

LIVRARIA E PAPELARIA SARAIVA S.A.

BALANCE SHEETS AS OF DECEMBER 31, 2007 AND 2006

(In thousands of Brazilian reais – R\$)

<u>ASSETS</u>	<u>Note</u>	<u>2007</u>	<u>2006</u>	<u>LIABILITIES AND SHAREHOLDERS' EQUITY</u>	<u>Note</u>	<u>2007</u>	<u>2006</u>
<b>CURRENT ASSETS</b>				<b>CURRENT LIABILITIES</b>			
Cash and cash equivalents	5	11.120	11.910	Trade accounts payable		82.189	60.403
Trade accounts receivable	6	89.776	56.247	Financing	8	4.024	1.360
Inventories		69.085	52.088	Accrued vacation and related charges		3.565	2.850
Recoverable taxes		2.331	404	Taxes payable	13	4.761	3.628
Deferred income and social contribution taxes	11 (a)	3.831	3.644	Provision for income and social contribution taxes		2.290	145
Other receivables		1.694	415	Management profit sharing		1.880	736
Prepaid expenses		<u>107</u>	<u>90</u>	Dividends	14 (c)	4.338	1.574
Total current assets		<u>177.944</u>	<u>124.798</u>	Other payables		<u>8.171</u>	<u>5.862</u>
				Total current liabilities		<u>111.218</u>	<u>76.558</u>
<b>NONCURRENT ASSETS</b>				<b>NONCURRENT LIABILITIES</b>			
Long-term assets:				Long-term liabilities			
Deferred income and social contribution taxes	11 (a)	4.048	5.008	Financing	8	10.735	4.182
Escrow deposits		334	805	Parent company	9	14.736	5.008
Other receivables		<u>12</u>	<u>12</u>	Reserve for contingencies	12	2	1.617
Total long-term assets		<u>4.394</u>	<u>5.825</u>	Deferred income and social contribution taxes	11 (a)	3.307	-
Permanent assets:				Taxes payable	13	3.040	5.014
Investments		135	135	Other payables		<u>447</u>	<u>-</u>
Property and equipment	7	30.451	17.686	Total noncurrent liabilities		<u>32.267</u>	<u>15.821</u>
Intangible assets	7	2.414	1.682				
Deferred charges		<u>484</u>	<u>705</u>	<b>SHAREHOLDERS' EQUITY</b>			
Total permanent assets		<u>33.484</u>	<u>20.208</u>	Capital	14 (a)	51.210	51.210
Total noncurrent assets		37.878	26.033	Capital reserves		2.190	2.190
				Profit reserves		<u>18.937</u>	<u>5.052</u>
				Total shareholders' equity		72.337	58.452
				<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<u>215.822</u>	<u>150.831</u>
<b>TOTAL ASSETS</b>		<u>215.822</u>	<u>150.831</u>				

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

LIVRARIA E PAPELARIA SARAIVA S.A.

STATEMENTS OF INCOME  
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006  
(In thousands of Brazilian reais – R\$, except earnings per share)

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	<u>Note</u>	<u>2007</u>	<u>2006</u>
GROSS SALES REVENUE		487.376	352.202
DEDUCTIONS			
Sales taxes (ICMS, PIS, Cofins and ISS)		(45.699)	(36.086)
NET SALES REVENUE		<u>441.677</u>	<u>316.116</u>
COST OF PRODUCTS AND SERVICES		(281.012)	(200.772)
GROSS PROFIT		<u>160.665</u>	<u>115.344</u>
OPERATING (EXPENSES) INCOME			
Selling expenses		(99.672)	(78.522)
General and administrative expenses		(19.925)	(14.745)
Management fees		(1.880)	(1.864)
Depreciation and amortization		(6.019)	(4.950)
Other operating income (expenses), net		<u>1.355</u>	<u>(1.227)</u>
		(126.141)	(101.308)
INCOME FROM OPERATIONS BEFORE FINANCIAL INCOME (EXPENSES)		<u>34.524</u>	<u>14.036</u>
FINANCIAL INCOME (EXPENSES)			
Financial income	15	352	923
Financial expenses	15	<u>(5.176)</u>	<u>(3.213)</u>
		(4.824)	(2.290)
INCOME FROM OPERATIONS		<u>29.700</u>	<u>11.746</u>
NONOPERATING EXPENSES, NET		(7)	(703)
INCOME BEFORE INCOME AND SOCIAL CONTRIBUTION TAXES		<u>29.693</u>	<u>11.043</u>
INCOME AND SOCIAL CONTRIBUTION TAXES			
Current	11 (b)	(5.510)	(1.412)
Deferred	11 (b)	(4.080)	(2.233)
INCOME BEFORE MANAGEMENT PROFIT SHARING		<u>20.103</u>	<u>7.398</u>
MANAGEMENT PROFIT SHARING		(1.880)	(736)
NET INCOME		<u>18.223</u>	<u>6.662</u>
EARNINGS PER SHARE - R\$		<u>0,32</u>	<u>0,12</u>
NUMBER OF OUTSTANDING SHARES (IN THOUSANDS)		<u>57.540</u>	<u>57.540</u>

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

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LIVRARIA E PAPELARIA SARAIVA S.A.

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY  
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006  
(In thousands of Brazilian reais - R\$, except dividend per share)

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			Profit reserves		Retained earnings		
	Note	Capital	Capital reserve	Legal reserve	Reserve for future capital increase	(accumulated deficit)	Total
BALANCES AS OF DECEMBER 31, 2005		51.210	2.190	-	-	(710)	52.690
Prior year adjustments - reversal of provision for management profit sharing	14 (d)	-	-	-	-	674	674
Net income		-	-	-	-	6.662	6.662
Legal reserve	14 (b)	-	-	331	-	(331)	-
Transfer to profit reserves		-	-	-	4.721	(4.721)	-
Dividends - R\$0.027355 per share	14 (c)	-	-	-	-	(1.574)	(1.574)
BALANCES AS OF DECEMBER 31, 2006		<u>51.210</u>	<u>2.190</u>	<u>331</u>	<u>4.721</u>	<u>-</u>	<u>58.452</u>
Net income		-	-	-	-	18.223	18.223
Legal reserve	14 (b)	-	-	911	-	(911)	-
Transfer to profit reserves		-	-	-	12.974	(12.974)	-
Dividends - R\$0.0754 per share	14 (c)	-	-	-	-	(4.338)	(4.338)
BALANCES AS OF DECEMBER 31, 2007		<u>51.210</u>	<u>2.190</u>	<u>1.242</u>	<u>17.695</u>	<u>-</u>	<u>72.337</u>

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

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LIVRARIA E PAPELARIA SARAIVA S.A.

STATEMENTS OF CHANGES IN FINANCIAL POSITION  
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006  
(In thousands of Brazilian reais – R\$)

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	<u>Note</u>	<u>2007</u>	<u>2006</u>
<b>SOURCES OF FUNDS</b>			
From operations:			
Net income		18.223	6.662
Items not affecting working capital:			
Depreciation and amortization		6.241	5.172
Net book value of property and equipment written off		405	731
Deferred income and social contribution taxes	11 (a)	4.267	1.024
Financial charges and monetary variation on long-term assets and liabilities		1.813	1.249
Reversal of reserve for contingencies	12	(1.613)	-
Provision for investment losses		-	48
		<u>29.336</u>	<u>14.886</u>
From third parties:			
Financing	8	10.521	4.427
Loans from parent company	9	8.126	4.341
Increase in long-term liabilities		971	-
Decrease in long-term assets		198	-
Prior year adjustments - reversal of provision for management profit sharing	14 (d)	-	674
Total sources		<u>49.152</u>	<u>24.328</u>
<b>USES OF FUNDS</b>			
Purchases of property and equipment and intangible assets		19.922	5.126
Transfer from noncurrent to current liabilities		6.406	3.224
Increase in long-term assets		-	140
Decrease in long-term liabilities		-	216
Dividends	14 (c)	4.338	1.574
Total uses		<u>30.666</u>	<u>10.280</u>
<b>INCREASE IN WORKING CAPITAL</b>		<u><u>18.486</u></u>	<u><u>14.048</u></u>
<b>REPRESENTED BY</b>			
Change in current assets		53.146	24.372
Change in current liabilities		34.660	10.324
<b>INCREASE IN WORKING CAPITAL</b>		<u><u>18.486</u></u>	<u><u>14.048</u></u>

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

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

LIVRARIA E PAPELARIA SARAIVA S.A.

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006  
(Amounts in thousands of Brazilian reais - R\$, unless otherwise stated)

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1. OPERATIONS

Livraria e Papelaria Saraiva S.A. (the “Company” or “Livraria”) is engaged in retail sale of books, DVDs, music, magazines, stationery, multimedia and computer and electro-electronic products. Distribution is conducted through an Internet-based sales platform and a chain of 36 stores, of which 20 are megastores and 16 are conventional stores.

2. PRESENTATION OF FINANCIAL STATEMENTS

The financial statements have been prepared and are presented in conformity with Brazilian accounting practices and provisions of the Brazilian Corporate Law.

Estimates used in the preparation of financial statements for deferred tax assets and liabilities, provisions and contingent liabilities, were based on the best available evidence and assumptions at the balance sheet dates. Actual results could differ from those estimates.

3. SIGNIFICANT ACCOUNTING PRACTICES

a) General principles

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

b) Current and noncurrent assets

- Cash and cash equivalents

Represented by cash, banks and highly liquid cash investments, as stated in note 5. Cash investments are stated at cost, plus income earned through the balance sheet date.

- Allowance for doubtful accounts

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

- Inventories

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

- Other noncurrent assets

Stated at net realizable value.

- Investments

Stated at cost, less a valuation allowance.

- Property 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 useful lives of the assets.

- Deferred charges

Refer to preoperating costs and expenses incurred before the start-up of the stores opened through 2001, amortized over five years or according to the provisions of the properties' lease contracts. Beginning 2002, expenses incurred before the start-up of Livraria's new stores are recorded directly in income for the current year.

c) Current and noncurrent liabilities

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

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 in noncurrent liabilities, as stated in note 11 (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 date, and are reviewed annually and adjusted to reflect any substantial change in expected taxable income.

e) Earnings per share

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

4. AMENDMENT TO BRAZILIAN CORPORATE LAW, EFFECTIVE JANUARY 2008

On December 28, 2007, Law No. 11638 was enacted, altering, revoking and adding new provisions to the Brazilian Corporate Law, especially with respect to chapter XV, Fiscal Year and Financial Statements. This Law is effective for fiscal years beginning on or after January 1, and was designed primarily to update the Brazilian Corporate Law, so as to enable the convergence of Brazilian accounting practices with international accounting standards (IFRS) and allow the Brazilian Securities Commission (CVM) to issue new accounting standards and procedures, in conformity with such international accounting standards.

The main changes that may affect the Company are summarized as follows:

- a) Replacement of the statement of changes in financial position by the statement of cash flows.
- b) A new requirement for the presentation of a statement of value added.
- c) Possibility of maintaining separate accounting records for purposes of complying with tax legislation and reflecting necessary adjustments in order to prepare the financial statements in conformity with Brazilian Corporate Law.
- d) Creation of new account groups: (i) intangible assets and (ii) valuation adjustments to shareholders' equity, in order to record certain fair value adjustments, mainly for financial instruments.
- e) Requirement of periodic analysis of the recoverability of amounts recorded in property, plant and equipment, intangible assets and deferred charges.
- f) Requirement that certain long-term assets and liabilities be recorded at present value, and, if material, for certain other short-term assets and liabilities.
- g) Requirement to record under the caption property, plant and equipment those rights in tangible assets that are maintained or used in the operations of the Company's business, including those rights received as a result of transactions that transfer the benefits, risks and control of such assets to the Company (e.g., capital leases).
- h) Requirement that investments in subsidiaries and affiliates be accounted for under the equity method, whenever there is significant influence on the affiliate's management, or interest in voting capital is 20% or more.
- i) Requirement that assets and liabilities as a result of a merger, spin-off or consolidation between unrelated parties with transfer of control be accounted for at fair value.

As these changes have only been introduced recently, and some of them are still subject to regulation by regulatory agencies, Management has not yet been able to assess all the effects that such changes might have on its financial statements and results of operations for the following years.

5. CASH AND CASH EQUIVALENTS

	<u>2007</u>	<u>2006</u>
Cash and banks	11,120	8,902
Bank certificates of deposit - CDB	<u>-</u>	<u>3,008</u>
	<u>11,120</u>	<u>11,910</u>

6. TRADE ACCOUNTS RECEIVABLE

	<u>2007</u>	<u>2006</u>
Credit cards	88,715	55,219
Checks receivable	696	807
Other receivables	727	595
Allowance for doubtful accounts	<u>(362)</u>	<u>(374)</u>
	<u>89,776</u>	<u>56,247</u>

7. PROPERTY AND EQUIPMENT AND INTANGIBLE ASSETS

		<u>2007</u>		<u>2006</u>	
	Annual depreciation/am ortization rate - %	Cost	Accumulated depreciation/ amortization	Net book value	Net book value
Property and equipment:					
Land	-	3	-	3	3
Buildings and constructions	4	1,441	(685)	756	812
Furniture, fixtures and installations	10	63,926	(41,648)	22,278	11,498
Vehicles	20	463	(183)	280	393
IT equipment	20	12,727	(8,934)	3,793	3,008
Property and equipment in progress	-	<u>3,341</u>	<u>-</u>	<u>3,341</u>	<u>1,972</u>
		<u>81,901</u>	<u>(51,450)</u>	<u>30,451</u>	<u>17,686</u>
Intangible assets:					
Goodwill	20	13,206	(11,700)	1,506	1,077
Software	20	2,015	(1,174)	841	538
Trademarks and patents	-	<u>67</u>	<u>-</u>	<u>67</u>	<u>67</u>
		<u>15,288</u>	<u>(12,874)</u>	<u>2,414</u>	<u>1,682</u>

## 8. FINANCING

	<u>2007</u>	<u>2006</u>
In local currency - BNDES - FINEM:		
Current	4,024	1,360
Noncurrent	10,735	4,182

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

(b) FINEM - Financing for Projects The noncurrent portion matures as follows:

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>Total</u>
BNDES	<u>4,994</u>	<u>4,401</u>	<u>1,340</u>	<u>10,735</u>

On November 14, 2006, a credit facility agreement was entered into with the BNDES for investment in the opening of 11 stores, renovation and modernization of 19 stores and centralization of logistics operations in the municipality of São Paulo. The financing is fully guaranteed by the parent company, and the principal is subject to annual interest of 3.1% plus TJLP (long-term interest rate).

Credit releases for the years ended December 31, 2007 and 2006 are as follows:

	<u>2007</u>	<u>2006</u>
Releases in 2006	-	4,427
March 27, 2007	2,666	-
June 26, 2007	6,738	-
September 27, 2007	<u>1,117</u>	-
	<u>10,521</u>	<u>4,427</u>

Other financing from the BNDES - FINEM was allocated for investments in megastores and modernization of conventional stores, and is fully guaranteed by the parent company. The principal is subject to annual interest between 3% and 3.5% plus the TJLP.

## 9. RELATED-PARTY TRANSACTIONS

Related-party transactions include purchases, sales and intercompany loans. Loans obtained from the parent company in 2007 have indeterminate maturity and generate financial expenses related to interest equivalent to 101% of the CDI (interbank deposit rate) variation.

Loans from parent company, recorded in noncurrent liabilities, are composed of:

	<u>2007</u>	<u>2006</u>
Balance as of December 31 of the prior year	5,008	-
Loans obtained in the year, net of repayments	8,126	4,341
Financial expenses	<u>1,602</u>	<u>667</u>
Balance payable	<u>14,736</u>	<u>5,008</u>

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

	<u>2007</u>	<u>2006</u>
Balances:		
Assets-		
Trade accounts receivable (current)	5	6
Liabilities:		
Trade accounts payable (current)	4,941	3,916
Loans from parent company - loan agreement (noncurrent)	14,736	5,008
Transactions:		
Sale of products	31	55
Purchase of products	17,245	12,627
Financial income	-	127
Financial expenses	1,602	667

#### 10. LOYALTY PROGRAM - SARAIVA PLUS

The Company has 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 and valued in accordance with the program regulation, are accrued considering redemption estimates. As of December 31, 2007, Livraria has a provision for loyalty program in the amount of R\$2,128 (R\$2,683 as of December 31, 2006) recorded in current liabilities under the caption “Other payables”.

#### 11. INCOME AND SOCIAL CONTRIBUTION TAXES

##### a) Deferred taxes

Deferred income and social contribution taxes are derived from:

	<u>2007</u>	<u>2006</u>
Current assets-		
Temporary differences (provision for trade accounts payable and loyalty program)	<u>3,831</u>	<u>3,644</u>
Noncurrent assets:		
Reserve for contingencies and taxes payable	4,021	4,621
Tax loss carryforwards	<u>27</u>	<u>387</u>
	<u>4,048</u>	<u>5,008</u>
Noncurrent liabilities-		
Provision for book inventory losses - Law No. 10753/03	<u>3,307</u>	<u>-</u>

Livraria, based on the opinion of its outside attorneys, considered the tax incentive established by Law No. 10753/03, amended by Law No. 10833/03, concerning 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 Accounting Standard and Procedure (NPC) No. 22 of October 3, 2005.

Based on the expectation of future taxable income and positive cash flows discounted to present value, the Company maintained in its financial statements the deferred tax assets. Management believes that the carrying amount of the Company's deferred tax assets, in the amount of R\$7,879, is realizable in proportion to the final resolution of lawsuits.

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>2007</u>	<u>2006</u>
Adjusted income before income and social contribution taxes	29,693	11,043
Combined tax rate	<u>34%</u>	<u>34%</u>
Taxes computed at the combined tax rate	(10,095)	(3,756)
Permanent additions - nondeductible expenses	(83)	(41)
Permanent deductions	369	66
Other items	<u>219</u>	<u>86</u>
	<u>(9,590)</u>	<u>(3,645)</u>
Income and social contribution taxes:		
Current	(5,510)	(1,412)
Deferred	(4,080)	(2,233)
	<u>(9,590)</u>	<u>(3,645)</u>
Effective tax rate on adjusted net income	<u>32.3%</u>	<u>33.0%</u>

12. RESERVE FOR CONTINGENCIES

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

According to a Decision of the Federal Revenue Service, dated August 21, 2006, Livraria was required to pay part of the accrued amount for the lawsuit challenging the Real Plan (Brazilian economic plan) - Law No. 8880/94, in the amount of R\$4. The same decision tacitly approved the credit under discussion represented by the reserve of R\$1,613, which was reversed and recorded in 2007 under the caption "Other operating income (expenses)".

Reserve for contingencies is as follows:

	<u>2006</u>	<u>Recognition</u>	<u>Payments/ Reversal</u>	<u>Escrow deposits</u>	<u>2007</u>
PIS/Cofins - increase in tax basis	8,775	275	-	-	9,050
IR/CSLL - Real Plan - Law No. 8880/94	1,617	-	(1,617)	-	-
Escrow deposits	<u>(8,775)</u>	<u>-</u>	<u>-</u>	<u>(273)</u>	<u>(9,048)</u>

1,617      275      (1,617)      (273)      2

## 13. TAXES PAYABLE

	<u>2007</u>	<u>2006</u>
IR (income tax) and CSLL (social contribution tax) (*)	4,954	6,837
ICMS (state VAT)	2,396	1,648
PIS/Cofins (taxes on revenue)	82	67
Other	<u>369</u>	<u>90</u>
	<u>7,801</u>	<u>8,642</u>
Current liabilities	4,761	3,628
Noncurrent liabilities	<u>3,040</u>	<u>5,014</u>
	<u>7,801</u>	<u>8,642</u>

(\*)Request filed with the National Treasury Attorney General in October 2005 for the installment payment of the accrued amounts related to lawsuits brought to discuss the effects of IR and CSLL arising from the Real Plan - Law No. 8880/94.

## 14. SHAREHOLDERS' EQUITY

## a) Capital

Fully paid-up capital as of December 31, 2007 is R\$51,210, represented by 57,539,843 common shares with par value of R\$0.89.

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

## b) Legal reserve

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

## c) Dividends

Mandatory dividends were calculated as follows:

	<u>2007</u>	<u>2006</u>
Net income for the year	18,223	6,662
Absorption of accumulated deficit	-	(710)
Prior year adjustment	<u>-</u>	<u>674</u>
Net income after absorption of accumulated deficit	18,223	6,626
Legal reserve	<u>(911)</u>	<u>(331)</u>
Adjusted net income	<u>17,312</u>	<u>6,295</u>
Mandatory minimum dividend - 25%	<u>4,328</u>	<u>1,574</u>
Proposed dividends	<u>4,338</u>	<u>1,574</u>
Proposed dividends per share - R\$	<u>0.075400</u>	<u>0.027355</u>

d) Prior year adjustments

As per a resolution of the Annual Shareholders' Meeting held on April 27, 2006, the Company's management profit sharing for the year ended December 31, 2005, in the amount of R\$674, was not approved and was adjusted against the account "Retained earnings" in 2006.

15. FINANCIAL INCOME (EXPENSES)

	<u>2007</u>	<u>2006</u>
Financial income:		
Income from temporary cash investments	42	611
Interest on loans to parent company	-	127
Exchange variation	163	-
Other financial income	<u>147</u>	<u>185</u>
	<u>352</u>	<u>923</u>
Financial expenses:		
Interest on loans from parent company	1,602	667
Interest on financing	1,006	236
CPMF (tax on banking transactions)/IOC (tax on credit operations)	2,010	1,371
Other financial expenses	<u>558</u>	<u>939</u>
	<u>5,176</u>	<u>3,213</u>

16. FINANCIAL INSTRUMENTS

The carrying amounts of the financial instruments recorded in the balance sheet as of December 31, 2007, presented below, do not differ significantly from fair values:

	<u>Carrying amount</u>
Cash and cash equivalents	11,120
Financing in local currency	14,759

a) Cash and cash equivalents

The carrying amounts of cash and cash equivalents, represented by unrestricted bank deposits and highly-liquid cash investments, do not differ significantly from fair values.

b) Financing

The carrying amounts of financing correspond to funds obtained from the BNDES (National Bank for Economic and Social Development). The financing is specific and has different interest rates, impairing the comparison with fair values, assuming conventional loan rates for the calculation.

c) Derivatives

As of December 31, 2007 and 2006, Livraria did not enter into derivative transactions.

d) Market risks

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

17. INSURANCE (UNAUDITED)

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

18. SUBSEQUENT EVENT

On March 6, 2008, Livraria successfully closed negotiations to purchase all shares of Siciliano S.A. ("Siciliano").

The purchase price was R\$60,030, based on shareholders' equity as of November 30, 2007 of R\$3,914 (unaudited). As part of the transaction, Livraria assumed Siciliano's net debt, which amounted to approximately R\$13,600 as of December 31, 2007 (unaudited).

The purchase price will be adjusted up or down for possible variations of net debt and working capital of Siciliano from November 30, 2007 to March 6, 2008.

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