

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 (ABIPECS), 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)
Total	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 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 a 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%.

	<b>Brazilian Pork Exports</b>							
	<b>Tons</b>			<b>Thousand US\$</b>				
	<b>2007</b>	<b>%</b>	<b>2006</b>	<b>%</b>	<b>2007</b>	<b>%</b>	<b>2006</b>	<b>%</b>
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	Chapecó	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 extention to ten overseas countries and also ten granted industrial drawing with extention 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>808,010 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 depository, which will then convert such proceeds into U.S. dollars and will then remit the same U.S. dollars to the depository 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 depository, 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

Period	Description	Payment Date	R\$ per 1,000 Preferred Shares	R\$ per 1,000 Common Shares	US\$ per 1,000 Preferred Shares	US\$ per 1,000 Common Shares	US\$ per 100 ADRs
2001	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
2002	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
2003	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
2004	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
2005	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
2006	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
2007	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
2008	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
	Interests on Equity	2/15/2008	144.80	144.80	254.00		