the financing with the IFC. The transaction, in the amount of US\$1,160,000, contracted in September 2005 and settled in June 2006, resulted in a loss of R\$183 in 2006, classified as "Financial expenses.

b) Other financial instruments

The carrying amounts and fair values of the financial instruments recorded in the consolidated balance sheets as of December 31, 2006 are as follows:

<u>Description</u>	<u>Carrying amount</u>	<u>Fair value</u>
Cash and cash equivalents	109,004	109,004
Financing in local currency	24,856	24,856

Criteria, assumptions and limitations used in calculating fair values are as follows:

- Cash and cash equivalents

Cash and cash equivalents are represented by unrestricted bank deposits and highly-liquid investments.

- Financing

The carrying amounts of financing correspond to funds obtained from the BNDES. The financing is specific and has different interest rates, impairing the comparison with fair values, assuming conventional loan rates for the calculation. Thus, the fair values of this financing do not differ significantly from the carrying amounts as of December 31, 2006.

- Limitations

The fair values were estimated at a specific time, based on relevant market information. Changes in assumptions may significantly affect those estimates.

c) Market risks

- Credit risk - to minimize possible losses on customer default, the Company and Livraria adopt strict policies for granting credit, consisting of careful analyses of customer profiles, as well as timely monitoring of accounts receivable.

- Inventory obsolescence risk - discontinued products and new technologies may lead to excess and obsolete inventories. To minimize these conditions, the Company and its subsidiary periodically monitor inventory levels and take necessary action for realization.

19. FINANCIAL INCOME (EXPENSES)

Financial income and expenses are as follows:

	<u>Company</u>		<u>Consolidated</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Financial income:				
Income from temporary cash investments	9,475	1,379	10,086	2,756
Interest on loans to subsidiary	667	-	-	-
Gains on temporary cash investments - hedge	-	51	-	51
Interest received from customers	628	449	654	476
Interest on recoverable taxes	1,247	133	1,247	133
Other financial income	<u>48</u>	<u>22</u>	<u>205</u>	<u>163</u>
	<u>12,065</u>	<u>2,034</u>	<u>12,192</u>	<u>3,579</u>
Financial expenses:				
Financial expenses - operations under BACEN Resolution No. 2,770	-	(70)	-	(70)
Loss on temporary cash investments - hedge	(183)	(1,280)	(183)	(1,280)
Interest, monetary and exchange variations on financing	(1,570)	483	(1,806)	(141)
Other interest and monetary variation	(3,175)	(3,056)	(3,696)	(3,168)
CPMF (tax on banking transactions)/IOC (tax on credit operations)	(1,275)	(1,081)	(2,646)	(2,259)
Financial intermediation commission (Note 17)	(2,422)	-	(2,422)	-
Other financial commissions	(179)	(123)	(214)	(134)
Other financial expenses	<u>(983)</u>	<u>(375)</u>	<u>(1,238)</u>	<u>(874)</u>
	<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

As of December 31, 2006, the Company and Livraria have insurance coverage against fire and sundry risks for fixed assets and inventories, in amounts considered sufficient to cover potential losses.

21. SUBSEQUENT EVENT

In a meeting held on March 5, 2007 and according to a significant event notice published on March 6, 2007, the Company's Stock Option Plan Management Committee approved the conditions and beneficiaries of the Third Program of this Plan, granting stock options of 123,800 preferred shares to nineteen officers and employees between 03/08/2010 and 05/07/2010. The price established for each share is R\$21.50, subject to adjustment based on the extended consumer price index (IPCA) from February 2007 to the month prior to the option exercise. The options will be exercised by means of the issuance of new shares and/or the sale of treasury shares held by the Company.

22. STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005
(In thousands of Brazilian reais - R\$)

	Company		Consolidated	
	2006	2005	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES				
Net income	46,469	40,025	46,469	40,025
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization (including amount allocated to cost)	5,592	7,013	10,764	12,175
Deferred income and social contribution taxes	184	(885)	2,417	(2,513)
Allowance for doubtful accounts	1,044	1,077	1,343	1,395
Equity in subsidiary	(7,330)	(6,066)	-	-
Proceeds from sale of property, plant and equipment	(5,649)	(22)	(4,961)	172
Financial charges and exchange variation on intercompany balances, financing, loans and taxes payable	(330)	341	792	612
Other provisions	4,320	(1,845)	6,022	(1,231)
Minority interest in subsidiary	-	-	5	5
	<u>44,300</u>	<u>39,638</u>	<u>62,851</u>	<u>50,640</u>
Decrease (increase) in assets:				
Trade accounts receivable	(10,010)	(25,126)	(34,678)	(35,544)
Receivables from subsidiary due to sale of goods	(2,875)	(1,024)	-	-
Inventories	(988)	3,463	(12,698)	(3,883)
Other receivables	(9,008)	586	(9,674)	205
Increase (decrease) in liabilities:				
Trade accounts payable	20,592	(16,169)	27,911	3,222
Income and social contribution taxes	(1,663)	6,804	(4,653)	9,939
Other payables	(4,887)	6,919	(4,071)	8,479
Net cash provided by operating activities	<u>35,461</u>	<u>15,091</u>	<u>24,988</u>	<u>33,058</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of property, plant and equipment	(1,502)	(3,056)	(6,628)	(8,370)
Purchase of tax incentive investments realizable in the long term	(30)	-	(42)	-
Sale of property, plant and equipment	1,703	186	1,746	431
Receivables from sale of property, plant and equipment	6,870	-	6,870	-
Net cash provided by (used in) investing activities	<u>7,041</u>	<u>(2,870)</u>	<u>1,946</u>	<u>(7,939)</u>
CASH FLOWS FROM FINANCING ACTIVITIES				
Capital increase by public subscription	66,000	-	66,000	-
Financing	11,388	7,500	15,815	7,500
Loans from subsidiary	-	10,898	-	-
Loans granted	(4,400)	-	(60)	-
Repayment of financing	(3,190)	(43,617)	(7,414)	(46,955)
Payment of loans from subsidiary	(11,573)	(11,736)	-	-
Payment of interest on financing	(1,226)	(535)	(1,418)	(1,226)
Payment of dividends and interest on capital (net of prescribed dividends)	(11,048)	(9,260)	(11,047)	(9,260)
Net cash provided by (used in) financing activities	<u>45,951</u>	<u>(46,750)</u>	<u>61,876</u>	<u>(49,941)</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>88,453</u>	<u>(34,529)</u>	<u>88,810</u>	<u>(24,822)</u>
REPRESENTED BY				
Cash and cash equivalents at beginning of year	8,641	43,170	20,194	45,016
Cash and cash equivalents at end of year	97,094	8,641	109,004	20,194
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>88,453</u>	<u>(34,529)</u>	<u>88,810</u>	<u>(24,822)</u>