

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

Saraiva e Siciliano S.A.

*Financial Statements for the Years Ended
December 31, 2009 and 2008 and
Independent Auditors' Report*

Deloitte Touche Tohmatsu Auditores Independentes

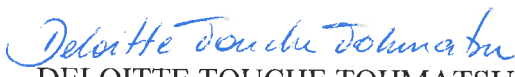
(Convenience Translation into English from the Original Previously Issued in Portuguese)

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 sheets of Saraiva e Siciliano S.A. (the "Company") as of December 31, 2009 and 2008, and the related statements of operations, changes in shareholders' equity and cash flows for the years 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 audits were 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, 2009 and 2008, and the results of its operations, the changes in its shareholders' equity and its cash flows for the years then ended, in conformity with accounting practices adopted in Brazil.
4. The accompanying financial statements have been translated into English for the convenience of readers outside Brazil.

São Paulo, March 17, 2010


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, 2009 AND 2008

(Amounts in thousands of Brazilian reais - R\$)

<u>ASSETS</u>	<u>Note</u>	<u>2009</u>	<u>2008</u>	<u>LIABILITIES AND SHAREHOLDERS' EQUITY</u>	<u>Note</u>	<u>2009</u>	<u>2008</u>
CURRENT ASSETS				CURRENT LIABILITIES			
Cash and cash equivalents	18	8,699	6,093	Trade accounts payable		169,504	129,473
Trade accounts receivable	5	160,665	140,187	Loans and financing	8	71,114	31,048
Inventories		194,818	133,950	Loans from subsidiary	10	6,964	52,167
Recoverable taxes	6	18,330	14,431	Payroll and related charges		8,019	6,689
Deferred income tax and social contribution	11.a	11,715	9,749	Taxes payable	13	4,068	2,928
Other receivables		5,476	3,512	Rentals payable	17	7,048	6,492
Prepaid expenses		315	244	Other payables		10,411	9,081
Total current assets		<u>400,018</u>	<u>308,166</u>	Total current liabilities		<u>277,128</u>	<u>237,878</u>
NONCURRENT ASSETS				NONCURRENT LIABILITIES			
Deferred income tax and social contribution	11.a	18,951	18,130	Loans and financing	8	49,145	11,575
Judicial deposits	12	1,438	746	Reserve for contingencies	12	1,568	4,320
Recoverable taxes	6	8,954	-	Deferred income tax and social contribution	11.a	13,076	7,143
Other		12	12	Taxes payable	13	-	1,137
		29,355	18,888	Accounts payable to ex-shareholders		4,790	7,317
Investments		135	135	Other payables		761	810
Property and equipment	7	85,756	49,355	Total noncurrent liabilities		<u>69,340</u>	<u>32,302</u>
Intangible assets	7	73,405	72,475				
Total noncurrent assets		<u>188,651</u>	<u>140,853</u>	SHAREHOLDERS' EQUITY			
				Paid-up capital	14.a	296,317	238,317
				Accumulated losses		(54,116)	(59,478)
				Total shareholders' equity		242,201	178,839
TOTAL ASSETS		<u>588,669</u>	<u>449,019</u>	TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		<u>588,669</u>	<u>449,019</u>

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

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

SARAIVA E SICILIANO S.A.

STATEMENTS OF OPERATIONS

FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

(Amounts in thousands of Brazilian reais - R\$, except earnings (loss) per share)

	<u>Note</u>	<u>2009</u>	<u>2008</u>
GROSS REVENUE FROM SALES		1,014,996	293,954
DEDUCTIONS FROM GROSS REVENUE			
Taxes on sales (ICMS, PIS, COFINS and ISS)		(63,988)	(13,957)
NET REVENUE		<u>951,008</u>	<u>279,997</u>
COST OF SALES AND SERVICES		(622,287)	(174,060)
GROSS PROFIT		<u>328,721</u>	<u>105,937</u>
OPERATING (EXPENSES) INCOME			
Sales		(238,540)	(83,114)
General and administrative expenses		(49,490)	(17,018)
Management compensation	10	(4,370)	(813)
Depreciation and amortization		(16,783)	(5,473)
Equity in subsidiary		-	(103)
Other operating income, net		<u>3,964</u>	<u>86</u>
		(305,219)	(106,435)
INCOME (LOSS) FROM OPERATIONS BEFORE FINANCIAL INCOME (EXPENSES)		<u>23,502</u>	<u>(498)</u>
FINANCIAL INCOME (EXPENSES)			
Financial income	16	1,392	506
Financial expenses	16	<u>(15,498)</u>	<u>(9,844)</u>
		(14,106)	(9,338)
INCOME (LOSS) BEFORE INCOME TAX AND SOCIAL CONTRIBUTION		9,396	(9,836)
INCOME TAX AND SOCIAL CONTRIBUTION			
Deferred	11.b	(4,034)	2,488
NET INCOME (LOSS)		<u>5,362</u>	<u>(7,348)</u>
EARNINGS (LOSS) PER SHARE - R\$		<u>0.03</u>	<u>(0.05)</u>
NUMBER OF OUTSTANDING SHARES (IN THOUSANDS)	14.a	<u>193,053</u>	<u>145,775</u>

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

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

SARAIVA E SICILIANO S.A.

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

(Amounts in thousands of Brazilian reais - R\$)

	<u>Note</u>	<u>Capital</u>	<u>Revaluation reserve</u>	<u>Accumulated losses</u>	<u>Total</u>
BALANCES AS OF DECEMBER 31, 2007		36,958	1,810	(38,834)	(66)
Prior-year adjustments related to the reversal of the provision for deferred taxes due to uncertainties on realization	14.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	1	201,359	-	-	201,359
Realization of revaluation reserve, net of taxes		-	(1,810)	2,159	349
Net loss for the year		-	-	(7,348)	(7,348)
BALANCES AS OF DECEMBER 31, 2008		<u>238,317</u>	<u>-</u>	<u>(59,478)</u>	<u>178,839</u>
Capital increase	14.a	58,000	-	-	58,000
Net income for the year		-	-	5,362	5,362
BALANCES AS OF DECEMBER 31, 2009		<u>296,317</u>	<u>-</u>	<u>(54,116)</u>	<u>242,201</u>

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

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

SARAIVA E SICILIANO S.A.

STATEMENTS OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2009 and 2008

(Amounts in thousands of Brazilian reais - R\$)

	<u>Note</u>	<u>2009</u>	<u>2008</u>
CASH FLOW FROM OPERATING ACTIVITIES			
Net income (loss) for the year		5,362	(7,348)
Adjustments to reconcile net income (loss) to net cash used in operating activities:			
Depreciation and amortization (including the amount allocated to cost)	7	17,882	5,550
Deferred income tax and social contribution	11.b	3,146	(20,736)
Allowance for doubtful accounts		870	1,021
Equity in subsidiary		-	103
Write-off of merged investment		-	1,937
Realization of goodwill on acquisition of companies	7	-	15,455
Proceeds from sale of property and equipment		(692)	(346)
Financial charges and exchange variation on intercompany balances, financing, loans and taxes payable		3,507	3,450
Other provisions		4,878	1,764
Decrease (increase) in assets:			
Trade accounts receivable		(21,348)	(25,286)
Inventories		(60,868)	(17,528)
Other receivables		(15,913)	(253)
Increase (decrease) in liabilities:			
Trade accounts payable		37,429	10,372
Trade accounts payable - related-party transactions purchases		2,602	-
Payment of interest on financing		(4,768)	(1,399)
Other payables		<u>1,767</u>	<u>(2,288)</u>
Net cash used in operating activities		<u>(26,146)</u>	<u>(35,532)</u>
CASH FLOW FROM INVESTING ACTIVITIES			
Purchase of property and equipment	7	(58,805)	(5,232)
Sale of property and equipment		<u>710</u>	<u>3,106</u>
Net cash used in investing activities		<u>(58,095)</u>	<u>(2,126)</u>
CASH FLOW FROM FINANCING ACTIVITIES			
Cash received as capital contribution		-	931
Loans and financing	8	118,866	24,426
Loans from parent company, net of amounts repaid	10	10,923	30,382
Financial income - related-party transactions		475	-
Amortization of loans and financing		<u>(43,417)</u>	<u>(13,206)</u>
Net cash provided by financing activities		<u>86,847</u>	<u>42,533</u>
INCREASE IN CASH AND CASH EQUIVALENTS		<u>2,606</u>	<u>4,875</u>
STATEMENT OF CHANGES IN CASH AND CASH EQUIVALENTS			
Beginning balance		6,093	1,218
Ending balance		<u>8,699</u>	<u>6,093</u>
INCREASE IN CASH AND CASH EQUIVALENTS		<u>2,606</u>	<u>4,875</u>

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

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

SARAIVA E SICILIANO S.A.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008
(In thousands of Brazilian reais - R\$, unless otherwise stated)

1. OPERATIONS

a) Core business

Saraiva e Siciliano S.A. (“Livraria”) 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 100 stores, of which 39 are megastores, 53 are conventional stores and 8 are franchises.

b) Corporate restructuring

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

On November 30, 2008, Livraria Saraiva was merged with and into its subsidiary Siciliano, based on the shareholders’ equity at book value as of October 31, 2008, based on independent appraisal report. As a consequence, paid-up capital of Siciliano was increased by R\$201,359 and 100% of the shares issued were allocated to the Saraiva S.A. Livreiros Editores (“Editora”), proportionally to its interest then held in Livraria Saraiva.

As a result of this corporate restructuring, the statement of operations for the year ended December 31, 2008 refers to 12 months of operations of Siciliano and 2 months of operations of Livraria Saraiva, which impair its comparability with the statement of operations for the year ended December 31, 2009, which refers to 12 months of operations of both companies.

2. PRESENTATION OF FINANCIAL STATEMENTS

The Livraria’s financial statements have been prepared in accordance with accounting practices adopted in Brazil, in compliance with the provisions of Corporate Law and including all changes in accounting practices introduced by Laws 11638/07 and 11941/09.

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

Comprises cash balances and bank deposits that can be immediately converted into a known cash amount.

- Trade accounts receivable and allowance for doubtful accounts

Trade accounts receivable are recorded and stated in balances sheets at their original amounts. Accounts receivable are controlled by aging, and an allowance for losses is recognized for receivables past due for more than 180 days. Uncollectible receivables are charged directly to income.

Receivables are not adjusted to present value as they have a short-term maturity and do not have materially impact the financial statements.

- Inventories

Stated at average acquisition or production cost, less allowance for adjustment write-down to fair or realizable value, when lower, and allowance for losses with slow-moving items, excessive, or not realizable, based on periodic analysis conducted by Management.

- Other noncurrent assets

Recorded at cost or at the net realizable value, when the latter is lower.

- Property and equipment and intangible assets

Stated at acquisition or construction cost, less depreciation and amortization and, when applicable, provision for reduction to recoverable value. Depreciation and amortization are calculated under the straight-line method, based on the estimated useful lives of the assets and rights. Livraria's facilities and leasehold improvements are depreciated over the shortest of the lease term or the economic useful lives of the assets.

Carrying amounts of intangible assets with a defined useful life and property and equipment indicating impairment losses are reviewed to make sure that a provision for losses in their carrying amount in relation to the recoverable value is recognized in the statements of income.

The cash generating units defined by Management and used to evaluate the recoverability of the carrying amount of the related assets correspond to the operation of each one of the stores and the website "Saraiva.com". 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, 2009 and 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 under the straight-line method at the rate of 20% per year until December 31, 2008. After January 1, 2009, goodwill will no longer be amortized and will be tested for recoverable value on an annual basis, regardless the existence or not of indicators of any loss in its carrying value.

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. As of December 31, 2009 and 2008, Management, in its best judgment, did not identify the need to recognize provision for reduction of the carrying amount of the recorded goodwill.

c) Current and noncurrent liabilities

- Loan and financing

Adjusted based on the contractual interest and financial charges incurred through the balance sheet date.

- Leasing operations

Lease agreements for Livraria's commercial units are classified as operating leases, and the respective costs are recognized in the statements of operations as operating expenses.

- 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 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 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 11.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) Reserve for contingencies

Adjusted through the balance sheet dates for the probable loss amount, according to the nature of each contingency and based on the opinion of the Livraria's legal counsel. For financial statement purposes, the reserve is stated net of related judicial deposits. The bases for and nature of the reserves for tax, civil, and labor risks are described in note 12.

f) Earnings or loss per share

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

g) Use of estimates

The preparation of financial statements requires the Livraria's Management to make estimates and assumptions that affect the reported amounts of assets, liabilities and other transactions. Accordingly, financial statements include several estimates related to the allowance for doubtful accounts, allowance for inventory losses, reserve for contingencies, assessment of the useful lives of property and equipment and intangible assets, and related projections to determine the impairment of property and equipment, intangible assets, goodwill, and deferred income tax assets. These estimates consider the best available indications and are based on assumptions existing at yearend. Actual results in the realization or settlement of the underlying assets and liabilities could differ from those estimates.

4. CHANGES IN ACCOUNTING PRACTICES ADOPTED IN BRAZIL

With the enactment of Law 11638/07, which introduced changes in Brazilian Corporate Law to enable convergence of accounting practices adopted in Brazil with the International Financial Reporting Standards (IFRS), new accounting standards and technical pronouncements have been issued in conformity with IFRS by the Accounting Pronouncements Committee (CPC).

During 2009, 26 new technical pronouncements and 12 technical interpretations were issued by CPC and approved by CVM Resolutions for mandatory adoption beginning January 1, 2010. The CPCs and ICPCs applicable to Livraria, considering its operations, are:

CPC	Title
16	Inventories
20	Borrowing Costs
22	Operating Segments
23	Accounting Policies, Changes in Estimates and Errors
24	Subsequent Events
25	Provisions, Contingent Liabilities and Contingent Assets
26	Presentation of Financial Statements
27	Property, Plant and Equipment
30	Revenue
32	Income Taxes
33	Employee Benefits
38	Financial Instruments: Recognition and Measurement
39	Financial Instruments: Presentation
40	Financial Instruments: Disclosures
43	First-time Adoption of CPC 15 to 40 Technical Pronouncements

ICPC	Title
03	Supplementary Aspects of Leases
08	Accounting for Proposed Dividend Payments
09	Individual Financial Statements, Separate Financial Statements, Consolidated Financial Statements, and Application of the Equity Method of Accounting
10	Clarifications on CPC 27 - Property, Plant and Equipment and CPC 28 - Properties for Investment
12	Changes in Liabilities due to Decommissioning, Restoration and Other Similar Liabilities

Livraria's Management is evaluating the impact of the changes introduced by these new pronouncements. For adjustments from adopting new accounting practices beginning January 1, 2010, Livraria will assess the need to remeasure the effects thereof on its financial statements for 2009, for comparative purposes, as if these new procedures would be effective since the beginning of the year ending December 31, 2009.

5. TRADE ACCOUNTS RECEIVABLE

	<u>2009</u>	<u>2008</u>
Trade notes receivable	5,341	5,168
Credit cards	157,684	137,136
Checks receivable	1,801	1,807
Franchise accounts receivable	<u>782</u>	<u>852</u>
	165,608	144,963
Allowance for doubtful accounts	<u>(4,943)</u>	<u>(4,776)</u>
	<u>160,665</u>	<u>140,187</u>
Aging list of accounts receivable:		
	<u>2009</u>	<u>2008</u>
Current	159,991	139,731
Past-due:		
Up to 60 days	511	272
Over 60 days	<u>5,106</u>	<u>4,960</u>
	<u>165,608</u>	<u>144,963</u>

6. RECOVERABLE TAXES

	<u>2009</u>	<u>2008</u>
Taxes on revenues (COFINS)	18,068	8,665
Taxes on revenues (PIS)	4,546	2,309
Income tax (IRPJ)	2,825	801
Social contribution on net income (CSLL)	1,133	113
State VAT (ICMS)	624	2,447
Others	<u>88</u>	<u>96</u>
	<u>27,284</u>	<u>14,431</u>
Current assets	18,330	14,431
Noncurrent assets	<u>8,954</u>	<u>-</u>
	<u>27,284</u>	<u>14,431</u>

7. PROPERTY AND EQUIPMENT AND INTANGIBLE ASSETS

	Annual depreciation/ amortization rate - %	2009			2008		
		Cost	Accumulated depreciation/ amortization	Net	Cost	Accumulated depreciation/ amortization	Net
Property and equipment:							
Land	-	3	-	3	3	-	3
Buildings and construction	4	1,441	(797)	644	1,441	(741)	700
Machinery and equipment	10	1,001	(799)	202	1,001	(734)	267
Furniture, fixtures and installations	10	143,807	(77,485)	66,322	99,748	(64,930)	34,818
Vehicles	20	765	(445)	320	765	(333)	432
IT equipment	20	24,397	(16,103)	8,294	21,250	(14,594)	6,656
Property and equipment in progress	-	<u>9,971</u>	<u>-</u>	<u>9,971</u>	<u>6,479</u>	<u>-</u>	<u>6,479</u>
		<u>181,385</u>	<u>(95,629)</u>	<u>85,756</u>	<u>130,687</u>	<u>(81,332)</u>	<u>49,355</u>
Intangible assets:							
Commercial assignment	20	25,952	(22,665)	3,287	24,009	(22,083)	1,926
Goodwill on company acquisition (*)	-	79,249	(16,578)	62,671	82,823	(16,578)	66,245
Software	20	12,246	(9,042)	3,204	11,388	(7,425)	3,963
Trademarks and patents	-	135	(64)	71	135	(63)	72
Other	-	<u>4,172</u>	<u>-</u>	<u>4,172</u>	<u>269</u>	<u>-</u>	<u>269</u>
		<u>121,754</u>	<u>(48,349)</u>	<u>73,405</u>	<u>118,624</u>	<u>(46,149)</u>	<u>72,475</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. From the total price negotiated, an amount of R\$8,890 was initially retained to secure contractual indemnification obligations, according to contractual provision. The retained amount will be paid to sellers after six years counted from the acquisition date. Pursuant to contractual price adjustment provisions, as a result of the analysis by the parties of possible changes in net debt and working capital of Siciliano between the balance sheets as of November 30, 2007 and March 6, 2008, on October 15, 2009, the purchase price was written down by R\$3,574.

In December 2008, after the acquisition of Siciliano and the merger of Livraria Saraiva, Management considered that the resulting company Livraria 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 and equipment” and “Intangible assets” accounts, during the years ended December 31 were as follows:

	<u>2009</u>	<u>2008</u>
Balance at beginning of year	121,830	10,261
Additions	58,805	5,232
Disposals	(18)	(2,760)
Depreciation and amortization	(17,882)	(5,550)
Price adjustment in Goodwill on company acquisition	(3,574)	-
Parent company’s merged assets	-	130,625
Realization of goodwill from Siciliano	-	(15,455)
Write-off of revaluation reserve	-	(523)
Balance at end of year	<u>159,161</u>	<u>121,830</u>

8. LOANS AND FINANCING

	<u>2009</u>	<u>2008</u>
Current:		
In local currency - BNDES - FINEM	6,907	6,496
Loans	<u>64,207</u>	<u>24,552</u>
	<u>71,114</u>	<u>31,048</u>
Noncurrent:		
In local currency - BNDES - FINEM	<u>49,145</u>	<u>11,575</u>

The noncurrent portion matures as follows:

	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>Total</u>
BNDES - FINEM	<u>4,750</u>	<u>15,800</u>	<u>14,795</u>	<u>13,800</u>	<u>49,145</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 centralization of logistics operations	Company’s guarantee	05/2012	3.1% + TJLP (i)
BNDES - FINEM contract of 02/2009 subloans A/B/C	Expansion of store chain/working capital	Company’s guarantee	09/2014	2.32% + BNDES rate (ii)
BNDES - FINEM - contract of 02/2009 subloans E/F	Expansion of store chain/working capital	Company’s guarantee	09/2014	2.32% + TJLP (i)
BNDES - FINAME contract of 02/2009 subloan D	Expansion of stores chain	Company’s guarantee	09/2014	1.42% + TJLP (i)

(i) Long-term interest rate (TJLP) for the year ended in December 31, 2009 was 6.00% per year (6.25% in 2008).

(ii) Reference rate disclosed by BNDES at the date subloans are used, which will be equivalent to the average cost of funds without being subject to onlending under specific conditions, in addition to derivatives from BNDES and BNDES Participações S.A. - BNDESPAR, indexed to the IPCA (Extended Consumer Price Index).

In February 2009, Livraria entered into new loan agreements with the National Bank for Economic and Social Development (BNDES) totaling R\$69,700, of which R\$41,866 were released in 2009. The funds obtained will be used for working capital purposes and the refurbishment and expansion of Livraria's store chain.

In the year ended December 31, 2009, Livraria raised working capital loans totaling R\$77,000 (R\$24,426 in 2008), which bear average interest equivalent to 119% (125% in 2008) of the interbank deposit rate (CDI). The amount recorded in financial expenses for the year ended December 31, 2009 was R\$2,481 (R\$114 in 2008).

Contractual covenants for Livraria

As of December 31, 2009, Livraria is required to meet the covenants set forth in the financing agreements with BNDES, including obligations assigned to its parent company Editora. At that date Livraria and, when applicable, Editora are compliant with such covenants, the main of which are as follows:

- Editora should maintain the following financial ratios: (i) current liquidity equal or higher than 1.5 in 2009 and equal or higher than 1.7 in 2010; (ii) capitalization level equal or higher than 0.43; and (iii) indebtedness level equal or lower than 0.22.
- Editora and Livraria should provide periodic information, such as: (i) annual financial statements audited by external auditors; (ii) maintenance of staff; and (iii) holding valid business licenses for stores.

9. LOYALTY PROGRAM - SARAIVA PLUS

The loyalty program "Saraiva Plus" promotes purchases made by customers in stores and in the website, which are converted into bonus to be used as discounts 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, 2009, the provision for loyalty program in the amount of R\$3,776 (R\$2,681 as of December 31, 2008) is recorded in current liabilities under the line account "Other payables".

10. RELATED-PARTY TRANSACTIONS

Related-party transactions include purchases, sales and loans from Editora. Obtained loans have indeterminate maturity and bear interest of 101% of the CDI.

Obtained loans recorded in current liabilities:

	<u>2009</u>	<u>2008</u>
Balances in the beginning of the year	52,167	14,736
Obtained loans, net of payments	10,923	34,398
Capital increase	(58,000)	-
Financial expenses	<u>1,874</u>	<u>3,033</u>
Balances at the end of the year	<u>6,964</u>	<u>52,167</u>

Loans were granted to Editora between August and December 2009, fully received in December 2009 with interest equivalent to 101% of the CDI variation, generating income in the amount of R\$475.

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

	<u>2009</u>	<u>2008</u>
Balances:		
Assets-		
Trade accounts receivable (current)	1	920
Liabilities:		
Trade accounts payable (current)	7.308	3,787
Obtained loans - intercompany loan contract (current)	6.964	52,167
Transactions:		
Sale of products	73	223
Purchase of products	33.571	21,509
Financial expenses	1.874	706
Financial income	475	-

Management fees

Under Brazilian Corporate Law and the Livraria's bylaws, establishing the total annual amount of directors' and officers' compensation is shareholders' responsibility. Management is also entitled to a profit sharing of up to 10% of net income for the year.

The Annual Shareholders' Meeting held on April 23, 2009 approved the monthly and total compensation limit of R\$150 for Board of Directors and R\$400 for Director in 2009.

Management compensation is presented as a separate line account of the statements of operations for the years ended December 31, 2009 and 2008.

11. INCOME TAX AND SOCIAL CONTRIBUTION

a) Deferred

Deferred income tax and social contribution are derived from:

	<u>2009</u>	<u>2008</u>
Current assets:		
Accrued sale costs of products received on consignment	7,670	5,490
Loyalty program Saraiva Plus	1,284	911
Provision for inventory obsolescence	826	1,260
Allowance for doubtful accounts	1,465	1,581
Other provisions	470	507
	<u>11,715</u>	<u>9,749</u>
Noncurrent assets:		
Tax loss carryforwards	14,924	13,431
Reserves for contingencies and taxes payable	4,027	4,699
	<u>18,951</u>	<u>18,130</u>

	<u>2009</u>	<u>2008</u>
Noncurrent liabilities:		
Provision for book inventory losses - Law 10753/03	7,620	7,055
Tax amortization of goodwill on business acquisitions	<u>5,456</u>	<u>88</u>
	<u>13,076</u>	<u>7,143</u>

Livraria, 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, Livraria maintained in its financial statements the deferred tax assets.

Management, based on the best estimates existing at the end of 2009, 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, 2010	13,617
December 31, 2011	7,266
December 31, 2012	5,565
December 31, 2013	<u>4,218</u>
	<u>30,666</u>

b) Credit (expense) reconciliation

Reconciliation of the tax credit (expense) calculated by applying the combined tax rate and the tax expense or income charged into income statement is as follows:

	<u>2009</u>	<u>2008</u>
Income (loss) before income tax and social contribution	9,396	(9,836)
Combined tax rate	<u>34%</u>	<u>34%</u>
Tax computed at the combined tax rate	(3,195)	3,344
Permanent additions - nondeductible expenses	(215)	(1,594)
Permanent exclusions-		
Equity pick-up results	-	(35)
Other items	<u>(624)</u>	<u>773</u>
	<u>(4,034)</u>	<u>2,488</u>
Income tax and social contribution:		
Current	(888)	-
Deferred	<u>(3,146)</u>	<u>2,488</u>
	<u>(4,034)</u>	<u>2,488</u>
Effective rate on net income (loss)	<u>42.9%</u>	<u>25.3%</u>

12. RESERVE FOR CONTINGENCIES

Reserve for contingencies is as follows:

	2007	Recognition	Merged companies	Payment/ reversal	2008	Recognition	Payment / reversal	2009
PIS/COFINS (a)	-	-	9,206	-	9,206	337	-	9,543
COFINS - tax assessment (b)	1,345	-	-	(1,345)	-	-	-	-
PIS - Supplementary Law 7/70 (c)	-	1,514	-	-	1,514	30	-	1,544
Civil and labor contingencies (d)	1,403	11	143	(202)	1,355	-	(1,355)	-
Others (d)	604	119	707	-	1,430	-	(1,430)	-
Judicial deposits	-	-	(9,185)	-	(9,185)	(334)	-	(9,519)
	<u>3,352</u>	<u>1,644</u>	<u>871</u>	<u>(1,547)</u>	<u>4,320</u>	<u>33</u>	<u>(2,785)</u>	<u>1,568</u>

- (a) Livraria is 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. These lawsuits were initiated in 1999 and are guaranteed by judicial deposits.
- (b) Tax assessment issued in 1997 claiming COFINS underpaid in 1992 and 1993. The amount paid terminates the tax credit.
- (c) Livraria Saraiva, which was merged into Livraria, 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. Judicial 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, Livraria 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.

On February 19, 2010, Livraria was ordered to recompose judicial deposits, pursuant to the final and unappealable decision, by R\$1,237. The accrued balance as of December 31, 2009 was R\$1,544. The amount that settles the tax debt is still under discussion.

- (d) Reversal of the reserve recognized by Siciliano before it was acquired by Livraria Saraiva for civil, labor, and tax contingencies guaranteed by the purchase and sale agreement, and represented by the installment retained to secure contractual indemnification obligations.

Livraria made an application for the payment of taxes in accordance with the terms of Law 11941/09 relating to administrative and judicial proceedings, which, in accordance with Management's judgment and its legal outside advisers' opinion, are likely to have unfavorable final decisions. Currently there are petitions for withdrawal of administrative proceedings and the respective judicial decisions not yet released. The accrued amounts will be maintained in the financial statements and the eventual gains will not be recorded until the formal acknowledgement of the tax authorities on the amounts effectively owed.

Livraria's Management did not consider necessary to recognize a reserve to cover possible losses on ongoing lawsuits, totaling approximately R\$12,754 for which, in the opinion of its legal counsel, the likelihood of loss is possible.

Livraria is challenging the payment of certain taxes, contributions and labor obligations, guaranteed by judicial deposits made for the appeals filed in equivalent amounts, which await final court decisions, which total R\$1,438 (R\$746 in 2008) that are recorded in noncurrent assets.

13. TAXES AND CONTRIBUTIONS PAYABLE

	<u>2008</u>	<u>2008</u>
Installment payment of IR (income tax) and CSLL (social contribution) (*)	1,193	3,044
Withholding income tax (IRRF)	563	673
State VAT (ICMS)	1,702	-
Taxes on revenue (PIS and COFINS)	403	199
Other	<u>207</u>	<u>149</u>
	<u>4,068</u>	<u>4,065</u>
Current liabilities	4,068	2,928
Noncurrent liabilities	<u>-</u>	<u>1,137</u>
	<u>4,068</u>	<u>4,065</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 “Plano Real” - Law 8880/94.

14. SHAREHOLDERS' EQUITY

a) Paid-up capital

Fully paid-up capital as of December 31, 2009, totaling R\$296,317 (R\$238,317 as of December 31, 2008), is represented by 193,052,608 (145,775,138 as of December 31, 2008) registered common shares without par value.

Paid-up capital was increased on March 1st, 2009 using the funds obtained with intercompany loans made by Editora and totaling R\$58,000, with the issuance of 47,277,470 common shares.

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, Livraria 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 (note 7).

15. FINANCIAL INSTRUMENTS

a) Derivative transactions

In the years ended December 31, 2009 and 2008, no derivative transactions were conducted.

b) Other financial instruments

The fair value of trade accounts receivable and current liabilities approximates their carrying amount, 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 based on the contracted interest rates, which do not differ significantly from the rates currently used by the BNDES.

c) Inventory obsolescence risks

Discontinued products and new technologies may lead to excess and obsolete inventories. To minimize these conditions, Livraria periodically monitors inventory levels and take necessary actions for inventory realization.

d) Interest rate

Livraria is exposed to normal market risks arising from changes in interest rates on loans obtained during 2009.

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

<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>65,676</u>	<u>66,076</u>	<u>66,474</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.

16. FINANCIAL INCOME (EXPENSES)

	<u>2009</u>	<u>2008</u>
Financial income:		
Income from temporary cash investments	65	3
Interest on loans to subsidiary	475	282
Interest received from customers	30	-
Financial discounts obtained	325	-
Exchange gains	435	126
Other	<u>62</u>	<u>95</u>
	<u>1,392</u>	<u>506</u>

	<u>2009</u>	<u>2008</u>
Financial expenses:		
Interest, monetary and exchange variation on financing	(6,950)	(4,032)
Interest payable on subsidiary's loans	(1,874)	(706)
Financial discounts granted	(448)	(1,317)
Other interest and monetary variation	(3,266)	(1,805)
IOC (tax on credit operations)	(1,454)	(1,160)
Other financial commissions	(14)	(139)
Other	<u>(1,492)</u>	<u>(685)</u>
	<u>(15,498)</u>	<u>(9,844)</u>
	<u>(14,106)</u>	<u>(9,338)</u>

17. OPERATING LEASE - STORES

As of December 31, 2009, Livraria had 91 lease agreements with third parties for its stores. Said agreements were reviewed by Management, who concluded that they fit into the classification of operating lease. 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 indexes, and are effective for five years, subject to renewal. Rentals under lease agreements for Livraria's logistics and administrative areas are fixed, with annual adjustments to inflation according to the fluctuation of the main indexes.

In the year ended December 31, 2009, rental expenses, net of recoverable taxes, totaled R\$36,003 (R\$19,189 as of December 31, 2009). The balance of "Rentals payable" account as of December 31, 2009 is R\$7,048 (R\$6,492 in December 31, 2008).

Future obligations, from these agreements, totaled the minimum amount of R\$94,904 as of December 31, 2009, as follows R\$31,202 in 2010; R\$25,137 in 2011; R\$18,443 in 2012; R\$12,628 in 2013 and R\$7,494 for the period between 2014 until 2017.

18. STATEMENTS OF CASH FLOWS

Livraria's Management defines as "cash and cash equivalents" amounts maintained for the purpose of meeting short-term commitments and not for investment or any other purposes. Short-term investments can be immediately converted into a known cash amount and are not subject to significant changes in value.

As of December 31, "cash and cash equivalents" account is comprised by:

	<u>2009</u>	<u>2008</u>
Cash	1,178	1,584
Bank account	<u>7,521</u>	<u>4,509</u>
	<u>8,699</u>	<u>6,093</u>

Changes in equity that did not impact cash flows are as follows:

	<u>2009</u>	<u>2008</u>
Price adjustment of goodwill on acquisition of Siciliano	3,574	-
Capital increase with conversion of intercompany loans	58,000	-
Reversal of prior years' provision for tax credits	-	15,455
Write-off on revaluation reserve, net of taxes	-	349

19. INSURANCE (UNAUDITED INFORMATION)

Livraria has an insurance policy that considers risk concentration and its materiality, obtained in amounts considered sufficient by management taking into consideration the nature of its activities and the advice of insurance brokers.

As of December 31, 2009, insurance coverage is as follows:

<u>Year</u>	<u>2009</u>	<u>2008</u>
Loss of profits	45,000	45,000
Fire - maximum amount per store	47,595	37,335
Vehicles - only civil liability - maximum amount per vehicle	1,025	800
