

SADIA S.A.  
Form 20-F  
June 27, 2008

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**WASHINGTON, D.C. 20549**

**FORM 20-F**

(Mark One)

**REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934**

**OR**

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
For the fiscal year ended December 31, 2007

**OR**

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**OR**

**SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Date of event requiring this shell company report . . . . .

For the transition period from to

Commission file number 1-15184

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**SADIA S.A.**

(Exact name of Registrant as specified in its charter)

**N/A**

(Translation of Registrant's name into English)

**Federative Republic of Brazil**

(Jurisdiction of incorporation or organization)

**Rua Fortunato Ferraz, 659**

**Vila Anastácio, São Paulo, SP**

**05093-901, Brazil**

(Address of principal executive offices)

Securities registered or to be registered pursuant to Section 12(b) of the Act.

Title of each class	Name of each exchange on which registered
Preferred Shares, no par value per share, each represented by American Depositary Shares	New York Stock Exchange

Securities registered or to be registered pursuant to Section 12(g) of the Act.

**None**  
(Title of Class)

(Title of Class)

SEC 1852 (02-08)

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Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act.

**None**  
(Title of Class)

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.

257,000,000 Common Shares, no par value per share  
426,000,000 Preferred Shares, no par value per share

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes  No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

Yes  No

Note Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 from their obligations under those Sections.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP

International Financial Reporting Standards as issued  
by the International Accounting Standards Board

Other

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Indicate by check mark which financial statement item the registrant has elected to follow.

Item 17  Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

(APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PAST FIVE YEARS)

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court.

Yes  No

Please send copies of notices and communications from the Securities and Exchange Commission to:

Ross Kaufman, Greenberg Traurig, LLP

200 Park Avenue, New York, New York 10166

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## GENERAL

*Unless otherwise indicated, all references contained herein, to the Company, to Sadia, or to Sadia Group are references to Sadia S.A., a corporation organized under the laws of the Federative Republic of Brazil (Brazil), and its consolidated subsidiaries: Sadia International Ltd; Big Foods Ind. de Produtos Alimentícios Ltda.; Sadia GmbH; Rezende Marketing e Comunicação Ltda., Rezende Óleo Ltda., Sadia Overseas Ltd. and Concórdia Holding Financeira.*

### *Presentation of Certain Financial Information*

References to preferred shares and common shares refer to the Company's authorized and outstanding preferred stock and common stock, designated as ações preferenciais and ações ordinárias, respectively, each without par value. All references herein to the real, reais or R\$ are the real, the official currency of Brazil since July 1, 1994. All references to (i) U.S. dollars, dollars or US\$ refer to United States dollars, (ii) km to kilometers, and (iii) tons to metric tons.

### *Forward-Looking Statements*

This annual report contains certain forward-looking statements as defined in Section 21E of the U.S. Securities Exchange Act of 1934 with respect to the financial condition, results of operations and business achievements/ performance of Sadia and certain of the plans and objectives of management of the Company with respect thereto. These statements may generally, but not always, be identified by the use of words such as should, expects, estimates, believes or similar expressions. Such statements include, but are not limited to, statements under the following headings: (i) Item 4. Information on the Company; and (ii) Item 5. Operating and Financial Review and Prospects. This annual report also contains forward-looking statements attributed to certain third parties relating to their estimates regarding the growth of markets and demand for products. By their nature, forward-looking statements involve risk and uncertainty because they reflect the Company's current expectations and assumptions as to future events and circumstances that may not prove accurate: the factors discussed in Item 3. Key Information Risk Factors, among others, could cause the Company's actual financial condition, results of operations and business achievements/ performance to differ materially from the estimates made or implied in such forward-looking statements.

## PART I

### ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable.

**ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE**

Not applicable.

**ITEM 3. KEY INFORMATION**

**A. Selected Financial Data**

U.S. GAAP Presentation

The selected financial information for the Company included in the following table should be read in conjunction with, and is qualified in its entirety by reference to, the U.S. GAAP financial statements of the Company and *Operating and Financial Review and Prospects* appearing elsewhere herein. The consolidated financial data for the Company as of December 31, 2007, 2006, 2005, 2004 and 2003 are derived from the audited U.S. GAAP financial statements, which differ in certain respects from

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accounting practices adopted in Brazil (defined as Brazilian GAAP). Brazilian GAAP is determined by the requirements of Law No. 6,404, dated December 15, 1976, as amended (Brazilian corporate law), and the rules and regulations of the Comissão de Valores Imobiliários, or CVM, the Brazilian Securities Commission.

**SADIA S.A.**

SELECTED FINANCIAL DATA

Years ended December 31, 2007, 2006, 2005, 2004 and 2003 (In thousands of reais - R\$, except numbers of shares and per share amounts)

	2007	2006	2005	2004	2003
Net Operating Revenue	8,754,076	6,830,300	7,317,842	6,109,225	5,081,717
Operating Income	869,242	302,223	680,903	635,029	401,009
Net income	841,977	360,560	603,268	489,501	473,268
Basic earnings per thousand shares in R\$:					
Preferred	1,247.54	531.18	885.08	742.42	717.80
Common	1,247.54	531.18	885.08	674.93	652.54
Diluted earnings per thousand share in R\$:					
Preferred	1,239.11	529.79	884.38	742.42	717.80
Common	1,239.11	529.79	884.38	674.93	652.54
Dividends paid per thousand shares in R\$:					
Preferred	189.61	287.12	231.96	234.68	170.08
Common	189.61	287.12	210.87	213.34	154.61
Total Current Assets	5,037,322	4,929,689	4,588,176	3,944,802	3,645,379
Total Assets	9,457,887	8,039,757	6,707,284	5,830,973	6,149,453
Total Current Liabilities	2,653,285	2,493,279	2,625,812	2,766,719	2,969,833
Total Liabilities	5,924,923	5,447,114	4,479,167	3,992,609	4,627,868
Total Shareholders Equity	3,532,964	2,592,643	2,228,117	1,838,364	1,521,585
Weighted average number of shares outstanding:					
Preferred	417,908,212	421,785,712	424,595,712	425,695,712	425,695,712
Common	257,000,000	257,000,000	257,000,000	257,000,000	257,000,000

The exchange rates of *real* amounts into U.S. dollars for the years ended December 31, 2003, 2004, 2005, 2006, 2007 and January 2008 through May 2008 are shown in the table below:

Year Ended December 31,	Reais per U.S. Dollar			End of Period
	High	Low	Average	
2003	3.6623	2.8219	3.0715	2.8892
2004	3.2051	2.6544	2.9257	2.6544
2005	2.7621	2.1633	2.4341	2.3407
2006	2.3711	2.0586	2.1771	2.1380
2007	2.1556	1.7325	1.9483	1.7713



Months Ended	Reais per U.S. Dollar	
	High	Low
January 2008	1.8301	1.7414
February 2008	1.7681	1.6715
March 2008	1.7491	1.6700
April 2008	1.7534	1.6575
May 2008	1.6949	1.6294

**B. Capitalization and Indebtedness**

Not applicable

**C. Reasons for the offer and use of proceeds**

Not applicable

**D. Risk Factors**

**Risks Relating to Brazil**

*Brazilian political and economic conditions, and the Brazilian government's economic and other policies, may negatively affect demand for Sadia's products as well as net sales and overall financial performance.*

The Brazilian economy has been characterized by frequent and occasionally extensive intervention by the Brazilian government. The Brazilian government has often changed monetary, taxation, credit, tariff and other policies to influence the course of Brazil's economy. The Brazilian government's actions to control inflation and implement other policies have involved interest rate increases, wage and price controls, currency devaluations, freezing of bank accounts, capital controls and limits on imports.

Sadia's results of operations and financial condition may be adversely affected by the following factors and governmental reaction to them:

- fluctuations in exchange rates;

- interest rates;
- inflation;
- tax policies;
- exchange controls;
- energy shortages;
- liquidity of domestic capital and lending markets; and
- other political, diplomatic, social and economic developments in or affecting Brazil.

Uncertainty over whether the Brazilian government will change policies or regulations affecting these or other factors may contribute to economic uncertainty in Brazil and to heightened volatility in the Brazilian capital markets. These and other developments in the Brazilian economy and governmental policies may adversely affect the Company and its business.

***Inflation and government actions to combat inflation may contribute significantly to economic uncertainty in Brazil and could adversely affect the Company's business.***

Historically, Brazil has experienced high rates of inflation. Inflation, as well as certain government efforts to combat inflation, has had significant negative effects on the Brazilian economy. Inflation rates were 25.31% in 2002, 8.71% in 2003, 12.41% in 2004, 1.21% in 2005, 3.86% in 2006, 7.75% in 2007 and 2.38% in the first quarter of 2008, as measured by the *Índice Geral de Preços-Mercado*, or the IGP-M. The Brazilian government's measures to control inflation have often included maintaining a tight monetary policy with high interest rates, thereby restricting availability of credit and reducing economic growth. Inflation, actions to combat inflation and public speculation about possible additional actions also contributed materially to economic uncertainty in Brazil.

If Brazil experiences high levels of inflation in the future, the rate of growth of the Brazilian economy may be slowed, which would lead to reduced demand for the Company's products in Brazil. Inflation also is likely to increase some of Sadia's costs and expenses, which the Company may not be able to pass on to its customers and, as a result, may reduce profit margins and net income. In addition, high inflation generally leads to higher domestic interest rates, and, as a result, the costs of servicing its *real*-denominated debt may increase. Inflation may, in addition, hinder access to capital markets, which could adversely affect the Company's ability to refinance its indebtedness. Inflationary pressures may also lead to the imposition of government policies to combat inflation that could adversely affect its business.

***Foreign exchange variations between the Brazilian real and the US dollar may raise the cost of servicing our foreign currency denominated debt and adversely affect our overall financial performance.***

The Company's results of operations are affected by exchange-rate fluctuations between the Brazilian *real* and the U.S. dollar.

The *real* appreciated 13.4% in 2005, 9.5% in 2006, 20.5% in 2007 and 1.3% in the first three months of 2008 against the dollar. On March 31, 2008, the U.S. dollar/*real* exchange rate was US\$1.00 per R\$1.7491.

Devaluation of the *real* relative to the U.S. dollar could result in additional inflationary pressures in Brazil by generally increasing the price of imported products and services and requiring recessionary government policies to curb demand. In addition, a devaluation of the *real* could weaken investor confidence in Brazil. On the other hand, appreciation of the *real* against the U.S. dollar may lead to a deterioration of the country's current account and the balance of payments and may dampen export-driven growth. A significant devaluation of the *real* in relation to the U.S. dollar or other currencies could reduce the Company's ability to meet debt service requirements of its foreign currency-denominated obligations.

Export revenues and the Company's margins are also affected by the *real* fluctuations in relation to the U.S. dollar. Production costs are denominated in local currency but export sales are denominated in U.S. dollars or euros. Financial revenues generated by exports are reduced when translated to *reais* in the periods in which the Brazilian currency appreciates in relation to the U.S. currency.

In addition, fluctuations in the value of the *real* relative to the U.S. dollar can affect the market value of the ADSs. Devaluation of the *real* may reduce the U.S. dollar value of distributions and dividends on the ADSs and may also reduce the market value of the preferred shares and the ADSs.



*Restrictions on the movement of capital out of Brazil may hinder investors' ability to receive dividends and other distributions as well as the proceeds of any sale of preferred shares.*

The Brazilian government may impose temporary restrictions on the conversion of Brazilian currency into foreign currencies and on the remittance to foreign investors, of proceeds from investments in Brazil. Brazilian law permits the government to impose these restrictions whenever there is a serious imbalance in Brazil's balance of payments or reasons to foresee a serious imbalance.

Government restrictions on capital outflow may hinder or prevent the custodian in Brazil, or if investors have exchanged ADSs for the underlying preferred shares, from converting the proceeds

relating to the preferred shares into U.S. dollars and remitting those proceeds abroad. Investors could be adversely affected by delays in obtaining any required governmental approval for conversion of Brazilian currency payments and remittances abroad in respect of the preferred shares underlying the ADSs. In addition, the Brazilian government may institute a more restrictive exchange control policy in the future.

Currently, in order to remit the proceeds of distributions on, and gains with respect to, the preferred shares to the U.S., the depositary must register with the Central Bank the amount invested by non-Brazilians in the preferred shares underlying the ADSs. The depositary will register its interest in the preferred shares as a foreign investment with the Central Bank. The Central Bank will issue a certificate of foreign capital registration in the name of the depositary, under which the custodian will, assuming the continued availability of foreign exchange, be able to convert dividends and other Brazilian currency-denominated distributions from the Company into U.S. dollars and remit such U.S. dollars abroad to the depositary for distribution to the foreign investor.

***Developments in other emerging markets may adversely affect the market price of the preferred shares and ADSs***

The market price of the preferred shares and ADSs may be adversely affected by declines in the international financial markets and world economic conditions. The Brazilian securities market is, to varying degrees, influenced by economic and market conditions in other emerging market countries, especially those in Latin America. Although economic conditions may differ in each country, investors' reaction to developments in one country can have an effect on the securities markets and the securities of issuers in other countries, including Brazil.

Accordingly, adverse developments in emerging market countries could lead to a reduction in both demand and the market price for the preferred shares and ADSs. These events may discourage international investment in Brazil and, more directly, may hurt the market price of the Company's preferred shares and ADSs.

***Enforcement of civil liabilities may be difficult***

The Company is organized under the laws of Brazil. Most of the Company's directors and officers and many of its advisors reside in Brazil and substantially all of the assets of these persons and of the Company are located in Brazil. As a result, it may not be possible to effect service of process upon these persons within the United States or other jurisdictions outside of Brazil. Similarly, it may not be possible to enforce, judgments of non-Brazilian courts, including judgments predicated on civil liability under the U.S. securities laws against the Company or its directors and officers.

Brazilian counsel has advised the Company that Brazilian courts will enforce judgments of U.S. courts for civil liabilities predicated on the U.S. securities laws only if the judgment satisfies certain requirements imposed by the Brazilian federal supreme court. The foreign judgment will be enforceable in Brazil if:

- It fulfills all formalities required for its enforceability under the laws of the country that granted the foreign judgment;

- It is for the payment of a certain sum of money;
- It was issued by a competent court after service of process was properly made on the Company in the jurisdiction where the judgment was awarded;
- It is not subject to appeal;
- It is authenticated by a Brazilian consular office in the country where it was issued and is accompanied by a sworn translation into Portuguese; and
- It is not contrary to Brazilian national sovereignty, public policy or good morals, and does not contain any provision that for any reason would not be upheld by the courts of Brazil.

Brazilian counsel has also advised the Company that:

- As a plaintiff, a holder may bring an original action predicated on the U.S. securities laws in Brazilian courts and that Brazilian courts may enforce liabilities in such actions against the Company, its directors, and certain of its officers and advisors;

- If a holder resides outside Brazil and owns no real property in Brazil, such holder must provide a bond to guarantee court costs and legal fees in connection with litigation in Brazil; and
- Brazilian law limits the ability of a judgment creditor of the Company to satisfy a judgment against the Company by attaching certain of its assets.

#### **Risks Relating to the Company's Business**

*The business involves breeding of animals and meat processing subject to a variety of risks which may impact the results of our operations.*

The Company's operations involve raising animals, which is subject to a variety of risks, including disease, contamination, consumer health concerns and adverse weather conditions. Meat is subject to contamination during processing and distribution. Contamination during processing could affect a large number of the Company's products and therefore could have a significant impact on its operations. The Company's sales are dependent on consumer preferences, and the loss of consumer confidence in the products sold by Brazilian producers because of disease or contamination could affect the Company's results of operations.

*The prices charged for products and costs of production are subject to significant volatility which may adversely affect the Company's results*

The Brazilian foods industry, like the processed foods industry in other countries, has been characterized by cyclical periods of higher prices and profitability, followed by overproduction, leading to periods of lower prices and lower profitability. The Company believes that domestic prices and export prices for its product line are likely to remain volatile and subject to cyclical variation. There can be no assurance that the Company's results will not be adversely affected by future downturns in market prices. The largest single component of the Company's cost of sales is the cost of ingredients used in the preparation of feed. The price of most of the Company's feed ingredients is subject to significant volatility resulting from weather, the size of harvests, transportation and storage costs, governmental agricultural policies, currency exchange rates and other factors. Sadia may not be successful in addressing the effects of cyclicity and volatility on costs and expenses and its overall financial performance.

*Environmental issues and new regulation requirements can affect costs*

Brazilian food producers, including the Company, are subject to stringent federal, state and local environmental laws and regulations concerning, among other things, human health, the handling and disposal of wastes and discharges of pollutants to the air and water. In view of the possibility of unanticipated regulatory or other developments, particularly as environmental laws become more stringent both in Brazil and worldwide, the amount and timing of future expenditures required to maintain compliance could vary substantially from their current levels and could adversely affect the availability of funds for other capital expenditures and other purposes.

*Competition in both domestic and foreign livestock and food processing sector is very strong and the Company's performance may be adversely affected by increased competition*

The Company faces significant competition from other Brazilian producers in the domestic markets in which it sells its products, and from world producers in the export markets in which it sells its products. Other major vertically integrated Brazilian producers compete with the Company. To varying degrees, these companies have substantial financial resources and strengths in particular product lines and regions. The Company expects that it will continue to face strong competition in every market and that existing or new competitors are likely to broaden their product lines and to extend their geographic scope. Accordingly, there can be no assurance that the Company's performance will not be adversely affected by increased competition.

***Protectionist measures could restrict Company exports affecting thereby the Company's sales performance***

Due to the growing share of the Brazilian livestock, pork and poultry sector in the international market, companies are increasingly being affected by measures taken by importing countries in order to protect local producers. Because of the competitiveness of Brazilian companies, certain countries have raised several restrictions to prevent the entrance of Brazilian livestock products. Outcomes such as quota restrictions or import suspensions in a certain country or region, can affect substantially the sector's export volumes and consequently the Company's export performance as well as the results of its operations.

***FMD Cases in Brazil can indirectly affect pork and beef sales and adversely impact the results of the Company***

Although the detected Foot and Mouth Disease (FMD) cases in the northeast region of Brazil in the past have affected only cattle, swine can also be contaminated. Cases of FMD have been identified in the states of Mato Grosso and Paraná. Sadia has animal breeding facilities located in the states of Santa Catarina and Minas Gerais, internationally recognized FMD free regions. An outbreak of FMD could have an effect on livestock owned by Sadia, the availability of livestock for purchase by Sadia, consumer perception of certain protein products or Sadia's ability to access certain markets.

***An outbreak of Avian Influenza could require the destruction of a significant portion of the Company's flocks***

Outbreaks of a highly pathogenic strain of avian influenza (AI) virus, known as H5N1, have been reported in Europe and Asia. Earlier outbreaks were reported during late 2003 and early 2004 in eight countries in Asia. At that time, more than 100 million birds in the affected countries either died from the disease or were destroyed in order to try to control the outbreak. The virus, which is believed to be spread from region to region by infected wild birds, represents a significant risk to flocks, which if infected must be destroyed to assure containment of the virus. No AI has been detected in Brazil and climatic conditions and distance from previous outbreaks reduce the likelihood of any outbreak. In 2003, through a joint effort of the Brazilian Ministries of Agriculture, Health and Environment, Brazil implemented a program to monitor and test birds with potential to carry the Avian Influenza virus from the South Pole.

In addition to the animal health requirements, which are part of the Brazilian National Poultry Health Program, Brazil has adopted a range of measures intended to limit the possibility of an outbreak of AI, including: tightened controls at ports and airports for travelers arriving from Asia; a prohibition on the imports of paddy rice from Asia; restrictions on visits to Brazilian poultry farms by travelers from Asia; and restrictions on the importation of poultry genetics.

Additional preventative measures have been discussed and the Brazilian government has proposed and approved the adoption of a National Plan for the Prevention and Control of Newcastle Disease and the Prevention of Avian Influenza (*Plano Nacional de Controle e Prevenção da Doença de Newcastle e de Prevenção de Influenza Aviária*) which will conform with OIE (World Organization for Animal Health) standards. These measures are intended to assure international markets that Brazil maintains sanitary barriers between states. Specific measures include regulation of animal transportation, traceability, blood tests, designated laboratories and other controls to monitor production conditions on a regional basis. These measures are intended to permit the early detection of contamination in one region and to prevent the spread of that contamination to other regions within Brazil. Because the virus that causes AI is destroyed by cooking, it is generally agreed that the consumption of contaminated poultry does not present a threat to human health.

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Despite measures adopted by the Company, the Brazilian government, and other poultry producers, no assurance can be given that the Company will not be affected by AI, either directly or through limitations on exports imposed by importing countries.

**Risks relating to Sadia S.A.**

*The Company is controlled by a Group of Shareholders and the interests of the controlling group may conflict with those of other shareholders*

The Company is controlled by a group of shareholders under the Company's shareholders' agreement. The preferred shares and the ADSs are not entitled to vote at shareholders' meetings, except in limited circumstances. This means, among other things, that preferred shareholders are not entitled to vote on corporate transactions, including mergers or consolidations of the Company with other companies. In addition, the controlling shareholders have the ability to determine the outcome of any action requiring shareholder approval, including transactions such as corporate reorganizations, change of control transactions and the timing and payment of future dividends. For more information, see Item 7 - Major shareholders and related party transactions .

*If the Company loses any of its largest clients, or if they significantly reduce the amount they purchase from the Company, its revenue and operating income could be materially adversely affected*

The Company's ten largest customers in 2007 accounted for approximately 22% of total domestic sales and the ten largest international customers in 2007 accounted for approximately 36% of our total export sales. While the Company has been developing new client-oriented policies to reduce the concentration of revenues, if it loses any of its ten largest customers or if they reduce significantly the amount they purchase from the Company, revenues and operating income could be materially adversely affected.

*The Company's ability to export could be adversely affected by port labor disputes and disruptions and by import restrictions*

The Company's ability to export is dependent, in part, on factors beyond its control, including the lack of transport facilities due to strikes or other causes, or the enactment of Brazilian laws or regulations restricting exports in general or its products in particular. Any of these could affect the Company's revenue and operating income.

**ITEM 4. INFORMATION ON THE COMPANY**

**A. History and Development of the Company**

Sadia S.A. is a publicly held company, incorporated in Brazil on June 7<sup>th</sup>, 1944, and therefore is subject to the requirements of Law No. 6,404, dated December 15<sup>th</sup>, 1976, as amended by Law 9,457/97 (Brazilian Corporate Law), and the rules and regulations of the *Comissão de Valores Imobiliários* - CVM, the Brazilian Securities Commission.



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Sadia is Brazil's leading refrigerated and frozen protein products company, operating in the processed product, poultry, pork and beef segments. The Company believes that its brand name and distinctive logotype are among the most widely recognized and admired in Brazil and in the foreign markets in which it sells its products, associated with quality, tradition and value. The Company's central administrative headquarters are located at Rua Fortunato Ferraz, 659, Vila Anastácio, São Paulo, state of São Paulo, Zip Code 05093-901, Brazil, telephone number (55 11) 2113-3302, and the Company's website is [www.sadia.com.br](http://www.sadia.com.br) or [www.sadia.com](http://www.sadia.com) and e-mail address is [ri@sadia.com.br](mailto:ri@sadia.com.br). Materials posted on the website are not deemed incorporated by reference into this annual report nor made a part hereof.

Sadia S.A. began in 1944, with the acquisition by Attilio Fontana of the meatpacker Concórdia Ltda., located in the municipality of the same name, in the Western part of the state of Santa Catarina, Brazil. At the time, the Company consisted of a wheat mill and an unfinished slaughterhouse for hogs.

At the end of the 1980s and early 1990s, the Company's policy of expansion gave way to rationalization of management and cost structures through reduction by merging a number of companies

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in the Sadia Group. Sadia began the 1990s having controlling ownership in 21 companies, and began to concentrate its operations in the production of processed meat products.

In 1997, the Company sold its cattle slaughterhouse in Barra do Garças, state of Mato Grosso, four soybean processing facilities (crushing and refining), 12 grain purchasing and warehousing centers, and also transformed its Várzea Grande slaughterhouse, state of Mato Grosso, into a plant for the production of processed meat products. In addition, product transportation, which had been made by a fleet of owned vehicles, was outsourced to specialized transportation companies.

In July 1998 Sadia was created by the merger of Sadia Concórdia S.A. into Sadia Frigobrás S.A., consolidating its operations in a single public company, simplifying its corporate structure, emphasizing the Company's brand, and reducing administrative expenses.

In December 1999, Sadia acquired the capital stock of Granja Rezende S.A. (primarily a producer and distributor of poultry and pork products) and its wholly owned subsidiaries Rezende Alimentos Ltda., Rezende Óleo Ltda. and Rezende Marketing Comunicações Ltda. Immediately following the acquisition of Granja Rezende, the Company decided to sell Granja Rezende's soybean crushing and oil manufacturing plant and administrative complex.

During 2000, the subsidiary Rezende Alimentos Ltda. was converted from a limited liability company into a corporation and the subsidiary's name was changed to Sadia Alimentos S.A. On December 29, 2000, the then parent was merged into Sadia Alimentos S.A., whose name was then changed to Sadia S.A. The purpose of the merger was to permit an operational and administrative rationalization, and the utilization of tax loss carry forwards. In August 2002, Granja Rezende S.A. was merged into Sadia, aiming at cost reduction both through standardization and through rationalization of the administrative and operational activities as well as by resulting reflections of financial and fiscal nature.

In April 2001, the Company listed its American Depositary Receipts (ADRs) program on the New York Stock Exchange, providing investors an alternate channel to buy its stocks. In June 2001, the Company adhered to Bovespa's Level One of corporate governance, certifying its commitment to transparency and fair disclosure of information.

In August 2001, Sadia opened a distribution center (DC) in Jundiaí, São Paulo, to supply the São Paulo state region, considered the largest market in Brazil. The Jundiaí DC, is a technological milestone for the Company with 20,000 square meters of area.

Sadia GmbH was created in December 2001, and its subsidiary, Laxness F.C.P.A. Ltda. (Laxness), was incorporated in April 2002, with the aim of leveraging exports to the European market. In February 2005, Laxness changed its name to Wellax Food Logistics C.P.A.S.U. Ltd (Wellax).

In 2004 Sadia began the expansion of the Uberlândia unit in order to improve the facility and make it one of the Company's most modern facilities in Brazil. In November 2004, the Company opened a distribution center in Ponta Grossa, state of Paraná, giving Sadia greater capacity and efficiency in its export processes.

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Also in November 2004, Sadia's preferred shares were authorized to be traded on the Madrid Stock Exchange, by the International Latin American Market, Latibex, under the symbol XSDI.

In January 2005, Sadia acquired 100% of S6 Frango Produtos Alimenticios Ltda. (S6 Frango), a company based in Brasilia with a total slaughtering capacity of 150,000 chickens per day (at the time of the acquisition). In March 2005, S6 Frango was merged into Sadia.

The increase in liquidity of Sadia's shares throughout 2005 led to the listing of its preferred shares at the Bovespa Index, known as Ibovespa, starting in September 2005.

In November 2005, Sadia decided to return to the beef segment due to the belief that it represents a complementary business to the Company's activities. Sadia's strategy in this segment is to concentrate sales towards the export market; for the domestic market the Company will focus its efforts on premium beef cuts.

In order to improve corporate governance levels and to more closely align interests among its shareholders, in 2005 Sadia granted 80% tag-along rights to the holders of non-voting preferred shares, satisfying market expectations.

In 2006 Sadia invested approximately R\$970 million. The investments in 2006 were directed towards poultry, processed products, beef and some facilities expansion.

In 2007, Sadia invested R\$ 1.1 billion, distributed among processed products; poultry, pork and beef production; information technology and logistics projects. As a strategy to remain competitive and reduce the risk in its operations, Sadia invested in the expansion of its product portfolio, particularly of breaded chicken products and processed pork products. In December 2007, to strengthen the Company in the segment of frozen processed products, Sadia acquired Big Foods, an industrial complex located in Tatuí, SP, specialized in the production of ready-to-eat sandwiches, lasagnas, pizzas, breads, rolls, cheese breads and other pastry items. Sadia also built its first industrial unit outside of Brazil in the city of Kaliningrad, Russia, based on a joint venture made with a local partner.

### **Reclassification**

There have been no reclassifications made in the financial statements.

### **Investments**

In the last years Sadia has continually increased its level of capital expenditures.

Sadia maintained its investments in 2007 with a firm commitment to growth and focus on its core business and the potential for international growth. Sadia ended 2007 with investments of R\$1.1 billion. Out of this total, R\$ 196.0 million were destined to the production of processed products (18.1%); R\$ 614.7 million to poultry production (56.6%); R\$ 136.4 million to pork production (12.6%); R\$ 44.4 million to beef production (4.1%) and the remaining R\$ 93.4 million (8.6%) were destined, mostly, to information technology and logistics projects. In December 2007, Sadia acquired Big Foods, an industrial complex located in Tatuí, SP, specialized in the production of processed food, for R\$ 53.5 million. The annual production capacity of Big Foods is 20 thousand tons of processed products.

The works for the expansion of the Uberlândia unit, which became one of the most modern units among the 15 operated by the group in Brazil, were completed in 2007. The investment in this project totaled R\$ 400 million, distributed among the years of 2004/2007,

The investment in the Russia plant which was finalized by the beginning of 2008 comprises a meat processing unit, developed in partnership with a Sadia distributor in that country. This plant consumed R\$150 million of total investments, of which approximately R\$ 92 million was invested by Sadia .

A portion of the resources contemplated in 2007 were also used to expand the Brasília unit, to modernize the Concórdia and Chapecó (SC) units and to improve internal technological processes.

In 2006, Sadia invested R\$969,6 million, including R\$85.0 million for the Jundiaí and Uberlândia distribution centers and R\$60.0 million for the Uberlândia margarine plant. The investments in 2006 were directed towards poultry (38%), processed products (31%), pork (15%), beef (1%) and the projects at Lucas do Rio Verde and Russia (15%).

In 2005, an amount of R\$ 742.4 million was invested, of which R\$ 194.6 million (26.2%) was directed towards the processed products segment, R\$ 372.8 million (50.2%) towards poultry, R\$ 27.0 million (3.6%) to pork and the remaining R\$148.0 million (20%) to other projects, mainly to information technology. These investments were made in order to supply the growing demand in the domestic and export markets.

As part of the 2005 investment plan, in January 2005 Sadia acquired 100% of S6 Frango Produtos Alimentícios Ltda. ( S6 Frango ), for R\$70.3 million. S6 Frango was active in poultry slaughtering and processing as well as in the production of animal feed meal. Its product line ranges from whole chicken, special frozen and chilled cuts to sausages and cold cut meats. With 1,700 employees, S6 Frango generated R\$220 million in gross revenues in 2004 and had a slaughtering capacity of 150,000 chickens per day. In April 2005, S6 Frango was merged into Sadia S.A.. Sadia is expanding this capacity over the next five years to 300,000 chickens per day, which should generate 2,000 new direct jobs and around 12,000 indirect jobs. All operations with out growers and suppliers, as well as S6 Frango s job positions, have been maintained. Through this acquisition, the Company strengthened its presence in the central region of Brazil, close to raw material producers and to main centers of consumption.

*Investment Plans*

Plans for 2008 contemplate investments of R\$1.6 billion, which will be destined to processed products (R\$556 million), expansion in pork and poultry capacity mainly in the Lucas do Rio Verde unit (R\$558 million), towards the beef segment (R\$70 million), breeding stock (R\$150 million), the Pernambuco distribution center (R\$60 million) and to various expansion and enlargement projects, IT and infrastructure.

The most significant investment, in the period from 2006 to 2009, is destined to the agroindustrial Site of Lucas do Rio Verde, in Mato Grosso. This project contemplates the construction of a poultry slaughtering unit, one swine slaughtering and one processing unit. The works started in the second half of 2006 and the plant startup is scheduled for the second semester of 2008. Out of the total estimated amount, R\$ 800 million shall come from the company and the remaining R\$700 million shall come from the group of integrated farmers. They will be indirectly financed by the National Economic and Social Development Bank (BNDES) to build the aviaries and poultry farms that will feed the agroindustrial plant. The amount will be directed towards the construction of a poultry slaughter house, with a slaughter capacity of 114 million heads per year; a slaughter and industrialization hog unit, with slaughter capacity of 1.25 millions animals per year, one processing unit and a feed mill factory.

Additional information on this investment plan are as follow:

- For the second semester of 2008, the poultry slaughter houses will operate with 20% of capacity. In 2009, it is expected that these units will operate with 100% of capacity.
- The pork slaughter houses will operate in the first quarter of 2009 with 40% of capacity. In 2010, it is expected that these units will operate with 100% of capacity;
- The expected additional annual revenue for poultry is R\$600 million by end of 2009, and the expected additional revenue for the hog unit is R\$400 million by end of 2009;
- The tax incentives will be similar to those obtained in other states in the Midwest and better than those obtained in the southern states of Brazil.

In 2008, Sadia will construct another plant abroad. With the aim of increasing market share in the Middle East, this unit, which will be set up in the Arab Emirates to produce poultry and beef processed products, will receive investments of US\$ 100 million.

**B. Business Overview**

Sadia is the leader in almost every segment in which it is present within Brazil (see Market Share ), with a product portfolio of over 1,000 products. According to the Brazilian Chicken Exports Association (ABEF), the Company was the largest Brazilian slaughterer and exporter of poultry in 2007. According to the Brazilian Pork Production and Export Association (ABIEPCS) Sadia was the largest Brazilian pork slaughterer and exporter in 2007. Sadia is also the largest domestic distributor of frozen and refrigerated meat-based products (according to AC Nielsen), and leader in the Brazilian market for margarine. As of December 31, 2007, the Sadia Group had 52,422 employees, one of the largest employers in Brazil. In 2007, Sadia sold 1,012.8 thousand tons of poultry, 152.7 thousand tons of pork, 57.2 thousand tons of beef and 924.0 thousand tons of processed products, including frozen and refrigerated meat-based products and margarine, generating gross operating revenues of R\$10.0 billion and net income of R\$842.0 million.

The Company's high degree of vertical integration ensures control at all stages of production and distribution of products. Sadia's operations include breeding farms for poultry and hog grandparent and parent stock, hatcheries, pork breeding centers, slaughterhouses, processing units, animal feed production plants, representative offices and distribution centers. The Company pioneered the vertical integration of poultry and hog breeding in Brazil, initially in the state of Santa Catarina. Today, with the exception of beef, all operations employ a system of vertical integration, consisting of a partnership with rural producers, with a view to obtaining animals for slaughter, raised in highly productive breeding conditions and controlled hygienic-sanitary conditions. Sadia produces one-day chicks and piglets and supplies them to outgrowers, along with feed, transport, technical and veterinary assistance.

Sadia exports around 1,000 different products to approximately 100 countries. It currently produces a range of products that includes: frozen, refrigerated, salted and smoked pork cuts, lard, bacon, ingredients for feijoada (a Brazilian pork and bean stew); frozen and refrigerated pork and chicken

giblets; whole frozen and seasoned chickens; frozen and refrigerated poultry cuts and parts; marinated and partially cooked chicken parts; whole frozen and seasoned turkeys; frozen and seasoned turkey cuts and parts; breaded chicken parts; raw, cooked and smoked hams; tender gammons, hams, cold cuts and related products; Parma-type hams; smoked chickens and turkeys; cooked and smoked turkey hams and turkey-based cold cuts; partially cooked and frozen products, such as beef, turkey and chicken meatballs; beef, turkey and chicken-based hamburgers; pork, turkey and chicken based frankfurters; sausages; bolognas; salamis; coppa; turkey-based hams; cold cuts in general; chicken, meat and pork-based patés; beef, poultry and fish-based frozen ready-made dishes and pasta; frozen ready-made foods for heating and serving as meals and snacks, such as breaded poultry, fish and appetizers, frozen pizzas and refrigerated fresh pasta; margarine and refrigerated desserts.

Sadia owns 15 plants within 8 different states in Brazil and one plant abroad, in Kaliningrado, Russia. Sadia distributes its product line of over 1,000 items through distribution and sales centers located throughout Brazil, Latin America, the Middle East, Asia and Europe.

### **Business Strategy**

Sadia's business strategy is designed to give continuity to the Company's growth and increase its profitability. The Company believes that with the recognition of its brand name as a symbol of quality, tradition and value Sadia means healthy in Portuguese an unequalled domestic distribution network supported by excellent logistics, attention to customer needs across the product line and in all distribution channels and highly favorable production economics in Brazil, the Company will be able to achieve both increased growth and increased profitability, while maintaining its commitment to its employees, outgrowers, suppliers and residents of the communities in which it does business. The principal elements of this strategy are as follows:

- **Increase domestic market penetration through expanded distribution.** Sadia has an extensive distribution network, supported by an outsourced transportation fleet, superior knowledge of wholesale, retail and institutional sales channels, integrated logistics planning and strategically located distribution centers, trans-shipment points and facilities. The Company plans to continue to develop and improve its distribution network and systems in every product category.
- **Focus on retail sales, institutional and food service sales channels for domestic business.** Sadia has increased, and plans to continue focusing on meeting the needs of retail sales outlets, institutional and food service sales channels, such as restaurants, rather than concentrating on wholesale outlets, such as large supermarkets and distributors.
- **Continue to increase service and market responsiveness.** Sadia intends to remain the leader in Brazil in the markets that it serves by maintaining high standards of customer service and continuing to be responsive to the changing needs of varying market segments. As part of this strategy, it has structured its operations, distribution and logistics so that it can fill orders of varying sizes depending on the particular demands of the market segment. In export markets, the Company seeks to provide raw and processed products. It intends to remain close to its customer base, providing decentralized and rapid order fulfillment and personalized service, including attention to refrigeration quality in customers' facilities.



- **Maintain low-cost product and operating efficiency.** The natural advantages of operating in Brazil grains, labor, weather, out-grower and related costs added to the Company's operating efficiency, permit it to compete in international markets. Sadia intends to continue to be amongst the lowest cost producers and distributors of protein products in the Brazilian and international markets. The Company's vertically integrated operations and attention to operating efficiencies, permit quality and cost control throughout the entire production process.
- **Continued brand differentiation.** Sadia has developed its brand across the entire product line both in the domestic and international markets, and that is amongst its most valuable assets. The Company intends to continue to invest in the development of branded products, through shipping, packaging, advertising campaigns, with a view to continue to develop brand loyalty and the perception of premium quality that is associated with the Sadia products.
- **Increase production, through organic growth, investment in production capacity and acquisitions.** Sadia's goal is to expand production capacity at its existing facilities and to build new plants, while also continuing to focus on its core business.

- **Maintain exports and domestic sales volumes approximately equal.** The competitiveness of the production of poultry and pork gives the Company access to international markets, economies of scale and low-cost export financing. Sadia has had success in increasing sales in foreign markets, such as Russia, where it previously did not have a presence, and increasing the number of markets in which the Company is present and the products that it sells. Sales to international markets and domestic markets, in substantially equal amounts, provides an important hedge against volatility in any particular market.
- **Invest in environmentally sound projects and initiatives.** Sadia has been increasingly active in seeking to assure that its business is environmentally sound, beyond mere compliance with regulations, and it intends to invest significantly in this aspect of the business, an example is the 3S Program - Sadia Sustainable Swine Production Program, which will consist in selling carbon certified emission reductions under the Clean Development Mechanism signed at the Kyoto Treaty to finance social initiatives in the outgrowers area.
- **Expand product portfolio, with emphasis on higher value-added processed products.** Sadia believes that continuous product innovation is essential to meet the needs of customers and consumers. As the market for frozen ready to eat products has grown, both domestically and internationally, Sadia has sought to meet the challenge by increasing emphasis from poultry and pork production to production of processed food products, including a product portfolio that now numbers over 700 products.

#### **The Company's Operation**

The Company's operations are organized into four segments: processed products (frozen and refrigerated products and margarines), poultry (chickens and turkeys), pork and beef.

In 2007, 46.6% of total gross operating revenue was derived from the processed products segment, poultry 38.6%, pork 6.8%, beef 3.3% and 4.9% from other activities. Of the Company's total gross operating revenue in 2006, 49.0% of total gross operating revenue was derived from the processed products segment, poultry 36.3%, pork 6.7%, beef 3.7% and 4.2% from other activities, such the grain and by-products segment, hog and poultry breeding, boiled beef, beef-parts and resale of products. In 2005, 44.5% was derived from the processed products segment, poultry 41.4%, pork 8.9%, and 5.2% from other activities.

Activities related to the grains and by-products currently consist of the crushing of soy to obtain the meal used as a raw material in the production of feed for the company's stock and that of the integrated producers.

The following tables present sales volumes and gross operating revenue (prepared and presented in accordance with US GAAP) for the years ended 2007, 2006 and 2005, as shown:

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Sales Volumes (ton)

	2007	2006	2005
<b>Domestic Market</b>	<b>998,426</b>	<b>928,626</b>	<b>823,573</b>
Processed Products	813,057	723,086	647,062
Poultry	132,004	155,485	142,177
Pork	43,767	41,022	34,334
Beef	9,598	9,033	
<b>Export Market</b>	<b>1,148,302</b>	<b>963,959</b>	<b>1,006,047</b>
Processed Products	110,975	76,470	91,593
Poultry	880,790	762,479	808,636
Pork	108,928	81,382	105,818
Beef	47,609	43,628	
<b>Consolidated</b>	<b>2,146,728</b>	<b>1,892,585</b>	<b>1,829,620</b>
Processed Products	924,032	799,556	738,655
Poultry	1,012,794	917,964	950,813
Pork	152,695	122,404	140,152
Beef	57,207	52,661	

**Gross Operating Revenue (R\$ Million)**

	2007	2006	2005
<b>Domestic Market</b>	<b>5,319.9</b>	<b>4,482.0</b>	<b>4,251.7</b>
Processed Products	4,149.8	3,513.5	3,289.1
Poultry	559.4	492.3	512.1
Pork	190.4	154.5	148.3
Beef	56.0	40.6	
Other	364.3	281.1	302.2
<b>Export Market</b>	<b>4,636.0</b>	<b>3,412.0</b>	<b>4,075.7</b>
Processed Products	477.5	361.6	412.3
Poultry	3,281.5	2,373.0	2,937.6
Pork	484.1	371.1	592.4
Beef	272.5	254.7	
Other	120.4	51.6	133.4
<b>Consolidated</b>	<b>9,955.9</b>	<b>7,894.0</b>	<b>8,327.4</b>
Processed Products	4,627.3	3,875.1	3,701.4
Poultry	3,840.9	2,865.3	3,449.7
Pork	674.5	525.6	740.7
Beef	328.5	295.3	
Other	484.7	332.7	435.6

(\*) Other: Grains and by-products, pig and chicken breeding and products resale

The following table presents the breakdown of gross operating revenue in percentage terms by segment, for the years ended 2007, 2006 and 2005, as shown:

**Gross Operating Revenue by Segment (%)**

	2007	2006	2005
Processed Products	46	49	44
Poultry	39	36	41
Pork	7	7	9
Beef	3	4	
Other (*)	5	4	5

(\*) Other: Grains and by-products, boiled beef parts, pig and chicken breeding and resale of products

The following information about segments is based upon information used by the Company's management to assess the performance of operating segments and decide on the allocation of resources and has been prepared and presented in accordance with Brazilian GAAP that is adjusted for US GAAP presentation. The Company has four identifiable reportable segments: Processed Products, Poultry, Pork and Beef.

(R\$ Thousand)	2007	2006	2005
<b>Net operating revenue</b>			
Processed products	3,745,713	3,102,397	3,147,296
Poultry	3,774,731	2,872,845	3,199,246
Pork	624,117	494,571	732,710
Beef	334,995	309,353	
Other (*)	143,635	97,535	239,186
Adjustments for US GAAP presentation	130,885	(46,401)	(596)
Total net operating revenue	8,754,076	6,830,300	7,317,842

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(\*) Other net operating revenue is primarily attributable to grains and by-products.

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(R\$ Thousand)	2007	2006	2005
<b>Depreciation expense</b>			
Processed products	(116,679)	(92,214)	(60,863)
Poultry	(131,053)	(100,080)	(80,336)
Pork	(21,358)	(15,223)	(16,853)
Beef	(14,059)	(11,660)	
Other	(5,555)	(4,072)	(7,294)
Total depreciation expense allocated to Segments	(288,704)	(223,249)	(165,346)
Depreciation allocated to administrative expenses	(17,451)	(17,320)	(12,829)
Adjustments for US GAAP presentation	59,175	35,185	(4,088)
Total depreciation expense	(246,980)	(205,384)	(182,263)

(R\$ Thousand)	2007	2006	2005
<b>Segment operating income</b>			
Processed products	362,257	194,494	273,684
Poultry	248,286	100,204	269,766
Pork	46,862	35,489	94,586
Beef	3,635	11,482	
Other	8,690	2,087	2,798
Adjustments for US GAAP presentation	199,512	(41,533)	40,069
Total operating income	869,242	302,223	680,903
Interest expense	(332,378)	(310,442)	(324,231)
Interest income and other	241,735	282,904	248,203
Foreign currency exchange gain (loss), net	54,056	104,219	159,602
Adjustments for US GAAP presentation	139,884	9,812	(93,825)
Income before income taxes, equity income or loss of investees and minority interest	972,539	388,716	670,652

<b>Segment assets</b>			
Processed products	713,064	715,248	624,619
Poultry	1,498,736	1,018,005	750,504
Pork	390,458	275,533	147,724
Beef	134,616	104,340	
Other	283,912	220,312	143,359
Adjustments for US GAAP presentation	(123,378)	(178,458)	(142,897)
Total property, plant and equipment	2,897,408	2,154,980	1,523,309

<b>Reconciling items - corporate assets</b>			
Cash and cash equivalents	2,369,309	2,550,602	2,663,689
Accounts and notes receivable, net	523,558	678,598	509,615
Inventories	1,168,936	1,084,454	992,490
Other corporate assets	1,098,791	929,259	690,825
Adjustments for US GAAP presentation	1,399,885	641,864	327,356
Total consolidated assets	9,457,887	8,039,757	6,707,284

<b>Capital expenditures</b>			
Processed products	195,969	302,648	194,587
Poultry	614,660	367,581	372,761
Pork	136,417	143,032	26,982
Beef	44,442	7,786	
Other	93,442	234,331	91,662
Adjustments for US GAAP presentation	(134,678)	(85,776)	56,365
Total segment capital expenditures	950,052	969,602	742,357



*Processed Products*

As a result of the Company's strategy of concentrating on higher value-added, higher margin products, the processed products segment results increased significantly as from the second half of the 1990s. Average volumes sold increased 11.7% per year since 1998. Sales of processed products accounted for 46.5% of the Company's gross operating revenues in 2007.

Sadia owns ten plants in Brasil that manufacture processed products, eight of which are dedicated to meat processing, two to margarine and two to pizza, pasta and desserts production. These plants are located close to their suppliers of raw materials or to the main domestic centers of consumption.

The processed products segment comprises a wide range of products, including: frozen products (hamburgers, breaded products, ready-to-eat dishes and pizzas), refrigerated products (hams, sausages, frankfurters, bolognas, salamis, cold cuts, product portions, refrigerated pasta and desserts) and margarine, the majority of which are sold under the Sadia brand.

Processed products in the domestic market, accounted for 89.7% of the total gross sales of this segment, with the remaining 10.3% directed towards exports. The total sales from this segment grew 19.4% as compared to 2006.

Most of the raw materials used derive from poultry and pork produced by the company. By contrast, selected suppliers, who are subject to inspection by the Federal Agriculture Ministry, produce all beef that is processed by the Company.

The Company believes that the use of chicken meat as a raw material for processed products should grow substantially for two reasons: (i) the increase in the range of chicken-based products such as breaded products, and (ii) an increasing share for this kind of meat in the composition of other processed products, such as sausages, frankfurters and bolognas. Moreover, the development of specialized products (boiled and roasted products) for the institutional and foreign markets should also contribute to the increase in chicken production.

The following table presents gross operating revenue from sales of processed products in 2007, 2006 and 2005:

**Gross Operating Revenue (R\$ Million)**

	2007	2006	2005
<b>Processed Products</b>	<b>4,627.3</b>	<b>3,875.1</b>	<b>3,701.4</b>
Refrigerated	3,721.9	3,224.7	3,084.7
Frozen	905.4	650.4	616.7



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Sadia is the Brazilian leader in frozen and refrigerated processed products according to AC Nielsen's surveys. The Company's market position is supported by significant investments in its brand, distribution channels and in quality control.

	<b>Position</b>	<b>Brazilian Market Share (2006) Market Share by Revenue (%)</b>	<b>Period</b>
Frozen Processed Products	1 <sup>st</sup>	43.3	October/November-06
Refrigerated Processed Products	1 <sup>st</sup>	31.1	November/December-06
Margarine	1 <sup>st</sup>	45.4	October/November-06

*Source: AC Nielsen*

In order to maintain market share, Sadia will continue to concentrate on launchings of higher value-added products. In 2007, the Company launched 25 products, against 41 products in 2006 and 76 products in 2005.

### *Poultry, Pork and Beef*

In 2007, sales of non-processed products reached R\$4,843.9 million, and accounted for 48.7% of the Company's total gross operating revenue. In 2006, sales of non-processed products reached R\$3,686.3 million, and accounted for 46.7% of the Company's total gross operating revenue. In 2005, sales of

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non-processed products reached R\$4,190.4 million, and accounted for 50.3% of Sadia's total gross operating revenue. In 2007, poultry, pork and beef sales accounted for approximately 87.1% of total export revenue, in 2006 for approximately 87.9% and in 2005, 86.6%.

Sadia owns nine chicken slaughterhouses, three turkey slaughterhouses, and four pork slaughterhouses. In addition, the Company has one beef slaughterhouse in the state of Mato Grosso, which became operational as of November 2005. The table below shows slaughtering volumes of the Company for the years ended December 31, 2007, 2006, and 2005, in millions of units:

### Slaughtering Volumes (Million Heads)

	2007	2006	2005
Poultry	751.8	666.9	650.1
Hogs	4.4	4.0	3.8
Beef	0.23	0.25	0.07

The following table shows gross operating revenue from non-processed products, for the years of 2007, 2006 and 2005:

### Gross Operating Revenue (R\$ Million)

	2007	2006	2005
<b>Poultry</b>	<b>3,840.9</b>	<b>2,865.3</b>	<b>3,449.7</b>
Whole	1,618.4	1,239.8	1,492.9
Parts	2,037.7	1,491.2	1,811.0
By-products	184.8	134.3	145.8
<b>Pork</b>	<b>674.5</b>	<b>525.6</b>	<b>740.7</b>
<b>Beef</b>	<b>328.5</b>	<b>295.3</b>	
<b>Total</b>	<b>4,843.9</b>	<b>3,686.2</b>	<b>4,190.4</b>

In 2007, Sadia had a 15.1% share of chicken production in Brazil, in terms of tons and a 23.5% share of the Brazilian poultry export market. This compares with results for 2006 and 2005, when the Company had a 14.7% and 10.3% share of domestic chicken production and a 25.9% and 25.8% share of the Brazilian poultry export market, respectively. Sadia introduced turkey production to the Brazilian market in 1973, when its consumption was virtually non-existent. This market is shared with other competitors, but the Company was still in the leadership position, with 57.7% of total slaughter in 2007, as compared with 63.2% of total slaughter in 2006 and 65.6% for 2005.

Approximately 70.0% of the Company's pork production is used in its processed products segment. The remainder is sold as fresh meat cuts in the domestic and international markets. According to the Brazilian Pork Producers Association (ABIPÉCS), in 2007, Sadia had a 12.4% share of Brazilian pork production, and a 18.3% share of the Brazilian pork export market. This compares with results for 2006 and 2005, when the Company had a 12.1% and 14.2% share of Brazilian pork production and a 14.5% and 14.2% share of the Brazilian pork export market, respectively.

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In November 2005, Sadia decided to resume its beef operations because it believes that it represents a complementary business to the Company's activities. Sadia's strategy in this sector is to concentrate sales towards the export market; for the domestic market the Company will focus its efforts on premium beef cuts. In 2007, it accounted for 6.8% of total Gross Operating Revenues. In 2006, it accounted for 3.7% of total Gross Operating Revenues.

### **Production Process**

#### *Processed Products*

The Company uses special cuts of beef, pork, chicken and turkey, as well as selected and shaped fragments for the production of hams, sausages, frankfurters, bologna, hamburgers, pressed ham and related products. Seasonings and secondary raw materials are applied to each product type or line,

according to established formulas, in order to ensure consistency, color, texture and flavor. The presentation of final products is achieved by shaping, casing, cooking and freezing in special machines. Products are then subjected to quality controls and distributed to the consumer market after having been packaged, labeled and boxed.

The raw material for margarine is crude soybean oil, which is subjected to refining and bleaching processes. Fats are obtained by hydrogenating bleached oil. Both of these materials are deodorized in order to prepare the blend. The process is completed by the preparation of an emulsion, the cooling and crystallization of the product, placing into containers, and the packing of these into boxes.

### *Poultry*

The production process for poultry consists of four stages. The first two entail direct investment by the Company in grandparent and parent stock. The third relates to the commercial stock of birds, and involves the direct participation of integrated outgrower farmers, and the last is the slaughtering process.

The Company imports grandparent stock from the United States in the form of eggs that are hatched in its hatcheries and then raised on company-owned farms. These birds produce parent stock that are also raised on Company-owned farms, and that in turn produce eggs. The operation involves twelve hatchery centers, eight of which produce one-day-chicks and four one-day-turkeys. The one-day-chicks are supplied to third-party outgrowers. Sadia operates a similar system for turkeys, importing eggs to produce grandparent stock that in turn produces parent stock that are raised on company-owned farms. The Company is not dependent on any foreign supplier for its genetic resources, nor does it face any barriers to their development.

The one-day-chicks produced by parent stock are supplied to integrated outgrowers who are responsible for raising the birds. Sadia has contracts with approximately 6,300 outgrowers, to which the Company provides feed, technical and veterinary assistance to allow such outgrowers the outgrowing process up to the time the birds reach slaughtering age, which for chickens is normally 34 days (at a weight of 2.0 kg). There are no employment agreements between the Company and the outgrowers, who generally carry out this activity in order to supplement their income. Most outgrowers farm on a small scale and raise six flocks per year (each flock consists of approximately 14,000 chickens). The Company remains the owner of the birds, and at the end of each production cycle, pays a commission fee based on a performance index that is calculated as a function of indicators such as bird mortality, feed to meat conversion ratio and average weight. The fee paid to the integrated farmers covers the outgrowing costs, raw materials, labor and their net profit.

Poultry are slaughtered through a process by which they are electrically stunned. They are then bled by puncturing of major blood vessels. After heating to a temperature of 55/60°C, they are plucked and gutted by automatic machines. The gutting process is subject to health control and inspection. The carcasses are then moved for cooling or freezing at respective temperatures of 6°C and 12/-18°C, and are then packaged according to the required standards of the *Serviço de Inspeção de Produtos Animais* (SIPA - Animal based Product Inspection Agency). At this stage, the whole birds are either distributed to the consumer market as fresh meat or used as raw material in processed products.

### *Pork*

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The Company produces grandparent, parent and piglet stock on its own farms, 90% of the parent stock produced by the Company is supplied to integrated outgrowers who receive feed, medicine and technical assistance by way of support. These parent animals produce hogs that are sold to the Company for slaughter, after the fattening process is completed. The remainder of the parent stock produced by Sadia is sold to piglet producers, who also receive feed, medicine and technical assistance. The Company repurchases the piglets at market prices and distributes them to integrated outgrowers, who after the fattening process sell such pigs to Sadia for slaughtering.

The hogs are slaughtered through a process in which they are bled after being stunned electrically. After heating to a temperature of 60/64°C, their bristles are removed by automatic machines. The animals are then dried, flamed, brushed and gutted, which process is subject to health inspection. After cooling to a temperature of 5°C, the carcasses are cut up and processed.

## Beef

Sadia acquires cattle for slaughter at our Várzea Grande unit from producers in the state of Mato Grosso, within a limited radius of our facility, whose cattle have been branded at birth and therefore are of verifiable origin. Currently the Company is able to slaughter almost 2,000 heads of cattle per day.

**Principal markets where the Company competes**

In 2007, Sadia had an average of 46.6% of its gross operating revenues provided from exports. This ratio was 43.2% for 2006 and 48.9% 2005. The table set forth below presents the main regions of the world where the company has commercial relations and the discussion that follows describes the main trends and expectations for its markets. This information has been prepared and presented in accordance with Brazilian GAAP and is adjusted for U.S. GAAP. Refer to Note 23 of the consolidated financial statements for details on the primary differences between Brazilian GAAP and U.S. GAAP.

**Exports Gross Operating Revenues (R\$ Thousand)**

	2007	2006	2005
Europe	1,256,325	889,171	978,318
Middle East	986,240	787,838	1,047,615
Asia	691,273	533,295	635,907
South America	643,770	528,453	542,151
Emerging markets (mainly Russia and other former Soviet Union countries)	946,428	719,706	872,333
Adjustments for US GAAP presentation	111,955	(46,426)	(627)
<b>Total</b>	<b>4,635,990</b>	<b>3,412,037</b>	<b>4,075,697</b>

Revenues are attributed to regions based upon where the products are shipped. All long-lived operational assets are located in Brazil and in Kaliningrad as well as sales offices located in various countries.

Europe is a large purchaser of poultry cuts and processed products. Sadia maintains a traditional presence in the Middle East, with market leadership and strong brand recognition. Middle Eastern countries primarily consume whole birds of low weight (up to 1.4 kilograms) and processed products. With respect to Eurasia, which comprises the Caucasus region and Russia, the Company exports mainly pork and poultry cuts and processed products. The main exports to Asia are special poultry cuts, pork carcasses and cuts. In the Americas, sales are concentrated primarily in processed products, poultry parts and whole birds. Secondary markets include regions with great potential for growth in the medium term.

Seventy six percent of the Company's exports in 2007 were to investment grade countries.

**Market Overview Domestic and International Markets**

The potential growth of the Brazilian market for processed food, poultry, pork and beef, and Brazil's low production costs are attractive to international competitors. The main barrier to such companies has nevertheless been the need to build a wide ranging refrigerated distribution chain, and a network of integrated producers.

The following analysis was prepared based on information mainly gathered from: The USDA (United States Department of Agriculture), CONAB (Brazilian National Supply Company), ABEF (Brazilian Poultry Exporters Association) and ABIPECS (Brazilian Pork Meat Exporters Association) and AC Nielsen reports.

**Brazilian Processed Products Market**

Consumption of processed products is influenced by several factors, including the increase in consumer income, and efforts related to the development of products, with a view to meeting consumer demand for more sophisticated products.

The processed products segment is divided into three categories: frozen products, refrigerated products and margarines.

*Frozen Processed Products*

In 2007, the Brazilian market for frozen processed products accounted for sales of R\$1,454.4 million. Approximately 79.7% of this total is attributable to the two largest companies, Sadia and Perdigão.

	2007	2006	2005
Sales (R\$million)	1,454.4	1,286.3	1,214.3
Change %	13.1%	5.9%	10.3%
Volume (thousand tons)	171.8	157.1	143.4
Change %	9.3%	9.5%	8.5%

*Source: AC Nielsen*

Due to the characteristics of frozen processed products with production concentrated among a small number of companies, and supply aimed at a more restricted group of consumers, Sadia believes that volume sales of frozen processed products will maintain their trend of around 9.8% annual average growth registered between 2005 and 2007. In any case, since the market for frozen processed products is still far from mature in Brazil, the Company believes that medium and long-term prospects for this segment are highly positive based on the trend over the preceding years.

*Refrigerated Processed Products*

In 2007, the Brazilian market for refrigerated processed products accounted for sales of R\$6,752.4 million. The two largest companies in this market together accounted for approximately 50.6% of net sales, according to AC Nielsen, with the remaining share being split among a large number of small companies.

	2007	2006	2005
Sales (R\$million)	6,752.4	6,163.0	5,094.9
Change %	9.6%	21.0%	16.2%
Volume (thousand tons)	973.2	893.5	744.0
Change %	8.9%	20.1%	10.1%

*Source: AC Nielsen*

*Margarine*



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In 2007, the Brazilian market for margarine accounted for sales of R\$1,541.0 million. The three largest producers (including Sadia as the largest) accounted for 83.7% of the market.

	2007	2006	2005
Value (R\$million)	1.540,5	1,541.0	1,527.5
Change %	0,0%	0.9%	1.8%
Volume (thousand tons)	324,3	326.8	302.3
Change %	-0,8%	8.1%	5.7%

Source: AC Nielsen

### Poultry

#### Domestic Market

The Brazilian poultry market is a complex sector where a few large companies share the market with small producers. According to UBA's 2008 annual report, the four largest chicken producers in

Brazil accounted for 38.5% of Brazilian production in 2007. The low concentration in the market increases competitive pressure in the segment. Prices are subject to supply and demand imbalances.

Many of these small producers operate under low quality standards because of the large number of producers and government difficulties to inspect producers on a regular basis. Additionally, there is widespread belief that tax evasion practices among these producers reduce their costs as compared to producers such as Sadia that comply with applicable regulations.

Growth in Brazilian per capita consumption of poultry over the last four years is expected to continue as the UBA forecasts a 1.6% growth for 2008 as compared to 2007.

(p) preliminary; (f) forecast

Source: USDA / ABEF

In the local market, poultry export business in Brazil has grown more rapidly since the mid 1990s. This can be explained by the production shift of large Brazilian companies' exports, as well as by the competitiveness of Brazilian poultry. Sanitary problems in the main producing countries such as the Bovine Spongiform Encephalopathy ( BSE ) cases in Europe, avian influenza problems in Thailand and both BSE and avian influenza cases in the United States have changed the world broiler trade dynamics. The reduced competition from major exporting countries affected by sanitary issues and the competitive cost of Brazilian poultry favors Brazil as the most competitive exporter of quality poultry cuts and mechanically de-boned chicken meat. Additionally, several new markets in Europe, Africa and the Middle East have opened to Brazilian chicken, and the number of markets which Brazil has access was 142 in 2007, according to ABEF.

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Brazilian Broiler Exports Destination (thousand tons)					
	2007	07 V.A. %	2006	06 V.A. %	06/05 %
Middle East	984	30%	748	29%	32%
Asia	810	25%	738	29%	10%
Africa	262	8%	289	11%	-9%
EU	561	17%	243	9%	131%
Russia	194	6%	182	7%	7%
South America	174	5%	132	5%	32%
Other	302	9%	255	10%	18%
<b>Total</b>	<b>3,287</b>	<b>100%</b>	<b>2,587</b>	<b>100%</b>	<b>220%</b>

Source: ABEF

For 2008, the USDA has revised upwards the projected Brazilian broiler production to 4.0% higher than the 2007 10.2 million tons production. The projected increase in production reflects the firm domestic demand derived from higher employment rates and consumer purchasing power as the economy improves and continues to boost demand for animal proteins. In addition to that, expansion in the export

market will likely continue in view of higher world demand for broilers due to the reduction of the concern over Avian Influenza, estimated increase in exports to traditional markets due to the Brazilian products competitiveness and efforts by Brazilian poultry exporters in new markets.

According to the UBA Report, whole broiler exports in 2007 reached nearly 1.2 million tons, compared to the 0.9 million tons in 2006 and 1.0 million tons in 2005. Exports of broiler parts reached 1.8 million tons, up 12.4% over 2006. Brazilian broiler exporters' strategy is to increase profitability by focusing on higher value products, such as broiler parts and further processed products, which increased significantly in 2007 by 22.1% in volume, reaching 155,341 tons.

The European Union was, in 2007, the largest market for Brazilian broiler exports, mostly broiler parts. The increase in broiler exports to the European Union also reflects a significant increase in exports of processed broilers. The European Union market accounted for nearly 80% of all processed broiler exports from Brazil.

In 2007, Hong Kong was the second largest market for Brazil's broiler exports, mostly broiler parts.

Saudi Arabia, traditionally Brazil's largest single export market for poultry, now ranks third. Saudi Arabia accounted for nearly 39% of all Brazilian broiler exports to the Middle East.

Japan was the fourth largest Brazilian destination of broilers in 2007, also mostly broiler parts.

#### *International Poultry Market*

Expansion in the export market is expected, in view of the reduction of the concern over Avian Influenza (HPAI). According to the FAO, properly cooked poultry is safe to consume at conventional cooking temperatures at or above 70°C in all parts of a food item) will inactivate the H5N1 virus. Moreover, there is no epidemiological evidence to indicate that people have been infected with the H5N1 virus following consumption of properly cooked poultry or eggs. It is thus expected that as consumers become more aware of the true dangers of HPAI, the level of poultry consumption will not be affected.

According to the USDA, world economic growth is projected to increase at a 3.5% average annual rate between 2008 and 2017, after averaging 2.9% annual average between 2001 and 2007. Strong economic growth in developing countries, particularly important for growth in global food demand, is projected at 5.8% percent annually for 2008-17. Macroeconomic stability and growth in low and some middle-income countries may result in higher consumption of red meat and poultry, providing new growth opportunities for domestic producers and world suppliers. The forecast economic environment will promote investment in meat production and processing capacity in many major livestock and poultry producing countries.

Moreover, increases in worldwide real per capita GDP in 2006 and 2007 continued to fuel rising livestock and poultry consumption and hence production. Asian economies particularly China, Hong Kong, Taiwan, and Thailand are forecast to experience growth, likely fostering meat

consumption as consumers will have more disposable income.

According to USDA, Broiler production is bound to slightly decline in late 2008 and early 2009 due to high feed costs, recovering later in the second half of 2009, when livestock and poultry prices are generally forecast higher due to lower meat supplies.

According to FAO, per capita consumption of poultry in developed countries is more than three times that of developing countries. This difference is even more accentuated for certain countries. In 2007, for instance, while India is expected to have consumed 1.8kg poultry per capita, United States are expected to consume more than 25 times that amount with 45.4kg.

According to the USDA, China and the European Union are expected to be net broiler meat importers again in 2008 on the basis of continued strong demand, higher domestic prices, and strengthening currencies. China imports are expected to grow about 10% in 2008, while EU imports are expected to be unchanged.

According to the USDA, broiler meat exports by major traders are forecast to reach 7.7 million tons in 2008. The 2007 increase of 11.4% in broiler meat exports is the result of increased trade by a number of countries including Brazil, Argentina, China, Thailand, and the United States.

According to the USDA, in 2007, Russian poultry production is expected to increase by an additional 11.1% in 2008, as the sector continues to benefit from heavy investment. Despite these

investments, Russia will continue to be the worldwide leader in poultry imports with a forecast 1.2 million tons for 2008.

Japan's total broiler consumption in 2008 is projected to stay flat from the level achieved last year at 1.9 million tons. The USDA also expects a slight decrease of 0.8% in the Japanese poultry imports, as a consequence of the weaker outlook for food service demand.

Saudi Arabia poultry imports for 2008 are expected to reach about 490,000 tons, an 4.3% increase compared to 2006 volumes.

Sadia believes there is a great potential market in the Middle East. In seeking new opportunities, Sadia was the first Brazilian food company to enter the Egyptian market.

The USDA projects that the European Union broiler meat consumption will have a slight increase of 1.3%, reaching 8.2 million tons. Imports on the other hand, are expected to increase by 1.6%, to 650,000 tons in 2008.

In 2008, Chinese broiler meat imports are projected to reach 600,000 tons, a 24.5% increase from the previous year. The United States continues to be the only country that can sell poultry products for direct consumption in China's retail sector.

	World Broiler Balance (thousand tons)					
	2007			2008 (f)		
	Production	Consumption	Exports	Production	Consumption	Exports
China	11,500	10,585	358	12,500	11,570	390
Brazil	10,305	7,120	2,922	10,895	7,450	3,100
EU	8,111	7,490	623	8,200	7,940	700
Mexico	2,730	3,148		2,825	3,146	
India	2,300	2,200		2,400	2,400	
Russia	1,350	1,184	59	1,500	2,680	
Argentina	1,280	2,400		1,400	1,249	155
Japan	1,241	1,915		1,225	1,913	
Thailand	1,050		297			
Iran	1,153	1,194	139	1,150		
United States	16,211	13,901	2,524	16,536	14,005	2,524
<b>Total</b>	<b>57,231</b>	<b>51,137</b>	<b>6,922</b>	<b>58,631</b>	<b>52,353</b>	<b>6,869</b>

(f) forecast

Source: USDA

	World Broiler Imports			
	2007		2008 (f)	
	Volume	%	Volume	%
China	482	6.9%	600	8.3%
EU	640	9.2%	650	8.9%
Mexico	400	5.7%	400	5.5%

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Russia	1,222	17.5%	1240	17.1%
Japan	696	10.0%	690	9.5%
South Africa, Republic of	239	3.4%	244	3.4%
Saudi Arabia	470	6.7%	490	6.7%
United Arab Emirates	238	3.4%	260	3.6%
Hong Kong	215	3.1%	245	3.4%
United States	28	0.4%	27	0.4%
Others	2,354	33.7%	2,418	33.3%
<b>Total</b>	<b>6,984</b>	<b>100%</b>	<b>7,264</b>	<b>100.0%</b>

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(f) forecast

Source: USDA

## **Pork**

### *Domestic Market*

Pork companies are subject to the same problems as those in the poultry market, including unfair competition with small and low quality producers. Although these problems influence product quality, there is a failure on the part of the consumer to perceive the quality risks involved and price dumping is widely practiced. According to ABIPECS 2007 annual report, the four largest pork producers in Brazil were responsible for 34.7% of Brazilian pork production in 2007.

(p) preliminary; (f) forecast

Source: USDA / ABIPECS

Brazilian pork breeding and slaughtering continues to increase the efficiency of production. Measured by the average birth rate of piglets, productivity doubled since the 1970s, and the birth rate reached 24 animals per female. At 160 days old, animals weigh 100 kg on average, and are ready to be slaughtered. Research developments have also contributed to help reduce fat by 31%, cholesterol by 10% and calories by 14% in pork produced in Brazil. This enhancement allows for better productivity of prime cuts, more meat per carcass and more nutritious and healthier meat. Besides, the production increase was also due to better genetics potential on breeders. In the last three years, the number of animals slaughtered by breeder increased 12.5%, from 19.2 to 21.6 animals per breeder and per year.



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Brazilian pork exports increased by 14.8% in volume in 2007 to 606,513 tons, from 528,195 tons in 2006. In terms of market value, pork exports increased to more than US\$1.2 billion in 2007 from almost US\$1.0 billion in 2006, an increase of 18.7%.

	Brazilian Pork Exports							
	Tons		Thousand US\$					
	2007	%	2006	%	2007	%	2006	%
Russia	278,724	46.0	267,689	50.7%	667,528	54.2	622,249	60.0%
Hong Kong	106,224	17.5	73,908	14.0%	169,100	13.7	95,917	9.2%
Ukraine	54,747	9.0	50,469	9.6%	93,854	7.6	75,158	7.2%
Singapore	31,914	5.3	25,254	4.8%	68,893	5.6	54,359	5.2%
Argentina	29,726	4.9	19,176	3.6%	55,204	4.5	35,011	3.4%
Angola	16,882	2.8			23,851	1.9		
Albania	13,794	2.3			22,068	1.8		
Uruguai	11,533	1.9			21,818	1.8		
United Arab Emirates	6,973	1.1			19,416	1.6		
Moldovia	10,383	1.7	20,792	3.9%	12,597	1.0	41,764	4.0%
Other	45,613	7.5	70,908	13.4%	76,639	6.2	112,730	10.9%
<b>Total</b>	<b>606,513</b>	<b>100.0</b>	<b>528,195</b>	<b>100.0%</b>	<b>1,230,968</b>	<b>100.0</b>	<b>1,037,187</b>	<b>100%</b>

Source: Abipecs

Russia remains Brazil's major destination as demand growth exceeds Russian meat producers' ability to respond. Russia accounted for 50.7% of total Brazilian exports volumes in 2006, declining to 46.0% in 2007. Brazil retains its favorable cost position enabling it to be competitive in Russia and other price sensitive markets in spite of its strong currency. Brazil has been affected less than its competitors by the sharp rise in the price of soymeal and corn as its large processing companies have built large new facilities in the midwest where soy and corn are more cost competitive than in traditional meat-producing states in the southern part of Brazil.

Hong Kong is the second largest Brazilian market for pork exports with a 17.5% volumes market share, followed by Ukraine, the third largest market for Brazilian pork exports, with 9.0% of market share in volumes.

Pork production in Brazil is expected to keep the same growth rate of 2007 (nearly 1.9%) in 2008, achieving 3.0 million tons.

#### *International Market*

Pork volumes are still recovering after a year of supply shortfalls due to large scale outbreaks of blue ear disease, higher feed prices, and lower sow inventories. Pork inventories are forecast to expand as sow inventory is rebuilt. However, slaughter rates may remain relatively low, as producers hold back female stock. The world pork production is forecast at 93 million tons in 2008.

There is an increasing awareness that meat trade flows are becoming largely dictated by sanitary conditions and regulations. Exporters worry that market access, driven by trade policy, as well as veterinary and food safety controls, could become easily susceptible to non-tariff trade barriers, especially when those controls are not based on technical criteria. In this very uncertain environment, exporting countries are trying to maintain a competitive position in lucrative markets. At the same time, importing countries are seeking to ensure fairness for their domestic producers, while also safeguarding the health and economic needs of their consumers.

Similar to poultry, it is projected that in the coming years most of the growth in pork consumption will derive from the emerging economies. Not only are low and middle-income countries increasing their per capita consumption, but they are also gradually accounting for a greater share of world consumption. According to the USDA, China's pork consumption accounted for 46.1% of world consumption in 2007 and it's expected to account for 46.0% in 2008. The EU's share of pork consumption is forecast to decrease from 22.3% in 2007 to 22.0% in 2008.

EU pork production is expected to marginally fall as producers respond to higher feed prices. As production declines, high EU prices are expected. Exports are projected to grow 1.4%. The European Union retains the second position in exports and is forecast to account for 23.7% of total pork exports.

The United States market is currently signaling producers to expand production. Production in recent years has been export driven. While only 8.2% of U.S. pork production was exported in 2002, 15.9% of American pork production is expected to be exported in 2008. In 2008, U.S. pork exports are forecast to reach 1.7 million tons.

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In 2003, the Russian government published the resolutions that established poultry quota and beef and pork tariff rate quotas ( TRQ ). The Russian TRQ establishes country specific quotas for the EU, Paraguay, United States and a general quota for all other countries. As processed pork, unlike other types of pork, is not under the TRQ, imports of processed pork have increased.

Pork meat bans were introduced by Russia at the end of 2005 (affecting Brazil and Poland) and in the beginning of 2006 (affecting Ukraine) which created a state of uncertainty for importers looking to fill their TRQ allocations. In 2006, Russia partially lifted the ban for the states of Mato Grosso, São Paulo and Rio Grande do Sul and remained in this situation throughout 2007. In 2008, Brazil had no changes concerning the referred status. Efforts to assure sanitary warranty are being made by the Brazilian Government to lift the ban in Parana, Santa Catarina and introduce Minas Gerais as a eligible state to export to Russia.

	World Pork Balance (thousand tons)					
	2007			2008 (f)		
	Production	Consumption	Exports	Production	Consumption	Exports
China	44,200	44,048	350	44,700	44,580	330
EU	22,600	21,257	1,282	22,500	21,315	1,300
Brazil	2,990	2,260	730	3,110	2,340	770
Russia	1,910	2,803		2,030	2,939	
Vietnam	1,832	1,855	19	1,850	1,861	19
Canada	1,850	984	1,033	1,790	969	1,010
Philippines	1,245	1,270		1,250	1,276	
Japan	1,250	2,472		1,240	2,504	
Mexico	1,150	1,514	81	1,180	1,540	90
Korea, Republic of	1,043	1,506	13	1,085	1,550	15
United States	9,962	8,964	1,424	10,684	9,384	1,694
Other	5,626	6,581	220	5,711	6,666	253
<b>Total</b>	<b>95,658</b>	<b>95,514</b>	<b>5,152</b>	<b>97,130</b>	<b>96,924</b>	<b>5,481</b>

Source: USDA

According to the USDA, Japan is expected to remain the world's largest pork importer in 2008, importing 1,250 thousand tons, 3.3% above the 2007 volumes.

	World Pork Imports			
	2007		2008 (f)	
	Volume	%	Volume	%
Japan	1,210	23.8%	1,250	24.1%
Russian Federation	894	17.6%	910	17.6%
Korea, Republic of	447	8.8%	460	8.9%
Mexico	445	8.8%	450	8.7%
Hong Kong	302	5.9%	310	6.0%
China	198	3.9%	210	4.1%
Canada	171	3.4%	185	3.6%
Australia	141	2.8%	160	3.1%
Singapore	97	1.9%	97	1.9%
Ukraine	82	1.6%	65	1.3%
United States	439	8.6%	420	8.1%
Other	656	12.9%	666	12.8%
<b>Total</b>	<b>5,082</b>	<b>100.0%</b>	<b>5,183</b>	<b>100.0%</b>

(f) forecast

Source: USDA

**Beef**

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According to the USDA Annual Report, the world supply of beef continues to be tight due to the negative impacts of bovine spongiform encephalopathy (BSE), foot and mouth disease (FMD)-related trade restrictions and to the drought in 2007 (mainly in Australia), which was responsible for several losses. Total beef production by major traders is forecast to stay flat in 2008, at 54.6 million tons. Brazil and China are the only leading producers forecast to present a production growth. Brazilian production is expected to increase by 3%, to a record of 9.7 million tons in 2008. China production is forecast to expand nearly 3%, to 7.7 million tons.

	World Beef Balance (thousand tons)					
	Production	2007 (f) Consumption	Exports	Production	2008 Consumption	Exports
United States	12,096	12,830	649	12,171	12,828	687
Brazil	9,470	7,311	2,189	9,710	7,540	2,200
EU-27	8,175	8,674	139	8,125	8,575	100
China	7,480	7,404		7,730	7,682	
Argentina	3,200	2,673	532	3,170	2,640	535
India	2,500	1,765	735	2,655	1,855	800
Mexico	2,200	2,568		2,225	2,603	
Australia	2,197		1,400	2,075		1,360
Russia	1,370	2,392		1,340	2,462	
Canada	1,310	1,099	457	1,230	1,035	450
Pakistan	1,089	1,119		1,100	1,130	
Other	9,336	12,150	1,504	9,375	12,189	1,524
<b>Total</b>	<b>60,423</b>	<b>59,985</b>	<b>7,605</b>	<b>60,906</b>	<b>60,539</b>	<b>7,656</b>

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(f) forecast

Source: USDA

Beef exports in selected countries are expected to reach 7.7 million tons. European Union restrictions on Brazilian exports, continuing BSE-related restrictions on North-America beef and continuing drought in Australia negatively impact the forecast.

According to USDA, Brazilian beef exports are forecast to increase only 0,5% , as a result of European Union restrictions on Brazilian exports due to sanitary concerns. Although Russia is Brazil's largest market, the UE accounts for a significant portion of Brazilian sales. Brazilian exports to the European Union will decline in 2008 although processed meat is not subject to the restrictions and a number of farms have already been approved to ship. Brazilian exporters will make up for this loss through increased sales to other markets in Asia (Hong Kong and Philippines), the United States (processed meat), Africa and Middle East (Iran and Egypt).

(p) Preliminary; (f) forecast

Source: USDA

According to the USDA, Japanese beef imports are forecast to decrease 5.2% in 2008, as Australian exportable supplies of grain-fed beef and continuing restrictions on U.S. beef may constrain import demand.

According to the USDA, the United States continues to struggle in its quest for market access in important Asian markets after the initial discovery of BSE in December 2003. However, U.S. beef exports are forecast to increase over 5 percent in 2008 to around 687,000 tons due to continued opportunities in the NAFTA neighborhood. U.S. beef maintains strong sales to Canada and Mexico.

### **Seasonal Nature of Business**

#### *Chicken, Pork and Beef*

Not seasonal in nature.

#### *Turkey*

Turkey production activities are seasonal in nature with respect to whole turkeys, whose production is concentrated in the second half of the year, with a higher volume of sales in the fourth quarter because of Christmas holidays.

#### *Processed products*

Processed products are seasonal only in the celebration products, with a higher volume of sales in the fourth quarter.

### **Raw Materials**

Sadia owns eleven animal feed plants with an installed capacity of 5.5 million tons per year, a volume sufficient to supply all the animal feed requirements of its breeding operations. The basic raw materials used in animal feed production are corn and soybeans, in a mix that contains preservatives and micronutrients. The Company supplies the basic animal feed to its outgrowers and sells the remainder on the spot market.

The Company purchases corn and soybeans from rural producers, small merchants, cooperatives, large scale traders and through auctions organized by the Brazilian government, as well as occasionally from Argentina. Most of the production of these raw materials are concentrated in the states of Santa Catarina, Paraná, Rio Grande do Sul, Goiás and Mato Grosso. Grains are received in sacks or in bulk, and are then weighed. A sample is taken to measure humidity and impurities in the grain. After approval, the grain is unloaded into a hopper for cleaning and drying. Grain is then sieved in order to eliminate the residues that accompany it. After selection and cleaning, the grain is milled and mixed with the other ingredients of the feed.



Sadia acquires beef for the production of frozen and refrigerated processed products, and boiled beef parts. Other inputs, such as seasonings and other ingredients, cardboard boxes, plastic bags (for packaging and labels), and veterinary medicines (for poultry and hog breeding), are acquired from many different sources, both at home and abroad.

### **Costs and Operating Expenses**

Sadia's principal costs of production are incurred in *reais* and consist of grains, corn and soybeans, packaging, and labor. While input costs are *reais* denominated, the international commodity prices (grains and packaging) tend to follow international prices and are influenced by exchange rate fluctuations. The Company operates with an average idle capacity of 20% in processed product lines but can be at full capacity depending on the market demand. Due to the flexibility in production lines and to the diversity of the equipment present in its sixteen plants, production can be adapted and reformulated, depending on the Company's needs to face a determined segment demand, night and weekend shifts as well as supply partnerships which are broadly used to reduce bottlenecks during the production process.

*Corn*

Brazil's corn prices used to be determined only by domestic supply. Production was mainly on relatively small properties and had a low level of mechanization. However, since 2002, due to the *real* currency depreciation and the improvement of several local producers, part of their crop was shifted to the international market. Therefore, Brazilian corn prices are now better adjusted to international prices.

In Brazil, corn prices tend to be influenced by local supply, but international prices also influence local quotes, according to crop expectations among the main world producers (U.S.A., China and Argentina) and the level of international storage in the main consuming countries (Europe and Japan).

The following chart sets forth the market's average monthly buying price of corn for the regions of Santa Catarina, Parana, Brasilia, Mato Grosso and Rio Grande do Sul for the period between January, 1998 and December 31, 2007:

**AVERAGE CORN PRICE**  
**R\$ per 60 Kg Bag**

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According to CONAB's May 2008 Report, it is expected that the 2007/08 Brazilian corn crop production will increase 12.7% compared to last year's production, reaching approximately 57.9 million tons. This increase is mainly due to investments in technology; increase in planted area (3,9%); and favorable climate on planted areas.

### *Soybean*

Soybean producers in Brazil have been increasing their productivity during the last several years and Brazil has become the second largest producer in the world. Soybean production is substantially mechanized and grains are cultivated on large properties. Producers are well organized and production is oriented to the export market. Production is also spread over several regions among the southern, southeastern and central region of the country, and prices are regionally given by local supply. However, international prices tend to influence local prices when foreign demand and supply are unbalanced.

CONAB expects the Brazilian soybean planted area for 2007/08 to increase around 2.6% in comparison to the last crop, from 20.7 to 21.2 million hectares. CONAB also forecasts that the production for 2007/08 crop will be equivalent to 59.5 million tons, a 1.9% increase as compared to the 2006/07 crop.

The following chart sets forth the market's average monthly buying price of soybeans in the regions of Parana and Brasilia for the period between January 1998 and December 31, 2007.

**AVERAGE SOYBEAN PRICES**  
**R\$ per 60 kg Bag**

**Marketing**

Sadia's brand name is considered one of the Company's most valuable assets. The Company maintains an active marketing program using both electronic and printed media.

The Company incurred advertising expenses of R\$ 184.5 million, R\$157.4 million, and R\$116.6 million during the years ended December 31, 2007, 2006, and 2005 respectively.

Marketing expenses are related to investments in advertising of specific campaigns for the launch of higher value-added products and for the reinforcement of Sadia's brand name.

**Logistics**

The Company's logistics system and distribution channels are two of its principal competitive advantages. Sadia has taken many initiatives to sustain its leadership, which includes partnerships, information technology investments and the development of new processes for optimization of logistics, both domestic and export-related.

### **Distribution**

Within the Brazilian market, Sadia sells its finished products to wholesale and retail outlets, as well as to institutional clients. For the year ended December 31, 2007, the Company sold to approximately 108,000 customers throughout Brazil. Sadia's distribution strategy is based on the importance of direct sales to customers, thereby avoiding concentration among a few large customers.

Sadia maintains sales representation offices in Germany, England, Russia, Japan, China, the United Arab Emirates, Argentina, Uruguay, Chile, Panama and Turkey. In 2007, it sold to approximately 645 foreign clients.

In 2007, 36.0% of total exports were sold to approximately 10 long-standing customers. All of these customers have imported increasing quantities of the Company's products over the last ten years.

## Transport

### *Transport*

Sadia uses trucks as the primary method of distributing its products in Brazil. The Company's distribution system is handled by a network of approximately 2,000 refrigerated hired vehicles for both long and short range deliveries, which service customers directly throughout Brazil.

Distribution by truck is made by refrigerated vehicles, given the perishable nature of the food products, whose shelf life varies from 12 days refrigerated chicken to 540 days frozen turkey. In the case of stoppage of transport by virtue of a general strike, the result would be a complete loss of the products in transit and lack of supply for the points of sale if the period of interruption is greater than 30 days, an outcome the Company considers remote. As an alternative to highway transport, supply could be transported by air, although this would increase the freight cost by more than 20 times. In the case of a sector strike, the impact would be minimized because the Company has manufacturing units producing the same products located in different regions of the country.

Sadia uses railways to transport refrigerated and frozen products, currently around 6.5% of Sadia's total volumes are transported by trains. A 62.1% growth in railway transported volumes is expected for 2008 in comparison to 2007, what leads to significant reduction in logistics costs for the routes where railways are used.

### *Shipment of Exports*

The Company ships 57.0% of its exports through the ports of Paranaguá and Antonina, both in the State of Paraná, 39.0% through the ports of São Francisco do Sul, Itajaí and Imbituba, in the state of Santa Catarina and the remaining 4.0% from other ports (Santos, SP; Rio de Janeiro, RJ; Rio Grande, RS).

In the port of Paranaguá, the Company has two refrigerated warehouses, capable of receiving two thousand tons per day per warehouse and to load two thousand tons per day onto pallets. These warehouses have a drive in storage system and only operate with palletized cargoes. Since one of the warehouses is located in the wharf area, the Company has priority in the mooring of ships arriving at the port of Paranaguá, thereby avoiding possible cost increases due to delays in loading its cargo. These refrigerated warehouses have a storage capacity of 13.5 thousand tons.

The Company also has a fully automated warehouse in Ponta Grossa, in the state of Paraná, with storage capacity of 11.0 thousand tons, and is able to receive and expedite one thousand tons per day.

The Company ships its cargoes in full container or conventional reefer vessels for palletized cargo.

## Sales

Sadia has adapted its sales structure and commercial policies to include the large chain, wholesale (cash and carry), regional mid-size clients, traditional retail (small retail), institutional and distributor channels. The Company sales force has been unified in a single management group, making it possible for the big retail chains to be serviced by an account manager, with the support of coordinators, promoters and re-stockers. For medium and small retailers, Sadia has instituted a telemarketing service, which complements the market work of the sales force and also relies to a limited extent on local distributors.

## Brazilian Food Sector Regulation

The Brazilian Ministry of Agriculture, through the *Secretaria de Defesa Agropecuária* (SDA), Agricultural and Cattle Breeding Defense Secretary, under the Animal Products Inspection Department (DIPOA), regulates Sadia's activities. The latter department is responsible for the issuance of regulations, conduct of inspections and legal support in respect to the livestock, animal breeding, food processing and any other activity involving animal related affairs in the Brazilian territory.

## **Sustainability and Environment**

Brazilian environmental regulations have their principles established in the Federal Constitution, with concurrent jurisdiction among the Brazilian federal government, the states and the municipalities to regulate the subject. The public administration at each such level of government is responsible for the supervision and control of pollution in any form, as well as for the preservation of forests, hydraulic resources and the fauna and flora. The integration of all of the federal, state and municipal agencies responsible for the protection and improvement of environmental quality is undertaken by the National Environmental System (SISNAMA).

As a producer of foods using a wide range of industrial processes, especially its meat product lines which require slaughter of animals, Sadia is subject to compliance with all of the legal requirements, covering environmental risks that are customary in these processes, such as rules governing treatment of Green House Gases, liquid effluents, solid organic waste, particle suspension and odors. The Company is careful to respect the environment at all stages of the production chain, including its activities in the field, the design of packaging (developed with a view to reducing the quantity of raw materials used) and adapting the same to recycling processes. In addition to simplify treating residues, Sadia invests in minimizing the generation of such residues by optimizing processes and adopting stringent procedures for controlling the emission of wastes and effluents. The Company's expenditures related to meeting environmental requirements and in process optimization amounted to approximately R\$ 26.0 million in 2007, R\$12.5 million in 2006 and R\$10.1 million in 2005.

## **C. Organizational Structure**



The Sadia Group is currently composed of twenty companies, as shown in the chart above.

The Company concentrates all production, slaughtering, distribution and product sales activities within Brazil. Sadia International Ltd. is one of the company's smaller vehicles for sales outside Brazil. Big Foods is an industrial complex located in Tatuí, SP, specialized in the production of ready-to-eat processed products. Rezende Óleo and Rezende Mkt. e Comunicações Ltda. are non-operational. Sadia GmbH. is a holding that controls Wellax Food Logistics C.P.A.S.U. Ltda., an offshore company responsible for the largest part of Sadia's export operations. Sadia Alimentos is a subsidiary of Sadia International, established in 2003 aiming to develop commercial operations in the Argentine market. Sadia Uruguay and Sadia Chile are each responsible for the distribution and sales of the Company's

products in their respective countries. Nordfin Holding Limited owns 40% of Sadia Chile. Concórdia Holding Financeira is a financial company. Sadia Overseas Ltd. was formed for the purpose of issuing the Company's Eurobond. The companies not mentioned above are representative offices.

#### D. Property, Plant and Equipment

In 2007, Sadia owned sixteen plants, including nine units for poultry slaughtering, five units for pork, one for beef, eleven units for animal feed, two units for the crushing of soybeans and eleven units for processed products (ten in Brazil and one abroad). Some plants are multi-operational, including several integrated activities. Sadia owns twenty one distribution and commercial centers and eleven representative offices and distribution centers abroad.

#### Operating Units

The table below lists Sadia's operating units and their principal activities:

Country	State	City	Principal activity
Brazil	DF	Brasília	Raising and slaughtering chicken, processed products and animal feed
Brazil	MG	Uberlândia	Raising and slaughtering chickens, turkeys and hogs, processed products and animal feed
Brazil	MT	Lucas do Rio Verde	Pork Genetics and animal feed
Brazil	MT	Várzea Grande / Campo Verde	Raising and slaughtering chickens, processed products and animal feed. Beef slaughterhouse.
Brazil	PR	Dois Vizinhos	Raising and slaughtering chickens; animal feed and soybean crushing
Brazil	PR	Francisco Beltrão	Raising and slaughtering chickens and turkeys and animal feed
Brazil	PR	Paranaguá	Margarine
Brazil	PR	Ponta Grossa	Pizzas and pasta, Miss Daisy, processed products
Brazil	PR	Toledo	Raising and slaughtering chickens and hogs; processed products; animal feed and soy oil
Brazil	RJ	Duque de Caxias	Processed products
Brazil	RS	Três Passos	Raising and slaughtering hogs and animal feed
Brazil	SC	Chapecô	Raising and slaughtering chickens and turkeys, animal feed and processed products
Brazil	SC	Concórdia	Raising and slaughtering chickens and hogs, processed products and animal feed
Brazil	SC	Faxinal dos Guedes	Raising and slaughtering chicken and animal feed
Brazil	SP	Tatuí	Processed products
Russia	-	Kaliningrado	Processed products

*Leased Operating Units*

The table below lists Sadia's leased operating units and their principal activities. In the cities of Cascavel and Nova Araçá (PR), the local production is made under the Sadia brand, on a *Façon* type of partnership, in which the legal nature of the agreement is that of a service provision, which means that Sadia engages the processing services of a third party processing company solely to manufacture a certain product to Sadia specifications. In this case, Sadia provides such partner with all raw materials needed, including packaging. The third party processing company uses solely its labor and manufacturing facilities (machinery, power, etc.). The product of such manufacturing process becomes automatically Sadia's property.

State	City	Principal activity
PR	Cascavel	Raising and slaughtering poultry and animal feed
PR	Nova Araçá	Raising and slaughtering poultry and porks, industrial products and animal feed
RS	Lajeado	Raising and slaughtering poultry and animal feed
RS	Garibaldi	Raising and slaughtering poultry and animal feed

**Distribution and Commercial Centers**

The table below lists Sadia's distribution and commercial centers and the corresponding region of activity:

State	City	Regional of Activity
AM	Manaus	North Region
BA	Salvador	Northeast Region
CE	Fortaleza	Northeast Region
DF	Brasília	Federal District
ES	Vitória	Southeast Region
MG	Belo Horizonte	Southeast Region
MG	Uberlândia	Southeast Region
MT	Cuiabá	Central Region
PA	Belém	North Region
PE	Recife	Northeast Region
PR	Curitiba	South Region
RJ	Rio de Janeiro	Southeast Region
RJ	Duque de Caxias	Southeast Region

<b>RS</b>	Porto Alegre	South Region
<b>SC</b>	Itajaí	South Region
<b>SP</b>	São Paulo	Southeast Region
<b>SP</b>	Jundiaí	Southeast Region and São Paulo State Region
<b>SP</b>	Campinas	Southeast Region and São Paulo State Region
<b>SP</b>	Bauru	Southeast Region and São Paulo State Region
<b>SP</b>	Ribeirão Preto	Southeast Region and São Paulo State Region
<b>SP</b>	São José dos Campos	Southeast Region and São Paulo State Region

### Production Capacity

Sadia's consolidated production capacity is as follows:

	Production Capacity		
	2007	2007	2006
	Capacity	Production	Production
Poultry Slaughtering (Million heads/year)	776.0	751.8	666.8
Hog Slaughtering (Million heads/year)	5.0	4.4	4.0
Beef Slaughtering (Thousand heads/year)	300.0	234.0	250.0
Processed Products (thousands of tons/year)	1,086	877.6	773.2
Animal Feed (thousands of tons/year)	5,515.4	5,242.7	4,745.8

### Environmental issues affecting the Company's activities

As a poultry and hog livestock and slaughtering company, Sadia's activity impacts on environmental issues, especially related to water resources pollution, animal treatment and deforestation. However, the Company takes all measures to comply with the Brazilian environmental regulations.

As a way of ensuring the sustainability of its activities, Sadia has strict policies and directives for reducing consumption of water and energy and also uses biomass as a possible substitute fuel oil and gas to generate thermal energy. All its units have wastewater treatment facilities to avoid the contamination of water tables and rivers near the units. The Company also strictly supervises the activities taken by the poultry and hog outgrowers. The company also adopts specific indicators of operational control efficiency related to aspects such as consumption of inputs and raw materials, waste disposal, waste treatment, energy use among other aspects, depending on the nature of the operations carried out in each Production Unit. The energy consumption ratio per ton produced reduced by 0.47% in relation to 2006 and the water consumption, reduced by 0.56%.

The Company has environmental Management Committees that are responsible to manage the environmental risks related to its status, as well as to developed accident-prevention actions and elaborate emergency plans

The Company utilizes firewood in its productive process under the Brazilian environmental legal requirements and authorized by the IBAMA (Instituto Brasileiro do Meio Ambiente e dos Recursos Naturais Renováveis), the Brazilian Environmental and Renewable Natural Resources Institute. This firewood comes from the Company's owned forest land and from third parties, and is used as fuel to warm up the boilers.



The only environmental requirement for Sadia related to its owned forest land is to maintain at least 20% of the Company's forest land as native forest. Sadia is in compliance with such requirement.

Moreover, the Company has a program for being self sufficient in firewood, maintaining forest land for all of its manufacturing units. These areas total 18.2 thousand hectares and supply 58% of the Company's current firewood requirements.

#### **ITEM 4A. UNRESOLVED SEC STAFF COMMENTS**

The Company has no unresolved comments from the staff of the U.S. Securities and Exchange Commission in respect of its periodic reports under the Exchange Act.

#### **ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS**

The following discussion should be read in conjunction with the Company's consolidated financial statements and notes thereto, and other financial information included elsewhere in this annual report.

##### **Discussion on Critical Accounting Policies**

Critical accounting policies are those that are considered important, complex or subjective by the Company's management to the understanding of the Company's financial condition and results, as well as estimates about the effect of matters that are uncertain.

##### *Allowance for Doubtful Accounts*

The collectibility of accounts receivable is based on a combination of factors. In circumstances where management is aware of a specific customer's inability to meet its financial obligations, a specific allowance against amounts due is recorded to reduce the net recognized receivable to an amount that is likely to be collected. In addition, an allowance is recorded based on the length of time receivables are past due and historical experiences. In addition, Sadia records a provision in light of past collection and write-off experience, as well as when significant payment delays occur and the Company believes that it may not receive payment in full.

Given the assumptions involved, such as the financial situation of the Company's debtors, commercial and economic trends, allowances for doubtful accounts are subject to uncertainty and may be revised upward or downward depending on the actual performance of an account receivable.

*Depreciation and Amortization*

Sadia recognizes expenses related to the depreciation and amortization of its property, plant and equipment and breeding stock based on the straight-line and estimated production cost methods, respectively. The useful life of assets and estimates for production is reviewed periodically based on existing facts and circumstances. The determination of useful lives and estimates for production requires considerable judgment and is inherently uncertain, due to changes in technology and industry competition, which could cause early obsolescence of the property, plant and equipment. If Sadia is required to materially change the assumptions used, its depreciation and amortization expense, obsolescence write-off and the net book value of property, plant and equipment could be materially different.

*Impairment of Long-Lived Assets*

Sadia periodically assesses the need to perform impairment tests of long-lived assets (or asset groups) based on various indicators such as the level of business profitability and technological developments. When necessary, upon the occurrence of any negative triggering event such as a significant loss in market value of a property, plant and equipment or significant adverse change in the extent or manner in which a long-lived asset is being used, cash flow studies are prepared to determine if the accounting value of the property, plant and equipment is recoverable through the profitability

resulting from its business. In order to estimate future cash flows, Sadia makes various assumptions and estimates. These assumptions and estimates can be influenced by different external and internal factors, such as economic and industry trends, interest rates, foreign exchange rates, changes in the business strategies and in the type of products offered to the market.

#### *Contingencies*

Sadia establishes provision for contingencies on its balance sheet when it determines, taking into consideration the opinion of its legal advisors, that a loss is probable, in one of the labor, tax or civil cases to which the Company is party. Sadia continuously evaluates the estimates and assumptions used to establish the provision for contingencies based on relevant facts and circumstances that may have a material effect on the result of operations and stockholders' equity. Even though management believes that the provisions are presently adequate, the establishment of provisions for judicial proceedings involves estimates that can result in the final amount being different than the provisions as a result of uncertainties that are inherent to the establishment of the provision. In case the amount of provisions for contingencies is lower than the amount actually due, an increase in provisions would be necessary.

#### *Deferred Tax Assets*

Sadia recognizes deferred tax assets and liabilities which do not expire, arising from tax loss carry-forwards, temporary add-backs and other procedures. Sadia periodically reviews the deferred tax assets for recoverability and establishes a valuation allowance, as required, based on historical taxable income, projected future taxable income, and the expected timing of the reversals of existing temporary differences. In the event the Company or one of its subsidiaries operates at a loss or are unable to generate sufficient future taxable income, or if there is a material change in the actual effective tax rates or time period within which the underlying temporary differences become taxable or deductible, Sadia evaluates the need to establish a valuation allowance against all or a significant portion of the Company's deferred tax assets, resulting in an increase in the effective tax rate, thereby decreasing net income. If Sadia determines that it can realize a deferred tax in excess of its net recorded amount, it decreases the valuation allowance, thereby increasing net income. Significant management judgment is required in determining any valuation allowance. The principal uncertainty relates to the likelihood of future taxable income from the subsidiary that generated the deferred tax asset. A change in the Company's projections of profitability could result in the need to record a valuation allowance against deferred tax assets, resulting in a negative impact of future results.

#### *Pension Benefits*

Sadia accounts for its defined pension plan using actuarial models. These models use an attribution approach, which assumes employees render services over their service lives on a relatively smooth basis and also presumes that the income statement effects of pension benefit plans should follow the same pattern. Sadia accounts for its retirement plan based on actuarial recommendations following the applicable laws, income tax regulations, as well as in accordance with the plan's rules.

Net pension income or expense is determined using assumptions as of the beginning of each year. These assumptions are established at the end of the prior fiscal year and include expected long term return rates of the plan assets, discount rates and compensation rate increases. The actual future amounts and experience related to these assumptions will determine whether Sadia has created sufficient reserves for accrued pension costs.



*Revenue recognition*

The Company recognizes revenue when products are shipped and the customer takes ownership and assumes risk of loss, collection of the relevant receivable is probable, persuasive evidence of an arrangement exists and the sales price is fixed or determinable. In addition, the Company offers sales and incentives and discounts through various programs to customers, which are accounted for as a reduction of revenue in Sales deductions. Sales incentives include volume-based incentive programs and payments to customers for performing marketing activities on our behalf.

***Recently Issued Accounting Standards***

In February 2007, the FASB issued SFAS 159, which permits the measurement of certain financial instruments at fair value. Entities may choose to measure eligible items at fair value at specified election dates, reporting unrealized gains and losses on such items at each subsequent reporting period. SFAS 159 is effective for fiscal years beginning after November 15, 2007. The Company does not expect any significant impact to its consolidated financial statements.

In December 2007, the FASB issued SFAS 141-R, which will become effective for business combination transactions having an acquisition date on or after January 1, 2009. This standard requires the acquiring entity in a business combination to recognize the assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree at the acquisition date to be measured at their respective fair values. SFAS 141-R changes the accounting treatment for the following items: acquisition-related costs and restructuring costs to be generally expensed when incurred; in-process research and development to be recorded at fair value as an indefinite-lived intangible asset at the acquisition date; changes in deferred tax asset valuation allowances and income tax uncertainties after the acquisition to be generally recognized in income tax expense; acquired contingent liabilities to be recorded at fair value at the acquisition date and subsequently measured at either the higher of such amount or the amount determined under existing guidance for non-acquired contingencies. SFAS 141-R also includes a substantial number of new disclosures requirements. The impact on the application of SFAS 141-R in the consolidation financial statements will depend on the business combinations arising during 2009 and thereafter.

In December 2007, the FASB issued SFAS 160, which establishes new accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. SFAS 160 requires the recognition of a noncontrolling interest (minority interest) as equity in the consolidated financial statements and separate from the parent's equity. The amount of net income attributable to the noncontrolling interest will be included in consolidated net income on the face of the income statement. Certain changes in a parent's ownership interest are to be accounted for as equity transactions and when a subsidiary is deconsolidated, any noncontrolling equity investment in the former subsidiary is to be initially measured at fair value. SFAS 160 also includes expanded disclosure requirements regarding the interests of the parent and its noncontrolling interest and is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. The Company does not expect any significant impact to its consolidated financial position.

In February 2008, the FASB issued FSP 157-1, which became effective for the Company on January 1, 2008. This FSP excludes FASB Statement No. 13, Accounting for Leases, and its related interpretive accounting pronouncements from the provisions of SFAS 157, except for leasing transactions arising from business combinations. The Company does not expect any significant impact to its consolidated financial statements.

In February 2008, the FASB issued FSP 157-2, which delays the company's January 1, 2008, effective date of FAS 157 for all non financial assets and non financial liabilities, except those recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually), until January 1, 2009. The Company does not expect any significant impact to its consolidated financial statements.

***Recently Adopted Accounting Standards***

In July 2006, the FASB issued FIN 48, which became effective for the Company on January 1, 2007 (see Item 18 Financial Statements).

**Brazilian Economic Environment**

The Company's results of operations and financial condition are dependent on Brazil's general economic condition and particularly on (i) economic growth and inflation and their impact on people's purchasing power, (ii) financing costs and the availability of financing, and (iii) exchange rates between Brazilian and foreign currencies. The following table sets forth Brazilian Gross Domestic Product (GDP) growth, inflation and the devaluation of Brazilian currency against the U.S. dollar and interest rate changes for the periods shown.

	Brazilian Selected Economic Indicators				
	2007	2006	2005	2004	2003
Real GDP Growth (%) <sup>(1)</sup>	5.42	2.86	2.28	4.94	0.54
Inflation - IGP-M (%) <sup>(2)</sup>	7.75	3.85	1.20	12.41	8.71
R\$/US\$Exchange Rate <sup>(3)</sup>	1.7713	2.1380	2.3407	2.6544	2.8892
TJLP (%) <sup>(3)</sup>	6.3	6.9	9.8	9.8	11.0

(1) Source: Ipeadata

(2) Source: Economatica

(3) Long-term interest rate, source: BNDES

The Brazilian economy has been affected by interventions on the part of the government, which has made repeated changes in its monetary, credit, tariff and other policies, in order to influence the direction of the national economy. The changes in policies involving foreign exchange and tax rates could have a significant impact on the Company's business and operating results, in the same way as inflation, currency devaluation, social instability and other political, economic and diplomatic issues, and the reaction of the Brazilian government to these issues.

#### *Inflation and Real Plan Effects*

Inflation has traditionally had a negative effect on the Brazilian economy in general in past years, and on the Company's profitability and operating results in particular. In an attempt to control inflation, the government has at times imposed wage and price controls, and reduced its spending. Inflation and the measures adopted by the government, combined with public speculation about its future decisions, have also contributed to periods of uncertainty in the economy, as well as to increased volatility in the Brazilian securities markets. In addition, the government's desire to control inflation and reduce budget deficits may cause it to take actions that slow Brazilian economic growth.

After the implementation of the *Real Plan*, which was based on an exchange rate anchor (*reais* x U.S. dollar), inflation rates declined and stabilized at low levels. This new economic environment increased the purchasing power of part of the population, which was accustomed to high inflation levels and did not have access to financial instruments to reduce their monetary losses due to high inflation. Incomes rose, credit availability increased and consumption of consumer goods grew. According to the IGP-M Brazilian inflation amounted to 868.3% in 1994, 15.2% in 1995, 9.2% in 1996, 7.7% in 1997, 1.8% in 1998, 20.1% in 1999, 9.9% in 2000, 10.4% in 2001, 25.3% in 2002, 8.7% in 2003, 12.4% in 2004, 1.2% in 2005, 3.9% in 2006 and 7.8% in 2007.

#### *Exchange Rate Effects*

From March 1995 until January 1999, the Brazilian Central Bank managed a semi-fixed exchange rate policy based on the establishment of an annual exchange rate fluctuation target at the beginning of each year, setting both a wide limit or band, and a much narrower band, in order to effect a gradual devaluation by means of this exchange rate band system. The Central Bank bought or sold U.S. dollars in the market in order to ensure that the exchange rate remained within established limits.

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In an attempt to stem the increasing capital outflows and concerns about the commitment of certain state governments to the fiscal austerity proposal, on January 13, 1999, Brazilian monetary authorities halted their intervention, abandoning the system of exchange rate bands, and allowed the *real*'s value to be determined by the foreign exchange markets, intervening only to limit wide swings in the value of the currency.

Since then, the exchange rate market has been operating under a floating rate regime and the Central Bank has implemented an inflation target policy, using local interest rates to adjust demand.

Although Sadia uses *reais* as its functional currency, a relevant portion of its assets, liabilities and revenues are dollar denominated. In December 2007, 46.6% of the Company's gross revenues were mainly collected in foreign currency, coming from export proceeds, corresponding to R\$4.6 billion.

Considering that Sadia has subsidiaries abroad, the volatility of the *real* creates foreign exchange gains and losses, which are included in the Company's foreign currency exchange gain (loss), net account

in results of operations. In 2007, on a consolidated basis, the Company had foreign exchange gains (including gains from foreign currency swaps) of R\$28.9 million compared to R\$157.0 million in 2006.

## A. Operating Results

The following table summarizes certain selected financial data derived from the Company's statements of income, expressed as percentages of net operating revenue, for the periods indicated, as shown.

The following table sets forth components of Sadia's cost of goods sold, expressed as a percentage of total cost of goods sold for 2007, 2006 and 2005:

	Composition of Cost of Goods Sold (%)		
	2007	December 31, 2006	2005
Raw Materials	72	72	76
Labor	13	13	12
Depreciation	4	4	3
Other	11	11	9
<b>Total cost of goods sold</b>	<b>100</b>	<b>100</b>	<b>100</b>

### Consolidated Income Statement Years Ended December 31, 2007, 2006, 2005, 2004 and 2003 (R\$ Million)

	2007	2006	2005	2004	2003
Gross operating revenue	9,955.9	7,894.1	8,327.4	7,117.3	5,717.5
Value-added tax on sales	(1,092.1)	(939.7)	(914.2)	(880.0)	(535.3)
Sales deductions	(109.6)	(124.1)	(95.3)	(128.1)	(100.5)
Net operating revenue	8,754.2	6,830.3	7,317.8	6,109.2	5,081.7
Cost of goods sold	(6,325.5)	(5,212.6)	(5,324.4)	(4,292.7)	(3,673.0)
Gross profit	2,428.7	1,617.7	1,993.5	1,816.6	1,408.7
Operating expenses:					
Selling	(1,477.7)	(1,303.0)	(1,245.9)	(1,144.5)	(916.7)
General and administrative	(99.7)	(96.5)	(81.0)	(52.5)	(54.2)
Other operating income (expenses), net	18.0	84.0	14.3	15.4	(36.8)
Total operating expenses	(1,559.4)	(1,315.5)	(1,312.6)	(1,181.5)	(1,007.7)
Operating income	869.3	302.2	680.9	635.0	401.0
Interest expense	(338.3)	(310.6)	(311.6)	(336.8)	(450.2)
Interest income and other, net	412.6	240.0	248.0	249.8	459.8
Foreign currency exchange gain, net	28.9	157.0	53.4	39.1	61.0
Income before income taxes, equity income of investees and minority interest	972.6	388.7	670.7	587.1	471.5

## A. Operating Results

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Income tax benefit (expense)					
Current benefit (expense)	(76.6)	(11.0)	(52.0)	(33.0)	(39.1)
Deferred tax benefit (expense)	(55.0)	(18.1)	(16.4)	(63.1)	40.1
<b>Total income tax</b>	<b>(131.6)</b>	<b>(29.1)</b>	<b>(68.4)</b>	<b>(96.1)</b>	<b>1.0</b>
Income before equity income of investees and minority interest	840.9	359.6	602.2	491.0	472.6
Equity income (loss) of investees		(0.2)	1.2	(1.4)	0.4
Minority interest	1.0	1.1	(0.2)	(0.1)	0.3
Income (loss) before cumulative effect of accounting change		360.6	603.3	489.5	473.3
Cumulative effect of accounting change, net of tax					
<b>Net income</b>	<b>841.9</b>	<b>360.6</b>	<b>603.3</b>	<b>489.5</b>	<b>473.3</b>

**SADIA S.A.****CONSOLIDATED BALANCE SHEET**

Years ended December 31, 2007, 2006, 2005, 2004, and 2003

(In thousands of *reais* - R\$)

	2007	2006	2005	2004	2003
Cash and cash equivalents and available-for-sale securities	2,363,145	2,428,014	2,574,996	1,917,192	1,957,753
<b>Total Current Assets</b>	<b>5,037,322</b>	<b>4,929,689</b>	<b>4,588,176</b>	<b>3,944,802</b>	<b>3,645,379</b>
Investments in debt and available-for-sale securities	500,516	129,127	65,057	436,782	1,158,586
Property, plant and equipment, net	2,897,408	2,154,980	1,523,309	1,055,240	910,010
<b>Total Assets</b>	<b>9,457,887</b>	<b>8,039,757</b>	<b>6,707,284</b>	<b>5,830,973</b>	<b>6,149,453</b>
<b>Total Current Liabilities</b>	<b>2,653,285</b>	<b>2,493,279</b>	<b>2,625,812</b>	<b>2,766,719</b>	<b>2,969,833</b>
Short-term debt and current portion of long-term debt	1,328,090	1,441,275	1,484,342	1,738,835	2,026,752
Long-term debt	2,688,115	2,670,969	1,704,184	1,031,375	1,366,836
<b>Total Shareholders' Equity</b>	<b>3,532,964</b>	<b>2,592,643</b>	<b>2,228,117</b>	<b>1,838,364</b>	<b>1,521,585</b>

**Structure and Profitability of the Company's Operations**





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*Period ended December 31, 2007 compared with period ended December 31, 2006*

The following discussion presents a comparison of results of operations for the twelve-month periods ended December 31, 2007 and 2006.

*Gross Operating Revenue*

Sadia's gross operating revenues in 2007 amounted to R\$9,955.9 million, the highest in Sadia's history, 26.1% higher than gross operating revenues for 2006. Sales volumes reached 2.1 million tons, a 13.4% increase when compared to 2006.

The performance of the industry in 2007 was marked by the increase of poultry consumption worldwide, by the Russian embargo on Brazilian pork imports, by the depreciation of 11.0% of the Brazilian *real* in relation to the U.S. dollar, and by a strong domestic demand,

These factors resulted in an increase in export revenues of 35.9% from 2006 levels and an increase of 18.7% in domestic revenues in 2007, in comparison to the previous year.

#### *Domestic Market*

In the domestic market, sales volume reached 998.4 thousand tons, a 7.5% increase over the prior year. Continuing the trend seen in 2006, processed products led domestic market sales, in line with our strategy of focusing on more value added products.

Gross operating revenues were R\$5.3 billion in 2007, which represented a 18.7% increase over 2006.

The significant increase in revenues and volumes resulted mainly from a strategy based on the continuation of diversification of the sales channels, the release of new products better suited to the consumer's purchasing power and improvement in leveraging the consumer attraction of Sadia's brands.

#### *Export Market*

Sales to the export market increased from 2006 to 2007 in terms of volumes and revenues. Shipments totaled 1,148.3 thousand tons, representing an increase of 19.1%. Gross export revenues of R\$4.6 billion in 2007 represented an increase of 35.9% from 2006 levels.

In the Middle East, we maintained our traditional presence in the main areas of the region, with market leadership and brand recognition. Middle Eastern countries primarily consume whole birds of low weight (up to 1.2 kg) and processed products. Exports to Middle Eastern countries accounted for 21.3% of revenues in the export market. Europe, which was responsible for 27.1% of exports revenues, is a large purchaser of poultry cuts and processed products. With respect to Eurasia, which comprises the Caucasus region and Russia, Sadia exports were mainly pork and poultry cuts and processed products, this region represented 20.4% of all exports. The main exports to Asia, which accounted for 14.9% of all revenues from exports, are special poultry cuts, pork carcasses and cuts. In the Americas, sales are concentrated mainly on processed products, poultry parts and whole birds. The Americas accounted for 13.9% of export revenues.

#### *Processed Products*

Sales of processed products were the main driver in domestic revenue growth, representing 78.0% of revenues in the domestic market. This result reflects our efforts to adapt our product portfolio, aiming to capture the demand for differentiated products and leadership across various products in our portfolio. This strategy allowed an increase of 12.4% in volumes and 18.1% in gross operating revenue. The average price of this segment increased 5.0% when compared to the average price in 2006, due to an effort to pass through prices.

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The volume of processed products in the export market totaled 111.0 thousand tons, representing a n increase of 45.1% compared to 2006, while the increase in revenue from this segment was of 32.1% (to R\$477.5 million), reflecting a 9.0% decrease in average price in *reais* of this segment compared to 2006. Revenue did not increase as sharply in proportion to the increase in volume due to the devaluation of the US dollar to the Real which was of 11.0% in relation to 2006.

### *Poultry*

With the redirection of the poultry production to the international market, the volumes sold in Brazil decreased 15.1% to 132.0 thousand tons in 2007. This segment represented 10.5% of total domestic revenues, a slight decline from the prior year. Lower supplies directed towards the domestic market drove the average price in this segment up 33.8% and resulted in revenues of R\$559.4 million, an increase of 13.6% over the prior year.

Poultry is our main export segment, accounting for 70.8% of total export revenues. Volumes of poultry exports increased 15.5% over the prior year, with 880.8 thousand tons shipped. Revenues also increased 38.3% from the prior year, to R\$3.3 billion. Stronger demand for poultry meat in the export market resulted in a raise of 19.7% in the average price in *reais* of the segment.

*Pork*

The pork segment also recorded a growth in volumes sold in the domestic market due to the redirection of exports. Sales of pork in the domestic market rose 6.7% in 2007, to 43.8 thousand tons. The growth in this segment's revenues was of 23.2%, as the average price increased 28.1%. The share of pork in the total volume sold in 2007 remained at 4.4%, as in 2006. The contribution of this segment to total domestic revenues remained stable, at 3.6%.

Russia, Sadia's major pork export destination, in 2007 still had not resumed purchasing from all the states in which Sadia has pork operating units. The embargo initially was enforced against all Brazilian states in 2005, ultimately being lifted in respect of the state of Rio Grande do Sul, São Paulo, Mato Grosso and Minas Gerais. In 2007, the segment recorded an increase in sales of 33.8%, from 81.4 thousand tons in 2006 to 108.9 thousand tons. The average price of pork shipped had a slight decline in the period of 2.5% (13.8% when measured in U.S. dollars). This resulted in an increase of 30.5% in this segment's exports revenue, to R\$484.1 million.

*Beef*

The beef segment, in which Sadia resumed production in the end of 2005, grew notably in 2007, in comparison to 2006.

The volumes sold in the domestic market of 9.6 thousand tons, led to the highest growth in gross operating revenues to R\$56.0 million.

In the export market, the beef segment grew to R\$272.5 million in gross revenues, and in volumes, to 47.6 thousand tons.

*Sales Deductions and Tax on Sales*

Value-added tax on sales consists of ICMS, the Social Contribution on Sales (Cofins) and the contribution to the Social Integration Program (PIS), amounted to R\$1,092.1 million, a 16.2% increase over 2006. In 2007, total sales deductions decreased 11.7% when compared to 2006, to R\$109.6 million. The ratio of sales deductions and value-added tax on sales as a percentage of gross sales was 12.1% in 2007 and 13.4% in 2006.

*Cost of Goods Sold*

Cost of goods sold increased 21.4% compared with 2006 and the cost per ton sold increased 7.0% when compared to 2006. This is mainly due to the increase in the prices of corn and soy in the Brazilian market, the main components of Sadia's cost structure.

*Selling Expenses*

The ratio of selling expenses over net operating revenue in 2007 reached 16.9% as compared to 19.0% for 2006. This was mainly due to a increase in net operating revenue which diluted the selling expenses.

*Administrative and General Expenses*

The administrative expenses over net operating revenues reached 1.1% in 2007, as compared to 1.4% in 2006, with an absolute increase of R\$3.2 million.

*Other Operating Income (Expenses), Net*

Other operational net results accounted for a R\$18.0 million gain in 2007 as compared to a R\$84.0 million gain in 2006.

In 2007, the Company obtained recognition of the final, favorable, unappealable decision on two processes filed against the State, questioning the charge of Funrural on its poultry production, between

January 1983 and November 1988. The Company recognized the tax credit for the amount of R\$26,545, which, net of the legal council fees, represented by gain of R\$22,032.

*Interest Expense*

Interest expense in 2007 amounted to R\$338.3 million, 8.9% above the R\$310.6 million accounted for in 2006. The main reason for this increase was the higher amount of debt in BNDES.

*Interest Income and Other, Net*

Interest income in 2007 amounted to R\$412.6 million, 71.9% above the R\$240.0 million accounted for in 2006. The main reason for this increase was the gain from the sale of shares of the IPO of the Bovespa and BM&F which represented a gain of R\$ 165.7 million.

*Foreign Currency Exchange Gain (Loss), Net*

Foreign exchange currency gain of R\$ 28.9 million reported in 2007 was primarily attributable to gains from hedges of sales of exports, resulting from the 11.0% average appreciation of Brazilian currency against the U.S. dollar for 2007 against 2006.

*Income Tax*

We reported an income tax and social contribution expense of R\$131.6 million in 2007, against R\$29.1 million in 2006. This increase is mainly resulted of higher taxable income in 2007 when compared to 2006.

*Net Income*

Sadia's net income reached R\$842.0 million in 2007 showing an increase of 133.5% when compared to the 2006 result as a consequence of principally higher volumes of poultry exports as a consequence of world demand and a focus on selling higher value added products both in the domestic market as well as in the export market.

*Period ended December 31, 2006 compared with period ended December 31, 2005*

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The following discussion presents a comparison of results of operations for the twelve-month periods ended December 31, 2006 and 2005.

### *Gross Operating Revenue*

Sadia's gross operating revenues in 2006 amounted to R\$7,894 million, the second highest in Sadia's history, although 5.2% less than gross operating revenues for 2005. Sales volumes reached 1.9 million tons, a 3.4% increase when compared to 2005.

The performance of the industry in 2006 was marked by the reduction of poultry consumption worldwide due to the uncertainties caused by the possibility of a major worldwide outbreak of the avian influenza, by the Russian embargo on Brazilian pork imports and by the appreciation of 10.1% of the Brazilian *real* in relation to the U.S. dollar.

These factors resulted in a drop in export revenues of 16.2% from 2005 levels and a shift to domestic sales and distribution, which drove an increase of 5.4% in domestic revenues over 2005.

### *Domestic Market*

In the domestic market, sales volume reached 928.6 thousand tons, a 12.8% increase over the prior year. Continuing the trend seen in 2005, processed products led domestic market sales, in line with our strategy of focusing on more value added products.

Gross operating revenues were R\$4.5 billion in 2006, which represented a 5.4% increase over 2005.



The significant increase in revenues and volumes resulted mainly from a strategy based on the diversification of the sales channels, the release of new products better suited to the consumer's purchasing power and improvement in leveraging the consumer attraction of Sadia's brands.

#### *Export Market*

Sales to the export market dropped from 2005 to 2006 in terms of volumes and revenues. Shipments totaled 964.0 thousand tons, representing a decrease of 4.2%. Gross export revenues of R\$3.4 billion in 2006 represented a decrease of 16.2% from 2005 levels.

In the Middle East, we maintained our traditional presence in the main areas of the region, with market leadership and brand recognition. Middle Eastern countries primarily consume whole birds of low weight (up to 1.2 kg) and processed products. Exports to Middle Eastern countries accounted for 23.0% of revenues in the export market. Europe, which received 26.0% of exports, is a large purchaser of poultry cuts and processed products. With respect to Eurasia, which comprises the Caucasus region and Russia, Sadia exports were mainly pork and poultry cuts. This region represented 21.0% of all exports. The main exports to Asia, which accounted for 15.6% of all revenues from exports, are special poultry cuts, pork carcasses and cuts. In the Americas, sales are concentrated mainly on processed products, poultry parts and whole birds. The Americas accounted for 15.5% of export revenues.

#### *Processed Products*

Sales of processed products were the main driver in domestic revenue growth, representing 78.4% of revenues in the domestic market. This result reflects our efforts to adapt our product portfolio, aiming to capture the demand for differentiated products and leadership across various products in our portfolio. This strategy allowed an increase of 11.7% in volumes and 6.8% in gross operating revenue. The average price of this segment dropped 4.3% when compared to the average price in 2005, because of increased bulk sales.

The volume of processed products in the export market totaled 76.5 thousand tons, representing a drop of 16.5% compared to 2005, while the decline in revenue from this segment was of 12.3% (to R\$361.6 million), reflecting an increase in average price in *reals* of this segment, which grew 5.0% (15.6% in U.S. dollars) compared to 2005. Revenue did not decline as sharply in proportion to the decline in volume due to the increase in sales of higher value-added products such as baked, grilled and breaded poultry products and the reduction in sales of lower margin products.

#### *Poultry*

With the redirection of a portion of poultry exports to the domestic market, the volumes sold in Brazil increased 9.4% to 155.5 thousand tons in 2006. This segment represented 11.0% of total domestic revenues, a slight decline from the prior year. Increased supply in the domestic market as a result of allocation of customary export production to that market drove the average price in this segment down 11.9% and resulted in revenues of R\$492.3 million, a decline of 3.9% over the prior year.

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Poultry is our principal export segment, accounting for 69.5% of total export revenues. Volumes of poultry exports declined 5.7% over the prior year, with 762.5 thousand tons shipped. Revenues also declined 19.2% from the prior year, to R\$2.4 billion. Weaker demand for poultry meat in the export market resulted in a decline of 10.1% in the average price in *reais* of the segment, which represents a stable price in U.S. dollar terms.

### *Pork*

The pork segment also recorded a growth in volumes sold in the domestic market due to the redirection of exports. Sales of pork in the domestic market rose 19.5% in 2006, to 41.0 thousand tons. Despite the fall of 12.7% in the average price, the growth in this segment's revenues was of 4.2%. The share of pork in the total volume sold grew from 4.2% in 2005 to 4.4% in 2006. The contribution of this segment to total domestic revenues remained stable, at 3.5%.

Russia, Sadia's major pork export destination, after over a year still has not resumed purchasing products from all the states in which Sadia has pork operating units. The embargo initially was enforced

against all Brazilian states, ultimately being lifted in respect of the state of Rio Grande do Sul. The segment recorded a decline in sales of 23.1% in the year, from 105.8 tons in 2005 to 81.4 thousand tons in 2006. With lower demand from Brazil's main buyer of pork as a result of Russia's embargo, the average price of pork shipped had a higher decline in the period, of 18.5% (7.6% when measured in U.S. dollars). This resulted in a drop of 37.4% in this segment's revenue, to R\$371.1 million.

#### *Beef*

The beef segment, in which Sadia resumed production in the end of 2005, grew notably in 2006.

The volumes sold in the domestic market of 9.0 thousand tons, led to the highest growth in gross operating revenues to R\$40.6 million.

In the export market, the beef segment grew to R\$254.7 million in gross revenues, and in volumes, to 43.6 thousand tons.

#### *Sales Deductions and Tax on Sales*

Value-added tax on sales consists of ICMS, the Social Contribution on Sales (Cofins) and the contribution to the Social Integration Program (PIS), amounted to R\$939.7 million, a 2.8% increase over 2005. In 2006, total sales deductions increased 30.2% when compared to 2005, to R\$124.1 million. The ratio of sales deductions as a percentage of domestic sales was 13.4% in 2006 and 11.2% in 2005.

#### *Cost of Goods Sold*

Cost of goods sold decreased 2.1% compared with 2005 and the cost per ton sold dropped 5.5% when compared to 2005. This is mainly due to a change in Sadia's product portfolio mix. The rise in corn prices in 2006 due to demand in the international markets had no impact on our costs of goods sold because we had purchased grains in advance of the price increase.

#### *Selling Expenses*

The ratio of selling expenses over net operating revenue grew in 2006, reaching 19.1% as compared to 17.0% for 2005. This was mainly due to a drop in net operating revenue and growth in selling expenses. There was an increase of R\$ 57.1million, which represents growth of 4.6% over the selling expenses of 2005, mainly attributable to increased advertising costs and freight charges in the domestic market.

#### *Administrative and General Expenses*

The administrative expenses over net operating revenues reached 1.4% in 2006, as compared to 1.1% in 2005, with an absolute increase of R\$15.5 million.

*Other Operating Income (Expenses), Net*

Other operational net results accounted for a R\$84.0 million gain in 2006 as compared to a R\$14.3 million gain in 2005. This increase was largely due to the October 26, 2006, final, unappealable decision of the appeals court in the COFINS proceedings ruling Law 9,718/98 unconstitutional. This ruling changed the basis for the calculation of PIS and COFINS by including operating and financial income. This matter was ruled unconstitutional by the lower courts on November 9, 2005. Sadia has been collecting the tax in accordance with the contested legislation and, as a result of the favorable ruling, recognized the tax credit in the amount of R\$80.2 million, which, net of attorney's fees, represented a gain of R\$75.7 million.

*Interest Expense*

Interest expense in 2006 amounted to R\$310.6 million, 0.3% below the R\$311.6 million accounted for in 2005. The ratio interest expense to total debt fell from 9.3% in 2005 to 7.6% in 2006.

*Interest Income and Other, Net*

Interest income in 2006 amounted to R\$240.0 million, 3.2% below the R\$248.0 million accounted for in 2005.

*Foreign Currency Exchange Gain (Loss), Net*

Foreign exchange currency gain of R\$ 157.0 million reported in 2006 was primarily attributable to gains from hedges of sales of exports, resulting from the 10.1% average appreciation of Brazilian currency against the U.S. dollar for 2006 against 2005. The foreign exchange currency gain of 2005 was R\$ 53.4 million.

*Income Tax*

We reported an income tax and social contribution expense of R\$29.1 million in 2006, against R\$68.4 million in 2005. This decrease is mainly the result of lower taxable income in 2006 when compared to 2005.

*Net Income*

Sadia's net income reached R\$360.6 million in 2006 showing a reduction of 40.2% when compared to the 2005 result as a consequence of adverse conditions in 2006, principally due to lower volumes of poultry exports as a consequence of concerns surrounding the possibility of a major worldwide outbreak of avian influenza and lower volumes of pork exports to Russia as a result of the embargo.

**B. Liquidity and Capital Resources**

**Liquidity and Sources of Funding**

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The Company's main cash requirements include: (i) debt repayment, (ii) investments in property, plant and equipment, raising efficiency levels and optimization of processes; and (iii) payment of dividends and interest on equity to shareholders. The Company's primary sources of liquidity have traditionally consisted of cash generated from operations and short and long-term debt. Sadia believes that these sources of funds, together with its cash and cash equivalents will continue to be adequate to meet the Company's currently anticipated capital requirements.

Sadia issued US\$250,000,000 in Eurobonds in 2007, with 6.875% coupon and due in 2017 (10-year maturity). Sadia used these proceeds principally to repay short-term, higher coupon debt and to finance capital investments budgeted for 2007.

The net cash generated by operating activities totaled R\$1,074.5 million, R\$74.1 million and R\$852.3 million for the years ended December 31, 2007, 2006, and 2005 respectively. Net cash used in investing activities amounted to R\$826.7 million, R\$844.3 million and R\$1,236.2 million for the years ended December 31, 2007, 2006, and 2005 respectively. Net cash provided by financing activities was R\$126.7 million in 2007, R\$813.2 million in 2006 and R\$303.0 million in 2005. Cash and cash equivalents at the end of the year was R\$1,100.9 million for 2007, R\$726.3 million for 2006 and R\$683.3 million for 2005.

**Consolidated Cash Flow**  
**(R\$ Million)**

	2007	2006	2005
Net cash provided by operating activities	1,074.6	74.1	852.3
Net cash provided by (used in) investing activities	(826.7)	(844.3)	(1,236.2)
Net cash provided by (used in) financing activities	126.8	813.2	303.0
Cash and cash equivalents at end of year	<b>1,100.9</b>	<b>726.3</b>	<b>683.3</b>

The changes that occurred in the net cash in 2007 in relation to 2006 were due to the following:

*Changes in 2007 relative to 2006:*

*Net Cash Provided by Operating Activities*

The net cash generated by operating activities totaled R\$1,074.5 million and R\$74.1 million for the years ended December 31, 2007 and December 31, 2006, respectively.

This variance was due primarily to the increase in net income resulting from strong world demand in poultry and high demand for processed products both domestically and abroad.

Changes in Foreign currency exchange gain, net were due to the Company's hedge results that are aimed to compensate for losses in Sadia's export revenues and were influenced by the 11.0% average devaluation of the dollar against the real for 2007 against 2006.

Decreases in accounts and notes receivable in the amount of R\$97.4 million for the year ended December 31, 2007 in relation to the previous year. This variation is because of the Company's strategy to increase its receivable purchase agreement to a limit of USD200MM.

Increases in inventories in the amount of R\$75.1 million for the year ended December 31, 2007 in relation to the previous year due to an increase of the prices of grain increased the price of inventories.

*Net Cash Provided or Used in Investing Activities*

Changes in available for sale debt securities of R\$60.6 million were compensated by the acquisition of Big Foods in the value of R\$51.2 million.

*Net Cash Provided or Used in Financing Activities*

Loans received and loans repaid presented a total net decrease of R\$721.0 million in 2007.

Changes in Short and Long-term debt repayments were due to a higher cash generation in 2007 in relation to 2006.

The changes that occurred in the net cash in 2006 in relation to 2005 were due to the following:

***Changes in 2006 relative to 2005:***

*Net Cash Provided by Operating Activities*

The net cash generated by operating activities totaled R\$74.1 million and R\$852.3 million for the years ended December 31, 2006 and December 31, 2005, respectively.

This variance was due primarily to the drop in net income resulting from weak demand due to outbreak in Avian Flu in Europe and and lower sales to Russia of pork due to the Russian embargo for this commodity.

Changes in Foreign currency exchange gain, net were due to the Company's hedge results that are aimed to compensate for losses in Sadia's export revenues and were influenced by the 10.1% average devaluation of the dollar against the real for 2006 against 2005.



Increases in accounts and notes receivable in the amount of R\$202.9 million for the year ended December 31, 2006 in relation to the previous year. This variation is because of the Company's strategy to increase sales with the extension of payment dates towards the external market due to the low demand for poultry in Europe due to the outbreak of Avian Flu.

Increases in inventories in the amount of R\$83.1 million for the year ended December 31, 2006 in relation to the previous year due to a lower demand in poultry in Europe and a lower demand in Russia for pork.

*Net Cash Provided or Used in Investing Activities*

Changes in Purchase of property, plant and equipment were due to the greater capital investitures the Company incurred in 2006. In 2005 R\$673.1 million were invested, while in 2006 Sadia invested R\$969.6 million.

*Net Cash Provided or Used in Financing Activities*

Loans received and loans repaid presented a total net increase of R\$563.0 million in 2006 and a R\$147.6 million decrease on December 31, 2005.

Changes in Long-term debt issuances were due to greater financing incurred as the Company increased its investments in 2006.

**Indebtedness and Financial Strategy**

Sadia borrows funds principally to finance exports and for investments in fixed assets, for the modernization and technological update of the plants, for working capital, and, depending on market conditions, for financial investments.

At the end of 2007, the Company's total interest-bearing debt stood at R\$4,016.1 million, representing a 2.3% decrease as compared to the total debt of R\$4,112.2 million on December 31, 2006. In terms of the total debt maturity distribution, in 2007, 72.5% was accounted as long-term debt as compared to 70.2% in 2006.

At the end of 2007, Sadia's total financial assets amounted to R\$2,863.6 million, a 12.0% increase as compared to R\$2,557.1 million on December 31, 2006. Of the total investment maturity distribution, in 2007, 82.5% was accounted as short-term, as compared to 95.0% in 2006.

The Company's debt profile at December 31, 2007 and 2006 was as follows:

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<b>R\$ Million</b>	<b>2007</b>	<b>2006</b>
Short-term debt	1,102.5	1,226.6
Long-term debt	2,913.6	2,885.7
Total Debt	4,016.1	4,112.2
Short-term investments	2,363.1	2,428.0
Long-term investments	500.5	129.1
Total Investments	2,863.6	2,557.1

On May 12, 2003, the Company entered into an agreement to sell, from time to time, up to R\$150.0 million of its domestic receivables to a special purpose entity, organized as an investment fund. The receivables sold are subject to a discount rate that should not be lower than 95.0% of the average rate of Brazilian interbank certificate deposits (11.12% p.a. at December 31, 2007). Through December 31, 2007, the Company received cash proceeds of R\$3.4 billion (R\$2.8 billion in 2006) from the sales of domestic receivables under this agreement and incurred interest expenses of R\$28.0 million for the year ended December 31, 2007 (R\$30.0 million in 2006). Based on the structure of this transaction, the

agreement has been accounted for as a financing by the Company. As of December 31, 2007, the accounts receivable for this debt, pledged as collateral was R\$348 million (R\$242 million in 2006).

### Short-Term Debt

Following the normal course of operations, the amounts maturing in the short run can be settled or re-negotiated for the next period. The Company uses trade finance for its working capital needs because it is available at a lower cost, since lenders perceive that the exchange risk is mitigated by the link to U.S. dollar exports.

Working capital from commercial banks primarily relates to export financing and pre-export advances, of which R\$449.9 million in 2007 (R\$477.2 million in 2006) were dollar denominated with a coupon at Libor (4.6% p.a. at December 31, 2007) plus a spread at the rate of 0.15% p.a. and fixed rate coupons of 7.5% to 12.0% p.a. in 2007 (interest rate spread of 0.1% p.a. and fixed rate of 6.5% p.a. in 2006).

R\$ thousand	2007	2006
<b>Working capital from commercial banks</b>	696,116	708,868
<b>Trade accounts receivable domestic credit facility</b>	347,763	242,446
<b>Bank borrowings, secured by accounts receivable</b>	58,688	275,253
	1,102,567	1,226,567

At December 31, 2007 and 2006, the weighted average interest rates on short-term debt was 6.30% p.a. and 5.36% p.a., respectively.

### Long-Term Debt

R\$ thousand	2007	2006
<b>Foreign debt (denominated in U.S. dollars):</b>		
Export financing, composed of prepayment, payable in amount of R\$178,367 in installments up to 2012, subject to LIBOR variation for 6 month deposits (4.60% in December 2007 plus annual interest of 0.50% p.a. and a line focused on the incentive for foreign trade in amount of R\$1,096,112, subject to LIBOR variation for 6 month plus interest of 1.40% p.a., guaranteed by promissory notes or sureties.	1,274,479	1,904,241
Funds raised on the international capitals market through the issuance of bonds to be paid in 2017 with interest of 6.88% per annum, guaranteed by endorsement.	445,869	
BNDES (National Bank for Economic and Social Development), payable from 2008 to 2015, composed as follows: FINEM in the amount of R\$6,501 subject to the weighted average of the exchange variation of currencies traded by BNDES - UMBNDES and fixed interest of 3.50% p.a. and FINAME in the amount of R\$144,579 subject to the weighted average of the exchange variation of currencies traded by BNDES - UMBNDES and fixed annual interest of 3.50% p.a. guaranteed by mortgage bonds and real estate mortgages	151,080	145,458



IFC- International Finance Corporation funding in foreign currency for investment in property, plant and equipment, which R\$13,734 is subject to interest at fixed rate of 9.05% p.a., guaranteed by promissory real estate mortgages	6,312	13,734
	1,877,740	2,063,433
	2007	2006
<b>Local debt (denominated in reais):</b>		
BNDES (National Bank for Economic and Social Development), credit lines for investments and exports, payable from 2008 to 2015, composed as follows: FINAME in the amount of R\$865,550 subject to the Long-Term Interest Rate -TJLP (6.25% p.a. in December 2007) and interest of 3.55% p.a. and FINEM in the amount of R\$8,320 subject to TJLP and interest of 3.50% p.a., guaranteed by mortgage bonds and real estate mortgages	873,870	651,537
PESA - Special Aid Program for Agribusiness payable in installments from 2008 to 2020, subject to the General Price Index Market IGP-M plus interest rate of 9.89% p.a., secured by investments in debt securities with a carrying value of R\$35,568 and sureties.	144,935	136,440
Other subject to interest rate from 1% to 14% p.a.	17,093	34,267
	2,913,638	2,885,677
Less current portion of long- term debt	(225,523)	(214,708)
Long- term portion	2,688,115	2,670,969

At December 31, 2007, long-term debt maturities were as follows:

2009	262,907
2010	550,373
2011	619,066
2012	447,759
Thereafter	808,010
	2,688,115

### C. Research and Development, patents and licenses

Sadia invested R\$11.1 million, R\$12.4 million and R\$10.9 million for the years ended December 31, 2007, 2006 and 2005, respectively, in research and development activities. During 2007, we launched in the Brazilian market 25 new products mainly in the lines of ready to eat dishes, hot-pockets, microwave pizzas, margarines, breaded chicken, hams and sweet desserts, as well as improvements to our existing products and process. Similar concept products have also been developed or adapted for the export market.

In harmony with sustainability program we accomplished a packaging project to reduce consumption of paper board in about 20% by the automation of forming corrugated boxes.

Sadia owns three patents in Brazil with extension to ten overseas countries and also ten granted industrial drawing with extension to one overseas country.

Stock breeding R&D brought benefits to the area of animal production achieving improvements in the quality of meat, the production process, and reducing feed conversion rates. Between 1975 and

2007, the duration of the chicken production cycle was reduced from 59.3 days to 34.0 days for each 1.7kg bird. During the same period, chicken weight increased from 1.7kg to 2.0kg for slaughtering. Similarly, the feed conversion rate decreased from 2.4kg to 1.7kg per kg of chicken.

Between 1975 and 2007, the duration of the pork production cycle was reduced from 179 days to 144 days for each 100kg animal. During the same period, slaughtered swine weight increased from 94kg to 126.8kg. In a similar way, the feed conversion rate decreased from 3.6kg to 2.5kg of feed per kg of pork. During the same period, the percentage of pork per carcass increased from 46.0% to 60.0%.

#### **D. Trend Information**

This section discusses the main concerns and trends that drove the Company's strategic planning in 2007 and those expected for 2008.

##### **Avian Flu**

Even though there has never been a case of H5N1 or any other highly pathogenic cases of poultry diseases of AI in Brazil, Sadia is aware of the risk, and is closely monitoring its developments. The Company is working on this issue with the utmost priority, and adopting several preventive measures. Sadia's poultry plants are spread throughout the country with 9 industrial units across 5 different states. In addition to that, Brazil's vast territorial extension reduces substantially the risk of countrywide contamination. In order to avoid AI reaching its plants, Sadia has implemented a strict control on the access to the animal producing farms. Visits to farms and poultry establishments are strictly prohibited. In the event of visits from certifying companies representatives and genetic material suppliers, access must be limited to the Company's office after a 7-day quarantine in Brazil, without any kind of contact with other birds. As there is a serious threat of introduction of avian influenza through the exposure of the Company's commercial flock to wild birds, especially waterfowl, all of Sadia's integrated outgrowers have protected their farms water springs and most of them have put tighter mesh screens in order to block the entry of smaller wild birds in their farms. The Company is also equipping its plants to cook, grill and bread the poultry meat, as according to FAO, the virus is destroyed in temperatures above 70°C, allowing these products to be exported regardless of any sanitary related embargos. Sadia is also constantly increasing the volumes of processed products in its product portfolio, which creates a natural hedge for the Company.

Moreover, the Brazilian government has established the National Plan for the Prevention and Control of Newcastle Disease and the Prevention of Avian Influenza (Plano Nacional de Controle e Prevenção da Doença de Newcastle e de Prevenção de Influenza Aviária) which conforms with OIE (World Organization for Animal Health) standards for zoning. These measures which are intended to assure international markets that Brazil maintains sanitary barriers between states will allow the country to petition for certain Brazilian states to be considered as autonomous regions, avoiding, thus, a generalized ban on exports.

It is important to mention that Sadia is already in full compliance with the National Plan for the Prevention of the Avian Flu and the Prevention and Control of the Newcastle Disease.

Despite these measures, no assurance can be given that Sadia will not be affected by AI, directly, or through limitations on exports imposed by importing countries.

**Foreign Market Protectionist Measures**

Considering recent developments in the Brazilian macro economic environment and the livestock and processed food sector, Sadia expects to have its operations affected most significantly by the following factors:

- New regulations will continue to be issued by foreign importer countries to protect their local producers. Since a relevant part of our revenues comes from export operations, the raising of protectionist barriers can affect our operations.
- In July 2002, the EU Sanitary Commission issued a new regulation increasing the duties for imported fresh chicken. During the second of 2002, 100% of Brazilian chicken exported to Europe was required to be tested for the forbidden antibiotic Nitrofurantoin, increasing export sales costs.



- In November 2003, a panel was established in the World Trade Organization (WTO) on request of Brazil and Thailand against the change in classification of salted poultry made by the EU. With this change, Brazilian salted poultry was classified as frozen and, thus, had an increase of 15.4% ad valorem in its duty rate. In August 2005, the final WTO decision favored Brazil and Thailand in the panel. However since then, the EU has imposed quotas on imports of Brazilian poultry.
- The Russian government also introduced a quota regime for pork and poultry imports that remained in effect through 2007.

These initiatives can reduce competitiveness of our products in such markets; however, the Brazilian government, associated with local and international entities, normally negotiates the terms of such measures in order to mitigate their negative effects.

#### E. Off- balance sheet arrangements

The Company does not have any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on its financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources other than the one described below.

Sadia has off-balance sheet arrangements consisting of guarantees granted in the amount of R\$229.7 million (R\$20.2 million in 2006) to banks under loans obtained by certain out growers as part of a special development program in the central region of Brazil. The Company also has off-balance sheet arrangements related to the export receivables sold under the Insured Receivables Purchase Agreement in the amount of R\$35.4 million.

#### F. Tabular disclosure of contractual obligations

The Company has long term purchase contracts with suppliers that are oriented for production purposes (packing and industrial units). At December 31, 2007, the balance of contractual obligations were as follows:

	Contractual Obligations				Total
	Less than 1 year	1 - 3 years	3 - 5 years	More than 5 years	
Long-Term Debt Obligations	225,523	813,280	1,066,825	808,010	2,913,638
Capital (Finance) Lease Obligations					
Operating Lease Obligations	181,200	313,100	263,800		758,100

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Purchase Obligations	22,000	37,000		59,000
Other Long-Term Liabilities Reflected on the Company's Balance Sheet under the GAAP of the primary financial statements				
<b>Total</b>	<b>428,723</b>	<b>1,163,380</b>	<b>1, 330,625</b>	<b>3, 730,738</b>

Sadia does not have any contractual purchase obligations associated with its animal feed requirements.

The long-term debt obligations incurred by the Company are basically intended to finance exports, investments in fixed assets and working capital. Purchase Obligations relates to future acquisition

of raw materials. Operating Lease Obligations are related to Sadia's non-cancelable leasing agreements for industrial units that expire over the next three years.

#### **G. Safe Harbor**

See "Forward-Looking Statements" in "General" on page 4 of this Annual Report.

### **ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES**

#### **A. Directors and Senior Management**

##### **Executive Officers and Members of the Board of Directors**

The Company is managed by a Board of Directors and a Board of Executive Officers, formed by Brazilian citizens or a majority of Brazilian citizens domiciled in the country, whose powers shall prevail in the decision-making.

The term of office of the members of the Board of Directors and of the Executive Officers shall be for one year and shall be unified, extending up to the entry upon office of the new administrators, reelection being permitted.

In 2005 Sadia acquired a policy of directors and officers liability insurance (D&O), in order to protect all its executives against legal actions that may arise from financial loss caused to third parties.

There are no pending legal proceedings, involving either board members or executive officers that could prevent any of these from carrying out their duties.

##### **Board of Directors**

Pursuant to Sadia's By-laws, the board of directors is composed of a minimum of seven to a maximum of eleven members, all of them necessarily being shareholders and shall adopt an Internal Regulation to govern its own activities.

#### **G. Safe Harbor**

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In the annual shareholder's meeting, held on April 17, 2008 the new board members were elected. The board of directors is composed of eleven members. Certain members of the board are related. Mr. Eduardo Fontana d'Ávila, Mrs. Diva Helena Furlan, and Mr. Walter Fontana are cousins.

<b>Name</b>	<b>Birth Date</b>	<b>Position</b>
Walter Fontana Filho	7/12/1953	Chairman
Eduardo Fontana d'Ávila	2/28/1954	Vice Chairman
Cassio Casseb Lima	8/8/1955	Member
Diva Helena Furlan	6/29/1949	Member
Everaldo Nigro dos Santos	12/7/1939	Member
Francisco Silverio Morales Cespede	6/21/1947	Member
José Marcos Konder Comparato	9/27/1932	Member
Luiza Helena Trajano Inácio Rodrigues	9/10/1948	Member

Norberto Fatio	7/4/1944	Member
Roberto Faldini	9/6/1948	Member
Vicente Falconi Campos	9/30/1940	Member

*Walter Fontana Filho.* Mr. Fontana Filho has been the Chairman of the board of directors since 2005. He was Chief Executive Officer of Sadia from 1994 to 2005, with previous experience as Commercial Vice President Director and Domestic Commercial Director. Mr. Fontana holds undergraduate and graduate degrees in Economics from Pontificia Universidade Católica, with a specialization in Business Marketing from Fundação Getúlio Vargas.

*Eduardo Fontana d Avila.* Mr. Fontana d Avila is the Vice-Chairman of the board of directors. He was Industrial Director until 2005. He joined the Company in 1977 and had always worked in the industrial production department. Mr. D'Ávila holds undergraduate degree in Engineering from Mackenzie University and a graduate degree in Business Administration from Fundação Getúlio Vargas.

*Cássio Casseb Lima.* Mr. Lima has been a member of the board of directors since April 2008. He graduated in Engineering from Escola Politécnica da Universidade de São Paulo (1978), he started his career at Bank Boston. He also worked for Banco Francês & Brasileiro (Credit Lyonnais) as Account Officer, Financial Director in Brazil and Commercial Director for the Northwestern Region. He served as Financial Vice President at Banco Mantrust SRL (a joint venture of Manufacturers Hannover with local professionals) and at Citibank (Treasurer). He was a Member of the Boards of ANDIMA – the National Association of Financial Market Institutions and of IBCB – the Brazilian Institution of Banking Science. He also served as president of Credicard S.A.(1997); member of the Board of Directors of MasterCard, Vicunha, Banco Fibra and Solpart (Brasil Telecom); Advisor to Telecom Italy in Brazil and a Consultant on industrial, corporate and financial restructuring and strategy. In 2003 he was appointed President of Banco do Brasil S.A. He was also a member of the Boards of Brasilprev, Aliança do Brasil, Localiza S.A. and of the Strategic Board of Corporate Governance of the American Chamber of Commerce – AMCHAM. At present, he is a Member of the Coca-Cola Retail Research Board and an Advisor to the Board of Principal Financial Group.

*Diva Helena Furlan.* Mrs. Furlan has been a member of the board of directors since April 2007. She was the Marketing Director of Baccos Comercial e Importadora Escocia Ltda. In addition, she was the Vice-President of Associação Comercial de São Paulo from 2003 to 2006. Mrs. Furlan holds an undergraduate degree in law from Pontificia Universidade Católica São Paulo -PUC-SP.

*Everaldo Nigro dos Santos.* Mr. Nigro dos Santos has been a member of the board of directors since 2004. He spent his career at Alcan Latin America where he was Chief Executive Officer of Alcan Mexico, Alcan Brasil and Alcan Latin America. Mr. Nigro dos Santos holds an undergraduate degree in engineering from Universidade Mackenzie and an MBA from the Centre d'Études Industrielles.

*Francisco Silverio Morales Cespede.* Mr. Morales Cespede has been a member of the board of directors since 2004. He is also the Chief Financial Officer of São Paulo Alpargatas S.A., a member of the board of Tavex Algodonera S.A. and

former Chief Financial Officer and member of the board of directors of Monsanto do Brasil. Mr. Morales Céspedes holds an undergraduate and graduate degree in Business Administration from Fundação Getúlio Vargas.

*Jose Marcos Konder Comparato. Mr. Comparato has been a member of the board of directors since 2006. Chairman of the Fiscal Committee of Itaúsa Investimentos Itaú S.A., former Executive Director of Banco Itaú S.A. and former Chief Executive Officer of Itaúsa Empreendimentos S.A.. Mr. Comparato holds an undergraduate degree in Civil Engineering from Escola Politecnica - Universidade de São Paulo.*

*Luiza Helena Trajano Inácio Rodrigues. Mrs. Rodrigues has been a member of the board of directors since 2006. She is CEO of Magazine Luiza and member of the board of Grupo Algar. She holds an undergraduate degree in Business Administration and Law from Faculdade de Direito de Franca.*

*Norberto Fatio. Mr. Fatio has been a member of the board of directors since 2004. He has commercial and marketing executive experience at Unilever, Danone, Bunge Alimentos, Kibon, Fleischmann Royal Nabisco and Sé Supermercados. Mr. Fatio received his undergraduate degree in Business Administration from Fundação Getúlio Vargas.*

*Roberto Faldini.* Graduated in Business Administration from EASP-FGV (1972), with specialization in Advanced Management from Fundação Dom Cabral and INSEAD and in Entrepreneurship from Babson College. He is a co-founder and associated member of IBGC – the Brazilian Institute of Corporate Governance, of IBEF – the Brazilian Institute of Finance Executives, of IEF – the Institute of Family-Owned Companies and of FBN – the Family Business Network. He participates in Amcham-SP Corporate Governance and Business Committees. He was a shareholder of the controlling group, an Executive Director and a member of the Board of Directors of Metal Leve S.A. and President of CVM – the Brazilian Securities and Exchange Commission. Presently, he is the Managing Partner of Faldini Participações, Adm. e Investimentos Ltda. and Member of the Boards of Directors and Advisory Councils of: Inpar S.A.; KlicKNet S.A.; Construtora Tedesco Ltda.; Grupo Cegil; Emibra Ind. Gráficas and Director of the Fundação Cultural Ema Gordon Klabin; VentureCorp and of Endeavor Brazil.

*Vicente Falconi Campos.* Mr. Falconi Campos has been a member of the board of directors since 2002. Founding partner of the Institute of Managerial Development (INDG). He was a consultant to the Brazilian government on the Energy Crisis Committee and is a member of the Board of AmBev. Mr. Falconi Campos holds an undergraduate degree in engineering from Universidade Federal de Minas Gerais and a PhD from Colorado School of Mines.

#### Executive Officers

The Company's management team consists of professionals with extensive experience in the Brazilian food sector. There are currently no members of the founding family serving in executive capacities. The executive officers are responsible for the execution of decisions of the board of directors and day-to-day management of the Company. Below is a short résumé of the key members of Sadia's executive management team on April 2008:

<b>Name</b>	<b>Birth Date</b>	<b>Position</b>
Gilberto Tomazoni	8/28/1958	Chief Executive Officer
Adriano Lima Ferreira	11/28/1969	Finance Director
Alexandre de Campos	9/22/1970	International Sales Director
Alfredo Felipe da Luz Sobrinho	8/31/1945	Corporate Relations and Legal Affairs Director
Antonio Paulo Lazzaretti	7/24/1947	Production and Products Technology
Amaury Magalhães Maciel Filho	05/06/1964	Agribusiness Operations Director
Eduardo Nunes de Noronha	7/29/1971	Human Resources and Management Director
Ernest Sícoli Petty	7/4/1968	Purchasing Director
Flávio Luis Fávero	12/11/1963	Regional Production Director
Gilberto Meirelles Xandó Baptista	8/24/1965	International Sales Director
Guillermo Henderson Larrobla	3/11/1956	International Sales Director
Hélio Rubens Mendes dos Santos Junior	06/28/1963	Industrial Technology Director

José Augusto Lima de Sá	6/14/1953	International Relations Director
Osório Dal Bello	7/1/1956	Agribusiness Technology Director
Paulo Francisco Alexandre Striker	10/23/1954	Logistics Director
Ralf Piper	09/18/1968	Quality Control Director
Ricardo Fernando Thomas Fernandez	10/25/1963	Grain Purchase Director
Roberto Banfi	2/21/1947	International Sales Director
Ronaldo Kobarg Müller	11/11/1959	Regional Production Director
Sérgio Carvalho Mandin Fonseca	9/12/1957	Commercial Brazil Director
Valmor Savoldi	1/28/1954	Integrated Operations and Planning Director
Welson Teixeira Junior	2/22/1957	Controller, Administrative and Information Technology Director and Investor Relations Director

*Gilberto Tomazoni.* Mr. Tomazoni is the Chief Executive Officer. His previous experience within the Company includes industrial, sales (local and foreign markets) and marketing areas. Mr. Tomazoni holds an undergraduate degree in Engineering from Universidade Federal de Santa Catarina and a graduate degree in Management Development from Fundação de Ensino do Desenvolvimento.

*Adriano Lima Ferreira.* Mr. Ferreira is the Finance Director. He was previously Finance Manager at Sadia. He has also worked for Atento Telecomunicaciones - Telefonica in Spain, CCR - Odebrecht and Lehman Brothers in New York. He holds an undergraduate degree in Economics from Faculdade Católica de Ciências Econômicas da Bahia and a graduate degree in Finance from Fundação Getúlio Vargas.

*Alexandre de Campos.* Mr. Campos is the International Sales Director. He has previous experience with foreign trade at General Electric and Perdigão. Mr. Campos holds an undergraduate degree in Business Administration from Faculdades Tibiriçá and a graduate degree in Marketing from Escola Superior de Propaganda e Marketing.

*Alfredo Felipe da Luz Sobrinho.* Mr. da Luz Sobrinho is the Corporate Relations and Legal Affairs Director. He previously was a member of the board of directors and was Vice President of Marketing, Sales and Services of Transbrasil. Mr. da Luz Sobrinho was former President of ABIPECS and President of the Atílio Francisco Xavier Fontana Foundation. He holds an undergraduate degree in Law from Centro de Ensino Universidade Brasília.

*Amaury Magalhães Maciel Filho.* Mr. Maciel is the Agribusiness Operations Director. He graduated at Universidade do Paraná in 1985, as Veterinary Doctor. He is specialized in Rural Administration. Admitted to Sadia in 1985 as Veterinary Doctor, from 1990 to 1993 he held the position of Head of the Swine Breeder Farms and from 1993 to 1997, he was appointed Head of the Agricultural Production Department. In 1997, he assumed the position of Swine Production Manager and, in 1999, the position of Poultry Production Manager in Dois Vizinhos, becoming the Unit Leader. From 2002 to 2004, he was appointed to the position of Pork Production Manager and he became the Leader of Toledo Unit. In 2004, he was appointed General Production Manager. In 2007, he took on responsibility for a Strategic Project of the Company and, in October, he assumed the Division of Agricultural Operations.



*Antonio Paulo Lazzaretti.* Mr. Lazzaretti is the Production and Products Technology Director. He was the former industrial director and manager for the Company. He previously worked for Renner Hermann. Mr. Lazzaretti holds an undergraduate degree in Chemical Engineering from the Universidade Federal do Rio Grande do Sul, with a specialization in Business Administration from Fundação Candido Mendes.

*Eduardo Nunes de Noronha.* Mr. Noronha is Sadia's Human Resources and Management Director. He previously worked for Coca Cola, AMBEV and Delphi Automotive Systems. Mr. Noronha holds an undergraduate degree in Mechanical Engineering from Universidade Federal de Minas Gerais and a graduate degree in Quality Engineering from Pontifícia Universidade Católica de Minas Gerais.

*Ernest Sícoli Petty.* Mr. Sícoli Petty is the Purchasing Director. He has previous experience in the food and agribusiness sectors at Pepsico, Cargill and Seara. Mr. Sícoli Petty holds an undergraduate degree in Agriculture Engineering from Universidade de São Paulo and an Executive MBA in Business Administration from BSP/University of Toronto.

*Flávio Luis Fávero.* Mr. Fávero is the Regional Production Director. He has previous experience within the Company as Total Quality Coordinator and Production Manager. Mr. Fávero holds an undergraduate degree in Chemical Engineering from the Universidade do Sul and a graduate degree in Management Development from Universidade de Santa Catarina.

*Gilberto Meirelles Xandó Baptista.* Mr. Xandó Baptista is International Sales Director. He is the former Commercial - Domestic Market Director and Marketing Director with experience in the controlling, sales and marketing areas. Mr. Xandó Baptista holds an undergraduate degree in Business Administration from Getúlio Vargas Foundation, with a specialization in Business Administration from CEAG-FGV and Universidade de São Paulo.

*Guillermo Henderson Larrobla.* Mr. Henderson Larrobla is the International Sales Director. He has previous experience with Seara Alimentos (Bunge Group). Mr. Henderson Larrobla holds an undergraduate degree in Mechanical Engineering from Universidade Federal do Rio Grande do Sul and a Marketing Management specialization from Universidade de Blumenau.

*Hélio Rubens Mendes dos Santos Junior.* Mr. dos Santos is the Industrial Technology Director. He graduated at Universidade de Rio Grande in 1985, as a Food Engineer. He is also a Chemical Engineer. He attended to an MBA in Corporate Management, Unicamp, in 2005. Admitted to Sadia in 1988, as Food Engineer and in 1991, he was appointed to the position of Production Supervisor. From 1993 to 1997, he was the Head of the Production Department in Chapecó-SC. In 2005, he assumed the Management of the Duque de Caxias-RJ Unit. In 2007, he was relocated to Concórdia, where he assumed a Strategic Project and in October he was elected Technology Director (R&D).

*José Augusto Lima de Sá.* Mr. Lima de Sá is the International Relations Director. He has experience of more than 20 years in foreign trade. He is the former Chief Executive Officer and Chairman of Frangosul. Mr. Lima de Sá holds an undergraduate degree in Business Administration from Fundação Getúlio Vargas with extension courses at Harvard and Wharton business schools.

*Osório Dal Bello.* Mr. Dal Bello is the Agribusiness Technology Director. He has worked for Sadia in the agricultural department since 1980. Mr. Dal Bello holds an undergraduate degree in Agribusiness from Universidade Federal de Santa Maria - RS and a specialization in Business Administration from Fundação Educacional Unificada do Oeste de Santa Catarina.

*Paulo Francisco Alexandre Striker.* Mr Striker is the Logistics Director. He is the former trade marketing manager and brand management/ strategic planning manager. Mr. Striker holds an undergraduate degree in Business Administration and Civil Engineering from Universidade Mackenzie and a specialization in Business Administration from JUSE Institute (Japan) and Fundação Dom Cabral.

*Ralf Piper.* Mr. Piper is the Quality Control Director. He graduated at Universidade Federal do Paraná in 1991, as a Veterinary Doctor. He also has the following titles/courses: Master in Production Engineering, Universidade Federal de Santa Catarina, 2004; specialization in Managerial Development, Unioeste, in 1993; Refresher Course in Administration in 1997; MBA in 2000 and Sadia MBA in 2004. He joined Sadia in 1991, in Toledo, as a Veterinary Doctor. In 1995, he was relocated to Frederico Westphalen, to the position of Departmental Head of the Pork Packing Plant, position occupied from 1996 to 1998. In 1999, he assumed the position of Production Manager of the Poultry Production in Toledo; from 2004 to 2007, he occupied the positions of Functional Integration Manager, Planning Manager and Manager of Worldwide Poultry Processed Products. In October 2007, he assumed the current position.

*Ricardo Fernando Thomas Fernandez.* Mr. Thomas Fernandez is the Grain Purchase Director. He has experience in grains and supply areas. Mr. Thomas Fernandez holds an undergraduate degree in business administration from Universidade do Oeste de Santa Catarina and specialization in enterprise management at Fundação Dom Cabral.

*Roberto Banfi.* Mr. Banfi is the International Sales Director. He has previous experience includes working for Bonfiglioli - Cica, Cicatrade and Swift Armour as Director and served as Marketing Manager and Coordinator for Mercosur in the sales area of RMB-Refinações de Milho do Brasil. Mr. Banfi holds an undergraduate degree in Accounting from H.E.C. Lausanne and an MBA from Stanford Business School.

*Ronaldo Kobarg Müller.* Mr. Müller is the Regional Production Director. He has experience within the Company as Total Quality Coordinator and Production Manager. Mr. Müller holds an undergraduate degree in Chemical Engineering from Fundação Educacional da Região de Blumenau and a graduate degree in Management Development from Universidade Federal de Santa Catarina.

*Sérgio Carvalho Mandin Fonseca.* Mr. Mandin Fonseca is the Commercial Brazil Director. He was the former retail director at the Martins Distribution company and has experience at La Fonte Metalurgy and Souza Cruz Cigarette company. Mr. Mandin Fonseca holds an undergraduate degree in Production Engineering from Universidade de São Paulo and an MBA from the University of California

*Valmor Savoldi.* Mr Savoldi is the Integrated Operations and Planning Director. He has former experience within the Company including the areas of agriculture, production, poultry and pork processing, total quality and sales. Mr. Savoldi holds an undergraduate degree in Agricultural Engineering and a specialization in Management Development from Universidade Federal de Santa Catarina.

*Wilson Teixeira Junior.* Mr. Teixeira is the Controller, Administrative and Information Technology Director as well as Investor Relations Director. He previously was the Planning Director and Financial and Investor Relations Director at Empresa Brasileira de Compressores - Embraco/Whirlpool Corporation. Mr. Teixeira holds an undergraduate degree in Economics from Fundação Armando Alvares Penteado and specialization in Finance Administration form Fundação Getúlio Vargas, PGA - Advanced Management Program (INSEAD, France) and Strategic Management Program (IMD, Switzerland).

## **B. Compensation**

For the year ended December 31, 2007, the aggregate compensation paid by Sadia to all members of the board of directors and executive officers for services in all areas was approximately R\$16.4 million, not including related taxes or social security contributions. For the years ended December 31, 2006 and 2005 the amount paid was approximately R\$14.0 million and R\$13.7 million, respectively.

The Company has also granted health assistance and life insurance as benefits to its executive officers.

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For the year 2003, the Company developed a variable compensation program for officers and management aiming to consolidate several challenging targets. This program, called GVS (Sadia Value Generation), uses value generation metrics considering, among other things, cost reduction, expense containment and revenue growth. The amount paid to each participant depends on the extent to which his performance indicators have been achieved. In the event of the termination of the mandate of a director or an executive officer, they are entitled only to statutory employment benefits under applicable law, without any special severance.

The Company sponsors a defined benefit pension plan that offers supplementary retirement benefits to the employees, through Atílio Francisco Xavier Fontana Foundation. The pension benefit is generally defined as the difference between (i) the retiree's average salary during the last 12 months indexed to the date of retirement until the limit of 80% of the last salary, and (ii) the value of the retirement pension paid by the Brazilian social security system. For retired employees the initial pension payment is subsequently adjusted upwards to recognize cost of living increases. The Company provides for the costs of pension benefits based on a fixed percentage of remuneration, as recommended annually by independent actuaries. The accumulated benefit obligation related to this pension plan were R\$799,627 thousand and R\$686,175 thousand at December 31, 2007 and 2006, respectively. The Company expects to contribute approximately R\$2,105 thousand to the plan during fiscal year 2007.

The Company also provides for other retirement benefits to its employees and certain employee executives. Such benefit plans generally provide benefits payable as a single lump sum to eligible employees upon retirement. The Company intends to fund these benefits from its operations. The aggregate projected benefit obligation and the aggregate accumulated benefit obligation related to those

other retirement benefit were R\$66,229 thousand and R\$52,702 thousand respectively, at December 31, 2007 and R\$63,509 thousand and R\$57,244 thousand respectively, at December 31, 2006.

#### *Stock Option Plan*

In the Ordinary and Extraordinary General Meeting of April 29, 2005 the stock option plan was approved for the Company's officers. The plan comprises nominative preferred shares issued by the Company.

The price for exercising the options does not include any discount and will be based on the average price of the shares in the last three trading days on the São Paulo Stock Exchange prior to the grant date, updated by the accumulated National Consumer Price Index (INPC) between the grant date and the date of exercise. There is a three year vesting period as from the option grant date. The participants will be able to fully or partially exercise their right up to 2 years after the vesting period.

Under the plan regulations, the preferred shares will be acquired and earmarked in treasury for this sole purpose.

The composition of the options granted is presented as follows:

Cycle	Grant	Date Expiration	Quantity of Shares	Grant date	Price of shares	
						Update-INPC At 12/31/2008
2005	06/24/05	06/24/10	2.200.000	4.55		5.00
2006	09/26/06	09/26/11	3.520.000	5.68		6.06
2007	09/27/07	09/27/10	5.000.000	10.03		10.23

Considering the provisions of SFAS 123R, as the option price contains an inflation index (INPC) that is considered an other condition, the fair value of the option in the amount of R\$14,763 thousand (R\$3,324 thousand in 2006) has been classified in stock option, non-current liability and the compensation expense as general and administration expense. Compensation expense is charge to profit and loss on straight line basis over the vesting period of the options. The compensation expense amount to R\$12,788 thousand in 2007, R\$2,930 thousand in 2006 and R\$678 thousand in 2005.

#### **C. Board Practices**

Sadia's Board of Directors established committees to support it in the decision making process. These are made up exclusively of members of the Board, in charge of ensure quality in checking relevant information related to the Company's business and developing long-term strategies, as well as analyzing and providing specific recommendations to each department.

**Audit Committee**

In compliance with the requirements of the Sarbanes-Oxley Act and the rules of the New York Stock Exchange, this committee oversees financial reporting processes and compliance with corporate law, as well as supervising external and in-house auditors to guarantee independence. The committee is made up of members of the Board of Directors, one of which is necessarily a financial expert. All voting members of the audit committee satisfy the audit committee membership independence requirements set forth by the SEC and the NYSE. Francisco Silverio Morales Cespede has been determined by the board to be the audit committee financial expert within the meaning of the rules adopted by the SEC relating to the disclosure of financial experts on audit committees in periodic filings pursuant to the U.S. Securities Exchange Act of 1934.

Members in 2007: Francisco Silvério Morales Céspedes (coordinator), José Marcos Konder Comparato and Alcides Lopes Tápias.

#### **Tax Planning Committee**

This committee is responsible to identify cost reduction opportunities through the evaluation of the tax regulations, its changes and impacts on the Company's operations.

Members in 2007: Francisco Silverio Morales Cespede (coordinator), Diva Helena Furlan, José Marcos Konder Comparato and Alcides Lopes Tápias.

#### **Ethics Committee**

The Ethics Committee is comprised of members of the Board of Directors and Company managers, and is in charge of periodically reviewing the Company's Code of Ethics; analyzing reports on violations of the Code of Ethics forwarded to it by the Ethics and Conduct Commission; examining most serious cases of violations of the Code of Ethics, and submitting it to the Board of Directors for decision; and deliberating on questions regarding the interpretation of the Code of Ethics text, as well as potential ethical dilemmas.

Members in 2007: Francisco Silverio Morales Cespede (coordinator), Diva Helena Furlan, José Marcos Konder Comparato and Alcides Lopes Tápias.

#### **Human Resources**

This committee directs the strategic planning in personnel management and Sadia's compensation policy. Its main responsibilities include: evaluating the performance of the executive team; developing training and hiring programs; salary policies, including variable compensation (bonus linked to results and professional performance); and handling the succession process for the senior levels of management.

Members in 2007: Eduardo Fontana d'Avila (coordinator), Vicente Falconi Campos, Luiza Helena Trajano Inácio Rodrigues and Norberto Fatio.

#### **Finance and Investor Relations Committee**

This committee directs the Company's financial strategy and proposes medium and long-term solutions, pursuing the best practices in this area. It directs and develops hedging, project finance and capital markets policies, and proposes the directives for the Company's cash management.



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Members in 2007: Alcides Lopes Tápias (coordinator), Walter Fontana Filho, Everaldo Nigro dos Santos and Marcelo Fontana.

### **Strategy Committee**

This committee focuses on market strategies, aims to strengthen the Company and make it more flexible and agile in taking decisions, in order to grow in a sustainable manner and continue with its international expansion process.

Members in 2007: Everaldo Nigro dos Santos (coordinator), Walter Fontana Filho, Eduardo Fontana d Avila and Vicente Falconi Campos.

### **Sustainability and Environment Committee**

This committee proposes directives and spreads the strategic concept of Sustainability and accompanies the Company's environmental performance.

Members in 2007: Walter Fontana Filho (coordinator), Eduardo Fontana d Avila, Diva Helena Furlan and Norberto Fatio.

#### **D. Employees**

At December 31, 2007, 2006 and 2005 the Company had, respectively, 52,422, 47,506 and 45,381 employees.

Sadia possesses an employee Profit-Sharing Program which benefited more than 36,064 employees in 2007. The total distributed under the program was R\$ 33.6 million or R\$ 931.33 per year/employee. The Profit-Sharing Program was established through negotiations with the employee commission, in accordance with applicable legislation.

Of the benefits offered to employees, some of the most noteworthy include part-time and, at some plants, full-time daycare through a network of accredited, private providers; family health plan; funeral assistance; dental and medical care; loans; private pension plan; and discounts on Company products.

#### **E. Share Ownership**

On March 31, 2007 the board members and executive directors of the Company (excluding those that are part of the shareholders' agreement) held, as a group, 12,472 common shares and 10,477,937 preferred shares, corresponding to 0.0% and 3.4% of the amount of outstanding shares of each class, respectively.

For more details on ownership and any relationship among major shareholders, see Item 7. Major Shareholders.

### **ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS**

#### **A. Major Shareholders**

##### **Share Position**

Sadia has two types of shares, common and preferred, of which only the common shares carry voting rights. The Company's major shareholders do not have different voting rights.

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The following tables contain certain information as of March 31, 2008 with respect to (i) any person known to the Company to be the beneficial owner of more than 5% of the Company's outstanding shares of voting common shares, (ii) any person known to the Company to be the beneficial owner of more than 5% of the Company's outstanding shares of preferred shares and (iii) the total number of the Company's voting common shares and preferred shares owned by the executive officers and directors of the Company as a group.

Shareholders	Common Shares	%	Preferred Shares	%	Total	%
Old Participações Ltda	26,721,658	10.40%		0.00%	26,721,658	3.91%
Sunflower Participações S.A.	36,288,959	14.12%		0.00%	36,288,959	5.31%
Other shareholders (*)	134,782,937	52.44%	20,101,797	4.72%	154,884,734	22.67%
PREVI - Caixa de Prev. dos Func. do Banco do Brasil	1,199,311	0.47%	57,435,370	13.48%	58,634,681	8.58%
Dodge & Cox		0.00%	48,399,210	11.36%	48,399,210	7.09%
Other shareholders	58,007,135	22.57%	289,804,335	68.04%	347,811,470	50.92%
Treasury Stock		0.00%	10,259,288	2.41%	10,259,288	1.50%
<b>Total</b>	<b>257,000,000</b>	<b>100.00%</b>	<b>426,000,000</b>	<b>100.00%</b>	<b>683,000,000</b>	<b>100.00%</b>

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(\*) Part of the Shareholders' Agreement

*Old Participações Ltda.* is a company composed of several family members and is part of the shareholders agreement. The breakdown at March 31, 2008 is as follows:

Partners	Participation	%
Luiz Fernando Furlan	3,009,069	20.06%
Leila Maria Furlan da Silva Telles	3,005,500	20.04%
Lucila Maria Furlan	2,999,098	19.99%
Osório Henrique Furlan Júnior	2,998,493	19.99%
Diva Helena Furlan	2,987,840	19.92%
<b>TOTAL</b>	<b>15,000,000</b>	<b>100.00%</b>

*Sunflower Participações* is a company composed of several family members and is part of the shareholders agreement. The breakdown at March 31, 2008 is as follows:

Shareholders	Common Shares	%	Preferred Shares	%	Total	%
Maria Aparecida Cunha Fontana	14,084,143	38.81%	0.00%	0.00%	14,084,143	38.81%
Attilio Fontana Neto	5,716,562	15.75%	0.00%	0.00%	5,716,562	15.75%
Walter Fontana Filho	9,782,244	26.96%	0.00%	0.00%	9,782,244	26.96%
Vania Cunha Fontana	6,706,010	18.48%	0.00%	0.00%	6,706,010	18.48%
<b>TOTAL</b>	<b>36,288,959</b>	<b>100.00%</b>	<b>0.00%</b>	<b>0.00%</b>	<b>36,288,959</b>	<b>100.00%</b>

Stocks in possession of Sadia's Controllers, Board of Directors, Officers and the Fiscal Committee on March 31, 2008

	Common Shares	%	Preferred Shares	%	Total	%
Controlling shareholders	171,071,896	66.56%	20,101,797	4.72%	191,173,693	27.99%
Board of directors members (*)		0.00%	10,005,300	2.35%	10,005,300	1.46%
Officers	12,472	0.00%	472,637	0.11%	485,109	0.07%
Fiscal Committee		0.00%	528	0.00%	528	0.00%
<b>Total</b>	<b>171,084,368</b>	<b>66.6%</b>	<b>30,580,262</b>	<b>7.18%</b>	<b>201,664,630</b>	<b>29.5%</b>

(\*) Excludes shareholders who are members of the controlling group.

#### Significant changes in percentage of ownership held by major shareholders

In conformity with paragraph 1 of the article 12 of the CVM instruction 358/02, which attends to the obligation of disclosure of information about a relevant position of an individual, or group of persons, jointly acting or representing a common interest, reaching a participation that corresponds to 5.0% of one type or a class of shares .

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As of closing day of February 15, 2006 OppenheimerFunds, Inc. and its clients possessed, 10.8% of the Company's preferred shares. This participation did not affect the Company's control. In March 2007, OppenheimerFunds, Inc. and its clients possessed, 8.9% of the Company's preferred shares. In August 2007, OppenheimerFunds, Inc. and its clients possessed 5.3%. In September 2007, OppenheimerFunds, Inc. and its clients possessed less than 5% of the Company's preferred shares.

In May 17, 2006 Sadia informed that in accordance with the letter sent to the Company by Dodge & Cox that they possessed 5.4% in preferred shares in the form of ADRs and on November 16, 2006 this participation increased to 10.2%. On March 2008, this participation was 11.4% of preferred shares in the form of ADRs. This participation did not affect the Company's control.

On December 28, 2006 Sadia informed that in accordance with the letter sent to CVM by Old Participações Ltda, the shareholder Osório Henrique Furlan, on December 1st, 2006, transferred his 14,948,969 common shares to Old Participações Ltda., which from this date on consolidates 25,661,658 common shares, representing 10.0% of the Company's 257,000,000 common shares. In March 2008, Old Participações Ltda. had 10.4% of common shares.

#### **Shareholders Agreement**

Members of the family of the founder, Mr. Attilio Fontana, established a shareholders' agreement in May 1977, amended in May 2005, when it was extended until May 2010. The agreement strives to regulate the relationship between the family groups regarding the purchase and sale of shares between themselves and with third parties as well as to establish principles and rules for the exercise of block voting rights, investment policy and remuneration of capital. The agreement is reviewed every five years. Any family member who wishes to dispose of his or her shareholding must provide a right of first refusal to all parties to the shareholders' agreement.

In March 2008, the Company's shareholders' agreement was composed of 70 participants and controlled 66.6% of Sadia's voting shares.

#### **B. Related Party Transactions**

The Company has operating transactions with Sadia International and Wellax, which are both the Company's vehicles for sales outside Brazil. Wellax is also acting as a financing entity of the Company by obtaining export-financing loans from international banks and investing the proceeds in debt securities.

#### **C. Interests of Experts and Counsel**

*Not Applicable.*

### **ITEM 8. FINANCIAL INFORMATION**

#### **A. Consolidated Statements and Other Financial Information**

See Item 18. Financial Statements

#### **B. Related Party Transactions**

**Legal Proceedings**

The Company and its subsidiaries have several on going claims of a labor, civil and tax nature, resulting from its normal business activities. The respective provisions for contingencies were constituted based on the opinion of the Company's legal counsel, which considered that unfavorable outcomes are likely.

Based on management estimates, the provision for contingencies provided for, net of the respective legal deposits, as presented below, is sufficient to cover possible losses with legal proceedings.

<b>R\$ Thousand</b>	<b>2007</b>	<b>2006</b>
Tax	26,908	31,605
Civil	15,046	8,950
Labor	31,772	24,116
	73,726	64,671

***Tax litigation***

The main tax contingencies involve the following cases:

a) Withholding income tax

Provision for withholding income tax on investments of Granja Rezende amounting to R\$4,075 thousand and R\$985 thousand for other provisions.

b) State VAT (ICMS)

The Company is a defendant in several administrative cases involving ICMS, mainly in the States of São Paulo, Rio de Janeiro and Paraná totaling a probable contingency estimated at R\$12,471 thousand.

c) Other tax contingencies

Several cases related to payment of Social security contribution, PIS (Social Integration Program Tax), Import Duty and others totaling a provision of R\$9,377 thousand.

The Company has other contingencies of a tax nature in the amount of R\$903,729 thousand in December 31, 2007, which was evaluated as representing a possible loss by the legal advisors and by Company management, therefore, no provision has been recorded. These contingencies refers mainly to questions raised regarding ICMS credits in the amount of R\$297,136 thousand, IPI Credit premium, in the amount of R\$297,345 thousand, and payment of social security contributions, in the amount of R\$173,804 thousand.

***Civil litigation***

The amount provided represents principally proceedings involving claims for indemnification for losses and damages, including pain and suffering, arising from work-related accidents and consumer relations.

The Company has other civil contingencies where the claimed amount is R\$59,606 thousand, that were assessed as possible losses by the Company's legal counsel and management and therefore no provision was recorded.



*Labor claims*

There are approximately 2,205 labor claims against the Company. These claims are mainly related to overtime, and health exposure or hazard premiums, none of the amounts provided involve a significant amount on an individual basis. The total amount of such labor claims amount to R\$53,491 thousand and a provision of R\$31,772 thousand has been provided in the accompanying financial statements based on historical information and represents the Company's best estimate of the ultimate loss that will be incurred.

**Dividends and Dividend Policy**

*Payment of Dividends*

In accordance with Brazilian corporate law, the Company is required to hold an annual shareholders' meeting by April 30 of each year, during which an annual dividend will be declared. In addition, interim dividends may be declared by the board of directors. According to Brazilian corporate law, dividends must generally be paid to the holders of the relevant shares within 60 days of the date of declaration of the same dividend, unless a resolution of shareholders establishes another date of payment, which in both cases, must occur before the end of the fiscal year in which the dividend was declared. The

Company's by-laws require that an annual general shareholders' meeting be held within four months of the end of each fiscal year. At this meeting, among other things, an annual dividend may be declared by decision of the shareholders and at the recommendation of the executive officers, as approved by the board of directors. The payment of annual dividends is based on the financial Statements relating to the fiscal year ending December 31. According to the Company's by-laws, dividends will be paid to shareholders within 60 days of the date of declaration of the dividend, which must be effected before the end of the fiscal year in which the same dividend was declared. The requirement for mandatory dividends may be met through payments either in the form of dividends or of interest on shareholders' equity. The Company is not required to adjust the amount of the dividend for inflation for the period from the end of the last fiscal year to the date of declaration of the same dividend. It is therefore possible that the amount, expressed in *reals*, of the dividends paid to holders of preferred shares or common shares will be reduced due to inflation. Shareholders have up to three years from the date of payment of the dividend to demand payment of these as they relate to shares held by the same party, after which time the Company will be free from any obligation to make such payments.

Payments of cash distributions by the Company relating to the preferred shares underlying the preferred ADRs will be made in Brazilian currency to the custodian, in its capacity as representative of the depositary, which will then convert such proceeds into U.S. dollars and will then remit the same U.S. dollars to the depositary for distribution to holders of the related ADRs (See Description of American Depositary Receipts). Dividends paid to shareholders that are not Brazilian residents, including holders of preferred ADRs, are exempt from withholding of Brazilian income tax at source, except with regard to income provisioned before 1996, which is subject to retention of 15% in lieu of Brazilian taxation.

Shareholders that are not resident within Brazil must register with the Brazilian Central Bank so that the dividends resulting from sales, or other amounts, may be remitted in foreign currency outside Brazil. The preferred shares underlying the ADRs are maintained within Brazil by the custodian, which acts as agent for the depositary, which appears in the Company's register as the beneficial owner of the shares.

#### ***Notional Interest Charge Attributed to Shareholders' Equity***

Brazilian companies are permitted to pay limited additional amounts to holders of equity securities and treat such payments as an expense for Brazilian income tax purposes. The amount of any such interest payment to holders of equity securities is generally limited in respect of any particular year to (i) retained earnings for such year plus 50.0% of the pre-tax profits for such year multiplied by (ii) the *Taxa de Juros de Longo Prazo* interest rate (Long-Term Interest Rate -TJLP), which is the official rate for governmental long-term loans. The additional payment may take the form of supplemental dividends to shareholders. A 15.0% withholding tax is payable by the Company upon distribution of the notional interest amount. In 1996, the withholding tax was payable by the Company and was accrued and charged to income. In 1997, the withholding tax was paid by the Company on behalf of the shareholders. Such payments are also deductible for social contribution purposes.

Under Brazilian law, the Company is obliged to distribute to shareholders an amount sufficient to ensure that the net amount received by shareholders after payment by the Company of Brazilian withholding taxes in respect of the distribution of notional interest, is at least equal to the mandatory distribution.

#### ***Mandatory Dividends***

As established in its by-laws, Sadia is required to distribute to shareholders in lieu of dividends relative to each fiscal year ended December 31, an amount of no less than 28.0% of the distributable amount (the mandatory dividend) in any given fiscal year (an amount of which shall include any interest on shareholders' equity paid). In addition to the mandatory dividend, the board of directors may recommend the payment of dividends to shareholders from other legally available resources, according to the terms of such law. Any payment of interim dividends or

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interest on shareholders' equity will be deducted from the amount of the mandatory dividend for the same fiscal year. In accordance with Brazilian corporate law, if the board of directors decides, prior to the annual shareholders' meeting, that the payment of the mandatory dividends for the preceding fiscal year is not advisable, due to the financial condition of the Company, then there will be no requirement to pay such mandatory dividends. Such a decision must be reviewed by an audit committee, and reported to shareholders and to the CVM. If a mandatory dividend is not paid, any retained earnings must be allocated to a special reserve account. If

the Company does not incur the expected losses that led to the withholding of the mandatory dividend, then the Company will be required to pay the proper mandatory dividend.

### *Dividend Policy*

The Company currently plans to pay dividends or interest on shareholders' equity on its preferred and common shares to the amount of the distributions required in any fiscal year, subject to the determination by the board of directors that such distributions are inadvisable due to the financial condition of the Company. In accordance with its policy, the Company pays dividends twice a year, although the law does not require it to do so.

### *Dividends Distributed*

The following table sets out the gross amount of dividends paid to the Company's shareholders since 2001 in Brazilian currency and converted into U.S. dollars at the commercial exchange rate on the date of payment of the same dividends.

#### **Gross Historical Dividend Payments**

<b>Period</b>	<b>Description</b>	<b>Payment Date</b>	<b>R\$ per 1,000 Preferred Shares</b>	<b>R\$ per 1,000 Common Shares</b>	<b>US\$ per 1,000 Preferred Shares</b>	<b>US\$ per 1,000 Common Shares</b>	<b>US\$ per 100 ADRs</b>
<b>2001</b>	Interests on Equity	8/22/2001	32.40	29.40	12.84	11.65	11.00
	Interests on Equity	2/14/2002	89.29	81.18	36.82	33.48	31.33
<b>2002</b>	Dividends	8/16/2002	17.60	16.00	5.57	5.06	5.67
	Interests on Equity	2/14/2003	74.71	67.92	20.42	18.57	17.24
<b>2003</b>	Interests on Equity	2/21/2003	23.97	21.79	6.64	6.03	5.60
	Interests on Equity	8/15/2003	71.40	64.90	23.85	21.68	20.14
<b>2004</b>	Interests on Equity	2/16/2004	156.80	142.54	53.95	49.04	45.16
	Interests on Equity	8/17/2004	77.88	70.80	25.97	23.61	21.92
<b>2005</b>	Interests on Equity	2/16/2005	133.93	121.75	51.66	46.96	43.61
	Interests on Equity	3/14/2005	13.13	11.94	4.77	4.34	4.01
<b>2006</b>	Interests on Equity	8/17/2005	84.90	77.18	36.14	32.85	30.53
	Interests on Equity	2/16/2006	174.52	174.52	82.41	82.41	69.54
<b>2007</b>	Dividends	3/16/2006	39.12	39.12	18.57	18.57	18.39
	Interests on Equity	8/17/2006	73.48	73.48	34.39	34.39	28.94
<b>2008</b>	Interests on Equity	2/16/2007	101.79	101.79	48.67	48.67	41.19
	Interests on Equity	8/17/2007	87.82	87.82	178.94	178.94	24.78
<b>2009</b>	Interests on Equity	2/15/2008	144.80	144.80	254.00	254.00	82.51
	Dividends	2/15/2008	73.39	73.39	128.73	128.73	12.54

### *Calculation of Distributable Amount*

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At each annual general shareholder's meeting, the board of directors must recommend the manner of allocation of the Company's income from the preceding fiscal year. According to Brazilian corporate law, the net income of a company after deduction of income tax and social contributions relative to the same fiscal year, and net of any losses accumulated in prior fiscal years, and amounts allocated to employee and management profit-shares, will represent the net income of the Company, following (i) the deduction of amounts allocated to the constitution of the legal reserve, (ii) the deduction of amounts allocated to the constitution of other reserves, following the principles established by the Company and in accordance with the applicable legislation (as hereinafter discussed), and (iii) the increase by the reversion of reserves constituted in previous fiscal years. This net income will be available

for distribution to shareholders (thus constituting the adjusted net profit, designated here as the distributable amount) in any fiscal year.

*Legal Reserve*

According to Brazilian corporate law, the Company is required to maintain a legal reserve to which it must allocate 5.0% of its net income in each fiscal year, until the amount of this reserve is equal to 20.0% of the paid-in share capital, or until the sum of this reserve and all other capital reserves reaches 30.0% of the paid-in share capital. Net losses, if any, may be debited against the legal reserve.

*Discretionary Reserve*

According to Brazilian corporate law, the Company may decide to assign on a discretionary basis a portion of the net income to the limit established in its by-laws (with such reserves collectively designated as discretionary reserves). The Company's by-laws established a special fund for research and development to which it may allocate up to 15.0% of its net income per year, until the amount of this fund is equivalent to 10.0% of its paid-in share capital.

*Contingency Reserve*

According to Brazilian corporate law, the Company may also decide to assign a portion of the net income to a contingency reserve against likely losses in future fiscal years. Any amount thus assigned in a previous year must be (i) reversed in the fiscal year in which the loss was envisaged, if this loss does not effectively occur, or (ii) debited, if the foreseen event actually materializes. At the present time, Sadia has no contingency reserve. There are no clearly defined rules on the extension of the future period for which a loss may be foreseen for the purposes of constituting a contingency reserve. Its determination thus depends on circumstances and the nature of each particular event, and will be decided at the discretion of the board of directors.

*Investment Project Reserve*

According to Brazilian corporate law, a portion of the net income may also be assigned for any discretionary appropriations for plant expansions or any other investment projects, the amount of which is based on the capital budget previously presented by management and approved by shareholders. Following the conclusion of the corresponding investment projects, the Company may withhold the relevant appropriation until the shareholders vote to transfer all or part of the capital reserve or retained earnings. The Company's by-laws effective as of March 31, 2000, contains provisions for a special expansion reserve, to which at least 15.0% and at most 60.0% of the net income (formerly 5.0% and 15.0%, respectively) must be allocated each year, until the amount of this reserve is equivalent to 70.0% of its paid-in share capital (from former 30.0%).

*Unrealized Income Reserve*

According to Brazilian corporate law, if the amount of unrealized income (according to the definition below) in any fiscal year exceeds the allocated amount (i) of the legal reserve, (ii) of the discretionary reserves, (iii) of the contingency reserve and (iv) of the investment project reserve, the excess amount may be allocated to an unrealized income reserve. Unrealized income in any fiscal year will represent the sum (i) of monetary correction of the balance sheet (until 1995) during the fiscal year, (ii) income from subsidiaries or associated companies for the fiscal year in question, (iii) income from installment sales to be received after the end of the subsequent fiscal year.

*Fiscal Incentive Investment Reserve*

According to the terms of Brazilian tax legislation, a portion of net income may also be assigned to a fiscal incentive investment reserve for amounts corresponding to the Company's income tax deductions generated by credits for certain investments that are approved by the government. The reserve

may only be used to acquire shares in companies that are developing specific projects that are approved by the government.

Brazilian corporate law states that all discretionary allocations of net income including discretionary reserves, the contingency reserve, the unrealized income reserve and the investment project reserve, will be subject to approval by shareholders at the annual meeting, and may be transferred to the Company's capital or used to pay dividends in subsequent fiscal years. The fiscal incentive investment reserve and the legal reserve are also subject to approval by shareholders at the annual meeting and may be transferred to the Company's capital, but may not be used to pay dividends in subsequent fiscal years.

The calculation of the net income of the Company, and the allocations to reserves in any fiscal year, are determined on the basis of financial statements prepared in accordance with Brazilian corporate law and Brazilian GAAP, which differs from the financial statements prepared in accordance with United States generally accepted accounting principles. The financial statements presented herein were prepared in accordance with U.S. GAAP, and while the allocations to reserves and the dividends are reflected in these consolidated financial statements, investors will not be able to calculate the amounts of these allocations, or of dividends due, on the basis of the same consolidated financial statements.

## **B. Significant Changes**

Published on December 28, 2007, Law No. 11,638/07 has brought a series of alterations to Brazil's Law of Corporations (Law No. 6,404/76), especially in what concerns the accounting control systems for activities undertaken by corporations. The main innovation brought is the substitution of the Statement of Origin and Utilization of Resources ( DOAR ) to the Statement of Cash Flows ( DFC ).

Additionally, the new legislation has brought new criteria in the evaluation of assets and liabilities in an attempt to update the accounting control within the reality of the market. Of all the alterations, one is worthy of particular attention. Those elements of the assets and liabilities arising from long term operations should be adjusted to the current value.

## **ITEM 9. THE OFFER AND LISTING**

### **A. Offer and listing details**

On December 31, 2007, the Company's share capital consisted of 257,000,000 common shares and 426,000,000 preferred shares.

Both types of the Company's shares are registered shares and are publicly traded in Brazil on the São Paulo Stock Exchange since 1971, under the ticker symbols SDIA3 and SDIA4.



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In June 2001, the Company adhered to the Level 1 of Corporate Governance Requirements in Bovespa, certifying its commitment to transparency and fair disclosure of information.

To become a Level 1 company, an issuer must agree to:

- ensure that shares of the issuer representing 25% of its total capital are effectively available for trading;
- adopt offering procedures that favor widespread ownership of shares whenever making a public offering;
- comply with minimum quarterly disclosure standards;
- comply with the disclosure of shareholders agreement and stock options programs;
- provide an annual calendar with corporate events
- provide cash flow statements
- follow stricter disclosure policies with respect to transactions made by controlling shareholders, directors and officers involving securities issued by the issuer;

In April 2001, the Company listed its American Depositary Receipts (ADRs) program on the New York Stock Exchange, providing investors an alternate channel to buy its stocks. On February 6, 2008, the ratio changed from the former one ADR to 10 preferred shares to the new ratio of one ADR to 3 preferred shares.

The Company's preferred shares are also traded on the LATIBEX, under the ticker symbol XSDI since November 2004. The LATIBEX is an electronic market created in 1999 by the Madrid stock exchange in order to enable trading of Latin American equity securities in euro denomination.

In September 2005, due to the improved liquidity of its preferred shares, Sadia became the first company in its segment to be part of the theoretical portfolio of the São Paulo Stock Exchange Index (IBOVESPA).

In December 2005, Sadia granted its preferred shareholders the right to be included in a public offering resulting from an eventual change of Sadia's control (tag along rights), and thus entitle their holders to receive a price equal to 80% of the amount paid per common share that is an integral part of the control block. We also eliminated the right to a dividend, per preferred share, 10.0% higher than that of each common share.

In 2007, the company was listed in the BOVESPA Corporate Sustainability Index (ISE) as one of the 32 publicly-held companies with the best performance in corporate Sustainability practices.

In 2007, the Company's preferred shares had a daily average financial volume of R\$18.7 million, which represented a 27.2% increase as compared to the 2006 financial volume.

In 2007, Sadia's ADRs had a daily average financial volume of US\$8.4 million while in 2006, Sadia's ADRs had a daily average financial volume of US\$5.2 million. The number of shares traded in NYSE represented 21.1% of the total number of Sadia's preferred shares traded from 16.3% in 2006.

## Price Information

The tables below present, for the indicated periods, the minimum and maximum prices for the preferred shares on Bovespa in Brazilian *reais*.

	Preferred Share Price (R\$ per Share)	
	High	Low
<b>2003</b>	3.98	1.13
<b>2004</b>	5.98	3.56
<b>2005</b>	6.9	3.56
<b>2006</b>	7.6	5.18
<b>2007</b>	12.00	6.40

Source: *Economática*

	Preferred Share Price (R\$ per Share)	
	High	Low
<b>2006</b>		
First Quarter	7.6	5.64
Second Quarter	6.52	5.18
Third Quarter	6.28	5.27
Fourth Quarter	7.49	6.05
<b>2007</b>		
First Quarter	8.27	6.40
Second Quarter	10.00	7.60
Third Quarter	10.43	8.00
Fourth Quarter	12.00	9.90
<b>2008</b>		
First Quarter	11.15	8.68

Source: *Economática*

	Preferred Share Price (R\$ per Share)	
	High	Low
<b>Dec-07</b>	11.49	10.12
<b>Jan/08</b>	10.49	8.68
<b>Feb-08</b>	10.20	9.12
<b>Mar/08</b>	11.15	9.67
<b>Apr-08</b>	12.15	9.79
<b>May-08</b>	14.09	12.04

Source: Economatica

The tables below present, for the indicated periods, the minimum and maximum prices for the Sadia's ADR on the New York Stock Exchange in dollars.

	ADR Share Price (US\$ per Share)	
	High	Low
<b>2003</b>	13.92	3.18
<b>2004</b>	22.41	11.35
<b>2005</b>	30.5	14.45
<b>2006</b>	34.7	23.45
<b>2007</b>	70.26	30.43

Source: Economatica

	ADR Share Price (US\$ per Share)	
	High	Low
<b>2006</b>		
First Quarter	34.7	25.42
Second Quarter	31.2	23.45
Third Quarter	29.13	24.7
Fourth Quarter	34.54	27.85
<b>2007</b>		
First Quarter	40.45	30.43
Second Quarter	52.44	37.36
Third Quarter	56.75	39.00
Fourth Quarter	70.26	53.72
<b>2008</b>		
First Quarter (1)	64.28	49.60

Source: Economatica

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(1) Adjusted, as the rate of Preferred Shares per ADR was altered from 10 to 3 in Feb/2008



	ADR Share Price (US\$ per Share)	
	High	Low
<b>Dec/07</b>	65.02	56.28
<b>Jan/08</b>	59.78	49.6
<b>Feb/08 (1)</b>	61.05	50.59
<b>Mar/08(1)</b>	64.28	56.50
<b>Apr/08(1)</b>	72.53	58.31
<b>May/08(1)</b>	25.84	21.27

Source: *Economica*

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(1) Adjusted, as the rate of Preferred Shares per ADR was altered from 10 to 3 in Feb/2008

### Share Rights

Sadia's shares are entitled to a compulsory minimum dividend of 28.0% of the net income for the year, They shall participate equally in capital increases derived from net income and reserves, revaluation of assets and yearly capital restatement.

Only common shares are entitled to vote the resolutions of the General Shareholders Meeting.

Preferred shares do not have voting rights, but enjoy the following advantages:

- priority in the proportional, noncumulative receipt of 28.0% of the net income for the year, as minimum dividend, competing in equal terms with common shares in any dividend allocated above that percentage;
- right to be included in the public offering for the disposal of the shareholding control under the conditions set forth in art. 254-A, with the wording given by Law 10303, dated October 31, 2001, which guarantees a price at least equal to 80.0% of the amount paid per common share of the integral part of the control block;
- priority in capital reimbursement in case of liquidation of the Company.

Preferred shares may acquire voting rights if the Company fails to pay, for at least three consecutive years, the minimum dividend to which they are entitled and such right shall continue up to the payment of the first next dividend.

### **Restrictions on Foreign Investment**

According to Sadia's Bylaws, 51.0% of the voting capital of the Company must be held by Brazilian citizens. The right to convert dividend payments and proceeds from the sale of preferred shares into foreign currency and to remit such amounts outside Brazil is subject to exchange control restrictions and foreign investment legislation which generally are subject to several mechanisms that permits a foreign investor to trade directly in Bovespa.

Until March 2000, this mechanism was known as the Annex IV Regulations, in a reference to Annex IV of Resolution No. 1,289 of the National Monetary Council (the Annex IV Regulations). Currently, this mechanism is regulated by Resolution No. 2,689, of January 26, 2000, of the National Monetary Council and by Instruction No. 325, of January 27, 2000, of the CVM, as amended (the 2,689 Regulation). The 2,689 Regulation, which became effective on March 31, 2000, sets forth new rules concerning foreign portfolio investments in Brazil.

Foreign investments registered under Annex IV Regulations had to be conformed to the 2,689 Regulation by September 30, 2000. Such rules allow foreign investors to invest in almost all of the financial assets and to engage in almost all transactions available in the Brazilian financial and capital markets, if some requirements are fulfilled.

In accordance with the 2,689 Regulation, foreign investors are individuals, legal entities, mutual funds and other collective investments resident, domiciled or headquartered abroad. The 2,689 Regulation

prohibits the offshore transfer or assignment of the title of the securities, except in the cases of (i) corporate reorganization effected abroad by a foreign investor or (ii) inheritance.

Pursuant to the 2,689 Regulation, foreign investors must: (i) appoint at least one representative in Brazil with powers to perform actions relating to the foreign investment; (ii) fill in the appropriate foreign investor registration form; (iii) obtain registration as a foreign investor with CVM; and (iv) register the foreign investment with the Central Bank.

The securities and other financial assets held by the foreign investor pursuant to the 2,689 Regulation must be registered or maintained in deposit accounts or under the custody of an entity duly licensed by the Central Bank or by the CVM or be registered in register, clearing and custody systems authorized by the Central Bank or by the CVM. In addition, securities trading is restricted to transactions carried out in exchanges or organized over-the-counter markets licensed by the CVM.

All investments made by a foreign investor under the 2,689 Regulation will be subject to an electronic registration with the Central Bank. Resolution No. 1,927 of the National Monetary Council, which is the Amended and Restated Annex V to Resolution No. 1,289 (the Annex V Regulations), provides for the issuance of depositary receipts in foreign markets in respect of shares of Brazilian issuers. The ADSs have been approved under the Annex V Regulations by the Central Bank and the CVM. Accordingly, the proceeds from the sale of the ADSs by ADR holders outside Brazil are free of Brazilian foreign investment controls and holders of the ADSs will be entitled to favorable tax treatment. According to the 2,689 Regulation, foreign investments registered under Annex V Regulations may be transferred to the new investment system created by Resolution No. 2,689 and vice-versa, with due regard to the conditions set forth by the Central Bank and by the CVM.

Payments of dividends and other cash distributions by the Company relating to the preferred shares underlying the Preferred ADRs will be made in Brazilian currency to the custodian, in its capacity as representative of the depositary, which will then convert such proceeds into U.S. dollars and will then remit such U.S. dollars to the depositary for distribution to holders of the related preferred ADSs. If the custodian is not immediately able to convert the dividends in Brazilian currency to U.S. dollars, then the holders of the preferred ADSs may be adversely affected by devaluation or other fluctuations in exchange rates, before it is possible to convert and remit these dividends. Fluctuations in the exchange rate between the *real* and the U.S. dollar may also affect the value in U.S. dollars, equivalent to the price in *reais*, of the preferred shares traded on Brazilian stock exchanges.

As of December 31, 2007 there were 4 U.S. beneficial owners of the ADSs (based on their addresses only).

## **B. Plan of Distribution**

Not Applicable.

## **C. Markets**



### **Trading on the Brazilian Stock Exchanges**

Of Brazil's stock exchanges, *Bovespa* has been the most significant in recent years.

*Bovespa* was a non-profit entity owned by its member brokerage firms until 2007 when it realized its IPO (Initial Public Offering). Trading on *Bovespa* is limited to member brokerage firms and a limited number of authorized non-members. There is also trading in the so-called after-market. Only shares that were traded during the regular trading session of the day may be traded in the after-market of the same day.

There are no specialists or market makers for the Company's shares on *Bovespa*. The CVM and *Bovespa* have discretionary authority to suspend trading in shares of a particular issuer under certain circumstances. Trading in securities listed on *Bovespa* may be effected off the exchange under certain circumstances, although such trading is very limited.

In December 2007, the aggregate market capitalization of the companies listed on *Bovespa* Index was approximately US\$ 996.4 billion.

Settlement of transactions is effected three business days after the trade date without adjustment of the purchase price for inflation. Payment for shares is made through the facilities of a separate clearinghouse, named *Companhia Brasileira de Liquidação e Custódia* (CBLC), which maintains accounts for member brokerage firms. The seller is ordinarily required to deliver the shares to the exchange on the second business day following the trade date. The CBLC is controlled by clearing agents, such as member brokerage firms and banks, and Bovespa.

According to Bovespa, international investors are allowed to hold any asset class available to domestic investors in Brazil.

According to the CMN (Brazilian Monetary Council) Resolution 2,689, since international investors are not established or resident in the country, it is necessary to hire an institution to act as:

- Legal Representative, who will be responsible to present all the registration information of the investor to the Brazilian authorities. When the representative is an individual or a non-financial corporation, the investor must indicate a financial institution duly authorized by the Central Bank that will be jointly and severally responsible for the representative's obligation.
- Fiscal Representative, who will be responsible for taxes and fiscal issues on behalf of the investor before the Brazilian Authorities.
- Custodian, who will be responsible to hold updated reports and control all the assets of the international investor in segregated accounts, and provide this information anytime it is required, to the Authorities and to the investor.

The financial assets and securities traded as well as other forms of financial applications must be registered, held in custody or maintained in deposit accounts at an appropriated authorized institution authorized by the CVM or Central Bank.

International investments in equity instruments are tax exempt on capital gains. Investments from countries that do not tax income or where tax rates are lower than 20% are taxed as domestic investors. There is no minimum permanence period requirement for the investments in Brazil.

More information can be found on the Bovespa website: [www.bovespa.com.br](http://www.bovespa.com.br).

#### **Regulation of Brazilian Securities Markets**

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The Brazilian securities markets are regulated by the CVM, which has authority over stock exchanges and the securities markets in general, and by the Brazilian Central Bank, which has, among other powers, licensing authority over brokerage firms and regulates foreign investment and foreign exchange transactions. The Brazilian securities market is governed by Law no. 6,385 dated December 7, 1976, as amended (Brazilian securities law) and the Brazilian corporate law (Law no. 6,404 dated December 15, 1976, as amended) (Brazilian corporate law).

Law 10,303 of October 31, 2001, amended Law n° 6,385/76 and Law n° 6,404/76. The most important changes were (i) the conversion of CVM into an autonomous governmental agency linked to the Ministry of Finance, with legal independence and separate assets and liabilities; (ii) the requirement of greater disclosure by listed companies; (iii) the tag-along right to minority common shareholders in the event of change in control of a listed company; (iv) the right of preferred shareholders with non-voting rights or restricted voting rights representing at least 10% of the total stock of a listed company to elect one board member and his alternate; (v) the right of the minority common shareholders to also elect one board member; and (vi) the preferred shares will only be traded in the stock market if they have at least one of the rights mentioned below: (a) priority in the receipt of dividends corresponding to at least 3% of the shares net worth based on the last approved balance sheet of the company; (b) the right to receive dividends at least 10% higher than the dividend assigned to each common share; or (c) the tag-along right in the event of change in the control of the company.

Under the Brazilian corporate law, a company is either listed, a *companhia aberta*, such as the Company, or private, a *companhia fechada*. All listed companies are registered with the CVM and are subject to reporting requirements. A company registered with the CVM may have its securities traded either on Bovespa or in the Brazilian over-the-counter markets (Brazilian OTC). The shares of a listed company, including the Company, may also be traded privately subject to certain limitations.

There are certain cases in which the disclosure of information to the CVM, Bovespa, or even to the public is required. These include (i) the direct or indirect acquisition by an investor of at least 5%

(five percent) of any class or type of shares representing the capital stock of a listed company, (ii) the sale of shares which represents the transfer of control of a listed company and (iii) the occurrence of a material event to the corporation.

CVM issued Instruction N° 361, of March 5, 2002, which regulates tender offers mainly when the following events occur: (i) delisting of public companies; (ii) increase in the equity interest by the controlling shareholder; and (iii) transfer of control of a public company.

Published on December 28, 2007, Law No. 11,638/07 has brought a series of alterations to Brazil's Law of Corporations (Law No. 6,404/76), especially in what concerns the accounting control systems for activities undertaken by corporations. Article 3 of the mentioned statute, though, extended to large companies (*Sociedades de grande porte*), even if they are not formed as corporations, the rules provided by law concerning the necessity for bookkeeping and preparation of financial statements, and the obligation to carry out independent auditing. On this point, it should be made clear that a large company is a company or group of companies under common control which have total assets during the previous financial year of over R\$240 million or gross annual income of over R\$300 million.

To be listed on Bovespa, a company must apply for registration with the CVM and Bovespa. Once this exchange has admitted a company to listing and the CVM has accepted its registration as a listed company, its securities may be traded in Bovespa, as long as the company complies with the minimum requirements of this exchange.

The Brazilian OTC consists of direct trades between individuals in which a financial institution registered with the CVM serves as intermediary. No special application, other than registration with the CVM, is necessary for securities of a listed company to be traded in the Brazilian OTC. The CVM requires that it be given notice of all trades carried out in the Brazilian OTC by the respective intermediaries.

Trading in securities on Bovespa may be suspended at the request of a company in anticipation of the announcement of a material event. Trading may also be suspended on the initiative of the exchange or the CVM, among other reasons, based on or due to a belief that a company has provided inadequate information regarding a material event or has provided inadequate responses to the inquiries by the CVM or the exchange.

The Brazilian securities markets are governed principally by Brazilian securities law, by Brazilian corporate law and by regulations issued by the CVM and the *Conselho Monetário Nacional* (National Monetary Council). These laws and regulations, among others, provide for disclosure requirements, restrictions on insider trading and price manipulation, and protection of minority shareholders.

#### **D. Selling Shareholders**

Not Applicable.

**E. Dilution**

Not Applicable.

**F. Expenses of Issue**

Not Applicable.

**ITEM 10. ADDITIONAL INFORMATION**

**A. Share capital**

Not applicable.

**B. Memorandum and Articles of Association**

The information required for this item was included in the Registration Statement on Form 20-F filed on March 17, 2001 (Commission file number 0-31072).

**C. Material Contracts**

Not applicable.

**D. Exchange Controls**

Prior to March 14, 2005, there were two principal foreign exchange markets in Brazil, in which rates were freely negotiated, but could be strongly influenced by Central Bank intervention:

- the commercial rate exchange market, which was dedicated principally to trade and financial foreign exchange transactions, such as the buying and selling of registered investments by foreign entities; and
- the floating rate exchange market that was generally used for transactions not conducted through the commercial rate exchange market.

On March 4, 2005, the National Monetary Council (Conselho Monetário Nacional) enacted Resolution No. 3,265, pursuant to which the commercial rate exchange market and the floating rate exchange market were unified into a sole exchange market, effective as of March 14, 2005. The new regulation allows, subject to certain procedures and specific regulatory provisions, the purchase and sale of foreign currency by individuals or legal entities, without limitation as to amount, provided that the underlying transaction was legal and based on valid economic grounds. Foreign currencies may only be purchased through financial institutions domiciled in Brazil and authorized to operate in the exchange market.

Between March 1995 and January 1999, the Central Bank permitted the gradual devaluation of the real against the U.S. dollar pursuant to an exchange rate policy that established a band within which the real-U.S. dollar exchange rate could float. Responding to pressure on the real, on January 13, 1999, the Central Bank widened the foreign exchange band and on January 15, 1999, allowed the real to float. As of April 17, 2007, the PTAX-800 exchange rate for purchasing U.S. dollars was R\$2.035 to US\$1.00.

The Company will make all cash distributions on Preferred Shares in reais and consequently exchange rate fluctuations may affect the U.S. dollar amounts received by the holders of Preferred ADRs on conversion by the Depositary. Fluctuations in the U.S. dollar/*real* exchange rate may also affect the U.S. dollar equivalent of the Preferred Share price in *reais* on the Brazilian stock exchanges.

#### **E. Taxation**

The following summary contains a description of the principal Brazilian and U.S. federal income tax consequences of the ownership and disposition of a preferred share and a preferred ADS. It does not purport to be a comprehensive description of all the tax considerations that may be relevant to a decision to purchase those securities. In particular, this summary deals only with holders that will hold preferred shares or preferred ADSs as capital assets and does not address the tax treatment of a holder that may be subject to special tax rules (such as tax-exempt entities, banks or other financial institutions, insurance companies, broker-dealers, traders in securities that elect to use a mark-to-market method of accounting for their securities holdings, regulated investment companies, real estate investment trusts, certain former U.S. citizens or residents, investors that will hold preferred shares or preferred ADSs as part of a straddle, hedge, conversion or constructive sale transaction or other integrated transaction for tax purposes, investors that have a functional currency other than the U.S. dollar, investors liable for alternative minimum tax, partnerships and other pass-through entities, and investors that own or are treated as owning 10.0% or more of the voting shares of the company). Each prospective purchaser of a preferred share or preferred ADS should consult his own tax advisers as to the personal tax consequences of his investment, which may vary for investors in different tax situations.

The summary is based upon tax laws of Brazil and the United States and applicable regulations, judicial decisions and administrative pronouncements as in effect on the date hereof. Those authorities are subject to change or new interpretations, possibly with retroactive effect. Although there is no income tax treaty between Brazil and the United States at this time, the tax authorities of the two countries have had discussions that may culminate in a treaty. No assurance can be given, however, as to whether or when a treaty will enter into force or how it will affect the holders of preferred shares or preferred ADSs. This summary is also based upon the representations of the depository and on the assumption that each obligation in the deposit agreement relating to the preferred ADSs and any related documents will be performed in accordance with its terms.

#### *Brazilian Tax Considerations*

The following discussion summarizes the material Brazilian tax consequences of the acquisition, ownership and disposition of preferred shares or preferred ADSs by a holder that is not domiciled in Brazil for purposes of Brazilian taxation and, in the case of a holder of preferred shares which has registered its investment in such securities with the Central Bank as a U.S. dollar investment (in each case, a non-Brazilian holder). The following discussion does not specifically address all of the Brazilian tax considerations applicable to any particular non-Brazilian holder, and each non-Brazilian holder should consult his or her own tax advisor concerning the Brazilian tax consequences of an investment in any of such securities.

#### *Taxation of Dividends*

Dividends paid with respect to income earned since January 1, 1996, including dividends paid in kind (i) to the depository in respect of the preferred shares underlying the preferred ADSs or (ii) to a non-Brazilian holder in respect of preferred shares, are not subject to any withholding tax in Brazil. The current tax legislation eliminated the then existing 15.0% withholding tax on dividends paid to companies, resident individuals or non-residents in Brazil. Accordingly, dividends with respect to profits generated on or after January 1, 1996 are not subject to withholding tax in Brazil. Dividends related to profits generated until December 31, 1993 will be subject to Brazilian withholding tax of 25.0%. Dividends related to profits generated between January 1, 1994 and December 31, 1995 will be subject to Brazilian withholding tax of 15.0%, **if distributed expenses on dividends paid as interest on equity, are neither deductible from the calculation basis of corporate income tax nor from the social contribution on income.**

#### *Taxation of Gains*

Gains realized outside Brazil, until December 31st, 2003, by a non-Brazilian holder on the disposition of Preferred ADSs to another non-Brazilian holder are not subject to Brazilian tax. From January 1st, 2004 on, investments made in permanent assets by non resident are subject to the payment of income tax over capital gains. The gain will be charged at a 15.0% or 25.0% rate if the beneficiary is a tax haven country resident or from on any jurisdiction where taxing rates are below 20.0%. The taxable capital gain is calculated on the difference from the selling value of the asset and the declared value to Brazilian Central Bank (in foreign currency) by the time of registration. As of January 1, 2005 operations of stock, mercantile and future exchange are subjected to a withholding tax at a rate of 0,005% according to Law nr. 11,033 of December 21, 2004. This value is deductible from withholding tax paid upon capital gains. Pursuant the same act stock operations held by an individual with a monthly value up to R\$ 20,000 will be exempt of the withholding tax.

The withdrawal of preferred shares in exchange for Preferred ADSs is not subject to Brazilian tax. The deposit of preferred shares in exchange for Preferred ADSs is not subject to Brazilian tax if the preferred shares are registered by the investor or its agent under the 2,689 Regulation. In the event the preferred shares are not so registered, the deposit of preferred shares in exchange for Preferred ADSs may be subject to Brazilian



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tax at the rate of 15.0% or 25.0%. On receipt of the underlying preferred shares, a non-Brazilian holder who qualifies under the 2,689 Regulation will be entitled to register the U.S. dollar value of such shares with the Central Bank as described below.

Non-Brazilian holders are subject to tax in Brazil on gains realized on sales of preferred shares that occur abroad or on the proceeds of a redemption of, or a liquidating distribution with respect to,

preferred shares. When the preferred shares are registered under the 2,689 Regulation, the non-Brazilian holder cannot transfer or assign them abroad. As a general rule, non-Brazilian holders are subject to a withholding tax imposed at a rate of 15.0% or 25.0% on gains realized on sales or exchanges of preferred shares that occur in Brazil to or with a resident of Brazil, outside of Bovespa. From January 2004, on this taxation is also applicable to gains accrued in transactions conducted by non-Brazilian holders. Non-Brazilian holders are subject to withholding tax at the rate of 20.0% on gains realized on sales or exchanges in Brazil of preferred shares that occur on Bovespa unless such sale is made under the 2,689 Regulation. Gains realized arising from transactions on Bovespa by an investor under the 2,689 Regulation are not subject to tax (except as described below). The gain realized as a result of a transaction on Bovespa is the difference between the amount in Brazilian currency realized on the sale or exchange and the acquisition cost measured in Brazilian currency, without any correction for inflation, of the shares sold. The gain realized as a result of a transaction that occurs other than on Bovespa will be the positive difference between the amount realized on the sale or exchange and the acquisition cost of the preferred shares, both such values to be taken into account in reais. There are grounds, however, to hold that the gain realized should be calculated based on the foreign currency amount registered with the Central Bank. There can be no assurance that the current preferential treatment for holders of preferred ADSs and for certain non-Brazilian holders of preferred shares under the 2,689 Regulation will continue in the future or that such treatment will not be changed in the future. As of January 1, 2000, the preferential treatment under the 2,689 Regulation is no longer applicable if the non-Brazilian holder of the preferred ADSs or preferred shares is resident of a tax haven, i.e., countries which do not impose income tax or where such tax is imposed at a rate lower than 20% in accordance with Law No. 9,959, of January 27, 2000. In other words, gains realized by such holder on the sale or exchange in Brazil that occur in the spot market of shares traded on a Brazilian stock exchange will be taxed at a rate of 20.0%. Any exercise of preemptive rights relating to the preferred shares will not be subject to Brazilian taxation. Any gain on the sale or assignment of preemptive rights relating to the preferred shares by the depositary on behalf of holders of preferred ADSs will be subject to Brazilian income taxation at the rate of 15.0% or 25.0%, unless such sale or assignment is performed within Bovespa, and with the investments registered under 2,689 Resolution or Annex V from Central Bank, in which the gains are exempt from withholding income tax. Any gain on the sale or assignment of preemptive rights relating to preferred shares, will be subject to Brazilian income tax at the same rate applicable to the sale or disposition of preferred shares. The maximum rate of such tax is currently 15.0%, except for non-resident holders domiciled in tax haven countries, where rates are 25.0%.

#### ***Notional Interest Charge Attributed to Shareholders' Equity***

Distributions of interest on equity in respect of the preferred shares as an alternative form of payment to shareholders who are either Brazilian residents or non-Brazilian residents, including holders of ADSs, are subject to Brazilian withholding tax at the rate of 15.0%. In case the non-Brazilian resident is a tax haven country resident or is under the jurisdiction of a region where tax rate is below 20.0%, he will be entitled to pay a rate of 25.0%. Since 1996, such payments have been tax deductible by the Company. Since 1997, the payments have also been deductible in determining social contributions and income tax by the Company as long as the payment of a distribution of interest is approved at the Company's general meeting. The board of directors of the Company alone may determine the distribution of interest on shareholders' equity. No assurance can be given that the board of directors of the Company will not determine that future distributions of profits be made by means of interest on shareholders' equity instead of by means of dividends.

#### ***Other Brazilian Taxes***

There are no Brazilian inheritance, gift or succession taxes applicable to the ownership, transfer or disposition of preferred shares or preferred ADSs by a non-Brazilian holder except for gift and inheritance taxes which are levied by some States of Brazil on gifts made or inheritances bestowed by individuals or entities not resident or domiciled in Brazil or domiciled within the state to individuals or entities resident or domiciled within such state in Brazil. There are no Brazilian stamps, issue, registration or similar taxes or duties payable by holders of preferred shares or preferred ADSs.

Pursuant to Decree number, 2,219 of May 2, 1997, and Ordinance no. 5 of January 21, 1999, issued by the Ministry of Finance, the amount in reais resulting from the conversion of the proceeds received by a Brazilian entity from a foreign investment in the Brazilian securities market (including those in connection with the investment in the preferred shares or preferred ADSs and those made under



Regulation nr. 2,689, which substituted Annex IV Regulations) is subject to a financial transaction tax (IOF), although at present the rate of such tax is 0.0%. The Minister of Finance is empowered to establish the applicable IOF tax rate. Under Law nr 8,894 of June 21, 1994, such IOF tax rate may be increased at any time to a maximum of 25.0%, but any such increase will only be applicable to transactions occurring after such increase becomes effective.

Pursuant to Law number, 9,311 of October 24, 1996, the Contribuição Provisória sobre Movimentação Financeira (CPMF) was levied at a rate of 0.2% on fund transfers in connection with financial transactions in Brazil. Pursuant to Law 9,539, the CPMF tax was payable until February 1999. Pursuant to Constitutional Amendment 21, of March 18, 1999, the collection of the CPMF was extended for an additional period of 36 months. This payment of the CPMF tax was required as of June 17, 1999. The CPMF tax rate was 0.38% during the first 12 months, and would be 0.30% for the remaining period. But in December 2000, Constitutional Amendment number 31 increased the rate to 0.38% as of March 2001. By May 28, 2002, Constitutional Amendment number 37 determined that CPMF must be charged until December 31, 2004. Finally, the Constitutional Amendment number 42, approved in 2003, extended the CPMF tax until December 31, 2007. The responsibility for the collection of the CPMF tax is borne by the financial institution that carries out the relevant financial transaction. Additionally, when the non-Brazilian holder remitted the proceeds from the sale or assignment of preferred shares by means of foreign exchange transactions, the CPMF tax was levied on the amount to be remitted abroad in Brazilian reais. However, since April, 2002 this tax has not been charged on stock transactions. If it is necessary to perform any exchange transaction in connection with Preferred ADSs or preferred shares, it will bear the CPMF tax.

The extension of the CPMF was not approved in 2008. In parallel, an additional rate was created for the IOF Tax on Financial Transactions. Both amendments shall be valid solely as of 2008. In accordance with Decree 6339/08, the amendments to the IOF consisted of an increase from 0.0041% to 0.0082% in the credit operations contracted by individuals and an additional rate of 0.38% on various credit operations contracted by individuals and corporate legal entities. It is observed that this additional rate applies to credit operations regardless of their term, differently from the generic rates of 0.0082% for individuals and 0.0041% for corporate legal entities, which are daily rates. In the case of current account loans, the additional IOF rate (0,38%) is also levied on the monthly sum of the daily increases of debit balances. Various credit operations which were not subject to the IOF are now subject to the additional IOF rate of 0.38%. Such operations include, among other, foreign exchange operations related to services imports; other operations not listed in art. 15, Para. 1 of the RIOF - IOF Regulations; exports and support to production or incentive to exports; operations relating to advance on foreign exchange exports contracts; deferment of the redemption of individual life insurance and of special savings instruments; transactions conducted by cooperatives and between cooperatives and their members; rural credit destined to investment, costing and marketing; precious stones, jewels and other objects in pawn; National Treasury funds to finance buffer stocks; operations using Finance-Government Agency for Machinery and Equipment Financing and BNDES-National Bank for Economic and Social Development funds; credit supported by the Minimum Price Guarantee Policy; operations guaranteed by government bonds; transfer of assets in chattel mortgage with third party subrogation on the rights and obligations of the debtor; equity or interest in a company, under the National Privatization Program; public funds related to the public issue of securities; federal, state and municipal programs for the generation of jobs and income. The IOF rates levied on the operations below were also increased as follows: inflow of funds resulting from or destined to currency loans with minimum average terms up to ninety days: increase from 5% to 5.38%; foreign exchange operations destined to settle the obligations of credit card administrators or commercial or multiple banks in the capacity of credit card issuers, arising from the acquisition of foreign goods and services abroad by their users increase from 2% to 2.38%; life insurance and similar or related operations, personal accident and worker's compensation insurance, including compulsory insurance for personal injury caused by land motor vehicles and watercrafts, or their cargo, passengers or other and excluding comprehensive civil liability insurance paid by air carriers: 0.38%; private health care insurance operations: 2.38%; other insurance operations not listed in art. 22, Para. 1 of the RIOF - IOF Regulation: 7.38%.

### ***Registered Capital***

The amount of an investment in preferred shares held by a non-Brazilian holder who qualifies and registered with the CVM under the Annex IV Regulations which was converted into Annex of 2,689 Resolution as of June 2000, or in ADSs held by the depositary representing such holder, as the case may be, is eligible for registration with the Central Bank; such registration (the amount so registered is referred



to as Registered Capital) allows the remittance abroad of foreign currency, converted at the commercial exchange rate, acquired with the proceeds of distributions on, and amounts realized with respect to disposition of, such preferred shares. The registered capital for preferred shares purchased in the form of a preferred ADSs, or purchased in Brazil and deposited with the depositary in exchange for a preferred ADS, will be equal to their purchase price (in U.S. dollars) paid by the purchaser. The Registered Capital for preferred shares that are withdrawn upon surrender of preferred ADSs, will be the U.S. dollar equivalent of (i) the average price of the preferred shares on the Brazilian stock exchange on which the greatest number of such preferred shares was sold on the day of withdrawal, or (ii) if no preferred shares were sold on such day, the average price of preferred shares that were sold in the fifteen trading sessions immediately preceding such withdrawal. The U.S. dollar value of the preferred shares is determined on the basis of the average commercial exchange rate quoted by the Central Bank on such date (or, if the average price of preferred shares is determined under clause (ii) of the preceding sentence, the average of such average quoted rates on the same fifteen dates used to determine the average price of the preferred shares).

A non-Brazilian holder of preferred shares may experience delays in effecting the registration of registered capital, which may delay remittances abroad. Such a delay may adversely affect the amount, in U.S. dollars, received by the non-Brazilian holder.

#### **United States Tax Considerations**

##### *US Federal Income Tax Considerations*

The following summary describes the material U.S. federal income tax consequences of the purchase, ownership and disposition of our Preferred Shares and Preferred ADSs as of the date hereof. Except where noted, this summary deals only with U.S. Holders (as defined below) that hold our Preferred Shares or Preferred ADSs as capital assets for U.S. federal income tax purposes (generally, property held for investment). As used in this summary, the term **U.S. Holder** means a beneficial holder of our Preferred shares or Preferred ADSs that is for U.S. federal income tax purposes:

- an individual citizen or resident of the United States;
- a corporation (or other entity treated as a corporation for U.S. federal income tax purposes) created or organized in or under the laws of the United States, any State thereof or the District of Columbia;
- an estate the income of which is subject to U.S. federal income taxation regardless of its source; or a trust if it (1) is subject to the primary supervision of a court within the United States and one or more United States persons have the authority to control all substantial decisions of the trust or (2) has a valid election in effect under applicable United States Treasury regulations to be treated as a United States person.

For purposes of this discussion, a **non-U.S. Holder** means a beneficial holder of our Preferred shares or Preferred ADSs that is neither a U.S. Holder nor a partnership or other pass-through entity for U.S. federal income tax purposes.

This summary does not represent a detailed description of the U.S. federal income tax consequences applicable to you if you are subject to special treatment under the U.S. federal income tax laws, including if you are:

- a broker-dealer;
- a bank or other financial institution;
- a regulated investment company;
- a real estate investment trust;

- an insurance company;
- a tax-exempt organization;
- a person holding our Preferred shares or Preferred ADSs as part of a straddle, hedge, conversion or constructive sale transaction or other integrated transaction;
- a trader in securities that has elected the mark-to-market method of accounting for your securities;
- a person liable for alternative minimum tax;
- certain former citizens and residents of the United States;
- a person who owns or is deemed to own 10% or more of our voting stock;
- a partnership or other pass-through entity for U.S. federal income tax purposes; or
- a person whose functional currency for U.S. federal income tax purposes is not the U.S. dollar.

The discussion below is based upon the provisions of the Internal Revenue Code of 1986, as amended (the Code), and Treasury regulations, and rulings and judicial decisions thereunder as of the date hereof, and such authorities may be replaced, revoked or modified so as to result in U.S. federal income tax consequences different from those discussed below. In addition, this summary is based, in part, upon representations made by the depository to us and assumes that the deposit agreement, and all other related agreements, will be performed in accordance with their terms.

If a partnership holds our Preferred shares or Preferred ADSs, the tax treatment of a partner will generally depend upon the status of the partner and the activities of the partnership. If you are a partner of a partnership holding our Preferred shares or Preferred ADSs, you should consult your tax advisors.



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This summary does not contain a detailed description of all the U.S. federal income tax consequences to you in light of your particular circumstances and does not address the effects of any state, local or non- United States tax laws. If you are considering the purchase, ownership or disposition of our Preferred shares or Preferred ADSs, you should consult your own tax advisors concerning the U.S. federal income tax consequences to you in light of your particular situation, as well as any consequences arising under the laws of any other taxing jurisdiction.

### *Nature of Preferred ADSs for U.S. Federal Income Tax Purposes*

If you hold Preferred ADSs, for U.S. federal income tax purposes, you generally will be treated as the owner of the underlying Preferred shares that are represented by the Preferred ADSs. Accordingly, deposits or withdrawals of Preferred shares for Preferred ADSs will not be subject to U.S. federal income tax.

### *Taxation of Dividends*

U.S. Holders. Subject to the discussion under **Passive Foreign Investment Company Rules** below, the gross amount of distributions on the Preferred ADSs or our Preferred shares (including amounts withheld to reflect Brazilian withholding taxes and distributions of interest on shareholders' equity, as described above under **Brazilian Tax Considerations** ) will be taxable as dividends, to the extent paid out of our current or accumulated earnings and profits, as determined under U.S. federal income tax principles. Such income (including withheld taxes) will be includable in your gross income as ordinary income on the day actually or constructively received by you, in the case of our Preferred shares, or by the depositary, in the case of Preferred ADSs. Such dividends will not be eligible for the dividends received deduction allowed to corporations under the Code. With respect to non-corporate United States investors, certain dividends received before January 1, 2011 from a qualified foreign corporation may be subject to reduced rates of taxation. Subject to certain limitations, a foreign corporation is treated as a

qualified foreign corporation with respect to dividends received from that corporation on shares (or ADSs backed by such shares) that are readily tradable on an established securities market in the United States, provided that the corporation was not, in the year prior to the year the dividend was paid, and is not, in the year the dividend is paid, a passive foreign investment company. The Preferred ADSs are listed on the New York Stock Exchange and will qualify as readily tradable on an established securities market in the United States, so long as they are so listed. We cannot assure you that the Preferred ADSs will be considered readily tradable on an established securities market in later years. Based on existing guidance, it is not entirely clear whether a dividend on a Preferred share will be treated as a qualified dividend, because the Preferred shares themselves are not listed on a U.S. exchange. Based on our audited financial statements, relevant market and shareholder data, and the projected composition of our income and valuation of our assets, including goodwill, for 2008, we do not believe that we would be classified as a passive foreign investment company for U.S. federal income tax purposes for our 2006 or 2007 taxable years and we do not anticipate being classified as a passive foreign investment company for our 2008 taxable year. Given that the determination of passive foreign investment company status involves the application of complex tax rules, and that it is based on the nature of our income and assets from time to time, no assurances can be provided that we will not be considered a PFIC for the current (or any past or future) taxable year. Non-corporate holders that do not meet a minimum holding period requirement during which they are not protected from the risk of loss or that elect to treat the dividend income as investment income pursuant to Section 163(d)(4) of the Code will not be eligible for the reduced rates of taxation regardless of our status as a qualified foreign corporation. In addition, the rate reduction will not apply to a dividend if the recipient of the dividend is obligated to make related payments with respect to positions in substantially similar or related property. This disallowance applies even if the minimum holding period has been met. The U.S. Treasury Department has announced its intention to promulgate rules pursuant to which holders of stock of non-U.S. corporations, and intermediaries through whom the stock is held, will be permitted to rely on certifications from issuers to establish that dividends are treated as qualified dividends. Because those procedures have not yet been issued, it is not clear whether we will be able to comply with them. Special limitations on foreign tax credits apply to qualified dividends subject to the reduced rate of tax. You should consult your own tax advisors regarding the application of the qualified dividend rules given your particular circumstances.

The amount of any dividend paid in reais will equal the U.S. dollar value of the reais received calculated by reference to the exchange rate in effect on the date the dividend is received by you, in the case of Preferred shares, or by the depository, in the case of Preferred ADSs, regardless of whether the reais are converted into U.S. dollars. If the reais received as a dividend are not converted into U.S. dollars on the date of receipt, you will have a basis in the reais equal to their U.S. dollar value on the date of receipt. Any gain or loss realized on a subsequent conversion or other disposition of the reais will be treated as U.S. source ordinary income or loss.

Subject to certain conditions and limitations, any Brazilian withholding taxes on dividends will be treated as foreign taxes eligible for credit against your U.S. federal income tax liability. For purposes of calculating the foreign tax credit, dividends paid on the Preferred ADSs or our Preferred shares will be treated as income from sources outside the United States and will generally constitute passive category income. In addition, in certain circumstances, if you:

- have held Preferred ADSs or Preferred shares for less than a specified minimum period during which you are not protected from risk of loss; or

- are obligated to make payments related to the dividends, you will not be allowed a foreign tax credit for foreign taxes imposed on dividends paid on the Preferred ADSs or Preferred shares. The rules governing the foreign tax credit are complex. You are urged to consult your tax advisors regarding the availability of the foreign tax credit under your particular circumstances. Instead of claiming a credit, you may, at your election, deduct such otherwise creditable Brazilian withholding taxes in computing your taxable income, subject to generally applicable limitations under U.S. law.

To the extent that the amount of any distribution (including amounts withheld to reflect Brazilian withholding taxes and distributions of interest on shareholders' equity, as described above under "Brazilian Tax Considerations") exceeds our current and accumulated earnings and profits for a taxable year, as determined under U.S. federal income tax principles, the distribution will first be treated as a tax-free return of capital, causing a reduction in the adjusted basis of the Preferred ADSs or Preferred shares.

(thereby increasing the amount of gain, or decreasing the amount of loss, to be recognized by you on a subsequent disposition of the Preferred ADSs or Preferred shares), and the balance in excess of adjusted basis will be taxed as capital gain recognized on a sale or exchange (as discussed below under *Taxation of Capital Gains* ). Consequently, any distributions in excess of our current and accumulated earnings and profits would generally not give rise to income from sources outside the United States and you would generally not be able to use the foreign tax credit arising from any Brazilian withholding tax imposed on such distributions unless such credit could be applied (subject to applicable limitations) against U.S. federal income tax due on other income from sources outside the United States in the appropriate category for foreign tax credit purposes. However, we do not expect to calculate earnings and profits in accordance with U.S. federal income tax principles. Therefore, you should assume that a distribution will generally be treated as a dividend (as discussed above).

**Non-U.S. Holders.** A dividend paid to a Non-U.S. Holder on a Preferred ADS or Preferred share will not be subject to U.S. federal income tax unless the dividend is effectively connected with the conduct of trade or business by the Non-U.S. Holder within the United States (and is attributable to a permanent establishment or fixed base the Non-U.S. Holder maintains in the United States if an applicable income tax treaty so requires as a condition for the Non-U.S. Holder to be subject to U.S. taxation on a net income basis on income from the Preferred ADS or Preferred share). A Non-U.S. Holder generally will be subject to tax on an effectively connected dividend in the same manner as a U.S. holder. A corporate Non-U.S. Holder may also be subject under certain circumstances to an additional *branch profits tax*, the rate of which may be reduced pursuant to an applicable income tax treaty.

#### *Taxation of Capital Gains*

**U.S. Holders.** For U.S. federal income tax purposes and subject to the discussion under *Passive Foreign Investment Company Rules* below, you will recognize taxable gain or loss on any sale, exchange or redemption of Preferred shares or Preferred ADSs in an amount equal to the difference between the amount realized for the Preferred shares or Preferred ADSs and your tax basis in the Preferred shares or Preferred ADSs, both determined in U.S. dollars. If a Brazilian tax is withheld on a sale or other disposition of a Preferred share or Preferred ADS, the amount realized for U.S. federal income tax purposes will include the gross amount of the proceeds of that sale or disposition before deduction of the Brazilian tax. Such gain or loss will generally be capital gain or loss. Capital gains of non-corporate holders derived with respect to capital assets held for more than one year are eligible for reduced rates of taxation. The deductibility of capital losses is subject to limitations. Any gain or loss recognized by you will generally be treated as U.S. source gain or loss. Consequently, you generally will not be able to use the foreign tax credit arising from any Brazilian tax imposed on the disposition of our Preferred shares or Preferred ADSs.

**Non-U.S. holders.** A Non-U.S. Holder will not be subject to U.S. federal income tax on a gain recognized on a sale or other disposition of a Preferred ADS or Preferred share unless (i) the gain is effectively connected with the conduct of trade or business by the Non-U.S. Holder within the United States (and is attributable to a permanent establishment or fixed base that the Non-U.S. Holder maintains in the United States if an applicable income tax treaty so requires as a condition for the Non-U.S. Holder to be subject to U.S. taxation on a net income basis on income from the Preferred ADS or Preferred share), or (ii) in the case of a Non-U.S. Holder who is an individual, the holder is present in the United States for 183 or more days in the taxable year of the sale or other disposition and certain other conditions apply. Any effectively connected gain of a corporate Non-U.S. Holder may also be subject under certain circumstances to an additional *branch profits tax*, the rate of which may be reduced pursuant to an applicable income tax treaty.

#### *Passive Foreign Investment Company Rules*

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A special set of U.S. federal income tax rules applies to U.S. Holders that hold shares in a passive foreign investment company ( PFIC ). As noted above, based on our audited financial statements, relevant market and shareholder data, and the projected composition of our income and valuation of our assets for 2008, we do not believe that we would be classified as a PFIC for U.S. federal income tax purposes for our 2006 or 2007 taxable years and we do not anticipate being classified as a PFIC for our 2008 taxable year. Given that the determination of passive foreign investment company status involves the application of complex tax rules, and that it is based on the nature of our income and

assets from time to time, no assurances can be provided that we will not be considered a PFIC for the current (or any past or future) taxable year.

In general, we will be a PFIC for any taxable year in which:

- at least 75% of our gross income is passive income, or
- at least 50% of the value (determined on a quarterly basis) of our assets is attributable to assets that produce or are held for the production of passive income.

For this purpose, cash is a passive asset and passive income generally includes dividends, interest, royalties and rents (other than royalties and rents derived in the active conduct of a trade or business and not derived from a related person). If we own at least 25% (by value) of the stock of another corporation, we will be treated, for purposes of the PFIC tests, as owning our proportionate share of the other corporation's assets and receiving our proportionate share of the other corporation's income.

The determination of whether we are a PFIC must be made annually. Accordingly, it is possible that we may become a PFIC in the current or any future taxable year due to changes in our income or asset composition. In addition, the composition of our income and assets will be affected by how, and how quickly, we invest the proceeds from any past or future equity or debt offerings. If we are a PFIC for any taxable year during which you hold our Preferred ADSs or Preferred shares, you will be subject to special tax rules discussed below.

If we are a PFIC for any taxable year during which you hold our Preferred ADSs or Preferred shares, U.S. Holders will be subject to special tax rules with respect to any excess distributions received and any gain realized from a sale or other disposition, including a pledge, of Preferred ADSs or Preferred shares. Distributions received in a taxable year that are greater than 125% of the average annual distributions received during the shorter of the three preceding taxable years or your holding period for the Preferred ADSs or Preferred shares will be treated as excess distributions. Under these special tax rules:

- the excess distribution or gain will be allocated ratably over your holding period for the Preferred ADSs or Preferred shares,
- the amount allocated to the current taxable year, and any taxable year prior to the first taxable year in which we were a PFIC, will be treated as ordinary income, and
- the amount allocated to each other year will be subject to tax at the highest tax rate in effect for that year and the interest charge generally applicable to underpayments of tax will be imposed on the resulting tax attributable to each such year.

In addition, non-corporate U.S. Holders will not be eligible for reduced rates of taxation on any dividends received from us prior to January 1, 2011, if we are a PFIC in the taxable year in which such dividends are paid or in the preceding taxable year. You will be required to file Internal Revenue Service Form 8621 if you hold our Preferred ADSs or Preferred shares in any year in which we are classified as a PFIC.

If we are a PFIC for any taxable year and any of our foreign subsidiaries is also a PFIC, a U.S. Holder would be treated as owning a proportionate amount (by value) of the shares of the lower-tier PFIC for purposes of the application of these rules. You are urged to consult your tax advisors about the application of the PFIC rules to any of our subsidiaries.

In certain circumstances, in lieu of being subject to the excess distribution rules discussed above, you may make an election to include gain on the stock of a PFIC as ordinary income under a mark-to-market method, provided that such stock is regularly traded on a qualified exchange. Under current law, the mark-to-market election may be available to holders of Preferred ADSs because the Preferred ADSs are listed on the NYSE, which constitutes a qualified exchange, although there can be no assurance that the Preferred ADSs will be regularly traded for purposes of the mark-to-market election. It should also

be noted that only the Preferred ADSs and not the Preferred shares are listed on the NYSE. Our Preferred shares are listed on a foreign exchange, which must meet certain trading, listing, financial disclosure and other requirements to be treated as a qualified exchange under applicable Treasury regulations for purposes of the mark-to-market election, and no assurance can be given that the Preferred shares will be regularly traded for purposes of the mark-to-market election.

If you make an effective mark-to-market election, you will include in each year as ordinary income the excess of the fair market value of your Preferred ADSs or Preferred shares at the end of the year over your adjusted tax basis in the Preferred ADSs or Preferred shares. You will be entitled to deduct as an ordinary loss each year the excess of your adjusted tax basis in the Preferred ADSs or Preferred shares over their fair market value at the end of the year, but only to the extent of the net amount previously included in income as a result of the mark-to-market election.

Your adjusted tax basis in the Preferred ADSs or Preferred shares will be increased by the amount of any income inclusion and decreased by the amount of any deductions under the mark-to-market rules. If you make a mark-to-market election it will be effective for the taxable year for which the election is made and all subsequent taxable years unless the Preferred ADSs or Preferred shares are no longer regularly traded on a qualified exchange or the Internal Revenue Service consents to the revocation of the election. You are urged to consult your tax advisor about the availability of the mark-to-market election, and whether making the election would be advisable in your particular circumstances.

U.S. Holders of shares in a PFIC can sometimes avoid the rules described above by electing to treat the PFIC as a qualified electing fund under Section 1295 of the Code. This option would not be available to you unless we provide the information necessary to permit you to make this election. No determination has been made whether we would provide such information in the event we are classified as a PFIC in any taxable year. You are urged to consult your tax advisors concerning the United States federal income tax consequences of holding Preferred ADSs or Preferred shares if we are considered a PFIC in any taxable year.

### ***Information Reporting and Backup Withholding***

U.S. Holders. In general, information reporting will apply to dividends in respect of Preferred shares or Preferred ADSs and the proceeds from the sale, exchange or redemption of Preferred shares or Preferred ADSs that are paid to you within the United States (and in certain cases, outside the United States), unless you are an exempt recipient such as a corporation. Backup withholding (currently at the rate of 28%) may apply to such payments if you fail to provide a taxpayer identification number or certification of other exempt status or fail to report in full dividend and interest income.

Any amounts withheld under the backup withholding rules will be allowed as a refund or a credit against your U.S. federal income tax liability provided the required information is furnished to the Internal Revenue Service.

Non-US Holders. You will generally be exempt from these information reporting requirements and backup withholding tax but may be required to comply with certain certification and identification procedures in order to establish your eligibility for exemption.



**F. Dividends and Paying Agents**

Not Applicable.

**G. Statement of Experts**

Not Applicable.

## **H. Documents on Display**

The Company makes its filings in electronic form under the EDGAR filing system of the U.S. Securities and Exchange Commission. Its filings are available through the EDGAR system at [www.sec.gov](http://www.sec.gov). Sadia's SEC filings, including this annual report and the exhibits thereto, are also available for inspection and copying at the public reference facilities maintained by the Securities and Exchange Commission. Information can be obtained either on the SEC website ([www.sec.gov](http://www.sec.gov)) or by phone 1-800-SEC-0330. Company documents and statutory information are also available at Sadia's website ([www.sadia.com](http://www.sadia.com)). Information regarding legal issues can be obtained from the Company's U.S. legal counsel, Greenberg, Traurig LLP, at 1-212-801-9380.

The Company has, in compliance with New York Stock Exchange Corporate Governance Rule 303A.11, provided on its website a summary of how its corporate governance practices differ from those followed by U.S. domestic companies under the New York Stock Exchange listing standards.

## **I. Subsidiary Information**

Not Applicable.

## **ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

### **Quantitative information about market risk**

The main market risks the Company faces are interest rate, exchange rate and commodity price risks which arise from adverse changes in market conditions and could represent a potential loss. Sadia mitigates some of these risks through the use of derivatives instruments.

In the beginning of 2004, Sadia implemented a department to control overall exposure of financial assets and liabilities; counterparty and credit risk; legal risk; and disseminate risk culture within the Company. The financial department has incorporated a Hedging and Investment Policy which was reviewed and approved by the Financial Committee. These policies prohibit speculative trading and oblige the Company to diversify its counterparties. Sadia periodically provides reports to senior management about potential risks and actions taken to mitigate them.

### ***Foreign Currency Risk***

The Company's exposure to foreign currency are mainly due to Sadia's external revenues, that in 2007 accounted for 46.6% of the Company's total gross operating revenues, and its debt denominated in U.S. dollars, that on December 31, 2007 accounted for 2,386.3 million.

The percentage of the Company's dollar and reais denominated debt on December 31, 2007 were as follows:

<b>Debt Breakdown</b>	
<b>(%)</b>	
<b>Short-term debt</b>	
Denominated in reais	14.79%
Denominated in U.S. dollars	12.66%
<b>Long term debt:</b>	
Denominated in reais	25.79%
Denominated in U.S. dollars	46.75%
<b>Total</b>	<b>100.00%</b>

The foreign currency swap contracts that are entered by the Company are aimed to mitigate potential losses on the Company's external revenues derived from the devaluation of the dollar. The

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Company does not use these swap contracts for trading or speculative purposes. See note 3 of the consolidated financial Statements for discussion of the accounting policies for derivatives and other financial instruments.

The table below provides information on Company's foreign currency as of December 31, 2007.

Instruments Denominated in U.S. Dollars	2008	2009	2010	2011	2012	After 2012	Total	Fair Value	Average Rate
<b>Assets</b>									
<b>Cash and cash equivalents</b>	480,684						480,684.0	480,684	5.35
<b>Investments in debt securities</b>	1,211,583						1,211,583.0	1,211,583	9.86
<b>Total</b>	<b>1,692,267</b>						<b>1,692,267</b>	<b>1,692,267</b>	
<b>Liabilities</b>									
<b>Short term debt</b>	508,606						508,606	508,606	4.85
<b>Long term debt</b>	58,659	112,547	385,041	455,376	287,482	578,635	578,635	1,887,267	6.05
<b>Total</b>	<b>567,265</b>	<b>112,547</b>	<b>385,041</b>	<b>455,376</b>	<b>287,482</b>	<b>578,635</b>	<b>1,087,241</b>	<b>2,395,873</b>	
Foreign currency and interest rate swap contracts notional amount - reais to US dollars	1,011,548	0					1,011,548	59,981	CDI / US\$

For the interest rate swap contracts, the average paying rate in reais was 100% CDI, and the average receiving rate in US dollars was of 4.71%.

**Interest Rate Risk**

The Company's exposure to interest rate is basically due to the Company's floating rate debt, that amounted to R\$2,851.3 million on December 31, 2007.

The percentage of the Company's debt subject to fixed and floating interest rates on December 31, 2007 were as follows:

<b>Debt Breakdown (%)</b>	
<b>Fixed rate</b>	
Denominated in reais	10.16%
Denominated in U.S. dollars	18.84%
<b>Floating rate</b>	
Denominated in reais	30.42%
Denominated in U.S. dollars	40.58%

<b>Total</b>	<b>100.00%</b>
--------------	----------------

Sadia's floating interest rate exposure is primarily subject to the variations of Libor as it relates to U.S. dollar denominated debt and to the variations of the TJLP, an annual long-term interest rate that includes an inflation factor and is determined quarterly by the Central Bank and other exchange variation. On December 31, 2007, the TJLP was equivalent to 6.25% per year.

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The table below provides information about Sadia's significant interest rate sensitive instruments. For variable interest rate debt, the rate presented is the weighted average rate calculated as of December 31, 2007.

Rate Sensitive Instruments	2008	2009	2010	2011	2012	After 2012	Total	Fair Value	Average Rate
<b>R\$ Thousand</b>									
<b>Assets</b>									
<b>Cash and cash equivalents</b>									
Denominated in reais	196,920						196,920	196,920	0
Denominated in reais	423,290						423,290	423,290	11.15
Denominated in U.S. dollars	123,108						123,108	123,108	0
Denominated in U.S. dollars	357,576						357,576	357,576	5.35
<b>Investments in debt securities</b>									
Denominated in reais	50,668	364,474	100,474			35,568	551,184	551,184	
Denominated in U.S. dollars	1,211,583						1,211,583	1,211,583	
<b>Total</b>	<b>2,363,145</b>	<b>364,474</b>	<b>100,474</b>			<b>35,568</b>	<b>2,863,661</b>	<b>2,863,661</b>	
<b>Liabilities</b>									
<b>Short-term debt</b>									
<b>Fixed rate</b>									
Denominated in reais	246,198						246,198	246,198	6.84
Denominated in U.S. dollars	153,388						153,388	153,388	4.85
<b>Floating rate</b>									
Denominated in reais	347,763						347,763	347,763	0
Denominated in U.S. dollars	355,218						355,218	355,218	4.74
<b>Total</b>	<b>1,102,567</b>						<b>1,102,567</b>	<b>1,102,567</b>	
<b>Long term debt:</b>									
<b>Fixed rate</b>									
Denominated in reais	12,696	6,569	1,642		2,287	138,834	162,028	162,028	9.32
Denominated in U.S. dollars	36,489	23,982	30,781	31,399	28,236	452,374	603,261	603,261	6.05
<b>Floating rate</b>									
Denominated in reais	154,168	143,792	163,690	163,690	157,990	90,540	873,870	873,870	9.80
Denominated in U.S. dollars	22,170	88,565	354,260	423,977	259,246	126,261	1,274,479	1,284,006	55,644,254
<b>Total</b>	<b>225,523</b>	<b>262,908</b>	<b>550,373</b>	<b>619,066</b>	<b>447,759</b>	<b>808,009</b>	<b>2,913,638</b>	<b>2,923,165</b>	
<b>Total debt</b>	<b>1,328,090</b>	<b>262,908</b>	<b>550,373</b>	<b>619,066</b>	<b>447,759</b>	<b>808,009</b>	<b>4,016,205</b>	<b>4,025,732</b>	

**Credit risks**

The Company is subject to credit risks related to customer accounts receivable, financial investments and derivative contracts. Credit risks from accounts receivable are minimized by the

pulverization of the customer portfolio, in which no group is responsible for more than 10.0% of the Company's consolidated revenues. Risks associated with financial instruments are lessened by hiring first-line financial institutions, subject to the limitations pre-established by the Credit and Financial Committees.

*Grain purchase price risk*

The Company's operations are exposed to the volatility of grain prices (corn and soybean) used in the preparation of feed for its breeding stock and slaughter destined animals. These commodities price results from factors beyond the control of management, such as climate, the size of the harvest, transport and storage costs and government agricultural policies, among others.

The Company as of the beginning of 2008 has decided to enter into future or options contracts to protect itself against changes in the commodities prices and has elaborated a Hedging Policy for Commodities for this purpose. Currently, Sadia maintains a risk management strategy based on both its inventory policy through physical control, which includes acquisition of grains that guarantee future volumes and costs and financial hedging.

**ITEM 12. DESCRIPTION OF THE SECURITIES OTHER THAN SECURITIES**

Not Applicable.

**PART II**

**ITEM 13. DEFAULTS, DIVIDENDS ARREARAGES AND DELINQUENCIES**

Not Applicable.

**ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS**

Not Applicable.

**ITEM 15. CONTROL AND PROCEDURES**

The Company has carried out an evaluation under the supervision of its management, including its Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of its disclosure controls and procedures. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance that they will achieve their control objectives. Based on that evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that the design and operation of the Company's disclosure controls and procedures are effective to ensure that information required to be disclosed in the reports that the Company files and submits under the Exchange Act is (i) recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms, and (ii) accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure as of the end of the Company's most recent fiscal year.

The Company has created a Disclosure Policy Committee composed of the Chairman of the Board of Directors, Walter Fontana, the Chief Executive Officer, Gilberto Tomazoni, the Chief Financial Officer and Investor Relations Officer, Welson Teixeira Júnior. This Committee oversees and reviews all materials for which there is a legal disclosure requirement, together with all data required to support the documents mentioned above. This committee meets at regular intervals in order to review all data.

The certifications required by this Item have been filed as Exhibits 12.01 and 12.02.

A. Management's annual report on internal control over financial reporting



Management is responsible for establishing and maintaining adequate internal control over financial reporting for the Company. In order to evaluate the effectiveness of internal control over financial reporting, as required by Section 404 of the Sarbanes-Oxley Act, management has conducted an assessment, including testing, using the criteria in Internal Control Integrated Framework, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's system of internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Based on its assessment, management has concluded that the Company maintained effective internal control over financial reporting as of December 31, 2007, based on criteria in Internal Control Integrated Framework, issued by the COSO. The Company's internal control over financial reporting as of December 31, 2007, has been audited by KPMG Auditores Independientes, an independent registered public accounting firm, as stated in their report which is included below.

B. Attestation report of the independent registered public accounting firm

**Report of Independent Registered Public Accounting Firm**

The Board of Directors and Shareholders

Sadia S.A.:

We have audited Sadia S.A.'s internal control over financial reporting as of December 31, 2007, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Sadia S.A.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report on Internal Control over Financial Statements. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and

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directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Sadia S.A. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2007, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Sadia S.A. and subsidiaries as of December 31, 2007 and 2006, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2007, and our report dated June 20, 2008 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG Auditores Independentes

KPMG Auditores Independentes

São Paulo, Brazil

June 20, 2008

C. Changes in internal control over financial reporting.

There were no changes in our internal controls or in other factors that could significantly affect these controls and procedures subsequent to the date our chief executive officer and our chief financial officer completed their evaluation, nor were there any significant deficiencies or material weaknesses in our internal controls and procedures requiring corrective actions.

**ITEM 16A. Audit Committee Financial Expert**

The Board of Directors of the Company has determined that Francisco Silverio Morales Cespede is the audit committee financial expert within the meaning of Sarbanes-Oxley and related regulations. The audit committee is already fully in compliance with the requirements of Sarbanes-Oxley. See Item 6.C. Board Practices-Audit Committee. The Company has, in compliance with New York Stock Exchange Corporate Governance Rule 303A.11, provided on its website a summary of how its corporate governance practices differ from those followed by U.S. domestic companies under the New York Stock Exchange listing standards, at [www.sadia.com](http://www.sadia.com).

**ITEM 16B. Code of Ethics**

The Company has adopted a Code of Ethics (called "Código de Ética") that applies to all of the Company's employees, including our principal executive officer, principal financial officer, principal accounting officer or controller. The English version of the Code can be downloaded at the Company's website ([www.sadia.com.br](http://www.sadia.com.br)). Additionally, any person, upon request, can ask for a hard copy or electronic file of such Code. If the Company makes any substantive amendment to the Code of Ethics or grants any waivers, including any implicit waiver, from a provision of the Code of Ethics, it will disclose the nature of such amendment or waiver on its website.

**ITEM 16 C. Principal Accountant Fees and Services**

**Audit and Non-Audit Fees**

The following table sets forth the fees billed to the Company by its independent auditors, during the fiscal years ended December 31, 2007 and 2006:

**Audit Fees (Thousand R\$ )**

	2007	2006
Audit fees	1,261	1,022
Audit-related fees	258	64
Tax-fees		
<b>Total fees</b>	<b>1,519</b>	<b>1,086</b>

Audit fees in the above table are the aggregate fees billed by KPMG Auditores Independentes for 2007 and 2006, in connection with the audit of the Company's annual financial statements and review of the Company's quarterly financial information.

Audit-related fees in the above table are the aggregate fees billed by KPMG for providing due diligence services.

Tax fees in the above table are fees billed for tax compliance and tax advice.

**Audit Committee Pre-Approval Policies and Procedures**

The Company's Audit Committee has established pre-approval and procedures for the engagement of its independent auditors for audit and non-audit services.

The Audit Committee reviews the scope of the services to be provided, before their commencement, in order to ensure that there are no independence issues and the services are not prohibited services as defined by Sarbanes-Oxley Act of 2002.

**ITEM 16 D. Exemptions from the Listing Standards and for Audit Committees**

Not Applicable

**ITEM 16 E. Purchases of Equity Securities by the Issuer and Affiliated Purchasers**

Sadia announced to its shareholders and to the market that, to implement the Stock Option Plan for its officers, as approved by the Extraordinary Shareholders' Meeting of April 29, 2005, the Board of Directors decided to authorize the acquisition of the Company's preferred shares, as follows:

- a) acquisition of 4,400,000 preferred shares within the limit of 10% of the total 381,724,044 outstanding preferred shares;
- b) the time frame for such realization will be up to 365 days counted as from September 27, 2007;
- c) the operations will be conducted by Concórdia S.A. Corretora de Valores Mobiliários, Câmbio e Commodities.

**PART III**

**ITEM 17. FINANCIAL STATEMENTS**

The Company has responded to Item 18 in lieu of responding to this item.

**ITEM 18. FINANCIAL STATEMENTS**

Reference is made to Item 19 for a list of all financial Statements filed as part of this Annual Report.

**ITEM 19. EXHIBITS**

<u>Report of Independent Auditors</u>	F3
<u>Consolidated Balance Sheets as of December 31, 2007 and 2006</u>	F4
<u>Consolidated Statements of Income for the Years Ended December 31, 2007, 2006 and 2005</u>	F6
<u>Consolidated Statements of Shareholders' Equity for the Years Ended December 31, 2007, 2006 and 2005</u>	F7
<u>Consolidated Statements of Cash Flows for the Years Ended December 31, 2007, 2006 and 2005</u>	F8
<u>Notes to Consolidated Financial Statements</u>	F9

**List of Exhibits**

1.01 Sadia By laws

2.01 Deposit Agreement dated as of December 30, 2002, by and among Sadia S.A., The Bank of New York as Depositary and the Owners and Holders of American Depositary Receipts (such agreement is incorporated by reference to the Registration Statement on Form F-6 relating to the ADSs (File No. 333-102013) filed with the Commission on December 19, 2002.

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2.02 The total amount of long-term debt of the Company authorized under any instrument does not exceed 10% of the total assets of the Company and its subsidiaries, on a consolidated basis. The Company undertakes to furnish to the SEC all other instruments relating to long-term debt of the Company and its subsidiaries upon request of the SEC.

12.01 Certification by the Company's Chief Executive Officer required by Item 15



12.02 Certification by the Company's Chief Financial Officer required by Item 15

13.01 Certification pursuant to 18 U.S.C. Section 1350.

13.02 Certification pursuant to 18 U.S.C. Section 1350.

Consolidated Financial Statements

**SIGNATURES**

The Company hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this Annual Report on its behalf.

**SADIA S.A.**

Date: June 20, 2008

By: /s/ Gilberto Tomazoni  
Name: Gilberto Tomazoni  
Title: Chief Executive Officer

By: /s/ Welson Teixeira Júnior  
Name: Welson Teixeira Júnior  
Title: Chief Financial Officer

*Consolidated Financial Statements*

*Sadia S.A.*

*Years ended December 31, 2007, 2006 and 2005*

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*CONSOLIDATED FINANCIAL STATEMENTS*

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Board of Directors and Shareholders of

Sadia S.A.

We have audited the accompanying consolidated balance sheets of Sadia S.A. (the Company) and subsidiaries as of December 31, 2007 and 2006, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2007. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Sadia S.A. and subsidiaries as of December 31, 2007 and 2006, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2007, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Sadia S.A.'s internal control over financial reporting as of December 31, 2007, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated June 20, 2008 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

As discussed in the Note 3(r) to the consolidated financial statements, the Company adopted the recognition and disclosure provisions of FASB interpretation No 48, *Accounting for Uncertainty in Income Taxes an Interpretation of FASB Statement 109 (FIN 48)*, as of January 1, 2007.

/s/ KPMG Auditores Independentes

KPMG Auditores Independentes

São Paulo, Brazil

June 20, 2008





## SADIA S.A.

## CONSOLIDATED BALANCE SHEETS

December 31, 2007 and 2006

(In thousands of Reais R\$, except share amounts)

	2007	2006
Assets		
Current assets:		
Cash and cash equivalents	1,100,894	726,295
Available-for-sale securities	1,262,251	1,701,719
Foreign currency futures and interest rate swap contracts	185,846	65,597
Accounts and notes receivable, net	834,349	921,044
Inventories	1,143,976	1,065,032
Recoverable taxes	325,868	169,347
Deferred income taxes	23,553	37,867
Other current assets	160,585	242,788
Total current assets	5,037,322	4,929,689
Property, plant and equipment, net	2,897,408	2,154,980
Other assets:		
Equity investees		400
Available-for-sale securities	500,516	129,127
Judicial deposits	68,696	78,157
Recoverable taxes	165,225	162,229
Prepaid pension plan	603,128	368,890
Other intangible assets	35,744	25,378
Goodwill	50,563	29,857
Advances to suppliers	61,753	73,358
Other	37,532	87,692
Total other assets	1,523,157	955,088
Total assets	9,457,887	8,039,757

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	2007	2006
Liabilities and Shareholders' equity		
Current liabilities:		
Short-term debt	1,102,567	1,226,567
Current portion of long-term debt	225,523	214,708
Foreign currency futures and interest rate swap contracts	105,445	76,630
Suppliers	593,951	503,230
Salaries and social charges payable and accrued vacation	132,500	112,433
Taxes payable	65,859	63,348
Dividends payable	135,666	59,420
Accrued employee bonus	82,346	45,776
Accrued marketing	30,872	32,566
Accrued freight	23,512	21,486
Other	155,044	137,115
Total current liabilities	2,653,285	2,493,279
Long-term liabilities		
Long-term debt	2,688,115	2,670,969
Foreign currency and interest rate swap contracts		6,649
Accrual for legal proceedings and labor claims	73,726	64,671
Income and social contribution taxes payables	19,760	11,283
Deferred income taxes	306,708	72,708
Accrued employee benefit liability	57,234	63,509
Stock options	14,763	3,324
Other	76,733	59,758
Total long-term liabilities	3,237,039	2,952,871
Minority interest	34,599	964
Shareholders' equity:		
Preferred shares, no par value, 426,000,000 shares authorized and issued in 2007 and 2006	1,250,774	938,914
Common shares, no par value, 257,000,000 shares authorized and issued in 2007 and 2006	749,226	561,086
Additional paid-in capital	1,650	289
Preferred shares in treasury, at cost	(84,118)	(33,341)
Appropriated retained earnings	980,828	999,430
Unappropriated accumulated (loss) earnings	136,682	(17,318)
Accumulated other comprehensive income	497,922	143,583
Total shareholders' equity	3,532,964	2,592,643
Total liabilities and shareholders' equity	9,457,887	8,039,757

See notes to the Consolidated Financial Statements.

## SADIA S.A

## CONSOLIDATED STATEMENTS OF INCOME

Years ended December 31, 2007, 2006 and 2005

(In thousands of Reais - R\$, except numbers of shares and per share amounts)

	2007	2006	2005
Gross operating revenue	9,955,908	7,894,054	8,327,372
Value-added tax on sales	(1,092,149)	(939,670)	(914,219)
Sales deductions	(109,683)	(124,084)	(95,311)
Net operating revenue	8,754,076	6,830,300	7,317,842
Cost of goods sold	(6,325,458)	(5,212,566)	(5,324,359)
Gross profit	2,428,618	1,617,734	1,993,483
Operating expenses:			
Selling	(1,477,698)	(1,303,040)	(1,245,892)
General and administrative	(99,669)	(96,485)	(80,959)
Other operating income, net	17,991	84,014	14,271
Total operating expenses	(1,559,376)	(1,315,511)	(1,312,580)
Operating income	869,242	302,223	680,903
Interest expense	(338,256)	(310,569)	(311,626)
Interest income and other, net	412,642	240,012	247,998
Foreign currency exchange gain, net	28,911	157,050	53,377
Income before income tax, equity in income (loss) of investees and minority interest	972,539	388,716	670,652
Income tax expense			
Current	(76,581)	(10,967)	(52,028)
Deferred	(54,997)	(18,117)	(16,411)
Total income tax	(131,578)	(29,084)	(68,439)
Income before equity in income (loss) of investees and minority interest	840,961	359,632	602,213
Equity in income (loss) of investees		(178)	1,219
Minority interest	1,016	1,106	(164)
Net income	841,977	360,560	603,268
Earnings per thousands shares preferred and common in R\$:			
Basic	1,247.54	531.18	885.08
Diluted	1,239.11	529.79	884.38
Weighted average number of shares outstanding:			
Basic:			
Preferred	417,908,212	421,785,712	424,595,712
Common	257,000,000	257,000,000	257,000,000
Diluted:			

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Preferred	422,501,871	423,568,114	425,137,363
Common	257,000,000	257,000,000	257,000,000

See notes to the Consolidated Financial Statements.

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## SADIA S.A.

## CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY

Years ended December 31, 2007, 2006 and 2005

(In thousands of Reais -R\$)

	2007	2006	2005
<b>Preferred shares</b>			
At the beginning of the year (426,000,000 shares)	938,914	938,914	627,055
Capital increase without issue of shares	311,860		311,859
At the end of the year (426,000,000 shares)	1,250,774	938,914	938,914
<b>Common shares</b>			
At the beginning of the year (257,000,000 shares)	561,086	561,086	372,945
Capital increase without issue of shares	188,140		188,141
At the end of the year (257,000,000 shares)	749,226	561,086	561,086
<b>Treasury shares</b>			
At the beginning of the year (2,504,288 shares)	(33,341)	(10,377)	(198)
Purchase of shares (4,435,000 shares)	(51,240)	(23,427)	(10,179)
Sales of shares (100,000 shares)	463	463	
At the end of the year (2,200,304 shares)	(84,118)	(33,341)	(10,377)
<b>Additional paid-in capital</b>			
At the beginning of the year	289		
Used to increase capital	(5)		
Exercise of stock option plan	1,366	289	
At the end of the year	1,650	289	
<b>Retained earnings</b>			
<b>Appropriated retained earnings</b>			
At the beginning of the year	999,430	738,417	767,441
Used to increase capital	(499,995)		(475,068)
Transfer from unappropriated retained earnings	481,393	261,013	446,044
At the end of the year	980,828	999,430	738,417
<b>Unappropriated accumulated (loss) earnings</b>			
At the beginning of the year	(17,318)	2,055	71,121
Used to increase capital			(24,932)
Net income	841,977	360,560	603,268
Transfer to appropriated retained earnings	(481,393)	(261,013)	(446,044)
<b>Dividends / interest on capital</b>			
<b>Preferred</b>			
At the end of the year	(127,665)	(73,781)	(126,617)
<b>Common</b>			
At the end of the year	(78,919)	(45,139)	(74,741)
At the end of the year	136,682	(17,318)	2,055
<b>Accumulated other comprehensive income (loss)</b>			
At the beginning of the year	143,583	(1,978)	
Adjustment to unrealized gain on available-for sale securities.	334,491	12,221	
Excess of additional liability on retirement indemnity			(2,996)
SFAS 158 transition amount		202,028	
Postretirement benefit reserves adjustments	208,682		
Income tax benefit (expense)	(188,834)	(68,688)	1,018
At the end of the year	497,922	143,583	(1,978)
<b>Total shareholders equity</b>	<b>3,532,964</b>	<b>2,592,643</b>	<b>2,228,117</b>
<b>Comprehensive income:</b>			
Net income	841,977	360,560	603,268

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Unrealized gain on available-for-sale securities, net of taxes (R\$117,882 in 2007, none in 2006)	216,609	12,221	
Postretirement benefit reserves adjustment, net of tax (R\$70,952)	137,730		
Excess of additional liability on retirement indemnity, net of taxes (R\$1,018 in 2005)			(1,978)
Comprehensive income	1,196,316	372,781	601,290

See notes to the Consolidated Financial Statements.

## SADIA S.A.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31, 2007, 2006 and 2005

(In thousands of Reais -R\$)

	2007	2006	2005
<b>Cash flows from operating activities:</b>			
Net income	841,977	360,560	603,268
Adjustments to reconcile net income to net cash provided by operating activities:			
Minority interest	33,635	(852)	164
Foreign currency exchange (gains), net	(28,911)	(157,050)	(53,377)
Equity income or loss of investees		178	1,219
Depreciation and amortization	246,980	205,384	182,263
Deferred income taxes	54,997	18,117	16,411
Pension plan	(96,508)	(128,302)	(45,711)
Provision for (reversal of) contingencies	12,179	4,007	(2,611)
Loss (gain) from sale of property, plant and equipment	(19,703)	(2,225)	51,897
Changes in operating assets and liabilities:			
Accounts and notes receivable	97,364	(202,912)	(89,012)
Inventories	(75,088)	(83,091)	100,221
Recoverable taxes and other assets	(6,598)	(108,653)	(73,018)
Judicial deposits	9,461	239	(1,192)
Suppliers	83,972	7,900	(3,407)
Accrued interest, net	(153,197)	63,569	130,546
Social charges, taxes payable, other liabilities	74,035	97,450	34,685
<b>Net cash provided by operating activities</b>	<b>1,074,595</b>	<b>74,319</b>	<b>852,346</b>
<b>Cash flows from investing activities:</b>			
Proceeds from sale of property, plant and equipment	3,636	14,967	3,400
Purchase of property, plant and equipment	(950,052)	(969,602)	(673,098)
Acquisition, net of cash acquired	(51,238)		(69,259)
Available-for-sale debt securities:			
Purchases	(2,528,376)	(2,397,950)	(1,512,809)
Maturities and sales	2,699,282	2,508,267	1,015,558
<b>Net cash used in investing activities</b>	<b>(826,748)</b>	<b>(844,318)</b>	<b>(1,236,208)</b>
<b>Cash flows from financing activities:</b>			
Short-term debt			
Issuances	1,103,128	1,237,242	863,702
Repayments	(1,214,872)	(795,593)	(994,557)
Long-term debt			
Issuances	1,494,855	1,397,295	1,490,109
Repayments	(1,098,843)	(833,089)	(916,382)
Dividends/interest on capital paid	(106,756)	(169,871)	(129,735)
Sale of treasury shares	480	463	
Acquisition of treasury stock	(51,240)	(23,427)	(10,179)
<b>Net cash provided by financing activities</b>	<b>126,752</b>	<b>813,020</b>	<b>302,958</b>
Net change in cash and cash equivalents	374,599	43,021	(80,904)
Cash and cash equivalents at beginning of year	726,295	683,274	764,178

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Cash and cash equivalents at end of year	1,100,894	726,295	683,274
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See notes to Consolidated Financial Statements.

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**SADIA S.A.**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2007, 2006 and 2005

(In thousands of Reais - R\$, unless otherwise indicated)

**1. Operations**

Sadia S.A. (together with its consolidated subsidiaries, Sadia or the Company ) is incorporated under the laws of the Federative Republic of Brazil. Sadia S.A.'s shares are traded on the São Paulo Stock Exchange (Bovespa) and on the Madrid Stock Exchange (Latibex) and its ADRs on the New York Stock Exchange (NYSE).

The Company's principal business is the production and distribution of poultry and pork products. The Company's operations include feed facilities, hatcheries, poultry farms for grandparent and parent stock, pork breeding centers, poultry and pork processing units, sales offices and distribution centers. Presently Sadia's operations are organized into three main business segments: Processed Products (sausage, ham, chicken nuggets, margarine, frozen meals, pizza and pasta among other similar products), Poultry (chickens and turkeys) and Pork .

The exchange rate of the Brazilian *real* ( R\$ ) to the U.S. dollar was R\$2.3407=US\$1.00 at December 31, 2005, R\$2.1380=US\$1.00 at December 31, 2006 and R\$1.7713=US\$1.00 at December 31, 2007.

**2. Presentation of the Consolidated Financial Statements**

a) Basis of presentation

The consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America ( US GAAP ), which differ in certain respects from accounting practices adopted in Brazil ( Brazilian GAAP ), which the Company uses to prepare its statutory consolidated financial statements as filed with the Brazilian Securities Commission CVM ( Comissão de Valores Mobiliários ).

b) Consolidation procedures

The consolidated financial statements include the accounts of Sadia and its controlled subsidiaries (ownership interest greater than 50%). The portion of equity and net income attributable to shareholders other than Sadia is reflected as minority interest in the consolidated financial statements. Investments in entities in which the Company does not control but has significant influence over, are accounted for on the equity method. All significant intercompany accounts and transactions are eliminated in consolidation.

## SADIA S.A.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2007, 2006 and 2005

(In thousands of Reais - R\$, unless otherwise indicated)

## 2. Presentation of the Consolidated Financial Statements (Continued)

## b) Consolidation procedures (Continued)

The following subsidiaries were included in the consolidated financial statements for the years ending December 31:

	Ownership %	
	2007	2006
<b>Sadia International Ltd.</b>	<b>100,00 %</b>	<b>100,00 %</b>
Sadia Uruguay S.A.	100,00%	100,00%
Sadia Alimentos S.A.		1,00%
Sadia Chile S.A.	60,00%	60,00%
Sadia Alimentos S.A.	95,00%	99,00%
Concórdia Foods Ltd.	100,00%	100,00%
Sadia UK. Ltd.	100,00%	100,00%
<b>Concórdia S.A. C.V.M.C.C. (e)</b>		<b>99,99 %</b>
<b>Big Foods Indústria de Produtos Alimentícios (b)</b>	<b>100,00 %</b>	
<b>Empresa Matogrossense de Alimentos Ltda. (a)</b>		<b>100,00 %</b>
<b>Intergen Ltda. (a)</b>		<b>100,00 %</b>
<b>Rezende Óleo Ltda.</b>	<b>100,00 %</b>	<b>100,00 %</b>
Rezende Marketing e Comunicações Ltda.	0,09%	0,09%
<b>Rezende Marketing e Comunicações Ltda.</b>	<b>99,91 %</b>	<b>99,91 %</b>
<b>Sadia Overseas Ltd. (c)</b>	<b>100,00 %</b>	
<b>Concórdia Holding Financeira S.A. (d)</b>	<b>100,00 %</b>	
Concórdia S.A. C.V.M.C.C. (d)	99,99%	
<b>Sadia G.m.b.H.</b>	<b>100,00 %</b>	<b>100,00 %</b>
Wellax Food Logistics C. P. A. S. U. Ltda.	100,00%	100,00%
Sadia Foods G.m.b.H.	100,00%	100,00%
Qualy B. V.	100,00%	100,00%
Sadia Panamá S.A	100,00%	100,00%
Sadia Japan Ltd.	100,00%	100,00%
Investeast Ltd. (f)	60,00%	
Concórdia Ltd (f)	100,00%	

- 
- (a) Investment merged with Sadia S.A. on January 12, 2007
  - (b) Acquired controlling on December 3, 2007
  - (c) Company established on May 15, 2007.
  - (d) Company established on June 27, 2007.
  - (e) Shareholding control changed on August 27, 2007.
  - (f) Company established on October 29, 2007

**SADIA S.A.**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2007, 2006 and 2005

(In thousands of Reais - R\$, unless otherwise indicated)

**2. Presentation of the Consolidated Financial Statements (Continued)**

b) Consolidation procedures (Continued)

The Company consolidates the financial statements of its wholly-owned investment fund Concórdia Foreign Investment Fund Class A. This investment fund has the sole purpose of centralizing the foreign investment fund portfolio. The administrative functions over the funds are delegated to a third party.

On January 12, 2007 the Extraordinary General Meeting approved the Board's proposal to incorporate the wholly-owned subsidiaries Empresa Matogrossense de Alimentos Ltda. and Intergen Ltda., in order to obtain operating and corporate synergies. This will result in reduction of administrative expenses due to rationalization of administrative and operating activities.

On January 31, 2007, the Company closed down Churrascaria Beijing Brasil Co. Ltd., in Peking, a joint venture between Sadia International Ltd. and the Chinese government. On the same day it approved the opening of a commercial agency office of the subsidiary Wellax Food Logistic Comércio de Produtos Alimentares Sociedade Unipessoal Ltd. in Shanghai. The liquidation process did not generate any losses for the Company as the book value of R\$480 was reimbursed.

On May 15, 2007 Sadia Overseas Ltd. was established with the objective of raising and passing on the funds obtained from the issuing of bonds on the international market. The Company was established with capital of US\$1 thousand, which was totally paid in by Sadia S.A.

On June 27, 2007 the establishment of Concórdia Holding Financeira S.A. was approved by the Company's Board of Directors to operate in the financial and similar segments. The company was established with initial paid-in capital of R\$10 thousand, and 99.7% of its capital was paid in by Sadia S.A. and the remaining 0.03% by individuals.



**SADIA S.A.**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2007, 2006 and 2005

(In thousands of Reais - R\$, unless otherwise indicated)

**2. Presentation of the Consolidated Financial Statements (Continued)**

b) Consolidation procedures (Continued)

On August 27, 2007, Concórdia Holding Financeira S.A. increased its capital with the issue ordinary, nominative shares, with no par value, which were subscribed in full by Sadia S.A., through the exchange of 999,990 shares it owned, of the capital in Concórdia S.A. Corretora de Valores Mobiliários, Câmbio e Commodities.

On October 29, 2007, the wholly-owned subsidiary Sadia GmbH acquired 60% of the quotas from the capital in Investeast Ltd., for the amount of US\$17 thousand. On November 8, 2007, Investeast Ltd. increased its capital with the issue of 23,666,666 quotas, of which Sadia GmbH contributed with 60% corresponding to its investment interest, for the amount of US\$14,200 thousand. Investeast Ltd. holds 100% of the capital in Concórdia Ltd., an industrial unit, located in the Russian city of Kaliningrado inaugurated in December 2007, with the start of trade operations forecasted for January 2008.

c) History of acquisitions

*Fiscal 2007 acquisitions*

On December 3, 2007 Sadia acquired all capital stock of Big Foods Indústria de Produtos Alimentícios Ltda. (primarily a producer and distributor of processed products) for R\$53,500 in cash, (net of cash acquired of R\$2,262). The operations of Big Foods Indústria de Produtos Alimentícios Ltda. are included in the consolidated financial statements from the date of acquisition.

The valuation of assets and liabilities was determined and the purchase price was allocated as follows:





**SADIA S.A.**

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2007, 2006 and 2005

(In thousands of Reais - R\$, unless otherwise indicated)

**2. Presentation of the Consolidated Financial Statements (Continued)**c) History of acquisitions continued

<b>Assets:</b>	
Accounts receivable	10,669
Inventory	3,856
Recoverable taxes	811
Other current assets	506
Property, plant and equipment	23,289
Amortizable intangible assets	14,428
Other non-current assets	302
<b>Liabilities:</b>	
Short-term and long-term debt	(3,464)
Accounts payable and accrued liabilities	(15,381)
Deferred income taxes liability	(7,353)
<b>Net assets</b>	<b>27,662</b>
Purchase price, net of cash acquired	(51,238)
Total Goodwill	23,576

***Fiscal 2006 acquisitions***

On January 11, 2006 the Company acquired 100% of the quotas representing the capital of Intergen Ltda. The acquired company's business relates to pork's genetics. The acquisition price was R\$1,000 and due to immateriality, pro-forma information is not presented.

On May 26, 2006 Sadia acquired the remaining 50% equity interest in Concórdia Foods Ltd. for one real and due to immateriality, pro-forma information is not presented.



**SADIA S.A.**

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2007, 2006 and 2005

(In thousands of Reais - R\$, unless otherwise indicated)

**2. Presentation of the Consolidated Financial Statements (Continued)**d) Pro forma results

The following unaudited pro forma financial information presents the combined results of operations of the Company and Big Foods Produtos Alimentícios Ltda. ( Big Foods ) as if the acquisition had occurred at January 1, 2006. The historical results of the Company for 2007 include the results of Big Foods. The pro forma results for 2007 and 2006 combine the historical results of the Company for 2007 and 2006 with the historical results for 2007 and 2006 of Big Foods. The unaudited pro forma financial information is not intended to represent or be indicative of the Company's consolidated results of operations or financial condition that would have been reported had the acquisition been completed as of the beginning of the periods presented and should not be taken as indicative of the Company's future consolidated results of operations or financial condition. Pro forma adjustments are tax-effected at the Company's statutory tax rate.

	<b>Unaudited 2007</b>	<b>Unaudited 2006</b>
Net operating revenue	8,830,372	6,886,867
Net income	836,392	357,575
Basic earnings per thousand shares in R\$:		
Preferred	1,239.27	529.81
Common	1,239.27	529.81

**3. Significant Accounting Policies**a) Use of estimates

The preparation of financial statements in accordance with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that directly affect the amounts reported in the consolidated financial statements and accompanying notes. Significant items subject to such estimates and

assumptions include the carrying amount and recoverability of property, plant and equipment, valuation allowances for receivables, recoverability of deferred income tax assets, provisions for contingencies, and determination of the fair value of derivatives and financial instruments and stock option valuation. Actual results could differ from those estimates.

**SADIA S.A.**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2007, 2006 and 2005

(In thousands of Reais - R\$, unless otherwise indicated)

**3. Significant Accounting Policies (Continued)**

b) Cash and cash equivalents

Cash equivalents are highly liquid investments with maturities of 90 days or less when purchased. For purposes of the consolidated statements of cash flow, the Company considers all highly liquid debt instruments with original maturities of 90 days or less to be cash equivalents.

c) Available-for-sale securities

**Management determines the appropriate classification of the debt securities at the time of purchase and reevaluates such designation as of each balance sheet date. Available-for-sale securities are carried at fair value, with the unrealized gains and losses reported in other comprehensive income. Interest on securities classified as available-for-sale is included in interest income and other, net. The specific identification method is used to determine the cost of securities sold, with realized gains and losses included in interest income and other, net.**

In determining if and when a decline in market value below amortized cost is other-than-temporary, management evaluates the market conditions, offering prices and other key measures for the investments in debt securities. When such a decline in value is deemed to be other-than-temporary, an impairment loss is recognized in the operating results to the extent of the decline.

d) Accounts and notes receivable

Trade accounts receivable are recorded at the invoiced amount and do not bear interest. The allowance for doubtful accounts is the Company's best estimate of the amount of probable credit losses in the Company's existing accounts receivable. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote.

e) Inventories

Processed products, livestock (excluding breeders), work-in-progress, raw materials and supplies and other are valued at the lower of cost (average method) or market. Cost for finished goods and work-in-progress includes purchased raw materials, labor and manufacturing and production overhead, which are related to the purchase and production of inventories. Normal losses in hog stock and poultry are inventoried and abnormal losses in stock are expensed immediately as cost of goods sold.

**SADIA S.A.**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2007, 2006 and 2005

(In thousands of Reais - R\$, unless otherwise indicated)

**3. Significant Accounting Policies (Continued)**

f) Property, plant and equipment

Property, plant and equipment are recorded at cost of acquisition, formation or construction, including the interest incurred on financing, during the period of construction, modernization and expansion of the industrial units. Expenditures that materially extend the useful lives of existing facilities and equipment are capitalized. Depreciation is calculated using the straight-line method at rates that consider the estimated useful lives of the assets and Company's work shifts. Accordingly, the depreciation rates used are 25 years for buildings, 5 to 10 years for machinery and equipment, 10 years for installations and 4 years for vehicles. Depletion of forestry resources is calculated based on the extraction of timber and the average costs of the forests.

Breeding stock is recorded at the cost of formation which includes the appropriation of costs of the breeding hens, animal feed, medication and labor. These costs are accumulated for approximately six months until the breeding stock initiates the breeding cycle. From then on, the costs of the breeding stock begin to be amortized by the estimated number of offspring for the poultry and straight line methods for hogs. The Company periodically reviews the estimated number of offspring to be produced by the batch and revises its estimate accordingly. The amortization is allocated to poultry and hog production costs. The productive cycle ranges from fifteen to thirty months.

g) Accounting for the Impairment of Long-Lived Assets

The Company reviews its property, plant and equipment for possible impairment whenever events or changes in circumstances indicate that the carrying value of an asset or group of assets may not be recoverable on the basis of undiscounted future cash flows. The reviews are carried out at the lowest level of groups of assets to which the Company is able to attribute identifiable future cash flows. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. These reviews to date have not indicated the need to recognize any impairment losses.

**SADIA S.A.**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2007, 2006 and 2005

(In thousands of Reais - R\$, unless otherwise indicated)

**3. Significant Accounting Policies (Continued)**

h) Goodwill and Other Intangible Assets

The Company accounts for business combinations and goodwill according to SFAS No.141, Business Combinations, and SFAS No.142, Goodwill and Other Intangible Assets. SFAS No.141 requires that the purchase method of accounting be used for all business combinations and that certain acquired intangible assets be recognized as assets apart from goodwill. SFAS No.142 provides that goodwill should not be amortized but instead should be tested for impairment annually at the reporting unit level. The Company's annual impairment test was performed in the fourth quarter of fiscal 2007. The results of this test indicated that goodwill was not impaired.

Other intangible assets consist of brand and client portfolio and amortization is on the straight-line basis over the lives of the intangibles, which ranges from 5 to 10 years.

i) Environmental matters

Our production facilities and also our forestry activities are both subject to Government environmental regulations. We diminish the risks associated with environmental matters, through operating procedures and controls and investments in pollution control equipment and systems. We believe that no provision for losses related to environmental matters is currently required, based on existing Brazilian laws and regulations.

j) Interest attributed to shareholders' equity

Brazilian corporations are permitted to attribute interest on shareholders' equity, which is deductible for statutory income tax purposes. The Company elected to pay such interest to its shareholders on December 31, 2007, 2006 and 2005 and accrued the amount due with a direct charge to shareholders' equity in a manner similar to a dividend. The distribution to the shareholders is subject to withholding income tax at the rate of 15%, and the amount of interest on shareholders' equity attributable to dividends must be net of such withholding income tax.





**SADIA S.A.**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2007, 2006 and 2005

(In thousands of Reais - R\$, unless otherwise indicated)

**3. Significant Accounting Policies (Continued)**

k) Revenues and expenses

The Company recognizes revenue when products are shipped and the customer takes ownership and assumes risk of loss, collection of the relevant receivable is probable, persuasive evidence of an arrangement exists and the sales price is fixed or determinable. In addition, the Company offers sales and incentives and discounts through various programs to customers, which are accounted for as a reduction of revenue in Sales deductions. Sales incentives include volume-based incentive programs and payments to customers for performing marketing activities on our behalf.

Shipping and handling costs are classified as selling expenses and totaled R\$555,478, R\$502,409 and R\$544,364 for the years ended December 31, 2007, 2006 and 2005, respectively.

Research and development costs are charged to expense as incurred and totaled R\$11,127, R\$12,389 and R\$10,873 for the years ended December 31, 2007, 2006 and 2005, respectively.

The cost of advertising is expensed as incurred. The Company incurred advertising expenses of R\$184,478, R\$157,449 and R\$116,559 during the years ended December 31, 2007, 2006 and 2005, respectively.

l) Foreign currency transactions

Transactions in foreign currency are recorded at the prevailing exchange rate at the time of the related transactions. Foreign currency denominated monetary assets and liabilities are translated using the exchange rate at the balance sheet date. Exchange differences are recognized in the statements of income as they occur.

m) Deferred income taxes

Deferred income taxes are accounted for under the asset and liability method. Deferred income tax assets and liabilities are recognized for the future income tax consequences attributable to temporary differences between the financial statement carrying amounts of assets and liabilities and their respective income tax bases and for operating loss and tax credit carryforwards. Deferred income tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences, operating loss and tax credit carryforwards are expected to be recovered or settled. The effect on deferred income tax assets and liabilities of a change in income tax rates is recognized in income in the period that includes the enactment date.

SADIA S.A.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2007, 2006 and 2005

(In thousands of Reais - R\$, unless otherwise indicated)

3. **Significant Accounting Policies** (Continued)

n) Earnings per share

The Company computes basic and diluted earnings per multiples of one thousand of its preferred and common outstanding shares to conform to the basis for quoting and trading on the São Paulo stock exchange. Basic earnings per one thousand preferred and common shares is calculated by dividing net income by the sum of the weighted average number of preferred and common shares outstanding during the period. The computation has been made as if the net income for each year would be fully distributed. Earnings may be used to increase capital or otherwise appropriated; consequently such earnings would no longer be available as dividends. Diluted earnings per one thousand preferred and common shares is computed by dividing net income by the sum of the weighted average number of common and preferred shares outstanding adjusted for the dilutive effect derived from the stock option plan.

o) Accounting for Derivative Instruments and Hedging Activities

In accordance with SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended by SFAS No. 137, *Accounting for Derivative Instruments and Hedging Activities - Deferral of the Effective Date of FASB Statement No. 133*, and SFAS No. 138, *Accounting for Certain Derivative Instruments and Certain Hedging Activities*, the Company records all foreign currency in the balance sheet as either assets or liabilities measured at fair value. Adjustments to fair value for foreign currency derivatives are included in foreign currency exchange gain (loss), net on the statement of income. Adjustments to the fair value of non-fixed grain purchase derivatives are included in interest income and other, net on the statement of income. The Company has not designated any derivative as held for hedging purposes for any periods presented.

**SADIA S.A.**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2007, 2006 and 2005

(In thousands of Reais - R\$, unless otherwise indicated)

**3. Significant Accounting Policies (Continued)**

p) Share based compensation

Effective January 31, 2005, the Company adopted the provisions of Statement of Financial Accounting Standards ( SFAS ) No.123(R) (revised 2004), Share-Based Payments , or SFAS 123(R), recognizing expense related to the fair value of its share-based compensation awards. Share based compensation expense for all share-based compensation awards granted is based on the grant-date fair value estimated in accordance with the provisions of SFAS 123(R) where the compensation expense is recognized on a straight-line basis over the requisite service period of the award.

q) Recently Issued Accounting Standards

In February 2008, the FASB issued FSP 157-1, which became effective for the Company on January 1, 2008. This FSP excludes FASB Statement No. 13, Accounting for Leases, and its related interpretive accounting pronouncements from the provisions of SFAS 157, except for leasing transactions arising from business combinations. The Company does not expect any significant impact to its consolidated financial statements.

In February 2008, the FASB issued FSP 157-2, which delays the company s January 1, 2008, effective date of FAS 157 for all non financial assets and non financial liabilities, except those recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually), until January 1, 2009. The Company does not expect any significant impact to its consolidated financial statements.

In February 2007, the FASB issued SFAS permits the measurement of certain financial instruments at fair value. Entities may choose to measure eligible items at fair value at specified election dates, reporting unrealized gains and losses on such items at each subsequent reporting period. SFAS 159 is effective for fiscal years beginning after November 15, 2007. The Company does not expect any significant impact to its consolidated financial statements.



**SADIA S.A.**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2007 2006 and 2005

(In thousands of Reais - R\$, unless otherwise indicated)

**3. Significant Accounting Policies (Continued)**

q) Recently Issued Accounting Standards (Continued)

In December 2007, the FASB issued SFAS 141-R, which will become effective for business combination transactions having an acquisition date on or after January 1, 2009. This standard requires the acquiring entity in a business combination to recognize the assets acquired, the liabilities assumed, and any noncontrolling interest in the acquire at the acquisition date to be measured at their respective fair values. SFAS 141-R changes the accounting treatment for the following items: acquisition-related costs and restructuring costs to be generally expensed when incurred; in-process research and development to be recorded at fair value as an indefinite-lived intangible asset at the acquisition date; changes in deferred tax asset valuation allowances and income tax uncertainties after the acquisition to be generally recognized in income tax expense; acquired contingent liabilities to be recorded at fair value at the acquisition date and subsequently measured at either the higher of such amount or the amount determined under existing guidance for non-acquired contingencies. SFAS 141-R also includes a substantial number of new disclosures requirements. The impact on the application of SFAS 141-R in the consolidation financial statements will depend on the business combinations arising during 2009 and thereafter.

In December 2007, the FASB issued SFAS establishes new accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. SFAS 160 requires the recognition of a noncontrolling interest (minority interest) as equity in the consolidated financial statements and separate from the parent's equity. The amount of net income attributable to the noncontrolling interest will be included in consolidated net income on the face of the income statement. Certain changes in a parent's ownership interest are to be accounted for as equity transactions and when a subsidiary is deconsolidated, any noncontrolling equity investment in the former subsidiary is to be initially measured at fair value. SFAS 160 also includes expanded disclosure requirements regarding the interests of the parent and its noncontrolling interest and is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. The Company does not expect any significant impact to its consolidated financial position.

r) Recently Adopted Accounting Standards

In July 2006, the FASB issued FIN 48, which became effective for the Company on January 1, 2007 (see Note 19).

## SADIA S.A.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2007 2006 and 2005

(In thousands of Reais - R\$, unless otherwise indicated)

## 4. Cash and Cash Equivalents

	2007	2006
<b><u>Local currency</u></b>		
Cash and bank accounts	196,920	200,931
Investment funds of variable earnings	420,239	259,697
Others	3,051	
	620,210	460,628
<b><u>Foreign currency</u></b>		
Cash and bank accounts	123,108	32,754
Interest-bearing current account	357,576	232,913
	480,684	265,667
	1,100,894	726,295

## 5. Available-for-Sale Securities

The following is a summary of available-for-sale debt securities at December 31, 2007 and 2006:

	Amortized Cost	Available-for-sale debt securities		Estimated Fair Value
		Gross Unrealized Gains	Gross Unrealized Losses	
December 31, 2006				
Investment funds	1,743,490	19,013	(6,792)	1,755,711
National treasury notes	75,135			75,135
Total	1,818,625	19,013	(6,792)	1,830,846
December 31, 2007				
Investment funds	1,312,057			1,312,057
Investment in Stocks	17,762	346,712		364,474
National treasury notes	86,236			86,236
Total	1,416,055	346,712		1,762,767

The investment fund portfolio in local currency is composed mainly of post-fixed Bank Deposit Certificates, National Treasury Securities and investment funds. The investment fund portfolio in foreign currency is composed mainly of investments in dual currency, which have



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differentiated profitability according to the strike negotiated, and structured notes issued by first-tier American and European banks, pegged to securities of first-tier Brazilian companies and banks.

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## SADIA S.A.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2007, 2006 and 2005

(In thousands of Reais - R\$, unless otherwise indicated)

## 5. Available-for-Sale Securities (Continued)

The amortized cost and estimated fair value of available-for-sale securities at December 31, 2007, by contractual maturity, are shown below:

Maturity periods	Available for-sale-debt securities	
	Amortized Cost	Estimated Fair Value
Due in less than one year	1,262,251	1,262,251
Due in one to three years	118,236	464,948
Due after five years	35,568	35,568
Total	1,416,055	1,762,767

## 6. Accounts and Notes Receivable, Net

	2007	2006
Customer		
Domestic	606,037	544,501
Export, mainly denominated in U. S. dollars	235,424	391,477
Allowance for doubtful accounts	(7,112)	(14,934)
	834,349	921,044

The changes in the allowance for doubtful accounts are as follows:

	2007	2006	2005
Balance at the beginning of the year	(14,934)	(10,591)	(9,160)
Amounts charged to expense	(2,359)	(6,435)	(4,234)
Write offs	10,181	2,092	2,803
Balance at the end of the year	(7,112)	(14,934)	(10,591)

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The Company and its subsidiaries abroad (Sadia International Ltd. and Wellax Food Comércio de Produtos Alimentares Lda.) entered and amended the Insured Receivables Purchase Agreement selling its export receivables up to a limit of US\$200 million, with interest rate of 0.26% + LIBOR. Credit Insurance covering 90% of the value of the receivables was taken out with third parties and the beneficiaries in the event of Default are the contracting financial institutions.

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**SADIA S.A.**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2007 2006 and 2005

(In thousands of Reais - R\$, unless otherwise indicated)

**6. Accounts and Notes Receivable, Net (Continued)**

Under this agreement, the Company retained servicing responsibilities, such as collection. At December 31, 2007, the receivables sold under this agreement amounted to R\$354,260 (R\$363,464 in 2006).

During the year ended December 31, 2007, the Company received cash proceeds of approximately R\$3,578 million (R\$1,910 million in 2006) and incurred expenses of R\$16 million (R\$14 million in 2006 and R\$8 million in 2005) with respect to this agreement. The Company had no credit losses on the sale of the receivables under this agreement for December 31, 2007, 2006 and 2005.

During 2007, 2006 and 2005, no single customer or group represented more than 10% of consolidated sales.

**7. Inventories**

	2007	2006
Finished goods	336,180	353,434
Live stock and poultry	291,521	304,561
Raw materials	208,216	179,060
Work in process	226,669	159,297
Packing material	44,945	33,653
Stock in transit	308	10
Supplies in warehouse and other	36,138	35,017
	1,143,976	1,065,032

**8. Recoverable Taxes**

	2007	2006
Value-added state sales tax- ICMS	233,079	145,978

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Value-added tax - IVA	65,966	4,085
PIS and COFINS	95,906	84,619
Federal excise tax IPI	43,916	59,175
Income tax withheld at source and advanced income tax	25,629	37,679
INSS	26,545	
Other	52	40
Total	491,093	331,576
Current portion	(325,868)	(169,347)
Non current portion	165,225	162,229

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**SADIA S.A.**



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### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2007 2006 and 2005

(In thousands of Reais - R\$, unless otherwise indicated)

#### 8. Recoverable Taxes (Continued)

##### Value-added state sales tax- ICMS

Composed of credits generated by the commercial operations and by the acquisition of property, plant and equipment, of a number of the Company's units and can be offset with taxes of the same nature.

##### Value-added tax - IVA

Composed of credits generated by the commercial operations in the foreign subsidiaries, which will be compensated with taxes of the same nature or cash reimbursements.

##### PIS and COFINS

Composed of credits arising from non-cumulative collection of PIS and COFINS, which can be compensated with other federal taxes.

##### Federal excise tax - IPI

Federal excise tax - IPI credits includes the tax credit on packing and other material and the presumed IPI incentive on exports. IPI credits are recognized as a reduction of cost of raw materials used in the production process of goods produced for export and are available to be utilized against other federal taxes payable.

##### Income tax withheld at source

Income tax withheld at source represents income tax paid upon redemption of certain investments and is available to be utilized against other federal income taxes payable.



National Institute of Social Security - INSS

As reported in note 20, the balance relates to credits originated from the Funrural charge on operations related to the production of poultry, which can be compensated with contributions of the same nature.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2007 2006 and 2005

(In thousands of Reais - R\$, unless otherwise indicated)

**9. Property, Plant and Equipment**

	2007	2006
Land	96,236	91,605
Buildings	991,810	688,288
Machinery and equipment	1,462,205	1,165,878
Installations	480,467	321,594
Breeding stock	463,122	315,769
Softwares	92,584	67,469
Vehicles	17,831	19,713
Timber and reforestation	36,251	27,524
Other	1,163	353
Construction in progress	686,548	647,467
	4,328,217	3,345,660
Accumulated depreciation	(1,430,809)	(1,190,636)
Total	2,897,408	2,154,980

Interest capitalized as part of property, plant and equipment was R\$53,620, R\$44,554 and R\$16,852 for the years ended December 31, 2007, 2006 and 2005, respectively.

**10. Judicial Deposits**

Judicial deposits are restricted assets of the Company placed on deposit with the court and held in judicial escrow relating to certain legal proceedings pending legal resolution.

**11. Other Intangible Assets, Net**

Intangible assets consist of the following:

	Amortizable cost amount in 2006	Acquisition in 2007	Amortization	Amortizable cost amount in 2007
Brand	5,648		(1,694)	3,954
Client portfolio	19,730	14,428	(2,368)	31,790
	25,378	14,428	(4,062)	35,744



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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2007 2006 and 2005

(In thousands of Reais - R\$, unless otherwise indicated)

**11. Other Intangible Assets, Net (Continued)**

No significant residual value is estimated for these intangible assets. The following table represents the total estimated amortization of intangible assets for the next five succeeding years:

	<b>Estimated Amortization Expenses</b>
2008	5,505
2009	5,505
2010	4,375
2011	3,811
2012	3,811
Thereafter	12,737
	35,744

**12. Goodwill**

The change in carrying amount of goodwill is as follows:

Goodwill relating to acquisitions during 2005	34,642
Tax benefit allocated to reduce goodwill	(1,914)
Balance as of December 31, 2005	32,728
Tax benefit allocated to reduce goodwill	(2,871)
Balance as of December 31, 2006	29,857
Tax benefit allocated to reduce goodwill	(2,871)
Goodwill relating to acquisition during 2007	23,577
Balance as December 31, 2007	50,563



**Goodwill refers to the acquisitions of S6 Frango in 2005 and Big Foods in 2007 and the Company estimates its balance will be deductible for tax purposes.**

Goodwill refers to the acquisitions of Só Frango in 2005 and Big Foods in 2007 and the Company estimates its balance

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2007 2006 and 2005

(In thousands of Reais - R\$, unless otherwise indicated)

**13. Short-term Debt**

	2007	2006
Working capital from commercial banks	696,116	708,868
Trade accounts receivable domestic credit facility	347,763	242,446
Bank borrowings, secured by accounts receivable	58,688	275,253
	1,102,567	1,226,567

Working capital from commercial banks primarily relates to export financing and pre-export advances, of which R\$449,918 in 2007 (R\$477,208 in 2006) are denominated in U.S. dollars with interest at Libor (4.60% p.a. at December 31, 2007) plus a spread at the rate of 0.15% p.a. and fixed rate coupons of 7.60% p.a. in 2007 (interest rate spread of 0.10% p.a. and fixed rate of 6.50% p.a. in 2006).

On May 12, 2003, the Company entered into an agreement to sell, from time to time, up to R\$150,000 of its domestic receivables to a special purpose entity, organized as an investment fund. The receivables sold are subject to a discount rate that should not be lower than 95% of the average rate of Brazilian interbank certificate deposits (11.12% p.a. at December 31, 2007). Through December 31, 2007, the Company received cash proceeds of R\$3,447,000 (R\$2,795,000 in 2006) from the sales of domestic receivables under this agreement and incurred in interest expenses of R\$28,000 for the year ended December 31, 2007 (R\$30,000 in 2006). Based on the structure of this transaction, the agreement has been accounted for as a financing by the Company. As of December 31, 2007, the accounts receivable for this finance pledged as collateral were R\$347,763 (R\$242,446 on December 31, 2006).

At December 31, 2007 and 2006, the weighted average interest rates on short-term debt were 6.30% p.a. and 5.36% p.a., respectively.









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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2007 2006 and 2005

(In thousands of Reais - R\$, unless otherwise indicated)

**14. Long-term Debt**

	2007	2006
<b>Foreign debt (denominated in U.S. dollars):</b>		
Export financing, composed of prepayment, payable in amount of R\$178,367 in installments up to 2012, subject to LIBOR variation for 6 month deposits (4.60% in December 2007 plus annual interest of 0.50% p.a, and a line focused on the incentive for foreign trade in amount of R\$1,096,112, subject to LIBOR variation for 6 month plus interest of 1.40% p.a., guaranteed by promissory notes or sureties.	1,274,479	1,904,241
Funds raised on the international capitals market through the issuance of bonds to be paid in 2017 with interest of 6.88% per annum, guaranteed by endorsement.	445,869	
BNDES (National Bank for Economic and Social Development), payable from 2008 to 2015, composed as follows: FINEM in the amount of R\$6,501 subject to the weighted average of the exchange variation of currencies traded by BNDES - UMBNDES and fixed interest of 3.50% p.a. and FINAME in the amount of R\$144,579 subject to the weighted average of the exchange variation of currencies traded by BNDES - UMBNDES and fixed annual interest of 3.50% p.a. guaranteed by mortgage bonds and real estate mortgages	151,080	145,458
IFC- International Finance Corporation funding in foreign currency for investment in property, plant and equipment, which R\$13,734 is subject to interest at fixed rate of 9.05% p.a., guaranteed by promissory real estate mortgages	6,312	13,734
	1,877,740	2,063,433

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2007 2006 and 2005

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**14. Long-term Debt (Continued)**

	2007	2006
<b>Local debt (denominated in reais):</b>		
BNDES (National Bank for Economic and Social Development), credit lines for investments and exports, payable from 2008 to 2015, composed as follows: FINAME in the amount of R\$865,550 subject to the Long-Term Interest Rate -TJLP (6.25% p.a. in December 2007) and interest of 3.55% p.a. and FINEM in the amount of R\$8,320 subject to TJLP and interest of 3.50% p.a., guaranteed by mortgage bonds and real estate mortgages	873,870	651,537
PESA - Special Aid Program for Agribusiness payable in installments from 2008 to 2020, subject to the General Price Index Market IGP-M plus interest rate of 9.89% p.a., secured by investments in debt securities with a carrying value of R\$35,568 and sureties.	144,935	136,440
Other subject to interest rate from 1% to 14% p.a.	17,093	34,267
	2,913,638	2,885,677
Less current portion of long- term debt	(225,523)	(214,708)
Long- term portion	2,688,115	2,670,969

At December 31, 2006, long-term debt maturities were as follows:

2009	262,907
2010	550,373
2011	619,066
2012	447,759
Thereafter	808,010
	2,688,115

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### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2007 2006 and 2005

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#### 15. Commitments, Contingencies and Guarantees

##### Commitments

The Company has entered into purchase commitments for production purposes (packing) amounting to approximately R\$59,000 at December 31, 2007 and is payable until 2010.

##### Leasing

The Company has non-cancelable operating lease agreements for industrial units that expire over the next five years. These leasing are subject to renewal for 1 more year and do not require any penalty if the Company does not renew them. The Company does not pay execution costs, such as maintenance and insurance. The rental expenses totaled R\$ 118,743 in 2007 (R\$ 64,470 in 2006).

The table below shows the future payments related to the leasing agreement at December 31, 2007:

2008	181,200
2009	181,200
2010	131,900
2011	131,900
2012	131,900
Total	758,100

##### Contingencies

The Company is party to certain legal proceedings arising in the normal course of business, and has made provisions based on its best estimate of the probable losses that will ultimately be incurred. The Company believes that the provisions made are sufficient to cover probable losses. In connection with certain legal proceedings, the Company has made judicial deposits, which will only be released upon a favorable legal judgment (see Note 10).

The Company's labor force is represented by collective bargaining agreements. All collective bargaining agreements are re-negotiated annually.











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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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**15. Commitments, Contingencies and Guarantees (Continued)**

**Contingencies** (Continued)

Contingencies classified as having a probable risk of loss, for which provisions are recorded under liabilities, have the following balances:

	2007	2006
Tax	26,908	31,605
Civil	15,046	8,950
Labor	31,772	24,116
	73,726	64,671

**Tax litigation**

The main tax contingencies involve the following cases:

a) **Withholding income tax**

Provision for withholding income tax on investments of Granja Rezende amounting to R\$4,075 and R\$985 for other provisions.

b) **State VAT (ICMS)**

The Company is a defendant in several administrative cases involving ICMS, mainly in the States of São Paulo, Rio de Janeiro and Paraná totaling a probable contingency estimated at R\$12,471.

c) **Other tax contingencies**

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Several cases related to payment of Social security contribution, PIS (Social Integration Program Tax), Import Duty and others totaling a provision of R\$9,377.

The Company has other contingencies of a tax nature in the amount of R\$903,729 in December 31, 2007, which was evaluated as representing a possible loss by the legal advisors and by Company management, therefore, no provision has been recorded. These contingencies refers mainly to questions raised regarding ICMS credits in the amount of R\$297,136, IPI Credit premium, in the amount of R\$297,345, and payment of social security contributions, in the amount of R\$173,804.

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### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2007 2006 and 2005

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#### 15. Commitments, Contingencies and Guarantees (Continued)

##### Civil litigation

The amount provided represents principally proceedings involving claims for indemnification for losses and damages, including pain and suffering, arising from work-related accidents and consumer relations.

The Company has other civil contingencies where the claimed amount is R\$59,606, that were assessed as possible losses by the Company's legal counsel and management and therefore no provision was recorded.

##### Labor claims

There are approximately 2,205 labor claims against the Company. These claims are mainly related to overtime, and health exposure or hazard premiums, none of the amounts provided involve a significant amount on an individual basis. The total amount of such labor claims amount to R\$53,491 and a provision of R\$31,772 has been provided in the accompanying financial statements based on historical information and represents the Company's best estimate of the ultimate loss that will be incurred.

##### Guarantees

The Company provides guarantees for loans obtained by certain out growers located in the central region of Brazil as part of a special development program for that region. Such loans are used to improve the out growers farms installations and will be repaid in 10 years. The loans guaranteed by the Company amount to R\$229,700 (R\$20,245 in 2006) and based upon the provisions of FIN 45 the fair value of the non-contingent obligation of such guarantees in the amount of R\$6,335 has been provided for.

#### 16. Shareholders Equity

Brazilian Corporate Law permits the use of appropriated and unappropriated retained earnings to increase capital. Such a capital increase must be approved by the Company's Board of Directors. The allocation of the capital increase between preferred and common shares is proportional to the number of shares outstanding.



The preferred shareholders may not vote at shareholders meetings but have the right to receive priority in repayment of their capital, in the case of liquidation.

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2007 2006 and 2005

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### 16. Shareholders Equity (Continued)

Subscribed and paid-in capital is represented by the following shares with no par value, at December 31, 2007, 2006 and 2005:

	2007	2006	2005
Common shares	257,000,000	257,000,000	257,000,000
Preferred shares	426,000,000	426,000,000	426,000,000
Total shares authorized and issued	683,000,000	683,000,000	683,000,000
Preferred shares in treasury	(10,259,288)	(5,924,288)	(2,504,288)
Total outstanding shares	672,740,712	677,075,712	680,495,712

The Company's by-laws provide to pay a mandatory dividend to common and preferred shareholders of at least 28% of annual net distributable income determined in accordance with Brazilian Corporate Law. From 1997 to 2004, preferred shareholders were entitled to receive a dividend per share 10% higher than common shareholders.

On December 15, 2005, in an extraordinary general shareholder's meeting, the right for preferred shares to be included in a potential public offering for sale of the Company's control (Tag along) was approved, and the shareholders holding preferred shares were guaranteed a minimum price equal to 80% of the amount paid for a share with voting rights, which is part of the controlling block, substituting/excluding item b) of article 12 of the by-laws that granted an advantage for receipt of dividends by holders of preferred shares at least 10% higher than those attributed to the holders of common shares, therefore making equal the remunerations attributed to the common and preferred shares in terms of dividends. This approval was ratified in a Special Meeting of Preferred Shareholders by 57.12% of the total number of preferred shares holders.

Brazilian Corporate Law permits the payment of dividends only in *reais*, limited to the amounts of research and development and expansion reserves of appropriated retained earnings and unappropriated retained earnings in the financial statements prepared in accordance with Brazilian Corporate Law. At December 31, 2007 and 2006 the Company had in its statutory books the following amounts:

	2007	2006
Appropriated retained earnings:		
Research and development reserve	71,843	74,444
Expansion reserve	836,747	850,147

## SADIA S.A.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2007 2006 and 2005

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**16. Shareholders Equity (Continued)**

Dividends paid per thousand shares in R\$ were as follows:

	2007	2006	2005
Preferred	189.61	287.12	231.96
Common	189.61	287.12	210.87

Brazilian Corporate Law and the Company's by-laws require that annual appropriations be made to certain reserves (appropriated retained earnings). These comprise mainly (a) 5% of net income (statutory accounts) must be transferred to a legal reserve until such reserve reaches 20% of capital stock under Brazilian GAAP; (b) appropriation of 15% to a research and development reserve which is general reserve for support development of the Company's operations; (c) appropriation from 15% to 60% to a expansion reserve. The legal reserve cannot be used to distribute dividends to shareholders.

The components of appropriated retained earnings at December 31, 2007 and 2006 were as follows:

	2007	2006
Legal reserve	72,238	74,839
Research and development reserve	71,843	74,444
Expansion reserve	836,747	850,147
	980,828	999,430

**17. Stock Option Plan**

In the Ordinary and Extraordinary General Meeting of April 29, 2005 the stock option plan was approved for the Company's officers. The plan comprises nominative preferred shares issued by the Company.

The price for exercising the options does not include any discount and will be based on the average value of the quotation for the share in the last three days of trading on the São Paulo Stock Exchange prior to the grant date, updated by the accumulated National Consumer Price Index (INPC) between the grant date and the exercise date of the option. The vesting period, during which the participant cannot exercise their rights to purchase the shares, will be three years as from the option granting date. The participants will be able to fully or partially exercise their purchase rights after the vesting period within a maximum period of 2 years, and only after this period has expired will lose the right to the options not exercised.

## SADIA S.A.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2007 2006 and 2005

(In thousands of Reais - R\$, unless otherwise indicated)

## 17. Stock Option Plan (Continued)

Under the plan regulations, the preferred shares will be reacquired and earmarked in treasury for this sole purpose.

The composition of the options granted is presented as follows:

Cycle	Grant	Date	Expiration	Quantity of Shares	Grant date	Price of shares	Update-INPC
							At 12/31/2008
2005	06/24/05		06/24/10	2.200.000	4.55		5.00
2006	09/26/06		09/26/11	3.520.000	5.68		6.06
2007	09/27/07		09/27/10	5.000.000	10.03		10.23

Considering the provisions of SFAS 123R, as the option price contains an inflation index (INPC) that is considered an *other condition*, the fair value of the option in the amount of R\$14,763 (R\$3,324 in 2006) has been classified in stock option, non-current liability and the compensation expense as general and administration expense. Compensation expense is charge to profit and loss on straight line basis over the vesting period of the options. The compensation expense amount to R\$12,788 in 2007, R\$2,930 in 2006 and R\$678 in 2005.

The fair value of stock-based awards was estimated based on the following assumptions for the year ended December 31, 2007, 2006 and 2005:

	December, 31 2007	December, 31 2006	December, 31 2005
Expected term (in years)	5	5	5
Interest rate	9.9%	13%	18%
Volatility	43.61	44.39%	37.06%
Dividend yield	3.3%	3.5%	4.8%
Expected inflation	12.36%	11.64%	12.12%
Weighted-average fair value at grant date	R\$ 3.51	R\$ 2.77	R\$ 2.84

Expected Term - The Company's expected term represents the period that the Company's stock-based awards are expected to be outstanding and was determined based on the assumption that the officers will exercise their options the vesting period is over.

Expected Volatility The Company uses the trading history and implied volatility of its preferred stock in determining an estimated volatility factor when using the Black-Scholes option-pricing formula to determine the fair value of options granted.



SADIA S.A.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2007 2006 and 2005

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17. **Stock Option Plan** (Continued)

Expected Dividend The Company uses the payments history per stock dividends for the expected dividend value factor when using the Black-Scholes option-pricing formula to determine the fair value of options granted.

Estimated forfeitures When estimating forfeitures, the Company considers voluntary and involuntary termination behaviors as well as analysis of actual options forfeitures.

Risk-Free Interest Rate - The Company bases the risk-free interest rate used in the Black-Scholes valuation method on the implied yield currently available on Interbank Bank Certificated rate CDI.

Inflation Expected inflation determined based on the information available with BACEN (Brazilian Central Bank).

As of December 31, 2007 the amount of R\$27,958 related to the unrecognized compensation cost related to stock options is expected to be recognized from 1.0 to 2.8 years. The Company currently has shares in treasury, which are sufficient to cover future stock option exercises.

Stock option activity for the years presented is as follows:

	Shares in thousands	Weighted- average expected exercise price
Outstanding as of December 31, 2005	2,200	5.19
Grants of options	3,520	6.43
Exercises	(100)	4.68

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Forfeitures or expirations	(300)	
Outstanding as of December 31, 2006	5,320	6.31
Grants of options	5,000	11.43
Exercises	(100)	4.80
Forfeitures or expirations	(265)	
Outstanding as of December 31, 2007	9,955	8.74

None of the outstanding shares was exercisable at 2007, 2006 and 2005.

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## SADIA S.A.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2007 2006 and 2005

(In thousands of Reais - R\$, unless otherwise indicated)

**18. Net Income per share**

The table below reconciles basic weighted average outstanding to diluted weighted average shares outstanding.

	2007		2006		2005	
	Common	Preferred	Common	Preferred	Common	Preferred
Basic weighted average shares outstanding	257,000,000	417,908,212	257,000,000	421,785,712	257,000,000	424,595,712
Effect of dilutive securities stock options		4,593,659		1,782,402		541,651
Diluted weighted average shares outstanding	257,000,000	422,501,871	257,000,000	423,568,114	257,000,000	425,137,363

**19. Income Taxes**

Income before provision for income taxes was as follows:

	2007	2006	2005
Domestic	423,291	199,814	288,056
Foreign	549,248	188,902	382,596
	972,539	388,716	670,652

A break-down between domestic and foreign income and social contribution tax (expense) benefit for the year is as follows:

2007	2006	2005
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Domestic:			
Current	(77,477)	(10,519)	(51,956)
Deferred	(48,581)	(16,936)	(14,691)
	(126,058)	(27,455)	(66,647)
Foreign:			
Current	896	(448)	(72)
Deferred	(6,416)	(1,181)	(1,720)
	(5,520)	(1,629)	(1,792)
	(131,578)	(29,084)	(68,439)

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## SADIA S.A.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Years ended December 31, 2007 2006 and 2005

(In thousands of Reais - R\$, unless otherwise indicated)

**19. Income Taxes (Continued)**

Brazilian income taxes consist of federal income tax and social contribution. The 2007, 2006 and 2005 statutory rates for these taxes were as follows:

Federal income tax	25.00%
Social contribution tax	9.00%
Combined statutory rate	34.00%

Because the Company is engaged in rural activities, certain related investments can be depreciated for tax purposes on an accelerated basis and the resulting tax losses may be offset against profits generated in other activities.

The reconciliation of income tax at the Brazilian statutory rates to income tax expense follows:

	2007	2006	2005
Income before income taxes	972,539	388,716	670,652
Income tax expense, at Brazilian statutory taxes rates	(330,663)	(132,163)	(228,022)
Tax-exempt income in foreign subsidiary	180,329	63,046	128,291
Non-taxable (nondeductible) foreign currency exchange (loss)	(33,883)	5,715	(51,816)
Benefit from deductibility of interest attributed to shareholders' equity (Note 3 j))	53,453	41,869	59,411
Exempted financial results		3,432	13,699
Stock-options	(4,348)	(900)	(230)
Realized income tax contingency charged to income tax expense		(4,124)	
Tax incentive	6,967		
Other permanent differences	(3,433)	(5,959)	10,228
Income tax expense	(131,578)	(29,084)	(68,439)

During 2002, the Company established a new foreign subsidiary. Due to a current tax treaty, earnings generated by such subsidiary are taxed when actually distributed. As the Company intends to permanently reinvest the earnings of this foreign subsidiary, no income tax payment is required. At December 31, 2007, this subsidiary had cumulative earnings of R\$1,467 million that are not tax effected (R\$1,103 million in 2006). If such cumulative earnings were to be distributed to the Company, approximately R\$220 million of taxes would be paid.



## SADIA S.A.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Years ended December 31, 2007 2006 and 2005

(In thousands of Reais - R\$, unless otherwise indicated)

**19. Income Taxes (Continued)**

Deferred tax assets and liabilities are comprised of the following:

	2007	2006
Deferred tax assets:		
Employee bonus accrual	27,998	15,564
Accrued contingencies	31,785	25,824
Accrued employee benefit liability	22,518	25,259
Tax loss carryforwards	8,844	37,834
Property, plant and equipment	42,521	47,314
Deferred charges	28,074	32,354
Other	33,805	31,417
Total deferred income tax assets	195,545	215,566
Valuation allowance for deferred tax assets	(6,580)	
Total deferred tax assets, net	188,965	
Deferred tax liabilities:		
Property, plant and equipment	(131,649)	(106,270)
Pension plan	(205,064)	(125,423)
Fair value of available-for-sale investments	(117,882)	
Intangible assets	(12,153)	(8,629)
Other	(5,372)	(10,085)
Total deferred tax liabilities	(472,120)	(250,407)
Net deferred tax (liabilities) assets	(283,155)	(34,841)
Current assets portion	23,553	37,867
Non current (liabilities) assets portion	(306,708)	(72,708)

The valuation allowance for deferred tax assets established during 2007 relates to certain subsidiary loss carryforwards that may not be realized based upon the Company's current year estimate of future taxable income of these subsidiaries and analysis of the likelihood of realizing these loss carryforwards.

Subsequently recognized tax benefits related to the valuation allowance of deferred tax assets as of December 31, 2007 will reduce goodwill in the amount of R\$4,018 related to Big Foods and allocated to income tax benefit that would be reported in the consolidated statements of income R\$2,562 related to Concordia Ltd.





**SADIA S.A.**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Years ended December 31, 2007 2006 and 2005

(In thousands of Reais - R\$, unless otherwise indicated)

**19. Income Taxes (Continued)**

In assessing the of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible and tax loss carryforwards utilizable. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. Based upon the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax assets are deductible, management believes it is more likely than not that the Company will realize the benefits of these deductible differences and tax loss carryforwards at December 31, 2007.

The Company has not provided a valuation allowance against the net deferred tax asset as of December 31, 2007 and 2006, except for the subsidiary tax loss carryforwards, arising out of temporary differences based upon management's belief that it is more likely than not that such deferred tax asset will be realized in the future through reversal of the differences and the generation of taxable income by the Company.

The total amount of R\$26,012 related to loss carryforwards have no expiration date and are available to offset up to 30% of future taxable income in any given year.

In July, 2006, the Financial Accounting Standard Board (FASB) issued FASB Interpretation N° 48 Accounting for Uncertainty Income Taxes, an interpretation of FASB Statement 109 (FIN 48). FIN 48 provides guidance on recognition, classification and disclosure concerning uncertain income tax liabilities. The evaluation of a tax position requires recognition of a tax liability if it is more likely than not that a tax position will not be sustained upon examination. The Company adopted FIN 48 on January 1, 2007.

## SADIA S.A.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Years ended December 31, 2007 2006 and 2005

(In thousands of Reais - R\$, unless otherwise indicated)

**19. Income Taxes (Continued)**

As a result of the implementation of FIN 48, the Company reclassified R\$11,283 as of December 31, 2006 from Accrual for legal proceedings and labor claims to Income and social contribution taxes payable (long-term liabilities). The adoption of FIN 48 did not result in a cumulative adjustment to retained earnings. The Income and social contribution taxes (long-term) is composed for R\$9,938 (R\$11,283 in 2006) recorded on the acquisition of the subsidiary Granja Rezende (incorporated in 2003), R\$7,222 of income tax and R\$2,600 on contribution taxes of Concórdia S.A. CVMCC.

A reconciliation of the beginning and ending amount of total unrecognized tax benefits is as follows:

Balance at January 1, 2007	4,125
Increase related to current year tax positions	9,822
Decrease related to prior year tax positions	
Settlements	(332)
Balance at December 31, 2007	13,615

It is possible that the amount of unrecognized tax benefits will change in the next twelve months, however, an estimated of the range of the possible change cannot be made at this time due to the long time to reach a settlement agreement on decision with the taxing authorities.

If recognized, the total amount of R\$13,615 of unrecognized tax benefits would have an impact on Company's effective tax rate.

Interest income recognized related to uncertain tax positions amounted to R\$1,013 in 2007. Total accrued interest and penalties as of December 31, 2007 and December 31, 2006 was R\$6,145 and R\$7,158, respectively, and were included in Income and social contribution tax payable (Long-term liabilities).

The Company records interest related to unrecognized tax benefit in financial expenses and penalties in other operating expenses.

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The Company and its subsidiaries file income tax returns in Brazil and foreign jurisdictions. The table below shows tax years for which Sadia is subject to income tax examinations by tax authorities:

	<b>Open tax years</b>
Europe (Portugal)	2003-2007
Russia	2005-2007
Brazil	2003-2007

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**SADIA S.A.**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2007 2006 and 2005

(In thousands of Reais - R\$, unless otherwise indicated)

**20. Risk Management and Financial Instruments**

The Company's operations are exposed to market risks, principally in relation to exchange rate variations, credit risk and grain purchase prices. These risks are monitored by the Risk Management Area that uses a specific system to calculate the VAR -Value at Risk, and permanently monitored by the finance committee, composed of members of the Board of Directors and other finance executives of the Company, who are responsible for defining the Board's risk management strategy by determining the position and exposure limits.

a) Exchange rate and interest rate risk

The exchange rate risk for loans and financing and any other payables denominated in foreign currency is hedged by short term investments denominated in foreign currency and foreign receivable from exports, which serve as natural hedge and by derivative financial instruments.

The Company within its hedge strategy uses foreign currency future contracts (U.S. dollar, Euro and Pound) as a form of mitigating exchange rate risk over operating and financial assets and liabilities.

The Company by making a distinction at the inception of the contracts, the Company segregated the results from derivatives related to its operating activities and those related to its financial assets and liabilities. Consequently, a gain of R\$206.599 and R\$24.446, respectively, were recorded in gross operating revenue and foreign currency exchange, net in 2007 (R\$45,935 and R\$38,625 in 2006 respectively).

**SADIA S.A.**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2007 2006 and 2005

(In thousands of Reais - R\$, unless otherwise indicated)

**20. Risk Management and Financial Instruments (Continued)**

a) Exchange rate and interest rate risk (Continued)

The Company also as a form of mitigating interest rate risk enter into rate swaps (Dollar to Interbank Deposit Certificate CDI). The amount of R\$9,293 (R\$15,726 in 2006 and R\$100,098 in 2005) was recorded in interest expense

b) Credit risk

The Company is potentially exposed to credit risk in relation to its trade accounts receivable, long and short-term investments and derivative instruments. The Company limits the risk associated with these financial instruments by subjecting them to the control of highly rated financial institutions that operate within the limits pre-established by the credit and financing committees.

The concentration of credit risk with respect to accounts receivable is minimized due to the spread of its client base, since the Company does not have any customer or group representing 10% or more of its consolidated revenues, as well as granting credits for customers with solid financial and operational ratios. Generally, the Company does not require a guarantee for domestic accounts receivable.

c) Grain purchase price

The Company's operations are exposed to the volatility in prices of grain (corn and soybean) used in the preparation of fodder for its breeding stock, where the price variation results from factors beyond the control of management, such as climate, the size of the harvest, transport and storage costs and government agricultural policies, among others. The Company does not enter into futures or options contracts to hedge against fluctuations in the price of the commodities, although certain purchase contracts provide for the commodity pricing to be determined generally at dates up to one year after purchase of the grains. The Company has a grain committee, composed of the chief executive officer and financial and operational executives.



**SADIA S.A.**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2007 2006 and 2005

(In thousands of Reais - R\$, unless otherwise indicated)

**20. Risk Management and Financial Instruments (Continued)**

d) Estimated market values

The Company used the following methods and assumptions in estimating the fair value disclosures of its financial instruments at December 31, 2007 and 2006:

*Cash and cash equivalents:* The carrying amounts reported in the balance sheet for cash and cash equivalents approximate their fair values.

*Investments in debt securities:* The market values of investments in debt securities were calculated based on the market quotations of these securities when such information is not available, the fair value is based on their present value calculated through the future cash flows and using interest rates applicable to instruments of similar nature, terms and risk, or based on the market quotations of these securities.

*Accounts and notes receivable and accounts payable:* The carrying amounts reported in the balance sheet for accounts and notes receivable and accounts payable approximate their fair values.

*Long and short-term debt:* The market values of loans and financing were calculated based on their present value calculated through the future cash flows and using interest rates applicable to instruments of similar nature, terms and risks or based on the market quotation of these securities. The market value of BNDES financing are similar to the book values, since there are no similar instruments with comparable maturities and interest rates.

*Foreign currency and interest rate swap contracts:* The fair values of foreign currency and interest rate swap contracts were estimated based on quoted market prices of comparable contracts. At December 31, 2007 and 2006 the notional

amounts of the outstanding contracts were R\$2,251,459 and R\$1,554,843 and the measurement of these contracts at fair values resulted in a gain of R\$59,249 and loss of R\$22,535, respectively. The Company recognizes these contracts on the balance sheet at fair value and adjustments to fair value were recorded through income. The actual cash settlements on the contracts occur at times specified in each agreement. The Company does not intend to terminate any of these contracts prior to maturity.



## SADIA S.A.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2007 2006 and 2005

(In thousands of Reais - R\$, unless otherwise indicated)

**20. Risk Management and Financial Instruments (Continued)**

The following table presents the carrying amounts and estimated fair values of the Company's financial instruments at December 31, 2007. The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties.

	2007 Carrying amount	Fair value
<b>Financial assets:</b>		
Cash and cash equivalents	1,100,894	1,100,894
Available for sale securities	1,416,066	1,762,767
Accounts and notes receivable, net	834,349	834,349
<b>Financial liabilities:</b>		
Short-term debt	1,102,567	1,102,567
Current portion of long-term debt	225,523	225,523
Suppliers	593,951	593,951
Long term debt	2,688,115	2,697,642

**21. Supplementary Retirement Plan**

The Company sponsors a defined benefit pension plan that offers supplementary retirement benefits to the employees, through Attilio Francisco Xavier Fontana Foundation. The pension benefit is generally defined as the difference between (i) the retiree's average salary during the last 12 months indexed to the date of retirement until the limit of 80% of the last salary, and (ii) the value of the retirement pension paid by the Brazilian social security system. For retired employees the initial pension payment is subsequently adjusted upwards to recognize cost of living increases. The Company provides for the costs of pension benefits based on a fixed percentage of remuneration, as recommended annually by independent actuaries. The accumulated benefit obligation related to this pension plan were R\$799,627 and R\$686,175 at December 31, 2007 and 2006, respectively. The Company expects to contribute approximately R\$2,105 to the plan during fiscal year 2007.

## SADIA S.A.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2007 2006 and 2005

(In thousands of Reais - R\$, unless otherwise indicated)

**21. Supplementary Retirement Plan (Continued)**

The Company also provides for other retirement benefits to its employees and certain employee executives. Such benefit plans generally provide benefits payable as a single lump sum to eligible employees upon retirement. The Company intends to fund these benefits from its operations. The aggregate projected benefit obligation and the aggregate accumulated benefit obligation related to those other retirement benefit were R\$66,229 and R\$52,702, respectively, at December 31, 2007 and R\$63,509 and R\$57,244, respectively, at December 31, 2006.

Information regarding the plans follows:

	Pension benefits		Other benefits	
	2007	2006	2007	2006
<b>Change in benefit obligation</b>				
Benefit obligation at beginning of year	759,110	704,529	63,509	57,244
Net service cost	19,154	19,589	5,830	4,905
Interest cost	83,993	77,995	6,860	6,299
Participants contributions (service cost)	5,927	5,814		
Actuarial (gain) loss	42,592	(13,066)	(13,876)	(3,558)
Benefits paid	(42,069)	(35,751)	(5,089)	(1,381)
Benefit obligation at end of year	868,707	759,110	57,234	63,509
<b>Change in plan assets</b>				
Fair value of plan assets at beginning of year	1,128,000	1,035,000		
Actual return on plan assets	377,325	120,185		
Company contributions	2,105	2,115		
Participant contributions	6,475	6,451		
Benefits paid	(42,069)	(35,751)		
Fair value of plan assets at end of year	1,471,836	1,128,000		
<b>Funded status</b>				
Funded status at end of year	368,890	95,027	(63,509)	(32,264)
SFAS 158 transition amount		273,863		(31,245)
Accumulated other comprehensive income	189,058		16,156	
Net periodic pension cost	43,075		(14,970)	
Company contributions	2,105		5,089	
Net amount recognized	603,128	368,890	(57,234)	(63,509)
<b>Amounts recognized in the statement of financial position</b>				
Prepaid pension plan	603,128	368,890		
Accrued benefit liability			(57,234)	(63,509)

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Net amount recognized	603,128	368,890	(57,234)	(63,509)
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**SADIA S.A.**

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2007 2006 and 2005

(In thousands of Reais - R\$, unless otherwise indicated)

**21. Supplementary Retirement Plan (Continued)**

The following projected benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

	Pension benefits	Other benefits
2007	38,227	6,603
2008	41,226	1,472
2009	45,166	2,017
2010	49,293	2,193
2011	53,854	5,237
2012 -2015	349,333	40,573

The pension plan weighted-average asset allocation at December 31, 2007 and 2006, by asset category, is as follows:

	2007	2006
Debt securities	57%	62%
Equity securities	34%	29%
Real estate	8%	8%
Others assets	1%	1%
	100%	100%

The investment strategy adopted by Attilio Francisco Xavier Fontana Foundation for the pension plans sponsored by the Company is to maximize the rates of return on plan assets within an acceptable level of risk aiming to minimize the cost of providing pension benefits while maintaining adequate funding levels. Such investment strategy is revised on an annual basis. The current strategic targets are to have a pension asset portfolio comprising of 34% equity securities, 57% debts securities (substantially comprised of fixed and variable income investment funds) and 8% real estate. The plan asset portfolio does not include any hedging, futures or derivative instruments.

Part of equity securities at December 31, 2007, was entirely represented by 11,944,848 common shares and 12,688,198 preferred shares of the Company (24,998,558 common shares at December 31, 2006) with an aggregate fair value of R\$271.456 at December 31, 2007. Dividends paid by the Company on shares held by the plan were R\$7.538 for the year ended December 31, 2007 (R\$4,391 in 2006).



## SADIA S.A.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2007 2006 and 2005

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## 21. Supplementary Retirement Plan (Continued)

	2007	2006
<b>Weighted-average assumptions</b>		
Discount rate	10.8%	11.3%
Expected return on plan assets	12.4%	12.4%
Rate of compensation increase	7.1%	7.1%

The Company uses a December 31 measurement date for its plans. In developing the expected rate of return on plan assets, the Company considered the actuarial assumptions recommended by its independent actuaries, which basically reflect expectations of future returns.

	2007	Pension benefits		2007	Other benefits	
		2006	2005		2006	2005
<b>Components of net periodic benefit cost</b>						
Service cost	19,154	19,589	13,018	5,830	4,905	4,912
Interest cost	83,993	77,995	64,139	6,860	6,299	6,495
Expected return on plan assets	(137,839)	(126,539)	(110,592)			
Amortization of transition asset	(1,882)	(1,882)	(1,882)			
Amortization of prior service cost	1,442	1,442		2,128	2,128	2,397
Recognized net actuarial gain	(7,943)	(8,211)	(8,238)	152	581	558
Net periodic pension cost (credit)	(43,075)	(37,606)	(43,555)	14,970	13,913	14,362

In September 2006, the FASB issued SFAS 158 - Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans - an Amendment of FASB Statements No. 87, 88, 106 and 132(R) ( SFAS 158 ), which became effective for the Company on December 31, 2006. This standard requires the Company to recognize the overfunded or underfunded status of each of its defined benefit pension and other postretirement benefit plans as an asset or liability and to reflect changes in the funded status through Accumulated other comprehensive income, as a separate component of shareholders' equity.

## SADIA S.A.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2007 2006 and 2005

(In thousands of Reais - R\$, unless otherwise indicated)

**21. Supplementary Retirement Plan (Continued)**

The incremental effect of applying SFAS 158 on individual line items of the balance sheet as of December 31, 2006 were as follows:

	Before application of FAS 158	FAS 158 Adoption Adjustments	After application of FAS 158
Prepaid pension plan	134,748	234,142	368,890
Deferred tax (noncurrent)	(45,814)	(79,608)	(125,423)
Accrued employee benefit liability	(41,799)	(21,710)	(63,509)
Deferred tax (noncurrent)	14,212	7,381	21,593
Others liability	(2,617)	(13,399)	(10,782)
Deferred tax (noncurrent)	890	4,556	3,666
Accumulated other comprehensive income, net of tax	1,978	131,362	133,340

**22. Other operating income**

During 2007, the Company obtained recognition of the final, favorable, unappealable decision on two processes filed against the State, questioning the charge of Funrural on its poultry production, between January 1983 and November 1988. The Company recognized the tax credit for the amount of R\$26,545, which, net of the legal council fees, represented by gain of R\$22,032.

On October 26, 2006, the Company obtained recognition of the final, favorable, unappealable decision on the COFINS proceedings referring to the unconstitutionality of Law 9718/98, which changed the basis for the calculation of PIS and COFINS by including operating and financial income. This matter was judged and considered unconstitutional by the Superior court of Justice on November 9, 2005. The Company has been collecting the tax in accordance with legislation and, based on the favorable decision of this proceeding, recognized in 2006 the tax credit in the amount of R\$80,168, which, net of attorneys fees, represented a gain of R\$75,654.

## SADIA S.A.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2007 2006 and 2005

(In thousands of Reais - R\$, unless otherwise indicated)

**23. Segment and Related Information**

The following information about segments is based upon information used by the Company's management to assess the performance of operating segments and decides on the allocation of resources. This approach is required by FASB Statement No. 131 *Disclosure about Segments of an Enterprise and Related Information*, and has been applied for all periods presented.

The Company has four identifiable reportable segments: Processed products, Poultry, Pork and beef.

The Company evaluates segment performance based on information generated from its statutory accounting records prepared in accordance with accounting principles generally accepted in Brazil, which has been adjusted for US GAAP in the following presentation:

a) Segment information

	2007	2006	2005
<b>Net operating revenue</b>			
Processed products	3,745,713	3,102,397	3,147,296
Poultry	3,774,731	2,872,845	3,199,246
Pork	624,117	494,571	732,710
Beef	334,995	309,353	
Other	143,635	97,535	239,186
Adjustments for US GAAP presentation	130,885	(46,401)	(596)
Total net operating revenue	8,754,076	6,830,300	7,317,842

Other net operating revenue is primarily attributable to grain and by-products and beef products operations.

	2007	2006	2005
<b>Depreciation expense</b>			
Processed products	(116,679)	(92,214)	(60,863)
Poultry	(131,053)	(100,080)	(80,336)



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Pork	(21,358)	(15,223)	(16,853)
Beef	(14,059)	(11,660)	
Other	(5,555)	(4,072)	(7,294)
Total depreciation expense allocated to Segments	(288,704)	(223,249)	(165,346)
Depreciation allocated to administrative expenses	(17,451)	(17,320)	(12,829)
Adjustments for US GAAP presentation	59,175	35,185	(4,088)
Total depreciation expense	(246,980)	(205,384)	(182,263)

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## SADIA S.A.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2007 2006 and 2005

(In thousands of Reais - R\$, unless otherwise indicated)

## 23. Segment and Related Information (Continued)

a) Segment information (Continued)

	2007	2006	2005
<b>Segment operating income</b>			
Processed products	362,257	194,494	273,684
Poultry	248,286	100,204	269,766
Pork	46,862	35,489	94,586
Beef	3,635	11,482	
Other	8,690	2,087	2,798
Adjustments for US GAAP presentation	199,512	(41,533)	40,069
Total operating income	869,242	302,223	680,903
Interest expense	(332,378)	(310,442)	(324,231)
Interest income and other	241,735	282,904	248,203
Foreign currency exchange gain (loss), net	54,056	104,219	159,602
Adjustments for US GAAP presentation	139,884	9,812	(93,825)
Income before income taxes, equity income or loss of investees and minority interest	972,539	388,716	670,652
<b>Segment assets</b>			
Processed products	713,064	715,248	624,619
Poultry	1,498,736	1,018,005	750,504
Pork	390,458	275,533	147,724
Beef	134,616	104,340	
Other	283,912	220,312	143,359
Adjustments for US GAAP presentation	(123,378)	(178,458)	(142,897)
Total property, plant and equipment	2,897,408	2,154,980	1,523,309
Reconciling items - corporate assets			
Cash and cash equivalents	2,369,309	2,550,602	2,663,689
Accounts and notes receivable, net	523,558	678,598	509,615
Inventories	1,168,936	1,084,454	992,490
Other corporate assets	1,098,791	929,259	690,825
Adjustments for US GAAP presentation	1,399,885	641,864	327,356
Total consolidated assets	9,457,887	8,039,757	6,707,284
<b>Capital expenditures</b>			
Processed products	195,969	302,648	194,587
Poultry	614,660	367,581	372,761

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Pork	136,417	143,032	26,982
Beef	44,442	7,786	
Other	93,442	234,331	91,662
Adjustments for US GAAP presentation	(134,678)	(85,776)	56,365
Total segment capital expenditures	950,052	969,602	742,357

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**SADIA S.A.**

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2007 2006 and 2005

(In thousands of Reais - R\$, unless otherwise indicated)

**23. Segment and Related Information (Continued)**b) Export sales by region/market

	2007	2006	2005
Europe	1,256,325	889,171	978,318
Middle East	986,240	787,838	1,047,615
Asia	691,273	533,295	635,907
South America	643,770	528,453	542,151
Emerging markets (mainly Russia and other former Soviet Union countries)	946,428	719,706	872,333
Adjustments for US GAAP presentation	111,955	(46,426)	(627)
	4,635,990	3,412,037	4,075,697

Revenues are attributed to regions based upon where the products are shipped.

All long-lived operational assets are located in Brazil and assets located outside of Brazil consist of sales offices located in various countries.

The adjustments for US GAAP presentation as demonstrated above comprise differences between the Company's statutory accounting records prepared in accordance with Brazilian GAAP and the consolidated financial statements prepared in accordance with U.S. GAAP. The primary differences relate to:

- a) Elimination of assets, liabilities, revenues, costs and expenses of equity method accounted investees that are accounted for using the proportional consolidation method under Brazilian GAAP;
- b) Reclassifications of certain assets, liabilities and income statement lines reported under Brazilian GAAP for the presentation of accompanying consolidated financial statements in accordance with US GAAP;

c) Accounting for the transfer of receivables (as disclosed in Note 6) as a financing in the accompanying consolidated financial statements rather than as a sale as accounted for under Brazilian GAAP.

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## SADIA S.A.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2007 2006 and 2005

(In thousands of Reais - R\$, unless otherwise indicated)

**24. Supplemental Disclosures of Cash Flow Information**

	2007	2006	2005
Income taxes paid	67,934	3,147	1,881
Interest paid (including exchange variation)	243,870	188,065	227,389

**25. Supplemental Interest Expense and Interest Income and Other**

	2007	2006	2005
<b>Interest expenses</b>			
Interest and charges on <i>real debt</i>	(81,798)	(53,072)	(57,679)
Interest and charges on U.S. dollar debt	(175,359)	(192,994)	(185,269)
Other	(81,099)	(64,503)	(68,678)
	(338,256)	(310,569)	(311,626)
<b>Interest income and other, net</b>			
Interest income on cash equivalents and investments in debt securities	186,491	204,086	218,685
Gain from the sales shares	165,682		
Other	60,469	35,926	29,313
	412,642	240,012	247,998

The Concórdia S.A. Corretora de Valores Mobiliários, Câmbio e Commodities shareholders' meetings held on September 27, 2007 and October 26, 2007 authorized, respectively, the sale of 3,827,551 shares, from a total of 7,655,102 ordinary shares of Bovespa Holding S.A. and the sale of 5,168,674 shares of BM&F S.A., originated from the demutualization process and initial public offer for the secondary offer by these institutions.

The wholly owned subsidiary Concórdia S.A. Corretora de Valores Mobiliários, Câmbio e Commodities recorded a gain from the sale of these shares, in the amount of R\$165,682 (R\$107,568 net of taxes and commission, in the amount of R\$55,414 and R\$2,700, respectively of which R\$53,222 related to the sale of Bovespa's shares and R\$54,346 related to the BM&F's shares), which was recorded as interest income on cash equivalents and investments in debt securities.

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On December 31, 2007, the wholly owned subsidiary Concórdia S.A. Corretora de Valores Mobiliários Câmbio e Commodities had recorded as investments in stocks 3,827,551 shares of Bovespa at cost, in the amount of R\$8,163 and 9,598,966 shares of BM&F at cost, in the amount of R\$9,599, and the market value of those shares amounts respectively, R\$127,955 and R\$236,519.

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## 26. Subsequent Events

### *a. Pis Gain*

On February 13, 2008, the Company obtained recognition of the final, favorable unappealable decision on the PIS proceeding contesting the constitutionality of Law 9718/98, which amended the PIS and Cofins calculation base, including operating and financial revenue. Based on the transit in rem judicatam of this proceeding the Company recognized in February 2008 the tax credit in the amount of R\$14.628, which net of attorney's fees in the amount R\$878, represented a gain net of R\$13,750.

### *b. Business Combinations*

On February 14, 2008 the Company acquired 100% of the quotas from the capital in Avícola Industrial Buriti Alegre Ltda. - Goiaves, for the amount of R\$53.868. Avícola Industrial Buriti Alegre Ltda. - Goiaves, is located in the municipal of Buriti Alegre, State of Goiás.

On January 18, 2008, the Company announced that it had signed a purchase and sale agreement, with the shareholders of Baumhardt Comércio e Participações Ltda. Baumhardt Comércio e Participações Ltda. ( Baumhardt ), is located in the municipal of Santa Cruz do Sul, State Rio Grande do Sul and the purchase and sale agreement involves the purchase of 73.93% of its shares. Baumhardt is the parent company of Excelsior Alimentos S.A., in which it holds 80.1% of the voting capital and 43.67% of the total capital. The purchase price will be defined after the results of the due diligence that will be performed.