

SADIA S.A.
Form 6-K
February 02, 2007

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

For the month of February 2006

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, 365
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: Feb 02, 2007

SADIA S.A.

By: /s/ Welson Teixeira Junior

Name: Welson Teixeira Junior
Title: Investor Relations Officer

Sadia S.A.
(Public-held company)

Financial statements
December 31, 2006 and 2005

(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.

Public-held company

Financial Statements

December 31, 2006 and 2005

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Independent auditors' report

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

1. We have examined the balance sheets of Sadia S.A. and the consolidated balance sheets of the Company and its subsidiaries as of December 31, 2006 and 2005, and the related statements of income, changes in shareholders' equity and changes in financial position for the years then ended, which are the responsibility of its management. Our responsibility is to express an opinion on these financial statements.
2. Our examination were 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, 2006 and 2005, 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.

Independent auditors' report

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

4. Our examinations were performed with the objective of expressing an opinion on the financial statements taken as a whole. The statements of cash flows and added value as of December 31, 2006 and 2005, are supplementary to the aforementioned financial statements, which are not required under accounting practices adopted in Brazil 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.

January 29, 2007

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, 2006 and 2005

(In thousands of Reais)

| | | <u>Parent company</u> | | <u>Consolidated</u> | |
|---|-------------|-----------------------|------------------|---------------------|------------------|
| Assets | Note | 2006 | 2005 | 2006 | 2005 |
| Current assets | | | | | |
| Cash and cash equivalents | | 200,177 | 148,716 | 234,069 | 196,306 |
| Short-term investments | 5 | 371,535 | 659,149 | 2,187,406 | 2,402,326 |
| Accounts receivable from future contracts | | - | 221 | 26,357 | 28,287 |
| Trade accounts receivable | 6 | 617,408 | 481,154 | 678,598 | 509,615 |
| Inventories | 7 | 1,011,691 | 948,560 | 1,084,454 | 992,490 |
| Recoverable taxes | 8 | 160,905 | 140,212 | 169,347 | 147,088 |
| Deferred tax credits | 22 | 52,518 | 27,223 | 56,509 | 29,494 |
| Other credits | 11c | <u>208,946</u> | <u>66,815</u> | <u>229,909</u> | <u>75,251</u> |
| | | <u>2,623,180</u> | <u>2,472,050</u> | <u>4,666,649</u> | <u>4,380,857</u> |
| Noncurrent assets | | | | | |
| Long-term investments | 5 | 129,127 | 65,057 | 129,127 | 65,057 |
| Recoverable taxes | 8 | 161,237 | 120,024 | 162,229 | 120,024 |
| Deferred tax credits | 22 | 83,243 | 76,550 | 83,243 | 76,550 |
| Judicial deposits | 16 | 46,968 | 51,008 | 46,968 | 51,008 |
| Related parties | 9 | 92,952 | 96,377 | - | - |
| Advances to suppliers | | 73,358 | 34,229 | 73,358 | 34,229 |
| Other credits | | <u>23,814</u> | <u>23,679</u> | <u>25,751</u> | <u>24,370</u> |
| | | <u>610,699</u> | <u>466,924</u> | <u>520,676</u> | <u>371,238</u> |
| Permanent assets | | | | | |
| Investments | 10 | 1,286,456 | 1,107,275 | 55,588 | 77,136 |
| Property, plant and equipment | 11 | 2,171,789 | 1,571,395 | 2,199,399 | 1,576,013 |
| Deferred charges | 12 | <u>125,489</u> | <u>87,487</u> | <u>134,039</u> | <u>90,193</u> |
| | | <u>3,583,734</u> | <u>2,766,157</u> | <u>2,389,026</u> | <u>1,743,342</u> |
| Total | | <u>6,817,613</u> | <u>5,705,131</u> | <u>7,576,351</u> | <u>6,495,437</u> |

See the accompanying notes to the financial statements.

Sadia S.A.**Publicly-held Company**

Balance sheets

December 31, 2006 and 2005

(In thousands of Reais)

| | Note | Parent company | | Consolidated | |
|---|------|------------------|------------------|------------------|------------------|
| | | 2006 | 2005 | 2006 | 2005 |
| Liabilities and shareholders' equity | | | | | |
| Current liabilities | | | | | |
| Loans and financing | 13 | 362,473 | 782,810 | 1,207,878 | 1,384,667 |
| Accounts payable from future contracts | | 510 | - | 9,077 | 10,702 |
| Trade accounts payable | | 494,643 | 490,659 | 503,285 | 495,758 |
| Advances from subsidiaries | 9 | 720,751 | 458,284 | - | - |
| Salaries, social charges and accrued vacation payable | | 110,324 | 97,640 | 112,433 | 99,225 |
| Taxes payable | | 55,930 | 34,151 | 63,349 | 38,651 |
| Dividends payable | 17 | 59,420 | 128,210 | 59,420 | 128,210 |
| Employees' profit sharing | 19 | 44,581 | 58,454 | 45,776 | 59,304 |
| Deferred taxes | 22 | 18,355 | 3,321 | 18,355 | 3,321 |
| Other accounts payable | | <u>127,179</u> | <u>135,492</u> | <u>182,672</u> | <u>161,737</u> |
| | | <u>1,994,166</u> | <u>2,189,021</u> | <u>2,202,245</u> | <u>2,381,575</u> |
| Noncurrent liabilities | | | | | |
| Loans and financing | 14 | 1,095,422 | 715,048 | 2,677,542 | 1,714,527 |
| Advances from subsidiaries | 9 | 1,025,812 | 401,430 | - | - |
| Employee benefit plan | 15 | 96,178 | 82,997 | 96,178 | 82,997 |
| Provision for contingencies | 16 | 43,616 | 42,256 | 44,765 | 44,559 |
| Deferred taxes | 22 | 76,369 | 29,490 | 76,369 | 29,490 |
| Other accounts payable | | <u>19,956</u> | <u>16,849</u> | <u>19,930</u> | <u>16,824</u> |
| | | <u>2,357,353</u> | <u>1,288,070</u> | <u>2,914,784</u> | <u>1,888,397</u> |
| Minority interest in subsidiaries | | - | - | 964 | 1,816 |
| Shareholders' equity | 17 | | | | |
| Capital | | 1,500,000 | 1,500,000 | 1,500,000 | 1,500,000 |
| Capital reserve | | 5 | - | 5 | - |
| Profit reserves | | 999,430 | 738,417 | 999,430 | 738,417 |
| Treasury stock | | (33,341) | (10,377) | (33,341) | (10,377) |
| Retained earnings | | <u>-</u> | <u>-</u> | <u>(7,736)</u> | <u>(4,391)</u> |
| | | <u>2,466,094</u> | <u>2,228,040</u> | <u>2,458,358</u> | <u>2,223,649</u> |
| Total | | <u>6,817,613</u> | <u>5,705,131</u> | <u>7,576,351</u> | <u>6,495,437</u> |

See the accompanying notes to the financial statements.

Sadia S.A.**Publicly-held Company**

Statements of income

Years ended December 31, 2006 and 2005

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

| | | Parent company | | Consolidated | |
|---|-------------|-----------------------|------------------|---------------------|------------------|
| | Note | 2006 | 2005 | 2006 | 2005 |
| Gross operating revenue | | | | | |
| Domestic market | | 4,482,017 | 4,219,242 | 4,482,017 | 4,251,675 |
| Foreign market | | <u>3,145,589</u> | <u>3,722,795</u> | <u>3,458,463</u> | <u>4,076,324</u> |
| | | 7,627,606 | 7,942,037 | 7,940,480 | 8,327,999 |
| Sales deductions | | <u>(922,712)</u> | <u>948,560</u> | <u>(1,063,779)</u> | <u>992,490</u> |
| Net operating revenue | | 6,704,894 | 7,085,822 | 6,876,701 | 7,318,438 |
| Cost of goods sold | | (5,160,351) | (5,347,406) | (5,185,217) | (5,311,062) |
| Gross profit | | 1,544,543 | 1,738,416 | 1,691,484 | 2,007,376 |
| Selling expenses | | (1,172,189) | (1,125,815) | (1,286,994) | (1,234,138) |
| Administrative | | (57,406) | (52,013) | (57,251) | (52,013) |
| Management Fees | | (14,011) | (13,714) | (14,011) | (13,714) |
| Other operating income | 20 | 57,443 | (11,111) | 58,877 | (6,643) |
| Employees' profit sharing | 19 | (46,772) | (58,682) | (48,349) | (60,034) |
| Financial income (expenses), net | 21 | (93,218) | (50,639) | 59,871 | 235,973 |
| Equity in earnings of subsidiaries | 10 | <u>204,001</u> | <u>290,229</u> | <u>16,810</u> | <u>(152,399)</u> |
| Operating income | | 422,391 | 716,671 | 420,437 | 724,408 |
| Nonoperating income (expense) | | <u>(4,527)</u> | <u>2,653</u> | <u>(5,783)</u> | <u>4,612</u> |
| Income before income and social contribution taxes | | 417,864 | 719,324 | 414,654 | 729,020 |
| Current income and social contribution taxes | 22 | (8,006) | (51,384) | (10,967) | (51,991) |
| Deferred income and social contribution taxes | 22 | (29,925) | (20,537) | (28,205) | (20,909) |
| Net income | | 379,933 | 647,403 | 375,482 | 656,120 |
| Minority interest | | <u>-</u> | <u>-</u> | <u>1,006</u> | <u>1,219</u> |
| Controlling shareholder equity interest | | 379,933 | 647,403 | 376,488 | 657,339 |
| Earnings per thousand outstanding shares | | 561.14 | 951.37 | - | - |

See the accompanying notes to the financial statements.

Sadia S.A.**Publicly-held Company**

Statements of changes in shareholders' equity

Years ended December 31, 2006 and 2005 / (In thousands of Reais)

| Parent Company | Capital | Profit reserves | | | | Research & development reserve | Treasury shares | Retained earnings | Total |
|--|------------------|-----------------|---------------|-------------------|---------------|--------------------------------|------------------|-------------------|-------|
| | | Capital reserve | Legal reserve | Expansion reserve | | | | | |
| Balances at December 31, 2004 | <u>1,000,000</u> | <u>-</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> | |
| Acquisition of treasury stock | - | - | - | - | - | (10,179) | - | (10,179) | |
| Capital increase with reserves | 500,000 | - | (33,255) | (399,057) | (42,756) | - | (24,932) | - | |
| Net income for the year | - | - | - | - | - | - | 647,403 | 647,403 | |
| Destinations: | | | | | | | | | |
| Reserves | - | - | 32,370 | 381,304 | 32,370 | - | (446,044) | - | |
| Interest on shareholders' equity/dividends | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>(201,359)</u> | <u>(201,359)</u> | |
| Balances at December 31, 2005 | <u>1,500,000</u> | <u>-</u> | <u>55,842</u> | <u>627,128</u> | <u>55,447</u> | <u>(10,377)</u> | <u>-</u> | <u>2,228,040</u> | |
| Acquisition of treasury stock | - | - | - | - | - | (23,427) | - | (23,427) | |
| Sales of treasury stock | - | - | - | - | - | 463 | - | 463 | |
| Gain on sale of treasury stock | - | 5 | - | - | - | - | - | 5 | |
| Net income for the year | - | - | - | - | - | - | 379,933 | 379,933 | |
| Destinations: | | | | | | | | | |
| Reserves | - | - | 18,997 | 223,019 | 18,997 | - | (261,013) | - | |
| Interest on shareholders' equity/dividends | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>(118,920)</u> | <u>(118,920)</u> | |
| Balances at December 31, 2006 | <u>1,500,000</u> | <u>5</u> | <u>74,839</u> | <u>850,147</u> | <u>74,444</u> | <u>(33,341)</u> | <u>-</u> | <u>2,466,094</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, 2006 and 2005

(In thousands of Reais)

| | Parent company | | Consolidated | |
|--|-----------------------|------------------|---------------------|------------------|
| | 2006 | 2005 | 2006 | 2005 |
| Sources of funds | | | | |
| Operations | | | | |
| Net income for the year | <u>379,933</u> | <u>647,403</u> | <u>375,482</u> | <u>656,120</u> |
| Items not affecting working capital | | | | |
| Minority interest | - | - | 254 | 2,875 |
| Depreciation, amortization and depletion | 238,846 | 177,226 | 240,569 | 178,175 |
| Goodwill amortization | 25,763 | 16,484 | 25,763 | 16,484 |
| Long term interest and variations | 20,909 | (25,032) | (69,683) | (228,925) |
| Residual cost on disposal of permanent assets | 8,288 | 6,552 | 8,978 | 6,815 |
| Provision for contingencies | 1,360 | 6,970 | 206 | 11,612 |
| Employee benefit plan | 13,181 | 421 | 13,181 | 421 |
| Equity in earnings of subsidiaries | (208,228) | (293,852) | (21,037) | 148,776 |
| Long term deferred taxes | <u>40,186</u> | <u>8,259</u> | <u>40,186</u> | <u>8,259</u> |
| | 520,238 | 544,431 | 613,899 | 800,612 |
| From third parties | | | | |
| Increase in noncurrent loans and financing | 592,791 | 310,745 | 1,387,870 | 1,336,858 |
| Redemption of long-term investments | - | 13,088 | - | 13,088 |
| Proceeds obtained from the sale of fixed assets | 14,915 | 19,622 | 14,967 | 19,622 |
| Interest on shareholders' equity of subsidiaries | 4,226 | 4,548 | - | - |
| Transfer from long-term to current assets | 36,264 | 296,119 | 4,567 | 296,119 |
| Sale of treasury stock | 463 | - | 463 | - |
| Gain on sale of treasury stock | 5 | - | 5 | - |
| Transfer from property plant and equipment to current assets | 123,656 | - | 123,632 | - |
| Increase in other long-term liabilities | 627,489 | 402,074 | 3,106 | 460 |
| Decrease in the other long-term assets | <u>3,425</u> | - | - | - |
| | <u>1,403,234</u> | <u>1,046,196</u> | <u>1,534,610</u> | <u>1,666,147</u> |
| Total sources | <u>1,923,472</u> | <u>1,590,627</u> | <u>2,148,509</u> | <u>2,466,759</u> |
| Applications of funds | | | | |
| Long-term assets | | | | |
| Long-term investments | - | 85,002 | - | 85,002 |

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| | | | | |
|--|------------------|------------------|------------------|------------------|
| Judicial deposit | (4,040) | (4,515) | (4,040) | 159 |
| Increase in other long-term assets | 116,741 | 148,329 | 87,282 | 52,508 |
| Decrease in other long-term liabilities | - | - | - | - |
| Investments | 1,000 | 66,321 | 4,215 | 74,360 |
| Property, plant and equipment | 963,319 | 639,724 | 975,725 | 642,149 |
| Transfer of current liabilities to property, plant and equipment | - | 19,317 | - | 19,101 |
| Deferred charges | 60,724 | 41,242 | 79,653 | 43,843 |
| Acquisition of treasury stock | 23,427 | 10,179 | 23,427 | 10,179 |
| Interest on shareholders' equity/dividends | 118,920 | 201,359 | 118,920 | 201,359 |
| Transfer of current assets to non current assets | 54,960 | - | 54,960 | - |
| Transfer of noncurrent liabilities to current liabilities | <u>242,436</u> | <u>422,831</u> | <u>343,245</u> | <u>660,105</u> |
| Total applications | <u>1,577,487</u> | <u>1,629,789</u> | <u>1,683,387</u> | <u>1,788,447</u> |
| (Decrease)/increase in working capital | 345,985 | (39,162) | 465,122 | 678,312 |
| Changes in working capital | | | | |
| At end of year | 629,014 | 283,029 | 2,464,404 | 1,999,282 |
| At beginning of year | <u>283,029</u> | <u>322,191</u> | <u>1,999,282</u> | <u>1,320,970</u> |
| (Decrease)/increase in working capital | 345,985 | (39,162) | 465,122 | 678,312 |

See the accompanying notes to the financial statements.

Sadia S.A.
Publicly-held Company

Statements of cash flows

Years ended December 31, 2006 and 2005 / (In thousands of Reais)

| | Parent company | | Consolidated | |
|--|-----------------------|------------------|---------------------|--------------------|
| | 2006 | 2005 | 2006 | 2005 |
| Net income for the year | <u>379,933</u> | <u>647,403</u> | <u>375,482</u> | <u>656,120</u> |
| Adjustments to reconcile net income to cash generated by operating activities | | | | |
| Variation in minority interest | - | - | 254 | 2,875 |
| Accrued interest, net of paid interest | 29,748 | (157,443) | (64,126) | (47,233) |
| Depreciation, amortization and depletion allowances | 238,846 | 177,226 | 240,569 | 178,175 |
| Goodwill amortization | 25,763 | 16,484 | 25,763 | 16,484 |
| Equity in earnings of subsidiaries | (208,228) | (293,852) | (21,037) | 148,776 |
| Deferred taxes | 29,925 | 20,537 | 28,205 | 20,908 |
| Contingencies | 1,360 | 6,970 | 206 | 11,612 |
| Result from the disposal of permanent assets | <u>8,230</u> | <u>6,552</u> | <u>8,978</u> | <u>6,815</u> |
| Variation in operating assets and liabilities | | | | |
| Trade notes receivable | (136,254) | 211,703 | (168,983) | (160,010) |
| Inventories | (63,131) | 76,565 | (91,964) | 72,181 |
| Recoverable taxes and others | (115,359) | (61,867) | (118,691) | (231,230) |
| Judicial deposits | 4,040 | 4,515 | 4,040 | 159 |
| Trade accounts payable | 3,984 | 8,320 | 7,527 | 8,104 |
| Advances from subsidiaries | 886,849 | 720,723 | - | - |
| Taxes payable, salaries payable and others | <u>11,214</u> | <u>60,298</u> | <u>43,763</u> | <u>44,864</u> |
| Net cash generated by operating activities | <u>1,096,920</u> | <u>1,444,134</u> | <u>269,986</u> | <u>728,600</u> |
| Investment activities | | | | |
| Funds from the sale of permanent assets | 14,915 | 3,400 | 14,967 | 3,400 |
| Investments in subsidiaries | (1,000) | (29,702) | - | - |
| Purchase of property, plant and equipment | (1,024,043) | (680,966) | (1,055,378) | (685,992) |
| Acquisition of subsidiary | (485) | (54,443) | (485) | (54,443) |
| Short-term investments | (624,169) | (442,156) | (3,320,118) | (2,313,367) |
| Redemption of investments | <u>562,510</u> | <u>255,129</u> | <u>3,167,532</u> | <u>1,818,443</u> |
| Net cash from investment activities | <u>(1,072,272)</u> | <u>(948,738)</u> | <u>(1,193,482)</u> | <u>(1,231,959)</u> |
| Loans activities | | | | |
| Loans received | 1,276,661 | 968,439 | 2,862,349 | 2,529,773 |
| Loans paid | (1,060,438) | (1,163,696) | (1,708,255) | (1,845,795) |
| Dividends paid | (169,871) | (129,734) | (169,871) | (129,734) |
| Loans with subsidiaries | 3,425 | (95,780) | - | - |
| Sale of treasury stock | 463 | - | 463 | - |
| Acquisition of treasury stock | <u>(23,427)</u> | <u>(10,179)</u> | <u>(23,427)</u> | <u>(10,179)</u> |
| | 26,813 | (430,950) | 961,259 | 544,065 |
| Net cash from loans activities | | | | |
| Cash at beginning of year | 148,716 | 84,270 | 196,306 | 155,600 |
| Cash at end of year | <u>200,177</u> | <u>148,716</u> | <u>234,069</u> | <u>196,306</u> |
| Net increase (decrease) in cash | 51,461 | 64,446 | 37,763 | 40,706 |

See the accompanying notes to the financial statements.

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Sadia S.A.**Publicly-held Company**

Statements of consolidated added value

Years ended December 31, 2006 and 2005

(In thousands of Reais)

| | Consolidated | |
|--|---------------------|------------------|
| | 2006 | 2005 |
| Revenues/income | 8,136,352 | 8,439,424 |
| Wealth generated by operations | <u>7,816,396</u> | <u>8,232,688</u> |
| Sale of products, goods and services | 7,816,396 | 8,232,688 |
| Wealth from third parties | <u>319,956</u> | <u>206,736</u> |
| Other operating results | 58,877 | (6,643) |
| Financial income | 250,053 | 361,165 |
| Equity in earnings of subsidiaries | 21,037 | (148,776) |
| Other nonoperating results | (10,011) | 990 |
| Raw materials acquired from third parties | (3,706,036) | (4,046,583) |
| Services rendered by third parties | (1,520,476) | (1,429,735) |
| Added value to be distributed | 2,909,840 | 2,963,106 |
| Distribution of added value | | |
| Human resources | 1,084,173 | 994,309 |
| Interest on third-party capital | 154,143 | 91,445 |
| Government | 1,016,230 | 1,022,339 |
| Shareholders (dividends) | 118,920 | 201,359 |
| Retention | <u>536,374</u> | <u>653,654</u> |
| Depreciation/amortization/depletion | 266,332 | 194,659 |
| Retained profits | 256,562 | 454,761 |
| Others | 13,480 | 4,234 |

See the accompanying notes to the financial statements.

Sadia S.A.

Publicly-held Company

Notes to the financial statements

Years ended December 31, 2006 and 2005

(In thousands of Reais)

1 Operations

The Company's main business activities are organized into four operational segments: processed products, poultry (chickens and turkeys), pork and beef. The beef segment was included as from the beginning of this fiscal year as the Company decided to resume to this activity for export. The large production chain permits its products to be commercialized in Brazil and abroad by retailers, small groceries and food service chains.

The Company distributes its products through a large number of sales points in the local market and exports to countries in Europe, the Middle East, Eurasia, Asia and the Americas. The Company has 13 industrial units and 16 distribution centers located in 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 and desserts.

The Company has a corporate governance tier one listing for its shares on the São Paulo Stock Exchange, the Madrid Stock Exchange (Latibex) and ADRs 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), including the compliance with CVM Deliberations 488/05 and 489/05.

With the objective of presenting the information provided to the market better, the Company is presenting supplementary consolidated information, obtained from accounting records of the parent company and its subsidiaries, as follow:

Sadia S.A.

Publicly-held Company

Notes to the financial statements

(In thousands of Reais)

a. Segment reporting

A segment is a group of asset and liabilities set by the Company to manage its businesses and similar in aspects such as productive process or nature of the products or services (business segment) in a particular economic environment (geographic segment).

b. Statement of cash flows

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

c. Statement of added value

The value added statement has been presented in accordance with the model proposed by the foundation Instituto de Pesquisa Contábeis, Atuariais e Financeiras - University of Sao Paulo the aim of which is to show the value of the wealth generated by the Company and its distribution among the elements that contributed to its generation.

3 Description of significant accounting policies

a. Statement of income

Income and expenses are recognized on the accrual basis. Revenue from the Company's sales is recognized upon shipment of the products and when the following conditions are met:

i) the ownership is transferred and therefore risk of loss has passed to the client; ii) collection is probable; iii) there is evidence of an arrangement; and iv) the sales price is fixed or determinable.

Sadia S.A.

Publicly-held Company

Notes to the financial statements

(In thousands of Reais)

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 and liabilities, 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 different amounts due to the lack of precision inherent to the process of their determination. The Company reviews the estimates and assumptions periodically.

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 plus 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 foreign currency, plus interest earned up to the balance sheet date.

Sadia S.A.

Publicly-held Company

Notes to the financial statements

(In thousands of Reais)

e. Trade accounts receivable

Trade accounts receivable are recorded at the amount invoiced and interest is not levied. The allowance for doubtful accounts is the best estimate the Company has and is considered sufficient by management to cover any losses arising on collection of accounts receivable. Accounts receivable are written off against the allowance for doubtful accounts after all means of collection have been exhausted and the possibility of recovery of the amounts receivable is considered remote.

f. Inventories

Finished goods, livestock (excluding breeders), work-in-progress, raw materials and supplies and others are valued at the lower of cost of acquisition or production (average method), or replacement or realization. The cost of finished goods and work-in-progress includes raw materials acquired, labor, production expenses, transport and storage relating to the purchase and production of inventories. Normal production losses are inventoried and abnormal losses are expensed immediately as cost of goods sold.

g. Investments

Investments in subsidiaries in Brazil and abroad are valued using the equity method based on the respective net equity calculated on the same date, as disclosed 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 cost of acquisition, formation or construction, including the interest incurred on financing, during the period of construction, modernization and expansion of the industrial units. Expenditures that materially extend the useful lives of existing facilities and equipment are capitalized. Depreciation is calculated using the straight-line method at rates that take into account the estimated useful life of the assets, adjusted in keeping with the work shifts, as disclosed in Note 11. Depletion of forestry resources is calculated based on the extraction of timber and the average costs of the forests.

Breeding stock is recorded at the cost of formation which includes the appropriation of costs of the breeding hens, animal feed, medication and labor. These costs are accumulated for approximately six months until the breeding stock initiates the breeding cycle. From then on, the costs of the breeding stock begin to be amortized by the estimated number of offsprings. The productive cycle ranges from fifteen to thirty months.

i. Impairment of long lived assets

The Company reviews its property, plant and equipment to verify possible impairment losses, whenever events or changes in circumstances indicate that the carrying amount of an asset or group of assets may not be recoverable based on future cash flows. If these events occur, the reviews will be conducted at the lowest level of groups of assets for which the Company manages to attribute future cash flows. If the carrying amount of an asset is higher than the future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. Until now, these reviews have not indicated the need to recognize impairment losses.

j. Deferred charges

Deferred charges are represented substantially by pre-operating costs incurred in the implementation of software, reorganization charges and development of new products, which are amortized on a straight-line basis over 5 years as from the beginning of operation.

Sadia S.A.

Publicly-held Company

Notes to the financial statements

(In thousands of Reais)

k. 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.

l. 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.

m. Income and social contribution taxes

The income and social contribution taxes, both current and deferred, are calculated monthly based on taxable income at the rates of 15% plus a surcharge of 10% for income tax and 9% for social contribution and consider the offsetting of tax losses 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 tax loss carryforward and negative basis of social contribution.

n. Employees' benefits

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

o. Environmental questions

Our production facilities and our forestry activities are subject to government environmental regulations. We have reduced the risks associated with environmental questions through operational controls and procedures, as well as investments in equipment and systems for pollution control. We believe that no provision for losses related to environmental questions is currently necessary, based on existing Brazilian laws and regulations.

Sadia S.A.

Publicly-held Company

Notes to the financial statements

(In thousands of Reais)

4 Consolidated financial information

The transactions and balances between the Parent company 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.

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 Instruction 408/04, the Company consolidated the financial statements of its investment funds Concórdia Foreign Investment Fund Class A and Taurus Fund Limited, where it is the wholly investment holder. These investment funds have the sole purpose of centralizing the foreign investment fund portfolio, delegating to a third party the administrative functions and maximizing shareholder returns. As of December 31, 2006 and 2005, 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:

Sadia S.A.**Publicly-held Company**

Notes to the financial statements

(In thousands of Reais)

| | Shareholdings in % at | |
|--|--------------------------|--------------|
| | <u>2006</u> | <u>2005</u> |
| Sadia International Ltd. | <u>100</u> | <u>100</u> |
| Sadia Uruguay S.A. | 100 | 100 |
| Sadia Alimentos S.A. | 0.01 | 0.01 |
| Sadia Chile S.A. | 60 | 60 |
| Sadia Alimentos S.A. | 99.99 | 99.99 |
| Churrascaria Beijing Brazil Ltd. (*) | 50 | 50 |
| Concórdia Foods Ltd. (*) | 100 | 50 |
| Sadia UK Ltd. | 100 | 100 |
| Concórdia S.A. C.V.M.C.C. | <u>99.99</u> | <u>99.99</u> |
| Empresa Matogrossense de Alimentos Ltda. (**) | <u>100</u> | <u>100</u> |
| Intergen Ltda. (***) | <u>100</u> | — |
| Rezende Óleo Ltda. | <u>100</u> | <u>100</u> |
| Rezende Marketing e Comunicações Ltda. | 0.09 | 0.09 |
| Rezende Marketing e Comunicações Ltda. | 99.91 | 99.91 |
| Sadia GmbH | 100 | 100 |
| Wellax Food Logistics C. P. A. S. U. Ltda. | 100 | 100 |
| Sadia Foods GmbH | 100 | 100 |
| Sadia Panama S.A. | 100 | - |
| Qualy B. V. | 100 | 100 |
| Sadia Japan Ltd. | 100 | 100 |

(*) Joint-Venture

(**) Acquired of controlling on January 11, 2006 (see note 10)

(***) Acquired of controlling on May 26, 2006 (see note 10)

Sadia S.A.**Publicly-held Company**

Notes to the financial statements

(In thousands of Reais)

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

| | Net income | | Shareholders' equity | |
|--|-------------------|----------------|-----------------------------|------------------|
| | 2006 | 2005 | 2006 | 2005 |
| Company's financial statements | 379,933 | 647,403 | 2,466,094 | 2,228,040 |
| Elimination of unrealized profits on inventories in intercompany operations, net of taxes | (7,736) | (4,391) | (12,127) | (18,718) |
| Reversal of the elimination of unrealized results in inventories, net of taxes, resulting from intercompany operations at December 31, 2005 and 2004 | <u>4,391</u> | <u>14,327</u> | <u>4,391</u> | <u>14,327</u> |
| Consolidated financial statements | <u>376,588</u> | <u>657,339</u> | <u>2,458,358</u> | <u>2,223,649</u> |

Sadia S.A.

Publicly-held Company

Notes to the financial statements

(In thousands of Reais)

5 Long and short-term investments

| | Interest % | Parent company | | Consolidated | |
|-------------------------------------|------------------|----------------|----------------|------------------|------------------|
| | (annual average) | 2006 | 2005 | 2006 | 2005 |
| Short-term investments | | | | | |
| Local currency | | | | | |
| Investment funds | 13.08 | 214,000 | 362,971 | 259,697 | 401,931 |
| Austrian Bonds indexed in Reais | 16.30 | - | 278,040 | - | 278,040 |
| Others | 7.65 | <u>-</u> | <u>97</u> | <u>-</u> | <u>97</u> |
| | | <u>214,000</u> | <u>641,108</u> | <u>259,697</u> | <u>680,068</u> |
| Foreign currency | | | | | |
| Investment funds | 8.37 | 157,535 | - | 1,689,498 | 1,613,682 |
| Interest-bearing current accounts | 5.25 | - | - | 232,913 | 87,959 |
| Currency swap contracts | | - | 18,041 | - | 18,041 |
| Interest rate swap contracts | | <u>-</u> | <u>-</u> | <u>5,298</u> | <u>2,576</u> |
| | | <u>157,535</u> | <u>18,041</u> | <u>1,927,709</u> | <u>1,722,258</u> |
| Total short-term | | <u>371,535</u> | <u>659,149</u> | <u>2,187,406</u> | <u>2,402,326</u> |
| Long-term investments | | | | | |
| Local currency | | | | | |
| National Treasury Certificate - CTN | 12.00 | 29,849 | 25,710 | 29,849 | 25,710 |
| Treasury bills - LFT | 14.00 | 45,286 | 39,347 | 45,286 | 39,347 |
| Investment funds | 13.08 | <u>53,992</u> | <u>-</u> | <u>53,992</u> | <u>-</u> |
| Total long-term | | <u>129,127</u> | <u>65,057</u> | <u>129,127</u> | <u>65,057</u> |

Sadia S.A.**Publicly-held Company**

Notes to the financial statements

(In thousands of Reais)

Long-term investments as of December 31, 2006 mature as follows:

Maturity

| | |
|--------------|---------------|
| 2009 | 53,992 |
| 2010 | 45,286 |
| 2012 onwards | <u>29,849</u> |
| | 129,127 |

The investment fund portfolio in local currency is composed mainly of post-fixed Bank Deposit Certificates, National Treasury Securities and investment funds.

The investment fund portfolio in foreign currency is composed mainly of investments in dual currency, which have differentiated profitability according to the strike negotiated, and structured notes issued by first-tier American and European banks, pegged to securities of first-tier Brazilian companies and banks.

6 Accounts receivable

| | Parent company | | Consolidated | |
|---------------------------------------|----------------|----------------|-----------------|-----------------|
| | 2006 | 2005 | 2006 | 2005 |
| Foreign | | | | |
| Subsidiaries | 167,950 | 79,566 | - | - |
| Customers | 156,818 | 151,266 | 391,477 | 260,545 |
| Advance on delivered export contracts | - | (19,102) | - | (19,102) |
| Total of foreign | <u>324,768</u> | <u>211,730</u> | <u>391,477</u> | <u>241,443</u> |
| Domestic customers | 301,877 | 278,791 | 302,055 | 278,799 |
| (-) Allowance for doubtful accounts | <u>(9,237)</u> | <u>(9,367)</u> | <u>(14,934)</u> | <u>(10,627)</u> |
| | <u>617,408</u> | <u>481,154</u> | <u>678,598</u> | <u>509,615</u> |

Sadia S.A.**Publicly-held Company**

Notes to the financial statements

(In thousands of Reais)

The changes in the allowance for doubtful accounts are as follows:

| | Parent company | | Consolidated | |
|--------------------------------------|-----------------------|----------------|---------------------|-----------------|
| | 2006 | 2005 | 2006 | 2005 |
| Balance at the beginning of the year | (9,367) | (7,043) | (10,627) | (9,252) |
| Additions | (7,855) | (3,496) | (6,435) | (4,234) |
| Write offs | <u>7,985</u> | <u>1,172</u> | <u>2,128</u> | <u>2,859</u> |
| Balance at the end of the year | <u>(9,237)</u> | <u>(9,367)</u> | <u>(14,934)</u> | <u>(10,627)</u> |

The Company and its subsidiaries abroad (Sadia International Ltd. and Wellax Food Logistics C.P.A.S.U. Lda.) entered into an agreement for sale of its receivables with an outside financial institution up to the maximum amount of US\$170 million, with interest rate of 0.375% p.a. + LIBOR.

As of December 31, 2006, the amount of receivables sold under this agreement amounted to approximately R\$ 170 million (R\$ 100 million as of December 31, 2005). During the year ended December 31, 2006, the Company received cash proceeds of approximately R\$ 1,910 million (R\$ 1,840 million for the year ended December 31, 2006) and incurred expenses of R\$ 14 million (R\$ 8 million in 2005) with respect to this agreement.

A credit insurance policy covering 90% of the value of the receivables was taken out with third parties and the beneficiaries in the event of default are the contracting financial institutions.

The Company also assigned receivables to a Credit Assignment Investment Fund (FIDC), administered by Concórdia S.A. Corretora de Valores Móbiliários, Cambio e Commodities. As of December 31, 2006, the net equity of this fund was R\$ 264,949 (R\$ 231,197 at December 31, 2005), of which R\$ 254,861 (R\$ 190,350 at December 31, 2005) was represented by acquisitions of the Company's receivables on the domestic market, with a discounted cost equivalent to 95% of the CDI per senior quota. The assignment of the receivables is made without right of recourse, and the eventual losses from default for Sadia are limited to the value of the subordinated quotas, which at December 31, 2006, represented R\$ 53,992 (R\$ 17,150 at December 31, 2005).

Sadia S.A.**Publicly-held Company**

Notes to the financial statements

(In thousands of Reais)

During the year ended December 31, 2006, the Company received cash proceeds related to the local receivables sold of approximately R\$ 2,795 million (R\$ 2,598 million in 2005) and incurred expenses of R\$ 30 million (R\$ 27 million in 2005) with respect to this agreement.

For the other local receivables, the Company maintains a credit insurance policy that guarantees the collection in case of default of 90% of the uncollected amounts for customers with approved credit limits and up to R\$ 100 to new customers or customers with no approved credit limits.

7 Inventories

| | Parent company | | Consolidated | |
|--|-----------------------|----------------|---------------------|----------------|
| | 2006 | 2005 | 2006 | 2005 |
| Finished goods and products for sale | 279,969 | 307,445 | 351,186 | 349,360 |
| Livestock and poultry for slaughter and sale | 304,561 | 386,561 | 304,561 | 386,561 |
| Raw materials | 187,543 | 127,963 | 188,864 | 129,245 |
| Work in process | 158,284 | 38,336 | 158,284 | 38,336 |
| Packaging materials | 33,653 | 36,702 | 33,653 | 36,702 |
| Storeroom | 25,665 | 22,776 | 25,665 | 22,776 |
| Advances to suppliers | 12,654 | 13,599 | 12,879 | 13,599 |
| Imports in transit | 9,352 | 6,570 | 9,352 | 6,570 |
| Products in transit | <u>10</u> | <u>8,608</u> | <u>10</u> | <u>9,341</u> |
| | <u>1,011,691</u> | <u>948,560</u> | <u>1,084,454</u> | <u>992,490</u> |

Sadia S.A.

Publicly-held Company

Notes to the financial statements

(In thousands of Reais)

8 Recoverable taxes

| | Parent company | | Consolidated | |
|--------------------------------------|----------------|----------------|----------------|----------------|
| | 2006 | 2005 | 2006 | 2005 |
| ICMS | 145,291 | 160,227 | 150,063 | 162,060 |
| PIS and COFINS | 84,290 | 7,082 | 84,619 | 7,411 |
| IPI | 59,142 | 48,820 | 59,175 | 48,853 |
| Income and social contribution taxes | 33,416 | 44,051 | 37,679 | 48,679 |
| Others | <u>3</u> | <u>56</u> | <u>40</u> | <u>109</u> |
| | <u>322,142</u> | <u>260,236</u> | <u>331,576</u> | <u>267,112</u> |
| Short-term portion | <u>160,905</u> | <u>140,212</u> | <u>169,347</u> | <u>147,088</u> |
| Long-term portion | <u>161,237</u> | <u>120,024</u> | <u>162,229</u> | <u>120,024</u> |

a. Value-added tax on sales and services - ICMS

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

b. Social contributions - PIS/COFINS

The balance is composed of the amount of R\$ 80,168 (see Note 20) and of R\$ 4,451 of credits originated from noncumulative collection of PIS and COFINS, and these credits may be compensated with other federal taxes.

c. 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, which can be compensated with other federal taxes.

Sadia S.A.**Publicly-held Company**

Notes to the financial statements

(In thousands of Reais)

d. 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.

9 Related party transactions

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

| | 2006 | 2005 |
|---|----------------|---------------|
| Accounts receivable | | |
| Wellax Food Logistics C. P. A. S. U. Lda. | 143,197 | 59,190 |
| Sadia International Ltd. | 17,744 | 2,440 |
| Sadia Alimentos S.A. | 2,265 | 1,161 |
| Sadia Uruguay S.A. | 1,642 | 831 |
| Qualy B.V. | 299 | 14,396 |
| Sadia Chile S.A. | <u>2,803</u> | <u>1,548</u> |
| | <u>167,950</u> | <u>79,566</u> |
| Interest on shareholders' equity | | |
| Concórdia C.V.M.C.C. | <u>4,226</u> | <u>4,548</u> |
| | <u>4,226</u> | <u>4,548</u> |

Sadia S.A.**Publicly-held Company**

Notes to the financial statements

(In thousands of Reais)

| | 2006 | 2005 |
|---|--------------------|------------------|
| Loans | | |
| Wellax Food Logistics C. P. A. S. U. Lda. | 91,482 | 95,063 |
| Sadia International Ltd. | (231) | (253) |
| Empresa Matogrossense de Alimentos Ltda. | 769 | 659 |
| Rezende Óleo Ltda. | 874 | 848 |
| Concórdia S.A. CCVMCC | 1 | 4 |
| Rezende Marketing e Comunicação Ltda. | <u>57</u> | <u>56</u> |
| | <u>92,952</u> | <u>96,377</u> |
| Advances from subsidiaries | | |
| Wellax Food Logistics C. P. A. S. U. Lda. | (1,744,718) | (857,699) |
| Sadia International Ltd. | <u>(1,845)</u> | <u>(2,015)</u> |
| | <u>(1,746,563)</u> | <u>(859,714)</u> |
| Sales | | |
| Wellax Food Logistics C. P. A. S. U. Lda. | 1,881,303 | 2,240,660 |
| Sadia International Ltd. | 168,259 | 71,391 |
| Sadia Chile S.A. | 15,366 | 16,493 |
| Sadia Alimentos S.A. | 10,556 | 11,999 |
| Sadia Uruguay S.A. | 5,499 | 4,536 |
| Só Frango Produtos Alimentícios Ltda. | - | 1,291 |
| Qualy B. V. | <u>25,603</u> | <u>-</u> |
| | <u>2,106,586</u> | <u>2,346,370</u> |
| Goods purchase | | |
| Só Frango Produtos Alimentícios Ltda. | <u>-</u> | <u>16,030</u> |
| | <u>-</u> | <u>16,030</u> |
| Net financial result | | |
| Wellax Food Logistics C. P. A. S. U. Lda. | (2,267) | 22,536 |
| Sadia International Ltd. | <u>160</u> | <u>320</u> |

(2,107)

22,856

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Sadia S.A.**Publicly-held Company**

Notes to the financial statements

(In thousands of Reais)

10 Investments

| Investments | Ownership | Shareholder' s equity | Net income (loss) for the year | Equity result | Investment balances | |
|--|-----------|--------------------------|--------------------------------------|------------------|---------------------|---------------|
| | | | | | 2006 | 2005 |
| Sadia GmbH | 100 | 1,103,002 | 176,828 | 200,859 | 1,103,002 | 902,143 |
| Sadia International Ltd. | 100 | 88,835 | 3,473 | (4,610) | 88,835 | 93,445 |
| Concórdia S.A. CVMCC | 99.99 | 61,943 | 8,260 | 12,491 | 61,943 | 53,678 |
| Rezende Óleo Ltda. | 100 | 1,112 | (26) | (26) | 1,112 | 1,138 |
| Empresa Matogrossense de Alimentos Ltda. | 100 | 780 | (570) | (570) | 780 | 1,350 |
| Intergen Ltda. | 100 | 571 | 91 | 86 | 571 | - |
| Rezende Market. e Comun. Ltda. | 99.91 | (27) | (2) | (2) | - | - |
| Total in subsidiaries | | | | 208,228 | 1,256,243 | 1,051,754 |
| Goodwill | | | | - | 28,828 | 54,076 |
| Other investments | | | | - | <u>1,385</u> | <u>1,445</u> |
| Total investments of the Parent Company | | | | 208,228 | 1,286,456 | 1,107,275 |
| Other investments of subsidiaries/affiliates | | | | - | 25,375 | 21,615 |
| Investments eliminated on consolidation | | | | (187,191) | (1,256,243) | (1,051,754) |
| Total consolidated investments | | | | <u>21,037</u> | <u>55,588</u> | <u>77,136</u> |

Sadia S.A.**Publicly-held Company**

Notes to the financial statements

(In thousands of Reais)

The changes in the investments are as follows:

| | Acquisition | Write offs | Amortization | Negative equity | Dividends received | Shareholding result | |
|--|--------------|---------------|-----------------|--------------------|-----------------------|---------------------|--------------------|
| | | | | | | Operational | Non Operational |
| Sadia G.m.b.H. | - | - | - | - | - | 200,859 | - |
| Sadia International Ltd. | - | - | - | - | - | (4,610) | - |
| Concórdia S.A. CVMCC | - | - | - | - | (4,226) | 8,261 | 4,230 |
| Rezende Óleo Ltda. | - | - | - | - | - | (23) | (3) |
| Empresa Matogrossense de Alimentos Ltda. | - | - | - | - | - | (570) | - |
| Intergen Ltda. | 485 | - | - | - | - | 86 | - |
| Rezende Marketing e Comun. Ltda. | <u>-</u> | <u>-</u> | <u>-</u> | <u>2</u> | <u>-</u> | <u>(2)</u> | <u>-</u> |
| | 485 | - | - | 2 | (4,226) | 204,001 | 4,227 |
| Goodwill | 515 | - | (25,763) | - | - | - | - |
| Other investments | <u>-</u> | <u>(60)</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| | <u>1,000</u> | <u>(60)</u> | <u>(25,763)</u> | <u>2</u> | <u>(4,226)</u> | <u>204,001</u> | <u>4,227</u> |

The accumulated income from equity interest on the consolidated financial statements is represented by translation gains of R\$ 16,810 and a non-operating income of R\$ 4,227.

On January 11, 2006 the Company acquired 100% of the quotas representing the capital of the Intergen Ltda. The acquisition generated a goodwill in the amount of R\$ 515, classified as other economical reasons and therefore amortized directly in the income statement as other operating expenses. The acquired company's business relates to porks genetics.

On May 26, 2006 Sadia acquired by the book value the remaining 50% equity interest in Concórdia Foods Ltd.

On December 31, 2006, the net balance of goodwill amounted to R\$ 28,828 and was comprised of: i) goodwill related to the acquisition of Só Frango Produtos Alimentícios Ltda. in the amount of R\$ 62,505 with accumulated amortization of R\$ 25,248 (R\$ 16,484 in 2005) and ii) goodwill related to the acquisition of Empresa Matogrossense de Alimentos Ltda. (start-up phase) in the amount of R\$ 8,055, that will be amortized once it starts its operations forecasted for 2007. Such goodwill has been recorded based on projections of future profitability.

Sadia S.A.

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Notes to the financial statements

(In thousands of Reais)

11 Property, plant and equipment

| | Parent company | | | | |
|-------------------------------|-------------------------|---------------------|---------------------|------------------------|------------------|
| | | Cost | Depreciation | Residual amount | |
| | Annual average % | 2006 | 2006 | 2006 | 2005 |
| Lands | - | 104,450 | - | 104,450 | 63,828 |
| Buildings | 4 | 847,306 | (355,663) | 491,643 | 383,747 |
| Machinery and equipment | 15 | 1,199,410 | (607,833) | 591,577 | 446,072 |
| Installations | 10 | 316,002 | (142,135) | 173,867 | 96,818 |
| Vehicles and plane | 27 | 12,572 | (7,600) | 4,972 | 4,580 |
| Breeding stock | - | 315,512 | (194,537) | 120,975 | 105,014 |
| Forestation and reforestation | - | 30,878 | (5,491) | 25,387 | 17,094 |
| Others | - | 1,306 | (1,160) | 146 | 1,624 |
| Construction in progress | - | 623,595 | - | 623,595 | 408,354 |
| Advances to suppliers | | <u>35,177</u> | <u>-</u> | <u>35,177</u> | <u>44,264</u> |
| | | <u>3,486,208</u> | <u>(1,314,419)</u> | <u>2,171,789</u> | <u>1,571,395</u> |
| | | Consolidated | | | |
| | | Cost | Depreciation | Residual amount | |
| Annual average % | 2006 | 2006 | 2006 | 2006 | 2005 |
| Lands | - | 104,665 | - | 104,665 | 64,031 |
| Buildings | 4 | 848,474 | (356,275) | 492,199 | 383,945 |
| Machinery and equipment | 15 | 1,202,802 | (609,551) | 593,251 | 447,311 |
| Installations | 10 | 319,181 | (142,314) | 176,867 | 96,984 |
| Vehicles and plane | 27 | 20,371 | (8,269) | 12,102 | 5,491 |
| Breeding stock | - | 315,769 | (194,666) | 121,103 | 105,014 |
| Forestation and reforestation | - | 30,878 | (5,491) | 25,387 | 17,094 |
| Others | - | 2,834 | (2,065) | 769 | 2,201 |
| Construction in progress | - | 637,879 | - | 637,879 | 409,378 |

| | | | | | |
|-----------------------|-----------|-------------------|-------------------|-------------------|-------------------|
| Advances to suppliers | - | <u>35,177</u> | <u>-</u> | <u>35,177</u> | <u>44,564</u> |
| | 3,518,030 | | (1,318,631) | 2,199,399 | 1,576,013 |
| | | <u> </u> | <u> </u> | <u> </u> | <u> </u> |

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Notes to the financial statements

(In thousands of Reais)

We present the changes in the cost of property, plant and equipment below:

| | Position in 12/31/2005 | Acquisitions Disposal Transfers | | | Position in 12/31/2006 |
|-------------------------------|-----------------------------------|--|-----------------|------------------|-----------------------------------|
| Lands | 64,031 | 40,481 | (3) | 156 | 104,665 |
| Buildings | 713,957 | 47,651 | (609) | 87,475 | 848,474 |
| Machinery and equipment | 988,805 | 38,296 | (19,711) | 195,412 | 1,202,802 |
| Breeding stock | 219,159 | 96,610 | - | - | 315,769 |
| Installations | 218,843 | 12,205 | (1,758) | 89,891 | 319,181 |
| Vehicles and plane | 13,554 | 8,979 | (2,317) | 155 | 20,371 |
| Forestation and reforestation | 23,013 | 4,496 | (1,681) | 5,050 | 30,878 |
| Others | 4,266 | 318 | (453) | (1,297) | 2,834 |
| Construction in progress | 409,378 | 721,406 | (14,314) | (478,591) | 637,879 |
| Advances to suppliers | <u>44,564</u> | <u>5,283</u> | <u>-</u> | <u>(14,670)</u> | <u>35,177</u> |
| Total cost of acquisition | <u>2,699,570</u> | <u>975,725</u> | <u>(40,846)</u> | <u>(116,419)</u> | <u>3,518,030</u> |

a. The construction in progress is mainly represented by projects related to the expansion and modernization of industrial units, mainly Uberlandia and Lucas do Rio Verde units.

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\$ 44,554 (R\$ 16,852 at December 31, 2005).

c. On November 16, 2006 a claim occurred, as a result of fire that destroyed completely the building where the factory of roasted products of the Toledo unit was located. The amount of the assets damaged was estimated in R\$ 120,000, which are totally covered by insurance policy, with an amount sufficient to comprehensively cover the material damage suffered. The inventory of assets is in course and, due to this event, a provision reducing fixed assets was recorded, in comparison to the amounts receivable from insurance in other credits in current assets. The amount of the franchise, of R\$ 100, was provided for.

Sadia S.A.**Publicly-held Company**

Notes to the financial statements

(In thousands of Reais)

12 Deferred charges

| | Parent company | | | | |
|---------------------------------|-----------------------|--------------------------|-----------------|-----------------------|---------------|
| | Rate | Cost Amortization | | Residual value | |
| | | 2006 | 2006 | 2006 | 2005 |
| Software implementation | 25 | 125,547 | (57,868) | 67,679 | 70,705 |
| Reorganization expenses | 20 | 31,271 | (5,672) | 25,599 | 5,126 |
| Pre operational costs | 20 | 27,225 | (6,652) | 20,573 | - |
| Product development and markets | 20 | 17,481 | (6,184) | 11,297 | 11,293 |
| Others | 20 | <u>795</u> | <u>(454)</u> | <u>341</u> | <u>363</u> |
| | | <u>202,319</u> | <u>(76,830)</u> | <u>125,489</u> | <u>87,487</u> |
| | | | | | |
| | Consolidated | | | | |
| | Rate | Cost Amortization | | Residual value | |
| | | 2006 | 2006 | 2006 | 2005 |
| Software implementation | 25 | 126,721 | (58,435) | 68,286 | 73,352 |
| Reorganization expenses | 20 | 31,271 | (5,672) | 25,599 | 5,126 |
| Pre operational costs | 20 | 31,669 | (6,793) | 24,877 | - |
| Product development and markets | 20 | 21,096 | (6,297) | 14,798 | 11,293 |
| Others | 20 | <u>1,081</u> | <u>(602)</u> | <u>479</u> | <u>422</u> |
| | | <u>211,838</u> | <u>(77,799)</u> | <u>134,039</u> | <u>90,193</u> |

The expenses with rearrangement refer to the implementation of the Service Center in the city of Curitiba.

The preoperating expenses refer basically to expenses incurred with the Lucas do Rio Verde Project - MT.

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Notes to the financial statements

(In thousands of Reais)

13 Loans and financing - Short-term

| | <u>Parent company</u> | | <u>Consolidated</u> | |
|--|---------------------------|----------------|---------------------|----------------|
| | 2006 | 2005 | 2006 | 2005 |
| Short-term | | | | |
| Foreign currency | | | | |
| Net working financing composed of prepayment subject to LIBOR variation for 1-month deposits (5.32% in December 2006) plus interest of 0.10% p.a., guaranteed by its own investments | - | - | 472,665 | 329,976 |
| Advanced collection relating to the receivables sold, with no interest | 107 | - | 275,253 | 54,376 |
| Credit lines for the development of foreign trade, with interest rates of 6.50% p.a., guaranteed by promissory notes or sureties | - | - | 4,543 | 4,871 |
| Export financing composed of prepayment subject to interest rate of 4.20% p.a., guaranteed by promissory notes or sureties | - | 23,735 | - | 23,735 |
| Currency swap contracts | 2,436 | 3,522 | 2,436 | 3,522 |
| Interest rate swap contracts | <u>-</u> | <u>76</u> | <u>-</u> | <u>76</u> |
| | <u>2,543</u> | <u>27,333</u> | <u>754,897</u> | <u>416,556</u> |
| Local currency | | | | |
| Rural credit lines and working capital loans with interest of 8.75% p.a. | 231,660 | 167,751 | 231,660 | 167,751 |
| Currency swap contracts | <u>6,613</u> | <u>106,180</u> | <u>6,613</u> | <u>106,180</u> |
| | <u>238,273</u> | <u>273,931</u> | <u>238,273</u> | <u>273,931</u> |
| | <u>240,816</u> | <u>301,264</u> | <u>993,170</u> | <u>690,487</u> |

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Notes to the financial statements

(In thousands of Reais)

| | Parent company | | Consolidated | |
|---|---------------------------|----------------|---------------------|----------------|
| | 2006 | 2005 | 2006 | 2005 |
| Short-term portion of the long-term debt | | | | |
| Foreign currency | | | | |
| Export financing composed of prepayment in amount of R\$ 21,101 subject to LIBOR variation for 6-month deposits (5.37% in December 2006) and interest of 2.38% p.a. and an amount of R\$ 93,051 of a line focused on the incentive for foreign trade activities, plus annual interest of 2.2% p.a., guaranteed by promissory notes or sureties | 21,101 | 123,815 | 114,152 | 336,449 |
| BNDES (National Bank for Economic and Social Development), for investments and exports credit lines, composed as follows: FINEM in the amount of R\$ 9,411 subject to the weighted average of exchange variation of currencies traded by BNDES - UMBNDES and fixed interest of 3.50% p.a. and FINAME in the amount of R\$ 6,651 subject to the weighted average of exchange variation of currencies traded by BNDES-UMBNDES and fixed interest of 3.50%, guaranteed by mortgage bonds and real estate mortgage. | 16,062 | 10,956 | 16,062 | 10,956 |
| IFC (International Finance Corporation) funding in foreign currency for investment in property, plant and equipment, subject to interest at the rate of 9.05% p.a., guaranteed by real estate mortgages | 13,734 | 23,325 | 13,734 | 23,325 |
| Financing subject to LIBOR variation for 1-month deposits (4.39% in December 2005) plus interest from 0.10% p.a., guaranteed by its own titles | <u>-</u> | <u>145,719</u> | <u>-</u> | <u>145,719</u> |
| | <u>50,897</u> | <u>303,815</u> | <u>143,948</u> | <u>516,449</u> |

Sadia S.A.**Publicly-held Company**

Notes to the financial statements

(In thousands of Reais)

| | Parent company | | Consolidated | |
|--|---------------------------|----------------|---------------------|------------------|
| | 2006 | 2005 | 2006 | 2005 |
| 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\$ 41,839 subject to the Long-Term Interest Rate -TJLP (6.85% p.a. in December 2006) and interest of 3.59% p.a., and FINEM in the amount of R\$ 12,474 subject to TJLP and interest of 3.50% p.a., guaranteed by mortgage bonds and real estate mortgages | 54,313 | 165,225 | 54,313 | 165,225 |
| PESA - Special Aid for Agribusiness payable in installments, subject to IGPM variation and annual interest of 9.89%, guaranteed by sureties | 5,743 | 5,549 | 5,743 | 5,549 |
| Others subject to interest rate from 1% to 14% p.a. | 10,704 | 6,957 | 10,704 | 6,957 |
| | <u>54,313</u> | <u>165,225</u> | <u>54,313</u> | <u>165,225</u> |
| | <u>70,760</u> | <u>177,731</u> | <u>70,760</u> | <u>177,731</u> |
| Short-term portion of long-term debt | <u>121,657</u> | <u>481,546</u> | <u>214,708</u> | <u>694,180</u> |
| Total short-term | <u>362,473</u> | <u>782,810</u> | <u>1,207,878</u> | <u>1,384,667</u> |

At December 31, 2005 the weighted average interest in short-term loans was 5.36% p.a. (6.90% p.a. at December 31, 2005).

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Publicly-held Company

Notes to the financial statements

(In thousands of Reais)

14 Loans and financing - Long-term

| | Parent company | | Consolidated | |
|--|---------------------------|----------------|---------------------|------------------|
| | 2006 | 2005 | 2006 | 2005 |
| Foreign currency | | | | |
| Export financing composed of prepayment, payable in amount of R\$ 229,070 in installments up to 2010, subject to LIBOR variation for 6-month deposits (5.37% in December 2006) plus annual interest of 2.38% p.a, and a line focused on the incentive for foreign trade in amount of R\$ 1.675,171, subject to LIBOR variation for 6-month plus interest of 2.20% p.a., guaranteed by promissory notes or sureties | 229,070 | 372,780 | 1,904,241 | 1,584,893 |
| BNDES (National Bank for Economic and Social Development), payable from 2007 to 2013, composed as follows: FINEM in the amount of R\$ 17,193 subject to the weighted average of the exchange variation of currencies traded by BNDES - UMBNDES and fixed interest of 3.50% p.a. and FINAME in the amount of R\$ 128,265 subject to the weighted average of the exchange variation of currencies traded by BNDES - UMBNDES and fixed annual interest of 3.50% p.a. guaranteed by mortgage bonds and real estate mortgages | 145,458 | 69,750 | 145,458 | 69,750 |
| IFC (International Finance Corporation) for investments in property, plant and equipment, subject to interest at the rate of 9.05% p.a., guaranteed by real estate mortgages | 13,734 | 23,325 | 13,734 | 23,325 |
| Currency swap contracts | 1,769 | 3,334 | 1,769 | 3,334 |
| Financing subject to LIBOR variation for 1-month deposits (4.39% in December 2006) plus interest of 0.10% p.a., guaranteed by its own titles | - | <u>145,719</u> | - | <u>145,719</u> |
| | <u>390,031</u> | <u>614,908</u> | <u>2,065,202</u> | <u>1,827,021</u> |

Sadia S.A.**Publicly-held Company**

Notes to the financial statements

(In thousands of Reais)

| | Parent company | | Consolidated | |
|--|-----------------------|------------------|---------------------|------------------|
| | 2006 | 2005 | 2006 | 2005 |
| Local currency | | | | |
| BNDES (National Bank for Economic and Social Development), credit lines for investments and exports, payable from 2007 to 2012, composed as follows: FINAME in the amount of R\$ 630,803 subject to the Long-Term Interest Rate -TJLP (6.85% p.a. in December 2006) and interest of 3.59% p.a., and FINEM in the amount of R\$ 20,734 subject to TJLP and interest of 3.50% p.a., guaranteed by mortgage bonds and real estate mortgages | 651,537 | 402,659 | 651,537 | 402,659 |
| PESA - Special Aid for Agribusiness payable, subject to IGPM variation and annual interest of 9.89%, guaranteed by sureties | 136,440 | 131,831 | 136,440 | 131,831 |
| Others subject to interest rate from 1% to 14% p.a. | 34,267 | 40,187 | 34,267 | 40,187 |
| Currency swap contracts | <u>4,804</u> | <u>7,009</u> | <u>4,804</u> | <u>7,009</u> |
| | <u>827,048</u> | <u>581,686</u> | <u>827,048</u> | <u>581,686</u> |
| | <u>1,217,079</u> | <u>1,196,594</u> | <u>2,892,250</u> | <u>2,408,707</u> |
| Short-term portion of long-term debt | <u>(121,657)</u> | <u>(481,546)</u> | <u>(214,708)</u> | <u>(694,180)</u> |
| Total long-term | <u>1,095,422</u> | <u>715,048</u> | <u>2,677,542</u> | <u>1,714,527</u> |

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Notes to the financial statements

(In thousands of Reais)

The noncurrent portions of financings at December 31, 2006 mature as follows:

| Maturity | Parent company | Consolidated |
|-----------------|-----------------------|---------------------|
| 2008 | 187,847 | 244,370 |
| 2009 | 282,676 | 282,676 |
| 2010 | 187,212 | 1,141,695 |
| 2011 onwards | 137,707 | 708,821 |
| | <u>299,980</u> | <u>299,980</u> |
| | 1,095,422 | 2,677,542 |

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.

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Notes to the financial statements

(In thousands of Reais)

16 Commitments and contingencies

Commitments

The Company has non-cancelable leasing agreements for industrial units that expire over the next two years. These leasing are subject to renewal for 4 more years and do not require any penalty if the Company does not renew them. The Company does not pay execution costs, such as maintenance and insurance. The rental expenses totaled R\$ 64,470 in 2006 (R\$ 33,110 in 2005).

The table below shows the future payments related to the leasing agreement at December 31, 2006:

| | |
|-------|---------------|
| 2007 | 65,200 |
| 2008 | <u>29,900</u> |
| Total | <u>94,200</u> |

In addition the Company signed purchase agreements for production purposes (packaging) in the approximate amount of R\$ 84 million on December 31, 2006, payable until 2010.

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 opinion of the Company's legal counsel, which considered that unfavorable outcomes are likely.

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(In thousands of Reais)

Based on management estimates, the provision for contingencies provided for, net of the respective legal deposits, established by CVM Deliberation 489/05, as presented below, is sufficient to cover possible losses with legal proceedings.

| | Parent company | | Consolidated | |
|-----------------------------------|-----------------|-----------------|-----------------|-----------------|
| | 2006 | 2005 | 2006 | 2005 |
| Tax proceedings | 41,634 | 39,810 | 42,888 | 42,217 |
| Civil proceedings | 8,950 | 13,281 | 8,950 | 13,281 |
| Labor proceedings | <u>24,115</u> | <u>16,447</u> | <u>24,116</u> | <u>16,449</u> |
| | 74,699 | 69,538 | 75,954 | 71,947 |
| Related legal deposits | <u>(31,083)</u> | <u>(27,282)</u> | <u>(31,189)</u> | <u>(27,388)</u> |
| Provision for contingencies - Net | <u>43,616</u> | <u>42,256</u> | <u>44,765</u> | <u>44,559</u> |

The changes in the provision for contingencies are presented as follows:

| | Position in 2005 | Additions | Disposals | Monetary updates | Position in 2006 |
|-------------------|---------------------|--------------|----------------|---------------------|---------------------|
| Tax proceedings | 42,217 | 14,213 | (12,214) | (1,328) | 42,888 |
| Civil proceedings | 13,281 | 5,652 | (9,933) | (50) | 8,950 |
| Labor proceedings | <u>16,449</u> | <u>5,612</u> | <u>(4,266)</u> | <u>6,321</u> | <u>24,116</u> |
| | 71,947 | 25,477 | (26,413) | 4,943 | 75,954 |

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(In thousands of Reais)

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\$ 16,018, of which R\$ 11,283 recorded on the acquisition of the subsidiary Granja Rezende (incorporated in 2002), R\$ 3,852 on withholding income tax on investments of Granja Rezende and R\$ 883 for other provisions.

b. Value - Added tax on sales and services - 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\$ 18,499.

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 provision of R\$ 8,371.

The Company has other contingencies of a tax nature with a claimed amount of R\$ 327,278, which were assessed as possible losses by the legal advisors and by the Management of the Company and, therefore, no provision was recorded.

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.

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The Company has other contingencies of a civil nature with a claimed amount of R\$ 28,141, which were assessed as possible losses by the legal advisors and by Management and, therefore, no provision was recorded.

Labor claims

The company is involved in approximately 2,481 labor claims. These labor lawsuits refer mainly to claims for overtime, and health exposure and hazard claims, none of which involve a significant amount on an individual basis. The total amount involved is R\$ 41,441, for which the provision in the amount of R\$ 24,116 was recorded based on historical information, representing the best estimate for probable losses.

Court deposits

The Company, as appropriate, performs legal deposits not related to provisions for contingencies, which balance as of December 31, 2006 was R\$ 46,968 (R\$ 51,008 on December 31, 2005).

Guarantees

The Company provides guarantees to loans obtained by certain out growers located in the central region of the country as part of a special development program for that region. Such loans are used to improve the out growers farms installations and will be repaid in 10 years, where the Company obtain from the out growers their farms and installations as a collateral for such guarantees provided. The amount for such guarantees provided as of December 31, 2006 amounted R\$ 20,245 (R\$ 11,468 in December 31, 2005).

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Notes to the financial statements

*(In thousands of Reais)***17 Shareholders' equity***a. Capital*

Subscribed and paid-in capital is represented by the following shares with no par value, at December 31, 2006 and 2005:

| | 2006 | 2005 |
|------------------------------|--------------------|--------------------|
| Common shares | 257,000,000 | 257,000,000 |
| Preferred shares | <u>426,000,000</u> | <u>426,000,000</u> |
| Total shares | <u>683,000,000</u> | <u>683,000,000</u> |
| Preferred shares in treasury | <u>(5,924,288)</u> | <u>(2,504,288)</u> |
| Total outstanding shares | <u>677,075,712</u> | <u>680,495,712</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.

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.

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(In thousands of Reais)

Expansion reserve

It is recorded with at least 15% and 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 5,924,288 preferred shares acquired at R\$ 33,804 for future sale and/or cancellation. At December 31, 2006 the market value corresponded to R\$ 42,918.

d. Shareholders' remuneration

The corporate bylaws 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. The minimum dividend was paid or credited as interest on own capital. The Company calculated interest on own capital based on the long-term interest rate (TJLP) in force in the year, as shown below:

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Notes to the financial statements

(In thousands of Reais)

| | 2006 | 2005 |
|---|-----------------|-----------------|
| Net income for the year | 379,933 | 647,403 |
| Legal reserve | <u>(18,997)</u> | <u>(32,370)</u> |
| Basis | 360,936 | 615,033 |
| Distribution to shareholders: | | |
| Interest on shareholders' equity (net of withholding tax of R\$ 7,500) paid in advance in August 17, 2006 | 42,500 | - |
| Interest on shareholders' equity (net of withholding tax of R\$ 10,340) recorded at December 31, 2006, to be paid on February 16, 2007. | 58,580 | - |
| Interest on shareholders' equity (net of withholding tax of R\$ 26,211) paid related to 2005 | - | 148,527 |
| Interest on shareholders' equity (net of withholding tax of R\$ 17,814) recorded at December 31, 2005, to be paid on February 16, 2006. | <u>-</u> | <u>26,621</u> |
| Total | <u>101,080</u> | <u>175,148</u> |
| Percentage in relation to the basis | 28.00% | 28.48% |
| Interest on shareholders' equity by 1,000 shares in Reais: | | |
| Preferred | R\$ 175,64 | R\$ 259.87 |
| Common | R\$ 175,64 | R\$ 253.29 |

e. Market value

The market value of Sadia S.A. shares according to the average quotation of shares traded on the São Paulo Stock Exchange - BOVESPA, corresponded to R\$ 7.16 per thousand shares at December 31, 2006 (R\$ 6.43 at December 31, 2005). Net equity on that date was R\$ 3.64 per thousand shares (R\$ 3.27 at December 31, 2005).

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*(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, at December 31, 2006.

| Shareholders | CS | % | PS | % | Total | % |
|---------------------------------------|-------------|--------|------------------|-------------|------------------|-------------|
| Fundação Attilio F. X. Fontana | 24,998,558 | 9.73 | - | - | 24,998,558 | 3.66 |
| Sunflower Participações S.A. (i) | 35,964,747 | 13.99 | - | - | 35,964,747 | 5.27 |
| Administradora e Comercial Old Ltda. | 25,661,658 | 9.99 | 60,000 | 0.01 | 25,721,658 | 3.77 |
| Other shareholders (i) | 101,034,002 | 39.31 | 28,622,376 | 6.72 | 129,656,378 | 18.97 |
| PREVI - Caixa Prev. Func. Bco. Brasil | 1,996,511 | 0.78 | 59,359,870 | 13.93 | 61,356,381 | 8.98 |
| Dodge & Cox | - | - | 43,494,000 | 10.21 | 43,494,000 | 6.37 |
| Oppenheimer Funds Inc.(ii) | - | - | 42,014,480 | 9.86 | 42,014,480 | 6.15 |
| Other shareholders | 67,344,524 | 26.20 | 246,524,986 | 57.88 | 313,869,510 | 45.96 |
| Treasury stock | - | - | <u>5,924,288</u> | <u>1.39</u> | <u>5,924,288</u> | <u>0.87</u> |
| Total | 257,000,000 | 100.00 | 426,000,000 | 100.00 | 683,000,000 | 100.00 |

(i) Participants of the shareholders' agreement

(ii) Foreign investment fund

Shareholders composition of Sunflower Participações S.A. at December 31, 2006:

| Shareholders | CS | % | PS | % | Total | % |
|-------------------------------|------------------|--------------|----|---|------------------|--------------|
| Maria Aparecida Cunha Fontana | 14,084,143 | 39.16 | - | - | 14,084,143 | 39.16 |
| Walter Fontana Filho | 9,458,032 | 26.30 | - | - | 9,458,032 | 26.30 |
| Vânia Cunha Fontana | 6,706,010 | 18.65 | - | - | 6,706,010 | 18.65 |
| Attilio Fontana Neto | <u>5,716,562</u> | <u>15.89</u> | - | - | <u>5,716,562</u> | <u>15.89</u> |
| Total | 35,964,747 | 100.00 | - | - | 35,964,747 | 100.00 |

Shareholders composition of Administradora e Comercial Old Ltda. at December 31, 2006:

| Shareholders | CS | % | PS | % | Total | % |
|------------------------------------|------------------|--------------|---------------|--------------|------------------|--------------|
| Luiz Fernando Furlan | 5,147,728 | 20.06 | 12,036 | 20.06 | 5,159,764 | 20.06 |
| Leila Maria Furlan da Silva Telles | 5,140,030 | 20.03 | 12,018 | 20.03 | 5,152,048 | 20.03 |
| Lucila Maria Furlan | 5,132,332 | 20.00 | 12,000 | 20.00 | 5,144,332 | 20.00 |
| Osório Henrique Furlan Júnior | 5,132,332 | 20.00 | 12,000 | 20.00 | 5,144,332 | 20.00 |
| Diva Helena Furlan | <u>5,109,236</u> | <u>19.91</u> | <u>11,946</u> | <u>19.91</u> | <u>5,121,182</u> | <u>19.91</u> |
| Total | 25,661,658 | 100.00 | 60,000 | 100.00 | 25,721,658 | 100.00 |

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Notes to the financial statements

(In thousands of Reais)

Shareholders composition of Oppenheimer Funds Inc. at December 31, 2006:

| Shareholders | CS | % | Total | % |
|--|----------------|-------------|----------------|-------------|
| Oppenheimer Developing Markets Fund | 32,872,000 | 78.23 | 32,872,000 | 78.23 |
| Pacific Select Fund | 4,923,290 | 11.72 | 4,923,290 | 11.72 |
| TA Index Oppenheimer Emerging Markets | 1,301,000 | 3.1 | 1,301,000 | 3.1 |
| OFI Trust Company | 928,400 | 2.21 | 928,400 | 2.21 |
| OppenheimerFunds PLC | 674,380 | 1.61 | 674,380 | 1.61 |
| OFI Institutional Emerging Markets Eq. Fund LP | 440,870 | 1.05 | 440,870 | 1.05 |
| Stichting Pensionenfonds Hoogovens | 340,000 | 0.81 | 340,000 | 0.81 |
| Raytheon Company Master Trust | 185,540 | 0.44 | 185,540 | 0.44 |
| Altria Corp Serv Master Retirement Trust | 200,000 | 0.48 | 200,000 | 0.48 |
| Pacific Funds PF Oppenheimer Emerging Markets Fund | <u>149,000</u> | <u>0.35</u> | <u>149,000</u> | <u>0.35</u> |
| Total | 42,014,480 | 100 | 42,014,480 | 100 |

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

At December 31, 2006

| Shareholders | CS | % | PS | % | Total | % |
|-------------------------------|--------------------|----------|-------------------|----------|--------------------|----------|
| Controlling shareholders | 136,998,749 | 53.31 | 28,622,376 | 6.72 | 165,621,125 | 24.25 |
| Board of Directors members(*) | - | - | 10,003,400 | 2.35 | 10,003,400 | 1.46 |
| Officers(*) | 12,472 | - | 3,152,207 | 0.74 | 3,164,679 | 0.46 |
| Fiscal council | <u>-</u> | <u>-</u> | <u>528</u> | <u>-</u> | <u>528</u> | <u>-</u> |
| Total | <u>137,011,221</u> | | <u>41,778,511</u> | | <u>178,789,732</u> | |

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

At December 31, 2005

| Shareholders | CS | % CS | PS | % PS | Total | % Total |
|--------------------------------|--------------------|----------|-------------------|----------|--------------------|----------|
| Controlling shareholders | 136,732,133 | 53.20% | 41,973,939 | 9.85% | 178,706,072 | 26.16% |
| Board of directors members (*) | 19,864,334 | 7.73% | 9,101,201 | 2.14% | 28,965,535 | 4.24% |
| Officers (*) | 11,915 | - | 4,956,929 | 1.16% | 4,968,844 | 0.73% |
| Fiscal council | <u>1,629</u> | <u>-</u> | <u>528</u> | <u>-</u> | <u>2,157</u> | <u>-</u> |
| Total | <u>156,610,011</u> | | <u>56,032,597</u> | | <u>212,642,608</u> | |

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

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Notes to the financial statements

(In thousands of Reais)

Outstanding stocks of Sadia S.A. at December 31, 2006:

| | CS | % | PS | % | Total | % |
|--------------------|-------------|---------|-------------|---------|-------------|---------|
| Outstanding stocks | 119,988,779 | 46.69 | 378.297.729 | 88.8 | 498,286,508 | 72.96 |
| Total | 257,000,000 | 100.00% | 426,000,000 | 100.00% | 683,000,000 | 100.00% |

18 Stock option plan

The Company has a granting plan of option of purchase of shares, which contemplates nominative preferred shares of issue of the Company, available in treasury, the objective of which is a long-term view, motivating the feeling of property and commitment of the Company's players, in line with the shareholders' interests.

The plan is managed by a Management Committee, composed of the Chief Executive Officer and the Human Resources Committee of the Board of Directors.

The price for exercising the purchase options does not include any discount and will be based on the average value of the quotation for the share in the last three days of trading on the São Paulo Stock Exchange prior to the grant date, updated by the accumulated National Consumer Price Index (INPC) between the grant date of exercising the option. The vesting period, during which the participant cannot exercise his/her right to purchase the shares, will be three years as from the option granting date. The participant will be able to fully or partially exercise his/her purchase rights after the vesting period within a maximum period of 2 years, and only after this period has expired will he/she lose the right to the options not exercised.

The composition of the options granted is presented as follows:

| Cycle | Date | | | Quantity of Shares | Price of Shares | |
|-------|---------|---------|---------|--------------------|-----------------|---------------|
| | Grant | Start | Final | | Grant date | Update - INPC |
| 2005 | 6/24/05 | 6/24/08 | 6/24/10 | 2.200.000 | 4.55 | 4.76 |
| 2006 | 9/26/06 | 9/26/09 | 9/26/11 | 3.520.000 | 5.68 | 5.76 |

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

| | 2006 | 2005 |
|--------------------------------|------------------|------------------|
| Balance at January 1° | 2,200,000 | - |
| Conceded options - Cycle 2006 | 3,520,000 | 2,200,000 |
| Exercised options - Cicle 2005 | (100,000) | - |
| Cancelled options - Cycle 2005 | (200,000) | - |
| Cancelled options - Cycle 2006 | <u>(100,000)</u> | <u>-</u> |
| Balance at December 31 | <u>5,320,000</u> | <u>2,200,000</u> |

Since the Company has treasury shares earmarked for the stock option plan, the difference between the market value and the updated price for the year will not affect the Company's results.

19 Employees' profit sharing

The Company grants its employees a profit sharing plan, which depends on attaining specific targets, established and agreed to at the beginning of each year. This plan has been approved by Board of Directors of the Company and it has been registered by a formal agreement with the unions.

20 Other operating income

On October 26, the Company obtained recognition of the final, favorable, unappealable decision on the COFINS proceedings referring to the unconstitutionality of Law 9718/98, which changed the basis for the calculation of PIS and COFINS by including operating and financial income. This matter was judged and considered unconstitutional by the Superior court of Justice on November 9, 2005. The Company has been collecting the tax in accordance with legislation and, based on the transit in rem judicatam of this proceeding, recognized the tax credit in the amount of R\$ 80,168, which, net of attorneys' fees, represented a gain of R\$ 75,654.

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Notes to the financial statements

*(In thousands of Reais)***21 Financial result**

| | Parent company | | Consolidated | |
|-----------------------------------|------------------|-----------------|------------------|------------------|
| | 2006 | 2005 | 2006 | 2005 |
| Financial expenses | | | | |
| Interest | (183,857) | (211,320) | (233,360) | (235,176) |
| Monetary variations - Liabilities | (12,579) | (10,570) | (12,579) | (20,379) |
| Exchange variations - Liabilities | 50,617 | 226,931 | 120,260 | 199,039 |
| Others | <u>(52,668)</u> | <u>(43,068)</u> | <u>(64,503)</u> | <u>(68,676)</u> |
| | <u>(198,487)</u> | <u>(38,027)</u> | <u>(190,182)</u> | <u>(125,192)</u> |
| Financial income | | | | |
| Interest | 62,286 | 90,668 | 198,638 | 218,685 |
| Monetary variations - Assets | 5,540 | 205 | 5,540 | 205 |
| Exchange variations - Assets | (28,210) | (121,196) | (32,851) | 112,962 |
| Others | <u>65,653</u> | <u>17,711</u> | <u>78,726</u> | <u>29,313</u> |
| | 105,269 | (12,612) | 250,053 | 361,165 |
| | (93,218) | (50,639) | 59,871 | 235,973 |

22 Income and social contribution taxes

Income before the provision for income tax (IR) and social contribution on net income (CSLL) was composed as follows:

| | Parent company | | Consolidated | |
|---------|----------------|----------|----------------|----------------|
| | 2006 | 2005 | 2006 | 2005 |
| Local | 417,864 | 719,324 | 234,349 | 299,766 |
| Foreign | <u>-</u> | <u>-</u> | <u>180,305</u> | <u>429,254</u> |
| | 417,864 | 719,324 | 414,654 | 729,020 |

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Notes to the financial statements

(In thousands of Reais)

The composition of income and social contribution taxes is as follows:

| | Parent company | | Consolidated | |
|----------------|-----------------|-----------------|-----------------|-----------------|
| | 2006 | 2005 | 2006 | 2005 |
| Local | | | | |
| Current | (8,006) | (51,384) | (10,519) | (52,239) |
| Deferred | <u>(28,744)</u> | <u>(18,817)</u> | <u>(27,024)</u> | <u>(19,189)</u> |
| | <u>(36,750)</u> | <u>(70,201)</u> | <u>(37,543)</u> | <u>(71,428)</u> |
| Foreign | | | | |
| Current | - | - | (448) | 248 |
| Deferred | <u>(1,181)</u> | <u>(1,720)</u> | <u>(1,181)</u> | <u>(1,720)</u> |
| | <u>(1,181)</u> | <u>(1,720)</u> | <u>(1,629)</u> | <u>(1,472)</u> |
| | <u>(37,931)</u> | <u>(71,921)</u> | <u>(39,172)</u> | <u>(72,900)</u> |

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

| | Parent company | | Consolidated | |
|--|-----------------|-----------------|-----------------|-----------------|
| | 2006 | 2005 | 2006 | 2005 |
| Income before taxation/profit sharing | 417,864 | 719,324 | 414,654 | 729,020 |
| Interest on shareholders' equity | (118,920) | (174,738) | (118,920) | (174,738) |
| Income before income and social contribution taxes | 298,944 | 544,586 | 295,734 | 554,282 |
| Income and social contribution taxes at nominal rate - 34% | (101,641) | (185,159) | (100,550) | (188,456) |
| Adjustment to calculate the effective rate | | | | |
| Permanent differences | | | | |
| Equity in earnings fo subsidiaries | 70,798 | 99,910 | 67,835 | 95,421 |
| Interest on shareholders' equity of subsidiaries | - | - | 1,437 | 1,546 |
| Others | (5,907) | 15,048 | (6,713) | 20,309 |
| Provision for income and social contribution taxes on income of foreign subsidiary | (1,181) | (1,720) | (1,181) | (1,720) |
| Income and social contribution taxes at effective rate | <u>(37,931)</u> | <u>(71,921)</u> | <u>(39,172)</u> | <u>(72,900)</u> |

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Notes to the financial statements

(In thousands of Reais)

The composition of deferred income and social contribution taxes is as follows:

| | Parent company | | Consolidated | |
|--|----------------|----------------|----------------|----------------|
| | 2006 | 2005 | 2006 | 2005 |
| Assets | | | | |
| Deferred taxes | | | | |
| Tax loss carryforwards and negative basis of social contribution | 37,834 | 9,861 | 37,834 | 9,861 |
| Benefit plan | 32,700 | 28,219 | 32,700 | 28,219 |
| Provision for contingencies | 25,397 | 23,643 | 25,824 | 24,462 |
| Employees' profit sharing | 15,157 | 19,874 | 15,564 | 20,163 |
| Allowance for doubtful accounts | 9,645 | 10,256 | 9,645 | 10,256 |
| Goodwill amortization | 7,108 | 2,037 | 7,108 | 2,037 |
| Provision for loss on property, plant and equipment | 5,001 | 4,417 | 5,001 | 4,417 |
| Others | 814 | 2,632 | 3,971 | 3,795 |
| Summer Plan depreciation | <u>2,105</u> | <u>2,834</u> | <u>2,105</u> | <u>2,834</u> |
| Total assets deferred taxes | <u>135,761</u> | <u>103,773</u> | <u>139,752</u> | <u>106,044</u> |
| Assets short-term portion | 52,518 | 27,223 | 56,509 | 29,494 |
| Assets long-term portion | 83,243 | 76,550 | 83,243 | 76,550 |
| Liabilities | | | | |
| Deferred taxes | | | | |
| Depreciation on rural activities | 84,716 | 32,811 | 84,716 | 32,811 |
| Provisão para atualização de Grãos | <u>10,008</u> | — | <u>10,008</u> | — |
| Total liabilities deferred taxes | <u>94,724</u> | <u>32,811</u> | <u>94,724</u> | <u>32,811</u> |
| Liabilities short-term portion | 18,355 | 3,321 | 18,355 | 3,321 |
| Liabilities long-term portion | 76,369 | 29,490 | 76,369 | 29,490 |
| Net | 41,037 | 70,962 | 45,028 | 73,233 |

The Management considers that the deferred assets arising from temporary differences will be realized in proportion to the final solution of the contingencies and to the payment of the liabilities forecast for the employees' benefit plans.

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The deferred tax assets related to the income tax loss carryforwards and negative basis of social contribution in the amount of R\$ 37,834, represented by R\$ 29,160 of the Parent and R\$ 8,674 from a foreign subsidiary will be realized base on future taxable income on such companies. Management estimates that the deferred tax asset related to the Parent will be fully realized during this year and the deferred tax asset related to the foreign subsidiary will be realized within three years.

23 Risk management and financial instruments

The Company's operations are exposed to market risks, especially in relation to exchange rate variations, credit risk and grain purchase prices. These risks are monitored by the Risk Management Area which uses a specific system to calculate the "VAR -Value at Risk", and they are 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. At December 31, 2006 the Value at Risk (VAR) of the financial assets and liabilities, for one year, with a 95% confidence rating, represents R\$ 96,735 (non-audited information), representing 3.93% of shareholder equity (not audited by auditors).

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, with same interest rates, and by derivative financial instruments, such as rate swaps (dollar to CDI), interest rate swap contracts (Libor to pre-fixed or vice-versa) and future market agreements, in addition to foreign receivables 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, Euros and Pounds), as a form of mitigating exchange rate risk over operating and financial assets and liabilities. The nominal amounts of these contracts are not recorded in the financial statements.

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The realized income of future contracts, for the year ended December 31, 2006, generated a gain of R\$ 150,645 (R\$ 152,222 for 2005), and the amount of R\$ 150,077 for 2006 was accounted for as financial income in “Monetary Variations Asset”, and the amount of R\$ 568 as operating income in “Gross operating revenue”.

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

The unrealized income of counter operations entered into with future maturity dates are not recognized in the financial statements. These contracts, as from December 2006, are segregated and defined as operating or financial, in accordance with the item to be protected. The amount of these contracts, if recorded as of December 31, 2006, would result in an income of R\$ 26,279 in the financial income and of R\$ 15,018 in the operating income.

The Company’s exposure to exchange variation (mainly in US dollars) is shown below:

| | Consolidated | |
|--|---------------------|-----------------|
| | 2006 | 2005 |
| Assets and liabilities in foreign currency | | |
| Cash and cash equivalents and short-term investments | 1,960,847 | 1,769,241 |
| Amounts receivable from futures contracts | 26,357 | 28,287 |
| Trade accounts receivable | 385,797 | 240,191 |
| Suppliers | (39,521) | (37,697) |
| Loans and financing | (2,820,099) | (2,243,577) |
| Amounts payable for futures contracts | (9,077) | (10,702) |
| Swap contracts (dollar for CDI (*)) | <u>22,284</u> | <u>172,374</u> |
| | <u>(473,412)</u> | <u>(81,883)</u> |

(*) Interbank deposit interest.

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(In thousands of Reais)

Consolidated hedge contracts outstanding at December 31, 2006 with their respective payment schedules are as follows:

| | Posição 31/12/06 | Vencimentos em | |
|---------------------------------------|-----------------------------|-----------------------|-------------|
| | | 2007 | 2008 |
| Contratos de derivativos | | | |
| Currency swap contracts | | | |
| Base value - R\$ | 22,284 | 12,908 | 9,376 |
| Base value - US\$ | 7,504 | 4,347 | 3,157 |
| Receivables/payables | | | |
| Asset | - | - | - |
| Liability | (15,621) | (9,048) | (6,573) |
| Rate swap contracts | | | |
| Base value - R\$ | 534,500 | 534,500 | - |
| Base value - US\$ | 250,000 | 250,000 | - |
| Amount receivable | 5,298 | 5,298 | - |
| Futures contracts - US dollars | | | |
| Short position- US\$ | 430,000 | 430,000 | - |
| Long position - US\$ | 274,000 | 274,000 | - |
| Short position - Euro | 139,161 | 139,161 | - |
| Long position - Euro | 3,847 | 3,847 | - |
| Short position - Libra | 86,023 | 86,023 | - |
| Long position - Libra | 18,427 | 18,427 | - |
| Options | | | |
| Short put option US\$ | 380,000 | 380,000 | - |
| Long call option US\$ | 380,000 | 380,000 | - |
| Amount receivable | 26,357 | 26,357 | - |
| Amount payable | (9,077) | (9,077) | - |

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(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 sales, however it has contracted an insurance credit policy to its domestic receivables.

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 animal feed for its breeding stock, where the price variation results from factors beyond the control of management, such as climate, the size of the harvest, transport and storage costs and government agricultural policies, among others. The Company does not enter into futures or options contracts to hedge against fluctuations in the prices of the commodities, however it maintains a risk management strategy, based on physical control, which includes purchase of grain at fixed and fixable prices. The Company has a Grains Committee, composed of the chief executive officer and financial and operational executives. Its aim is to permanently monitor changes in scenarios, establishing limits of authority for purchase or sale.

d. Estimated market values

The Company used the following methods and assumptions to estimate the disclosure of the fair value of its financial instruments as of December 31, 2006 and 2005:

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- **Cash and cash equivalents** - The book values of cash and banks recorded in the balance sheet are similar to the respective fair values.
- **Short-term financial investments** - The fair value of short-term financial investments is estimated based on the market quotations of comparable contracts.
- **Accounts receivable and payable** - The book values of accounts receivable and payable recorded in the balance sheet are similar to their respective fair values.
- **Short and long-term loans and financing** - The market values of loans and financing were calculated based on their present value calculated through the future cash flows and using interest rates applicable to instruments of similar nature, terms and risks, or based on the market quotation of these securities. The market values of BNDES financing are similar to the book values, since there are no similar instruments with comparable maturities and interest rates.
- **Exchange and interest rate swap contracts** - The fair values of exchange and interest rate swap contracts were estimated based on market quotations for comparable contracts. As of December 31, 2006 the contracted amounts in force totaled R\$ 1,554,843 (R\$ 2,381,603 in December 31, 2005) and the valuation of these contracts to fair value would result in losses of R\$ 67,041 (loss of R\$ 31,227 in December 31, 2005). The effective cash settlements of the contracts occur on the respective maturities of each agreement. The Company does not intend to settle these contracts before their maturity.

The market values were estimated on the balance sheet date, based on “relevant market information”. Changes in the assumptions may significantly affect these estimates.

The book values and the estimated fair values of the Company’s financial instruments as of December 31, 2004 and 2005 are presented in the table below. The fair value of a financial instrument is the amount for which the instrument could be traded between interested parties under current market conditions.

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(In thousands of Reais)

| | Consolidated | | | |
|---|--------------|--------------|------------|--------------|
| | 2006 | | 2005 | |
| | Book value | Market value | Book value | Market value |
| Cash and cash equivalents | 234,069 | 234,069 | 196,306 | 196,306 |
| Short-term investments - Local Currency | 388,824 | 388,824 | 745,125 | 745,125 |
| Short-term investments - Foreign Currency | 1,927,709 | 1,927,709 | 1,722,258 | 1,723,481 |
| Trade accounts receivable | 693,532 | 693,532 | 520,242 | 520,242 |
| Loans and financing | 3,885,420 | 3,924,161 | 3,099,194 | 3,085,024 |
| Suppliers | 503,285 | 503,285 | 495,758 | 495,758 |
| Futures contracts, net | 17,280 | 17,280 | 17,585 | 17,585 |
| <i>e. Financial indebtedness</i> | | | | |

| | Consolidated | | | | | |
|---|----------------|---------------|----------------|---------------|---------------|---------------|
| | 2006 | | | 2005 | | |
| | Currency | | | Currency | | |
| | Local | Foreign | Total | Local | Foreign | Total |
| Assets | | | | | | |
| Cash and cash equivalents | 200,931 | 33,138 | 234,069 | 149,323 | 46,983 | 196,306 |
| Short-term investments | 259,697 | 1,927,709 | 2,187,406 | 680,068 | 1,722,258 | 2,402,326 |
| Accounts receivable from future contracts | <u>-</u> | <u>26,357</u> | <u>26,357</u> | <u>-</u> | <u>28,287</u> | <u>28,287</u> |
| Total current assets | 460,628 | 1,987,204 | 2,447,832 | 829,391 | 1,797,528 | 2,626,919 |
| Long-term investments | <u>129,127</u> | <u>-</u> | <u>129,127</u> | <u>65,057</u> | <u>-</u> | <u>65,057</u> |
| Total long-term assets | 129,127 | - | 129,127 | 65,057 | - | 65,057 |
| Total Financial Assets | 589,755 | 1,987,204 | 2,576,959 | 894,448 | 1,797,528 | 2,691,976 |

Sadia S.A.

Publicly-held Company

Notes to the financial statements

(In thousands of Reais)

| | Consolidated | | | | | |
|--|---------------------|-----------------|--------------|-----------------|------------------|--------------|
| | 2006 | | | 2005 | | |
| | Currency | | | Currency | | |
| | Local | Foreign | Total | Local | Foreign | Total |
| Liabilities | | | | | | |
| Short-term financing | 309,033 | 898,845 | 1,207,878 | 451,662 | 933,005 | 1,384,667 |
| Accounts paybles from future contracts | - | 9,077 | 9,077 | - | 10,702 | 10,702 |
| Swap contracts - short-term | <u>12,908</u> | <u>(12,908)</u> | <u>-</u> | <u>150,090</u> | <u>(150,090)</u> | <u>-</u> |
| Total current liabilities | 321,941 | 895,014 | 1,216,955 | 601,752 | 793,617 | 1,395,369 |
| Long-term Financing | 756,288 | 1,921,254 | 2,677,542 | 403,955 | 1,310,572 | 1,714,527 |
| Swap contracts - long-term | 9,376 | (9,376) | - | 22,284 | (22,284) | - |
| Total noncurrent liabilities | 765,664 | 1,911,878 | 2,677,542 | 426,239 | 1,288,288 | 1,714,527 |
| Total Financial liabilities | 1,087,605 | 2,806,892 | 3,894,497 | 1,027,991 | 2,081,905 | 3,109,896 |
| Net debt | (497,850) | (819,688) | (1,317,538) | (133,543) | (284,377) | (417,920) |

24 Insurance

The Company and its subsidiaries adopt insurance engagement policy at levels that Management considers adequate to cover risks resulting from the claims of its assets. Due to the characteristics of multilocated operations, Management engages its policies with a limit of maximum loss possible in the same event, with amounts calculated based on risk inspections and potential losses. The policies engaged guarantee coverage against fire, general civil liability, windstorms, disorders and electric damage, as well as insurance for merchandise transport, personal and vehicle damage. The amount currently insured guarantees the comprehensive coverage of the Company's fixed assets.

The assumptions adopted, given their nature, are not part of the scope of an audit of financial statements and, accordingly, they were not examined by our independent auditors.

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Publicly-held Company

Notes to the financial statements

(In thousands of Reais)

25 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 pension 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 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 Attílio Francisco Xavier Fontana.

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. On December 31, 2006 the defined benefit plan presented a surplus of R\$ 210,904 (R\$ 176,605 as of December 31, 2005).

At December 31, 2006 the Foundation had a total of 20,484 participants (21,697 on December 31, 2005), of which 16,795 were active participants (18,156 on December 31, 2005).

The contributions of the parent company, on December 31, 2006 and 2005, amounted to R\$ 2,004 and R\$ 2,044, and R\$ 2,073 and R\$ 2,097 in the consolidated, respectively.

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:

| | 2006 | 2005 |
|--|------------------|------------------|
| Composition of actuarial assets | | |
| Present value of the actuarial liabilities | 736,436 | 704,529 |
| Fair value of the actuarial assets | (1,128,000) | (1,035,000) |
| Unrecognized actuarial losses | <u>222,805</u> | <u>198,896</u> |
| Net actuarial assets | <u>(168,759)</u> | <u>(131,575)</u> |
| Reconciliation of present liabilities value | | |
| Liability value at the beginning of the year | 704,529 | 580,504 |
| Gross current cost of services (with interest) | 25,403 | 18,442 |
| Interest in actuarial liabilities | 77,995 | 64,139 |
| Benefits paid during the year | (35,751) | (30,468) |
| Liabilities - (Gains)/losses | <u>(35,740)</u> | <u>71,912</u> |
| Liabilities value at the end of the year | <u>(736,436)</u> | <u>704,529</u> |
| Reconciliation of fair value of assets | | |
| Fair value of assets at the beginning of the year | 1,035,000 | 904,695 |
| Benefits paid during the year | (35,751) | (30,468) |
| Participant contributions during the year | 6,451 | 6,177 |
| Sponsor contributions made during the year | 2,115 | 2,154 |
| Assets earnings for the year | <u>120,185</u> | <u>152,442</u> |
| Fair value of assets at the end of the year | <u>1,128,000</u> | <u>1,035,000</u> |
| Calculation of (gains)/losses | | |
| Value of losses at the beginning of the year | (176,381) | (187,654) |
| Losses in actuarial liabilities | 4,672 | 4,479 |
| (Gains)/losses in actuarial liabilities | (35,740) | 49,397 |
| Gains in plan assets | 6,354 | (41,850) |
| (Gains)/losses in employee contributions | <u>(638)</u> | <u>(753)</u> |
| (Gains)/losses at the end of the year | <u>(201,733)</u> | <u>(176,381)</u> |

Sadia S.A.

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Notes to the financial statements

(In thousands of Reais)

| | 2006 | 2005 |
|---|----------|--------|
| 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% |
| Estimated nominal growth rate for benefits | 5.00% | 5.00% |
| Biometric table of general mortality | AT83 | |
| Biometric table of disability leave | TASA1927 | |
| Expected rotation rate | 3%py | |
| Probability of applying for retirement | 55years | |

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

b. Defined contribution plan

As from January 1, 2003, the Company began to adopt new supplementary pension 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, 2006 and 2005 totaled R\$ 2,807 and R\$ 2,276 respectively. As of December 31, 2005 this plan had 11,924 participants (11,563 in December 31, 2005).

26 Segment and related information

The following information about segments is based upon information used by the Company's management to assess the performance of operating segments and decides on the allocation of resources.

Sadia S.A.

Publicly-held Company

Notes to the financial statements

(In thousands of Reais)

The Company has four identifiable reportable segments: Processed products, Poultry, Pork and beef. The Company evaluates segment performance based on information generated from its statutory accounting records prepared in accordance with accounting principles generally accepted in Brazil.

a. Segment information

| | 2006 | 2005 |
|------------------------------|------------------|------------------|
| Net operating revenue | | |
| Processed products | 3,102,397 | 3,147,296 |
| Poultry | 2,872,845 | 3,199,246 |
| Pork | 494,571 | 732,710 |
| Beef | 309,353 | - |
| Others | <u>97,535</u> | <u>239,186</u> |
| Total net operating revenue | <u>6,876,701</u> | <u>7,318,438</u> |

Other net operating revenue is primarily attributable to grain and by-products and beef products operations.

| | 2006 | 2005 |
|---|------------------|------------------|
| Depreciation expenses | | |
| Processed products | (92,214) | (60,863) |
| Poultry | (100,080) | (80,336) |
| Pork | (15,223) | (16,853) |
| Beef | (11,660) | |
| Others | <u>(4,072)</u> | <u>(7,294)</u> |
| Total depreciation expenses allocated to segments | <u>(223,249)</u> | <u>(165,346)</u> |
| Depreciation allocated to administrative expenses | <u>(17,320)</u> | <u>(12,829)</u> |
| Total depreciation expenses | (240,569) | (178,175) |

Sadia S.A.

Publicly-held Company

Notes to the financial statements

(In thousands of Reais)

| | 2006 | 2005 |
|---|----------------|----------------|
| Segment operating income | | |
| Processed Products | 194,494 | 273,684 |
| Poultry | 100,204 | 269,766 |
| Pork | 35,489 | 94,586 |
| Beef | 11,482 | - |
| Others | <u>2,087</u> | <u>2,798</u> |
| Total operating income | 343,756 | 640,834 |
| | <hr/> | <hr/> |
| Interest expense | (310,442) | (324,231) |
| Interest income | 282,904 | 248,203 |
| Exchange gains (losses), net | 104,219 | 159,602 |
| Income before income taxes and social contribution | 420,437 | 724,408 |
| Segment assets | | |
| Processed products | 715,248 | 626,055 |
| Poultry | 1,018,005 | 753,255 |
| Pork | 275,533 | 147,923 |
| Beef | 104,340 | - |
| Others | <u>220,312</u> | <u>138,973</u> |
| Total property, plant and equipment | 2,333,438 | 1,666,206 |
| | <hr/> | <hr/> |
| Reconciling items - Corporate assets | | |
| Cash and cash equivalents | 234,069 | 196,306 |
| Short-term investments | 2,187,406 | 2,402,326 |
| Long-term investments | 129,127 | 65,057 |
| Accounts and notes receivables, net | 678,598 | 509,615 |
| Inventories | 1,084,454 | 992,490 |
| Others corporate assets | <u>929,259</u> | <u>690,825</u> |
| Total consolidated assets | 7,576,351 | 6,522,825 |
| | <hr/> | <hr/> |

Sadia S.A.

Publicly-held Company

Notes to the financial statements

(In thousands of Reais)

| | 2006 | 2005 |
|---|------------------|------------------|
| Capital expenditures | | |
| Processed products | 302,648 | 194,587 |
| Poultry | 367,581 | 372,761 |
| Pork | 143,032 | 26,982 |
| Beef | 7,786 | |
| Others | <u>234,331</u> | <u>91,662</u> |
| Total segment capital expenditures | <u>1,055,378</u> | <u>685,992</u> |
| <i>b. Export sales by region/market</i> | | |
| | 2006 | 2005 |
| Europe | 889,171 | 978,318 |
| Middle East | 787,838 | 1,047,615 |
| Asia | 533,295 | 635,907 |
| Americas | 528,453 | 542,151 |
| Eurasia (mainly Russia and other former Soviet Union countries) | <u>719,706</u> | <u>872,333</u> |
| | <u>3,458,463</u> | <u>4,076,324</u> |

Revenues are attributed to regions based upon where the products are shipped. All long-lived operational assets are located in Brazil and assets located outside of Brazil consist of sales offices located in various countries and construction in progress in Russia.

Sadia S.A.

Board of Directors

Walter Fontana Filho
Chairman

Eduardo Fontana D'Ávila
Member

Osório Henrique Furlan
Member

Alcides Lopes Tápias
Member

Everaldo Nigro dos Santos
Member

Francisco Silverio Morales Cespede
Member

José Marcos Konder Comparato
Member

Luiza Helena Trajano Inácio Rodrigues
Member

Marcelo Fontana
Member

Norberto Fatio
Member

Vicente Falconi Campos
Member

Sadia S.A.

Officers

| | |
|---|--|
| Gilberto Tomazoni | Chief Executive Officer |
| Adriano Lima Ferreira | Chief Financial Officer |
| Alexandre de Campos | International Sales Director |
| Antonio Paulo Lazzaretti | Technology and Quality Guarantee Director |
| Artêmio Listoni | Bovine Activities Director |
| Cláudio Lemos Pinheiro | Administrative and Controllershship Director |
| Eduardo Nunes de Noronha | Human Resources and Management Director |
| Ernest Sícoli Petty | Supply Director |
| Flávio Luís Fávero | Regional Production Director |
| Flávio Riffel Schmidt | Investment project Director |
| Gilberto Meirelles Xandó Baptista | Internal Market Commercial Director |
| Gilberto Pinto Sampaio Júnior | Marketing Director |
| Guilhermo Henderson Larrobla | International Sales Director |
| José Augusto Lima de Sá | International Relationships Director |
| Osório Dal Bello | Farming Technology Director |
| Paulo Francisco Alexandre Striker | Logistics Director |
| Ricardo Fernando Thomas Fernandes | Grain Purchase Director |
| Roberto Banfi | International Sales Director |
| Ronaldo Korbagg Muller | Poultry Production Director |
| Sérgio Carvalho Mandin Fonseca | National Sales Director |
| Valmor Savoldi | Planning, Logistics and Supplies Director |
| Welson Teixeira Junior | Investor Relations Director |
| Gustavo Teixeira de Freitas | Giovanni F. Lipari Accountant |
| Tax Planning and Controllershship Manager | CRC 1SP201389/0-7-S-SC |