

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

***Saraiva e  
Siciliano S.A.***

*Financial Statements for the Years Ended  
December 31, 2008 and 2007 and  
Independent Auditors' Report*

Deloitte Touche Tohmatsu Auditores Independentes

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

INDEPENDENT AUDITORS' REPORT

To the Shareholders and Board of Directors of  
Saraiva e Siciliano S.A.  
São Paulo - SP

1. We have audited the accompanying balance sheet of Saraiva e Siciliano S.A. (the "Company") as of December 31, 2008, and the related statements of operations, changes in shareholders' equity and cash flows for the year then ended, all expressed in Brazilian reais and prepared under the responsibility of the Company's Management. Our responsibility is to express an opinion on these financial statements.
2. Our audit was conducted in accordance with applicable auditing standards in Brazil and comprised: (a) planning of the work, taking into consideration the significance of the balances, volume of transactions, and the accounting and internal control systems of the Company; (b) checking, on a test basis, the evidence and records that support the amounts and accounting information disclosed; and (c) evaluating the significant accounting practices and estimates adopted by the Company's Management, as well as the presentation of the financial statements taken as a whole.
3. In our opinion, the financial statements referred to in paragraph 1 present fairly, in all material respects, the financial position of Saraiva e Siciliano S.A. as of December 31, 2008, and the results of its operations, the changes in its shareholders' equity and its cash flows for the year then ended, in conformity with Brazilian accounting practices.
4. The financial statements for the year ended December 31, 2007, comprising the balance sheet and the statements of operations, changes in shareholders' deficit and changes in financial position have been audited by other independent auditors whose report thereon, dated May 15, 2008, contained a qualification as regards the realization of deferred income tax and social contribution, in the amount of R\$15,455 thousand, which were adjusted against shareholders' equity on January 1, 2008. As mentioned in note 2, Brazilian accounting practices were changed on January 1, 2008. The financial statements for the year ended December 31, 2007, presented with the 2008 financial statements, have been prepared in conformity with Brazilian accounting practices in effect until December 31, 2007 and they are not being restated with adjustments for purposes of comparability between years, as permitted by Technical Pronouncement issued by the Accounting Pronouncements Committee - CPC 13, First-time Adoption of Law 11638/07 and Provisional Act 449/08.
5. The accompanying financial statements have been translated into English for the convenience of readers outside Brazil.

São Paulo, March 18, 2009

DELOITTE TOUCHE TOHMATSU  
Auditores Independentes

Maurício Pires de Andrade Resende  
Engagement Partner

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

SARAIVA E SICILIANO S.A.

BALANCE SHEETS AS OF DECEMBER 31, 2008 AND 2007

(In thousands of Brazilian reais - R\$)

<u>ASSETS</u>	<u>Note</u>	<u>2008</u>	<u>2007</u>	<u>LIABILITIES AND SHAREHOLDERS' EQUITY</u> <u>(DEFICIT)</u>	<u>Note</u>	<u>2008</u>	<u>2007</u>
<b>CURRENT ASSETS</b>				<b>CURRENT LIABILITIES</b>			
Cash and cash equivalents		6,093	1,218	Trade accounts payable		129,473	32,863
Trade accounts receivable	4	140,187	10,012	Loans and financing	7	31,048	2,874
Inventories		133,950	15,106	Subsidiary and parent company	9	52,167	145
Recoverable taxes		14,431	3,028	Accruals and payroll taxes		6,689	2,345
Deferred income tax and social contribution	10.a	9,749	-	Taxes and contributions payable	12	2,928	189
Other receivables		3,512	520	Rentals payable	16	6,492	2,886
Prepaid expenses		<u>244</u>	<u>118</u>	Other payables		<u>9,081</u>	<u>1,168</u>
Total current assets		<u>308,166</u>	<u>30,002</u>	Total current liabilities		<u>237,878</u>	<u>42,470</u>
<b>NONCURRENT ASSETS</b>				<b>NONCURRENT LIABILITIES</b>			
Deferred income tax and social contribution	10.a	18,130	15,455	Loans and financing	7	11,575	11,238
Escrow deposits		746	107	Reserve for contingencies	11	4,320	3,352
Other		<u>12</u>	<u>-</u>	Deferred income tax and social contribution	10.a	7,143	871
		18,888	15,562	Taxes and contributions payable	12	1,137	-
Investments:				Accounts payable to ex-shareholders	6	7,317	-
In subsidiary	5	-	2,040	Other payables		<u>810</u>	<u>-</u>
Other		135	-	Total noncurrent liabilities		<u>32,302</u>	<u>15,461</u>
Property, plant and equipment	6	49,355	7,265	<b>SHAREHOLDERS' EQUITY (DEFICIT)</b>			
Intangible assets	6	72,475	2,977	Capital	13.a	238,317	36,958
Deferred charges		<u>-</u>	<u>19</u>	Revaluation reserve		-	1,810
Total noncurrent assets		<u>140,853</u>	<u>27,863</u>	Accumulated losses		<u>(59,478)</u>	<u>(38,834)</u>
				Total shareholders' equity (deficit)		<u>178,839</u>	<u>(66)</u>
<b>TOTAL ASSETS</b>				<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b> <b>(DEFICIT)</b>			
		<u>449,019</u>	<u>57,865</u>			<u>449,019</u>	<u>57,865</u>

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

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SARAIVA E SICILIANO S.A.

STATEMENTS OF OPERATIONS  
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

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

	<u>Note</u>	<u>2008</u>	<u>2007</u>
GROSS REVENUE		293,954	156,287
DEDUCTIONS			
Taxes on sales (ICMS, PIS, COFINS and ISS)		(13,957)	(3,722)
NET OPERATING REVENUE		<u>279,997</u>	<u>152,565</u>
COST OF SALES AND SERVICES		(174,060)	(80,680)
GROSS PROFIT		<u>105,937</u>	<u>71,885</u>
OPERATING (EXPENSES) INCOME			
Selling		(83,114)	(8,738)
General and administrative		(17,018)	(59,374)
Management fees		(813)	(693)
Depreciation and amortization		(5,473)	(3,932)
Equity in subsidiary	5	(103)	(187)
Other income, net		<u>86</u>	<u>1,571</u>
		<u>(106,435)</u>	<u>(71,353)</u>
INCOME (LOSS) FROM OPERATIONS BEFORE FINANCIAL INCOME (EXPENSES)		<u>(498)</u>	<u>532</u>
FINANCIAL INCOME (EXPENSES)			
Financial income	15	506	1,065
Financial expenses	15	<u>(9,844)</u>	<u>(8,704)</u>
		<u>(9,338)</u>	<u>(7,639)</u>
LOSS FROM OPERATIONS		<u>(9,836)</u>	<u>(7,107)</u>
NONOPERATING INCOME (EXPENSES)		-	(1,253)
LOSS BEFORE INCOME TAX AND SOCIAL CONTRIBUTION		<u>(9,836)</u>	<u>(8,360)</u>
DEFERRED INCOME TAX AND SOCIAL CONTRIBUTION	10.b	2,488	1,897
NET LOSS		<u>(7,348)</u>	<u>(6,463)</u>
LOSS PER SHARE - R\$		<u>(0.05)</u>	<u>(0.38)</u>
OUTSTANDING SHARES (THOUSANDS)		<u>145,775</u>	<u>17,074</u>

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

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SARAIVA E SICILIANO S.A.

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (DEFICIT)

FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

(In thousands of Brazilian reais - R\$)

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	<u>Note</u>	<u>Capital</u>	<u>Revaluation</u> <u>reserve</u>	<u>Accumulated</u> <u>losses</u>	<u>Total</u>
BALANCE AS OF DECEMBER 31, 2006		36,958	9,392	(39,957)	6,393
Realization of revaluation reserve, net of taxes		-	(7,586)	7,586	-
Reversal of provision for deferred taxes on revaluation		-	4	-	4
Net loss		-	-	(6,463)	(6,463)
BALANCES AS OF DECEMBER 31, 2007		<u>36,958</u>	<u>1,810</u>	<u>(38,834)</u>	<u>(66)</u>
Prior-year adjustments related to the reversal of the provision for deferred taxes due to uncertainties on realization	13.b	-	-	(15,455)	(15,455)
BALANCES AS OF DECEMBER 31, 2007 (ADJUSTED)		<u>36,958</u>	<u>1,810</u>	<u>(54,289)</u>	<u>(15,521)</u>
Capital contribution due to merger with parent company	13.a	201,359	-	-	201,359
Realization of revaluation reserve, net of taxes		-	(1,810)	2,159	349
Net loss		-	-	(7,348)	(7,348)
BALANCES AS OF DECEMBER 31, 2008		<u>238,317</u>	<u>-</u>	<u>(59,478)</u>	<u>178,839</u>

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SARAIVA E SICILIANO S.A.

STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED DECEMBER 31, 2008  
(In thousands of Brazilian reais - R\$)

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	<u>Note</u>	
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>		
Net loss		(7,348)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization (including the amount allocated to cost)	6	5,550
Deferred income tax and social contribution		(20,736)
Allowance for doubtful accounts		1,021
Equity in subsidiary	5	103
Write-off of merger investment	5	1,937
Realization of goodwill from company acquisition	6	15,455
Loss on sale of property, plant and equipment		(346)
Financial charges and exchange rate change on related-party balances, financing, loans and taxes payable		3,450
Other operating provisions		1,764
Decrease (increase) in operating assets:		
Trade accounts receivable		(25,286)
Inventories		(17,528)
Other operating assets		(253)
Increase (decrease) in liabilities:		
Trade accounts payable		10,372
Payment of interest on financing		(1,399)
Other operating liabilities		(2,288)
Net cash used in operating activities		<u>(35,532)</u>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>		
Purchase of property, plant and equipment and intangible assets	6	(5,232)
Proceeds from sales of property, plant and equipment items		<u>3,106</u>
Net cash used in investing activities		<u>(2,126)</u>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>		
Cash received as capital contribution		931
Loans and financing		24,426
Loans from parent company, net of amounts repaid		30,382
Repayment of loans and financing		<u>(13,206)</u>
Net cash provided by financing activities		42,533
<b>INCREASE IN CASH AND CASH EQUIVALENTS</b>		<u><u>4,875</u></u>
<b>CASH AND CASH EQUIVALENTS</b>		
Opening balance		1,218
Closing balance		6,093
<b>INCREASE IN CASH AND CASH EQUIVALENTS</b>		<u><u>4,875</u></u>

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

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

SARAIVA E SICILIANO S.A.

STATEMENT OF CHANGES IN FINANCIAL POSITION  
FOR THE YEAR ENDED DECEMBER 31, 2007  
(In thousands of Brazilian reais - R\$)

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	<u>Note</u>	
<b>SOURCES OF FUNDS</b>		
Funds provided by operations:		
Net loss		(6,463)
Items not affecting working capital:		
Depreciation and amortization	6	4,008
Interest and exchange rate change of long-term items		511
Net book value of property, plant and equipment written-off	6	12,802
Deferred income tax and social contribution		(2,717)
Reversal of reserve for contingencies		(671)
Equity in subsidiary	5	<u>187</u>
		7,657
Funds from third parties:		
Financing		12,645
Decrease in noncurrent assets		<u>3</u>
Total sources		<u>20,305</u>
<b>USES OF FUNDS</b>		
Purchase of property, plant and equipment and intangible assets	6	676
Investment in subsidiary	5	2,227
Decrease in noncurrent liabilities		136
Transfer from noncurrent to current liabilities		<u>10,704</u>
Total uses		13,743
<b>INCREASE IN WORKING CAPITAL</b>		<u>6,562</u>
<b>REPRESENTED BY</b>		
Current assets		(6,769)
Current liabilities		(13,331)
<b>INCREASE IN WORKING CAPITAL</b>		<u>6,562</u>

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

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SARAIVA E SICILIANO S.A.

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007  
(In thousands of Brazilian reais - R\$, unless otherwise stated)

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1. OPERATIONS

a) Core business

Saraiva e Siciliano S.A. is primarily engaged in retail sale of books, DVDs, music, stationery, multimedia, computers and software, and electronic products. Distribution is conducted through an Internet-based sales platform and a chain of 98 stores, of which 35 are megastores, 53 are conventional stores and 10 are franchises.

b) Corporate restructuring

On March 6, 2008, all the shares of Siciliano S.A. (“Siciliano”) were acquired by Livraria e Papelaria Saraiva S.A. (“Livraria Saraiva”).

On August 1, 2008, Siciliano merged Editora Siciliano Ltda. (“Editora Siciliano”) at carrying amounts.

On November 30, 2008, Siciliano merged, at carrying amounts, its parent company Livraria Saraiva, thus resulting in the creation of Saraiva e Siciliano S.A. (“Saraiva e Siciliano” or the “Company”). See note 13.a).

2. PRESENTATION OF FINANCIAL STATEMENTS

The 2008 and 2007 financial statements of Saraiva e Siciliano have been prepared in accordance with Brazilian accounting practices, and the 2008 financial statements include the changes in accounting practices introduced by Law 11638/07 and Provisional Act 449/08, regulated by the Accounting Pronouncements Committee (CPC).

Some of the main changes that affected Saraiva e Siciliano are:

a) Changes in the presentation of financial statements

- Replacement of the statement of changes in financial position by the statement of cash flows. In accordance with the option provided for in Law 11638/07, the statement of cash flows is presented without the indication of comparative amounts corresponding to the year ended December 31, 2007.
- Requirement of the account group “Intangible assets” to record rights in intangible assets that are maintained or used in the operations of the Saraiva e Siciliano’s business.
- Elimination of the caption “Nonoperating income (expenses)” in the 2008 statement of operations.

b) Changes in accounting practices affecting the financial statements

- Requirement that amounts recorded in property, plant and equipment and intangible assets be periodically tested for impairment, by means of specific procedures, to ensure that these assets are recorded at amounts that can be recovered through use or sale.
- Management opted not to present the financial statements for the year ended December 31, 2007 on a comparative basis; accordingly, it did not apply Law 11638/07 retrospectively to book balances for that year, as permitted by the Technical Pronouncement CPC 13 - First-time Adoption of Law 11638/07 and Provisional Act 449/08.

c) Changes to accounting practices not affecting the financial statements

- Adjustment to present value: Saraiva e Siciliano's Management, based on analyses and their best estimate, concluded that the impacts of the adjustment to present value of assets and liabilities on net loss and shareholders' equity are immaterial in relation to the financial statements taken as a whole; therefore, it did not record such adjustment.
- Leases: Saraiva e Siciliano's Management, based on technical reports prepared by a specialized firm and the procedures set out in Technical Pronouncement CPC 06 - Leases, concluded that the lease of the commercial premises where their stores and branches operate fit the classification of operating leases, and it did not identify any finance leases to be recorded.
- Creation of the account group "Valuation adjustments to shareholders' equity", in shareholders' equity, to record fair value adjustments, mainly to financial instruments, and there are no transactions to be recorded for the year ended December 31, 2008.
- Procedures required to record financial instruments, including derivatives: (i) recording of trading and or available-for-sale securities at fair value or equivalent amount; and (ii) recording of held-to-maturity securities at the lower of acquisition or historical cost, plus contractual yield, and realizable value, and there are no transactions to be recorded for the year ended December 31, 2008.

Estimates used in the preparation of the financial statements with regard to adjustment to present value, allowance for doubtful accounts, provision for inventory losses, useful lives of property, plant and equipment and intangible assets, and reserves for contingencies, as necessary to make projections and determine the impairment of property, plant and equipment, deferred charges and deferred income tax assets, as well as to determine the provision for current and deferred income tax and social contribution, 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

Revenue and expenses are recorded on the accrual basis. Sales revenue and costs are recorded upon the transfer of risks and rewards incidental to the ownership of the products sold and services provided.

#### b) Current and noncurrent assets

- Cash and cash equivalents

Consist of cash and banks.

- Allowance for doubtful accounts

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

- Inventories

Stated at average acquisition cost, less allowance for adjustment for write-down to fair or realizable value, when lower.

- Other noncurrent assets

Stated at net realizable value.

- Investments

Investments in the subsidiary are accounted for under the equity method, and other investments are stated at cost, less an allowance for write-down to fair value, when applicable.

- Property, plant and equipment and intangible assets

Stated at acquisition or construction cost, less depreciation and amortization and, when applicable, an allowance for impairment. Depreciation and amortization are calculated under the straight-line method at rates based on the useful lives of the assets and rights.

Carrying amounts of intangible assets with a defined useful lives and property, plant and equipment indicating impairment losses are reviewed to ensure that an allowance for losses in the carrying amount in relation to the recoverable value is recognized in the statements of operations.

The cash generating units defined by Management and used to test the related assets for impairment correspond to the operation of each one of the stores and the website of the dot-com business. The evaluation process uses operating and financial performance indicators established by Management and, upon indication of an impairment loss, a comparative analysis is performed for each cash generating unit between the amount determined by the cash flow discounted to present value and the respective carrying amount. As of December 31, 2008, Management, in its best judgment, did not identify assets recorded at amounts higher than their recoverable value.

- Goodwill

Goodwill resulting from the acquisition of investments is based on the projected earnings capacity of the acquired businesses over the estimated period for return on investment, estimated at 60 months. Goodwill is amortized on a straight-line basis at the rate of 20% per year until December 31, 2008. After January 1, 2009, goodwill will no longer be amortized and will be annually tested for impairment.

The impairment of the goodwill resulting from acquisition of companies is tested annually, regardless of the existence of impairment indicators.

The cash generating units defined by Management and used to evaluate the recoverability of the carrying amount of goodwill correspond to the operation of the stores purchased from Siciliano, and, as of December 31, 2008, Management, in its best judgment, did not identify the need to recognize an allowance for the impairment of the recorded goodwill.

c) Current and noncurrent liabilities

- Leases

Lease agreements for Saraiva e Siciliano's commercial units are classified as operating leases, and the related costs are recognized in the statements of operations as operating expenses.

- Other current and noncurrent liabilities

Stated at known or estimated amounts plus charges, inflation adjustment and exchange rate change incurred through the balance sheet dates.

d) Income tax and social contribution

Taxes on income include current and deferred amounts.

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

Deferred income tax and social contribution are calculated on tax loss carryforwards and temporary differences. Deferred taxes are recorded in current and noncurrent assets and noncurrent liabilities, according to note 10.a). Deferred tax assets are supported by a study on the expected realization of future taxable income, which is reviewed annually and adjusted in the event that a significant reduction in the projected income is expected.

e) Loss per share

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

4. TRADE ACCOUNTS RECEIVABLE

	<u>2008</u>	<u>2007</u>
Trade accounts receivable	5,168	4,552
Credit cards	137,136	7,994
Checks receivable	1,807	1,184
Franchise accounts receivable	<u>852</u>	<u>406</u>
	144,963	14,136
Allowance for doubtful accounts	<u>(4,776)</u>	<u>(4,124)</u>
	<u>140,187</u>	<u>10,012</u>

Aging list of accounts receivable:

	<u>2008</u>	<u>2007</u>
Current	139,731	12,546
Past-due:		
Up to 60 days	272	998
Above 90 days	<u>4,960</u>	<u>592</u>
	<u>144,963</u>	<u>14,136</u>

5. INVESTMENTS IN SUBSIDIARY

The interest in subsidiary presented as of December 31, 2007 refers to Editora Siciliano, merged on August 1, 2008.

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

	<u>2008</u>	<u>2007</u>
Balance at beginning of year	2,040	-
Capital contribution	-	2,227
Equity in subsidiary	(103)	(187)
Write-off of investment due to merger	<u>(1,937)</u>	<u>-</u>
Balance at end of year	<u>-</u>	<u>2,040</u>

## 6. PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

	Annual depreciation/ amortization rate <u>- %</u>	2008		2007	
		<u>Cost</u>	<u>Accumulated depreciation/ amortization</u>	<u>Net value</u>	<u>Net value</u>
Property, plant and equipment:					
Land	-	3	-	3	242
Buildings and construction	4	1,441	(741)	700	2,366
Machinery and equipment	10	1,001	(734)	267	536
Furniture, fixtures and installations	10	99,748	(64,930)	34,818	3,068
Vehicles	20	765	(333)	432	124
IT equipment	20	21,250	(14,594)	6,656	929
Construction in progress	-	<u>6,479</u>	<u>-</u>	<u>6,479</u>	<u>-</u>
		<u>130,687</u>	<u>(81,332)</u>	<u>49,355</u>	<u>7,265</u>
Intangible assets:					
Goodwill	20	24,009	(22,083)	1,926	378
Goodwill on company acquisition (*)	20	82,823	(16,578)	66,245	-
Software	20	11,388	(7,425)	3,963	2,593
Trademarks and patents	-	135	(63)	72	6
Other	-	<u>269</u>	<u>-</u>	<u>269</u>	<u>-</u>
		<u>118,624</u>	<u>(46,149)</u>	<u>72,475</u>	<u>2,977</u>

(\*) Goodwill based on expected future earnings from the acquisition of Siciliano by Livraria Saraiva on March 6, 2008, calculated based on Siciliano's shareholders' deficit as of the date of its acquisition, in the amount of R\$24,266. The purchase price was R\$60,030, adjusted to R\$58,557 according to contractual price adjustment provisions. From the total price negotiated, an amount of R\$8,890, adjusted to R\$7,317 according to contractual provision, was initially retained to secure contractual indemnity obligations. The retained amount will be paid to sellers after six years counted from the acquisition date. The purchase price will also be adjusted up or down as a result of the analysis by the parties of possible changes of net debt and working capital of Siciliano between the balance sheets as of November 30, 2007 and March 6, 2008.

After the acquisition of Siciliano and the merger of Livraria Saraiva, Management considered that the resulting company, Saraiva e Siciliano, met the requirements for recognition of deferred income tax and social contribution assets on tax loss carryforwards and temporary differences as of December 31, 2007, in the amount of R\$15,455. Due to the recognition of said asset, an equivalent amount was realized in the year as goodwill related to the acquisition of Siciliano.

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

	<u>2008</u>	<u>2007</u>
Balance at beginning of year	10,261	26,376
Additions	5,232	676
Write-offs	(2,760)	(12,802)
Depreciation and amortization	(5,550)	(4,008)
Parent company's merged assets	130,625	-
Realization of goodwill from Siciliano	(15,455)	-
Write-off of revaluation reserve	<u>(523)</u>	<u>-</u>
Balance at end of year	<u>121,830</u>	<u>10,242</u>

## 7. LOANS AND FINANCING

	<u>2008</u>	<u>2007</u>
Current:		
In local currency - BNDES - FINEM	6,496	-
Loans - Banco Real and HSBC	-	2,874
Secured account - Banco do Brasil	<u>24,552</u>	<u>-</u>
	<u>31,048</u>	<u>2,874</u>
Noncurrent:		
In local currency - BNDES - FINEM	11,575	-
Loans - Banco Real and HSBC	<u>-</u>	<u>11,238</u>
	<u>11,575</u>	<u>11,238</u>

The noncurrent portion matures as follows:

	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>Total</u>
Financing	<u>6,820</u>	<u>3,751</u>	<u>1,004</u>	<u>11,575</u>

Additional information on financing is as follows:

<u>Financing</u>	<u>Purpose</u>	<u>Guarantees</u>	<u>Due date</u>	<u>Charges</u>
BNDES - FINEM - contract of 11/2006	Investment projects for opening of 11 stores, renovation and modernization of 19 stores of the chain, and centralizing logistics operations	Company guarantee	08/2010	3.1% + TJLP (*)

(\*) The long-term interest rate (TJLP) for the year ended December 31, 2008 was 6.25% per year.

On December 26, 2008, a loan contracted with the National Bank for Economic and Social Development (BNDES), originally contracted by Livraria Saraiva, in the amount of R\$3,616.

In the year ended December 31, 2008, working capital loans - secured account - were obtained by Saraiva e Siciliano, subject to an average rate of 125% of the interbank deposit rate (CDI).

## 8. LOYALTY PROGRAM - SARAIVA PLUS

Saraiva e Siciliano assumed the customer loyalty program (“Saraiva Plus”) launched by Livraria Saraiva. Under said program, 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, 2008, the provision for loyalty program in the amount of R\$2,681 (R\$2,128 as of December 31, 2007) is recorded in current liabilities under the caption “Other payables”.

## 9. RELATED-PARTY TRANSACTIONS

Related-party transactions include purchases, sales and loans from Saraiva S.A. Livreiros Editores (“Editora”). Loans raised have indeterminate maturity and bear interest of 101% of the CDI.

Loans granted recorded in current liabilities:

	<u>2008</u>	<u>2007</u>
	<u>Editora</u>	<u>Editora Siciliano</u>
Balances as of December 31 of the prior year	14,736	-
Loans raised, net of receipts	34,398	145
Financial expenses	<u>3,033</u>	<u>-</u>
Balances receivable as of December 31	<u>52,167</u>	<u>145</u>

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

	<u>2008</u>	<u>2007</u>
	<u>Editora</u>	<u>Editora Siciliano</u>
Balances:		
Assets-		
Trade accounts receivable (current)	920	-
Liabilities:		
Trade accounts payable (current)	3,787	-
Loans raised - intercompany loan contract (current)	52,167	145
Transactions:		
Sale of products	223	108
Purchase of products	21,509	-
Financial expenses	706	-

## 10. INCOME TAX AND SOCIAL CONTRIBUTION

### a) Deferred

Deferred income tax and social contribution are derived from:

	<u>2008</u>	<u>2007</u>
Current assets - operating provisions	<u>9,749</u>	<u>-</u>
Noncurrent assets:		
Tax loss carryforwards	13,431	15,455
Reserve for contingencies and taxes payable	<u>4,699</u>	<u>-</u>
	<u>18,130</u>	<u>15,455</u>

	<u>2008</u>	<u>2007</u>
Noncurrent liabilities:		
Provision for book inventory losses - Law 10753/03	7,055	-
Other	88	-
Deferred taxes on revaluation reserve	<u>-</u>	<u>871</u>
	<u>7,143</u>	<u>871</u>

Saraiva e Siciliano, based on the opinion of their outside attorneys, considered the tax incentive established by Law 10753/03, amended by Law 10833/03, concerning the deductibility of the provision for inventory losses, as a direct adjustment to the tax base. The tax effects of deferred liabilities were recognized in the financial statements in accordance with CVM Regulatory Instruction 371/02.

Based on the expectation of future taxable income and positive cash flows discounted to present value, Saraiva e Siciliano maintained in its financial statements the deferred tax assets.

Management believes that the carrying amount of deferred tax assets from temporary differences is realizable in proportion to the final resolution of lawsuits and the settlement of liabilities.

Management, based on the best estimates existing at the end of 2008, considers the realization of deferred tax assets from tax loss carryforwards based on future taxable income.

The expected realization is as follows:

<u>Balance sheet date</u>	<u>Realization of deferred tax asset</u>
December 31, 2009	9,749
December 31, 2010	3,102
December 31, 2011	7,754
December 31, 2012	<u>7,274</u>
	<u>27,879</u>

b) Expense reconciliation

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

	<u>2008</u>	<u>2007</u>
Loss before income tax and social contribution	(9,836)	(8,360)
Combined tax rate	<u>34%</u>	<u>34%</u>
Tax credits computed at the combined tax rate	3,344	2,842
Permanent additions - nondeductible expenses	(1,594)	(919)
Permanent exclusions-		
Equity in subsidiary	(35)	(50)
Other items	<u>773</u>	<u>24</u>
Income tax and social contribution in statement of operations - deferred	<u>2,488</u>	<u>1,897</u>
Effective rate on loss for the year	<u>25.3%</u>	<u>22.7%</u>

## 11. RESERVE FOR CONTINGENCIES

Reserve for contingencies is as follows:

	<u>2007</u>	<u>Recognition</u>	<u>Merged companies</u>	<u>Payments/ Reversal</u>	<u>2008</u>
PIS/COFINS (taxes on revenue) - increase in tax basis (a)	-	-	9,206	-	9,206
COFINS - tax violation notice (b)	1,345	-	-	(1,345)	-
PIS - Supplementary Law 7/70 (c)	-	1,514	-	-	1,514
Civil and labor contingencies	1,403	11	143	(202)	1,355
Other	604	119	707	-	1,430
Escrow deposits	<u>-</u>	<u>-</u>	<u>(9,185)</u>	<u>-</u>	<u>(9,185)</u>
	<u>3,352</u>	<u>1,644</u>	<u>871</u>	<u>(1,547)</u>	<u>4,320</u>

- (a) Saraiva e Siciliano are challenging in court certain aspects related to federal taxes, such as PIS and COFINS (taxes on revenue), with regard to the increase in the tax base and in the tax rate.
- (b) Tax violation notice issued in 1997 claiming COFINS underpaid in 1992 and 1993. The amount paid terminates the tax credit.
- (c) Livraria Saraiva, which was merged into Saraiva e Siciliano, filed in 1989 a lawsuit requesting the Court to declare the nonexistence of the obligation to pay the PIS, pursuant to Supplementary Law 7/70. Escrow deposits made between April 1989 and May 1992 were withdrawn upon court authorization. A final decision on the merits was rendered acknowledging the validity and applicability of Supplementary Law 7/70 and, by virtue of the granting of the National Treasury's appeal, the case is now in the stage of calculation of the amounts due to the Federal Government. Therefore, Saraiva e Siciliano recognized the respective amounts as a provision, according to the opinion from the counsel handling the case and considering the best estimates existing on the balance sheet dates to calculate the amount necessary to settle the tax credits.

Saraiva e Siciliano's Management did not consider it necessary to recognize a provision for losses to cover possible losses on pending lawsuits, in the total amount of R\$1,041, for which, in the opinion of its counsel, the likelihood of loss is possible.

## 12. TAXES AND CONTRIBUTIONS PAYABLE

	<u>2008</u>	<u>2007</u>
Installment payment of corporate income tax (IRPJ) and social contribution on net income (CSLL) (*)	3,044	-
Withholding income tax (IRRF)	673	14
State VAT (ICMS)	-	108
Taxes on revenue (PIS and COFINS)	199	32
Other	<u>149</u>	<u>35</u>
	<u>4,065</u>	<u>189</u>
Current liabilities	2,928	189
Noncurrent liabilities	<u>1,137</u>	<u>-</u>
	<u>4,065</u>	<u>189</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 IRPJ and CSLL arising from the Real Plan - Law 8880/94.

## 13. SHAREHOLDERS' EQUITY

### a) Capital

Fully paid-up capital as of December 31, 2008, in the amount of R\$238,317 (R\$36,958 as of December 31, 2007), is represented by 145,775,138 registered common shares without par value.

On November 30, 2008, Livraria Saraiva was merged into its subsidiary Siciliano, based on the shareholders' equity at book value as of October 31, 2008, appraised by independent experts, in the amount of R\$172,532, which, as adjusted to the write-off of the interest held by Livraria Saraiva in the capital of Siciliano, represented a capital increase of R\$201,359 in Siciliano and resulted in the company Saraiva e Siciliano. Due to the merger of Livraria Saraiva, Saraiva e Siciliano's capital was increased from R\$36,958 to R\$238,317. All of the shares issued as a result of the capital increase were allocated to the Editora, proportionally to the respective interest then held in Livraria Saraiva.

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

b) Prior-year adjustments

On January 1, 2008, Saraiva e Siciliano reversed the provision for deferred taxes recognized as of December 31, 2007, in the amount of R\$15,455, on tax loss carryforwards and temporary differences due to the uncertainties on its actual realization.

14. FINANCIAL INSTRUMENTS

a) Derivative transactions

In the years ended December 31, 2008 and 2007, no derivative transactions were conducted.

b) Other financial instruments

The fair value of trade accounts receivable and current liabilities approximates their carrying amounts, since the maturity of a significant portion of these balances is close to the balance sheet dates. The carrying amounts of financing correspond to funds obtained from the BNDES, which are adjusted to inflation based on the contracted interest rates, which do not differ significantly from the rates currently available in the market.

c) Market risks

- Inventory obsolescence risk: discontinued products and new technologies may lead to excess and obsolete inventories. To minimize these conditions, Saraiva e Siciliano periodically monitors inventory levels and take necessary actions for inventory realization.

d) Interest rate

Saraiva e Siciliano is exposed to normal market risks arising from changes in interest rates on secured account loans, which were repaid on January 5, 2009.

The sensitivity analysis was developed based on the exposure to the CDI fluctuation, which is the only index applicable to loans obtained by Saraiva e Siciliano.

<u>Transaction</u>	<u>Risk</u>	<u>Scenarios</u>		
		<u>Probable (i)</u>	<u>Possible (ii)</u>	<u>Remote (iii)</u>
Balance of secured account loans subject to CDI fluctuation	CDI increase	<u>24,552</u>	<u>24,676</u>	<u>24,810</u>

Balances include interest calculated as follows:

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

## 15. FINANCIAL INCOME (EXPENSES)

	<u>2008</u>	<u>2007</u>
Financial income:		
Income from short-term investments	3	-
Interest on loans to subsidiary	282	-
Interest received from customers	-	87
Financial discounts obtained	-	161
Exchange gains	126	817
Other	<u>95</u>	<u>-</u>
	<u>506</u>	<u>1,065</u>
Financial expenses:		
Interest, inflation adjustment and exchange losses on financing	(4,032)	(3,850)
Interest payable on subsidiary's loans	(706)	-
Financial discounts granted	(1,317)	(161)
Other interest and inflation adjustment	(1,805)	(2,919)
Tax on banking transactions (CPMF)/Tax on credit transactions (IOC)	(1,160)	(1,273)
Financial commissions	(139)	(501)
Other	<u>(685)</u>	<u>-</u>
	<u>(9,844)</u>	<u>(8,704)</u>
	<u>(9,338)</u>	<u>(7,639)</u>

## 16. OPERATING LEASE - STORES

As of December 31, 2008, Saraiva e Siciliano had 89 lease agreements with third parties for its stores. Management analyzed said agreements and concluded that they fit into the classification of operating leases. Most of the store lease agreements provide for a variable rental expense, based on sales, or a minimum amount adjusted to inflation on an annual basis by several indices, and are effective for five years, subject to renewal. Rentals under lease agreements for Saraiva e Siciliano's logistics and administrative areas are fixed, with annual adjustments to inflation according to the fluctuation of the main indices.

In the year ended December 31, 2008, rental expenses, net of recoverable taxes, totaled R\$19,189 (R\$13,814 as of December 31, 2007). The balance of "Rentals payable" as of December 31, 2008 is R\$6,492 (R\$2,886 in December 31, 2007).

## 17. INSURANCE (UNAUDITED)

As of December 31, 2008 and 2007, Saraiva e Siciliano had insurance coverage against fire and sundry risks for property, plant and equipment items and inventories, in amounts considered sufficient to cover potential losses.

## 18. SUBSEQUENT EVENTS

In February 2009, Saraiva e Siciliano entered into a new long-term agreement with the BNDES in the amount of R\$69.7 million. These funds will be used to refurbish stores and expand the store chain, and increase working capital.

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