

SADIA SA
Form 6-K
March 11, 2005

FORM 6-K
U.S. SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549
REPORT OF FOREIGN PRIVATE ISSUER
PURSUANT TO RULE 13A-16 OR 15D-16
OF THE SECURITIES EXCHANGE ACT OF 1934

dated Mar 11, 2005

Commission File Number 1-15184

SADIA S.A.

(Exact Name as Specified in its Charter)

N/A

(Translation of Registrant's Name)

Rua Fortunato Ferraz, 659
Vila Anastacio, Sao Paulo, SP
05093-901 Brazil

(Address of principal executive offices) (Zip code)

Indicate by check mark whether the registrant files or will file annual reports under cover Form 20-F or Form 40-F.

Form 20-F Form 40-F

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1):

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7):

Indicate by check mark whether by furnishing the information contained in this Form, the registrant is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes No

If "Yes" is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): Not applicable.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused the Report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: Mar 11, 2005

SADIA S.A.

By:/s/ Luiz Gonzaga Murat Junior

Name: Luiz Gonzaga Murat Junior
Title: Chief Financial Officer

Sadia S.A.

Financial statements

December 31, 2004 and 2003

(A translation of the original report in Portuguese as published in Brazil containing financial statements prepared in accordance with accounting practices adopted in Brazil)

Sadia S.A.

Publicly-held company

Financial statements

December 31, 2004 and 2003

Contents

Independent auditors' report

Balance sheets

Statements of income

Statements of changes in shareholders' equity

Statements of changes in financial position

Statements of cash flows

Statements of consolidated added value

Notes to the financial statements

Independent auditors' report

To
The Board of Directors and Shareholders
Sadia S.A.
Concórdia - SC

1. We have examined the accompanying balance sheet of Sadia S.A. and the consolidated balance sheet of the Company and its subsidiaries as of December 31, 2004 and the related statements of income, changes in shareholders' equity and changes in financial position for the year then ended, which are the responsibility of its management. Our responsibility is to express an opinion on these financial statements.
2. Our examination was conducted in accordance with auditing standards generally accepted in Brazil and included: (a) planning of the audit work, considering the materiality of the balances, the volume of transactions and the accounting systems and internal accounting controls of the Company and its subsidiaries; (b) verification, on a test basis, of the evidence and records which support the amounts and accounting information disclosed; and (c) evaluation of the most significant accounting policies and estimates adopted by Company management and its subsidiaries, as well as the presentation of the financial statements taken as a whole.
3. In our opinion, the aforementioned financial statements present fairly, in all material respects, the financial position of Sadia S.A. and the consolidated financial position of the Company and its subsidiaries as of December 31, 2004, and the results of its operations, changes in its shareholders' equity and changes in its financial position for the year then ended, in conformity with accounting practices adopted in Brazil.
4. Our examination was performed with the objective of expressing an opinion on the financial statements taken as a whole. The statements of cash flows and added value are supplementary to the aforementioned financial statements, and have been included to facilitate additional analysis. This supplementary information was subject to the same audit procedures as applied to the aforementioned financial statements and, in our opinion, is presented fairly, in all material respects, in relation to the financial statements taken as a whole.

5. The financial statements for the year ended December 31, 2004 were examined by other independent auditors, who expressed a qualified opinion report dated February 3, 2004, with respect to the effect on the income statement for the year, arising from the reversal of the actuarial assets represented by the surplus computed in 2001 of the Fundação Atílio Xavier Fontana pension plan, which, due to the lack of prospects for realization in the sponsor, were reversed against retained earnings.

January 28, 2005

KPMG Auditores Independentes
CRC SP014428/O-6-S-SC

Adelino Dias Pinho
Accountant CRC SP097869/O-6-S-SC

Sadia S.A.

Publicly-held Company

Balance sheets

December 31, 2004 and 2003

(In thousands of Reais)

| | Parent company | | Consolidated | |
|---|------------------|------------------|------------------|------------------|
| | 2004 | 2003 | 2004 | 2003 |
| Assets | | | | |
| Current assets: | | | | |
| Cash and cash equivalents | 84,270 | 91,130 | 155,600 | 230,403 |
| Short-term investments | 430,851 | 958,052 | 1,968,278 | 2,072,251 |
| Accounts receivable from future contracts | 153,735 | 13,998 | 196,061 | 71,347 |
| Trade accounts receivable | 692,857 | 838,458 | 349,605 | 453,936 |
| Inventories | 1,133,190 | 880,896 | 1,172,736 | 920,564 |
| Recoverable taxes | 151,237 | 138,106 | 156,615 | 140,260 |
| Deferred tax credits | 36,180 | 65,567 | 38,823 | 65,567 |
| Other credits | <u>55,582</u> | <u>49,015</u> | <u>67,650</u> | <u>59,381</u> |
| | <u>2,737,902</u> | <u>3,035,222</u> | <u>4,105,368</u> | <u>4,013,709</u> |
| Noncurrent assets: | | | | |
| Long-term investments | 282,247 | 154,575 | 282,247 | 236,960 |
| Recoverable taxes | 87,186 | 74,143 | 87,186 | 74,526 |
| Deferred tax credits | 67,042 | 78,448 | 67,042 | 81,039 |
| Judicial deposits | 77,098 | 74,972 | 77,204 | 75,078 |
| Related parties | 597 | 27,402 | - | - |
| Other credits | <u>29,119</u> | <u>29,820</u> | <u>29,850</u> | <u>31,665</u> |
| | <u>543,289</u> | <u>439,360</u> | <u>543,529</u> | <u>499,268</u> |
| Permanent assets: | | | | |
| Investments | 768,134 | 670,615 | 19,260 | 17,232 |
| Property, plant and equipment | 1,004,794 | 886,549 | 1,008,138 | 889,331 |
| Deferred charges | <u>49,140</u> | <u>67,045</u> | <u>49,522</u> | <u>68,126</u> |

| | | | |
|------------------|------------------|------------------|------------------|
| <u>1,822,068</u> | <u>1,624,209</u> | <u>1,076,920</u> | <u>974,689</u> |
| <u>5,103,259</u> | <u>5,098,791</u> | <u>5,725,817</u> | <u>5,487,666</u> |

See the accompanying notes to the financial statements.

Sadia S.A.

Publicly-held Company

Balance sheets

December 31, 2004 and 2003

(In thousands of Reais)

| | Parent company | | Consolidated | |
|---|------------------|------------------|------------------|------------------|
| | 2004 | 2003 | 2004 | 2003 |
| Liabilities and shareholders' equity | | | | |
| Current liabilities: | | | | |
| Loans and financing | 1,165,044 | 1,096,522 | 1,615,544 | 1,455,078 |
| Accounts payable from future contracts | 178,874 | - | 201,616 | 8,153 |
| Trade accounts payable | 482,339 | 368,881 | 487,654 | 377,849 |
| Advances from customers | 138,991 | 13,001 | - | - |
| Salaries, social charges and accrued vacation payable | 87,205 | 69,641 | 88,140 | 70,565 |
| Taxes payable | 33,188 | 53,757 | 38,058 | 62,193 |
| Dividends payable | 82,797 | 87,963 | 82,797 | 87,963 |
| Employees' profit sharing | 50,280 | 141,485 | 51,048 | 142,315 |
| Other accounts payable | <u>88,928</u> | <u>78,355</u> | <u>111,476</u> | <u>93,035</u> |
| | <u>2,307,646</u> | <u>1,909,605</u> | <u>2,676,333</u> | <u>2,297,151</u> |
| Noncurrent liabilities: | | | | |
| Loans and financing | 836,073 | 1,501,216 | 1,101,830 | 1,502,994 |
| Employee benefit plan | 82,576 | 71,868 | 82,576 | 71,868 |
| Provision for contingencies | 56,861 | 63,915 | 58,984 | 68,013 |
| Deferred taxes | 11,723 | 9,802 | 11,723 | 9,802 |
| Other accounts payable | <u>16,205</u> | <u>47,201</u> | <u>16,363</u> | <u>50,429</u> |
| | <u>1,003,438</u> | <u>1,694,002</u> | <u>1,271,476</u> | <u>1,703,106</u> |
| Minority interest in subsidiaries | - | - | 160 | (13) |
| Shareholders' equity: | | | | |
| Capital | 1,000,000 | 1,000,000 | 1,000,000 | 1,000,000 |
| Profit reserves | 767,441 | 470,450 | 767,441 | 470,450 |
| Treasury shares | (198) | (198) | (198) | (198) |
| Retained earnings | <u>24,932</u> | <u>24,932</u> | <u>10,605</u> | <u>17,170</u> |
| | <u>1,792,175</u> | <u>1,495,184</u> | <u>1,777,848</u> | <u>1,487,422</u> |

| | | | |
|------------------|------------------|------------------|------------------|
| <u>5,103,259</u> | <u>5,098,791</u> | <u>5,725,817</u> | <u>5,487,666</u> |
|------------------|------------------|------------------|------------------|

See the accompanying notes to the financial statements.

Sadia S.A.

Publicly-held Company

Statements of income

Years ended December 31, 2004 and 2003

(In thousands of Reais, except for information on earnings per shares)

| | Parent company | | Consolidated | |
|---|--------------------|--------------------|--------------------|--------------------|
| | 2004 | 2003 | 2004 | 2003 |
| Gross operating revenue | | | | |
| Domestic market | 3,724,654 | 3,188,246 | 3,732,013 | 3,195,807 |
| Foreign market | <u>3,135,006</u> | <u>2,373,268</u> | <u>3,584,533</u> | <u>2,659,628</u> |
| | 6,859,660 | 5,561,514 | 7,316,546 | 5,855,435 |
| Sales deductions: | | | | |
| Tax on sales and sales deductions | (729,849) | (489,790) | (880,812) | (536,475) |
| Returns and discounts | <u>(30,504)</u> | <u>(21,691)</u> | <u>(56,512)</u> | <u>(26,836)</u> |
| Net operating revenue | 6,099,307 | 5,050,033 | 6,379,222 | 5,292,124 |
| Cost of goods sold | <u>(4,384,829)</u> | <u>(3,733,235)</u> | <u>(4,462,269)</u> | <u>(3,738,355)</u> |
| Gross profit | 1,714,478 | 1,316,798 | 1,916,953 | 1,553,769 |
| Selling expenses | (1,081,647) | (816,453) | (1,217,162) | (943,660) |
| Administrative expenses | (54,605) | (47,398) | (55,374) | (47,401) |
| Management fees | (12,923) | (11,047) | (12,923) | (11,047) |
| Other operating income (expenses), net | 25,757 | (29,491) | 21,468 | (39,986) |
| Employees' profit sharing | (49,789) | (141,300) | (51,234) | (141,793) |
| Financial income (expenses), net | (118,605) | (162,687) | (32,657) | 148,712 |
| Equity in earnings of subsidiaries | <u>101,192</u> | <u>348,571</u> | <u>(50,678)</u> | <u>(63,678)</u> |
| Operating income | 523,858 | 456,993 | 518,393 | 454,916 |
| Non operating expenses, net | <u>(5,933)</u> | <u>(17,888)</u> | <u>(6,842)</u> | <u>(20,418)</u> |
| Income before income and social contribution taxes and minority interest | 517,925 | 439,105 | 511,551 | 434,498 |
| Current income and social contribution taxes | (29,910) | (37,002) | (32,304) | (40,414) |
| Deferred income and social contribution taxes | <u>(42,714)</u> | <u>50,388</u> | <u>(40,374)</u> | <u>52,330</u> |
| Net income for the year | 445,301 | 452,491 | 438,873 | 446,414 |
| Minority interest | - | - | <u>137</u> | <u>(349)</u> |
| Controlling shareholder equity interest | 445,301 | 452,491 | 438,736 | 446,763 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Earnings per thousand outstanding shares | 652,27 | 662,80 | - | - |

See the accompanying notes to the financial statements.

Sadia S.A.

Publicly-held Company

Statements of changes in shareholders' equity

Years ended December 31, 2004 and 2003

(In thousands of Reais)

| Parent Company | Profit reserves | | | | Treasury shares | Retained earnings | Total |
|--------------------------------------|------------------|---------------|-------------------|--------------------------------|-----------------|-------------------|------------------|
| | Capital | Legal reserve | Expansion reserve | Research & development reserve | | | |
| Balances at December 31, 2002 | 700,000 | 32,922 | 377,243 | 58,248 | (198) | 95,473 | 1,263,688 |
| Capital increase with reserves | 300,000 | (21,085) | (241,610) | (37,305) | - | - | - |
| Pension plan | - | - | - | - | - | (70,541) | (70,541) |
| Net income for the year | - | - | - | - | - | 452,491 | 452,491 |
| Destinations | | | | | | | |
| Reserves | - | 22,625 | 256,787 | 22,625 | - | (302,037) | - |
| Interest on shareholders' equity | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>(150,454)</u> | <u>(150,454)</u> |
| Balances at December 31, 2003 | 1,000,000 | 34,462 | 392,420 | 43,568 | (198) | 24,932 | 1,495,184 |
| Net income for the year | - | - | - | - | - | 445,301 | 445,301 |
| Destinations: | | | | | | | |
| Reserves | - | 22,265 | 252,461 | 22,265 | - | (296,991) | - |
| Interest on shareholders' equity | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>(148,310)</u> | <u>(148,310)</u> |
| Balances at December 31, 2004 | <u>1,000,000</u> | <u>56,727</u> | <u>644,881</u> | <u>65,833</u> | <u>(198)</u> | <u>24,932</u> | <u>1,792,175</u> |

See the accompanying notes to the financial statements.

Sadia S.A.

Publicly-held Company

Statements of changes in financial position

Years ended December 31, 2004 and 2003

(In thousands of Reais)

| | Parent Company | | Consolidated | |
|--|------------------|------------------|------------------|------------------|
| | 2004 | 2003 | 2004 | 2003 |
| Sources of funds | | | | |
| Operations | | | | |
| Net income for the year | <u>445,301</u> | <u>452,491</u> | <u>438,873</u> | <u>446,414</u> |
| Items not affecting working capital | | | | |
| Minority interest | - | - | 36 | (27) |
| Depreciation, amortization and depletion | 130,109 | 134,990 | 130,840 | 137,062 |
| Long term interest and variations | (14,026) | 10,599 | (153,740) | 80,128 |
| Residual cost on disposal of permanent assets | 17,257 | 18,341 | 15,823 | 24,348 |
| Provision for contingencies | (7,054) | 8,988 | (9,029) | 10,740 |
| Employee benefit plan | 10,708 | 8,726 | 10,708 | 8,726 |
| Equity in earnings of subsidiaries | (103,267) | (350,469) | 51,155 | 64,292 |
| Long term deferred taxes | <u>13,327</u> | <u>(46,854)</u> | <u>15,918</u> | <u>(48,796)</u> |
| | 492,355 | 236,812 | 500,584 | 722,887 |
| From third parties | | | | |
| Increase in noncurrent liabilities | 379,822 | 1,014,227 | 678,470 | 1,014,227 |
| Redemption of long-term investments | - | 14,924 | - | 1,574,514 |
| Value obtained in the sale of fixed assets | 2,752 | 5,025 | 2,857 | 5,032 |
| Interest on shareholders' equity of subsidiaries | 4,029 | 4,023 | - | - |
| Transfer from long-term to current assets | 85,976 | 38,297 | 383,588 | 39,168 |
| Increase in other long-term liabilities | - | 19,929 | - | 21,739 |
| Decrease in other long-term assets | <u>27,506</u> | <u>46,492</u> | <u>1,814</u> | <u>115,344</u> |
| | <u>500,085</u> | <u>1,142,917</u> | <u>1,066,729</u> | <u>2,770,024</u> |
| Total sources | <u>992,440</u> | <u>1,379,729</u> | <u>1,567,313</u> | <u>3,492,911</u> |
| Applications of funds | | | | |
| Long-term assets | | | | |
| Long-term investments | 238,077 | 80,907 | 399,413 | 1,007,239 |
| Judicial deposit | 2,126 | 5,928 | 2,126 | 6,034 |
| Increase in other long-term assets | 13,043 | 1,065 | 12,660 | - |
| Decrease in other long-term liabilities | 30,996 | - | 34,065 | 70,541 |
| Investments | 1,088 | 3,036 | 2,028 | 4,720 |
| Property, plant and equipment | 217,272 | 100,919 | 219,122 | 102,124 |
| Transfer of current liabilities to property, plant and equipment | 3,195 | 3,016 | 3,279 | 2,644 |
| Deferred charges | 27,183 | 7,729 | 27,322 | 8,096 |
| Interest on shareholders' equity | 148,310 | 150,454 | 148,310 | 150,454 |
| Transfer of noncurrent liabilities to current liabilities | <u>1,006,511</u> | <u>655,605</u> | <u>1,006,511</u> | <u>663,788</u> |
| Total applications | <u>1,687,801</u> | <u>1,008,659</u> | <u>1,854,836</u> | <u>2,015,640</u> |
| | (695,361) | 371,070 | (287,523) | 1,477,271 |
| (Decrease)/increase in working capital | | | | |

Edgar Filing: SADIA SA - Form 6-K

Changes in working capital

| | | | | |
|----------------------|------------------|----------------|------------------|----------------|
| At end of year | 430,256 | 1,125,617 | 1,429,035 | 1,716,558 |
| At beginning of year | <u>1,125,617</u> | <u>754,547</u> | <u>1,716,558</u> | <u>239,287</u> |
| | (695,361) | 371,070 | (287,523) | 1,477,271 |

See the accompanying notes to the financial statements.

Sadia S.A.

Publicly-held Company

Statements of cash flows

Years ended December 31, 2004 and 2003

(In thousands of Reais)

| | Parent company | | Consolidated | |
|---|------------------|------------------|------------------|------------------|
| | 2004 | 2003 | 2004 | 2003 |
| Net income for the year | 445,301 | 452,491 | 438,873 | 446,414 |
| Adjustments to reconcile net income to cash generated by operating activities: | | | | |
| Variation in minority interest | - | - | 36 | (27) |
| Accrued interest, net of paid interest | 133,823 | (11,677) | 154,885 | 55,065 |
| Depreciation, amortization and depletion | 130,109 | 134,990 | 130,840 | 137,062 |
| Equity in earnings of subsidiaries | (103,267) | (350,469) | 51,155 | 64,292 |
| Deferred taxes | 42,714 | (86,728) | 42,662 | (88,670) |
| Contingencies | (7,054) | 8,988 | (9,029) | 10,740 |
| Result from the disposal of permanent assets | 17,257 | 18,341 | 15,823 | 24,348 |
| Variation in operating assets and liabilities: | | | | |
| Trade notes receivable | 145,601 | (286,364) | 104,331 | (79,228) |
| Inventories | (252,294) | (21,821) | (252,172) | (43,198) |
| Recoverable taxes, prepaid expenses and others | (3,362) | (90,898) | (88,969) | 21,148 |
| Judicial deposits | (2,126) | (5,928) | (2,126) | (6,034) |
| Suppliers | 113,458 | 123,021 | 109,805 | 127,449 |
| Advances from customers | 125,990 | (3,582) | - | - |
| Taxes payable, salaries payable and others | <u>(127,204)</u> | <u>136,606</u> | <u>(175,839)</u> | <u>171,403</u> |
| Net cash generated by operating activities | 658,946 | 198,766 | 520,275 | 840,764 |
| Investment activities: | | | | |
| Funds from the sale of permanent assets | 2,752 | 5,025 | 2,857 | 5,032 |
| Investments in subsidiaries | (1,088) | (3,036) | - | - |
| Purchase of property, plant and equipment | (244,455) | (108,648) | (246,444) | (110,220) |
| Short-term investments | (1,276,554) | (1,661,418) | (3,473,202) | (4,011,977) |
| Redemption of investments | <u>1,385,565</u> | <u>1,612,495</u> | <u>3,212,485</u> | <u>3,495,783</u> |
| Net cash from investment activities | (133,780) | (155,582) | (504,304) | (620,382) |
| Loans: | | | | |
| Loans received | 1,501,904 | 1,931,861 | 2,262,204 | 2,710,949 |
| Loans repaid | (1,902,693) | (1,920,413) | (2,221,741) | (2,748,559) |
| Dividends paid | <u>(131,237)</u> | <u>(95,352)</u> | <u>(131,237)</u> | <u>(95,352)</u> |
| Net cash from loans | (532,026) | (83,904) | (90,774) | (132,962) |

Edgar Filing: SADIA SA - Form 6-K

| | | | | |
|--|----------------|-----------------|-----------------|----------------|
| Cash at beginning of the year | 91,130 | 131,850 | 230,403 | 142,983 |
| Cash at end of the year | <u>84,270</u> | <u>91,130</u> | <u>155,600</u> | <u>230,403</u> |
| Net (decrease)/increase in cash | <u>(6,860)</u> | <u>(40,720)</u> | <u>(74,803)</u> | <u>87,420</u> |

See the accompanying notes to the financial statements.

Sadia S.A.

Publicly-held Company

Statements of consolidated added value

Years ended December 31, 2004 and 2003

(In thousands of Reais)

| | Consolidated | |
|---|---------------------|------------------|
| | 2004 | 2003 |
| Revenues | 7,513,329 | 6,038,271 |
| Revenues generated by operations | <u>7,260,034</u> | <u>5,828,599</u> |
| Sale of products, goods and services | 7,260,034 | 5,828,599 |
| Income from third parties | <u>253,295</u> | <u>209,672</u> |
| Other operating results | 21,468 | (39,985) |
| Financial income | 289,343 | 333,753 |
| Equity pickup in earnings of subsidiaries | (51,155) | (64,292) |
| Other non operating results | (6,361) | (19,804) |
| Raw materials acquired from third parties | (3,469,463) | (2,902,888) |
| Services rendered by third parties | (1,352,569) | (1,053,651) |
| Added value to be distributed | <u>2,691,297</u> | <u>2,081,732</u> |
| Distribution of added value: | | |
| Human resources | 842,458 | 780,441 |
| Interest on third-party capital | 289,345 | 156,165 |
| Government | <u>988,322</u> | <u>556,619</u> |
| ICMS | 557,124 | 396,657 |
| PIS/COFINS | 323,613 | 139,728 |
| Income and social contribution taxes | 72,678 | (11,916) |
| CPMF and others | 34,907 | 32,150 |
| Shareholders (Dividends) | 148,310 | 150,454 |
| Retention | <u>422,862</u> | <u>438,053</u> |
| Depreciation/Amortization/Depletion | 130,840 | 137,062 |
| Retained profits | 290,562 | 295,961 |
| Others | 1,460 | 5,030 |

Sadia S.A.

Publicly-held Company

Notes to the financial statements

Years ended December 31, 2004 and 2003

(In thousands of Reais)

1 Operations

The Company's main business activities are organized into three operational segments: the industrial processing and distribution of food products and the production of pork and poultry (chickens and turkeys) which are commercialized in Brazil and abroad by retailers, small groceries and food service chains.

The Company distributes approximately 700 products through 300 thousand sales points in the local market and exports to 100 countries distributed in Europe, Middle East, Eurasia, Asia, the Americas and third markets. The Company has 12 industrial units and 15 distribution centers located within 14 Brazilian states.

The industrially processed products segment has been the principal focus of the Company's investments in recent years and comprises products such as oven-ready frozen food, refrigerated pizzas and pasta, margarine, industrially processed poultry and pork by-products, crumbed products, a diet line and pre-sliced ready-packed products.

The Company has a corporate governance tier one listing for its shares on the São Paulo Stock Exchange, the Madrid Stock Exchange (Latibex) and ADR's negotiated on the New York Stock Exchange (NYSE).

2 Preparation and presentation of the financial statements

The individual and consolidated financial statements were prepared in accordance with accounting practices derived from the Brazilian Corporation Law and the rules of the Brazilian Securities and Exchange Commission - CVM.

Sadia S.A.

Publicly-held Company

Notes to the financial statements

(In thousands of Reais)

3 Description of significant accounting policies

a. Statement of income

Income and expenses are recognized on the accrual basis. Revenue from the sale of goods is recognized in the statement of income when the significant risks and rewards of ownership have been transferred to the buyer.

b. Foreign currency

Monetary assets and liabilities denominated in foreign currencies were translated into reais at the foreign exchange rate ruling at the balance sheet date and the foreign exchange differences arising on translation are recognized in the statement of income for the year.

c. Accounting estimates

The preparation of the financial statements in accordance with accounting practices adopted in Brazil requires that management uses its judgment in determining and recording accounting estimates. Significant assets and liabilities subject to these estimates and assumptions include the residual value of property, plant and equipment, deferred charges, allowance for doubtful accounts, inventories, deferred tax assets, provision for contingencies, valuation of derivative instruments, and assets and liabilities related to employees' benefits. The settlement of transactions involving these estimates may result in significantly different amounts due to the lack of precision inherent to the process of their determination. The Company reviews the estimates and assumptions at least monthly.

d. Long and short-term investments

Investment funds in local and foreign currency are recorded at market value according to the respective shares price at the date of the financial statements.

Other long and short-term investments in local and foreign currency are recorded at cost income accrued up to the balance sheet date, not exceeding market value.

Additionally, the portion receivable from currency swap contracts is recorded at the difference between the nominal amounts of these contracts and the amounts restated by the variation of the US dollar, plus interest earned up to the date of the balance sheet.

Sadia S.A.

Publicly-held Company

Notes to the financial statements

(In thousands of Reais)

e. Allowance for doubtful accounts

The allowance for doubtful accounts was calculated at an amount considered adequate by management to cover any losses arising on collection of accounts receivable.

f. Inventories

Inventories are stated at the lower of average cost of acquisition or production, including expenditure incurred in acquiring the inventories and bringing them to their existing location and condition, on market value.

g. Investments

Investments in subsidiaries in Brazil and abroad are valued using the equity method of accounting, and as presented in Note 10.

The financial statements of foreign subsidiaries are translated into Brazilian Reais, based on the following criteria:

- Balance sheet accounts at the exchange rate at the end of the year.
- Statement of income accounts at the exchange rate at the end of each month.

Other investments are valued at cost less a provision for devaluation, when applicable.

Sadia S.A.

Publicly-held Company

Notes to the financial statements

(In thousands of Reais)

h. Property, plant and equipment

Property, plant and equipment are recorded at the cost of acquisition, formation or construction. Depreciation is calculated using the straight-line method at annual rates taking into consideration the useful economic life of the assets, adjusted for the number of operating shifts, as presented in Note 11. The forest resources depletion is calculated based on the extraction and the average cost of the forest. Interest accrued on financing of projects for construction, modernization and expansion of industrial units is allocated to the costs of the corresponding construction in progress.

i. Deferred charges

Deferred charges represents pre-operating costs incurred in the implementation of software, which are amortized on a straight-line basis over 5 years as from the beginning of operation.

j. Current and noncurrent liabilities

Current and noncurrent liabilities are stated at known or estimated amounts, plus related charges and monetary and exchange variations up to the balance sheet date.

k. Provisions

A provision is recognized in the balance sheet when the Company has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation.

l. Income and social contribution taxes

The income and social contribution taxes both, current and deferred, are calculated based on the effective income and social contribution tax on taxable income, and consider the offsetting of tax loss carryforward and negative basis of social contribution limited to 30% of taxable income.

The deferred tax assets were recorded in accordance with CVM Instruction 371/02 and are represented significantly by temporary differences arising from non-deductible provisions, including also tax loss carryforward and negative basis of social contribution.

Sadia S.A.

Publicly-held Company

Notes to the financial statements

(In thousands of Reais)

m. Employees' benefits

Employees' benefits are recorded based on actuarial studies prepared annually at the end of the year in compliance with CVM's Deliberation 371/00.

n. Reclassifications

Certain balances in the December 31, 2003 individual and consolidated financial statements were reclassified to conform with the presentation adopted in the current year.

o. Supplementary Information

The statements of cash flows and added value are supplementary to the aforementioned financial statements and have been included to facilitate additional analysis.

The statements of cash flows have been prepared in accordance with NPC 20 - Statement of Cash Flows, issued by IBRACON (Brazilian Institute of Independent Auditors).

The statements of added value have been prepared in accordance with the model of Fundação Instituto de Pesquisas Contábeis, Atuariais e Financeiras da Universidade de São Paulo, which have the objective of demonstrating the value of the wealth generated by the Company and its distribution among the elements that contributed to its generation.

p. Consolidated financial information

The transactions and balances between the Parent and its subsidiaries included in the consolidation process have been eliminated and the non-realized profit arising from the sales to the subsidiaries were excluded and incorporated to the inventory balances for each year. Minority interests were excluded from shareholders' equity and net income and are presented separately in the consolidated balance sheets and income statements.

Sadia S.A.

Publicly-held Company

Notes to the financial statements

(In thousands of Reais)

In the case of joint ventures, the assets, liabilities and shareholders' equity and the result for the year were consolidated in proportion to the percentage of ownership.

In accordance with the CVM 408/04 Instruction, the Company consolidated the financial statements of its investment funds Concórdia Foreign Investment Fund Class A and B and Taurus Fund Limited, where it is the wholly owned investment holder. These investment funds have the sole purpose of centralizing the foreign investment fund portfolio, delegating to third party the administrative functions and maximizing shareholder returns. As of December 31, 2004 and 2003, such these investment funds were consolidated in the Company's financial statements as they had loans collateralized by its own financial assets.

The consolidated financial statements include the accounts of Sadia S.A. and its direct and indirect subsidiaries, including investments in joint ventures. The consolidated direct or indirect subsidiaries and the corresponding shareholdings of the Company are as follows:

| | Shareholdings in % at | |
|--|------------------------------|-------------|
| | 2004 | 2003 |
| Sadia International Ltd. | 100.00 | 100.00 |
| Sadia Uruguay S.A. | 100.00 | 100.00 |
| Sadia Alimentos S.A. | 0.01 | 0.01 |
| Sadia Chile S.A. | 60.00 | 60.00 |
| Sadia Alimentos S.A. | 99.99 | 99.99 |
| Sadia Itália S.R.L. | - | 99.99 |
| Churrascaria Beijing Brazil Ltd. (*) | 50.00 | 50.00 |
| Concórdia Foods Ltd. (*) | 50.00 | 50.00 |
| Sadia UK Ltd. | 100.00 | 100.00 |
| | | |
| Concórdia S.A. C.V.M.C.C. | 99.99 | 99.99 |
| | | |
| Rezende Óleo Ltda. | 100.00 | 100.00 |
| Rezende Marketing e Comunicações Ltda. | 0.09 | 0.09 |
| | | |
| Rezende Marketing e Comunicações Ltda. | 99.91 | 99.91 |

Sadia GmbH

100.00

100.00

Sadia S.A.

Publicly-held Company

Notes to the financial statements

(In thousands of Reais)

| | <u>Shareholdings in % at</u> | |
|---|------------------------------|--------|
| | 2004 | 2003 |
| Wellax Food Logistics C. P. A. S. U. Lda. | 100.00 | 100.00 |
| Sadia Foods G.m.b.H. | 100.00 | - |
| Qualy B. V. | 100.00 | - |
| Sadia Japan Ltd. | 100.00 | - |
| EzFood Serviços S.A. (*) | - | 33.33 |
| (*) Joint-Ventures | | |

On December 28, 2004, Laxness Food - Comércio de Produtos Alimentares, Sociedade Unipessoal Lda. had its name changed to Wellax Food Logistics - Comércio de Produtos Alimentares, Sociedade Unipessoal Lda.

On October 13, 2004, Sadia Europe had its name changed to Sadia UK Ltd.

In continuing the strategy of expansion and development into new markets the indirect subsidiaries Sadia Foods GmbH, Qualy B.V. and Sadia Japan Ltd. were incorporated during the year and Sadia Italia S.R.L. discontinued its operations.

Reconciliation of shareholders' equity and net income between the Company and the consolidated is as follows:

| | <u>Net income</u> | | <u>Shareholders' equity</u> | |
|---|-------------------|----------------|-----------------------------|------------------|
| | 2004 | 2003 | 2004 | 2003 |
| Company's financial statements | 445,301 | 452,491 | 1,792,175 | 1,495,184 |
| Elimination of unrealized profits on inventories in intercompany operations, net of taxes | (14,327) | (7,762) | (24,123) | (9,796) |
| Reversal of the elimination of unrealized result in inventories, net of taxes, resulting from intercompany operations at December 31, 2003 and 2002 | <u>7,762</u> | <u>2,034</u> | <u>9,796</u> | <u>2,034</u> |
| Consolidated financial statements | <u>438,736</u> | <u>446,763</u> | <u>1,777,848</u> | <u>1,487,422</u> |

Sadia S.A.

Publicly-held Company

Notes to the financial statements

*(In thousands of Reais)***4 Long and short-term investments**

| | Interest % (annual average) | Parent company | | Consolidated | |
|---|-----------------------------------|----------------|----------------|------------------|------------------|
| | | 2004 | 2003 | 2004 | 2003 |
| Short-term investments | | | | | |
| Local currency: | | | | | |
| Investment funds | 17.47 | 224,728 | 856,749 | 575,304 | 890,837 |
| Treasury bills - LFT | 17.47 | 176,555 | 52,711 | 176,555 | 52,711 |
| Bank deposit certificates | 17.82 | <u>89</u> | <u>38,101</u> | <u>89</u> | <u>38,101</u> |
| | | <u>401,372</u> | <u>947,561</u> | <u>751,948</u> | <u>981,649</u> |
| Foreign currency: | | | | | |
| Investment funds | 6.27 | - | - | 836,055 | 368,883 |
| Interest-bearing current accounts | 1.80 | - | - | 350,796 | 697,814 |
| Swap contracts | | <u>29,479</u> | <u>1,914</u> | <u>29,479</u> | <u>1,914</u> |
| | | <u>29,479</u> | <u>1,914</u> | <u>1,216,330</u> | <u>1,068,611</u> |
| | | <u>430,851</u> | <u>949,475</u> | <u>1,968,278</u> | <u>2,050,260</u> |
| Short term portion of long-term investments | | | | | |
| Foreign currency: | | | | | |
| Global notes - Private | 10.00 | - | - | - | 13,11 |
| National Treasury Securities - CTN | 11.00 | - | 8,577 | - | 8,577 |
| Brazil C bearer bonds | 8.00 | <u>-</u> | <u>-</u> | <u>-</u> | <u>304</u> |
| | | <u>-</u> | <u>8,577</u> | <u>-</u> | <u>21,991</u> |
| | | <u>430,851</u> | <u>958,052</u> | <u>1,968,278</u> | <u>2,072,251</u> |
| Short-term portion | | | | | |
| Long-term investments | | | | | |
| Local currency | | | | | |
| Austrian Bonds indexed in Reais | 15.72 | 237,748 | - | 237,748 | - |
| National Treasury Securities - CTN | 12.00 | 22,479 | 17,660 | 22,479 | 17,660 |
| Treasury bills - LFT | 18.15 | <u>-</u> | <u>79,481</u> | <u>-</u> | <u>79,481</u> |

| | | | | |
|-------------------|---------|--------|---------|--------|
| Foreign currency: | 260,227 | 97,141 | 260,227 | 97,141 |
|-------------------|---------|--------|---------|--------|

Sadia S.A.

Publicly-held Company

Notes to the financial statements

(In thousands of Reais)

| | Interest% (annual average) | Parent company | | Consolidated | |
|--|----------------------------------|----------------|----------------|----------------|-----------------|
| | | 2004 | 2003 | 2004 | 2003 |
| Swap contracts | - | 22,020 | 57,434 | 22,020 | 57,434 |
| Investment funds | 17.82 | - | - | - | 65,987 |
| Brazil C bearer bonds | 8.00 | - | - | - | 16,702 |
| Global notes - Private | 10.00 | - | - | - | 13,110 |
| National Treasury Securities - CTN | 11.00 | <u>-</u> | <u>8,577</u> | <u>-</u> | <u>8,577</u> |
| | | <u>22,020</u> | <u>66,011</u> | <u>22,020</u> | <u>161,810</u> |
| Long-term | | 282,247 | 163,152 | 282,247 | 258,951 |
| Short-term portion of long-term investments | | <u>-</u> | <u>(8,577)</u> | <u>-</u> | <u>(21,991)</u> |
| Long-term portion | | <u>282,247</u> | <u>154,575</u> | <u>282,247</u> | <u>236,960</u> |

Long-term investments as of December 31, 2004 mature as follows:

| | Parent company | Consolidated |
|-----------------|----------------|----------------|
| Maturity | | |
| 2006 | 259,768 | 259,768 |
| 2012 | <u>22,479</u> | <u>22,479</u> |
| | <u>282,247</u> | <u>282,247</u> |

The investment fund portfolio in local currency is composed principally of post-fixed Bank Deposit Certificates and investment fund shares.

The investment fund portfolio in foreign currency is composed principally of structured notes and assets indexed in Reais with post-fixed remuneration, issued by highly rated American and European banks, which are linked to equally highly rated titles of Brazilian banks and companies.

Sadia S.A.

Publicly-held Company

Notes to the financial statements

*(In thousands of Reais)***5 Accounts receivable**

| | Parent company | | Consolidated | |
|---------------------------------|----------------|-----------------|----------------|-----------------|
| | 2004 | 2003 | 2004 | 2003 |
| Foreign: | | | | |
| Subsidiaries | 422,374 | 540,948 | - | - |
| Customers | <u>76,394</u> | <u>108,835</u> | <u>175,546</u> | <u>267,965</u> |
| Total | 498,768 | 649,783 | 175,546 | 267,965 |
| Domestic customers | 201,132 | 219,136 | 201,141 | 219,740 |
| Discounted receivables | - | - | (17,830) | - |
| Allowance for doubtful accounts | <u>(7,043)</u> | <u>(30,461)</u> | <u>(9,252)</u> | <u>(33,769)</u> |
| | <u>692,857</u> | <u>838,458</u> | <u>349,605</u> | <u>453,936</u> |

As a way of reducing its credit risk and financial indebtedness, the Company maintains a revolving line of credit up to the amount of US\$100 million, through assignment of receivables from the Company's exports. The cost of the operation is an average interest rate of 0,7% p.a. + LIBOR. As a form of significantly reducing credit risk (client and country), credit insurance is contracted covering 90% of the payments to the banks in case of delinquency. In December 2004, the assigned amount of receivables amounted to approximately US\$ 100 million.

The Company also assigned receivables to a Credit Rights Investment Fund (FIDC) administered by Concórdia S.A. Corretora de Valores Mobiliários, Câmbio e Commodities, which has a total paid-in shareholders' equity of R\$195,000, and whose resources are allocated to the acquisition of Sadia S.A. domestic market receivables with a discounted cost equivalent to 95% of the CDI per senior quota. The risk of this operation is assume by the Fund.

For other domestic accounts receivables, the Company has credit insurance, which guarantees a compensation, in case of delinquency, of 85% to customers with pre-approved credit and of 60% to the new customers or with a credit limit below R\$ 50.

Sadia S.A.

Publicly-held Company

Notes to the financial statements

*(In thousands of Reais)***6 Inventories**

| | Parent company | | Consolidated | |
|--|-----------------------|----------------|---------------------|----------------|
| | 2004 | 2003 | 2004 | 2003 |
| Finished goods and products for sale | 348,125 | 228,317 | 386,584 | 267,888 |
| Livestock and poultry for slaughter and sale | 460,045 | 391,069 | 460,045 | 391,069 |
| Raw materials | 188,298 | 128,544 | 189,158 | 128,561 |
| Work in process | 71,484 | 75,347 | 71,484 | 75,347 |
| Packaging materials | 35,206 | 28,766 | 35,206 | 28,766 |
| Stores | 18,566 | 19,838 | 18,566 | 19,838 |
| Products in transit | 7,564 | 6,656 | 7,791 | 6,727 |
| Advances to suppliers | 47 | 1,413 | 47 | 1,422 |
| Imports in transit | <u>3,855</u> | <u>946</u> | <u>3,855</u> | <u>946</u> |
| | <u>1,133,190</u> | <u>880,896</u> | <u>1,172,736</u> | <u>920,564</u> |

7 Recoverable taxes

| | Parent company | | Consolidated | |
|--------------------------------------|-----------------------|--------------|---------------------|--------------|
| | 2004 | 2003 | 2004 | 2003 |
| ICMS | 79,729 | 52,635 | 81,791 | 54,175 |
| COFINS | 61,924 | - | 61,932 | - |
| PIS | 12,623 | 15,670 | 12,623 | 15,670 |
| IPI | 53,272 | 102,165 | 53,626 | 102,519 |
| Income and social contribution taxes | 30,819 | 39,584 | 33,753 | 40,212 |
| Others | <u>56</u> | <u>2,195</u> | <u>76</u> | <u>2,210</u> |

Edgar Filing: SADIA SA - Form 6-K

| | <u>238,423</u> | <u>212,249</u> | <u>243,801</u> | <u>214,786</u> |
|--------------------|----------------|----------------|----------------|----------------|
| Short-term portion | 151,237 | 138,106 | 156,615 | 140,260 |
| Long-term portion | 87,186 | 74,143 | 87,186 | 74,526 |

Sadia S.A.

Publicly-held Company

Notes to the financial statements

(In thousands of Reais)

Value-added tax on sales and services - ICMS

Composed of credits generated by the commercial operations of a number of the Company's units and can be offset with taxes of the same nature.

PIS/COFINS

Composed of credits arising from non-cumulative collection of PIS and COFINS, which can be compensated with other federal taxes.

Excise tax - IPI

Composed of amounts arising from the following operations: presumed credit on packaging and inputs, presumed credit for reimbursement of PIS/PASEP and COFINS on exportations and export incentives.

Income and social contribution taxes

Correspond to income tax withheld at source on short-term financial investments and income tax and social contributions paid in advance that can be offset with federal taxes and contributions.

Sadia S.A.

Publicly-held Company

Notes to the financial statements

*(In thousands of Reais)***8 Deferred tax asset***a. Composition of deferred tax asset balances*

| | Parent company | | Consolidated | |
|--|-----------------------|----------------|---------------------|----------------|
| | 2004 | 2003 | 2004 | 2003 |
| Deferred tax asset | | | | |
| Temporary differences | | | | |
| Provision for contingencies | 19,333 | 21,731 | 20,055 | 23,124 |
| Benefit plan | 28,076 | 24,435 | 28,076 | 24,435 |
| Employees' profit sharing | 16,928 | 47,751 | 16,928 | 47,751 |
| Provision for loss on property, plant and equipment | 4,648 | 4,123 | 4,648 | 4,123 |
| Summer Plan depreciation | 3,698 | 4,556 | 3,698 | 4,556 |
| Allowance for doubtful accounts | 7,931 | 7,884 | 7,209 | 6,491 |
| Provision for deferred tax on exchange variation | 72 | 9,860 | 72 | 9,860 |
| Others | 3,457 | 2,378 | 6,100 | 4,969 |
| Tax loss carryforwards and negative basis of social contribution | <u>19,079</u> | <u>21,297</u> | <u>19,079</u> | <u>21,297</u> |
| Total | <u>103,222</u> | <u>144,015</u> | <u>105,865</u> | <u>146,606</u> |
| Short-term portion | 36,180 | 65,567 | 38,823 | 65,567 |
| Long-term portion | 67,042 | 78,448 | 67,042 | 81,039 |
| Deferred tax liability: | | | | |
| Depreciation on rural activities | <u>11,723</u> | <u>9,802</u> | <u>11,723</u> | <u>9,802</u> |
| Total deferred tax liability | <u>11,723</u> | <u>9,802</u> | <u>11,723</u> | <u>9,802</u> |
| Net balance | <u>91,499</u> | <u>134,213</u> | <u>94,142</u> | <u>136,804</u> |

b. Realization of deferred tax asset projection

Management considers that the deferred tax assets arising from the temporary differences will realize when the contingency provisions are settled and the projected obligations related to the pension plan are liquidated.

Sadia S.A.

Publicly-held Company

Notes to the financial statements

(In thousands of Reais)

The deferred taxes assets related to the income tax loss carryforwards and negative basis of social contribution, amounting to R\$7,498 in the Parent and R\$11,581 in the overseas subsidiary will realize with taxable income for such companies. Management projects that the Parent's deferred tax asset will realize next year and subsidiary will realize it within the next three years.

9 Related party transactions

Related party transactions relate principally to sales operations between the Company and its subsidiaries that were performed under normal market conditions for similar types of operations. The balance sheet and income statement transactions between related parties are shown below:

| | 2004 | 2003 |
|---|----------------|----------------|
| Accounts receivable | | |
| Wellax Food Logistics C. P. A. S. U. Lda. | 410,848 | 495,978 |
| Sadia International Ltd. | 43 | 42,862 |
| Sadia Alimentos S.A. | 688 | 276 |
| Sadia Uruguay S.A. | 656 | 591 |
| Qualy B.V. | 8,411 | - |
| Sadia Chile S.A. | <u>1,728</u> | <u>1,241</u> |
| | <u>422,374</u> | <u>540,948</u> |
| Interest on shareholders' equity | | |
| Concórdia C.V.M.C.C. | <u>4,028</u> | <u>2,012</u> |
| | <u>4,028</u> | <u>2,012</u> |
| Loans | | |
| Sadia International Ltd. | (286) | 28,036 |
| Rezende Óleo Ltda. | 830 | (685) |
| Rezende Marketing e Comunicação Ltda. | <u>53</u> | <u>51</u> |
| | <u>597</u> | <u>27,402</u> |

Sadia S.A.

Publicly-held Company

Notes to the financial statements

(In thousands of Reais)

| | 2004 | 2003 |
|---|------------------|------------------|
| Advances from customers | | |
| Wellax Food Logistics C. P. A. S. U. Lda. | (133,565) | - |
| Sadia International Ltd. | <u>(5,426)</u> | <u>(13,001)</u> |
| | <u>(138,991)</u> | <u>(13,001)</u> |
| Sales | | |
| Wellax Food Logistics C. P. A. S. U. Lda. | 2,056,363 | 1,342,215 |
| Sadia International Ltd. | 75,274 | 339,173 |
| Sadia Chile S.A. | 11,175 | 9,511 |
| Sadia Alimentos S.A. | 9,112 | 3,158 |
| Sadia Uruguay S.A. | 4,984 | 3,588 |
| Sadia Argentina S.A. | <u>-</u> | <u>1,463</u> |
| | <u>2,156,908</u> | <u>1,699,108</u> |
| Net financial result | | |
| Sadia International Ltd. | <u>9,000</u> | <u>(1,340)</u> |
| | <u>9,000</u> | <u>(1,340)</u> |

Sadia S.A.

Publicly-held Company

Notes to the financial statements

*(In thousands of Reais)***10 Investments**

| Investments | % Ownership | Shareholders' equity | Net income (loss) for the period | Equity result | Investment balances | |
|--|-------------|----------------------|----------------------------------|------------------|---------------------|------------------|
| | | | | | 2004 | 2003 |
| Sadia G.m.b.H. | 100.00 | 619,116 | 178,262 | 133,599 | 619,116 | 485,517 |
| Sadia International Ltd. | 100.00 | 99,459 | (34,062) | (41,668) | 99,459 | 141,127 |
| Concórdia S.A. CCVMCC | 99.99 | 46,624 | 7,520 | 9,596 | 46,624 | 41,055 |
| Rezende Óleo Ltda. | 100.00 | 1,551 | 1,584 | 1,584 | 1,551 | - |
| Rezende Marketing e Com. Ltda. | 99.91 | (23) | 7 | 7 | - | - |
| EzFood Serviços S.A. | 33.33 | - | 447 | <u>149</u> | <u>-</u> | <u>1,532</u> |
| Total in subsidiaries | | | | 103,267 | 766,750 | 669,231 |
| Other investments | | | | <u>-</u> | <u>1,384</u> | <u>1,384</u> |
| Total investments of the Company | | | | 103,267 | 768,134 | 670,615 |
| Other investments of subsidiaries/affiliates | | | | - | 17,877 | 15,849 |
| Investments eliminated on consolidation | | | | <u>(154,422)</u> | <u>(766,751)</u> | <u>(669,232)</u> |
| Total consolidated investments | | | | <u>(51,155)</u> | <u>19,260</u> | <u>17,232</u> |

| | Capital increase | Disposal | Dividends/ Interest on shareholders' equity | Provision for losses | Shareholding result | |
|--------------------------------|------------------|----------------|---|----------------------|---------------------|-----------------|
| | | | | | Operational | Non-operational |
| Sadia G.m.b.H. | - | - | - | - | 133,599 | - |
| Sadia International Ltd. | - | - | - | - | (41,668) | - |
| Concórdia S.A. CCVMCC | - | - | (4,028) | - | 7,521 | 2,076 |
| Rezende Óleo Ltda. | - | - | - | (33) | 1,584 | - |
| Rezende Marketing e Com. Ltda. | - | - | - | (7) | 7 | - |
| EzFood Serviços S.A. | <u>1,088</u> | <u>(2,769)</u> | <u>-</u> | <u>-</u> | <u>149</u> | <u>(1)</u> |
| Total | <u>1,088</u> | <u>(2,769)</u> | <u>(4,028)</u> | <u>(40)</u> | <u>101,192</u> | <u>2,075</u> |

On October 29, 2004 the Company sold its joint shareholding in EZ Food Services S/A, resulting in a loss of R\$2,528.

The equity in earnings on the consolidated financials statements is represented by translation losses of R\$50,678 and a non-operating losses of R\$477.

Sadia S.A.

Publicly-held Company

Notes to the financial statements

*(In thousands of Reais)***11 Property, plant and equipment**

| | Average annual rate (%) | Parent company | | | |
|-------------------------------|-------------------------------|------------------|------------------|------------------|----------------|
| | | Cost | Depreciation | Carrying amount | |
| | | 2004 | 2004 | 2004 | 2003 |
| Buildings | 4 | 652,300 | (303,759) | 348,541 | 336,626 |
| Machinery and equipment | 15 | 815,947 | (487,885) | 328,062 | 306,179 |
| Installations | 10 | 186,572 | (109,180) | 77,392 | 67,799 |
| Vehicles | 27 | 14,239 | (9,573) | 4,666 | 4,654 |
| Trademarks and patents | 10 | 1,562 | (1,207) | 355 | 733 |
| Lands | - | 55,360 | - | 55,360 | 55,912 |
| Forestation and reforestation | - | 19,768 | (7,037) | 12,731 | 10,305 |
| Others | - | 208 | (111) | 97 | 146 |
| Construction in progress | - | 163,011 | - | 163,011 | 96,672 |
| Advances to suppliers | - | <u>14,579</u> | <u>-</u> | <u>14,579</u> | <u>7,523</u> |
| | | <u>1,923,546</u> | <u>(918,752)</u> | <u>1,004,794</u> | <u>886,549</u> |
| Consolidated | | | | | |
| | Average annual rate (%) | Cost | Depreciation | Carrying amount | |
| | | 2004 | 2004 | 2004 | 2003 |
| | | | | | |
| Buildings | 4 | 653,424 | (304,231) | 349,193 | 337,159 |
| Machinery and equipment | 15 | 818,414 | (489,090) | 329,324 | 307,005 |
| Installations | 10 | 186,790 | (109,251) | 77,539 | 67,981 |
| Vehicles | 27 | 14,781 | (9,677) | 5,104 | 4,966 |
| Trademarks and patents | 10 | 1,616 | (1,210) | 406 | 747 |
| Lands | - | 55,465 | - | 55,465 | 56,017 |

Edgar Filing: SADIA SA - Form 6-K

| | | | | | |
|-------------------------------|---|------------------|------------------|------------------|----------------|
| Forestation and reforestation | - | 19,768 | (7,037) | 12,731 | 10,305 |
| Others | - | 1,525 | (739) | 786 | 932 |
| Construction in progress | - | 163,011 | - | 163,011 | 96,673 |
| Advances to suppliers | - | <u>14,579</u> | <u>-</u> | <u>14,579</u> | <u>7,546</u> |
| | | <u>1,929,373</u> | <u>(921,235)</u> | <u>1,008,138</u> | <u>889,331</u> |

Sadia S.A.

Publicly-held Company

Notes to the financial statements

(In thousands of Reais)

- a.* The construction in progress is mainly represented by projects related to the industrial units expansion and optimization.
- b.* In accordance with CVM Deliberation 193/96 the interest incurred in the period arising from financing of projects for modernization and expansion of the industrial units has been recorded in the respective costs of the construction in progress in the amount of R\$11,206 (R\$4,903 at December 31, 2003).
- c.* The Company has assets that are not being used in the current operation and consequently are available for sale. These assets are recorded as long term other receivables at their estimated realization value of R\$18,080 (R\$19,730 at December 31, 2003), less the costs to be incurred in their sale.

12 Deferred charges

| | | Parent company | | | |
|-------------------------|-----------------|-----------------------|---------------------|------------------------|---------------|
| | | Cost | Amortization | Carrying amount | |
| | | 2004 | 2004 | 2004 | 2003 |
| | Rate (%) | | | | |
| Software implementation | 25 | 117,888 | (71,198) | 46,690 | 64,481 |
| Product development | 20 | 7,697 | (5,347) | 2,350 | 2,458 |
| Others | 20 | <u>129</u> | <u>(29)</u> | <u>100</u> | <u>106</u> |
| | | <u>125,714</u> | <u>(76,574)</u> | <u>49,140</u> | <u>67,045</u> |
| | | Consolidated | | | |
| | | Cost | Amortization | Carrying amount | |
| | | 2004 | 2004 | 2004 | 2003 |
| | Rate (%) | | | | |
| Software implementation | 25 | 118,852 | (71,810) | 47,042 | 65,525 |
| Product development | 20 | 7,697 | (5,346) | 2,351 | 2,459 |
| Others | 20 | <u>238</u> | <u>(109)</u> | <u>129</u> | <u>142</u> |

Edgar Filing: SADIA SA - Form 6-K

| | | | |
|----------------|-----------------|---------------|---------------|
| <u>126,787</u> | <u>(77,265)</u> | <u>49,522</u> | <u>68,126</u> |
|----------------|-----------------|---------------|---------------|

Sadia S.A.

Publicly-held Company

Notes to the financial statements

(In thousands of Reais)

The Company reviewed its assumptions for the amortization of preoperating expenses incurred in the implementation of management software, reducing the amortization period from 5 to 4 years. This change in the amortization estimate results from the implementation of a new version of the software, which has been concluded on October, 2004. This change generated additional amortization for the period in the amount of R\$11,656.

13 Loans and financing - Short-term

| | Parent company | | Consolidated | |
|---|----------------|----------------|----------------|----------------|
| | 2004 | 2003 | 2004 | 2003 |
| Short-term | | | | |
| Foreign currency | | | | |
| Net working financing composed of prepayment subject to LIBOR variation for 6-month deposits (2.775% in December 2004) plus interest from 0.10% to 0.20% p.a., guaranteed by its own titles | 160,833 | - | 437,329 | - |
| Advanced collection relating to the receivables sold, with no interest | - | - | 136,061 | 47,894 |
| Credit lines for the development of foreign trade, with interest rates from 2.00% to 4.48% p.a., guaranteed by promissory notes or sureties | - | - | 35,887 | 310,662 |
| Export financing composed of prepayment subject to LIBOR variation for 6-month deposits (2.775% in December 2004) plus interest of 1.88% p.a., guaranteed by promissory notes or sureties | 26,972 | 153,616 | 26,972 | 153,616 |
| Currency swap contracts | 15,424 | 33,652 | 15,424 | 33,652 |
| Interest rate swap contracts | <u>1,150</u> | <u>-</u> | <u>1,256</u> | <u>-</u> |
| | <u>204,379</u> | <u>187,268</u> | <u>652,929</u> | <u>545,824</u> |
| Local currency | | | | |
| Rural credit lines and working capital loans with interest of 8.75% p.a. | 155,118 | 194,338 | 155,118 | 194,338 |
| Currency swap contracts | <u>130,543</u> | <u>51,000</u> | <u>130,543</u> | <u>51,000</u> |

Edgar Filing: SADIA SA - Form 6-K

| | | | |
|----------------|----------------|----------------|----------------|
| <u>285,661</u> | <u>245,338</u> | <u>285,661</u> | <u>245,338</u> |
| <u>490,040</u> | <u>432,606</u> | <u>938,590</u> | <u>791,162</u> |

Sadia S.A.

Publicly-held Company

Notes to the financial statements

(In thousands of Reais)

| | Parent company | | Consolidated | |
|--|----------------|---------------|--------------|---------------|
| | 2004 | 2003 | 2004 | 2003 |
| Short-term portion of the long-term debt | | | | |
| Foreign currency | | | | |
| IFC (International Finance Corporation) funding in foreign currency for investment in property, plant and equipment, of which R\$93,586 is subject to interest at the rate of 8.52% p.a., and R\$35,636 at 9.05% p.a., guaranteed by real estate mortgages | 129,222 | 177,605 | 129,222 | 177,605 |
| Export financing composed of prepayment subject to LIBOR variation for 6-month deposits (2.775% in December 2004) and interest of 4.61% p.a. and a line focused on the incentive for foreign trade activities, plus annual interest of 5.60% p.a., guaranteed by promissory notes or sureties | 236,874 | 284,645 | 238,824 | 284,645 |
| BNDES (National Bank for Economic and Social Development), credit lines for investments and exports, composed as follows: FINEM in the amount of R\$12,088 subject to the weighted average of exchange variation of currencies traded by BNDES - UMBNDES and fixed interest of 3.50% p.a. and FINAME EXIM in the amount of R\$20,292 subject to the weighted average of exchange variation of currencies traded by BNDES-UMBNDDES and fixed interest of 3.86%, guaranteed by mortgage bonds and real estate mortgage | 32,380 | 47,436 | 32,380 | 47,436 |
| Others | — | <u>13,613</u> | — | <u>13,613</u> |
| | 398,476 | 523,299 | 400,426 | 523,299 |

Sadia S.A.

Publicly-held Company

Notes to the financial statements

(In thousands of Reais)

| | Parent company | | Consolidated | |
|---|------------------|------------------|------------------|------------------|
| | 2004 | 2003 | 2004 | 2003 |
| Local currency | | | | |
| BNDES (National Bank for Economic and Social Development), credit lines for investments and exports, composed as follows: FINAME in the amount of R\$ 8,434 subject to the Long-Term Interest Rate -TJLP (9.75% p.a. in December 2004) and interest of 3.30% p.a., FINAME-EXIM in the amount of R\$ 245,770 subject to TJLP (9.75% p.a. in December 2004) and interest of 3.89% p.a. and FINEM in the amount of R\$ 16,823 subject to TJLP (9.75% p.a. in December 2004) and interest of 3.49% p.a., guaranteed by mortgage bonds and real estate mortgages | 271,036 | 134,073 | 271,036 | 134,073 |
| PESA - Special Aid for Agribusiness payable in installments, subject to IGPM variation and annual interest of 9.76%, guaranteed by sureties | 5,458 | 6,244 | 5,458 | 6,244 |
| Others | <u>34</u> | <u>300</u> | <u>34</u> | <u>300</u> |
| | <u>276,528</u> | <u>140,617</u> | <u>276,528</u> | <u>140,617</u> |
| Short-term portion of long-term debt | <u>675,004</u> | <u>663,916</u> | <u>676,954</u> | <u>663,916</u> |
| Total short-term | <u>1,165,055</u> | <u>1,096,522</u> | <u>1,615,544</u> | <u>1,455,078</u> |

At December 31, 2004 the weighted average interest on short-term loans was 7.06% p.a. (5.19% p.a. at December 31, 2003).

To enhance the presentation of the financial statements, the balances of advanced collection of receivables sold have been presented as loans and financings, previously presented in accounts payable. For comparability purposes, the

December 31, 2004 balance in amount of R\$ 47,894 was reclassified.

Sadia S.A.

Publicly-held Company

Notes to the financial statements

*(In thousands of Reais)***14 Loans and financing - Long-term**

| | <u>Parent company</u> | | <u>Consolidated</u> | |
|--|-----------------------|---------------|---------------------|---------------|
| | 2004 | 2003 | 2004 | 2003 |
| Foreign currency | | | | |
| Export financing composed of prepayment, payable in installments up to 2010, subject to LIBOR variation for 6-month deposits (2.775% in December 2004) plus annual interest of 4.61% p.a, and a line focused on the incentive for foreign trade, with an interest rate of 5.60% p.a., guaranteed by promissory notes or sureties | 657,258 | 1,196,174 | 924,965 | 1,196,174 |
| IFC (International Finance Corporation) funding in foreign currency for investments in property, plant and equipment, of which R\$93,586 is subject to interest at the rate of 8.52% p.a. and R\$35,636 at 9.05% p.a., guaranteed by real estate mortgages | 129,222 | 177,605 | 129,222 | 177,605 |
| BNDES (National Bank for Economic and Social Development), payable from 2005 to 2009, composed as follows: FINEM in the amount of R\$45,730 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 EXIM in the amount of R\$20,947 subject to the weighted average of the exchange variation of currencies traded by BNDES - UMBNDES and fixed annual interest of 3.86% p.a. guaranteed by mortgage bonds and real estate mortgages | 66,677 | 107,985 | 66,677 | 107,985 |
| Currency swap contracts | 5,281 | 5,867 | 5,281 | 7,645 |
| Others | — | <u>13,613</u> | — | <u>13,613</u> |

| | | | |
|----------------|------------------|------------------|------------------|
| <u>858,438</u> | <u>1,501,216</u> | <u>1,126,145</u> | <u>1,503,022</u> |
|----------------|------------------|------------------|------------------|

Sadia S.A.

Publicly-held Company

Notes to the financial statements

(In thousands of Reais)

| | Parent company | | Consolidated | |
|--|------------------|------------------|------------------|------------------|
| | 2004 | 2003 | 2004 | 2003 |
| Local currency | | | | |
| BNDES (National Bank for Economic and Social Development), credit lines for investments and exports, payable from 2005 to 2008, composed as follows: FINAME in the amount of R\$18,546 subject to the Long-Term Interest Rate -TJLP (9.75% p.a. in December 2004) and interest of 3.30% p.a., FINAME-EXIM in the amount of R\$364,710 subject to TJLP (9.75% p.a. in December 2004) and interest of 3.89% p.a. and FINEM in the amount of R\$53,035 subject to TJLP (9.75% p.a. in December 2004) and interest of 3.49% p.a., guaranteed by mortgage bonds and real estate mortgages | 436,309 | 415,185 | 436,309 | 415,185 |
| PESA - Special Aid for Agribusiness payable from 2005 to 2020, subject to IGPM variation and annual interest of 9.76%, guaranteed by sureties | 129,310 | 114,233 | 129,310 | 114,233 |
| Currency swap contracts | 65,174 | 128,513 | 65,174 | 128,513 |
| Others | <u>21,846</u> | <u>5,957</u> | <u>21,846</u> | <u>5,957</u> |
| | <u>652,639</u> | <u>663,888</u> | <u>652,639</u> | <u>663,888</u> |
| | 1,511,077 | 2,165,132 | 1,778,784 | 2,166,910 |
| Short-term portion of long-term debt | <u>(675,004)</u> | <u>(663,916)</u> | <u>(676,954)</u> | <u>(663,916)</u> |
| Total long-term | <u>836,073</u> | <u>1,501,216</u> | <u>1,101,830</u> | <u>1,502,994</u> |

The noncurrent portions of financings at December 31, 2004 mature as follows:

| | Parent company | Consolidated |
|-----------------|----------------|--------------|
| Maturity | | |
| 2006 | 416,118 | 681,875 |
| 2007 | 91,465 | 91,465 |
| 2008 | 81,623 | 81,623 |

Edgar Filing: SADIA SA - Form 6-K

| | | |
|--------------|----------------|------------------|
| 2009 | 62,047 | 62,047 |
| 2010 onwards | <u>184,820</u> | <u>184,820</u> |
| | <u>836,073</u> | <u>1,101,830</u> |

Sadia S.A.

Publicly-held Company

Notes to the financial statements

(In thousands of Reais)

The International Finance Corporation - IFC funding involves certain restrictive covenants for distribution of dividends in addition to minimum mandatory dividends when obligations, such as certain consolidated financial ratios (current liquidity, long-term and total indebtedness), are not met. At December 31, 2003, the Company did not meet the obligation in connection with consolidated long-term indebtedness ratios, reclassifying for this reason the portion of long-term debt to short-term, a situation that has not changed for the year ended December 31, 2004.

15 Pension plans for employees

In addition to the pension plan, the Company's human resources policy offers the following benefits:

- Payment of the penalty in connection with the Government Severance Indemnity Fund for Employees upon retirement;
- Payment of a bonus for time of service;
- Payment of indemnification for termination of service; and
- Payment of indemnification for retirement.

These benefits are due in one single payment upon the employee's retirement or termination of service, and the amounts are computed by actuarial calculations.

16 Contingencies

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 evaluation by the Company's legal counsel, which considered that unfavorable outcomes are likely. Whenever necessary, judicial deposits were made, on December 31, 2004 an amount of R\$ 77,908 (R\$ 77,204 on the consolidated) are recorded.

Sadia S.A.

Publicly-held Company

Notes to the financial statements

(In thousands of Reais)

The Company's management believes that the provision for contingencies shown below is sufficient to cover any losses arising from legal proceedings.

| | Parent company | | Consolidated | |
|-------------------|----------------|---------------|---------------|---------------|
| | 2004 | 2003 | 2004 | 2003 |
| Tax proceedings | 31,521 | 32,665 | 33,618 | 36,729 |
| Civil proceedings | 11,746 | 17,705 | 11,746 | 17,706 |
| Labor proceedings | <u>13,594</u> | <u>13,545</u> | <u>13,620</u> | <u>13,578</u> |
| | 56,861 | 63,915 | 58,984 | 68,013 |

Tax litigation

The main tax contingencies involve the following cases:

a. Income and social contribution taxes on net income

Provision for income and social contribution taxes on net income amounting to R\$6,833, recorded on the acquisition of the subsidiary Granja Rezende (incorporated in 2002).

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 Amazonas (SUFRAMA), totaling a probable contingency estimated at R\$17,543.

c. Other tax contingencies

Several cases related to payment of IOF (Tax on Financial Operations), PIS (Social Integration Program Tax), COFINS (Tax for Social Security Financing) and others totaling a probable loss of R\$9,242.

Sadia S.A.**Publicly-held Company****Notes to the financial statements***(In thousands of Reais)***d. Civil litigation**

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

e. Labor claims

The Company is a defendant in several administrative cases involving ICMS, mainly in the States of São Paulo, Rio de Janeiro and Amazonas (SUFRAMA), totaling a probable contingency estimated at R\$17,543.

17 Shareholders' equity**a. Capital**

Subscribed and paid-in capital is represented by the following shares with no par value, at December 31, 2004 and 2003:

| | |
|------------------------------|--------------------|
| Common shares | 257,000,000 |
| Preferred shares | <u>426,000,000</u> |
| Total shares | 683,000,000 |
| Preferred shares in treasury | <u>(304,288)</u> |
| Total outstanding shares | <u>682,695,712</u> |

b. Statutory reserves

Legal reserve

In compliance with article 193 of Law 6404/76, the reserve was recorded at the rate of 5% of the net profit for the year, up to the limit of 20% of the capital.

Sadia S.A.

Publicly-held Company

Notes to the financial statements

(In thousands of Reais)

Research and development reserve

It is recorded at the rate of 5% of the net profit for the year, up to the limit of 10% of capital.

Expansion reserve

It is recorded at least with 15% with a maximum of 60% of the net profit for the year, up to the limit of 70% of capital.

c. Treasury stock

The Company's treasury stock consists of 304 lots of 1,000 preferred shares acquired by R\$198 for future sale and/or cancellation. At December 31, 2004 the market value corresponded to R\$1,818.

d. Shareholders' remuneration

Preferred shares have no voting rights and have priority in the distribution of dividends, which are, at least, 10% higher than those attributed to common shares, in conformity with item I of article 17 of Law 6404/76, with the new wording of Law 9457/97. The corporate by-laws determine the distribution of a minimum dividend of 28% of the net income for the year, adjusted in accordance with article 202 of Law 6404/76.

Sadia S.A.

Publicly-held Company

Notes to the financial statements

(In thousands of Reais)

The Company calculated interest on shareholders' equity based on the benchmark interest rate (TJLP) in effect for the year in the amount of R\$126,067 (R\$127,885 in 2003). The minimum dividend was paid or credited as interest on shareholders' equity, based on the following:

| | 2004 | 2003 |
|--|-----------------|-----------------|
| Net income for the year | 445,301 | 452,491 |
| Legal reserve | <u>(22,265)</u> | <u>(22,625)</u> |
| Basis | 423,036 | 429,866 |
| Distribution to shareholders: | | |
| Interest on shareholders' equity (net of withholding tax of R\$7,702) paid in advance on August 17, 2004 | 43,647 | - |
| Interest on shareholders' equity (net of withholding taxes of R\$14,540) recorded at December 31, 2004 to be paid on February 16, 2005 | 82,421 | - |
| Interest on equity (net of withholding taxes of R\$ 22,569), paid relatively to 2003 | <u>-</u> | <u>127,885</u> |
| Total | <u>126,068</u> | <u>127,885</u> |
| Percentage in relation to the basis | 29.80% | 29.75% |
| Interest on shareholders' equity by 1,000 shares in Reais: | | |
| Preferred | R\$191,21 | R\$193,98 |
| Common | R\$173,82 | R\$176,36 |

e. Market value

The market value of Sadia S.A. shares according average quotation of shares negotiated on the São Paulo Stock Exchange - BOVESPA, corresponded to R\$5.98 per thousand shares at December 31, 2004 (R\$3.98 at December 31, 2003). Net equity on that date was R\$2.63 per thousand shares (R\$2.19 at December 31, 2003).

Sadia S.A.

Publicly-held Company

Notes to the financial statements

*(In thousands of Reais)**f. Shareholders composition*

Shareholders composition, until the natural person level, of Sadia S.A, which have more than 5% of ordinary stock, on December 31, 2004.

| Shareholders | CS | % | PS | % | Total | % |
|----------------------------------|--------------------|---------------|--------------------|---------------|--------------------|---------------|
| Fundação Attilio F. X. Fontana | 24,998,558 | 9.73 | 5,400,000 | 1.27 | 30,398,558 | 4.45 |
| Osório Henrique Furlan (*) | 14,378,172 | 5.59 | 557,127 | 0.13 | 14,935,299 | 2.19 |
| Sunflower Participações S.A. (*) | 32,018,789 | 12.46 | - | - | 32,018,789 | 4.69 |
| Other shareholders' (*) | 128,248,919 | 49.90 | 53,704,347 | 12.61 | 181,953,266 | 26.64 |
| Bradesco Vida e Previdência S.A. | 18,191,148 | 7.08 | - | - | 18,191,148 | 2.66 |
| Other shareholders | 39,164,414 | 15.24 | 366,034,238 | 85.92 | 405,198,652 | 59.33 |
| Treasury stock | <u>-</u> | <u>-</u> | <u>304,288</u> | <u>0.07</u> | <u>304,288</u> | <u>0.04</u> |
| Total | <u>257,000,000</u> | <u>100.00</u> | <u>426,000,000</u> | <u>100.00</u> | <u>683,000,000</u> | <u>100.00</u> |

(*) Shareholders' agreement participants

Shareholders composition of Sunflower Participações S.A. on December 31, 2004:

| Shareholders | CS | % | PS | % | Total | % |
|-------------------------------|-------------------|---------------|----------|----------|-------------------|---------------|
| Maria Aparecida Cunha Fontana | 14,084,143 | 43.99 | - | - | 14,048,143 | 43.99 |
| Attilio Fontana Neto | 5,716,562 | 17.85 | - | - | 5,716,562 | 17.85 |
| Walter Fontana Filho | 6,739,660 | 21.05 | - | - | 6,739,660 | 21.05 |
| Vânia Cunha Fontana | <u>5,478,424</u> | <u>17.11</u> | <u>-</u> | <u>-</u> | <u>5,478,424</u> | <u>17.11</u> |
| Total | <u>32,018,789</u> | <u>100.00</u> | <u>-</u> | <u>-</u> | <u>32,018,789</u> | <u>100.00</u> |

Shareholders composition of Bradesco Vida e Previdência S.A on December, 31 2004:

| Shareholders | CS | % | PS | % | Total | % |
|--------------|----|---|----|---|-------|---|
|--------------|----|---|----|---|-------|---|

Edgar Filing: SADIA SA - Form 6-K

| | | | | | | |
|-----------------------|--------------------|---------------|----------|----------|--------------------|---------------|
| Bradesco Seguros S.A. | <u>792,271,560</u> | <u>100.00</u> | <u>-</u> | <u>-</u> | <u>792,271,560</u> | <u>100.00</u> |
| Total | <u>792,271,560</u> | <u>100.00</u> | <u>-</u> | <u>-</u> | <u>792,271,560</u> | <u>100.00</u> |

Sadia S.A.

Publicly-held Company

Notes to the financial statements

(In thousands of Reais)

Shareholders composition of Bradesco Seguros S.A on December 31, 2004:

| Shareholders | CS | % | PS | % | Total | % |
|--------------------|----------------|---------------|----------|----------|----------------|---------------|
| Banco Bradesco S.A | 625,331 | 99.47 | - | - | 625,331 | 99.47 |
| Other shareholders | <u>3,361</u> | <u>0.53</u> | <u>-</u> | <u>-</u> | <u>3,361</u> | <u>0.53</u> |
| Total | <u>628,692</u> | <u>100.00</u> | <u>-</u> | <u>-</u> | <u>628,692</u> | <u>100.00</u> |

Shareholders composition of Banco Bradesco S.A. on December 31, 2004:

| Shareholders | CS | % | PS | % | Total | % |
|--|--------------------|---------------|--------------------|---------------|--------------------|---------------|
| Cidade de Deus Cia. Comercial de Participações | 114,301,296 | 47.95 | 510,540 | 0.22 | 114,811,836 | 24.20 |
| Fundação Bradesco | 31,387,307 | 13.17 | 11,839,617 | 5.02 | 43,226,924 | 9.11 |
| Banco Bilbao Vizcaya Argentaria S.A | 11,984,103 | 5.03 | 11,812,091 | 5.00 | 23,796,194 | 5.02 |
| Banco Espírito Santo S.A. | 16,061,429 | 6.74 | 43,845 | 0.02 | 16,105,274 | 3.39 |
| Other shareholders | <u>64,617,194</u> | <u>27.11</u> | <u>211,875,703</u> | <u>89.74</u> | <u>276,492,897</u> | <u>58.28</u> |
| Total | <u>238,351,329</u> | <u>100.00</u> | <u>236,081,796</u> | <u>100.00</u> | <u>474,433,125</u> | <u>100.00</u> |

Shareholders composition of Cidade de Deus Cia. Comercial de Participações on December 31, 2004:

| Shareholders | CS | % | PS | % | Total | % |
|--|--------------------|-------------|----------|----------|--------------------|-------------|
| Nova Cidade de Deus Participações S.A. | 2,204,062,098 | 44.22 | - | - | 2,204,062,098 | 44.22 |
| Fundação Bradesco | 1,629,622,730 | 32.69 | - | - | 1,629,622,730 | 32.69 |
| Lia Maria Aguiar | 417,744,408 | 8.38 | - | - | 417,744,408 | 8.38 |
| Lina Maria Aguiar | 417,744,408 | 8.38 | - | - | 417,744,408 | 8.38 |
| Other shareholders | <u>315,378,856</u> | <u>6.33</u> | <u>-</u> | <u>-</u> | <u>315,378,856</u> | <u>6.33</u> |

Edgar Filing: SADIA SA - Form 6-K

| | | | | | | |
|-------|----------------------|---------------|----------|----------|----------------------|---------------|
| Total | <u>4,984,552,500</u> | <u>100.00</u> | <u>-</u> | <u>-</u> | <u>4,984,552,500</u> | <u>100.00</u> |
|-------|----------------------|---------------|----------|----------|----------------------|---------------|

Sadia S.A.

Publicly-held Company

Notes to the financial statements

(In thousands of Reais)

Shareholders composition of Nova Cidade de Deus Participações S.A. on December 31, 2004:

| Shareholders | CS | % | PS | % | Total | % |
|--|--------------------|---------------|--------------------|---------------|--------------------|---------------|
| Fundação Bradesco | 85,895,018 | 46.30 | 196,575,069 | 98.35 | 282,470,087 | 73.29 |
| Elo Participações S.A. | 99,616,804 | 53.70 | - | - | 99,616,804 | 25.85 |
| Caixa Beneficente dos Funcionários do Bradesco | — | — | <u>3,301,691</u> | <u>1.65</u> | <u>3,301,691</u> | <u>0.86</u> |
| Total | <u>185,511,822</u> | <u>100.00</u> | <u>199,876,760</u> | <u>100.00</u> | <u>385,388,582</u> | <u>100.00</u> |

Shareholders composition of Elo Participações S.A. on December 31, 2004:

No shareholders reaches, individually, more than 5% of the ordinary stock.

| Shareholders | CS | PS | Total |
|--------------|--------------------|-------------------|--------------------|
| Total | <u>103,033,675</u> | <u>61,148,836</u> | <u>164,182,511</u> |

Stocks in possession of the Controllers, Council of Administration, Directors and of the Fiscal Council of the Sadia S.A.

On December 31, 2004:

| | CS | % | PS | % | Total | % |
|--------------------------------|--------------------|-------------|-------------------|-------------|--------------------|-------------|
| Controlling shareholders | 177,150,621 | 68.93 | 52,784,813 | 12.39 | 229,935,434 | 33.67 |
| Board of directors members (*) | 1,604,497 | 0.62 | 7,706,144 | 1.81 | 9,310,641 | 1.36 |
| Directors (*) | 11,915 | 0.00 | 4,365,051 | 1.02 | 4,376,966 | 0.64 |
| Fiscal council | <u>1,629</u> | <u>0.00</u> | <u>528</u> | <u>0.00</u> | <u>2,157</u> | <u>0.00</u> |
| Total | <u>178,768,662</u> | | <u>64,856,536</u> | | <u>243,625,198</u> | |

(*Excludes shareholders who are members of the controller group

Sadia S.A.**Publicly-held Company****Notes to the financial statements***(In thousands of Reais)*

On December 31, 2003:

| | CS | % | PS | % | Total | % |
|--------------------------------|--------------------|-------------|-------------------|-------------|--------------------|-------------|
| Controlling shareholders | 175,115,891 | 68.14 | 51,283,739 | 12.04 | 226,399,630 | 33.15 |
| Board of directors members (*) | 8,208,978 | 3.19 | 6,014,347 | 1.41 | 14,223,325 | 2.08 |
| Directors (*) | 11,915 | 0.00 | 376,001 | 0,09 | 387,916 | 0.06 |
| Fiscal council | <u>1,629</u> | <u>0.00</u> | <u>528</u> | <u>0.00</u> | <u>2,157</u> | <u>0.00</u> |
| Total | 183,338,413 | | 57,674,615 | | 241,013,028 | |

(*)Excludes shareholders who are members of the controller group

Outstanding stocks of Sadia S.A. on December 31, 2004:

| | CS | % | PS | % | Total | % |
|--------------------|--------------------|---------------|--------------------|---------------|--------------------|---------------|
| Outstanding stocks | <u>79,849,379</u> | <u>31.07</u> | <u>372,910,899</u> | <u>87.54</u> | <u>452,760,278</u> | <u>66.29</u> |
| Total | 257,000,000 | 100.00 | 426,000,000 | 100.00 | 683,000,000 | 100.00 |

18 Employees' profit sharing

The Company concedes to its employees' profit sharing plan, which depends on attaining specific targets, established and agreed at the beginning of each year. This plan has been approved by Administration Council of the Company and it has been registered by a formal agreement with Sindical Entities.

As of December 31, 2004, the Company changed the classification of the employees' profit sharing, recording it as other operating expense. For comparability purposes, at December 31, 2003 R\$141,300 at the Parent and R\$141,793 at the consolidated were reclassified to the same account.

Sadia S.A.

Publicly-held Company

Notes to the financial statements

*(In thousands of Reais)***19 Financial result**

| | Parent company | | Consolidated | |
|-----------------------------------|-----------------------|------------------|---------------------|------------------|
| | 2004 | 2003 | 2004 | 2003 |
| Financial expenses | | | | |
| Interest | (251,167) | (352,759) | (323,850) | (341,066) |
| Monetary variations - Liabilities | (22,322) | (17,010) | (39,623) | (17,021) |
| Exchange variations - Liabilities | 119,737 | 265,750 | 91,461 | 264,367 |
| Others | <u>(27,583)</u> | <u>(87,104)</u> | <u>(49,988)</u> | <u>(91,321)</u> |
| | <u>(181,335)</u> | <u>(164,123)</u> | <u>(322,000)</u> | <u>(185,041)</u> |
| Financial income | | | | |
| Interest | 151,926 | 252,224 | 268,940 | 443,299 |
| Monetary variations - Assets | 6,429 | 10,573 | 9,892 | 5,490 |
| Exchange variations - Assets | (114,092) | (281,446) | (20,111) | (147,856) |
| Others | <u>18,467</u> | <u>20,085</u> | <u>30,622</u> | <u>32,820</u> |
| | <u>62,730</u> | <u>1,436</u> | <u>289,343</u> | <u>333,753</u> |
| Financial result, net | <u>(118,605)</u> | <u>(162,687)</u> | <u>(32,657)</u> | <u>148,712</u> |

With the advent of the law 5164/04, management decided to reverse in the period ended September 30, 2004 the provision for Pis/Cofins on monetary variations of financial investments, in the gross amount of R\$ 26 million, which has been recorded in other financial income (R\$ 17, million, net of taxes).

During the second quarter of 2004, the Company sold its Brazilian debt investments (Brazil Global and Brazil C Bearer Bonds). These investments were part of the foreign subsidiaries investment funds portfolio. This operation reduces the exposure of the Company and its subsidiaries to the volatility of such titles. A result of this operation the Company recorded a loss of approximately R\$ 110,000.

Sadia S.A.

Publicly-held Company

Notes to the financial statements

*(In thousands of Reais)***20 Income and social contribution taxes**

Income and social contribution taxes were calculated at applicable rates and a reconciliation with the income and social contribution taxes expenses, is shown below:

| | Parent company | | Consolidated | |
|--|------------------|------------------|------------------|------------------|
| | 2004 | 2003 | 2004 | 2003 |
| Income before taxation/profit sharing | 517,925 | 439,105 | 511,551 | 434,498 |
| Interest on shareholders' equity | <u>(146,714)</u> | <u>(145,310)</u> | <u>(146,714)</u> | <u>(145,310)</u> |
| Income before income and social contribution taxes | 371,211 | 293,795 | 364,837 | 289,188 |
| Income and social contribution taxes at nominal rate - 34% | (126,212) | (99,890) | (124,046) | (98,324) |
| Adjustment to calculate the effective rate | | | | |
| Permanent differences: | | | | |
| Equity in earnings of subsidiaries | 35,111 | 119,160 | 31,650 | 114,950 |
| Interest on shareholders' equity of subsidiaries | - | - | 1,370 | 1,367 |
| Others | 6,896 | (376) | 6,767 | (569) |
| Provision for income and social contribution taxes on foreign subsidiary | <u>11,581</u> | <u>(5,508)</u> | <u>11,581</u> | <u>(5,508)</u> |
| Income and social contribution taxes at effective rate | <u>(72,624)</u> | <u>13,386</u> | <u>(72,678)</u> | <u>11,916</u> |

21 Risk management and financial instruments

The Company's operations are exposed to market risks, principally in relation to exchange rate variations, credit risk and grain purchase prices. These risks are monitored by the Risk Management Area that uses a specific system to calculate the "VAR - Value at Risk", and permanently monitored by the finance committee, composed of members of the Board of Directors and other finance executives of the Company, who are responsible for defining the Board's risk management strategy by determining the position and exposure limits. In December 31, 2004 the Value at Risk (VAR)

of the financial assets and liabilities, for one year, with a 95% of confidence rating, represents R\$ 81,274 (non-audited information).

Sadia S.A.

Publicly-held Company

Notes to the financial statements

*(In thousands of Reais)**a. Exchange rate risk*

The exchange rate risk for loans, financing and any other payables denominated in foreign currency is hedged by short-term investments denominated in foreign currency and by derivative financial instruments, such as rate swaps (dollar to CDI) and future market agreements, in addition to receivables in U.S. dollars from exports, which also reduce exchange variations by serving as a “natural hedge”.

The Company, within its hedge strategy, uses currency futures contracts (US dollars and Euros), as a form of mitigating exchange rate risk. The nominal amounts of these contracts are not recorded in the financial statements.

The results of the operations in the currency futures market, realized and not financially settled and the daily adjustments of currency futures contracts from the Future and Commodities Exchange - BM&F in December 31, 2004, are recorded in the financial statements as “Amounts receivable from futures contracts” and “Amounts payable for futures contracts”.

Unearned income from contracted operations with future maturities is not recognized in the financial statements. The market value of these contracts, if they were settled at December 31, 2004, would give rise to a gain of approximately R\$46,206

The Company exchange variation exposition (mainly in US dollars) are shown below

| | Consolidated | |
|--|---------------------|----------------|
| | 2004 | 2004 |
| Assets and liabilities in foreign currency | | |
| Cash and short-term investments | 1,309,414 | 1,369,133 |
| Amounts receivable from futures contracts | 196,061 | 71,347 |
| Trade accounts receivable | 155,020 | 254,982 |
| Loans and financing | (1,779,074) | (2,000,952) |
| Swap contracts (dollar for CDI) | 585,206 | 990,107 |
| Suppliers | (23,655) | (31,091) |
| Amounts payable for futures contracts | <u>(201,616)</u> | <u>(8,153)</u> |
| | <u>241,356</u> | <u>645,373</u> |

Sadia S.A.

Publicly-held Company

Notes to the financial statements

(In thousands of Reais)

Consolidated hedge contracts outstanding at December 31, 2004 with their respective payment schedules are as follows:

| Derivative instruments | Position | Payment schedule | | | |
|--------------------------------|------------|------------------|----------|---------|---------|
| | 12/31/2004 | 2005 | 2006 | 2007 | 2008 |
| Currency swap contracts | | | | | |
| Base value - R\$ | 585,206 | 421,852 | 141,070 | 12,908 | 9,376 |
| Base value - US\$ | 207,586 | 148,707 | 51,375 | 4,347 | 3,157 |
| Receivables/payables | | | | | |
| Asset | 51,499 | 29,479 | 22,020 | - | - |
| Liability | (216,422) | (145,967) | (66,383) | (2,359) | (1,713) |
| Rate swap contracts | | | | | |
| Base value - R\$ | 286,455 | 286,455 | - | - | - |
| Base value - US\$ | 107,917 | 107,917 | - | - | - |
| Amount payable | 1,256 | 1,256 | - | - | - |
| Futures contracts - US dollars | | | | | |
| Long position - US\$ | 307,250 | 307,250 | - | - | - |
| Short position - US\$ | 660,250 | 660,250 | - | - | - |
| Options (Zero Cost) - US\$ | 25,000 | 25,000 | - | - | - |
| Futures contracts - Euros | | | | | |
| Long position - Euro | 25,000 | 25,000 | - | - | - |
| Short position - Euro | 25,000 | 25,000 | - | - | - |
| Future market contracts | | | | | |
| Receivable | 196,061 | 196,061 | - | - | - |
| Payable | (201,616) | (201,616) | - | - | - |

Sadia S.A.

Publicly-held Company

Notes to the financial statements

(In thousands of Reais)

b. Credit risk

The Company is potentially exposed to credit risk in relation to its trade accounts receivable, long and short-term investments and derivative instruments. The Company limits the risk associated with these financial instruments by subjecting them to the control of highly rated financial institutions that operate within the limits pre-established by the credit and financing committees.

The concentration of credit risk with respect to accounts receivable is minimized due to the spread of its client base, since the Company does not have any customer or group representing 10% or more of its consolidated revenues, as well as granting credits for customers with solid financial and operational ratios. Generally, the Company does not require a guarantee for domestic accounts receivable.

An allowance for doubtful accounts was established for the receivable where management considers that there exists a risk of it not being received. The expenses with doubtful receivable totaled R\$7,143 in the year ended December 31, 2004 (R\$5,030 at December 31, 2003).

c. Grain purchase price risks

The Company's operations are exposed to the volatility in prices of grain (corn and soybean) used in the preparation of fodder for its breeding stock, where the price variation results from factors beyond the control of management, such as climate, the size of the harvest, transport and storage costs and government agricultural policies, among others. The Company maintains a risk management strategy based on its inventory policy through physical control, which includes purchases in advance in harvest periods aligned with future market operations.

d. Estimated market values

Financial assets and liabilities are presented in the financial statements balance sheet at cost plus accrued income and expenses and are stated according to their corresponding expected realization or settlement.

Sadia S.A.

Publicly-held Company

Notes to the financial statements

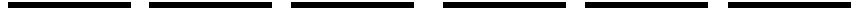
(In thousands of Reais)

The market value of the derivatives at December 31, 2004, estimated based on market price quotations for similar contracts, approximated corresponding book values. Estimated market values of financial instruments as compared to accounting balances are presented in the table below:

| | Consolidated | | | |
|---|--------------|--------------|------------|--------------|
| | 2004 | | 2003 | |
| | Book value | Market value | Book value | Market value |
| Cash and cash equivalents | 155,600 | 155,600 | 230,403 | 230,403 |
| Short-term investments - Local currency | 1,012,175 | 1,012,175 | 1,078,790 | 1,078,790 |
| Short-term investments - Foreign currency | 1,238,350 | 1,251,066 | 1,301,768 | 1,302,726 |
| Trade accounts receivable | 358,857 | 358,857 | 487,705 | 487,705 |
| Loans and financing | 2,717,374 | 2,712,685 | 2,966,225 | 2,966,225 |
| Suppliers | 487,654 | 487,654 | 377,849 | 377,849 |
| Futures contracts, net | (5,555) | (5,555) | 63,194 | 63,194 |

e. Financial indebtedness

| | Consolidated | | | | | |
|---|----------------|----------------|----------------|---------------|----------------|----------------|
| | 2004 | | | 2003 | | |
| | Currency | | | Currency | | |
| | Local | Foreign | Total | Local | Foreign | Total |
| Assets | | | | | | |
| Cash and cash equivalents | 84,536 | 71,064 | 155,600 | 91,691 | 138,712 | 230,403 |
| Short-term investments | 751,948 | 1,216,330 | 1,968,278 | 981,649 | 1,090,602 | 2,072,251 |
| Accounts receivable from future contracts | - | <u>196,061</u> | <u>196,061</u> | - | <u>71,347</u> | <u>71,347</u> |
| Total current assets | <u>260,227</u> | <u>22,020</u> | <u>282,247</u> | <u>97,141</u> | <u>139,819</u> | <u>236,960</u> |
| Total Assets | 1,096,711 | 1,505,475 | 2,602,186 | 1,170,481 | 1,440,480 | 2,610,961 |



Sadia S.A.

Publicly-held Company

Notes to the financial statements

(In thousands of Reais)

| | Consolidated | | | | | |
|--|---------------------|------------------|------------------|------------------|------------------|------------------|
| | 2004 | | | 2003 | | |
| | Currency | | | Currency | | |
| | Local | Foreign | Total | Local | Foreign | Total |
| Liabilities | | | | | | |
| Short-term financing | 562,189 | 1,053,355 | 1,615,544 | 385,955 | 1,069,123 | 1,455,078 |
| Accounts paybles from future contracts | - | 201,616 | 201,616 | - | 8,153 | 8,153 |
| Swap contracts - short-term | <u>421,852</u> | <u>(421,852)</u> | — | <u>416,135</u> | <u>(416,135)</u> | — |
| Total current liabilities | <u>984,041</u> | <u>833,119</u> | <u>1,817,160</u> | <u>802,090</u> | <u>661,141</u> | <u>1,463,231</u> |
| Long-term Financing | 376,111 | 725,719 | 1,101,830 | 523,271 | 979,723 | 1,502,994 |
| Swap contracts - long-term | <u>163,354</u> | <u>(163,354)</u> | — | <u>573,972</u> | <u>(573,972)</u> | — |
| Total noncurrent liabilities | 539,465 | 562,365 | 1,101,830 | 1,097,243 | 405,751 | 1,502,994 |
| Total liabilities | <u>1,523,506</u> | <u>1,395,484</u> | <u>2,918,990</u> | <u>1,899,333</u> | <u>1,066,892</u> | <u>2,966,225</u> |
| Financial income (expenses), net | <u>(426,795)</u> | <u>109,991</u> | <u>(316,804)</u> | <u>(728,852)</u> | <u>373,588</u> | <u>(355,264)</u> |

22 Insurance (not audited)

The Company and its subsidiaries have adopted a policy of maintaining insurance coverage at levels that management considers adequate to cover any risks related to liability or damages involving their assets. Due to the characteristics of the operations carried out in multiple locations, management takes out insurance for maximum possible loss in a single event, which covers fire, comprehensive general liability and miscellaneous risks (storms, lightning and floods). The Company also takes out insurance for the transportation of goods, personal injury and vehicles.

Sadia S.A.

Publicly-held Company

Notes to the financial statements

(In thousands of Reais)

23 Private pension plan

a. Defined benefit plan

The Company and its subsidiary Concórdia S.A. C.V.M.C.C. are the sponsors of a defined contribution social security plan for employees managed by Fundação Attílio Francisco Xavier Fontana.

The supplementary pension benefit is defined as the difference between (i) the benefit wage (updated average of the last 12 participation salaries, limited to 80% of the last participation salary) and (ii) the amount of the pension paid by the National Institute of Social Security. The supplementary benefit is updated on the same base date and in accordance with the rates applicable to the main activity category of the Company, discounting real gains.

The actuarial system is that of capitalization for supplementary retirement and pension benefits and of simple apportionment for the supplementary disability compensation. The Company's contribution is based on a fixed percentage of the payroll of active participants, as annually recommended by independent actuaries and approved by the trustees of Fundação Attilio Francisco Xavier Fontana.

At December 31, 2004 and 2003, the parent company contributions totaled R\$2,018 and R\$1,892 respectively, and the consolidated contributions, R\$2,058 and R\$1,908, respectively.

According to the Foundation's statutes, the sponsoring companies are jointly liable for the obligations undertaken by the Foundation on behalf of its participants and dependents.

At December 31, 2004 the Foundation had a total of 24,174 participants (26,769 on December 31, 2003), of which 20,775 were active participants (23,486 on December 31, 2003).

Sadia S.A.

Publicly-held Company

Notes to the financial statements

(In thousands of Reais)

Information on the actuarial calculation of the social security plan is presented below:

| | 2004 | 2003 |
|---|------------------|------------------|
| Composition of net assets | | |
| Present value of the actuarial liabilities | 580,504 | 561,366 |
| Fair value of plan assets | (904,695) | (756,642) |
| Unrecognized actuarial losses | <u>187,654</u> | <u>74,870</u> |
| Net actuarial assets | <u>(136,537)</u> | <u>(120,406)</u> |
| Reconciliation of present liability value | | |
| Liability value at the beginning of the year | 561,366 | 469,687 |
| Gross current cost of services (with interest) | 22,709 | 16,806 |
| Interest in actuarial liabilities | 62,004 | 51,855 |
| Benefits paid during the year | (26,921) | (24,096) |
| Liabilities - (gains)/losses | <u>(38,654)</u> | <u>47,114</u> |
| Liabilities value at the end of the year | 580,504 | 561,366 |
| Reconciliation of fair value of assets | | |
| Fair value of assets at the beginning of the year | 756,642 | 545,770 |
| Benefits paid during the year | (26,921) | (24,096) |
| Participant contributions during the year | 5,933 | 5,955 |
| Sponsor contributions made during the year | 2,249 | 2,071 |
| Assets earnings for the year | <u>166,792</u> | <u>226,942</u> |
| Fair value of assets at the end of the year | <u>904,695</u> | <u>756,642</u> |
| Calculation of (gains)/losses | | |
| Value of losses at the beginning of the year | (74,870) | 38,899 |
| Losses in actuarial liabilities | (38,654) | 47,114 |
| Gains in plan assets | (74,391) | (160,410) |
| Gains in employee contributions | <u>261</u> | <u>(473)</u> |
| (Gains)/losses at the end of the year | (187,654) | (74,870) |



Sadia S.A.

Publicly-held Company

Notes to the financial statements

(In thousands of Reais)

| | 2004 | 2003 |
|--|-----------|--------|
| Actuarial assumptions adopted in the calculation | | |
| Nominal discount rate for actuarial liabilities | 11.30% | 11.30% |
| Expected nominal earnings rate on assets | 12.35% | 12.35% |
| Estimated nominal growth rate for salaries | 7.10% | 7.10% |
| Expected nominal growth rate for benefits | 5.00% | 5.00% |
| Biometric table of general mortality | AT83 | |
| Biometric table of disability leave | TASA 1927 | |
| Expected rotation rate | 3% py | |
| Probability of applying for retirement | 55 years | |

The actuarial asset has not been recognized in the sponsor's financial statements due to the lack of prospect of realization.

b. Defined contribution plan

As from January 1, 2003, the Company began to adopt new supplementary social security plans under the defined contribution modality for all employees hired by Sadia and its subsidiaries. Under the terms of the regulations, plans are funded on an equitable basis so that the portion paid by the Company is equal to the payment made by the employee in accordance with a contribution scale based on salary bands that vary between 1.5% and 6% of the employee's remuneration, observing a contribution limit that is updated annually. The contributions made by the Company at December 31, 2004 and 2003 totaled R\$1,439 and R\$599 respectively. As of December 31, 2004 this plan had 11,927 participants (7,516 in December 31, 2004).

c. Actuarial asset reversal

With the object of increasing the visibility of Sponsor Company commitment to Social Security Funds, the Brazilian Securities Commission - CVM published Resolution nº 371 on December 13, 2000. The Resolution requires the recording of employee benefits and is aimed principally at recognizing the actuarial liabilities resulting from these benefits.

Sadia S.A.

Publicly-held Company

Notes to the financial statements

(In thousands of Reais)

At December 31, 2001, the Company officially recognized the actuarial asset, as prescribed by Resolution N° 371 and not applicable to the long-term, in compensation of shareholders' equity and without effecting the result for that year. The effect on shareholders' equity after taxes was an increase of R\$ 70,541. This asset was recorded based on the prospect of its realization through the future reduction in Foundation contributions. During 2002 and 2003, the Company reduced its contributions to the Foundation to the minimum prescribed by legislation. However, the plan assets continued to have a high valuation, principally the portfolio shares, which have generated an even higher actuarial surplus and made the realization of the assets recorded in 2001 improbable.

In this way, Sadia decided to reverse the initial adjustment of the actuarial asset in the amount of R\$70,541, net of income and social contribution taxes as an offset to shareholders' equity without affecting 2003 results. With the support of the technical consultation performed by the CVM (process number RJ2003/12478), Management decided that the direct reversal in shareholders' equity instead of the annual results was the best way to correctly interpret the instruction and reflect the present operational situation of the Company without affecting its results and consequently its shareholders, who could have been affected in case of recording profits and losses, which would in turn reduce the results for the fiscal year.

24 Subsequent events

a. Acquisition

As communicated to the market on December 22, 2004 Sadia S.A., pursuing to improve its presence in the central part of the country, acquired on January 3, 2005, 100% of the shares of Só Frango Produtos Alimentícios Ltda. for US\$26.5 million, which will be paid out of the Company's own resources. Só Frango has budgeted sales of R\$220 million for 2004 and a capacity of 150 thousand poultry/day with 1,700 employees. In the next 5 years, Sadia intends to increase this capacity to 400 thousand poultry/day, which will generate 4,000 direct jobs at Só Frango and around 12,000 indirect jobs.

Sadia S.A.

Publicly-held Company

Notes to the financial statements

(In thousands of Reais)

b. Subsidiary discontinuing

In January 2005, Sadia S.A. and its joint venture partner in the investment Concórdia Foods Ltd., which had an objective to attend the retail and food service in the United Kingdom and Ireland, decided to discontinue the activities of this company. This decision did not generate any obligation to any party.

The business previously performed by Concórdia Foods Ltd. is now performed by Sadia U.K. Ltda.

Sadia S.A.

Board of Directors

| | |
|------------------------------------|----------------|
| Romano Ancelmo Fontana Filho | Chairman |
| Osório Henrique Furlan | Vice President |
| Walter Fontana Filho | Member |
| Sérgio Fontana dos Reis | Member |
| Marise Pereira Fontana Cipriani | Member |
| Alcides Lopes Tápias | Member |
| Vicente Falconi Campos | Member |
| Roberto Faldini | Member |
| Everaldo Nigro dos Santos | Member |
| Francisco Silverio Morales Cespede | Member |
| Norberto Fatio | Member |

Officers

| | |
|-----------------------------------|---|
| Walter Fontana Filho | Chief Executive Officer |
| Eduardo Fontana D'Ávila | Industrial Director |
| Gilberto Tomazoni | Marketing and Sales Director |
| Luiz Gonzaga Murat Júnior | Chief Financial Officer and Investor Relations Director |
| Flávio Riffel Schmidt | Information Technology Director |
| Alfredo Felipe da Luz Sobrinho | Institutional and Legal Relations Director |
| Adilson Serrano Silva | Human Resources Director |
| Alexandre de Campos | International Sales Director |
| Antonio Paulo Lazzaretti | Development of Processes and Products Director |
| Artêmio Fronza | Grain and Fodder Purchase Director |
| Flávio Luís Fávero | Industrialized Production Director |
| Gilberto Meirelles Xandó Baptista | Marketing Director |
| Guilherme Henderson Larrobla | International Sales Director - Middle East |
| José Augusto Lima de Sá | International Relations Director |
| Paulo Francisco Alexandre Striker | Logistics Director |
| Roberto Banfi | International Sales Director |
| Ronaldo Korbag Muller | Poultry Production Director |
| Sérgio Carvalho Mandin Fonseca | Sales Director |
| Valmor Savoldi | Supply Director |

Edgar Filing: SADIA SA - Form 6-K

Cláudio Lemos Pinheiro
Jairo Aldir Wurlitzer
Giovanni F. Lipari

Corporate Controllershship Manager
Accounting Manager CRC/SC 13.937
Accountant CRC 1SP201389/0-7