SADIA SA
Form 20-F
June 26, 2003

U.S. SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 20-F

[ ] REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR 12(g)
OF THE SECURITIES EXCHANGE ACT OF 1934
OR
[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15 (d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2002
OR
[ ] TRANSITION REPORT PURSUANT TO SECTION 13 TO 15 (d)
OF THE SECURITIES EXCHANGE ACT OF 1934

Commission file number 1-15184
SADIA S.A.
(Exact Name of Registrant as specified in its Charter)
N/A
(Translation of Registrant's Name into English)

Federative Republic of Brazil
(Jurisdiction of Incorporation or Organization)

Rua Fortunato Ferraz, 659
Vila Anastacio, Sao Paulo, SP
05093-901, Brazil
(Address of Principal Executive Offices) (Zip Code)

Securities registered pursuant to Section 12(b) of the Exchange Act:

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

Securities registered pursuant to Section 12(g) of the Act:
None
Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: None

The total number of outstanding shares by Sadia S.A., by class, as of December 31, 2002, was as follows:

257,000,000 common shares, no par value per share
425,695,712 preferred shares, no par value per share

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934, during the preceding 12 months (or during a shorter period, during which the Registrant was required to file such report, and (2) has been subject to such filing requirements for the past 90 days.
Yes X No ____

Indicate by check mark, which item of the financial Statements the Registrant has elected to follow:
Item 17 Item 18 X .

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

Ross Kaufman
Greenberg Traurig, LLP
200 Park Avenue
New York, New York 10166

CONTENTS

GENERAL

Unless otherwise indicated, all references contained herein, to the "Company", to "Sadia", or to "Sadia Group" are references to Sadia S.A., a corporation organized under the laws of the Federative Republic of Brazil ("Brazil") and its consolidated subsidiaries: Sadia International Ltd.; Sadia GMBH; Rezende Marketing e Comunicacao Ltda., Rezende Oleo Ltda,Ez Foods Servicos Ltda. and Concordia S.A. Corretora de Valores Mobiliarios, Cambio e Commodities.

Presentation of Certain Financial Information

References to "Preferred Shares" and "Common Shares" refer to the Company's authorized and outstanding preferred stock and common stock, designated as "acoes preferenciais" and "acoes ordinarias", respectively, each without par value. All references herein to the "Real," "Reais" or "R$" are to the Real, the official currency of Brazil since July 1, 1994. All references to (i) "U.S. dollars", "dollars" or "US$" refer to United States dollars, (ii) "km" to kilometers, and (iii) "tons" to metric tons.

Forward-Looking Statements

This Form 20-F contains Statements that constitute forward-looking Statements. Those Statements appear in a number of places and include Statements regarding the intent, belief or current expectations of the Company, its directors or its executive officers with respect to (i) the declaration or payment of dividends, (ii) the direction and future operation of the Company, (iii) the implementation of the principal operating strategies of the Company, including potential acquisition or joint venture transactions or other investment opportunities, (iv) the implementation of the Company's financing strategy and capital expenditure plans and (v) the factors or trends affecting the Company's financial condition or results of operations. Prospective investors are cautioned that any such forward looking Statements are not guarantees of future performance and involve risks and uncertainties, and that actual results may differ materially from those in the forward looking Statements. The accompanying information contained in this Annual Report, including without limitation the other information set forth under the heading "Operating and Financial Review and Prospects," identifies important factors that could cause such differences.

PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3. KEY INFORMATION

A. SELECTED FINANCIAL DATA

U.S. GAAP Presentation

The selected financial information for the Company included in the following table should be read in conjunction with, and is qualified in its entirety by reference to, the U.S. GAAP financial statements of the Company and "Operating and Financial Review and Prospects" appearing elsewhere herein. The consolidated financial data for the Company as of December 31, 2002, 2001, 2000, 1999 and 1998 are derived from the audited U.S. GAAP financial statements.

SADIA S.A
CONSOLIDATED STATEMENTS OF OPERATIONS
Years ended December 31, 2002, 2001, 2000, 1999 and 1998
(In thousands of Reais - R$, except numbers of shares and per share amounts)

	2002	2001	2000	1999
Gross operating revenue	4,654,752	3,977,137	3,257,944	2,972,066
Value-added tax on sales	(417,280)	(293,280)	(316,919)	(281,978)
Sales deductions	(50,337)	(81,387)	(59,749)	(52,032)
Net operating revenue	4,187,135	3,602,470	2,881,276	2,638,056
Cost of goods sold	(2,903,152)	(2,322,691)	(2,167,016)	(1,855,737)
Gross profit	1,283,983	1,279,779	714,260	782,319
Operating expenses:				
Selling	(876,755)	(720,761)	(563,025)	(493,907)
General and administrative	(49,133)	(54,029)	(51,603)	(52,765)
Other operating expense, net	(12,773)	(17,136)	(9,174)	(10,707)
Total operating expenses	(938,661)	(791,926)	(623,802)	(557,379)
Operating income	345,322	487,853	90,458	224,940
Interest expense	(317,755)	(201,210)	(187,268)	(175,450)
Interest income and other, net	266,462	144,635	190,519	228,019
Foreign currency exchange loss, net	2,701	(171,377)	(72,775)	(174,892)
Income before equity income (loss) of investees and minority interest	296,730	259,901	20,934	102,617
Income tax expense:				
Current benefit (expense)	34,631	(38,895)	(867)	(3,088)
Deferred tax expense	(46,786)	(12,161)	(20,954)	(14,590)
	(12,155)	(51,056)	(21,821)	(17,678)
Income (loss) before equity income of investees and minority interest	284,575	208,845	(887)	84,939
Equity income (loss) of investees	(650)	43	(5,093)	(8,746)
Minority interest	337	439	496	282
Income (loss) before cumulative effect of accounting change	284,262	209,327	(5,484)	76,475
Cumulative effect of accounting change, net of tax	-	(5,843)	-	-
Net income (loss)	284,262	203,484	(5,484)	76,475
Net income (loss) applicable to preferred stock	183,533	131,378	(3,420)	49,480
Net income (loss) applicable to common stock	100,729	72,106	(2,064)	26,995
Net income (loss)	284,262	203,484	(5,484)	76,475
Basic and diluted earnings (loss) per thousand shares in R$:				
Preferred	431.14	308.62	(8.03)	115.54
Common	391.94	280.56	(8.03)	105.04

Weighted average number of shares outstanding:				
Preferred	425,695,712	425,695,712	425,695,712	428,227,595
Common	257,000,000	257,000,000	257,000,000	257,000,000

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CONSOLIDATED BALANCE SHEET
(IN THOUSANDS OF REAIS - R$)

DECEMBER 31,	2002	2001
Cash and cash equivalents and investments in debt and held-to-maturity securities	1,249,783	346,354
Total Current Assets	2,817,467	1,598,128
Investments in debt and held-to-maturity securities	760,857	609,767
Property, plant and equipment, net	860,070	857,653
TOTAL ASSETS	4,975,627	3,325,305
Total Current Liabilities	2,591,383	1,335,176
Short-term debt and current portion of long term debt	2,052,068	910,386
Long-term debt	1,205,160	889,767
TOTAL SHAREHOLDERS' EQUITY	1,057,759	967,181

The Company maintains its books and records in Reais and prepares its financial Statements in accordance with accounting practices adopted in Brazil. The Company also prepared consolidated balance sheets for December 31, 2002 and 2001 and the related consolidated Statements of operations, cash flows and changes in shareholders' equity , all stated in Reais, in accordance with U.S. GAAP.

The exchange rates of Real amounts into U.S. Dollars for the years ended December 31, 1998, 1999, 2000, 2001, 2002 and January through May 2003, are shown in the table below:

COMMERCIAL SELLING EXCHANGE RATES (R$/US$)

	HIGH	LOW	AVERAGE	END OF PERIOD
1998	1.2087	1.1237	1.1644	1.2087
1999	2.0648	1.6607	1.8514	1.7890
2000	1.9847	1.7234	1.8295	1.9554
2001	2.8350	1.9320	2.3536	2.3204
2002	3.9552	2.2709	2.9309	3.5333
DECEMBER/2002	3.7980	3.4278	3.6259	3.5333
JANUARY/2003	3.6623	3.2758	3.4384	3.5258
FEBRUARY/2003	3.6580	3.4930	3.5908	3.5632

MARCH/2003	3.5637	3.3531	3.4469	3.3531
APRIL/2003	3.3359	2.8898	3.1187	2.8898
MAY/2003	3.0277	2.8653	2.9557	2.9656

Source: Brazilian Central Bank

B. CAPITALIZATION AND INDEBTEDNESS

Not Applicable.

C. REASONS FOR THE OFFER AND USE OF PROCEEDS

Not Applicable.

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D. RISK FACTORS

RISKS RELATING TO BRAZIL

THE BRAZILIAN GOVERNMENT HAS EXERCISED, AND CONTINUES TO EXERCISE, SIGNIFICANT INFLUENCE OVER THE BRAZILIAN ECONOMY. BRAZILIAN POLITICAL AND ECONOMIC CONDITIONS HAVE A DIRECT IMPACT ON THE COMPANY'S BUSINESS AND THE MARKET PRICE OF THE PREFERRED SHARES.

The Brazilian government frequently intervenes in the Brazilian economy and occasionally makes drastic changes in policy. The government's actions to control inflation and affect other policies have often involved wage and price controls, currency devaluations, capital controls, and limits on imports, among other things. The Company's business, financial condition and results of operations may be adversely affected by changes in policy including tariffs, exchange controls and other matters, as well as factors such as currency fluctuations, inflation, price instability, interest rates, tax policy, and other political, diplomatic, social and economic developments in or affecting Brazil.

Brazil has historically experienced extremely high rates of inflation. Inflation, along with governmental measures to combat inflation, has had significant negative effects on the Brazilian economy in general. Beginning in December 1993, the Brazilian government introduced an economic stabilization plan called the Real Plan. The primary objectives of the Real Plan were to reduce inflation and develop an environment for sustained economic growth.

On July 1, 1994, the Brazilian government introduced the new currency, the Real. Since the introduction of the Real, Brazil's inflation rate has been substantially lower than in previous periods. The annual rates of inflation, as measured by the General Price Index (IGP-M) of Fundacao Getulio Vargas, were:

Year	Rate of Inflation
1993	2,567.34%
1994	1,246.62%
1995	15.24%
1996	9.20%
1997	7.74%

1998	1.78%
1999	20.1%
2000	9.95%
2001	10.38%
2002	25.30%

Source: Fundacao Getulio Vargas (FGV)

There can be no assurance that recent lower levels of inflation will continue. Brazil may experience high levels of inflation in the future. Future governmental actions, including actions to adjust the value of the Real, may trigger increases in inflation. Accordingly, periods of substantial inflation may in the future have material adverse effects on the Brazilian economy, the Brazilian financial markets and on the Company's business, financial condition and results of operations.

FLUCTUATIONS IN THE VALUE OF BRAZIL'S CURRENCY AGAINST THE VALUE OF THE U.S. DOLLAR MAY RESULT IN UNCERTAINTY IN THE BRAZILIAN ECONOMY AND THE BRAZILIAN SECURITIES MARKET, WHICH MAY ADVERSELY AFFECT THE COMPANY'S FINANCIAL CONDITION AND RESULTS OF OPERATIONS AND, CONSEQUENTLY, THE MARKET VALUE OF THE PREFERRED SHARES AND ADSs.

As a result of inflationary pressures, the Brazilian currency has been devalued periodically during the last four decades. Throughout this period, the Brazilian government has implemented various economic plans and has taken several exchange rate policies, including sudden devaluations, periodic mini-devaluations during which the frequency

of adjustments has ranged from daily to monthly, floating exchange rate systems, exchange controls and dual exchange rate markets. Although over long periods, devaluations of the Brazilian currency generally have correlated with the rate of inflation in Brazil, devaluations over shorter periods have resulted in significant fluctuations in the exchange rate between the Brazilian currency and the U.S. dollar and other currencies.

In addition, fluctuations in the value of the Real relative to the U.S. dollar can affect the market value of the ADSs. Devaluation may reduce the U.S. dollar value of distributions and dividends on the ADSs and may also reduce the market value of the Preferred Shares and the ADSs.

RESTRICTIONS ON THE MOVEMENT OF CAPITAL OUT OF BRAZIL MAY HINDER INVESTORS' ABILITY TO RECEIVE DIVIDENDS AND OTHER DISTRIBUTIONS AS WELL AS THE PROCEEDS OF ANY SALE OF PREFERRED SHARES.

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

Government restrictions on capital outflow may hinder or prevent the Custodian in Brazil, or if investors have exchanged ADSs for the underlying Preferred Shares, from converting the proceeds relating to the Preferred Shares into U.S. dollars and remitting those proceeds abroad. Investors could be adversely affected by delays in obtaining any required governmental approval for conversion of Brazilian currency payments and remittances abroad in respect of the Preferred Shares underlying the ADSs. In addition, the Brazilian government may institute a more restrictive exchange control policy in the future.

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

DEVELOPMENTS IN OTHER EMERGING MARKETS MAY ADVERSELY AFFECT THE MARKET PRICE OF THE PREFERRED SHARES AND ADSs

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

For example, in 2001, after prolonged periods of recession followed by political instability, Argentina announced that it would no longer continue to service its public debt and formally defaulted on debt held by certain foreign creditors, ending the peso's one-to-one peg to the U.S. dollar. The situation in Argentina has negatively effected investors' perceptions towards Brazilian securities.

Although market concerns that similar crises would ensue in Brazil have not become a reality, the volatility in market prices for Brazilian securities increased in 2001 and 2002.

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

ENFORCEMENT OF CIVIL LIABILITIES MAY BE DIFFICULT

The Company is organized under the laws of Brazil. All of the Company's directors and officers and many of its advisors reside in Brazil and substantially all of the assets of these persons and of the Company are located in Brazil.

As a result, it may not be possible to effect service of process upon these persons within the United States or other jurisdictions outside of Brazil. Similarly, it may not be possible to enforce judgments of non-Brazilian courts, including judgments predicated on civil liability under the U.S. securities laws against the Company or its directors and officers.

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

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

Brazilian counsel has also advised the Company that:

- as a plaintiff, a holder may bring an original action predicated on the U.S. securities laws in Brazilian courts and that Brazilian courts may enforce liabilities in such actions against the Company, its directors, and certain of its officers and advisors;
- if a holder resides outside Brazil and owns no real property in Brazil, such holder must provide a bond to guarantee court costs and legal fees in connection with litigation in Brazil; and
- Brazilian law limits the ability of a judgment creditor of the Company to satisfy a judgment against the Company by attaching certain of our assets.

POLITICAL UNCERTAINTY DURING ELECTIONS CAN INFLUENCE VOLATILITY IN CAPITAL MARKETS AND GENERATE POLITICAL INSTABILITY IN THE SHORT RUN

Due to democrate diversity in Brazil, during election periods, political debates among the candidates and election pools generate uncertainty. This impacts on the volatility of interest rates, exchange rates and stock market quotes, which may influence the Company's results. Despite this negative situation, the unstable environment generated by elections tends to be short term.

At the end of 2002, Brazil elected a new president from the Workers Party, Luis Inacio Lula da Silva, known as Lula. In the period leading up to, and subsequent to, his election there was substantial uncertainty relating to the policies that the new government would pursue, including the potential implementation of macroeconomic policies that differed significantly from those of the prior administration.

This uncertainty resulted in a loss of confidence in the Brazilian capital markets, including the steady devaluation of the real against the U.S. dollar in that period. Although the new government has not departed in any material way from previous policy, it is premature to evaluate the way in which investors and the capital markets will react, whether these policies will continue and whether they will be effective.

Any substantial negative reaction to the policies of the Brazilian government could adversely affect the Company's business, operations and the market price of the Company's prefErred shares and ADSs.

RISKS RELATING TO THE COMPANY'S BUSINESS

THE BUSINESS INVOLVES RAISING OF ANIMALS AND MEAT PROCESSING

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

GRAINS ARE THE MOST REPRESENTATIVE ISOLATED COMPONENT OF COGS AND ARE EXPOSED TO THE VOLATILITY OF THE COMMODITY MARKETS

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

ENVIRONMENTAL ISSUES CAN AFFECT COSTS AND ARISE NEW REGULATION REQUIREMENTS

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

COMPETITION IN BOTH DOMESTIC AND FOREIGN LIVESTOCK AND FOOD PROCESSING SECTOR IS VERY STRONG

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

INCREASING PROTECTIONIST MEASURES IN BRAZIL'S TRADE PARTNERS COUNTRIES CAN RESTRICT EXPORTS OF THE LIVESTOCK AND MEAT PROCESSING COMPANIES

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

FMD CASES IN BRAZIL CAN INDIRECTLY AFFECT PORK SALES

Although the detected Foot and Mouth Disease (FMD) cases in the south region of Brazil have affected only cattle, hogs can be contaminated. The Company's animal breeding facilities are all located in Santa Catarina State, an internationally recognized FMD free region. No assurance can be given, however, that the Company will not be affected by FMD, directly, or through limitations on exports.

RISKS RELATING TO SADIA S.A.

THE COMPANY IS CONTROLLED BY A GROUP OF SHAREHOLDERS

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

IF THE COMPANY LOSES ANY OF ITS LARGEST CLIENTS, OR IF THEY SIGNIFICANTLY REDUCE THE AMOUNT THEY PURCHASE FROM THE COMPANY, ITS REVENUE AND OPERATING INCOME COULD BE MATERIALLY ADVERSELY AFFECTED

The Company's ten largest customers in 2002 accounted for approximately 24% of the Company's total domestic sales and approximately 14% of its total gross sales. As a result, if the Company loses any of its ten largest customers or they reduce significantly the amount they purchase from the Company, the Company's revenue and operating income could be materially adversely affected. The Company has been developing new client oriented policies to reduce the concentration of revenues in a small number of clients and to spread the related concentration risk.

THE COMPANY'S ABILITY TO EXPORT COULD BE ADVERSELY AFFECTED BY PORT LABOR DISPUTES AND DISRUPTIONS AND BY IMPORT RESTRICTIONS

The Company's ability to export is dependent, in part, on factors beyond its control, including the lack of transport facilities due to strikes or other causes, or the enactment of Brazilian laws or regulations restricting exports in general or its products in particular. In addition, regulatory authorities in various countries have in the past imposed, and in the future may impose, import restrictions on Brazil's exports, based on health and sanitary standards. Any of these could materially adversely affect the Company's revenue and operating income.

ITEM 4. INFORMATION ON THE COMPANY

A. HISTORY AND DEVELOPMENT OF THE COMPANY

Sadia's activities are concentrated in the agroindustrial and food processing segments. The Company's central administrative headquarters is located at Rua Fortunato Ferraz, 659, Vila Anastacio, Sao Paulo, State of Sao Paulo, CEP 05093-901, Brazil. Its telephone number is (55 11) 3649-3130, the Company's website is www.sadia.com.br or www.sadia.com and e-mail addresS is grm@sadia.com.br. Materials posted on the website are not deemed incorporated by reference into this Annual Report nor made a part hereof.

The Company is the leader in almost all of the markets in which it operates within Brazil (see "Market Share"). Sadia is the largest slaughterer and distributor of poultry and pork products, as well as the largest domestic exporter of poultry, according to the Brazilian Chicken Exports Association (ABEF). Sadia Group is also the largest distributor of frozen and refrigerated meat-based products (according to AC/Nielsen). Sadia Group currently has 32,184 employees (December, 2002).

The level of verticalization adopted by Sadia ensures control at all stages of production and distribution of products. The Company's operations include breeding farms for poultry and hog grandparent and parent stock, hatcheries, pork

breeding centers, slaughterhouses, processing units, animal feed production plants, representative offices and distribution centers. Sadia introduced the vertical integration of poultry and hog breeding, which was initially adopted in the west of Santa Catarina State. This system is still utilized by the Company. It consists of a partnership between the industry and the rural producers, with a view to obtaining animals for slaughter, raised in highly productive breeding conditions and controlled hygienic-sanitary conditions. Sadia produces one-day chicks and piglets and supplies them to outgrowers, along with feed, transport, technical and veterinary assistance.

The Company has 12 plants within Brazil, and distributes its product line of approximately 630 items through distribution and sales centers spreaded over Brazil, Latin America, Middle East, Asia and Europe. The table below shows the Company's production capacity:

Production Capacity (2002)

Production and Capacity Table	Capacity - 2002	Production - 2002	Production - 2001
Chicken Slaughtering (Million head/year)	450.4	450.2	435.9
Turkey Slaughtering (Million head/year)	19.6	19.4	20.9

Hogs Slaughtering (Million head/year)	4.0	3.9	3.6
Processed Products (Th. Tons/year)	490.0	401.2	388.0
Margarine (Th. Tons/year)	158.2	128.9	117.9
Animal Feed (Th. tons)	3,832.0	3,658.9	3,315.0

Source: Sadia S.A.

Within Brazil, Sadia's products are marketed in 330,000 points of sales. The Group has three sales centers within Mercosur (Argentina, Uruguay and Chile), and operates in Paraguay and Bolivia through an exclusive distributor. Outside Latin America, the Company maintains representative offices in Worcester (UK), Milan (Italy), Tokyo (Japan) and Dubai (United Arab Emirates). The Company exports around 250 different products to approximately 65 countries.

COMPANY OVERVIEW

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

Over the course of its 59-year history, the Company evolved on the basis of two key strategies: the diversification of its portfolio of food products, and investment in quality.

At the end of the 1980s and the beginning of the 1990s, the Company's policy of expansion gave way to rationalization of management and cost structures through reduction by merger of a number of companies in the Sadia Group. Sadia began the 1990s having the controlling ownership in 21 companies, and began to concentrate its operations on the production of processed meat products.

From 1997 forward, management has continued the reorganization of the Sadia Group and has implemented the strategy of concentrating on higher value-added processed products. In 1997, the Company sold its cattle slaughterhouse in Barra do Garcas (State of Mato Grosso), four soybean processing facilities (crushing and refining), 12 purchasing and warehousing centers (for grains), and also transformed its Varzea Grande slaughterhouse (State of Mato Grosso) into a plant for the production of processed meat products. In addition, the transport of the products which had been made by a fleet of owned vehicles was outsourced to specialized transportation companies.

In July 1998, Sadia was merged with two of its subsidiaries, Sadia Frigobras S.A. and Sadia Concordia S.A., so that all of the activities of the Sadia Group were concentrated in a single listed company, Sadia S.A. This resulted from a gradual process of reorganization with a view to simplifying the Sadia Group structure, increasing visibility to capital markets, and achieving gains in scale through the reduction of general and administrative expenses and tax costs.

On December 28, 1999 Sadia acquired the capital stock of Granja Rezende S.A. (primarily a producer and distributor of poultry and pork products) for R$ 137,303, consisting of cash in the amount of R$ 55,303 and the issuance of R$

82,000 notes payable. The operations of Granja Rezende S.A. are included in the consolidated Statement of income from the date of acquisition. The transaction was accounted for as a purchase and the excess of the fair value of the net assets acquired over the cost of the acquisition was allocated to reduce the value assigned to non current assets.

Immediately following the acquisition of Granja Rezende, the Company decided to sell Granja Rezende's soybean crushing and oil manufacturing plant, which was not then in operation, and administrative complex. At December 31, 1999 these assets were carried at fair value less cost to sell as determined, in the Granja Rezende purchase price allocation and were classified as assets available for sale. On March 22, 2000 the Company sold the soybean crushing and oil manufacturing plant for net proceeds of R$ 30,800 which were equal to the carrying value of the assets. In addition, at the time of acquisition the Company determined it would terminate certain employees of Granja Rezende and provided for their dismissal cost (R$ 3,300) in the allocation of the purchase price. Subsequent to the acquisition date, these employees were terminated and paid in the amount provided.

During 2000, the subsidiary Rezende Alimentos Ltda. was converted from a limited liability company into a corporation and the subsidiary's name was changed to Sadia Alimentos S.A. On December 29, 2000, the then parent was merged into Sadia Alimentos S.A., whose name was then changed to Sadia S.A. As the merger was into a wholly owned subsidiary, there was no effect on the consolidated financial Statements. The merger is expected to permit an operational and administrative rationalization, generating administrative and economic benefits and the utilization of tax loss carryforwards.

The investment in Lapa Alimentos S.A. ("Lapa"), a 50 percent owned investee, accounted for by the equity method, was terminated during 2000.

In April 2001, the Company listed its American Depositary Receipts (ADRs) program on the New York Stock Exchange, providing investors an alternate channel to buy its stocks. In June 2001, the Company adhered to the Level One Corporate Governance with the Sao Paulo Stock Exchange (BOVESPA) certifying its commitment to transparency and fair disclosure of information.

In the second half of 2001, Sadia and Sun Valley, a U.K. - based subsidiary of Cargill Foods formed a partnership. This partnership gave rise to Concordia Foods Ltd., Worcester - UK, the purpose of which is to explore the potential of the British market providing direct supply to the retail market, foodservice and other segments in the United Kingdom and Ireland.

In August 2001, Sadia opened a distribution center in the city of Jundiai - SP, to supply the Sao Paulo State region, considered as the largest market in Brazil. The Jundiai DC, is a technological milestone for the Company with 20 square meters of area. The Company has invested R$ 23 million, in facilities and IT structure.

The Company has also developed a supply company called Apprimus, together with the Accor Group - a French Group that acts in the food vouchering and hotel-resort segments - and with Grupo Martins - the largest Brazilian food wholesaler. Apprimus operates in the food service market, servicing institutional clients in the domestic market.

In May 2002, Sadia G.M.B.H and its subsidiary, Laxness F.C.P.A. Lda. were created aiming to leverage exports to the European market.

In August 2002, Granja Rezende S/A was merged into Sadia S/A, aiming cost reduction either through standardization and rationalization of the administrative and operational activities as well as by resulting reflections of financial and fiscal nature.

In October 2002, the investment in BRF Trading Company was discontinued. The

Company was a joint venture between by Sadia (50%) and Perdigao S.A. (50%).

GROUP STRUCTURE - DECEMBER 2002

[GRAPHIC OMITTED]

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

Sadia S.A. concentrates all production, slaughtering, distribution and product sales activities within Brazil. Sadia International Ltd. is one of the Company's vehicle for sales outside Brazil, and is also a shareholder of the `Churrascaria Beijing' steakhouse, which was established in Beijing in partnership with Sky Dragon, a company linked to the Chinese Ministry of Agriculture. Rezende Oleo and Rezende Mkt. e Comunic. Ltda. are non operational. Sadia G.M.B.H. is a holding that controls Laxness F.C.P.A.lda., an offshore company responsilble for part of Sadia's export operations. Sadia Argentina, Sadia Uruguai and SadiA Chile are each responsible for the distribution and sales of Sadia's products in their respective countries, while Sadia Italia is a representative office. Nordfin Holding Limited owns 40% of Sadia Chile. Ez Food Servicos, also known as Apprimus, is a joint venture between Accor and Grupo Martins, with equal participations for each partner. Concordia Foods is a joint venture company between Sadia (50%) and Sun Valley Foods (50%) to explore the UK market. Concordia CVMCC is a brokerage firm authorized to operate in accordance with current Brazilian legislation.

BUSINESS OVERVIEW

The Company's operations are organized into three segments: "Processed Products" (frozen and refrigerated products and margarines), "Poultry" (chickens and turkeys) and "Pork".

Of the Company's total gross operating revenue in 2002, 45% was derived from the processed products segment, poultry 38% and pork 11%, and 6% from other activities, such as the grain and by-products segment, hog and poultry breeding, boiled beef parts, and resale of products.

Within the strategic policy of the Company to emphasize products with greater added value (processed products), Sadia opted to reduce its activities related to cattle and grains and by-products. Starting in 1998, the effects of this strategy showed in the reduced contribution of such activities in the revenue of the Company. The remaining activities related to the grains and by-products segment currently consist of the crushing of soy to obtain the meal used as a raw material in the production of feed for the Company's stock and that of the integrated producers, and the sale of raw oil resulting from crushing.

Sadia currently produces a range of products that includes: frozen, refrigerated, salted and smoked pork cuts, lard, bacon, ingredients for "feijoada" (a Brazilian pork and bean stew); frozen and refrigerated pork and chicken giblets; whole frozen and seasoned chickens; frozen and refrigerated poultry cuts and parts; marinated and partially cooked chicken parts; whole frozen and seasoned turkeys; frozen and seasoned turkey cuts and parts; breaded chicken parts; raw, cooked and smoked hams; "tender" gammons, hams, cold cuts and related products; "Parma-type" hams; smoked chickens and turkeys; cooked and smoked turkey hams and turkey-based cold cuts; partially cooked and frozen products, such as beef, turkey and chicken meatballs; beef, turkey and chicken-based hamburgers; pork, turkey and chicken based frankfurters; sausages; bolognas; salamis; coppa; turkey-based hams; cold cuts in general; chicken, meat and pork-based pates; beef, poultry and fish-based frozen ready-made dishes and pasta; frozen ready-made foods for heating and serving as meals and snacks, such as breaded poultry, fish and appetizers, frozen pizzas and refrigerated fresh pasta; and margarine.

The following tables present sales volumes and gross operating revenue for the years ended December 31, 2002, 2001, and 2000.

SALES VOLUME (TONS)	2002	2001	2000
DOMESTIC MARKET	751,041	729,642	797,831
Processed Products	503,612	472,230	450,570
Poultry	143,941	185,100	276,163
Pork	103,488	72,312	71,098
EXPORTS	607,694	445,375	360,827
Processed Products	25,347	16,377	13,214
Poultry	494,035	380,118	321,682
Pork	88,312	48,880	25,931
TOTAL	1,358,735	1,175,017	1,158,658
Processed Products	528,959	488,607	463,784
Poultry	637,976	565,218	597,845
Pork	191,800	121,192	97,029

Source : Sadia

GROSS OPERATING REVENUE (IN R$ MILLION)	2002	2001	2000
DOMESTIC MARKET	2,726.8	2,497.1	2,384.6
Processed Products	1,931.5	1,670.1	1,543.0
Poultry	374.7	410.9	490.7
Pork	197.7	137.4	109.9
Other (*)	222.9	278.7	241.0
EXPORTS	1,928.0	1,480.0	873.4
Processed Products	183,1	97.4	69.8
Poultry	1,385.5	1,148.8	705.1
Pork	318.8	186.6	69.9
Other (*)	40.6	47.2	28.4
TOTAL	4,654.8	3,977.1	3,257.9
Processed Products	2,114.6	1,767.5	1,612.8
Poultry	1,760.2	1,559.7	1,195.8
Pork	516.5	324.0	179.8
Other (*)	263.5	325.9	269.5

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

The following table presents the breakdown of gross operating revenue in percentage terms by segment, for the years ended December 31, 2002, 2001 and 2000:

Breakdown of Gross Operating Revenue (in %)

BREAKDOWN OF GROSS OPERATING REVENUE

SEGMENT	2002	2001	2000
Processed Products	45%	44%	50%
Poultry	38%	40%	36%
Pork	11%	8%	6%
Other*	6%	8%	8%

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

PROCESSED PRODUCTS

As a result of the Company's strategy of concentrating on higher value-added, higher margin products, the processed products segment results increased in the second half of the 1990s. Production rose from 239.0 tons in 1994 to 528.9 tons in 2002, when such products accounted for 45% of the Company's gross operating revenue.

Sadia operates nine plants that manufacture processed products, eight of which are dedicated to meat processing and one to margarine production. These plants are located close to their suppliers of raw materials or to the main domestic centers of consumption.

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

Sadia sells most of its processed products in the domestic market, which accounted for 91.1% of gross operating revenues from this segment in 2002. The exports of processed products currently account for 4.0% of gross operating revenues, which have grown by 92.7% over the past year.

Most of the raw materials used by Sadia derive from meats and soy oil produced by the Company, with only small volumes of pork acquired from third parties. By contrast, all beef that is processed by the Company is produced by selected suppliers, who are subject to inspection by the Federal Agriculture Ministry. There are no suppliers who individually account for over 10% of Sadia's total purchases of beef.

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

The following table presents gross operating revenue from sales of processed products by product line, for the years ended December 31, 2002, 2001 and 2000.

PROCESSED PRODUCTS GROSS OPERATING REVENUE (IN R$ MILLION)	2002	2001	2000
FROZEN	415.7	369.7	312.8
Hamburger	105.2	91.8	85.1
Breaded Products	183.4	162.4	113.6
Portions	20.1	15.1	15.5
Frozen ready-made dishes	107.0	100.4	98.6
REFRIGERATED	1,329.5	1,122.0	1,052.2
Ham and Related	239.1	235.5	216.9
Sausages	308.9	258.6	219.8
Frankfurters	139.5	119.3	121.7
"Light" line	133.9	124.2	107.7
Bolognas	99.6	88.7	81.0
Salamis	55.5	56.9	50.6
Cold cuts	39.1	42.2	40.9
Other	313.9	196.6	213.6
MARGARINE	369.4	275.8	247.8
TOTAL	2,114.6	1,767.5	1,612.8

POULTRY AND PORK

In 2002, Sadia's sales of non-processed products reached R$ 2,276.7 million, and accounted for 48.9% of the Company's total gross operating revenue. Among such products, chicken is the most significant, accounting for 30.3% of total sales in 2002, followed by turkeys and pork, which accounted for 7.5% and 11.1% of sales, respectively. The Company exports significant amounts of fresh meat, which in 2002, accounted for 88.4% of total export revenue.

Sadia operates seven chicken slaughterhouses. Three are located in the State of Parana, two in the State of Santa Catarina, one in the State of Minas Gerais and one in the State of Mato Grosso. The Company also operates three turkey slaughterhouses, one in Santa Catarina State, one in Minas Gerais State and one in Parana State, and five slaughterhouses for hogs, two in Parana State, one in Santa Catarina State, one in Minas Gerais State and one in Rio Grande do Sul State.

The table below shows slaughtering volumes of the Company for the years ended December 31, 2002, 2001 and 2000 in thousands of units:

SLAUGHTERING VOLUMES (million units)	2002	2001	2000
Chickens	450.2	435.9	417.2

Turkeys	19.4	20.9	18.8
Hogs	3.9	3.6	3.3

Source : Sadia

The following table shows gross operating revenue from non-processed products, for the years ended December 31, 2002, 2001 and 2000.

POULTRY AND PORK
GROSS OPERATING REVENUE (in R$ million)

	2002	2001	2000
NON- PROCESSED PRODUCTS			
POULTRY	1.760,2	1.559.7	1,195.
CHICKENS	1.413,7	1.267.9	951.
Whole	677.3	564.5	466.
Parts	662.4	584.8	392.
By-products/Other	74.0	118.6	93.
TURKEYS	346,5	291.8	244.
Whole	74.6	67.2	65.
Parts	261.2	220.0	169.
By-products/Other	10.7	4.6	8.
PORK	516.5	324.1	179.
TOTAL	2,276.7	1,883.8	1,375.

Source : Sadia

PRODUCTION PROCESS

PROCESSED PRODUCTS

The Company uses special cuts of pork, chicken and turkey, as well as selected and shaped fragments for the production of hams, sausages, frankfurters, bologna, hamburgers, pressed ham and related products. Seasonings and secondary raw materials are applied to each product type or line, according to established formulas, in order to ensure consistency, color, texture and flavor. The presentation of final products is achieved by shaping, casing, cooking and freezing in special machines. Products are then subjected to quality controls and distributed to the consumer market after having been packaged, labeled and boxed.

POULTRY

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

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

Commercial Stock. The "one-day-chicks" produced by parent stock are supplied to integrated outgrowers who are responsible for raising the birds. The Company has contracts with approximately 5,300 outgrowers, to which it provides feed, technical and veterinary assistance to allow such outgrowers the outgrowing process up to the time the birds reach slaughtering age, which for chickens is normally 40 days (at a weight of 1.93 kg). There are no employment agreements between Sadia and the outgrowers, who generally carry out this activity in order to supplement their income. Most outgrowers farm on a small scale and raise 6 flocks per year (each flock consists of

approximately 14,000 chickens). The Company remains the owner of the birds, and at the end of each production cycle, pays an outgrowing commission fee based on a performance index that is calculated as a function of indicators such as bird mortality, feed to meat conversion ratio and average weight. The fee paid to the integrated farmers covers the outgrowing costs, raw materials, labor and their net profit.

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

PORK

The Company produces grandparent, parent and piglet stock on its own farm.

Half the parent stock produced by Sadia is supplied to integrated outgrowers who receive feed, medicine and technical assistance by way of support. These parent animals produce hogs that are sold to Sadia for slaughter, after the fattening process is completed. The other half of the parent stock produced by the Company is sold to piglet producers, who also receive feed, medicine and technical assistance. Sadia repurchases the piglets at market prices and distributes them to integrated outgrowers, who after the fattening process sell such pigs to Sadia for slaughter.

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

INDUSTRY OVERVIEW - DOMESTIC AND INTERNATIONAL MARKETS

Processed Products

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

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

Frozen Processed Products

In 2002, the Brazilian market for frozen processed products accounted for revenue of US$ 284,342 thousands. Approximately 80.3% of this total is attributable to the two largest companies - Sadia and Perdigao S.A.

Consumption of frozen products is less sensitive to variations in disposable income among the population. This is explained by the fact that a large proportion of the total volume of the segment is consumed by higher income groups. Brazilian Market for Frozen Processed Products.

	2002	2001	2000	1999	1998
Sales (US$ `000)	284,342	293,815	299,630	293,957	388,228
change %	(3.2%)	(1.9%)	1.9%	(24.3%)	18.9%
Volume (tons)	107,494	91,722	74,359	73,053	66,249
change %	17.2%	23.4%	1,8%	10.3%	22.7%

Source: ACNielsen

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Due to the characteristics of frozen processed products - with production concentrated among a small number of companies, and supply aimed at a more restricted group of consumers - the Company believes that volume sales of frozen processed products will maintain their growth trend, although at rates below the 20% annual average registered between 1998 and 2002. In any case, since the market for frozen processed products is still far from mature within Brazil, the Company believes that its medium and long-term prospects are highly positive based on the trend over the preceding five years.

Refrigerated Processed Products

In 2002, the Brazilian market for refrigerated processed products accounted for sales of US$ 954,908 thousands. The two largest companies in this market together accounted for approximately 56.0% of net sales, according to ACNielsen, with the remaining share being split among a large number of small companies.

Brazilian Market for Refrigerated Processed Products

BRAZIL	2002	2001	2000	1999	1998
Sales (US$ `000)	954,908	1,112,836	1,403,449	1,306,432	1,936,433
change %	(14.2%)	(20.7%)	7.4%	(32.5%)	(2.6%)
Volume (tons)	582,845	575,111	569,043	559,261	523,953
change %	1.3%	1.1%	1.7%	6.7%	8.2%

Source: ACNielsen

Margarine

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

PRINCIPAL MARKETS WHERE THE COMPANY COMPETES

In 2000, Sadia had an average of 27.0% of its gross operating revenues provided from exports, in 2001 the Company increased this ratio to 37.2% and in 2002 exports reached 41.4% of total sales. The table set forth below presents the main regions of the world where the Company has commercial relations and the discussion that follows describes the main trends and expectations for its markets.

EXPORTS BY REGION - R$ `000	2002	2001	2000
Europe	572,615	486,149	276,166
Middle East	534,055	486,149	282,716
Asia	287,272	212,690	166,381
Mercosul	50,128	60,769	82,011
Emerging markets (mainly Russia and other former Soviet Union countries)	483,927	234,291	66,116
	1,927,997	1,480,048	873,390

POULTRY - BROILER AND TURKEY

The international poultry market has been characterized by a long-term decline in real prices, and by cyclical phases of high profitability, followed by periods of excessive supply, and a fall in prices and profitability.

According to the FAS World Broiler Trade Overview Report, dated March 20, 2003, the 2003 total broiler meat exports in 2003 for major exporting countries are forecast at 5.7 million tons, less than a 1 percent decrease from the 2002 level.

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The decrease in exports is mainly attributed to restrictions in Russia's poultry imports. Russia, the largest market for poultry products, announced an annual poultry import quota of 1.05 million tons. The pro-rated quota, equal to 744,000 tons, will be effective May 1, 2003, and will be allocated by country. As a result of the quota, world broiler meat imports for major countries will fall by about 2 percent from the 2002 level, and competition in other markets among the major exporting countries is expected to stiffen.

BROILER PRODUCTION (000 METRIC TONS)

	2003 (F)	2002 (P)	2001	2000	1999	1998
China	9,844	9,558	9,278	9,269	8,550	8,120
Brazil	7,700	7,355	6,567	5,980	5,526	4,498
European Union	6,720	685	6,822	6,654	6,614	6,789
Mexico	2,297	2,188	2,067	1,936	1,784	1,587
India	1,500	1,400	1,250	1,080	820	710
Thailand	1,450	1,380	1,230	1,070	980	930
Japan	1,085	1,097	1,074	1,091	1,078	1,097
Canada	975	945	927	877	847	798
Malaysia	846	832	813	786	684	660
South Africa	760	745	730	707	681	667
Others	6,110	6,941	6,904	6,866	6,631	6,523
TOTAL FOREIGN	39,287	33,126	37,662	36,316	34,195	32,379
UNITED STATES	14,505	14,467	14,033	13,703	13,367	12,525
WORLD TOTAL	53,792	47,593	51,695	50,019	47,562	44,904

Source: FAS, official statistics and inter-agency analysis, USDA, Broiler (Ready to cook equivalent) Summary (p) preliminary (f) forecast

BROILER CONSUMPTION (000 METRIC TONS)

	2003 (F)	2002 (P)	2001	2000	1999	1998
China	9,844	9,555	9,262	9,413	8,766	8,224
European Union	6,390	6,410	6,522	6,191	6,048	6,168
Brazil	6,150	5,767	5,326	5,087	4,776	3,904
Mexico	2,571	2,452	2,308	2,158	1,972	1,770
Japan	1,855	1,809	1,797	1,772	1,742	1,697
Russia	1,774	1,697	1,588	1,320	1,279	1,297
India	1,495	1,398	1,249	1,080	820	710
Canada	974	944	927	891	866	794
Thailand	970	915	805	742	692	656
Malaysia	881	866	846	812	705	668
Others	7,224	8,133	8,230	8,202	8,144	7,849
TOTAL FOREIGN	40,128	39,946	38,860	37,668	35,810	33,737
UNITED STATES	12,215	12,273	11,557	11,474	11,251	10,502
WORLD TOTAL	52,343	52,219	50,417	49,142	47,061	44,239

Source: FAS, official statistics and inter-agency analysis, USDA, Broiler (Ready to cook equivalent) Summary (p) preliminary (f) forecast

TURKEY PRODUCTION (000 METRIC TONS)

	2003 (F)	2002 (P)	2001	2000	1999	1998
European Union	1,740	1,760	1,777	1,740	1,830	1,700
Brazil	195	182	165	137	115	107
Poland	170	165	150	115	92	90
Canada	152	147	149	152	139	139
Hungary	90	88	84	78	73	62
Mexico	14	13	13	12	12	11
Russian Federatiion	11	9	7	7	8	9
South Africa	5	5	4	3	2	1
Other	-	5	8	95	91	86
TOTAL FOREIGN	2,377	2,374	2,357	2,339	2,362	2,205
UNITED STATES	2,541	2,557	2,490	2,419	2,372	2,366
WORLD TOTAL	4,918	4,931	4,847	4,758	4,734	4,571

Source: FAS, official statistics and inter-agency analysis, USDA, Turkey (Ready to cook equivalent) Summary (p) preliminary (f) forecast

TURKEY CONSUMPTION (000 METRIC TONS)

	2003 (F)	2002 (P)	2001	2000	1999	1998
European Union	1,570	1,560	1,602	1,553	1,640	1,526
Mexico	169	156	161	152	142	130
Poland	167	163	158	108	85	99
Canada	146	143	135	137	136	139
Brazil	110	92	96	93	89	87
Russia	86	169	171	170	169	156
Hungary	63	63	69	55	51	49
South Africa	20	20	19	24	21	17
Other	-	33	49	142	142	105
TOTAL FOREIGN	2,331	2,399	2,460	2,434	2,475	2,308
UNITED STATES	2,320	2,316	2,269	2,223	2,223	2,214
WORLD TOTAL	4,651	4,715	4,729	4,657	4,698	4,522

Source: FAS, official statistics and inter-agency analysis, USDA, Turkey (Ready to cook equivalent) Summary (p) preliminary (f) forecast

KEY EXPORTERS

United States

Broiler meat exports in 2003 are forecast at 2.3 million tons, a 7 percent increase from the 2002 level. Broiler exports to traditional markets in Asia and the Americas are expected to remain strong, while exports to Russia, the largest market for U.S. broiler exports, will face challenges due to a Russian quota on poultry imports effective May 1, 2003. The Russian quota, if applied flexibly to both bone-in and boneless poultry, would provide for access exceeding the level of average monthly shipments in 2002. However, if the quota breakout remains as Russia has announced, U.S. bone-in poultry exports to Russia will be negatively affected. Mexico's provisional safeguard on imports of leg quarters, thighs, and drumsticks for the next 6 months is large enough to accommodate historical export levels, but will reduce potential growth that was anticipated with the elimination of all NAFTA duties and quotas in January. Mexico's provisional safeguard does not apply to imports of other poultry products.

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Brazil

Broiler meat exports in 2003 are forecast at 1.55 million tons, a 2 percent decrease from the 2002 level. The decrease in exports is mainly attributed to limited access to the Russian markets caused by Russia's introduction of a poultry import quota in 2003. Brazil was allocated only 5 percent, or 33,300 tons, of the Russian poultry import quota for the May-December period. The allocated volume is 11 percent of what Brazil exported to Russia in 2002. Major importing countries' sanitary concerns about Brazilian products will also challenge Brazil's exports in 2003.

European Union

Broiler exports are forecast to be 720,000 tons in 2003, down 15 percent from 2002. An outbreak of high pathogenic Avian Influenza in the Netherlands in early 2003 will be the largest factor in reduced exports. The Netherlands accounts for 29 percent of EU broiler exports to the world. In addition, increased competition from Brazil in Middle East markets will be a factor as well. The EU is the world's third largest broiler exporter.

Thailand

Broiler meat exports in 2003 are forecast at 480,000 tons, a 3 percent increase from the 2002 level. Thailand's further processed products exports to Japan and the EU are expected to remain strong, as those products increase Thailand's export value while minimizing importer's sanitary concerns. In 2002, Thailand's further processed cuts exports, mainly to Japan and the EU, grew faster than the growth rate seen in fresh/frozen cuts exports.

BROILER EXPORTS (000 METRIC TONS)

	2003 (F)	2002 (P)	2001	2000	1999	1998
Brazil	1,550	1,588	1,241	893	750	594
European Union	720	850	718	762	764	788
Thailand	480	465	425	328	288	274
China	400	438	489	464	375	323
Canada	80	75	69	55	47	53
Hungary	32	32	35	35	45	52
Saudi Arabia	20	20	20	16	16	21
United Arab Emirates	20	20	20	20	19	23
Australia	15	15	19	14	12	13

Argentina	14	10	6	5	3	6
Others	48	44	44	45	63	71
TOTAL FOREIGN	3,379	3,557	3,086	2,637	2,382	2,218
UNITED STATES	2,325	2,177	2,521	2,231	2,080	1,978
WORLD TOTAL	5,704	5,734	5,607	4,868	4,462	4,196

Source: FAS, official statistics and inter-agency analysis, USDA, Broiler (Ready to cook equivalent) Summary (p) preliminary (f) forecast

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TURKEY EXPORTS (000 METRIC TONS)

	2003 (F)	2002 (P)	2001	2000	1999	1998
European Union	235	285	261	248	234	209
Brazil	85	90	69	44	26	20
Hungary	32	30	24	26	25	20
Canada	15	14	14	14	10	10
Poland	13	12	12	13	15	4
Mexico	5	6	8	8	4	1
Other	-	-	1	7	6	12
TOTAL FOREIGN	385	437	389	360	320	276
UNITED STATES	213	199	221	202	172	202
WORLD TOTAL	598	636	610	562	492	478

Source: FAS, official statistics and inter-agency analysis, USDA, Turkey (Ready to cook equivalent) Summary (p) preliminary (f) forecast

KEY IMPORTERS

China

Broiler meat imports in 2003 are forecast at 400,000 tons, an almost 9 percent decrease from the 2002 level, as gains in production displace imports. China's broiler production series for 1987-2001 was revised upward to include not only western breeds but also domestic breeds as production of domestic breeds has reportedly grown to meet consumer tastes. The western breeds are predominantly used for commercial meat production. Domestic breeds, mainly yellow chicken, are multi-purpose, used for meat and egg production. Inclusion of both breeds in the supply and distribution balance sheet, more accurately measures broiler consumption in the country.

European Union

European Union broiler imports in 2003 are projected to decline 5 percent from the previous year to 390,000 tons. The EU made changes to tariff regulations on salted poultry meat in 2002, which lead to reductions in imports from Brazil and Thailand. Imports are expected to decline due to the tariff changes and shifts in consumption. The EU is the world's fourth largest broiler importer.

Hong Kong

Broiler meat imports for 2003 are forecast at 210,000 tons, nearly an 8 percent increase from the 2002 level. Increased demand for chilled chicken from China is the key factor for the gain. Hong Kong's imports from China grew to 38,000 tons in 2002, mainly whole birds, accounting for nearly 20 percent of its total broiler imports.

Japan

Broiler meat imports for 2003 are forecast at 760,000 tons, a 2 percent increase from the 2002 level. Imports of further processed product, mainly from China and Thailand, are expected to remain strong, supported by strength in the ready-to-eat food market. Japan's safeguard on beef imports, once triggered, may stimulate Japan's broiler consumption.

Mexico

Broiler meat imports in 2003 are expected to increase 4 percent from the revised 2002 import level to 275,000 tons, supported by the removal of tariff rate quotas (TRQs) and tariffs on products except leg quarters, thighs, and drumsticks. Leg quarters, thighs, and drumsticks are subject to a tariff-rate quota under a provisional safeguard. All other poultry products are imported duty free as NAFTA TRQ's and tariffs were eliminated on January 1, 2003. As a result of a U.S.- Mexico bilateral agreement, Mexico introduced a provisional safeguard measure that went into effect on January 23, 2003. The provisional safeguard establishes a tariff-rate quota of 50,000 tons at zero duty for 6 months

(ending July 23, 2003). Additional imports of leg quarters, thighs, and drumsticks during this period are subject to a 98.8 percent tariff. In the meantime, bilateral negotiations continue to develop final safeguard provisions that should be published by July 2003.

Russia

In 2003, broiler imports are forecast at 1.125 million tons, down 7 percent from the previous year. The quota does not go into effect until May 1, 2003, allowing for unlimited imports between January and April. In anticipation of the impending quota, importers have been maximizing their imports keeping private stocks filled to capacity. Russia is the world's largest broiler importer.

Saudi Arabia

Broiler meat imports in 2003 are forecast to be 185,000 tons, down 1 percent from 2002. The reduction in imports is attributed to increased domestic production and sanitary concerns over antibiotics in Brazilian broiler meat. Production is forecasted to increase 6 percent, outpacing consumption growth. Brazil, Saudi Arabia's leading supplier of broiler meat, is currently facing scrutiny from the Saudi government over a discovery of the antibiotic Nutrofuran in broiler meat.

BROILER IMPORTS (000 METRIC TONS)

	2003 (F)	2002 (P)	2001	2000	1999	1998
Russia	1,125	1,208	1,281	943	930	1,020
Japan	760	744	710	721	667	590
China	400	435	473	608	591	427
European Union	390	410	418	299	198	167
Sadudi Arabia	385	390	399	348	364	287
Mexico	275	265	242	223	190	185
Hong Kong	210	195	233	232	391	268
United Arab Emirates	140	135	123	111	117	122
Korea	98	95	83	67	47	13
Canada	80	72	73	69	62	55
Kuwait	61	60	62	53	54	45
Others	239	245	300	352	377	379
WORLD TOTAL	4,163	4,254	4,397	4,026	3,988	3,558

Source: FAS, official statistics and inter-agency analysis, USDA, Broiler (Ready to cook equivalent) Summary (p) preliminary (f) forecast

TURKEY IMPORTS (000 METRIC TONS)

	2003 (F)	2002 (P)	2001	2000	1999	1998
Mexico	160	149	156	148	134	120
Russia	75	160	164	163	161	147
European Union	65	85	86	61	44	35
South Africa	15	15	15	21	19	16
Poland	10	10	16	10	8	13
Canada	6	6	5	4	5	4
Hungary	5	5	9	3	3	7
Other	-	28	34	52	66	30
TOTAL FOREIGN	336	458	485	462	440	372
WORLD TOTAL	336	458	485	462	440	372

Source: FAS, official statistics and inter-agency analysis, USDA, Turkey (Ready to cook equivalent) Summary (p) preliminary (f) forecast

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PORK

Trade policy will dictate the tone of 2003 global pork trade. The Russian tariff rate quota (TRQ) announced on January 23, 2003, is expected to limit Russian pork imports to 630,000 tons, a 21-percent decline from the 2002 import level. Japanese import growth will slow to an estimated 1 percent as beef consumption continues to recover from BSE concerns. Mexican pork imports are forecast unchanged from 2003. The combined effect of these measures suggests greater competition among the world's leading pork exporters.

PORK PRODUCTION (000 METRIC TONS - CARCASS WEIGHT EQUIVALENT)

	2003 (F)	2002 (P)	2001	2000	1999	1998
China	44,100	43,000	41,845	40,314	40,056	38,837
European Union	17,550	17,550	17,419	17,585	18,059	17,581
Brazil	2,615	2,565	2,230	2,010	1,835	1,690
Canada	1,880	1,835	1,729	1,638	1,550	1,337
Russia	1,750	1,630	1,560	1,500	1,490	1,510
Poland	1,720	1,640	1,550	1,620	1,675	1,650
Korea	1,245	1,153	1,077	1,004	950	992
Japan	1,210	1,228	1,245	1,269	1,277	1,285
Phillipines	1,120	1,095	1,064	1,008	973	933
Mexico	1,100	1,085	1,065	1,035	994	950
Others	3,732	3,769	3,683	3,806	4,128	3,940
TOTAL FOREIGN	78,022	76,550	74,467	72,789	72,987	70,705
UNITED STATES	8,869	8,929	8,691	8,597	8,758	8,623
WORLD TOTAL	86,891	85,479	83,158	81,386	81,745	79,328

Source: FAS, official statistics and inter-agency analysis, USDA, Pork Summary
(p) preliminary (f) forecast

PORK CONSUMPTION (000 METRIC TONS - CARCASS WEIGHT EQUIVALENT)

	2003 (F)	2002 (P)	2001	2000	1999	1998
China	43,970	42,835	41,764	40,291	40,024	38,740
European Union	16,460	16,315	16,239	16,169	16,723	16,591
Russia	2,379	2,429	2,119	2,019	2,321	2,219
Japan	2,420	2,362	2,268	2,228	2,212	2,146
Brazil	2,115	1,975	1,919	1,826	1,727	1,581
Poland	1,680	1,580	1,487	1,544	1,484	1,462
Mexico	1,360	1,345	1,305	1,252	1,131	1,045
Korea	1,250	1,206	1,159	1,059	984	940
Phillipines	1,130	1,105	1,073	1,032	997	942
Canada	1,105	1,087	1,087	1,047	1,063	955
Others	4,079	4,066	3,988	4,093	4,034	3,690
TOTAL FOREIGN	77,948	76,305	74,408	72,560	72,700	70,311
UNITED STATES	8,610	8,684	8,388	8,457	8,596	8,305
WORLD TOTAL	86,558	84,989	82,796	81,017	81,296	78,616

Source: FAS, official statistics and inter-agency analysis, USDA, Broiler
(Chicken 16 weeks old) Summary (p) preliminary (f) forecast

KEY EXPORTERS

UNITED STATES

U.S. pork production is forecast to decline in the second half of 2003 as producers respond to poor profitability. Despite lower U.S. production, exports are expected to grow by almost 2 percent in 2003. The impact of the Russian TRQ will be mostly indirect, as the Russian market accounted for less than 3 percent of U.S. pork exports in 2002. Mexico's anti-dumping investigation casts a cloud on the forecast for U.S. pork exports, however, interested groups, both in the U.S. and in Mexico, appear determined to find a resolution that will preserve the successes of the NAFTA framework. Mexico accounted for 21 percent of U.S. pork exports in 2002. While trade with Mexico and Russia appears to have slowed, demand for U.S. pork in Korea is expected to remain relatively strong. Japan continues to be the largest market for U.S. pork, accounting for 48 percent of U.S. exports.

BRAZIL

After extraordinary growth in the last two years, Brazilian pork production is expected to slow in 2003, as relatively high feed costs and low pork prices are likely to trim profits for many hog producers. Brazil's exports for 2003 are forecast to contract by 15 percent from 2002 levels. Russia, which alone accounts for almost 80 percent of Brazilian pork exports, will be a very difficult market given the TRQ situation and Russia's ongoing sanitary concerns with Brazilian pork. However, Brazil is expected to actively seek alternative markets to offset any losses in Russia.

CANADA

Canadian hog inventories are still growing. The Statistics Canada estimates for January 1, 2003, show a 2.5 percent increase in the hog inventory, and a 3 percent increase in breeding stock numbers. Canadian pork exports are forecast to remain strong, growing by over 4 percent in 2003 and representing 47 percent of production. Although the United States will remain the most important destination for Canadian pork, accounting for almost 60 percent of exports, Canada is expected to increase exports to other markets as well. Exports to Australia and Korea have been increasing, and Mexico remains a major market for Canadian pork.

EUROPEAN UNION

The 2003 EU pig crop is forecast to decline slightly as the Netherlands and Belgium continue to face environmental constraints, and the United Kingdom tackles a feeder pig shortage and problems with sow infertility. While sow stocks in Germany, Denmark and France appear stable, expanding pork production in Spain is expected to largely offset declines elsewhere in the EU. The EU pork export forecast for 2003 has been revised downward to account for the impact of the Russian TRQ. Russia is the EU's second largest market, accounting for more than 15 percent of total exports. Elsewhere, the EU is forecast to remain very competitive.

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PORK EXPORTS (000 METRIC TONS - CARCASS WEIGHT EQUIVALENT)

	2003 (F)	2002 (P)	2001	2000	1999	1998

European Union	1,200	1,245	1,235	1,470	1,390	1,034
Canada	875	839	727	658	554	432
Brazil	500	590	337	163	109	105
China	200	225	139	73	75	143
Hungary	110	120	118	143	131	109
Australia	80	78	66	49	37	17
Poland	80	80	88	160	235	220
Mexico	60	60	60	59	53	49
Czech Republic	25	27	14	8	10	27
Korea	25	14	41	30	113	116
Others	7	5	6	14	23	20
TOTAL FOREIGN	3,162	3,283	2,831	2,827	2,730	2,272
UNITED STATES	746	732	708	584	580	558
WORLD TOTAL	3,908	4,015	3,539	3,411	3,310	2,830

Source: FAS, official statistics and inter-agency analysis, USDA, Pork Summary
(p) preliminary (f) forecast

KEY IMPORTERS

UNITED STATES

U.S. pork imports in 2002 grew nearly 13 percent from 2001 levels. For 2003, pork imports are forecast at 490,000 tons, up less than 1 percent from 2002. Canada continues to be the most dominant foreign supplier, accounting for about 80 percent of U.S. pork imports. The U.S. and Canadian markets are also increasingly integrated in the movement of live animals. In 2003, the U.S. is expected to import close to 5.8 million live hogs, an estimated 69 percent of which will be feeder pigs. The EU is still in the process of regaining some of its pre-FMD share of the U.S. pork market. The Country-of-Origin-Labeling (COOL) provision, mandated under the U.S. Farm Security and Rural Investment Act of 2002, has been causing concerns among U.S. trading partners.

HONG KONG

Pork imports for 2003 are forecast at a record 280,000 tons, up 2 percent from the 2002 level. A sluggish economy, higher unemployment rate, and a recurrence of an avian disease outbreak in Hong Kong are causing consumers to switch to pork from other meats. In addition, consumer preferences are changing from freshly slaughtered meats to chilled/frozen meats due to gradual changes in eating habits and concern over sanitary conditions in the wet market. Pork imports from China continue to increase as the Chinese government now allows more than one agent to market its meat in Hong Kong. In 2002, China, Brazil and the EU were Hong Kong's main pork suppliers.

JAPAN

Pork production has been steadily declining due to the shrinking number of swine producers. Between 1992 and 2001, the number of hog producers dropped 33 percent. During the same time frame, as pork production fell 13 percent, consumption grew by almost 9 percent. For 2003, imports are forecast to increase by about 1 percent. The imposition of a safeguard tariff in August 2002, lasting through March 31, 2003, seems to be having little effect. In 2002, pork imports grew by more than 8 percent over the previous year. The safeguard raises the minimum price at which foreign pork can be imported into Japan, making imported pork less competitive vis-a-vis domestic products. Although the safeguard typically lowers demand for all imported pork, demand for frozen products tends to decline the most. Under the safeguard, imported fresh pork, which typically benefits from larger profit margins, but has a more limited shelf life, continues to be in relatively high demand. The United States is the largest foreign supplier to the Japanese market, followed closely by Denmark, Canada and

Mexico.

MEXICO

After a record year in 2002, Mexican pork imports are expected to remain level in 2003. NAFTA provisions eliminated import tariffs and TRQs on pork on January 1, 2003, but mounting pressure from Mexican hog farmers triggered an anti-dumping investigation on U.S. pork. Despite lingering uncertainty over the final outcome, producers on both sides are working toward an amicable resolution. The U.S. accounted for 84 percent of Mexican imports in 2002. Canada and Chile supplied the balance. Prior to January 1, 2003, Canada had been constrained by a NAFTA TRQ level much lower than the one facing the United States. With the elimination of TRQs, Canada is expected to become more competitive in the Mexican market.

RUSSIA

Russia has introduced a 450,000-ton TRQ for pork under HS code 0203 (fresh and frozen pork). The intended aim of the TRQ is to boost Russia's domestic production, decreasing its dependence on pork imports. Production is expected to increase 7 percent in 2003. Under the TRQ, the 2003 forecast estimates a 21-percent reduction in total pork imports. While not country specific, the TRQ is expected to mostly affect the largest exporters to the Russian market: Brazil, the EU and, to a lesser extent, China. In 2002, Russia imported 800,000 tons, an estimated 33 percent of total pork consumption.

PORK IMPORTS (000 METRIC TONS - CARCASS WEIGHT EQUIVALENT)

	2003 (F)	2002 (P)	2001	2000	1999	1998
Japan	1,175	1,162	1,068	995	919	777
Russia	630	800	560	520	832	710
Mexico	320	320	300	276	190	144
Hong Kong	280	274	260	247	217	207
Korea	170	160	123	174	156	66
Canada	100	92	91	68	65	64
China	70	60	58	50	43	46
Australia	60	60	38	45	28	10
European Union	60	60	55	54	54	44
Romania	55	55	46	29	27	53
Other	187	194	169	225	254	220
TOTAL FOREIGN	3,107	3,237	2,768	2,683	2,785	2,341
UNITED STATES	490	486	431	439	375	320
WORLD TOTAL	3,597	3,723	3,199	3,122	3,160	2,661

Source: FAS, official statistics and inter-agency analysis, USDA, Pork Summary
(p) preliminary (f) forecast

SEASONAL NATURE OF BUSINESS

Chicken and pork. Not seasonal in nature.

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

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

RAW MATERIALS

The Company owns eight animal feed plants with an installed capacity of 3.8 million tons per year, a volume sufficient to supply all the animal feed requirements of its breeding operations. The basic raw materials used in animal feed production are corn and soybeans, in a mix that contains preservatives and micronutrients. Sadia supplies the basic animal feed to its outgrowers and sells the remainder on the spot market.

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

The Company uses beef acquired on the market in its production of frozen and refrigerated processed products, and boiled beef parts. Other inputs, such as prepared animal intestines (for casing), seasonings and other ingredients, cardboard boxes, plastic bags (for packaging and labels), and veterinary medicines (for poultry and hog breeding), are acquired from many different sources, both at home and abroad.

MARKETING

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

Approximately 58% of the Company's marketing budget is spent on television advertising, 30% on promotions and merchandising, 3% on market research and 9% in other activities. The Company incurred marketing costs of R$82,154, R$90,519 and R$61,797, during the years ended December 31, 2002, 2001 and 2000, respectively.

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

Business Strategy

Sadia's strategy for maintaining its leadership in the Brazilian food market and winning share in the international market is to capitalize on the Company's competitive advantages in its principal segments of operation, and to concentrate on:

o Developing and introducing value-added products: The Company has, and intends to continue to, invest substantial resources in maintaining and enhancing its share of the Brazilian domestic processed products, while expanding poultry sales, through value-added products, mainly to export.

o Promoting the "Sadia" brand: The Company is undertaking consistent marketing initiatives that emphasize the quality of its products;

o Achieving economies of scale through further integration of the activities of the Company: The Company has focused on improving efficiency and reducing distribution costs by modernizing its distribution centers, implementing an enhanced logistic information system and a distribution routing system and automating/optimizing its sales branch management; and

o Exports: The Company is increasing exports while changing product mix to more value-added products.

Logistics

One of the main competitive advantages of Sadia in Brazil is its logistics system and distribution channels. The Company has been taking many initiatives to keep sustaining its leadership on this subject, which includes partnerships, information technology investments and the development of new procedures.

Distribution

The Company has distribution and sales centers within Brazil and three sales offices in Latin American countries (Argentina, Uruguay and Chile), as well as an exclusive distributor in Paraguay and Bolivia, and three representative offices outside Latin America (Milan, Tokyo, Worcester, Dubai and England).

Within the Brazilian market, Sadia sells its finished products to wholesale and retail outlets, as well as to institutional clients. For the year ended December 31, 2002, the Company sold through 330,000 points of sale throughout Brazil. The Company's ten largest clients in the domestic market accounted for 14% of its total sales during this period.

Sadia's distribution strategy is supported by direct sales to customers, thereby avoiding concentration among a few large customers.

In 2002, 63% of exports were sold to approximately 10 long-standing customers. All of these customers have imported increasing quantities of the Company's products over the last ten years. Sadia's group of importers has been changing since 2000. European countries corresponded to 30% of exports sales in 2002 against 22% in 1999, partly as a consequence of a consistent strategic marketing campaign and in part due to a distribution partnership made with SunValley, a British food processing company, which is responsible for the distribution of Sadia's products in eastern European countries. Exports to emerging markets, such as Russia and other former Soviet Union countries, had also been growing consistently, mainly due to pork exports, representing 25% of total exports in 2002 against 18% in 2001. South America represented 3% in 2002 against 4% in 2001, mainly due to the situation of the Argentinean market.

Transport

Sadia uses trucks as the primary method of distributing its products in Brazil.

The Company's distribution system is handled by a network of approximately 1,500 hired vehicles, which service customers directly throughout Brazil. The only exception to this is the transport of grain, for which the Company uses trains and waterways. Exports are shipped by sea except within Mercosur countries, where they are transported by truck.

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

Shipment of Exports

The Company ships 80% of its exports through the port of Paranagua, in the State of Parana, with the remainder loaded at the ports of Sao Francisco do Sul and Itajai, both in the State of Santa Catarina.

In the port of Paranagua, the Company has two refrigerated warehouses with a storage capacity of aproximately 10,000 tons. These warehouses have a "drive in" storage system and only operate with palleted cargoes. This system allows the warehouses to receive 1,000 tons of products per day and to load 2,000 tons per day onto pallets.

Since one of the warehouses is located in the wharf area, the Company has priority in the mooring of ships arriving at the port of Paranagua, thereby avoiding possible cost increases due to delays in loading cargo.

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

MARKET SHARE

Sadia is the Brazilian leader in frozen and refrigerated processed products, as based on ACNielsen's surveys. Its market position is supported by significant investments in its brand, its distribution channels and in quality control.

Ranking in Brazil - 2002

	Position	Market Share	Source
Frozen Processed Products	1st	45%	NIELSEN*
Refrigerated Processed Products	1st	30%	NIELSEN*
Margarine	2nd	28%	NIELSEN*

* by revenue

In order to maintain its market share, the Company will continue to concentrate on launches of higher value-added products. In 2002, Sadia launched 56 products, against 65 products in 2001 and 89 products in 2000.

Processed Products

Sadia is the domestic leader in processed products (according to ACNielsen), with a 45% market share of frozen products and a 30% share of refrigerated products.

Sadia is the second largest domestic producer of margarine, according to ACNielsen, with a market share of 28% in 2002.

Brazilian Margarine Market

BRAZIL	2002	2001	2000	1999	1998
Value (US$ `000)	363,157	352,554	419,016	447,556	618,404
Change %	3.0%	(15.9%)	(6.4%)	(27.6%)	0.5%
Volume (Tons)	262,527	249,035	245,466	242,775	239,361
Change %	5.4%	1.5%	1.1%	1.4%	1.5%

Source: Nielsen

Poultry

In 2002, the Company had 13.0% share of domestic chicken production, and 23% share of the Brazilian poultry export market. Sadia introduced turkey production to the Brazilian market in 1973, when its consumption was virtually non-existent. There is no independent institute or agency that measures the market share for turkey or turkey-based products in Brazil.

Brazil is a competitor in the international poultry market, ranking as the second largest exporter in 2002 (according to FAS statistics), with exports around 1,588 thousand tons. Competitive advantages such as raw materials, climate and the local labor force are responsible for its performance.

Pork

Approximately 70% of Sadia's pork production is used in its processed products segment. The remainder is sold as fresh meat cuts in the domestic and international markets. According to the Brazilian Pork Producers Association, in 2002, the Company had 40% share of domestic pork production, and 17.6% share of the Brazilian pork export market.

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Investments in Operations

In 2002, Sadia invested R$ 112.1 million in operations - 8.3% more than in 2001. Of this amount, 39.9% was allocated to processed products, 30.9% to poultry, 14.7% to pork, and 14.5% in the administrative area . These resources allowed the Company to launch 56 products - 15 of them within new product lines and 41 within existing ones. In 2001, Sadia invested R$ 103.5 million in operations - 33.5% less than in 2000, 17.4% of which was directed towards processed products, 25.2% to poultry, 7.8% to pork, and 49.6% in other activities.

Environment

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

Sadia, as a producer of foodstuffs using a wide range of industrial processes - especially its meat product lines which require slaughter of animals - is therefore subject to compliance with all of the legal requirements, covering environmental risks that are customary in these processes, such as rules governing treatment of liquid effluents, solid organic waste, particulate suspension and odors. The Company is careful to respect the environment at all stages of the production chain, including its activities in the field, the design of packaging (developed with a view to reducing the quantity of raw materials used) and adapting the same to recycling processes. In addition to simply treating residues, Sadia invests in minimizing the generation of these by optimizing processes and adopting stringent procedures for controlling the emission of wastes and effluents. Sadia's expenditures related to meeting environmental requirements and in process optimization amounted to R$ 3.7 million in 2002(R$ 8.5 million in 2001 and R$ 6.5 million in 2000). In 1999, Sadia received the CNI Ecology Award, granted by the National Confederation of Industry, in the Protection of Water Resource category. The Chapeco industrial facility received ISO-14001 certification - recognized by the BVQI (Bureau Veritas Qualite Internationale). With this certification, the Chapeco unit became the first slaughterhouse facility to achieve this certificate, which attests to the conformity of environmental management systems to the ecosystem in which it operates. Conformity to the norms of the ISO-14001 assures a world recognized certification and acts as a guarantee of environmental quality which is required by many countries as a prerequisite for trade relations.

In 2000 the Toledo - PR unit was awarded the Parana Environmental Prize, from the Parana State Government, as a result of its initiatives on water resources.

The Company's "Economically Sustainable Technologies for the Reduction of Potential Pollution by Meat Processing Industries" project, implemented in Concordia (State of Santa Catarina), received the "Expression of Ecology" award in the Industrial Pollution Control category. The Company's "Liquid Hog Wastes Treatment Program" at the Faxinal dos Guedes unit (State of Santa Catarina) won the "Top de Ecologia de 1998" award by ADVB, and the Fritz Muller trophy, awarded by the Santa Catarina Environmental Foundation (FATMA).

Lastly, in October 1999 Sadia became the first slaughterhouse-meat refrigeration plant in Brazil to obtain the ISO 14001 certificate--an international standard governing the performance of companies in the environment and within the concept of sustainable development, when its unit in Chapeco, State of Santa Catarina, specializing in the slaughter of chickens, turkeys and in the production of products based on poultry, was endorsed by the BVQI-Bureau Veritas Qualite International, based in Switzerland.

Human Resources

The Company ended 2002 with 32,184 employees, as compared with 30,371 at the end of 2001. Gross Operating Revenue per employee was R$ 145,700 ,an increase of 11.3% when compared to 2001.

Human development activities concentrate on elementary educational background and technical training. In the field of safety, Sadia has developed and begun to implement a program for awareness and prevention of workplace accidents. The number of accidents with lost time because of injury, which had a strong downward trend since 1996, fell from 290 in 2001 to 246 in 2002.

The Company distributes 5% of its operating earnings to all employees with at least one year of service, excluding equity accounting adjustments, income tax and social contributions. In 2002, the amount corresponded to R$ 24.7 million, with premiums of a minimum of 85.8% of the salary of each employee, for profit sharing handed bonus for good departmental performance.

In April 2000, the Company's Board of Directors approved a stock award plan for the Directors of the Company. Under the plan, Directors will receive 5%, and may elect to receive an additional 5% or 10%, of their annual bonus in shares of Preferred Stock based on the market price of the stock at the date the bonus is paid. Based on the number of Preferred Shares a Director receives, the Director will be entitled to a cash payment equal to any increase in the market value of the Preferred Shares as of March 10 of the third year following the bonus payment, provided that the Director still holds the preferred stock and is still a Director of the Company.

The Company believes it maintains satisfactory relations with its employees, and there have been no strikes or significant labor disputes in recent years. Current collective bargaining agreements have a term of one year, and are negotiated between the Company and workers' unions, with such agreements negotiated separately for each industrial unit. The agreement reached with the local or regional union applies to the employees of a given unit, whether they are members of the union or not.

Employee Benefits

Sadia contributes with 0.75% of its payroll to the Attilio Fontana Foundation (`FAF'), a private pension fund. Employees contribute with 1.5% of their payroll

One of the ten largest employers in Brazil, the Company spent R$ 73.2 million on benefits during 2002, consisting of meals served, medical assistance, maintenance of day care centers, life insurance and transportation expenses.

Total Quality Program

The Company maintains a quality control program, called "Total Quality Management" (TQM). The TQM program's objectives are: (i) to ensure high standards of quality by implementing a rigorous inspection program of raw materials and finished products; (ii) to ensure that Company executives stay informed of product and service performance; and (iii) to achieve the highest possible level of customer satisfaction.

Sadia's Central Laboratory is responsible for inspecting the Company's products, and develops and implements new methods for examining food materials for chemical and biological contamination. It also examines raw materials used in developing products. The Laboratory also controls the environment of plants, as well as water and wastewater treatment facilities.

The Company has a series of toll-free lines, and encourages customers to use these in order to provide feedback on its products and services, which is passed to the Company's commercial area. This procedure provides Sadia with the information that it requires in order to correct or improve its quality control process.

BRAZILIAN FOOD SECTOR REGULATION

Sadia's activities are regulated by the Brazilian Minister of Agriculture, more specifically, by the SDA - Secretaria de Defesa Agropecuaria (Agricultural and Cattle Breeding Defense Secretary) under the DIPOA sector (Animal Products Inspection Department). The latter is responsible for the issuance of regulations, conduct of inspections and legal support in respect to the livestock, animal breeding, food processing and any other activity involving animal related affairs in the Brazilian territory.

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C. ORGANIZATIONAL STRUCTURE

OWNERSHIP

The Company's most liquid shares are non-voting (Preferred Shares), and 20.8% (December 2002) of these are owned by foreign investors. The Company has no current plans to change its ownership structure.

On December 31, 2002, the Company's share capital consisted of 257,000,000 Common Shares and 426,000,000 Preferred Shares. Of the two types of shares traded in the market, only Common Shares carry voting rights. Under the terms of the Company's By-laws, however, specific rights attach to the non-voting Preferred Shares. In accordance with Brazilian law, a company is entitled to purchase up to 10% (ten percent) of its own stock traded on Brazilian stock exchanges. See "Item 7. Major Shareholders and Related Party Transactions" and Item 4.A above for organizational chart, for more information.

D. PROPERTY, PLANTS AND EQUIPMENT

In 2002, the Company has operated 12 industrial plants, which include seven units for poultry production, five units for pork, eight units for animal feed, two units for crushing of soybeans and nine units for processed products. The Company has 15 distribution and commercial centers and nine representative offices and distribution centers abroad.

OPERATING UNITS

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

STATE	CITY	ADDRESS	PRINCIPAL ACTIVITY
MG	Uberlandia	Av. dos Eucaliptos, 800	Raising and slaughtering chickens, turkeys and hogs, processed products and animal feed
MT	Varzea Grande/ Campo Verde	Alameda Julio Muller, 1850 - Cristo Rei	Raising and slaughtering chickens, processed products and animal feed
PR	Dois Vizinhos	Rua Sen. Attilio Fontana, 2323	Raising and slaughtering chickens; animal feed and crushing of soybean.
PR	Francisco Beltrao	Avenida Attilio Fontana, s/n(0), Km 4	Raising and slaughtering chickens and turkeys and animal feed
PR	Toledo	Av. Senador Atilio Fontana, 1191	Raising and slaughtering chickens and hogs; processed products; animal feed and soy oil
PR	Ponta Grossa	Rua Leopoldo Froes, 1000	Raising and slaughtering hogs; pizzas and pasta
PR	Paranagua	Av. Senador Attilio	Margarine

		Fontana, 1501 -- Colonia Santa Rita	
RJ	Duque de Caxias	Estr. Venancio PereiraVeloso, 1479	Processed products
RS	Tres Passos	Rua Jose Bonifacio, 300	Raising and slaughtering hogs and animal feed
SC	Chapeco	Av. Sen. Attilio Fontana, 3600	Raising and slaughtering chickens and turkeys, animal feed and processed products
SC	Concordia	Rua Senador Attilio Fontana, 86	Raising and slaughtering chickens and hogs, processed products and animal feed
SP	Sao Paulo	Rua Fortunato Ferraz, 365	Processed products

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Distribution and Commercial Centers

The table below lists Sadia's Distribution and Commercial Centers and the corresponding region of activity:

STATE	CITY	ADDRESS	REGION OF ACTIVITY
AM	Manaus	Bairro Chapada - Manaus - AM CEP: 69050-010	Brazil North Region
BA	Salvador	Granjas Rurais Presidente Vargas, s/n(degree)- Km 5,5, Trevo 324 Bairro Campinas de Piraja CEP: 41290-000	Brazil Northeast Region
CE	Fortaleza	Anel Viario de Fortaleza, km 8,2, Pajucara, Maracanau	Brazil Northeast Region
DF	Brasilia	SIA 33 - lote 150/200 CEP: 71200-030	Brazil Federal District
MG	Belo Horizonte	Rua das Canarias, 223 - Bairro Jardim Atlantico CEP: 31560-050	Brazil Southeast Region
MS	Campo Grande	Rod. BR 163, km 04, n(degree)6689 - Cidade Morena - Zona Rural, CEP: 79064-000	Brazil Central region
MT	Cuiaba	Alameda Julio Muller, 1650 Bairro Porto Velho - Varzea Grande	Brazil Central States
PA	Belem	Rua dos Pariquis, 2999 - Cremacao - Belem	Brazil North Region
PE	Recife	Av. Vinte de Janeiro, 958- Bairro Boa Viagem	Brazil Northeast Region
PR	Curitiba	Rua Carneiro Lobo, 468 - 4(0)andar Batel - CEP: 80240-240	Brazil South Region
RJ	Rio de Janeiro	Av. Dona Tereza Cristina, 1478 Bairro Capivari - Duque de Caxias - RJ CEP: 25243-620	Brazil Southeast Region

RS	Porto Alegre	Rua Paul Zivi, 400 Bairro Jardim, Sao Pedro - CEP: 91040-240	Brazil South Region
SC	Itajai	Rua Otto Hoier, 134 Sao Vicente - CEP: 88308-100	Brazil South Region
SP	Sao Paulo	Rua Fortunato Ferraz, 529/659 -- Terreo Bairro Vila Anastacio	Brazil Southeast Region
SP	Jundiai	Av. Jose Benatti, s/no, Gleba 3 CEP: 013213-085 - Jundiai, SP	Brazil Southeast Region and Sao Paulo State Region

Environmental issues affecting the company's activities

As a poultry and hog livestock and slaughtering company, Sadia's activity impacts on environmental issues, especially related to water resources pollution, animal treatment and deforestation. However, the Company takes all measures to comply with the Brazilian environmental regulations. All its units have water resources treatment facilities to avoid the contamination of water-tables and rivers near the units. The Company also strictly supervises the

activities taken by the poultry and hog outgrowers. Finally, all firewood for consumption is provided by self- sufficient legal reserves.

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

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

Through December 31, 1997 the Company's consolidated financial Statements were prepared on a fully indexed basis to recognize the effects of changes in the purchasing power of the Brazilian currency. In July 1997 the three-year cumulative inflation rate for Brazil fell below 100%. However, for accounting purposes, the constant currency method continued to be used through December 31, 1997. The restated balances of non monetary assets and liabilities of the Company as of December 31, 1997 became the new basis for accounting and the financial statement items are no longer restated for inflation beginning January 1, 1998.

COMPANY-RELATED FACTORS

As part of its Strategic Plan, which focuses on higher added-value products (processed products) together with the simplification of its administrative and corporate structure and the improvement of tax efficiencies, Sadia has implemented the following measures:

Grains and by-products

Sadia has some activities related to the segment of grains and by-products currently consisting on the crushing of soy to obtain the meal used as a raw material in the production of feed for the Company's own stock and that of the integrated producers, and refining of crude oil resulting from crushing for margarine production.

Corporate Reorganization

In July 1998, Sadia Concordia S.A. was merged into Sadia Frigobras S.A., and changed its name, so that all of the operational activities of the organization were consolidated into a single public company: Sadia S.A. The initiative resulted from a gradual process of corporate reorganization with a view to simplifying its structure and improving economies of scale, through the reduction of administrative and tax costs.

This initiative resulted in a reduction of 810 employees and dismissal costs of R$4.0 million, which were recognized in the 1998 financial Statements of which R$ 2.8 million was included in selling expenses and R$ 1.2 million was included in general and administrative expenses.

Logistics

In 1998, the transport of products from the distribution and sales centers to clients was totally outsourced.

The Company disposed of the trucks related to this activity, and a further 1,250 jobs were eliminated at a cost of R$5.0 million, recognized in the 1998 financial Statements which was included in selling expenses.

Sales

In 1998 Sadia invested R$3.5 million in the reorganization of its sales department. In order to achieve this, the Company adapted its sales structure and commercial policies to the large chain, wholesale (cash and carry), regional mid-size clients, traditional retail (small retail), institutional and distributor channels. The sales force was unified in a single management group, making it possible for the big retail chains to be serviced by an account manager, with the support of coordinators, promoters and restockers, starting a move toward concentration on retail sales in 1999.

For medium and small retailers, the Company instituted telemarketing service, which complements the market work of the sales force. Sadia's field team became more productive, balancing the reduction in number of clients serviced and a reduction in salesmen with an increase in the client portfolio for each salesman, and a minimum weekly order.

For this client service format, Sadia stopped servicing some 23,000 clients, or approximately 25% of the least profitable active clients, without suffering a decline in revenue. With the reorganization of its sales force, Sadia estimates it achieved savings of R$17.4 million in 1999, principally through the reduction of fixed costs (salaries and related costs and other costs associated with the sales force) and sales commissions, and the number of employees in this area dropped from 782 to 575, with lay-off costs of R$ 1.0 million, already recognized in the 1998 financial Statements which was included in selling expenses.

Organizational Structure

In 2000, the Company organized its activities in three macro processes so as to create demand, to reach demand and manage the Corporation, in order to simplify structures and achieve higher efficiency in the decision-making process, aiming at a stronger synergy with the Marketing and International areas. Implemented in the second half of 2000, this change has already had a positive impact on the mix of products traded in the domestic market, hence increasing profitability.

INVESTMENTS

Granja Rezende

On December 28, 1999 Sadia acquired the capital stock of Granja Rezende S.A. for R$137.3 million, consisting of cash of R$55.3 million and the issuance of R$ 82.0 million notes payable. Granja Rezende is a food producer located in the strategic Mid-West region of Brazil, in the city of Uberlandia, Minas Gerais State. Granja Rezende's results from operations were consolidated with Sadia's figures from the date of acquisition. At the date of acquisition, Granja Rezende's plant consisted of a processed products manufacturing unit, a chicken slaughterhouse, a hog slaughterhouse, poultry and hog breeding farms and hatcheries. Granja Rezende's annual capacity was: slaughtering of 30 million head of poultry and 245,000 hogs, production of 97,200 tons of processed products, besides its production of eggs, one-day-chicks for sale and animal feed. With this acquisition, Sadia expanded its capacity by 7% in the case of poultry slaughtering, by 9% in hog slaughtering, and by 21% in processed products production, considering its production capacity at the date of the acquisition.

The acquisition was made due to some important regional characteristics: the strategic location in the central region of Brazil close to the suppliers of the main inputs for poultry and pig farming, the close proximity to the major consuming centers, a favorable climate for production and a well organized infrastructure of transport, energy, water, communications and skilled labor. Additionally, the region is served by a road-rail network and multipurpose cargo terminal combining air, land and river transport (the Tiete-Parana waterway) linking the city to the principal markets of Brazil, Mercosur and the world.

Immediately following the acquisition of Granja Rezende, the Company decided to sell Granja Rezende's soybean crushing and oil manufacturing plant, which was not then in operation as well as its administrative complex. At December 31, 1999 these assets were carried at fair value less cost to sell as determined in the Granja Rezende purchase price allocation and were classified as assets available for sale. On March 22, 2000 the Company sold the soybean crushing and oil manufacturing plant for net proceeds of R$ 30.8 million which were equal to the carrying value of the assets.

On August 30, 2002 the Company and Granja Rezende merged. Sadia is still producing products under the Rezende brand in other units and is also producing Sadia's products in the Granja Rezende unit. The former denominated Granja Rezende's activities are now referred to as Uberlandia Unit.

Miss Daisy

During 1999, Sadia acquired 100% of the capital of Miss Daisy. The total investment amounted to approximately R$ 3.0 million and represents the Company's entry in a new processed product - frozen desserts.

Lapa Alimentos

During 2000, the investment in Lapa Alimentos S.A. ("Lapa"), a 50 percent owned investee, accounted for on the equity method, was terminated. Property, plant and equipment received from Lapa were valued at estimated fair value less cost to sell and classified as assets available for sale at year end. Sadia did not receive dividends from Lapa in 2000, 1999 and 1998. During 2001 a portion of Lapa Alimentos' assets was sold at a gain of R$ 0.5 million.

Investment Plans

The Company's investment plan for the year 2003 totals R$ 132.5 million. Of this amount, the processed products segment will receive R$ 103.8 million, directed improvements on processing equipment, Marketing, logistics and distribution will receive R$ 13.2 million, Information Technology R$ 13.3 million and other corporate departments are going to have R$ 2.2 million on investments. The Company expects to fund its investment plan with available cash flow generated from operations.

Enterprise Resource Planning

The principal objective for the installation of the SAP R/3 at Sadia was to execute on an integrated basis all the Company's management processes and thus provide the information required for the control and support needed in decision making at all levels of the organization. SAP/R3 is an integrated enterprise resource system software that is being implanted at Sadia by Systemanalyse an Programmentwicklung AG, a German company which develops ERP (Enterprise Resource Planning) solutions.

The process involves the complete upgrading of the Company's computer network, which links the Group units through data communication networks via satellite or dedicated telephone lines and enables 84% of all the functions essential to the businesses to access the company information system in respect of sales, production, procurement and financial control activities. The project began in March 1998 and was concluded by December 2001, at a total cost of approximately R$ 135 million.

All of Sadia's units are operating all system modules: Finance (FI), Control (CO), Asset Management (AM), Production Planning (PP), Sales and Distribution (SD), Materials Management (MM), covering the processes of sales, production (including the farm production of poultry and pork), logistics, management of materials and control.

COMPANY'S OPERATIONS AND MARKET OVERVIEW

The Company's operations are organized into three segments: "Processed Products" (frozen and refrigerated products and margarines), "Poultry" (chickens and turkeys) and "Pork".

Of the Company's total gross operating revenue in 2002, 45% was derived from the processed products segment, poultry 38% and pork 11%, and 6% from other activities, such as the grain and by-products segment, hog and poultry breeding, boiled beef parts, and resale of products.

The Brazilian market has shown a trend towards concentration as structural transformations and economic stabilization consolidate themselves. By way of example, the reduction in transport costs and in taxation tend to reduce the competitive advantages of regional and/or informal companies, as does the greater preference of consumers for quality rather than price, following the reduction of income inequalities.

The six largest companies in the Brazilian poultry sector account for around 42% of total Brazillian production, while in the case of pork, the three largest companies account for 50.6%, according to Abipecs (www.abipecs.com.br). As a result of the low capital and technology barriers to entry, there has been a proliferation of independent producers that are able to offer unprocessed products at low prices since they operate on an informal basis and reportedly do not pay taxes. In the frozen and refrigerated product segments, concentration is greater, with the two largest producers accounting for 80.3% and 56.0% of the markets respectively. At times of economic deceleration, predatory competition in the non-processed meat segment also tends to affect the refrigerated meat segment.

The growth potential of the Brazilian market, and its low input costs are attractive to international entrants. The main barrier to such companies has nevertheless been the need to build a wide-ranging refrigerated distribution chain, and a network of integrated producers. The prices of the sector's principal raw materials, corn and soybeans, are strongly influenced mainly by climate conditions. As the Company acts as a relevant player in the local grain market - Sadia is one of the largest corn and soybean consumer's of the country - the bargain power that it has towards agricultural producers and it's storage capacity gives a positive advantage to the Company when negotiating prices and amounts.

COSTS AND OPERATING EXPENSES

The Company's principal costs of production are incurred in Real and consist of grains (Corn and Soybeans), packaging, labor and depreciation costs. The Company operates with an average idle capacity of 18% in processed products lines but can be at full capacity depending on the market demand. Due to the flexibility in production lines and to the diversity of the equiment present in the Company's 12 plants, production can be adapted and reformulated, depending on the Company's needs to face a determined segment demand.

Corn

During several years, Brazil's corn prices used to be determined only by domestic supply, production was mainly given in relatively small properties and had a low level of mechanization. However, during 2002, due to the Real depreciation and the increased organization of local producers, part of their crop has shifted to the international market. As a consequence, Brazilian corn prices went up to adjust to international prices.

In Brazil, there are around 20 different regions, where buyers can bid for the product. Corn prices tend to be influenced by local supply, but international prices can influence local quotations.

[GRAPHIC OMITTED]

Source: Sadia S/A

Soybeans

Soy producers in Brazil have been increasing their productivity during the last several years and Brazil has become the second largest producer in the world.

Soy production is totally mechanized and grains are cultivated on large properties. Producers are well organized and production is geared to the export market. Production is also spread over several regions among the southern, southeastern and central region of the country, and prices are regionally given by local supply. However, international prices tend to influence local prices when foreign demand and supply are imbalanced.

The following chart sets forth Sadia's average monthly buying price of soybeans for the period between January, 1998

and March 31, 2003:

[GRAPHIC OMITTED]

Source: Sadia S/A

DISCUSSION ON CRITICAL ACCOUNTING POLICIES

Critical accounting policies are those that are considered important, complex or subjective by the Company's management to the understanding of the Company's financial condition and results, as well as estimates about the effect of matters that are uncertain. To provide an accurate understanding about how the Company's management interprets these variables, considering future events, the next paragraphs will present and discuss these critical accounting policies:

Investments in Debt Securities

In determinating if and when a decline in market value below amortized cost is other-than-temporary, management evaluates the market conditions, offering prices and other key measures for the investments in debt securities. When such a decline in value is deemed to be other-than-temporary, an impairment loss is recognized in the operating results to the extent of the decline.

Valuation of accounts receivable

The allowance for doubtful accounts is calculated based on estimated losses in an amount considered sufficient to cover possible losses on receivables of difficult collection, for overdue invoices over days and in amounts management considers sufficient to cover any probable losses on realization of the Company's accounts receivable from customers and is included under selling expenses.

Inventory

On December 31, 2002, the Company's inventory amounted to R$ 860.6 million, with an average turnover of 103 days (101 days in 2001). The main reasons for the variance were the the growth on the breeding flocks due to expected higher demand which increased livestock and poultry to R$ 413.9 (R$ 274.1million in 2001).

The Company updates its inventories on a monthly basis due to the large number of items that are maintained. Grain inventories policies involves anticipated purchases on an average of 100 days with the objective of reducing commodity market impacts on costs. Inventories are stated at lower of cost or market using the average cost method.

Contingencies

The Company is party to certain legal proceedings arising in the normal course of business, and has made provisions when it believes that it can reasonably estimate probable losses. The Company believes that the provisions made are sufficient to cover probable losses and does not believe there is a reasonable possibility of any material losses in excess of the amounts provided. In connection with some of these proceedings the Company has made judicial deposits, which will only be released upon a favorable judgment. For more information on the details of the Company's pending legal proceedings, see Note 13 of the Company's consolidated financial Statements and Item 8 "Financial Information".

Deferred Tax Assets

As of December 31, 2002, the Company had approximately R$160.0 million of net deferred tax assets. Loss carryforwards have no expiration date and are available to offset up to 30% of future taxable income in any given year. At December 31, 2002, the Company had loss carryforwards of R$121.4 for income tax and R$136.2 for social contribution tax.

The realization of these assets is based upon estimates of future taxable income. In preparing estimates of future taxable income, the Company used the same assumptions and projections used in its internal 3-year forecasts. Based on these projections, the Company estimates that the loss carryforwards will be fully utilized within 3 years. For more information see Note 15 of the Company's Consolidated Financial Statements.

PENSION PLAN

The Company accounts for its defined benefit pension plans in accordance with SFAS No. 87, which requires that amounts recognized in financial Statements be determined on an actuarial basis. A substantial portion of the Company's pension amounts relate to its defined benefit plan. SFAS No. 87 and the policies used by the Company, notably the use of a calculated value of plan assets (which is further described below), generally reduced the volatility of pension income (expense) from changes in pension liability discount rates and the performance of the pension plan's assets.

The most significant element in determining the Company's pension income (expense) in accordance with SFAS No. 87 is the expected return on plan assets. The company has assumed that the expected long-term rate of return on plan assets will be 12.4%.The assumed long-term rate of return on assets is applied to a calculated value of plan assets, which recognizes changes in the fair value of plan assets in a systematic manner over every year. This produces the expected return on plan assets that is included in pension income (expense). The difference between this expected return and the actual return on plan assets is deferred. The net deferral of past asset gains (losses) affects the calculated value of plan assets and, ultimately, future pension income (expense).

At the end of each year, the Company determines the discount rate to be used to discount plan liabilities. The discount rate reflects the current rate at which the pension liabilities could be effectively settled at the end of the year. The

Company considers a conservative position to estimate this rate, based on future expected salary increases and life expectancy of participants. At December 31, 2002, the Company determined this rate to be 11.3%.

At December 31, 2002, the Company's consolidated prepaid pension asset was R$ 19.0 million up from R$12.7 million at the end of 2001. The increase was principally due to a higher interest rate applied over plan assets than the estimated rate. The Company currently expects that consolidated pension expense for 2003 will not be materially different as accrued in 2002. Plan assets at December 31, 2002, included 24,998,558 common shares and 12,566,000 preferred shares of the Company (24,998,558 common shares and 14,166,000 preferred shares at December 31, 2001) with an aggregate fair value of R$ 57,140. Dividends paid by the Company on shares held by the plan were R$ 3,473 million for the year ended December 31, 2002.

Recently Issued Accounting Standards

In August 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations." This statement requires the Company to recognize the fair value of a liability associated with the cost the Company would be obligated to incur in order to retire an asset at some point in the future. The liability would be recognized in the period in which it is incurred and can be reasonably estimated. The standard is effective for fiscal years beginning after June 15, 2002. The Company expects to adopt this standard at the beginning of its fiscal 2003. The Company believes the adoption of SFAS No. 143 will not have a material impact on its financial position or results of operations.

In July 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." SFAS No. 146 addresses financial accounting and reporting for costs associated with exit or disposal activities and replaces EITF Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." SFAS No. 146 requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred. SFAS No. 146 also establishes that fair value is the objective for initial measurement of the liability. The statement is effective for exit or disposal activities initiated after December 31, 2002. The Company believes the adoption of SFAS No. 146 will not have a material impact on its financial position or results of operations.

In November 2002, the FASB issued FIN 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others" ("FIN 45"). The Interpretation requires expanded disclosure to be made in the guarantor's financial statements in regards to the guarantees and obligations under certain agreements. It also requires that a guarantor recognize, as the inception of the guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. The disclosure requirements of FIN 45 are effective for financial statements issued after December 31, 2002 and have therefore been applied in the accompanying financial statements. The recognition requirements of FIN 45 are applicable for guarantees issued or modified after December 31, 2002. The Company is still evaluating the effect, if any, that adoption of the Interpretation will have on its financial condition and results of operations.

In January 2003, the FASB issued FASB Interpretation 46, "Consolidation of Variable Interest Entities" ("FIN 46"). The Interpretation clarifies the application of Accounting Research Bulletin 51, "Consolidated Financial

Statements", to certain entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated support from other parties. FIN 46 requires existing, unconsolidated variable interest entities ("VIE") to be consolidated by their primary beneficiaries if the entities do not effectively disperse risks among parties involved. All companies with variable interest in VIE's created after January 31, 2003 shall apply the provisions of this Interpretation to those entities immediately. A public company with a VIE created before February 1, 2003, shall apply the provisions of this Interpretation to that entity no later than the beginning of the first interim or annual reporting period after June 15, 2003. For VIE's for which an enterprise holds a variable interest that it acquired before February 1, 2003, FIN 46 may be applied by either restating previously issued financial statements or prospectively from the date of adoption. The Company will begin applying the provisions of this new announcement effective January 1, 2004. The Company will adopt the Interpretation on a prospective basis.

BRAZILIAN ECONOMIC ENVIRONMENT

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

	2002	2001	2000	1999	1998
Real GDP growth (1)	1.54%	1.51%	4.2%	1.01%	0.04%
Inflation (2)	25.30%	10.38%	9.95%	20.1%	1.78%
Nominal Exchange Rate Variation	52.27%	19.15%	9.30%	40.01%	8.27%
Real Interbank Rate - CDI (3)	(4.96%)	6.24%	6.82%	4.27%	26.34%

(1) Source: IBGE
(2) Source: IGP-M, as published by the Getulio Vargas Foundation
(3) Source: ANDIMA (adjusted by the IGP-DI inflation rate).

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

Inflation and Real Plan Effects

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

After the implementation of the Real plan, which was based on an exchange rate anchor (Reais x US dollar), inflation rates declined and stabilized at low levels. This new economic environment increased the purchasing power of part of the population which had been used to high inflation levels and did not have access to financial instruments to reduce their monetary losses due to high inflation. Consumer goods and income experienced a growth and credit availability increased.

According to the General Prices Index - IGP- M of the Fundacao Getulio Vargas Brazilian inflation amounted to 1,246.62% in 1994, 15.24% in 1995, 9.20% in 1996, 7.74% in 1997, 1.78% in 1998, 20.1% in 1999, 9.95% in 2000, 10.38% in 2001 and 25.30% in 2002.

Exchange Rate Effects

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

In an attempt to stem the increasing capital outflows and concerns about the commitment of certain State governments to the fiscal austerity proposal, on January 13, 1999, Brazilian monetary authorities halted their intervention to maintain the previous system of exchange rate bands underpinned by a specific rate and allowed the Real's value to be determined by the foreign exchange markets, intervening only to limit wide swings in the value of the currency. Since then, the exchange rate market has been operating under a floating rate regime and the Central Bank has implemented an inflation targeting policy, using internal interest rates to adjust demand. A resulting negative side-effect of this policy can be reflected in high interest rate levels, increasing cost of capital to the Company and raising uncertainty in the financial markets about the capacity of Brazil to pay its debts, increasing the sovereign risk. A floating exchange rate can also be pressured by the deterioration of these fundamentals, impacting dollar-related price references which has the negative effect of contaminating local prices and causing reduction in consumption and a decrease in GDP growth.

Although the Company uses Reais as its functional currency, a relevant amount of its assets, liabilities and revenues is dollar denominated. In December 2002, R$ 1,928.0 million (41.4%) of the Company's revenues were collected in US Dollars, coming from export proceeds, R$ 1,217.0 million of its assets were dollar denominated, mainly attributable to Brady Bonds, government debt securities and accounts receivable from foreign market clients. The Company's total debt subject to exchange rate variation amounted to R$ 2,431.3 million at December 31, 2002.

During 2002, the 52.3% devaluation of the Reais increased the sales proceeds of the Company's products, when measured in reais. This effect was also potentially enhanced by the international dollar prices of its main exported products, reflected in its cash flow from operating activities. Due to Reais denominated costs and dollar denominated revenues in a currency devaluation environment, the Company experienced higher margins from exports.

The devaluation of the Reais impacts the amount available for distribution to the Company's shareholders when measured in U.S. dollars. Considering that the Company has subsidiaries abroad, the devaluation of the Reais creates foreign exchange gains and losses, which are included in the Company's foreign currency exchange gain (loss), net account in results of operations. In 2002, on a consolidated basis, the Company recorded foreign exchange gain (including gains from foreign currency swaps) of R$ 2.7 million.

The specific foreign currency risks which caused Sadia to enter into swap contracts, beginning in March 1999, to protect itself against further possible devaluation of the Real were associated with currency fluctuation exposure on the U.S. dollar denominated (short and long term) debt. The contracts protect against these risks by committing Sadia and the counter-parties to positions in foreign currency, thereby offsetting, to the extent of these contracts, the effects of currency fluctuations on foreign currency debt. The Company's net debt foreign currency exposure (U.S. dollar-denominated debt less foreign currency and interest rate swaps contracts) was R$ 668.4 million at December 31, 2002. At December 31, 2002 and 2001 the notional amounts of the outstanding contracts were R$812,280 and R$332,671 and the fair values were R$163,548 and R$14,137, respectively. The weighted average pay rates on the Company's outstanding foreign currency and interest rate swap contracts are floating rate based on CDI (Interbank Deposit Certificates). The fair values of the Company's foreign currency and interest rate swap contracts were estimated based on quoted market prices of comparable contracts. See "Item 10 - Additional Information", and "Item 11 - Quantitative and Qualitative Disclosures About Market Risk".

A. OPERATING RESULTS

The following table summarizes certain selected financial data of the Company's Statements of operations, expressed as percentages of net operating revenue, for the years as shown.

	YEARS ENDED DECEMBER 31, 2002	2001	2000
	%	%	%
Net operating revenue	100.0	100.0	100.0
Cost of goods sold	(69.3)	(64.5)	(75.2)
Gross profit	30.7	35.5	24.8
Selling expenses	(20.9)	(20.0)	(19.5)
General and administrative expenses	(1.2)	(1.5)	(1.8)
Other operating expenses , net	(0.3)	(0.5)	(0.4)
Total operating expenses	(22.4)	(22.0)	(21.7)
Operating income	8.3	13.5	3.1

The following table summarizes certain items of the Company's Statements of operations for the years as shown.

Segment Information - in thousands of Reais - R$

	2002	2001	2000
NET OPERATING REVENUE			
Processed products	1,796,137	1,599,497	1,441,716
Poultry	1,883,729	1,642,726	1,192,841
Pork	473,579	288,198	170,300
Other	33,690	72,049	76,419
Total net operating revenue	4,187,135	3,602,470	2,881,276

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

	2002	2001	2000
DEPRECIATION EXPENSE			
Processed products	35,182	36,400	32,299
Poultry	36,926	34,724	26,291
Pork	9,993	6,546	4,629
Other	637	2,155	3,346
Total depreciation expense allocated to Segments	82,738	79,825	66,565
Depreciation allocated to administrative expenses	9,398	9,077	6,950
Total depreciation expense	92,136	88,902	73,515

SEGMENT OPERATING INCOME	2002	2001	2000
Processed products	58,705	82,935	50,908
Poultry	239,653	338,570	37,622
Pork	40,403	57,079	1,859
Other	6,561	9,269	69
Total operating income	345,322	487,853	90,458
Interest expense	(317,755)	(201,210)	(187,268)
Interest income and other	266,462	144,635	190,519
Foreign currency exchange loss	2,701	(171,377)	(72,775)
Income before income taxes, equity income or loss of investees and minority interest	296,730	259,901	20,934

	2002	2001	2000
SEGMENT ASSETS			
Processed products	399,222	390,498	408,885
Poultry	309,054	312,173	334,063
Pork	105,388	99,087	97,558
Other	46,406	55,895	48,930
Total property, plant and equipment	860,070	857,653	889,436
Reconciling items - corporate assets			
Cash and cash equivalents	455,596	269,550	192,053
Held-to-maturity investments	723,999		
Available for sale debt securities	831,045	686,571	774,232
Accounts and notes receivable, net	468,954	377,824	393,421
Inventories	860,594	685,115	529,897
Other corporate assets	775,369	448,592	423,754
Total consolidated assets	4,975,627	3,325,305	3,202,793

	2002	2001	2000
CAPITAL EXPENDITURES			
Processed products	44,753	18,013	50,286
Poultry	34,692	26,088	55,651
Pork	16,529	8,075	7,001
Other	16,148	51,346	42,741
Total segment capital expenditures	112,122	103,522	155,679

The following table sets forth components of the Company's cost of goods sold, expressed in percentage, for the years as shown.

Composition of cost of goods sold (%)	Year ended December 31,		
	2002	2001	2000
Raw Materials	75.9	76.5	73. 6
Labor	11.7	12.6	11.4
Depreciation	2.7	3.4	3.7
Other	9.7	7.5	11.3
Total cost of goods sold	100.0	100.0	100.0

STRUCTURE AND PROFITABILITY OF THE COMPANY'S OPERATIONS

PERIOD ENDED DECEMBER 31, 2002 COMPARED WITH DECEMBER 31, 2001

The following discussion presents comparisons of results of operations for the twelve month periods ended December 31, 2002 and 2001. Additionally, the discussion on December 31, 2001 and 2000 results of operations is presented afterwards.

Gross Operating Revenue

In 2002, Sadia's Gross Operating Revenues posted a 17.0% increase over 2001, reaching R$ 4,654.8 million. The domestic market was less favorable than expected, but the Company maintained its leadership in the frozen, refrigerated, poultry and pork segments, reaching the second position in the margarine segment, from third in 2001. Domestic sales accounted for 58.6% of total revenues. Gross revenues from exports were up by 30.3%, mainly due to increased poultry and pork sales volume to Russia and other emerging markets and favorable foreign exchange effect. During 2002 the Company sold 1,358,735 tons , 15.6% percent above the 1,175,017 tons sold during 2001.

DOMESTIC MARKET

Revenues from domestic sales reachedR$ 2,726.8 million, 9.2% above the R$ 2,497.1million obtained in 2001. During 2002, volume sold increased 2.9%, from 729,642 tons in 2001 to 751,041 tons in 2002 (including grains and by-products, boiled beef parts, pig and chicken breeding and resale of products) while weighted average sales prices slightly rose 6%.

EXPORT MARKET

During 2002 international average prices for poultry and pork dropped 28.8% and 32.5% respectively in dollar terms, as a result of the oversupply in European countries and the Russian market. Despite this fact, revenues increased by 30.3%, from R$ 1,480.0 million in 2001 to R$ 1,928.0 million in 2002. Export sales as a percentage of gross revenues increased from 37.2 % in 2001 to 41.4 % in 2002 and volumes sold reached 607,694 tons, 36.4% over the 445,375 tons shipped in 2001.

PROCESSED PRODUCTS

In the processed products segment, sales in the domestic market contributed with R$ 1,931.5 million during 2002, reaching 503,612 tons, up 15.7% and 6.6%, respectively, when compared to 2001. For the processed products exports the Company reached R$ 183.1 million in 2002, up 88.0% on the R$ 97.4 million registered in 2001. Volumes exported were 54.8% higher, from the 16,377 tons in 2001 to 25,347 tons in 2002.

POULTRY

During the course of 2002, there was a a 22.2% drop in volumes sold in the domestic market for whole birds and pre-cuts of chicken and turkey, which were relocated to the export market. The drop in volumes sold was not offset by price increases and the segment gross revenues were at R$ 374.7 million, 8.8% below the R$ 410.9 million reached in 2001.

Gross operating revenue from poultry sales to overseas markets totaled R$ 1,385.5 million, 20.6% above the R$ 1,148.8 million reached in 2001, with 494,035 tons sold, 30.0% up on the previous year. Turkey exported volumes posted a 14.2% increase over the previous year. This result is a consequence of depressed dollar prices during the year, due to the oversupply of poltry and pork meat.

PORK

Gross revenues from pork sales in the domestic market reached R$ 197.7 million, 43.9% above the R$ 137.4 million registered in 2001. This increase was due to the 43.1% hike in volumes, with 103,488 tons sold, compared to the 72,312 tons sold in 2001.

Pork exports amounted to R$ 318.8 million, 70.8% above the R$ 186.6 million reached by the segment in 2001. During the year, exported volumes increased 80.7%, to 88,312 tons, from 48,880 tons shipped in 2001. The main factor that contributed to this performance was the oversupply in the Russian market.

Sales Deductions and Value Added Tax on Sales

Value-added tax on sales consist of ICMS, the Social Contribution on Sales (COFINS) and the contribution to the Social Integration Program (PIS), and amounted R$ 417.3 million, 42.3% above the 293.3 million reached in 2001. Total sales deductions decreased by 38.2% from December 31, 2001 to December 31, 2002, amounting to R$ 81.4 million and R$ 50.3 million, respectively. Sales deductions and VAT ratio as a percentage of gross operating revenues was 10.1% in 2002, against 9.4% in 2001. The lower percentage in 2001 was due to tax credits the Company was entitled to, amounting approximately R$ 85 million.

Cost of Goods Sold

In 2002, Cost of Goods Sold was R$ 2,903.2 million, versus R$ 2,322.7 in 2001, and though 25.0% higher than in 2001, represented 69.3% of net revenues, versus 64.5% in the previous year. This increase of 4.8 percentage points is basically due to higher prices of dollar denominated cost components - grains and packaging. For Sadia, corn prices increased by 123.2% above year end 2001 closing market prices. The costs of soya for the Company in 2002 were 78% above 2001 closing market prices. The Company maintained its inventory policy that involves advance purchases, aimed at alleviating commodity market impacts on its costs. Salaries and wages are renegotiated on a yearly basis and the date of adjustment depends on the agreements set up with regional Unions for each State where the Company has operations, with a direct impact on labor costs. Depreciation expenses booked as costs represented 2.7% of CGS, versus 3.4%in 2001.

Selling Expenses

Sales expenses of R$ 876.8 million were 21.6% higher than the R$ 720.8 million in 2001. These expenses represented 20.9% of net revenues, 0.9 percentage point above the ratio registered in 2001. This increase in the ratio was mainly because of shipping costs increases, due to largersales volume.

General and Administrative Expenses

In 2002, General and Administrative Expenses totaled R$ 49.1million, representing 1.2% of net revenues, versus R$ 54.0 million in 2001, when they represented 1.5% of net revenues. This is in line with better dilution of fixed expenses as a result of the investments in the implementation of a new ERP system, which has resulted in an optimization of certain G&A processes.

Other Operating expenses, net

Other operating expenses, net was a negative result of R$ 12.8 million, 25.1% below the R$ 17.1 million posted in 2001. The decrease is primarily attributable to lower allowances for civil contingences, which amounted to R$ 8.1 million in

2002 and R$ 11.1 million in 2001.

Interest Expense

Interest expense in 2002 amounted R$ 317.8 million, 58.0% above the R$ 201.2 million accounted in 2001. This increase in expense of R$ 116.6 million was mainly due to the growth on Reais denominated short and long term debt, which are subject to higher interest rates (R$ 167.3 million charged in 2002 against R$ 64.1 million charged in 2001).

Interest Income

Interest income increased from R$ 144.6 million in 2001 to R$ 266.5 million in 2002. This 84.3% change was mainly due to higher net cash provided by financing and operating activities.

Foreign Currency Exchange Gain (Loss), net

The devaluation of the Brazilian Real during 2002 was offset by several swap and hedge operations. Althought there was partially an increase on the Company's dollar based debt from 16% in 2001 to 29.7% of total net debt by the end of 2002, the Company protected its exposure against devaluations of the Real, and entered into foreign currency and interest rate swap contracts to mitigate currency devaluation effects.

Foreign exchange currency gain (loss) accounted for a net positive result of R$ 2.7 million, which was comprised by a net exchange rate loss of R$ 271.7 million (R$ 201.7 million in 2001, loss) and a positive amount of R$ 186.1 million from hedge operations (R$ 19.7 million in 2001). In addition, the investments denominated in foreign currencies generated an exchange rate gain of R$ 88.4 million (R$ 10.6 million in 2001).

Income Tax Expense

Income tax amounted R$ 12.2 million in 2002, against R$ 51.1 million in the previous year. A significant portion of earning generated abroad and the exchange gains on investments held in foreign currencies outside of Brazil were non-taxable in 2002.

Net Income

The operating profitability achieved from the Company's operations, principally in the export business, contributed to the earnings growth to R$ 284.3 million in 2002, against a R$ 203.5 million profit posted in 2001.

PERIOD ENDED DECEMBER 31, 2001 COMPARED WITH DECEMBER 31, 2000

The following discussion presents comparisons of results of operations for the twelve month periods ended December 31, 2001 and 2000.

Gross Operating Revenue

In 2001, Sadia's Gross Operating Revenues posted a 22.1% increase over 2000, reaching R$ 3,977.1 million. The domestic market was less favorable than expected, but the Company maintained its leadership in the frozen, refrigerated, poultry and pork segments, with 63% of revenues coming from domestic sales. Gross revenues from exports were up by 69.5%, benefited by the recovery of international poultry and pork prices, by the favorable foreign exchange effect and by improvements in the Company's product mix. During 2001 the Company sold 1,258,931 tons (including grains and by-products, boiled beef parts, pig and chicken breeding and resale of products) ,one percent higher than in 2000.

DOMESTIC MARKET

Revenues from domestic sales reached R$ 2,497.1 million, 4.7% above the R$ 2,384.6 million obtained in 2000. Despite the 8.8% drop in volumes traded, from 885,154 tons in 2000 to 813,556 tons in 2001(including grains and by-products, boiled beef parts, pig and chicken breeding and resale of products) the revenue increase was possible due to increases in the value of the mix, reflecting an 8% growth in weighted average prices.

Due to the decreasing supply of poultry meat to the domestic market, average prices rose 24.7% in comparison to 2000, pork prices increased by 22.6% and processed product prices posted a 3.5% increase, which explains higher revenues despite lower volumes sold.

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EXPORT MARKET

The recovery in international prices for poultry and pork, coupled with the foreign exchange situation that favored exports, allowed for a 69.5% increase in exports, from R$ 873.4 million in 2000 to R$ 1,480,048 million in 2001. The share of exports in overall gross revenues increased from 27% in 2000 to 37% in 2001 and total shipments reached 449,375 tons, 85,702 tons greater than the 363,673 tons shipped in 2000.

PROCESSED PRODUCTS

In the processed products segment, sales in the domestic market contributed R$ 1,670.1 million during 2001, reaching 472,230 tons, up 8.2% and 4.8%, respectively, in 2000. Despite the expected drops in sales due to the electricity rationing program effects on demand, sales of frozen products volume increased by 8.8%, coupled with a 5.4% hike in average prices, while refrigerated products gross revenues increased 5.7%. By the end of the third quarter, however, the Company was having trouble passing on cost increases, which affected its profitability.

For the processed products exports the Company reached R$ 97.4 million in 2001, up 39.3% on the R$ 69.8 million registered in 2000. Volumes exported were 23.9% higher, from 13,214 tons in 2000 to 16,377 tons in 2001.

POULTRY

During the course of 2001, there was a reduction of 91,063 tons in the volume supplied to the domestic market, representing a 33% drop in whole birds and pre-cuts of chicken and turkey, which were relocated to the export market. The drop in volumes sold was not offset by price increases and the segment gross revenues were at R$ 410.9 million, 16.3% below 2000.

Gross operating revenue from poultry sales to overseas markets totaled R$ 1,148.8 million, 62.9% above the R$ 705.1 million in 2000, with 380,118 tons sold. International average chicken prices grew 18.3% in dollar terms during the year, with volumes sold 18.2% up on the previous year. Turkey average dollar prices ended 2001 down 7.6%, with traded volumes 32% above the previous year.

This result is a consequence of Sadia's strategy to increase shipments, mainly of more value added poultry products, mainly of special parts and also a recovery in average prices associated with higher volumes of exports due to higher demand for white meat due to the "mad cow" disease outbreaks in Europe.

PORK

Gross revenues from pork sales in the domestic market reached R$ 137.4 million, 25.0% above the R$ 109.9 million registered in 2000. This increase was due to the 22.6% hike in prices, with 72,312 tons sold, 1.7% above the 71,098 tons sold in 2000, as result of an improved mix.

Pork exports amounted to R$ 186.6 million, R$ 116.7 million above the R$ 69.9 million reached by the segment in 2000. During the year, the average dollar price climbed 18.6%, and exported volumes added 22,949 tons to the 25,931 tons shipped in 2000. The factors that most contributed to this performance were the heating up of demand in Russia and the return of Middle Eastern countries to the international market.

Sales Deductions and Value Added Tax on Sales

Value-added tax on sales consist of ICMS, the Social Contribution on Sales (COFINS) and the contribution to the Social Integration Program (PIS). Total sales deductions changed 36.2% from December 31, 2000 to December 31, 2001, amounting to R$ 81.4 million and R$ 59.7 million, respectively. Despite that, sales deductions and VAT ratio as a percentage of gross operating revenues was 9.4% in 2001, against 11.6% in 2000. This reduction was due to a final court decision that the Company had overpaid social contributions in past years, which were required to be paid under the social integration program known as PIS, in the amount of R$84,690 and were recorded as a reduction of sales taxes in the consolidated Statement of operations for the year 2001 results.

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Cost of Goods Sold

In 2001, Cost of Goods Sold was R$ 2,322.7 million, versus R$ 2,167.0 in 2000, and though 7.2% higher than in 2000, represented 64.5% of net revenues, versus 75.2% in the previous year. This decrease of 10.7 percentage points is due to a lesser exposure of overall costs to the dollar compared to the higher dollar-denominated revenues from exports. For Sadia, corn prices fell 12% below year end 2000 closing market prices. The costs of Soya for the Company in 2001 were 8% below market prices. The Company maintained its inventory policy that involves advance purchases, aimed at alleviating commodity market impacts on its costs. Salaries and wages are renegotiated on a yearly basis and the date of adjustment depends on the agreements set up with regional Unions for each State where the Company has operations, with a direct impact on labor costs. Depreciation expenses booked as costs represented 4.4% of CGS, versus 3.9%in 2000.

Selling Expenses

Sales expenses of R$ 720.8 million were 28.0% higher than the R$ 563.0 million in 2000. These expenses represented 20.0% of net revenues, 0.5 percentage point above the ratio registered in 2000. During 2001,an additional 84,548 tons of products were channeled to exports, in comparison to 2000 volumes, thus increasing logistics expenses.

General and Administrative Expenses

In 2001, General and Administrative Expenses totaled R$ 54.0 million, representing 1.5% of net revenues, versus R$ 51.6 million in 2000, when they represented 1.8% of net revenues. This decrease reflects the higher efficiency of the Company's staff during a period of expanding business, confirming cost reduction efforts.

Other Operating expenses, net

Other Operating expenses, net was a negative result of R$ 17.1 million, 86.8% above the R$ 9.2 million posted in 2000, mainly due to allowances for civil contingencies, amounting R$ 11.1 million.

Interest Expense

Interest expense in 2001 amounted R$ 201.2 million, 7.4% above the R$ 187.3 million paid in 2000. This increase in expense of R$ 13.9 million was mainly due to higher interest rates in the domestic market.

Interest Income

Interest income decreased from R$ 190.5 million in 2000 to R$ 144.6 million in 2001. This 24.1% change was primarily due to the reduction of long-term investments denominated in U.S. Dollars with higher interest rates than the cash and cash equivalents denominated in Reais with lower interest rates.

Foreign Currency Exchange Loss, net

The devaluation of the Brazilian Real during 2001 accounted for the main impact on foreign currency exchange loss, which increased 135.5%, from R$ 72.8 million in 2000 to R$ 171.4 million in 2001. The Company reduced its dollar based debt from 84% in 2000 to 16% of total net debt by the end of 2001, to mitigate currency devaluation effects for the next periods.

Income Tax Expense

Income tax amounted R$ 51.1 million in 2001, against R$ 21.8 million in the previous year. The main increase was due to the increase in pretax income and tax provided on undistributed earnings of a foreign subsidiary offset in part by the movement in the valuation allowance and the benefit from the deductibility of interest attributed to shareholders' equity.

Cumulative Effect of Accounting Change, Net of Tax

As of January 1, 2001, the Company adopted Financial Accounting Standards Board Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities" (Statement 133) which was issued in June 1998 and its amendments, Statements 137, "Accounting for Derivative Instruments and Hedging Activities/Deferral of the Effective Date of FASB Statement No. 133 and 138", "Accounting for Derivative Instruments and Certain Hedging Activities" issued in June 1999 and June 2000, respectively (collectively referred to as Statement 133).

As a result of adoption of Statement 133, the Company recognizes foreign currency and interest rate swap contracts on the balance sheet at fair value and adjustments to fair value are recorded through income. Prior to adoption of Statement 133, the Company recognized such contracts on the balance sheet at contract value and adjustments to contract value were recorded through income. The adoption of Statement 133 resulted in a cumulative effect of accounting change of R$5,843, net of applicable income tax benefit of R$3,010, which was recognized as expense in the consolidated statement of operations for the year ended December 31, 2001.

The table below sets forth the before and after cumulative effect of the accounting change resulting from the adoption of Statement 133 in the calculation of the basic earnings per share:

	YEAR ENDED DECEMBER 31, 2001		
Per share data:	Before cumulative effect of accounting change	Cumulative effect of accounting change	Net Income
Basic earnings (loss) per thousands shares in R$:			
Preferred	317.48	(8.86)	308.62
Common	288.62	(8.06)	280.56

Net Income

The operating profitability achieved from the Company's operations, principally in the export business, contributed to the earnings growth to R$ 203.5 million in 2001, against a loss of R$ 5.5 million posted in 2000.

B. LIQUIDITY AND CAPITAL RESOURCES

LIQUIDITY AND SOURCES OF FUNDING

The Company's principal cash requirements include: (i) debt repayment, (ii) investments in property, plant and equipment, raising of efficiency levels and optimization of processes; and (iii) payment of dividends and interest on equity to Shareholders.

The Company's primary sources of liquidity have traditionally consisted of cash generated from operations and, short-term and long term-debt. The net cash generated by operating activities totaled R$ 293.9 million, R$ 420.2million and R$ 154.2 million for the years ended December 31, 2002, 2001 and 2000, respectively. Short-term and long-term debt presented a total net increase of R$ 1,457.1 million in 2002 and R$ 107.4 million in 2001, with a R$152.5 million increase in 2000. Sales of disposed fixed assets generated total proceeds of R$ 7.5 million, R$67.0 million and R$36.1 million for the years of 2002, 2001 and 2000, respectively.

In the year ended December 31, 2002, net operating cash was used in the purchase of property plant and equipment (R$ 112.1 million), payment of dividends (R$ 73.8 million) and investment in equity investees (R$ 2.9 million). In December 31, 2001, net operating cash was used in the purchase of property plant and equipment (R$ 103.5 million), payment of dividends (R$ 52.6 million) and investment in equity investees (R$ 1.5 million). In December 31, 2000, the main uses of funds were purchase of property, plant and equipment (R$ 155.7 million) and payment of dividends (R$ 25.4 million).

INDEBTEDNESS AND FINANCIAL STRATEGY

The loans taken by the Company are basically intended to finance exports and for investments in fixed assets, both for the modernization and technological update of the plants, for the financing of working capital, and, depending on market conditions, for financial investments.

At the end of 2002, the Company's total interest-bearing debt stood at R$ 3,257.2 million, representing a 79.5% increase when compared with the total debt of R$ 1,802.2 million at December 31, 2001. At the same time, at December 31, 2002 finacial short term assets were: Cash and Cash Equivalents, R$ 455.6 million (R$269.6 million on December 31, 2001), Held-to-maturity securities, at R$ 721,765 and Available for Sale Debt Securities (renamed from Current Investments in Debt Securities) at R$ 72.4 million (R$ 76.8 million on December 31, 2001). The long term financial assets were: Available for Sale Debt Securities (renamed from Long-Term Investments in Debt Securities) at R$758.6 million (R$ 609.8 million on December 31, 2001) and Held-to-maturity Investments at R$ 2.2 million. In December 31, 2002 Foreign currency and interest rate swap contracts represented R$ 51.2 million in Current Assets and R$ 112.4 million in Non Current Assets.

Considering all financial assets and liabilities at December 31, 2002, total net debt stood at R$ 1,083.0 million (R$ 858.2 million at December 31, 2001), equivalent to 108.6% of shareholders' equity.

Following the normal course of operations, the amounts maturing in the short run can be settled or re-negotiated for the next period. The Company tries, where possible, to use trade finance for its working capital needs because it is available at a lower cost since lenders perceive that the exchange risk is mitigated by the link to US dollar exports. There can be no assurance, however, that, in the future, US dollars generated from exports will be in an amount sufficient to cover US dollar liabilities or that such financing will be available.

In order to finance its operational working capital, Sadia has maintained its strategy of raising funds in the international markets through operations linked to exports, whose cost is below that of operations in the domestic market.

Short-Term Debt
(in R$ `000)

	2002	2001
Working capital from commercial banks	1,432,941	693,626
Bank borrowings, secured by accounts receivable	71,273	5,314
	1,504,214	698,940

Working capital from commercial banks primarily relates to export financing and pre-export advances, of which R$ 1,241,232 in 2002 and R$486,999 in 2001 are denominated in U.S. dollars with interest at Libor (1.39% at December 31, 2002) plus interest at the rate from 2% to 4.92% in 2002 (interest at the rate from 2.40% to 8.83% in 2001).

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Long-Term Debt

	2002	2001
Foreign debt (denominated in U.S. dollars):		
IFC- International Finance Corporation, (for investment in property, plant and equipment) due in installments through 2008, R$340,161 interest at fixed rate of 8.52%, R$72,156 at fixed rate of 9.05% and R$7,634 interest at Libor (1.39% at December 31, 2002) plus interest at the rate of 2.5%, secured by the related assets with a carrying value of R$125,744.	419,951	332,569
Export financing, due in installments through 2006, interest at Libor (1,39% in December 2002) plus interest rate of 4.15% secured by promissory notes or sureties.	527,345	187,534
Local debt (denominated in reais):		
BNDES- due in installments through 2008, R$21,366 subject to long- term interest rate- TJLP (10% for 2002) plus interest rate of 3.15%, R$417,037 subject to TJLP plus interest rate of 2.22%, R$80,192 subject to TJLP plus interest rate of 3.49% and R$142,429 subject to weighted average exchange rate variations on currencies held by BNDES- UMBNDES (56% for 2002) plus interest at the rates ranging from 3.5% to 3.86%, secured by the branch facilities of Duque de Caxias, Francisco Beltrao and Faxinal dos Guedes units with a carrying value of R$37,722.	661,024	422,324
PESA - Special Aid Program for Agribusiness payable in installments to 2020, subject to the - General Price Index -Market - IGP-M (25.3% for 2002) plus interest rate of 9.89%, secured by investments in debt securities with a carrying value of R$71,527	105,130	84,546
Other	39,564	74,240
	1,753,014	1,101,213
Less current portion of long- term debt	(547,854)	(211,446)

Long- term portion	1,205,160	889,767

The Company is subject to certain restrictive covenants contained in the IFC agreement. These covenants include a restriction on the payment of dividends in excess of the mandatory amount without the prior agreement of the IFC if certain working capital and other financial ratios are not met. The Company did not meet one of the financial ratios at December 31, 2002; however, the dividends paid during 2002 and in February 2003 were in accordance with the mandatory amount. Payments of dividends on future distributable income in excess of the mandatory amount will require approval of the IFC prior to such payments until such time that the Company meets the financial ratio.

C. RESEARCH AND DEVELOPMENT

Sadia invested R$ 7.3 million, R$8.7 million and R$ 7.6 million, for the years ended December 31, 2002, 2001 and 2000, respectively, in research and development activities. During the past five years, the R&D Department has developed six new product families (refrigerated pasta, pizzas, fish-based products, ready-made dishes, sweet pies and breaded products), as well as improving existing products.

During 2002, Sadia launched 56 Products: Refrigerated FreshPasta, pizzas, ready to eat dishes, hamburgers, breaded, hams and Miss Daisy Desserts.

Investments in R&D have also brought benefits to the area of animal breeding, achieving improvements in the quality of meat, the production process, and reducing feed conversion rates. Between 1975 and 2002, the duration of the chicken production cycle was reduced from 59.3 days to 37 days for each 1.7 kg bird. During the same period, chicken weight increased from 1.7 kg to 1.93 kg. Similarly, the feed conversion rate decreased from 2.4 kg to 1.8 kg per kg of chicken. Between 1975 and 2002, the duration of the pork production cycle was reduced from 179 days to 152 days for each 100 kg animal. During the same period, slaughtered hog weight increased from 94 kg to 103 kg. In a similar way, the feed conversion rate decreased from 3.6 kg to 2.8 kg of feed per kg of pork. During the same period, the percentage of pork meat per carcass increased from 46% to 56.7%.

D. TREND INFORMATION

This section discusses the main concerns and trends that will drive the Company's strategy planning over 2003.

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

Foreign Market Protectionist Measures

The Company expects that new regulations can be issued by foreign importer countries to protect its local producers. Since a relevant part of the Company's revenues comes from the export operations, the rayse of protectionist barriers can affect it's operations.

In July 2002 the European Union Sanitary Commission issued a new regulation increasing the duties for imported fresh chicken. During the second semester 100% of Brazillian chicken exported to Europe were required to be tested for forbiden anthibiothics Nitrofuran, increasing export sales costs. The Russian government is also planning to introduce quota regime on pork and poultry meat exports, that should be effective by the second half of 2003.

Althought the Company was not directly affected by these measures, these initiatives can reduce competitiveness of the Company's products in such markets. The Brazillian government, associated with local and international entities normally negotiates the terms of such measures in order to mitigate its negative effects.

ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

A. DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE OFFICERS AND MEMBERS OF THE BOARD OF DIRECTORS

The management of the Company is carried out by the Board of Directors and its Executive Officers. Pursuant to Sadia's By-laws, the Board of Directors is composed of 7 to 11 members that must be residents in Brazil. Members of the Board of Directors are elected at the Ordinary General Meeting of Shareholders for a one-year term, and may be re-elected. Upon electing the members of the Board, the Meeting must designate the Chairman from among those elected. The Board will then, in a subsequent meeting, elect one or more Vice-Chairmen, and designate a Secretary of the Board. According to Sadia's By-laws, the Board of Directors must elect between 7 and 20 Executive Officers for a

one-year term. Currently the Board of Directors is composed of six members who represent the controlling shareholder group, two members who represent minority shareholders and three market professionals.

The following table sets forth information with respect to the members of the Board of Directors and the Executive Officers of the Company.

Board of Directors

The Company's Board of Directors is presently composed of eleven members listed below, who were elected at the Ordinary General Meeting held on April 22nd, 2003.

NAME	ACADEMIC BACKGROUND	EXPERIENCE
Romano Ancelmo Fontana Filho (Chairman of the Board)	59 years old. - Business Administrator, Graduated at Mackenzie University.	Member of the Former IT and Director from 197
Alcides Lopes Tapias	60 years old. Business Administrator, Graduated at Mackenzie University. Law Bachelor at Faculdades Metropolitanas Unidas	Member of the Former Banco Vice-President. FEBRABAN (Brazil and member of the Council. Former Development Minis

Attilio Fontana Neto	45 years old. Business Administrator, Graduated at the Sao Paulo Catholic University, post graduate in Business at the Getulio Vargas Foundation.	Member of the boa Sadia's former Su 1989 to 1993.
Karlos Heinz Rischbieter	74 years old. Civil Engineer graduated at the Federal University of Parana.	Member of the boa Former CEO of Cai Federal and Banco Rischbieter was a Finance Ministry.
Marise Pereira Fontana Cipriani	44 years old.	Member of the boa of the SolVista,I Chairman of the b Foundation S.A.
Osorio Henrique Furlan	81 years old. Lawyer, Graduated at Braganca Paulista Law School	Member of the Sadia's first e member of the Sao Association and f Airlines vice-pre
Ottoni Romano Fontana Filho	43 years old. Business Administrator, Graduated at Getulio Vargas Foundation.	Member of the boa Former Domestic S Sadia from 1989 t
Roberto Faldini	55 years old Business Administrator, Graduated at Getulio Vargas Foundation. MBA - Insead, France.	Fiesp Economy Dep Member of the boa Ethical Investmen president, former member.
Sergio Fontana dos Reis	43 years old. Architect, graduated at Sao Paulo University, post graduated in Business at Getulio Vargas Foundation.	Member of the boa Former Director o Foundation from 1

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NAME	ACADEMIC BACKGROUND	EXPERIENCE
Vicente Falconi Campos	56 years old. Engineer Minas Gerais Federal University - UFMG. Ph.D Colorado School of Mines (USA)	Member of the boa Brazillian Govern the energy crisis comitee, AMBEV an member.
Victor Bayard de Maura Fontana	52 years old. Business Administrator, Graduated at Sao Judas University.	Former IT profe Correia and Co director.

Executive Officers

The Company's management team consists of professionals with extensive experience in the Brazilian food sector. Three are members of the founding family. The Executive Officers are responsible for the execution of decisions of the Board of Directors and day-to-day management of the Company. Below is a short resume of the key members of Sadia's management team:

NAME	ACADEMIC BACKGROUND	EXPERIENCE
NAME	ACADEMIC BACKGROUND	EXPERIENCE
Walter Fontana Filho Chief Executive Officer Date Joined Sadia:01/30/92 Age: 48	Economics and Business Administration, with emphasis on Marketing, with postgraduate studies in Economics	Mr. Fontana has been Sadia's Before becoming CEO, Mr. Font Sales Director.
Adilson Serrano da Silva Human Resources Officer Date Joined Sadia: 09/08/91 Age: 53	Business Administration, Postgraduate studies at the CEAG-FGV	Career developed in the area Resources. Has worked in medi large-scale companies such as Eletroradiobras, VASP and Lin
Alfredo Felipe da Luz Sobrinho Institutional Relations and Legal Affairs Officer Date Joined Sadia: 04/08//71 Age: 56	Higher Degree in Law, with Specialization in Area of Administration.	Was a member of the Board of Director Vice President of Ma and Services of Transbrasil. President of ABIPECS - The Br Association of the Pork Proce Exporting Industry, and the E President of the Attilio Fran Fontana Foundation.
Antonio Paulo Lazzaretti Process and Product Development Officer Date Joined Sadia: 04/11/72 Age: 54	Higher Degree in Chemical Engineering and Business Administration	Worked for Renner Hermann as Engineer, joining Sadia in Ap Sao Paulo plant, developing h area of production. Has alrea such as Manager and Productio
Artemio Fronza Livestock and Poultry Production Officer Date Joined Sadia: 08/15/88 Age: 52	Unfinished higher studies in Philosophy	Worked in the Rio Grande do S Cooperatives and the Alto Uru Agricultural Cooperative (whe post of Executive Manager and before joining Sadia at its T plant, in August 1988. Has al officer of the Grain and By-p
Eduardo Fontana d'Avila Processed Products Operations Officer Date Joined Sadia: 02/14/77 Age: 48	Higher Degree in Engineering	Career in Sadia's production already been a Vice President Operations. Sr. Eduardo is th Walter Fontana Filho, CEO of

Flavio Luis Favero Processed Products Production Officer Date Joined Sadia: 07/24/85 Age: 38	Higher Degree in Industrial Chemistry and Chemical Engineering Postgraduate Degree in Management Development	Professional career developed within Sadia, in the area of held posts of Supervisor, Tot Coordinator, and Production M Company's Tres Passos plant (Sul).
Flavio Riffel Schmidt Planning and IT Director Date Joined Sadia: 04/02/79 Age: 49	Higher Degree in Business Administration and First Degree in Accounting	During his career within Sadi Finance, Planning and Control 1988 to 1994.
Gilberto Meirelles Xando Baptista Marketing Director Date Joined Sadia: March, 1983 Age:38	Business Administrator, Graduated at Getulio Vargas Foundation. Postgraduate studies at the CEAG-FGV MBA Sao Paulo University	Developed his carrer at Sadia carrer in the mechanical main department, passing by produc and pork production area.
Gilberto Tomazoni Diretor de Marketing e Vendas Date Joined Sadia: 03/26/83 Age: 43	Higher Degree in Mechanical Engineering Postgraduate Degree in Management Development	Career entirely developed wit Joined the maintenance area o Concordia plant in March 1983 his knowledge of the activiti production area. Was a Head o a Manager.
Guillermo Henderson Larrobla Intenational Middle East Sales Director Date Joined Sadia: 04/01/99 Age: 46	Higher Degree in Mechanical Engineering (1985) and marketing management specialist (1997)	Mr. Larrobla developed his ca Foreign Trade Area of Seara A Group), since 1991. In Sadia activities as the Market Mana for Sadia's Business in Middl Dubai Office and was elected April 2002.
Luiz Gonzaga Murat Junior Chief Financial Officer Chief Controller, Director of Investor Relations Date Joined Sadia: 08/01/94 Age: 47	Higher Degree in Business Administration, Postgraduate Degree in Agricultural Economics at Stanford University	Developed career in finance a areas. Was a director of Perd Celulose and Suzano Feffer. Is a Board Member of IBEF - I Finance, and of Abrasca - The Association of Listed Compani
Paulo Francisco Alexandre Striker Logistics Director Date Joined Sadia: 1984 Age: 46	Business Administrator (1982) and Civil Engineer (1978), Graduated at Makenzie University. Postgraduate studies at the JUSE Institute (Japan) and Dom Cabral Foundation.	Trainee at Caterpillar. Start Director Assistant, former tr manager and brand management/ planning manager.
Roberto Banfi Intenational Sales Director Date Joined Sadia: 07/13/98 Age: 54	Higher Degree in Economics (Switzerland) MBA from Stanford Business School (USA)	An Italian citizen, has worke and the U.S. Resident in Braz has worked for Bonfiglioli - and Swift Armour as a Statuto Held the posts of Marketing M Coordinator for Mercosur in t RMB-Refinacoes de Milho do Br
Ronaldo Kobarg Muller Pork Production Officer Date Joined Sadia: 02/22/84 Age: 41	Higher Degree in Chemical Engineering, Postgraduate Degree in Management Development from UFSC-UNOESC	Professional career developed Sadia. Joined the Company at its Con held posts such as Head of de Chapeco (State of Santa Catar Quality Coordinator and Produ its Ponta Grossa (State of Pa

Valmor Savoldi Supply Director Date Joined Sadia: 12/26/77 Age: 47	Agricultural Technician, Higher Degree in Agronomy, Specialization in Administration	Professional career developed Sadia. Has worked in the areas of ag production and has extensive poultry and pork processing. posts of Coordinator of Total Production Manager and Sales

There are no pending legal proceedings, involving either Board Members or Executive Officers that could prevent any of these from carrying out their duties.

The Company has an Audit Committee, composed by members of the board, which serves to monitor the activities of the executive officers, election of independent auditors and to examine the Company's financial Statements. The Fiscal Committee is composed of three members and three substitute members, who are elected at the Ordinary General Meeting, with a mandate until the Ordinary General Meeting of the following year.

FAMILY RELATIONSHIP

Some members of the board are related. Mr. Attilio Fontana Neto, board member, and Mr. Walter Fontana, Sadia's CEO are brothers. Mr. Sergio Fontana dos Reis and Ms. Marise Pereira Fontana Cipriani, board members, are cousins.

B. COMPENSATION OF DIRECTORS AND OFFICERS

For the year ended December 31, 2002, the aggregate compensation to be paid by Sadia to all members of the Board of Directors and Executive Officers for services in all areas is approximately R$ 9.0 million, not including related taxes or social security contributions. For the year ended December 31, 2001, the amount paid was approximately R$ 7.6 million.

Since April 2000, the compensation of Executive Officers is complemented by a stock award plan. Under the plan, Executive Officers will receive 5%, and may elect to receive an additional 5% or 10%, of their annual bonus in shares of preferred stock based on the market price of the stock at the date of bonus is paid. Shares paid to Executive Officers in lien of a cash bonus payment are purchased in the market by the Company in the Executive Officer's name. Based on the number of preferred shares an Executive Officer receives, the Executive Officer will be entitled to a cash payment equal to any increase in the market value of the preferred shares as of March 10 of the third year following the bonus payment, provided that the Executive Officer still holds the preferred stock and is still an Executive Officer of the Company. Based upon the market value of the Preferred Shares at December 31, 2002 and 2001 no additional amounts were accrued to the Executive Officers during 2002 and 2001. The total annual bonus for 2002 and 2001 and the portion paid in Preferred Shares was as follows:

YEAR OF BASIS,	2002	2001
Date of payment/exercise	March 30th, 2003	March 30th, 2002

Total bonus (R$ thousands)	1,818.5	3,498.0
Number of preferred shares	-	304,000

The Company decided to review its stock option policy and did not made any bonus payments in Preffered Shares in 2002.

C. BOARD PRACTICES

Sadia has four standing committees: a fiscal committee, an audit committee, a financial committee and a compensation committee. The committees are composed of members of the Board who dedicate themselves to the development of the long run strategy of specific areas of the Company.

Fiscal Committee

This committee is responsible for the Company's tax planning, and is composed of three effective members: Roberto Faldini, Romano Ancelmo Fontana Filho and Attilio Fontana Neto.

Audit Committee

The responsibility of the members of this committee is to assure that the accounting procedures are being well followed by the operational areas of the Company It is composed of four members of the board: Karlos Heinz Rieschbieter (coordinator), Osorio Henrique Furlan, Ottoni Romano Fontana Filho and Marise Pereira Fontana Cipriani.

Financial Committee

Responsible for the medium and long term management of the financial strategy of the Company. This committee is charged with development of the Company's hedge policy, project financing and cash management directions, and is composed of three members: Alcides Lopes Tapias, Karlos Heinz Rischbieter and Roberto Faldini.

Compensation Committee

Responsible for conducting the human resources planning and strategy of Sadia, among others, its basic functions are: training and hiring policies, salary policy and union relationships management. The members are: Attilio Fontana Neto, Romano Ancelmo Fontana Filho, Victor Bayard de Maura Fontana and Vicente Falconi Campos

In the event of the termination of the mandate of a Director or an Executive Officer, they are entitled only to statutory employment benefits under applicable law, without any special severance.

D. EMPLOYEES

At December 31, 2002, the Company had 32,184 employees.

E. SHARE OWNERSHIP

On April 30, 2003 the board members, executive officers and directors of the company held, as a group, 34.664.462 common shares and 22.047.380 preferred shares, corresponding to 13.49% and 5.18% of the amount of outstanding shares of each class, respectively.

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

ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

A. MAJOR SHAREHOLDERS

Shareholders Agreement

Members of the family of the founder, Mr. Attilio Fontana, established a Shareholders' Agreement in May 1977, amended in October 1999, when it was extended until May 2010. The Agreement strives to regulate the relationship between the family groups regarding the purchase and sale of shares between themselves and with third parties as well as to establish principles and rules for the exercise of block voting rights, investment policy and remuneration of

capital. The Agreement is reviewed every three years. Any family member who wishes to dispose of his/her shareholding must provide a right of first refusal to all parties to the Shareholders' Agreement.

The Company's Shareholders' Agreement, was composed of 47 participants, in December 2002 and controls 67.1% of Sadia's voting shares. Sadia S.A. voting and non-voting capital stock is listed on the Bovespa stock exchange, where it is among the most actively traded stocks, representing 63% of the total volume traded on the food sector stocks.

Restrictions on Foreign Investment

According to Sadia's bylaws, 51% of the voting capital of the Company must be held by Brazilian citizens. The right to convert dividend payments and proceeds from the sale of Preferred Shares into foreign currency and to remit such amounts outside Brazil is subject to exchange control restrictions and foreign investment legislation which generally are subject to several mechanisms that permits a foreign investor to trade directly in Bovespa.

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

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

In accordance with the 2,689 Regulation, foreign investors are individuals, legal entities, mutual funds and other collective investments resident, domiciled or headquartered abroad. The 2,689 Regulation prohibits the offshore transfer or assignment of the title of the securities, except in the cases of (i) corporate reorganization effected abroad by a foreign investor or (ii) inheritance.

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

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

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

Payments of dividends and other cash distributions by the Company relating to the Preferred Shares underlying the Preferred ADRs will be made in Brazilian currency to the Custodian, in its capacity as representative of the Depositary, which will then convert such proceeds into U.S. dollars and will then remit such U.S. dollars to the Depositary for distribution to holders of the related Preferred ADSs. If the Custodian is not immediately able to convert the dividends in Brazilian currency to U.S. dollars, then the holders of the Preferred ADSs may be adversely affected by devaluation or other fluctuations in exchange rates, before it is possible to convert and remit these

dividends. Fluctuations in the exchange rate between the Real and the U.S. dollar may also affect the value in U.S. dollars, equivalent to the price in Reais, of the Preferred Shares traded on Brazilian stock exchanges.

In situations where there is a significant imbalance in Brazil's balance of payments, or serious indications that this kind of problem may arise, Brazilian legislation makes provision for the introduction of temporary restrictions on remittances of foreign capital abroad. For approximately six months, between mid-1989 and early 1990, for example, with a view to preserving its international reserves, the Brazilian government froze all operations involving the repatriation of capital and dividends owing to foreign investors, that had been deposited with the Brazilian Central Bank. These amounts were subsequently released according to Brazilian government directives. There is no guarantee that the Brazilian government will not adopt similar measures in the future.

Share Position

The following table contains certain information as of March 31, 2002 with respect to (i) any person known to the Company to be the beneficial owner of more than 5% of the Company's outstanding shares of voting Common Shares, (ii) any person known to the Company to be the beneficial owner of more than 5% of the Company's outstanding shares of Preferred Shares and (iii) the total number of the Company's voting Common Shares and Preferred Shares owned by the executive officers and directors of the Company as a group.

Share Position at December 31, 2002

STOCKHOLDER	COMMON SHARES	%	PREFERRED SHARES	
SUNFLOWER PARTICIPACOES S/A	32,018,789	12.46%	-----	--
Osorio Henrique Furlan	14,378,172	5.59%	557,127	0
Attilio Francisco Xavier Fontana Foundation	24,998,558	9.73%	12,566,000	2
Private Social Security Fund of the Sadia employees, controlled by 23,000 participants				
Executive Officers and Directors as a Group	6.190.590	2.3%	13.976.541	3

Source: Sadia S/A

Sunflower Participacoes is a holding company composed of several family members and is part of the shareholders agreement, the breakdown is as follows:

SUNFLOWER PARTICIPACOES INVESTOR	Common Shares Beneficially Owned	%	Preferred Shares Beneficially Owned	%
Maria Aparecida Cunha Fontana	14,084,143	43.99	-	-
Walter Fontana Filho	6,739,660	21.05	-	-
Attilio Fontana Neto	5,716,562	17.85	-	-
Vania Cunha Fontana	5,478,424	17.11	-	-
Total	32,018,789	100.0	-	-

Source: Sadia S/A

During the last three years ended December 31, 2002, the Company's Board of Directors authorized the purchase of 20.3 million treasury shares, and the cancellation of 40.0 million treasury shares.

B. RELATED PARTY TRANSACTIONS

The Company has operating transactions mainly with Sadia International and

Laxness F.C.P.A. Lda., which are both the Company's vehicles for sales outside Brazil. Sadia International is also acting as a financial entity of the Group by obtaining export financing loans from international banks and holding the investments in debt securities.

Concordia CVMCC is a brokerage firm that is responsible for identifying the better alternatives of investments for the cash surplus generated by the Company and its subsidiaries.

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C. INTERESTS OF EXPERTS AND COUNSEL

Not Applicable.

ITEM 8. FINANCIAL INFORMATION

A. CONSOLIDATED STATEMENTS AND OTHER FINANCIAL INFORMATION

See "Item 18. Financial Statements"

LEGAL PROCEEDINGS

The Company and its subsidiaries are parties to certain legal proceedings in the normal course of business, including administrative and judicial tax disputes, civil and labor proceedings. Provisions taken by the Company on its financial Statements in connection with such proceedings reflect a reasonably estimate of probable losses as determined by the Company's management on the basis of legal advice. Additionally, the Company constitutes judicial deposits to serve as warranties on the discussion of its proceedings, when this procedure is required to suspend the obligation eligibility In the opinion of management, except as set forth below, there are no legal proceedings in which the Company or any of its subsidiaries is a party, or to which any of their respective properties are subject, that are not presently provided for, which, either individually or in the aggregate, may have a material adverse effect on the results of operations or financial position of the Company.

Labor Disputes

The Company is involved in 1,732 labor proceedings none of which is material in amount. The Company stablished a reserve amounting R$ 11.4 million, to treat those issues. These disputes involve matters ranging from overtime claims, wrongful termination and claims involving work conditions.

Civil Disputes

Sadia is involved in a series of civil proceedings all of which are in the ordinary course of business. At December 31, 2002 the Company provisioned an aggregate amount of approximately R$16.3 million relative to the expected settlement for these proceedings. The proceedings considered material to Sadia refer to ex-employees' claims for indemnification due to health problems that evolved after resignation (ex-employees allege they developed occupational diseases related to the activities they used to perform during the work period in Sadia, and workplace accidents) in the amount of R$ 6.1 million. In accordance with Brazilian law, notwithstanding the Company pays an additional salary to cover the risks involved in those activities, considered risky and extraordinary, these claims, when legally questioned, are discussed as civil issues, because they involve indemnization claims. The Company is also discussing with ex-integrated poultry outgrowers claims for indemnification in the amount of R$ 3.6 million, relative to termination of contracts due to high production costs. Finally, there is a customer claim in the amount of R$ 6.6 million, for consequential damages due to diseases developed by the avian breeding flocks that were supplied by Granja Rezende S/A before its acquisition by Sadia.

Tax Disputes

The Company is involved in tax litigation, as both plaintiff and defendant, in which it contests the payment of certain taxes or requests as relief the confirmation of the applicability of tax credits, as described below:

The Company is a defendant in the following cases

I. INCOME TAX:

In order to cover several tax contingencies, which are individually not material, the subsidiary Granja Rezende (incorporated in August 2002) has established several reserves aggregating R$ 5.3 million.

II. ICMS (VALUE ADDED TAX ON SALES AND SERVICES):

a) The State of Sao Paulo is seeking to collect value added tax (ICMS) on customs discharge of some imported products. In this sense, a reserve of R$ 2.9 million was created to cover probable losses to be settled;

b) The State of Sao Paulo is seeking to collect value added tax (ICMS) on certain products. The State has asserted that these products were transferred from the producing units in other states priced above its correspondent costs. A reserve of R$ 4.8 million has been established to cover the eventual liability;

c) The State of Rio de Janeiro is seeking to collect value added tax (ICMS) on certain products. The State has asserted that the Company has not delivered the required documentation to prove that it has re-distributed products from other States. A reserve of R$ 2.3 million has been established to cover the eventual liability;

d) The State of Mato Grosso is seeking to collect value added tax (ICMS) due to differences found in monthly deductions on ICMS values charged from third party freights by tax substitution. A reserve of R$ 1.4 million has been established to cover the eventual liability;

e) The State of Mato Grosso is seeking to collect value added tax (ICMS) due to improperly procedures to prove that some credits could be unwinded in purchases made in the Manaus Free Zone. A reserve of R$ 4.9 million has been established to cover the eventual liability;

f) The State of Rondonia is seeking to collect value added tax (ICMS) on certain PRODUCTS. The State has asserted that the Company has not issued the invoices from third party warehouses. A reserve of R$ 0.5 million has been established to cover the eventual liability;

g) Other Judicial and administrative proceedings amounting R$ 0.4 million.

III. NATIONAL INSTITUTE OF SOCIAL SECURITY (INSS)

The National Institute of Social Security (INSS) requires the collection of contribution on salaries of third parties rendering services in civil construction work at the incorporated subsidiary Granja Rezende, due to joint liability, amounting R$ 3.1 million where Company is claiming the reimbursement among the responsible for the construction.

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IV. OTHER TAX CONTINGENCIES

The Company as a plaintiff

The Company is a plaintiff in several judicial and administrative issues, where intents to recover improperly paid taxes or questions those that believes were improperly charged. Based on estimates of its legal counsel these claims are considered probable or possible positive outcomes.

(in R$ million)

COMPONENT	DESCRIPTION	BASIS FOR ACCRUAL	PROBABL LOSS
Labor Claims	Approximately 1,732 claims filed by former employees involving matters ranging from overtime claims, wrongful termination and claims involving work conditions.	Expected settlement for all claims.	R$ 11.4
Civil Claims	Judicial procedures by ex-employees' claims for indemnification due to health problems (ex-employees who allege to have developed occupational diseases in connection with their past jobs at the Company) and job transit accidents.	Expected settlement amount for the claims.	R$6.1
	Ex-integrated poultry outgrowers' claims for indemnification due to termination of contracts resulting from above-estimated high production costs.	Expected settlement amount for the claims.	R$ 3.6
	Customer claim for consequential damages due to illness in avian breeding flocks.	Expected potential amount	R$ 6.6
Tax Claims			
Income tax	Several income tax assessments made by the tax authorities	Expected amount to be paid by the Company.	R$ 5.3
State Value Added Tax - ICMS	Value added tax (ICMS) on customs discharge of some imported products.	Expected amount to be paid by the Company.	R$ 2.9
	Products were transferred from the producing units in other states priced	Expected amount to be paid by the Company.	R$ 4.8

	above its correspondent costs		
	Insufficient required documentation to prove that it has re-distributed products from other States.	Expected amount to be paid by the Company.	R$ 2.3
	Differences found in monthly deductions on ICMS values charged from third party freights by tax substitution.	Expected amount to be paid by the Company.	R$ 1.4
	Unproperly procedures to prove that some credits could be cancelled in purchases made in the Manaus Free Zone and cancel of credits.	Expected amount to be paid by the Company.	R$ 4.9
	Difference on the Interpretation of the ICMS applicability for some operations	Expected amount to be paid by the Company.	R$ 0.9
National Institute of Social Security	INSS asserts joint liability in collection of contribution on salaries of third parties rendering services in civil construction work at the incorporated company, Granja Rezende.	Expected amount to be paid by the Company.	R$ 3.1
Other	IOF procedures (Financial Operations Tax), PIS (Social Integration Program), Cofins (Social Contribution) and other.	Expected amount to be paid by the Company.	R$ 4.0

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Dividends and Dividend Policy

The authorized capital stock of the Company is composed of Common Shares and Preferred Shares. As of December 31, 2002, the Company's capital stock was composed of 257,000,000 Common Shares and 426,000,000 Preferred Shares.

Dividends Distributed

The following table sets out the dividends paid to Shareholders of the Company's Common and Preferred Shares since 1996 in historical Brazilian currency and U.S. dollars translated from historical Brazilian currency at the commercial exchange rate on the date of payment of the same dividends.

Period	Payment Date	R$ per 1,000 Preferred Shares	US$ per 1,000 Preferred Shares	US$ per ADR
1996	12/16/1996	6.00	5.77	-
	04/10/1997	18.00	16.92	-
1997	08/25/1997	19.41	17.78	-
	03/11/1998	19.80	17.41	-
1998	08/25/1998	38.80	32.97	-

	02/25/1999	41.40	20.05	-
1999	08/25/1999	16.50	9.06	-
	02/10/2000	27.50	15.45	-
2000	08/18/2000	11.00	6.05	-
2001	02/20/2001	37.40	18.64	-
	08/22/2001	32.35	12.82	0.38
2002	02/14/2002	89.29	36.82	1.10
	08/16/2002	17.60	5.64	0.17
2003	02/14/2003	63.50	17.35	0.52
	02/21/2003	20.37	5.63	0.17

Source: Sadia S/A

Calculation of Distributable Amount

At each annual General Shareholders' Meeting, the Board of Directors must recommend the manner of allocation of the Company's income from the preceding fiscal year. According to Brazilian Corporate Law, the net income of a company after deduction of income tax and social contributions relative to the same fiscal year, and net of any losses accumulated in prior fiscal years, and amounts allocated to employee and management profit-shares, will represent the "net income" of the Company, following (i) the deduction of amounts allocated to the constitution of the legal reserve, (ii) the deduction of amounts allocated to the constitution of other reserves, following the principles established by the Company and in accordance with the applicable legislation (as hereinafter discussed), and (iii) the increase by the reversion of reserves constituted in previous fiscal years. This net income will be available for distribution to Shareholders (thus constituting the "adjusted net profit", designated here as the "Distributable Amount") in any fiscal year.

Legal Reserve. According to Brazilian Corporate Law, the Company is required to maintain a "legal reserve" to which it must allocate 5% of its "net income" in each fiscal year, until the amount of this reserve is equal to 20% of the paid-in share capital, or until the sum of this reserve and all other capital reserves reaches 30% of the paid-in share capital. Net losses, if any, may be debited against the legal reserve.

Discretionary Reserves. According to Brazilian Corporate Law, the Company may decide to assign on a discretionary basis a portion of the "net income" to the limit established in its By-laws (with such reserves collectively designated as "discretionary reserves"). The Company's By-laws established a special fund for Research and Development to which it may allocate up to 15% of its "net income" per year, until the amount of this fund is equivalent to 10% of its paid-in share capital.

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

Investment Project Reserve. According to Brazilian Corporate Law, a portion of the "net income" may also be assigned for any discretionary appropriations for plant expansions or any other investment projects, the amount of which is based on the capital budget previously presented by management and approved by Shareholders. Following the conclusion of the corresponding investment projects, the Company may withhold the relevant appropriation until the Shareholders vote to transfer all or part of the capital reserve or retained earnings. The Company's By-laws effective as of March 31, 2000, contains provisions for a Special Expansion Reserve, to which at least 15% and at most 60% of the "net income" (formerly 5% and 15%, respectively) must be allocated each year, until the amount of this reserve is equivalent to 70% of its paid-in share capital (from former 30%).

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

Fiscal Incentive Investment Reserve. According to the terms of Brazilian tax legislation, a portion of "net income" may also be assigned to a "fiscal incentive investment reserve" for amounts corresponding to the Company's income tax deductions generated by credits for certain investments that are approved by the Government. The reserve may only be used to acquire shares in companies that are developing specific projects that are approved by the Government.

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

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

Mandatory Dividends. As established in its By-laws, Sadia is required to distribute to Shareholders in lieu of dividends relative to each fiscal year ended December 31, an amount of no less than 28% of the Distributable Amount (the "Mandatory Dividend") in any given fiscal year (an amount of which shall include any interest whatsoever on Shareholders' equity paid and any preferential dividends paid on Preferred Shares during the same fiscal year). In addition to the Mandatory Dividend, the Board of Directors may recommend the payment of dividends to shareholders from other legally available resources, according to the terms of such law. Any payment of interim dividends or interest on Shareholders' equity will be deducted from the amount of the Mandatory Dividend for the same fiscal year. In accordance with Brazilian Corporate Law, if the Board of Directors decides, prior to the annual Shareholders' meeting, that the payment of the Mandatory Dividends for the preceding fiscal year is not advisable, due to the financial condition of the Company, then there will be no requirement to pay such Mandatory Dividends. Such a decision must be reviewed by an Audit Committee, and reported to Shareholders and to the CVM. If a Mandatory Dividend is not paid, any retained earnings must be allocated to a special reserve account. If the Company does not incur the expected losses that led to the withholding of the Mandatory Dividend, then the Company will be required to pay the proper Mandatory Dividend.

Priority of the Preferred Shares in the Payment of Dividends On May 5, 1997, an amendment to Brazilian Corporate Law was approved (Law No. 9,457), that included the requirement that companies whose By-laws do not include provisions for the distribution of fixed or minimum dividends, whether cumulative or not, pay dividends on their Preferred Shares that are at least 10% greater than the corresponding dividends on their common shares. In accordance with the Company's By-laws, and subject to the calculation of the Mandatory Dividends for any particular fiscal year, the holders of the Preferred Shares will be entitled to minimum annual non-cumulative preferred dividends for an amount equal to 28% of the share capital attributable to the Preferred Shares, prior to the distribution of dividends to the holders of the Common Shares. After having paid these minimum annual non-cumulative preferred dividends, the holders of the Common Shares will receive the same amount of dividend per share as that of the Preferred Shares. Once this condition has been met, any additional dividends declared by the Company with regard to any particular fiscal year will be divided between the holders of the Common Shares and the Preferred Shares, with the latter receiving an amount 10% greater than the former.

Other Rights of Preferred Shares The Company's By-laws do not contain provisions for the conversion of Preferred Shares into Common Shares. In addition, there are no provisions for the redemption of shares associated with the Preferred Shares. The Preferred Shares take priority in procedures related to the liquidation of the Company, without entitlement to any other form of compensation for existing Shareholders. Holders of Preferred Shares are not entitled to vote at the general meeting of the Company's Shareholders. If, however, the preferred dividends are not paid for three successive years, the Preferred Shares will acquire the right to vote, until such time as the payment of these dividends is made.

Payment of Dividends In accordance with Brazilian Corporate Law, the Company is required to hold an annual Shareholders' meeting by April 30 of each year, during which an annual dividend will be declared In addition, interim dividends may be declared by the Board of Directors. According to Brazilian Corporate Law, dividends must generally be paid to the holders of the relevant shares within 60 days of the date of declaration of the same dividend, unless a resolution of Shareholders establishes another date of payment, which in both cases, must occur before the end of the fiscal year in which the dividend was declared. The Company's By-laws require that an Annual General Shareholders' Meeting be held within four months of the end of each fiscal year. At this meeting, among other things, an annual dividend may be declared by decision of the Shareholders and at the recommendation of the Executive Officers, as approved by the Board of Directors. The payment of annual dividends is based on the financial Statements relating to the fiscal year ending December 31. According to the Company's By-laws, dividends will be paid to Shareholders within 60 days of the date of declaration of the dividend, which must be effected prior to the end of the fiscal year in which the same dividend was declared. The requirement for Mandatory Dividends may be met through payments either in the form of dividends or of interest on Shareholders' equity. The Company is not required to adjust the amount of the dividend for inflation for the period from the end of the last fiscal year to the date of declaration of the same dividend. It is therefore possible that the amount, expressed in Reais, of the dividends paid to holders of Preferred Shares or Common Shares may be reduced due to inflation. Shareholders have up to three years from the date of payment of the dividend to demand payment of these as they relate to shares held by the same party, after which time the Company will be free from any obligation to make such payments.

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

Shareholders that are not resident within Brazil must register with the Brazilian Central Bank so that the dividends resulting from sales, or other amounts, may be remitted in foreign currency outside Brazil. The Preferred Shares

underlying the ADRs are maintained within Brazil by the Custodian, which acts as agent for the Depositary, which appears in the Company's register as the beneficial owner of the shares.

Notional Interest Charge Attributed to Shareholders' Equity Pursuant to a change in Brazilian tax law effective January 1, 1996, Brazilian companies are permitted to pay limited additional amounts to holders of equity securities and treat such payments as an expense for Brazilian income tax purposes. The amount of any such "interest" payment to holders of equity securities is generally limited in respect of any particular year to (i) retained earnings for such year plus 50% of the pre-tax profits for such year multiplied by (ii) the Taxa de Juros de Longo Prazo interest rate (Long-Term Interest Rate -TJLP), which is the official rate for governmental long-term loans. The additional payment may take the form of supplemental dividends to Shareholders. In 1996, the only form of payment could be through an increase to capital or any addition to reserves. A 15% withholding tax is payable by the Company upon distribution of the notional interest amount. In 1996, the withholding tax was payable by the Company and was accrued and charged to income. In 1997, the withholding tax was paid by the Company on behalf of the shareholders. In 1996, this notional interest charge was deductible in determining Brazilian income tax payable. Additionally, effective January 1, 1997, such payments are also deductible for social contribution purposes.

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

Dividend Policy. The Company currently plans to pay dividends or interest on Shareholders' equity on its Preferred and Common Shares to the amount of the distributions required in any fiscal year, subject to the determination by the Board of Directors that such distributions are inadvisable due to the financial condition of the Company. In accordance with its policy, the Company pays dividends twice a year, although the law does not require it to do so.

Amendments to Brazilian Corporate Law

In 2001 important amendments to the Brazilian Corporate Law were adopted. The most important changes were (i) the conversion of CVM into an autonomous governmental agency linked to the Ministry of Finance, with legal independence and separate assets and liabilities; (ii) the requirement of greater disclosure by listed companies; (iii) the tag-along right to minority common shareholders in the event of change in control of a listed company; (iv) the right of preferred shareholders with non-voting rights or restricted voting rights representing at least 10% of the total stock of a listed company to elect one board member and his alternate (by April 2005, the representative of such shareholders is to be chosen out of a three-name list prepared by controlling shareholders); (v) the right of the minority common shareholders to also elect one board member; and (vi) the preferred shares will only be traded in the stock market if they have at least one of the rights mentioned below: (a) priority in the receipt of dividends corresponding to at least 3% of the shares' net worth based on the last approved balance sheet of the company; (b) the right to receive dividends at least 10% higher than the dividend assigned to each common share; or (c) the tag-along right in the event of change in the control of the company. The By-Laws of existing listed companies are required to be modified to conform to the new provisions mentioned above, by March 1, 2003. B.

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B. SIGNIFICANT CHANGES

ADR Listing

On April 10th, 2001 Sadia's Preferred Shares began to trade on the NYSE in the form of American Depositary Shares, under the SDA ticker.

ITEM 9. THE OFFER AND LISTING

Price Information

The table below presents, for the indicated periods, the minimum and maximum closing prices for Preferred Shares on the Sao Paulo Stock Exchange. The prices are expressed in nominal reais as of the period end date. The sales prices included on the two following tables were also translated into U.S. dollars, but please note that the "high" and "low" quote in U.S. dollars in a given period may not be in the same month of the "high" and "low" prices expressed in reais due to the influence of the foreign exchange rate.

CLOSING SALE PRICES

	NOMINAL REAIS PER 1,000 PREFERRED SHARES		U.S. DOLLARS PER 1,000 PREFERRED SHARES	
	HIGH	LOW	HIGH	LOW
1997	364.66	98.46	341.54	94.3
1998	340.86	598.43	549.42	303.2
1999	532.74	1,407.60	836.36	466.2
2000	752.14	1,424.80	824.54	392.9
2001	877.33	1,269.30	624.04	447.6
2002	1,036.00	1,001.00	576.76	262.7

CLOSING SALE PRICES

	NOMINAL REAIS PER 1,000 PREFERRED SHARES		U.S. DOLLARS PER 1,000 PREFERRED SHARES	
	HIGH	LOW	HIGH	LOW
2001				
FIRST QUARTER	1,263.00	1,006.90	693.96	573.0
SECOND QUARTER	1,170.70	961.99	648.95	519.7
THIRD QUARTER	1,101.30	877.33	564.19	447.6
FOURTH QUARTER	1,269.30	933.33	624.04	480.4
2002				
FIRST QUARTER	1,310.00	1,200.00	548.12	556.0
SECOND QUARTER	1,360.00	1,050.00	576.76	373.2
THIRD QUARTER	1,150.00	1,010.00	401.12	277.7
FOURTH QUARTER	1,360.00	1,030.00	386.82	262.7

The sales prices included on the following table were translated into U.S. dollars in accordance with the Commercial Market rate of exchange for each corresponding date quoted.

CLOSING SALE PRICES

NOMINAL REAIS PER 1,000 PREFERRED SHARES		U.S. DOLLARS PER 1,000 PREFERRED SHAR	
HIGH	LOW	HIGH	LOW

December 2002	1,360.00	1,130.00	386,82	305,4
January 2003	1,360.00	1,140.00	397,01	313,1
February 2003	1,230.00	1,160.00	344,06	320,4
March 2003	1,240.00	1,130.00	354,29	333,3
April 2003	1,260.00	1,160.00	436,02	347,7
May 2003	1,370.00	1,270.00	461,96	419,4

The Company's Preferred Shares were listed on the New York Stock Exchange. (the "NYSE") in April 2001. The following tables present, for the periods indicated, the high and low prices for the ADRs.

	CLOSING SALE PRICE U.S. DOLLARS PER ADR	
	HIGH	LOW
2001		
SECOND QUARTER	17.25	13.25
THIRD QUARTER	14.35	10.75
FOURTH QUARTER	16.55	11.33
2002		
FIRST QUARTER	16.75	14.75
SECOND QUARTER	17.00	11.21
THIRD QUARTER	11.80	8.51
FOURTH QUARTER	16.55	11.33

	CLOSING SALE PRICE U.S. DOLLARS PER ADR	
	HIGH	LOW
December/2002	11.90	9.25
January/2003	12.09	9.55
February/2003	16.50	14.75
March/2003	11.00	9.90
April/2003	13.00	10.61
May/2003	13.85	12.80

As of April 31, 2003 there were approximately 25 U.S. beneficial owners of the ADSs (based on their addresses only), representing approximately 1.7 % of the total Preferred Shares.

B. PLAN OF DISTRIBUTION

Not required.

C. MARKETS

TRADING ON THE BRAZILIAN STOCK EXCHANGES

Of Brazil's stock exchanges, the Sao Paulo Stock Exchange has been the most significant in recent years. During 2002, the Sao Paulo Stock Exchange accounted for almost the total of the trading value negotiated in Brazil.

The Sao Paulo Stock Exchange is a non-profit entity owned by its member brokerage firms. Trading on the Sao Paulo Stock Exchange is limited to member brokerage firms and a limited number of authorized non-members. The Sao Paulo Stock Exchange currently has two open outcry trading sessions each business day, from 10:00 a.m. to 1:00 p.m and from 2:00 p.m. to 4:45 p.m. Trading is also conducted between 10:00 a.m. and 5:00 p.m. on the automated system of the Sao Paulo Stock Exchange. There is also trading in the so-called After-Market, only through the automated system of the Sao Paulo Stock Exchange, from 5:45 p.m. to 19:00 p.m. Only shares that were traded during the regular trading session of the day may be traded in the After-Market of the same day.

There are no specialists or market makers for the Company's shares on the Sao Paulo Stock Exchange. The Comissao de Valores Mobilarios (the "CVM" or the "Brazilian Securities Commission") and the Sao Paulo Stock Exchange have discretionary authority to suspend trading in shares of a particular issuer under certain circumstances. Trading in securities listed on the Sao Paulo Stock Exchange may be effected off the exchange under certain circumstances, although such trading is very limited.

In December 2002, the aggregate market capitalization of the companies listed on the Sao Paulo Stock Exchange was approximately US$ 124.0 billion. Although any of the outstanding shares of a listed company may trade on the Sao Paulo Stock Exchange, in most cases less than half of the listed shares are actually available for trading by the public, the remainder being held by small groups of controlling persons that rarely trade their shares. For this reason, data showing the total market capitalization of the Sao Paulo Stock Exchange tend to overstate the liquidity of the Brazilian equity securities market. The Brazilian equity securities market is relatively small and illiquid compared to major world markets.

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

Trading on the Sao Paulo Stock Exchange by non-residents of Brazil is subject to certain limitations under Brazilian foreign investment legislation.

REGULATION OF BRAZILIAN SECURITIES MARKETS

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

Law 10,303 of October 31, 2001, amended Law n(0) 6,385/76 and Law n(0) 6,404/76. The most important changes were (i) the conversion of CVM into an autonomous governmental agency linked to the Ministry of Finance, with legal independence and separate assets and liabilities; (ii) the requirement of greater disclosure by listed companies; (iii) the tag-along right to minority common shareholders in the event of change in control of a listed company; (iv) the right of preferred shareholders with non-voting rights or restricted voting rights representing at least 10% of the total stock of a listed company to elect one board member and his alternate (by April 2005, the representative of such shareholders is to be chosen out of a three-name list prepared by controlling shareholders); (v) the right of the minority common shareholders to also elect one board member; and (vi) the preferred shares will only be traded in the stock market if they have at least one of the rights mentioned below: (a) priority in the receipt of dividends corresponding to at least 3% of the shares' net worth based on the last approved balance sheet of the company; (b) the right to receive dividends at least 10% higher than the dividend assigned to each common share; or (c) the tag-along right in the event of change in the control of the company. Under the Brazilian Corporate Law, a company is either listed, a "companhia aberta", such as the Company, or private, a "companhia fechada". All listed companies are registered with the CVM and are subject to reporting requirements. A company registered with the CVM may have

its securities traded either on the Sao Paulo Stock Exchange or in the Brazilian over-the-counter markets ("Brazilian OTC"). The shares of a listed company, including the Company, may also be traded privately subject to certain limitations.

There are certain cases in which the disclosure of information to the CVM, the Sao Paulo Stock Exchange, or even to the public is required. These include (i) the direct or indirect acquisition by an investor of at least 5% (five percent) of any class or type of shares representing the capital stock of a listed company, (ii) the sale of shares which represents the transfer of control of a listed company and (iii) the occurrence of a material event to the corporation.

Recently CVM issued Instruction N(0) 361, of March 5, 2002, which regulates the tender offers mainly when the following events occur: (i) delisting of public companies; (ii) increase in the equity interest by the controlling shareholder; and (iii) transfer of control of a public company.

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

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

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

The Brazilian securities markets are governed principally by Brazilian

Securities Law, by Brazilian Corporate Law and by regulations issued by the CVM and the Conselho Monetario Nacional (the "National Monetary Council"). These laws and regulations, among others, provide for disclosure requirements, restrictions on insider trading and price manipulation, and protection of minority shareholders. Although many changes and improvements have been introduced, the Brazilian securities markets are not as highly regulated and supervised as the U.S. securities markets or markets in certain other jurisdictions.

ITEM 10. ADDITIONAL INFORMATION

A. SHARE CAPITAL

Not Applicable.

B. MEMORANDUM AND ARTICLES OF ASSOCIATION

Not Applicable.

C. MATERIAL CONTRACTS

Not Applicable.

D. EXCHANGE CONTROLS

There are two foreign exchange markets in Brazil: the commercial rate exchange market (the "Commercial Market") and the tourism rate exchange market (the "Tourism Market"). Most trade and financial foreign exchange transactions, including transactions relating to the purchase or sale of shares or the payment of dividends with respect to shares, are

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carried out in the Commercial Market. Purchases of foreign currencies in the Commercial Market may be carried out only through a financial institution in Brazil licensed to deal in foreign exchange. The Tourism Market rate generally applies to transactions to which the Commercial Market rate does not apply, like travels abroad. Since the introduction of the real, the two rates have not differed materially, although there could be substantial differences between the two rates in the future. In both markets, rates are freely negotiated but may be strongly influenced by Central Bank intervention.

Contributing to keeping the rates in the two markets close to each other, the National Monetary Council issued Resolution No. 2,588, of January 25, 1999, which sets forth that the exchange positions held by financial institutions in both markets should not be kept separately any longer. From its introduction in July 1994 through March 1995, the real appreciated against the U.S. dollar. On March 6, 1995, in an effort to address concerns about the overvaluation of the real, the Central Bank introduced new exchange rate policies that established a trading band within which the real/U.S. dollar exchange rate could fluctuate and announced that it would intervene in the market and buy or sell U.S. dollars whenever rates approached the upper or lower limit of the band. The Central Bank initially set the exchange rate band with a floor of R$0.86 per U.S.$ 1.00 and a ceiling of R$0.90 per U.S.$ 1.00 and provided that, after March 10, 1995, the exchange rate band would be between R$0.88 and R$0.93 per U.S.$ 1.00. The Central Bank had periodically adjusted the exchange rate band to permit the gradual devaluation of the real against the U.S. dollar. On January 13, 1999, due to increased pressure to devalue the real, the Central Bank allowed a de facto 7.6 percent devaluation and established a new exchange rate band between R$1.20 and R$1.32 per U.S.$1.00.

Despite this attempt to implement a limited devaluation, further devaluation pressures caused the Central Bank on January 15, 1999, to announce that it would let the real trade freely on the foreign exchange markets. This decision was confirmed on January 18, 1999, when the Central Bank officially announced its new policy to allow the real's value to be determined by the foreign exchange markets, intervening only to limit wide swings in the value of the currency. At the close of business on December 31, 1999 the real traded at a level of R$1.78 to U.S.$1.00. In 2000, there was no significant change in Central Bank's new policy and, on December 31, 2000, the exchange rate was R$ 1.96 to U.S.$ 1.00. It is not yet possible to predict whether the Central Bank will continue to let the real float freely or if the real will remain at its present level. However, even with new government and the total change in Brazillian Central Bank management, exchange rate policy is still being implemented under a free floating sistem.

Brazilian law provides that, whenever there is a significant imbalance in Brazil's balance of payments or reasons to foresee such an imbalance, temporary restrictions may be imposed on remittances of foreign capital abroad. For approximately six months in 1989 and early 1990, for example, aiming at preserving Brazil's foreign currency reserves, the Brazilian government froze all dividend and capital repatriations that were owed to foreign equity investors and held by the Central Bank. These amounts were subsequently released in accordance with Brazilian Government directives. There can be no assurance, however, that the Brazilian Government may not take similar measures in the future.

E. TAXATION

The summary is based upon the tax laws of Brazil and the United States and regulations thereunder as in effect on the date hereof, which are subject to change (possibly with retroactive effect). Although there is at present no income tax treaty between Brazil and the United States, the tax authorities of the two countries have had negotiations regarding a treaty. No assurance can be given, however, as to whether or when a treaty might enter into force or how it might affect the U.S. holders of Preferred Shares or Preferred ADSs. This summary is also based upon the representations of the Depositary and on the assumption that each obligation in the Deposit Agreement relating to the Preferred ADSs and any related documents will be performed in accordance with its terms.

BRAZILIAN TAX CONSIDERATIONS

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

Taxation of Dividends. Dividends paid with respect to income earned since January 1, 1996, including dividends paid in kind (i) to the Depositary in respect of the Preferred Shares underlying the Preferred ADSs or (ii) to a non-Brazilian holder in respect of Preferred Shares, are not subject to any withholding tax in Brazil. The current tax legislation eliminated the then existing 15% withholding tax on dividends paid to companies, resident individuals or non-residents in Brazil. Accordingly, dividends with respect to profits generated on or after January 1, 1996 are not subject to withholding tax in Brazil. Dividends related to profits generated prior to December 31, 1993 will be subject to Brazilian withholding tax of 25%. Dividends related to profits generated between January 1, 1994 and December 31, 1995 will be subject to Brazilian withholding tax of 15%.

Taxation of Gains. Gains realized outside Brazil by a non-Brazilian holder on the disposition of Preferred ADSs to another non-Brazilian holder are not subject to Brazilian tax.

The withdrawal of Preferred Shares in exchange for Preferred ADSs is not subject to Brazilian tax. The deposit of Preferred Shares in exchange for Preferred ADSs is not subject to Brazilian tax provided that the Preferred Shares are registered by the investor or its agent under the 2,689 Regulation. In the event the Preferred Shares are not so registered, the deposit of Preferred Shares in exchange for Preferred ADSs may be subject to Brazilian tax at the rate of 15%. On receipt of the underlying Preferred Shares, a non-Brazilian holder who qualifies under the 2,689 Regulation will be entitled to register the U.S. dollar value of such shares with the Central Bank as described below.

Non-Brazilian holders are not subject to tax in Brazil on gains realized on sales of Preferred Shares that occur abroad or on the proceeds of a redemption of, or a liquidating distribution with respect to, Preferred Shares. When the Preferred Shares are registered under the 2,689 Regulation, the non-Brazilian holder cannot transfer or assign them abroad. As a general rule, non-Brazilian holders are subject to a withholding tax imposed at a rate of 15% on gains realized on sales or exchanges of Preferred Shares that occur in Brazil to or with a resident of Brazil, outside of the Sao Paulo Stock Exchange. Non-Brazilian holders are subject to withholding tax at the rate of 10% on gains realized on sales or exchanges in Brazil of Preferred Shares that occur on the Sao Paulo Stock Exchange unless such sale is made under the 2,689 Regulation. Gains realized arising from transactions on the Sao Paulo Stock Exchange by an investor under the 2,689 Regulation are not subject to tax (except as described below). The "gain realized" as a result of a transaction on the Sao Paulo Stock Exchange is the difference between the amount in Brazilian currency realized on the sale or exchange and the acquisition cost measured in Brazilian currency, without any correction for inflation, of the shares sold. The "gain realized" as a result of a transaction that occurs other than on the Sao Paulo Stock Exchange will be the positive difference between the amount realized on the sale or exchange and the acquisition cost of the Preferred Shares, both such values to be taken into account in reais. There are grounds, however, to hold that the "gain realized" should be calculated based on the foreign currency amount registered with the Central Bank. There can be no assurance that the current preferential treatment for holders of Preferred ADSs and for certain non-Brazilian holders of Preferred Shares under the 2,689 Regulation will continue in the future or that such treatment will not be changed in the future. As of January 1, 2000, the preferential treatment under the 2,689 Regulation is no longer applicable if the non-Brazilian holder of the Preferred ADSs or Preferred shares is resident of a tax haven - i.e., countries which do not impose income tax or where such tax is imposed at a rate lower than 20% - in accordance with Law No. 9,959, of January 27, 2000. In other words, gains realized by such holder on the sale or exchange in Brazil that occur in the spot market of shares traded on a Brazilian stock exchange will be taxed at a rate of 10% (to be increased to 20% as of January 1, 2002, in accordance with the same Law). Law 9,959 also provides that such rate of 10% on gains realized on the sale or exchange in Brazil of Preferred Shares, that occur on the Sao Paulo Stock Exchange, will be increased to 20% for transactions carried out on or after January 1, 2002. Any exercise of preemptive rights relating to the Preferred Shares will not be subject to Brazilian taxation. Any gain on the sale or assignment of preemptive rights relating to the Preferred Shares by the Depositary on behalf of holders of Preferred

ADSs will be subject to Brazilian income taxation at the rate of 15%, unless such sale or assignment is performed within the Sao Paulo Stock Exchange, and with the investments registered under 2,689 Resolution or Annex V from Central Bank, in which the gains are exempt from withholding income tax . Any gain on the sale or assignment of preemptive rights relating to Preferred Shares, will be subject to Brazilian income tax at the same rate applicable to the sale or disposition of Preferred Shares. The maximum rate of such tax is currently 15%.

Notional Interest Charge Attributed to Shareholder's Equity. Distributions of interest on equity in respect of the Preferred Shares as an alternative form of payment to shareholders who are either Brazilian residents or non-Brazilian residents, including holders of ADSs, are subject to Brazilian withholding tax at the rate of 15%. Since 1996, such payments have been tax deductible by the Company. Since 1997, the payments have also been deductible in determining social welfare contributions and income tax by the Company as long as the payment of a distribution of interest is approved at the Company's General Meeting. The distribution of interest on shareholders' equity may be determined by the Board of Directors of the Company alone. No assurance can be given that the Board of Directors of the Company will not determine that future distributions of profits be made by means of interest on shareholders' equity instead of by means of dividends.

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

Pursuant to Decree 2,219 of May 2, 1997, and Ordinance no. 5 of January 21, 1999, issued by the Ministry of Finance, the amount in Reais resulting from the conversion of the proceeds received by a Brazilian entity from a foreign investment in the Brazilian securities market (including those in connection with the investment in the Preferred Shares or Preferred ADSs and those made under Annex IV Regulations) is subject to a transaction tax ("IOF"), although at present the rate of such tax is 0%. The Minister of Finance is empowered to establish the applicable IOF tax rate. Under Law 8,894 of June 21, 1994, such IOF tax rate may be increased at any time to a maximum of 25%, but any such increase will only be applicable to transactions occurring after such increase becomes effective.

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

Registered Capital. The amount of an investment in Preferred Shares held by a non-Brazilian holder who qualifies and registered with the CVM under the Annex IV Regulations which was converted into Annex of 2,689 Resolution as of June 2000, or in ADSs held by the Depositary representing such holder, as the case may be, is eligible for registration with the Central Bank; such registration (the amount so registered is referred to as "Registered Capital") allows the remittance abroad of foreign currency, converted at the Commercial Market rate, acquired with the proceeds of distributions on, and amounts realized with respect to disposition of, such Preferred Shares. The Registered Capital for Preferred Shares purchased in the form of a Preferred ADSs, or purchased in Brazil and deposited with the Depositary in exchange for a Preferred ADS, will be equal to their purchase price (in U.S. dollars) paid by the purchaser. The Registered Capital for Preferred Shares that are withdrawn upon surrender of Preferred ADSs, will be the U.S. dollar equivalent of (i) the average price of the Preferred Shares on the Brazilian stock exchange on which the greatest number of such Preferred Shares was sold on the day of withdrawal, or (ii) if no Preferred Shares were sold

on such day, the average price of Preferred Shares that were sold in the fifteen trading sessions immediately preceding such withdrawal. The U.S. dollar value of the Preferred Shares is determined on the basis of the average Commercial market rates quoted by the Central Bank on such date (or, if the average price of Preferred Shares is determined under clause (ii) of the preceding sentence, the average of such average quoted rates on the same fifteen dates used to determine the average price of the Preferred Shares).

A non-Brazilian holder of Preferred Shares may experience delays in effecting the registration of Registered Capital which may delay remittances abroad. Such a delay may adversely affect the amount, in U.S. dollars, received by the non-Brazilian holder.

U.S. FEDERAL INCOME TAX CONSIDERATIONS

As used below, a "U.S. holder" is a beneficial owner of a Preferred Share or Preferred ADS that is, for U.S. federal income tax purposes, (i) a citizen or individual resident of the United States, (ii) a corporation (or entity treated as a corporation) organized under the laws of the United States, any State thereof or the District of Columbia, or (iii) any other person or entity that is subject to U.S. federal income tax on a net income basis in respect of the Preferred Shares or Preferred ADSs (including a nonresident alien individual or foreign corporation whose income with respect to a Preferred Share or Preferred ADS is effectively connected with the conduct of a U.S. trade or business). The following discussion assumes that the Preferred Shares and Preferred ADSs are held as capital assets.

In general, for U.S. federal income tax purposes, a beneficial owner of an American Depository Receipt ("ADR") evidencing an ADS will be treated as the beneficial owner of the Preferred Share(s) represented by the applicable ADS.

Taxation of Dividends. In general, a distribution made with respect to a Preferred Share or Preferred ADS (which for this purpose will include distributions of interest on equity) will, to the extent made from the current or accumulated earnings and profits of the Company, as determined under U.S. federal income tax principles, constitute a dividend for U.S. federal income tax purposes. If a distribution exceeds the amount of the Company's current and accumulated earnings and profits, it will be treated as a non-taxable return of capital to the extent of the U.S. holder's tax basis in the Preferred Share or Preferred ADS on which it is paid and thereafter as capital gain. As discussed below, the term "dividend" means a distribution that constitutes a dividend for U.S. federal income tax purposes.

The gross amount of any dividend paid (which will include any amounts withheld in respect of Brazilian taxes) with respect to a Preferred Share or Preferred ADS will be subject to U.S. federal income taxation as foreign source dividend income and will not be eligible for the dividends received deduction generally allowed to U.S. corporations. A dividend paid in Brazilian currency will be includible in the income of a U.S. holder at its value in U.S. dollars calculated by reference to the prevailing spot market exchange rate in effect on the day it is received by the U.S. holder or, in the case of a dividend received in respect of Preferred ADSs, on the date the dividend is received by the Depositary, whether or not the dividend is converted into U.S. dollars. Any gain or loss realized on a subsequent conversion or other disposition of the Brazilian currency will be treated as U.S. source ordinary income or loss. In the case of a U.S. holder that is not a United States person, however, the currency gain or loss will be U.S. source income only if the currency is held by a qualified business unit of the U.S. holder in the United States.

Subject to generally applicable limitations under U.S. federal income tax law, the Brazilian withholding tax will be treated as a foreign income tax eligible for credit against a U.S. holder's U.S. federal income tax liability, subject to generally applicable limitations. For purposes of the computation of the foreign tax credit limitation separately for specific categories of income, any dividends generally will constitute foreign source "passive income" or, in the case of certain holders, "financial services income." Alternatively, a U.S. holder may elect not to claim a credit for any of its foreign taxes and deduct all of those taxes in computing taxable income.

Recently enacted U.S. federal income tax legislation reduces the rate of U.S. federal income tax payable by noncorporate taxpayers on dividends paid by certain non-U.S. corporations to 15% (or, with respect to dividends that otherwise would be taxed at the 10% or 15% rates, to 5%, except for taxable years beginning after December 31, 2007, for which the tax is eliminated). The reduced rates apply for purposes of both the regular tax and the alternative minimum tax. A dividend paid by a non-U.S. corporation qualifies for the reduced rate of tax if the stock on which the dividend is paid is readily tradable on an established securities market in the United States. The new legislation does not define "regularly tradable" or an "established securities market" for this purpose, although the legislative history indicates that a share of stock is treated as readily tradable on an established securities market if an ADR backed by the share is so tradable. Based on similar provisions in U.S. federal income tax law, the New York Stock Exchange, where Preferred ADSs trade, should qualify as an "established securities market". Even if the Preferred ADSs are so tradable at the time a dividend is paid, to qualify for the reduced rates, a shareholder must hold the share of stock on which the dividend is paid for more than 60 days during the 120-day period beginning 60 days before the ex-dividend date, disregarding for this purpose any period during which the taxpayer has an option to sell, is under a contractual obligation to sell or has made (and not closed) a short sale of substantially identical stock or securities, is the grantor of an option to buy substantially identical stock or securities or, pursuant to Treasury regulations, has diminished its risk of loss by holding one or more other positions with respect to substantially similar or related property. The 60-day and 120-day periods are extended to 90 days and 180 days in the case of preferred stock. In addition, to qualify for the reduced rates, the taxpayer must not be obligated to make related payments with respect to positions in substantially similar or related property. Payments in lieu of dividends from short sales or other similar transactions will not qualify for the reduced rates, although it is possible that individual taxpayers who receive such payments from their brokers may treat the payments as dividends to the extent the payments are reported to them as dividend income on their Forms 1099-DIV received for calendar year 2003, unless they know or have reason to know that the payments are in fact payments in lieu of dividends rather than actual dividends. A taxpayer that receives an extraordinary dividend eligible for the new reduced tax rates must treat any loss on the sale of the stock as a long-term capital loss to the extent of the dividend. For purposes of determining the amount of a taxpayer's deductible investment interest expense, a dividend is treated as investment income only if the taxpayer elects to treat the dividend as not eligible for the new reduced rates. Special limitations on foreign tax credits with respect to dividends subject to the reduced rates apply to reflect the reduced rates of tax. The new reduced tax rates on dividends apply to taxable years beginning after December 31, 2002 and before January 1, 2009.

Taxation of Capital Gains. A deposit or withdrawal of Preferred Shares by a holder in exchange for a Preferred ADS will not result in the realization of gain or loss for U.S. federal income tax purposes.

A U.S. holder generally will recognize capital gain or loss upon a sale or other disposition of a Preferred Share or Preferred ADS held by the U.S. holder or the Depositary in an amount equal to the difference between the U.S. holder's adjusted basis in the Preferred Share or Preferred ADS (determined in U.S. dollars), and the U.S. dollar amount realized on the sale or other disposition. If a Brazilian tax is withheld on the sale or disposition of a share, the amount realized by a U.S. holder will include the gross amount of the proceeds of that sale or disposition before deduction of the Brazilian tax. Recently enacted U.S. federal income tax legislation reduces the maximum rate of U.S. federal income tax that noncorporate taxpayers pay on adjusted net capital gain to 15% (or, with respect to adjusted net capital gain that otherwise would be taxed at the 10% or 15% rates, to 5%, except for taxable years beginning after December 31, 2007, for which the tax is eliminated). The reduced rates apply for purposes of both the regular tax and the alternative minimum tax. The lower rates of 8% and 18% for assets held more than five years were eliminated. The new legislation applies to taxable years ending on or after May 6, 2003 and before January 1, 2009, after which the maximum tax rate on adjusted net capital gain for noncorporate taxpayers will be 20%. . Capital gain or loss, if any, realized by a U.S. holder on the sale or other disposition of a Preferred Share or Preferred ADS generally will be treated as U.S. source income or loss for U.S. foreign tax credit purposes. Consequently, in the case of a disposition of a Preferred Share or Preferred ADS that is subject to Brazilian income tax (see "--Brazilian Tax Considerations--Taxation of Gains"), the U.S. holder may not be able to use the foreign tax credit for that Brazilian tax unless it can apply the credit against U.S. tax payable on other income from foreign sources in the appropriate income category, or, alternatively, it may take a deduction for the Brazilian tax if it elects to deduct all of its foreign income taxes. The same result could arise when a disposition is subject to Brazilian income tax but is not a taxable event for U.S. federal income tax purposes (for example, a deposit of a Preferred Share for a Preferred ADS that is subject to Brazilian tax).

Passive Foreign Investment Company Rules. Based upon the nature of its current and projected income, assets and activities, the Company does not expect the Preferred Shares or Preferred ADSs to be considered shares of a passive foreign investment company ("PFIC") for U.S. federal income tax purposes. In general, a foreign corporation is a PFIC if at least 75% of its gross income for the taxable year (or, in general, a preceding taxable year in which the taxpayer owned stock in the corporation) is passive income or if at least 50% of its assets for the current year (or, in general, a preceding year in which the taxpayer owned stock in the corporation) produce passive income or are held for the production of passive income. In general, passive income for this purpose means, with certain designated exceptions, dividends, interest, rents, royalties, annuities, net gains from dispositions of certain assets, net foreign

currency gains, income equivalent to interest, income from notional principal contracts and payments in lieu of dividends. The determination of whether the Preferred Shares or Preferred ADSs constitute shares of a PFIC is a factual determination made annually, and therefore the Company's failure to constitute a PFIC at one time is subject to change. Subject to certain exceptions, once a U.S. holder's Preferred Shares or Preferred ADSs are treated as shares of a PFIC, they remain shares in a PFIC.

If the Company is treated as a PFIC, contrary to the discussion in "U.S. Federal Income Tax Considerations--Taxation of Dividends" and "--U.S. Federal Income Tax Considerations--Taxation of Capital Gains" above, a U.S. holder would be subject to special rules with respect to (i) any gain realized on the sale or other disposition of Preferred Shares or Preferred ADSs and (ii) any "excess distribution" by the Company to the U.S. holder (generally, any distribution during a taxable year in which distributions to the U.S. holder on the Preferred Shares or Preferred ADSs exceed 125% of the average annual taxable distributions the U.S. holder received on the Preferred Shares or Preferred ADSs during the proceeding three taxable years or, if shorter, the U.S. holder's holding period for the Preferred Shares or Preferred ADSs). Under those rules, (i) the gain or excess distribution would be allocated ratably over the U.S. holder's holding period for the Preferred Shares or Preferred ADSs, (ii) the amount allocated to the taxable year in which the gain or excess distribution is realized would be taxable as ordinary income and (iii) the amount allocated to each prior year, with certain exceptions, would be subject to tax at the highest tax rate in effect for that year, and the interest charge generally applicable to underpayments of tax would be imposed in respect of the tax attributable to each such year. A U.S. holder who owns Preferred Shares or Preferred ADSs during any year the Company is a PFIC must file Internal Revenue Service Form 8621.

The special PFIC rules described above will not apply to a U.S. holder if the U.S. holder makes a timely election to treat the Company as a "qualified electing fund" in the first taxable year in which the U.S. holder owns a Preferred Share or Preferred ADS and if the Company complies with certain reporting requirements. Instead, a shareholder of a qualified electing fund is required for each taxable year to include in income a pro rata share of the ordinary earnings of the qualified electing fund as ordinary income and a pro rata share of the net capital gain of the qualified electing fund as long-term capital gain, subject to a separate election to defer payment of taxes, which deferral is subject to an interest charge. Any ordinary income inclusion, as well as any actual dividend that otherwise would qualify for the 15% maximum tax rate prescribed by recently enacted U.S. federal income tax legislation, will not qualify for that rate if the foreign corporation is a PFIC in either the taxable year of the dividend or the preceding taxable year. Any net capital gain inclusion should qualify for the new 15% rate on adjusted net capital gain.The Company has not yet determined whether, if it were a PFIC, it would make the computations necessary to supply U.S. holders with the information needed to report income and gain pursuant to a QEF election. It is, therefore, possible that U.S. holders would not be able to make that election if the Company became a PFIC.

Assuming the election is available, the QEF election is made on a shareholder-by-shareholder basis and generally can be revoked only with the consent of the Internal Revenue Service, or IRS. A shareholder makes a QEF election by attaching a completed IRS Form 8621, including the PFIC annual information statement, to a timely filed U.S. federal income tax return and by filing that form with the IRS Service Center in Philadelphia, Pennsylvania. Even if a QEF election is not made, a shareholder in a PFIC who is a U.S. person must file a completed IRS Form 8621 every year. Although a QEF election generally cannot be revoked, if a U.S. holder made a timely QEF election for the first taxable year it owned a Preferred Share or Preferred ADS and the Company is a PFIC, the QEF election ceases to apply in any later taxable year in which the Company does not satisfy the tests to be a PFIC. If that election is not made in that first taxable year, an election in a later year generally will require the payment of tax and interest, and in certain circumstances the election may cease to be available at a later date.

In lieu of a WEG election, a U.S. holder of stock in a PFIC that is considered marketable stock could elect to mark the stock to market annually, recognizing as ordinary income or loss each year an amount equal to the difference as of the close of the taxable year between the fair market value of the holder's PFIC stock and the adjusted basis in the PFIC stock. Losses would be allowed only to the extent of net mark-to-market gain previously included in income by the U.S. holder under the election for prior taxable years. If the mark-to-market election were made, then the rules set forth in the second preceding paragraph would not apply for periods covered by the election. In general, our stock will be marketable stock within the meaning of the Treasury regulations if its is traded, other than in de minimis quantities, on at least 15 days during each calendar quarter.

Information Reporting and Backup Withholding. A U.S. holder of a Preferred Share or Preferred ADS will generally be subject to information reporting to the U.S. Internal Revenue Service ("IRS") and to "backup withholding" with respect to dividends paid on or the proceeds of a sale or other disposition of a Preferred Share or Preferred ADS or paid within the United States, unless such holder (i) is a corporation or comes within certain other exempt categories, and demonstrates this fact when so required, or (ii) provides a correct taxpayer identification number, certifies that it is not subject to backup withholding, and otherwise complies with applicable requirements of the backup withholding rules. Any amount withheld under these rules will be creditable against the holder's U.S. federal income tax liability, and a U.S. holder may obtain a refund of any excess amounts withheld by filing the appropriate claim for refund with the IRS. While holders that are not U.S. holders generally are exempt from backup withholding and information reporting on payments made within the United States, a holder that is not a U.S. holder may be required to comply with applicable certification procedures to establish that it is not a U.S. person in order to avoid the application of U.S. information reporting requirements and backup withholding.

F. DIVIDENDS AND PAYING AGENTS

Not Applicable.

G. STATEMENTS OF EXPERTS

Not Applicable.

H. DOCUMENTS ON DISPLAY

Sadia's SEC filings, including this annual report and the exhibits thereto, are available for inspection and copying at the public reference facilities maintained by the Securities and Exchange Commission. Information can be obtained either on the SEC website (www.sec.gov) or by phone 1-800-SEC-0330. Company documents and statutory information are also available at Sadia's website (www.sadia.com.br) (which is not deemed incorporated by reference in this annual report). Information regarding legal issues can be obtained from the Company's U.S. legal counsel, Greenberg, Traurig, LLP, at 1-212-801-9380.

I. SUBSIDIARY INFORMATION

Not Applicable.

ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

QUANTITATIVE INFORMATION ABOUT MARKET RISK

The Company is exposed to various market risks, including changes in foreign currency exchange rates and interest rates. Market risk is the potential loss arising from adverse changes in market rates and prices, such as foreign currency exchange rates and interest rates.

Sadia's sales outside Brazil are largely U.S. dollar-denominated. Sales to both domestic and overseas markets are affected on a regular basis to continuous customers and the Company's strategy is to increase exports to new markets in different regions. There are no significant firm commitments for future sales in dollars.

Foreign Currency Risk

The Company's foreign currency exposure gives rise to market risks associated with exchange rate movements against the U.S. dollar. Foreign currency denominated liabilities as of December 31, 2002 consisted of debt denominated in U.S. dollars. As of December 31, 2002, approximately 51% of the Company's cash, cash equivalents and investments in debt securities were denominated in U.S. dollars. Sadia's sales outside Brazil are largely U.S. dollar-denominated, and sales within Brazil and most operating costs are reais denominated. At December 31, 2002 foreign currency and interest rate swap contracts totally hedge the exposure arising from U.S. dollar-denominated debt. The Company evaluates on a regular basis the macroeconomic situation and impact on Sadia's financial position. The table below provides information on Company's foreign currency as of December 31, 2002.

	As of December 31, 2002 Expected Maturity Date							
	2003	2004	2005	2006	2007	After 2007	Total	Fai Val
			(R$ in millions)					
Assets:								
Cash and cash equivalents:								
denominated in U.S. dollars	122.1	-	-	-	-	-	122.1	1
Investments:								
denominated in U.S. dollars	72.4	32.7	39.2	23.2	23.2	573.7	764.4	7
Total cash, cash equivalents and Investments	194.5	32.7	39.2	23.2	23.2	573.7	886.5	8
Liabilities:								
Short term debt:								
denominated in U.S. dollars	1,241.2	-	-	-	-	-	1,241.2	1,2
Long term debt:								
denominated in U.S. dollars	209.3	215.9	314.5	221.2	83.7	81.4	1,126.0	1,1
Total short and long term debt	1,450.5	215.9	314.5	221.2	83.7	81.4	2,367.2	2,3
Foreign currency and interest Rate swap contracts notional								
Amount	284.2	7.4	173.2	304.9	-	42.6	812.3	1

Average Paying Rate in reais	68%CDI
Average Receiving Rate in U.S. Dollars	10.8%p.a.

The Company incurred most of this debt principally to take advantage of the opportunities that arise due to interest rate differentials between real-denominated financial instruments (cash and cash equivalents) and its foreign currency export credits. The Company believes that given its level of assets and resources, it should have sufficient cash and sources of working capital to meet its debt service.

Foreign currency denominated contracts constituting "export prepayments" generally cannot be prepaid, since they are intended to be amortized using the proceeds from designated export shipments. The amortization can be accelerated, provided that the corresponding export shipment is itself accelerated. Other foreign currency denominated financings, undertaken through Sadia International, provides elective prepayment without premium or penalty. Such prepayments, however, are subject to paying the lenders an indemnity for "breakage" costs, which often may make prepayment prohibitively expensive.

The percentage of the Company's debt subject to fixed and floating interest rates is as follows:

	AS OF DECEMBER 31, 2002
Floating rate debt	
. Denominated in US dollars	4%
. Denominated in reais	16%
Fixed rate debt	
. Denominated in US dollars	68%
. Denominated in reais	12%
Total..	100%

Sadia's foreign currency and interest swap contracts are effected to mitigate the potential foreign currency exchange losses which would be generated by U.S. dollar denominated liabilities in the event of a devaluation. The Company does not use these swap contracts for trading or speculative purposes. The exports sales in U.S. dollars also mitigate the potential losses in the event of a devaluation.

Interest Rate Risk

Sadia's floating interest rate exposure is primarily subject to the variations of LIBOR as it relates to U.S. dollar-denominated debt and to the variations of the TJLP, an annual long-term interest rate that includes an inflation factor and is determined quarterly by the Central Bank and other exchange variation. On December 31, 2002, the TJLP was equivalent to 10.00% per year.

The interest rate on Company's cash and cash equivalents denominated in reais is based primarily on Interbank Deposit Certificates, or CDI rate, the benchmark interest rate set by the interbank market on a daily basis.

The table below provides information about Sadia's significant interest rate-sensitive instruments. For variable interest rate debt, the rate presented is the weighted average rate calculated as of December 31, 2002.

AS OF DECEMBER 31, 2002
EXPECTED MATURITY DATE

	2003	2004	2005	2006	2007	AFTER 2007	TOTAL	FAIR VALUE	AVERAGE ANNUAL INTEREST RATE
Assets:									
Cash and cash equivalents:									

Denominated in reais	201.6	-	-	-	-	-	201.6	201.6	100 % of CDI
Denominated in reais	131.9	-	-	-	-	-	131.9	131.9	-
Denominated in U.S. dollars	5.6	-	-	-	-	-	5.6	5.6	-
Denominated in U.S. dollars	116.5	-	-	-	-	-	116.5	116.5	2.45%
	455.6	-	-	-	-	-	455.6	455.6	
Investments in debt securities:									
Denominated in reais	721.8	54.3	-	-	-	14.5	790.6	790.6	24.59%
Denominated in U.S. dollars	72.4	32.7	39.2	23.2	23.2	573.7	764.4	760.0	12.53%
Total cash, cash equivalents and Investments in debt securities	1,249.8	87.0	39.2	23.2	23.2	588.2	2,010.6	2,006.2	
Liabilities:									
Short term debt:									
Fixed rate									
Denominated in reais	263.0	-	-	-	-	-	263.0	263.0	8.75 %
Denominated in U.S. dollars	1,241.2	-	-	-	-	-	1,241.2	1,241.2	4.77%
Total short-term debt	1,504.2	-	-	-	-	-	1,504.2	1,504.2	
Long term debt:									
Fixed rate									
Denominated in reais	6.5	-	3.0	-	-	99.0	108.5	108.5	IGPM+9.89%
Denominated in U.S. dollars	176.8	179.5	278.0	208.0	70.6	70.6	983.5	983.5	4.31%
Floating rate									
Denominated in reais	332.1	76.8	75.5	17.0	10.7	6.4	518.5	518.5	TJLP+1.97%
Denominated in U.S. dollars	32.5	36.4	36.5	13.2	13.1	10.8	142.5	142.5	3.50%
Total long term debt	547.9	292.7	393.0	238.2	94.4	186.8	1,753.0	1,753.0	
Total debt	2,052.1	292.7	393.0	238.2	94.4	186.8	3,257.2	3,257.2	
Foreign currency and interest rate swap contracts notional amount - reais to US Dollars	284.2	7.4	173.2	304.9	-	42.6	812.3	163.5	
Average Paying Rate in reais				68% CDI					
Average Receiving Rate in Dollars			10.8% p.a.						

At December 31, 2002, the Company had foreign currency and interest rate swap contracts to hedge its U.S. dollar denominated debt. Since a large portion of its debt is denominated in U.S. dollars, the Company protects itself from the effects of unfavorable exchange movements by entering into foreign currency and interest rate swap contracts. The Company does not use derivatives for trading or speculative purposes. See note 16 of the consolidated financial Statements for discussion of the accounting policies for derivatives and other financial instruments.

PART II

ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES
Not Applicable.

ITEM 13. DEFAULTS, DIVIDENDS ARREARAGES AND DELINQUENCIES
None.

ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS
Not Applicable.

ITEM 15. CONTROL AND PROCEDURES

Within the 90 days prior to the date of this report, the Company carried out an evaluation under the supervision and with the participation of its management, including its Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of its disclosure controls and procedures. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives. Based upon and as of the date of our evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that the disclosure controls and procedures are effective to provide reasonable assurance that information required to be disclosed in the reports the Company files and submits under the Exchange Act is recorded, processed, summarized and reported as and when required.

Furthermore, there were no significant changes in the Company's internal controls or in other factors that could significantly affect these controls subsequent to the date of their most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses. The certifications required by this Item have been filed as Exhibits 12.01 and 12.02.

ITEM 16. [RESERVED]

PART III

ITEM 17. FINANCIAL STATEMENTS
The Company has responded to Item 18 in lieu of responding to this item.

ITEM 18. FINANCIAL STATEMENTS
Reference is made to Item 19 for a list of all financial Statements filed as part of this Annual Report.

ITEM 19. FINANCIAL STATEMENTS AND EXHIBITS

All schedules for which provision is made in the applicable accounting regulation of the Securities and Exchange Commission are not required under the related instructions or are inapplicable and therefore have been omitted.

LIST OF EXHIBITS

12.01 Certification by the Company's Chief Executive Officer required by Item 15
12.02 Certification by the Company's Chief Financial Officer required by Item 15
13.01 Certification pursuant to 18 U.S.C. Section 1350.
13.02 Certification pursuant to 18 U.S.C. Section 1350.

SIGNATURES

The Company hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this Annual Report on its behalf.

SADIA S.A.

Date: June 20th, 2003

By:	By:
Name:Walter Fontana Filho	Name: Luiz Gonzaga Murat Jr.
Title: Chief Executive Officer	Title: Chief Financial Officer

CONSOLIDATED FINANCIAL STATEMENTS

SADIA S.A.

YEARS ENDED DECEMBER 31, 2002, 2001 AND 2000

SADIA S.A.

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REPORT OF INDEPENDENT AUDITORS

The Board of Directors and Shareholders of
Sadia S.A.

We have audited the accompanying consolidated balance sheets of Sadia S.A. as of December 31, 2002 and 2001, and the related consolidated statements of operations, changes in shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2002. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Sadia S.A. at December 31, 2002 and 2001, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2002, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 3, during 2001 the Company changed its method of accounting for derivative financial instruments.

Ernst & Young
Auditores Independentes S.C.

Sergio Ricardo Romani
Partner

Sao Paulo, Brazil
January 31, 2003

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SADIA S.A.

CONSOLIDATED BALANCE SHEETS
December 31, 2002 and 2001
(In thousands of Reais - R$, except share amounts)

	2002	
Assets		
Current assets:		
Cash and cash equivalents	455,596	
Held-to-maturity securities	721,765	
Available-for-sale debt securities	72,422	
Foreign currency and interest rate swap contracts	51,164	
Accounts and notes receivable, net	468,954	
Inventories	860,594	
Recoverable taxes	130,394	
Deferred income taxes	31,740	
Other assets	24,838	
Total current assets	2,817,467	1,
Property, plant and equipment, net	860,070	
Other assets:		
Equity investees	5,422	
Held-to-maturity securities	2,234	
Available for sale debt securities	758,623	
Foreign currency and interest rate swap contracts	112,384	
Judicial deposits	69,044	
Recoverable taxes	113,701	
Deferred income taxes	128,286	

Assets available for sale	29,419	
Intangible asset	28,187	
Prepaid pension plan	18,959	
Other	31,831	
Total other assets	1,298,090	
Total assets	4,975,627	3,

	2002	
Liabilities and Shareholders' equity		
Current liabilities:		
Short -term debt	1,504,214	
Current portion of long-term debt	547,854	
Foreign currency and interest rate swap contracts	-	
Suppliers	247,176	
Salaries and social charges payable	14,589	
Taxes payable	45,692	
Dividends payable	55,666	
Accrued vacation payable	42,273	
Accrued employee bonus	23,164	
Accrued freight	28,480	
Other	82,275	
Total current liabilities	2,591,383	1,
Long-term liabilities		
Long-term debt	1,205,160	
Provision for legal proceedings and labor claims	57,273	
Income taxes	-	
Accrued benefit liability	38,260	
Other	25,429	
Total long-term liabilities	1,326,122	1,
Commitments and contingencies		
Minority interest	363	
Shareholders' equity:		
Preferred shares, no par value, 426,000,000 shares Authorized and issued in 2002 and 2001	439,939	
Common shares, no par value, 257,000,000 shares Authorized and issued in 2002 and 2001	260,061	
Preferred shares in treasury, at cost	(198)	
Appropriated retained earnings	468,413	
Unappropriated retained earnings (deficit)	6,145	(
Accumulated other comprehensive (loss) income	(116,601)	

Total shareholders' equity	1,057,759	
Total liabilities and shareholders' equity	4,975,627	3,

See notes to Consolidated Financial Statements.

SADIA S.A

CONSOLIDATED STATEMENTS OF OPERATIONS
Years ended December 31, 2002, 2001
and 2000 (In thousands of Reais - R$, except
numbers of shares and per share amounts)

	2002	2001	
Gross operating revenue	4,654,752	3,977,137	3,2
Value-added tax on sales	(417,280)	(293,280)	(3
Sales deductions	(50,337)	(81,387)	(
Net operating revenue	4,187,135	3,602,470	2,8
Cost of goods sold	(2,903,152)	(2,322,691)	(2,1
Gross profit	1,283,983	1,279,779	7
Operating expenses:			
Selling	(876,755)	(720,761)	(5
General and administrative	(49,133)	(54,029)	(
Other operating expenses, net	(12,773)	(17,136)	
Total operating expenses	(938,661)	(791,926)	(6
Operating income	345,322	487,853	
Interest expense	(317,755)	(201,210)	(1
Interest income and other, net	266,462	144,635	1
Foreign currency exchange gain (loss), net	2,701	(171,377)	(
Income before income taxes, equity income (loss) of investees, minority interest and cumulative effect of accounting change	296,730	259,901	
Income tax expense			
Current benefit (expense)	34,631	(38,895)	
Deferred tax benefit (expense)	(30,779)	5,060	(
Benefits of operating loss carryforwards	(16,007)	(17,221)	
	(12,155)	(51,056)	(

Income (loss) before equity income (loss) of investees, minority interest and cumulative effect of accounting change	284,575	208,845
Equity (loss) income of investees	(650)	43
Minority interest	337	439
Income (loss) before cumulative effect of accounting change	284,262	209,327
Cumulative effect of accounting change, net of tax	-	(5,843)
Net income (loss)	284,262	203,484
Net income (loss) applicable to preferred shares	183,533	131,378
Net income (loss) applicable to common shares	100,729	72,106
Net income (loss)	284,262	203,484

SADIA S.A

CONSOLIDATED STATEMENTS OF OPERATIONS (Continued)
Years ended December 31, 2002, 2001
and 2000 (In thousands of Reais - R$, except
numbers of shares and per share amounts)

	2002	2001		
Per share data:	Net Income	Before cumulative effect of accounting change	Cumulative effect of accounting change	
Basic and diluted earnings (loss) per thousands shares in R$:				
Preferred	431.14	317.48	(8.86)	
Common	391.94	288.62	(8.06)	
Weighted average number of shares outstanding:				
Preferred	425,695,712	425,695,712	425,695,712	42
Common	257,000,000	257,000,000	257,000,000	25

See notes to Consolidated Financial Statements.

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SADIA S.A.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
Years ended December 31, 2002, 2001 and 2000
(In thousands of Reais -R$ and shares)

2002 2001 2000

	Shares	Amounts	Shares	Amounts	Sh
Preferred shares					
At the beginning of the year	426,000	439,939	426,000	439,939	426
Capital increase without issue of shares	-	-	-	-	
At the end of the year	426,000	439,939	426,000	439,939	426
Common shares					
At the beginning of the year	257,000	260,061	257,000	260,061	257
Capital increase without issue of shares	-	-	-	-	
At the end of the year	257,000	260,061	257,000	260,061	257
Treasury shares					
At the beginning of the year	(304)	(198)	(304)	(198)	
At the end of the year	(304)	(198)	(304)	(198)	
Retained earnings					
Appropriated retained earnings					
At the beginning of the year	-	308,954	-	186,552	
Transfer from unappropriated retained earnings (deficit)	-	159,459	-	122,402	
At the end of the year	-	468,413	-	308,954	
Unappropriated retained earnings (deficit)					
At the beginning of the year	-	(41,992)	-	(42,868)	
Used to increase capital	-	-	-	-	
Net income (loss)	-	284,262	-	203,484	
Transfer to appropriated retained earnings	-	(159,459)	-	(122,402)	
Dividends / interest on capital					
Preferred	-	(49,500)	-	(51,786)	
Common	-	(27,166)	-	(28,420)	
At the end of the year	-	6,145	-	(41,992)	
Accumulated other comprehensive					

income				
At the beginning of the year	-	417	-	10,292
Adjustment to unrealized gain (loss) on available-for-sale securities	-	(177,085)	-	(9,875)
Income tax benefit	-	60,067	-	-
At the end of the year	-	(116,601)	-	417
Total shareholders' equity	-	1,057,759	-	967,181

SADIA S.A

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY (Continued)
Years ended December 31, 2002, 2001 and 2000
(In thousands of Reais -R$)

	2002	2001
Comprehensive income:		
Net income (loss)	284,262	203,484
Unrealized gain (loss) on available-for-sale securities	(177,085)	(6,845)
Income tax benefit	60,067	-
Reclassification adjustment for gain included in net income	-	(3,030)
Comprehensive income	167,244	193,609

See notes to Consolidated Financial Statements.

SADIA S.A.

CONSOLIDATED STATEMENTS OF CASH FLOWS
Years ended December 31, 2002, 2001 and 2000
(In thousands of Reais -R$)

	2002	2001	2

CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income (loss)	284,262	203,484	(
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Cumulative effect of accounting change, net of tax	-	5,843	
Minority interest	(337)	(439)	
Gain on sale of securities	-	(3,030)	(2
Foreign currency exchange (gain) loss, net	(2,701)	171,377	7
Equity income or loss of investees	650	(43)	
Loss on divestiture of Lapa investment	-	-	
Depreciation	92,136	88,902	7
Deferred income taxes	46,786	12,161	2
Pension plan	(6,220)	(691)	
Provision for (reversal of) contingencies	484	(48,964)	1
Loss (gain) from sale of property, plant and equipment	10,700	(717)	
Changes in operating assets and liabilities:			
Accounts and notes receivable	(91,130)	15,597	1
Inventories	(175,479)	(155,218)	
Recoverable taxes and other assets	(128,697)	(20,718)	(1
Judicial deposits	(12,331)	(8,582)	2
Suppliers	71,449	17,534	(1
Social charges, taxes payable and other liabilities	204,362	143,694	(3
NET CASH PROVIDED BY OPERATING ACTIVITIES	293,934	420,190	15
CASH FLOWS FROM INVESTING ACTIVITIES:			
Proceeds from sale of property, plant and equipment	7,530	67,026	3
Purchase of property, plant and equipment	(112,122)	(103,522)	(15
Investment in equity investees	(2,933)	(1,472)	
Held-to-maturity investments:			
Purchases	(805,968)	-	(4
Maturities	132,992	-	10
Available-for-sale debt securities:			
Purchases	(61,529)	(93,895)	(64
Maturities and sales	71,391	277,758	65
Other assets	-	-	(1
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	(770,639)	145,895	(6
CASH FLOWS FROM FINANCING ACTIVITIES:			
Short-term debt			
Issuances	1,466,623	734,532	1,64
Repayments	(967,434)	(1,471,648)	(1,81
Long-term debt			
Issuances	561,208	496,445	12
Repayments	(323,852)	(175,553)	(9
Dividends paid	(73,794)	(52,572)	(2
Indebtedness to related parties	-	(19,792)	(1
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	662,751	(488,588)	(17
Net change in cash and cash equivalents	186,046	77,497	(8
Cash and cash equivalents at beginning of year	269,550	192,053	28
Cash and cash equivalents at end of year	455,596	269,550	19

See notes to Consolidated Financial Statements.

SADIA S.A.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years ended December 31, 2002, 2001 and 2000
(In thousands of Reais - R$, unless otherwise indicated)

1. OPERATIONS

Sadia S.A. (together with its consolidated subsidiaries, "Sadia" or "the Company") is incorporated under the laws of the Federative Republic of Brazil. Sadia S.A.'s shares are traded on the Sao Paulo Stock Exchange.

During 2000, Sadia S.A.'s wholly owned subsidiary Rezende Alimentos Ltda. was converted from a limited liability company into a corporation and the subsidiary's name was changed to Sadia Alimentos S.A. On December 29, 2000, Sadia S.A., then the parent, was merged into Sadia Alimentos S.A., whose name was then changed to Sadia S.A. On July 23, 2002, Granja Rezende S.A. was merged into Sadia S.A.. As both mergers were into wholly owned subsidiaries, there was no effect on the consolidated financial statements.

The Company's principal business is the production and distribution of poultry and pork products. The Company's operations include feed facilities, hatcheries, poultry farms for grandparent and parent stock, pork breeding centers, poultry and pork processing units, sales offices and distribution centers. Presently Sadia's operations are organized into three main business segments: "Processed Products" (sausage, ham, chicken nuggets, margarine, frozen meals, pizza and pasta among other similar products), "Poultry" (chickens and turkeys) and "Pork".

Although the economic situation in Brazil has remained stable in recent years, a return to higher levels of inflation and currency fluctuations could adversely affect the Company's operations. The devaluation of the Brazilian real in relation to the U.S. dollar has had significant effects on the Company's financial statements. The exchange rate of the Brazilian real ("R$") to the U.S. dollar was R$1.9554:US$1.00 at December 31, 2000, R$2.3204:US$1.00 at December 31,2001 and R$3.5333:US$1.00 at December 31, 2002.

2. PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

a) Basis of presentation

The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("US GAAP"), which differs in certain respects from accounting principles generally accepted in Brazil ("Brazilian GAAP"), which the Company uses to prepare its statutory financial statements as filed with the Brazilian Securities Commission - CVM ("Comissao de Valores Mobiliarios").

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SADIA S.A.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
Years ended December 31, 2002, 2001 and 2000
(In thousands of Reais - R$, unless otherwise indicated)

2. PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

b) Consolidation procedures

The consolidated financial statements include the accounts of Sadia S.A. and its controlled subsidiaries (ownership interest greater than 50%). Investments in entities in which the Company does not control but has significant influence over, are accounted for on the equity method. All significant intercompany accounts and transactions are eliminated.

The following subsidiaries were included in the consolidated financial statements:

	Ownership %
Sadia International Ltd.	100.0
Sadia Uruguay S.A.	100.0
Sadia Argentina S.A.	100.0
Sadia Europe Ltd.	100.0
Sadia Italia S.R.L.	99.9
Sadia Chile S.A.	60.0
Sadia G.M.B.H (Austria)	100.0
Laxness F.C.P.A. S.A.	100.0
Concordia Corretora de Valores, Cambio e Commodities	100.0
Rezende Oleo Ltda.	100.0
Rezende Marketing e Comunicacoes Ltda.	100.0

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SADIA S.A.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
Years ended December 31, 2002, 2001 and 2000
(In thousands of Reais - R$, unless otherwise indicated)

2. PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

c) Acquisition of Granja Rezende

On December 28, 1999, Sadia acquired the capital stock of Granja Rezende S.A. (primarily a producer and distributor of poultry and pork products) for R$137,303, consisting of cash in the amount of R$55,303 and the issuance of a R$82,000 note payable. The operations of Granja Rezende S.A. are included in the consolidated statement of operations from the date of acquisition. The transaction was accounted for as a purchase and the excess of the fair value of the net assets acquired over the cost of the acquisition was allocated to reduce the value assigned to non current assets.

Immediately following the acquisition of Granja Rezende, the Company decided to sell Granja Rezende's soybean crushing and oil manufacturing plant, which was not then in operation, and administrative complex. At December 31, 1999, these assets were carried at fair value less estimated cost to sell as determined in the Granja Rezende purchase price allocation and were classified as assets available for sale. On March 22, 2000, the Company sold the soybean crushing and oil manufacturing plant for net proceeds of R$30,800 which were equal to the carrying value of the assets. The Company has still been developing initiatives for the sale of Granja Rezende's administrative complex, which is included in assets available for sale-non current assets at its fair value, less estimated cost to sell, of R$18,149 at December 31, 2002. In addition, at the time of acquisition the Company determined it would terminate certain employees of Granja Rezende and provided for their dismissal cost (R$3,300) in the allocation of the purchase price. Subsequent to the acquisition date, these employees were terminated and paid in the amount provided. As mentioned in note 1, Granja Rezende S.A. was merged into Sadia S.A. during 2002.

d) Divestiture of investment in Lapa Alimentos S.A.

During 2000, the Company exchanged its 50% equity interest in Lapa Alimentos S.A. ("Lapa") for certain accounts and notes receivable and property and equipment of Lapa with an estimated fair value of R$14,399, resulting in a loss on disposal of the investment of R$7,962. During 2001 and 2002, a portion of these assets were sold at a loss of R$1,111 in 2002 (a gain of R$504 in 2001) which is included in other operating expense, net in the consolidated statement of operations. The Company anticipates that the remaining property and equipment received at its fair value, less estimated cost to sell, of R$2,891, included in assets available for sale-current assets at December 31, 2002, will be sold during 2003. The Company's equity in the net loss of Lapa, was R$5,096 for the year ended December 31, 2000.

3. SIGNIFICANT ACCOUNTING POLICIES

a) Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

b) Cash and cash equivalents

Cash equivalents are highly liquid investments with maturity of three months or less when purchased.

c) Investments

Management determines the appropriate classification of the debt securities at the time of purchase and reevaluates such designation as of each balance sheet date. Available-for-sale securities are carried at fair value, with the unrealized gains and losses reported in other comprehensive income. Interest on securities classified as available-for-sale is included in interest income and other, net. The specific identification method is used to determine the cost of securities sold, with realized gains and losses included in interest income and other, net.

Investments are classified as held-to-maturity when the Company has the intention and ability to hold the securities to maturity. Held-to-maturity securities are carried at amortized cost with realized gains and losses reported in interest income and other, net.

In determining if and when a decline in market value below amortized cost is other-than-temporary, management evaluates the market conditions, offering prices and other key measures for the investments in debt securities. When such a decline in value is deemed to be other-than-temporary, an impairment loss is recognized in the operating results to the extent of the decline.

d) Inventories

Inventories are stated at lower of cost or market using the average cost method.

e) Property, plant and equipment

Property, plant and equipment are stated at cost. Depreciation is computed principally by the straight-line method over estimated useful lives of 25 years for buildings, 5 to 10 years for machinery and equipment, 10 years for installations and 4 years for vehicles.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

f) Accounting for the Impairment of Long-Lived Assets

The Company continually reevaluates the carrying value of its long-lived assets for events or changes in circumstances, which indicate that the carrying value may not be recoverable. As part of this reevaluation, the Company estimates the future cash flows expected to result from the use of the asset and its eventual disposal. If the sum of the expected future cash flows (undiscounted and without interest charges) is less than the carrying amount of the asset, an impairment loss is recognized through a charge to operations.

g) Interest attributed to shareholders' equity

Brazilian corporations are permitted to attribute interest on shareholders' equity similar to dividends declared, which is deductible for income tax purposes. The Company elected to pay such interest to its shareholders on December 31, 2002 and accrued the amount due with a direct charge to shareholders' equity. The distribution to the shareholders is subject to withholding income tax at the rate of 15%.

h) Revenues and expenses

Revenues on sales and associated costs are recognized when products are delivered to customers. Revenue on certain international sales is recognized upon transfer of title, which may occur after shipment.

Shipping and handling costs are classified as cost of goods sold.

Research and development costs are charged to expense as incurred and totaled R$7,296, R$8,709 and R$7,598, for the years ended December 31, 2002, 2001 and 2000, respectively.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

i) Recently Issued Accounting Standards

In August 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations." This statement requires the Company to recognize the fair value of a liability associated with the cost the Company would be obligated to incur in order to retire an asset at some point in the future. The liability would be recognized in the period in which it is incurred and can be reasonably estimated. The standard is effective for fiscal years beginning after June 15, 2002. The Company expects to adopt this standard at the beginning of its fiscal 2003. The Company believes the adoption of SFAS No. 143 will not have a material impact on its financial position or results of operations.

In July 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." SFAS No. 146 addresses financial accounting and reporting for costs associated with exit or disposal activities and replaces EITF Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." SFAS No. 146 requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred. SFAS No. 146 also establishes that fair value is the objective for initial measurement of the liability. The statement is effective for exit or disposal activities initiated after December 31, 2002. The Company believes the adoption of SFAS No. 146 will not have a material impact on its financial position or results of operations.

In November 2002, the FASB issued FIN 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others" ("FIN 45"). The Interpretation requires expanded disclosure to be made in the guarantor's financial statements in regards to the guarantees and obligations under certain agreements. It also requires that a guarantor recognize, as the inception of the guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. The disclosure requirements of FIN 45 are effective for financial statements issued after December 31, 2002 and have therefore been applied in the accompanying financial statements. The recognition requirements of FIN 45 are applicable for guarantees issued or modified after December 31, 2002. The Company is still evaluating the effect, if any, that adoption of the Interpretation will have on its financial condition and results of operations.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

i) Recently Issued Accounting Standards (Continued)

In January 2003, the FASB issued FASB Interpretation 46, "Consolidation of Variable Interest Entities" ("FIN 46"). The Interpretation clarifies the application of Accounting Research Bulletin 51, "Consolidated Financial Statements", to certain entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated support from other parties. FIN 46 requires existing, unconsolidated variable interest entities ("VIE") to be consolidated by their primary beneficiaries if the entities do not effectively disperse risks among parties involved. All companies with variable interest in VIE's created after January 31, 2003 shall apply the provisions of this Interpretation to those entities immediately. A public company with a VIE created before February 1, 2003, shall apply the provisions of this Interpretation to that entity no later than the beginning of the first interim or annual reporting period after June 15, 2003. For VIE's for which an enterprise holds a variable interest that it acquired before February 1, 2003, FIN 46 may be applied by either restating previously issued financial statements or prospectively from the date of adoption. The Company will begin applying the provisions of this new announcement effective January 1, 2004. The Company will adopt the Interpretation on a prospective basis.

j) Advertising expense

The cost of advertising is expensed as incurred. The Company incurred advertising costs of R$82,154, R$90,519 and R$61,797, during the years ended December 31, 2002, 2001 and 2000, respectively.

k) Foreign currency transactions

Transactions in foreign currency are recorded at the prevailing exchange rate at the time of the related transactions. Foreign currency denominated monetary assets and liabilities are translated using the exchange rate at the balance sheet date. Exchange differences are recognized in the statements of operations as they occur.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

l) Income taxes

Income taxes have been provided using the liability method in accordance with FASB statement No. 109, Accounting for Income Taxes.

m) Earnings per share

Basic earnings (loss) per share is calculated in accordance with FASB Statement No. 128, Earnings per Share, for each class of shares, taking into account that the preferred shares are entitled to a dividend 10% greater than that of the common shares. The computation has been made as if the net income for each year will be fully distributed. Earnings may be used to increase capital or otherwise appropriated; consequently such earnings would no longer be available as dividends. Therefore, there is no assurance that preferred shareholders will receive the 10% premium on undistributed earnings. The unit of one thousand shares is used because this is the basis for quotation and trading on the Sao Paulo Stock Exchange.

n) Accounting for Derivative Instruments and Hedging Activities

As of January 1, 2001, the Company adopted Financial Accounting Standards Board Statement No. 133, Accounting for Derivative Instruments and Hedging Activities (Statement 133) which was issued in June, 1998 and its amendments Statements 137, Accounting for Derivative Instruments and Hedging Activities--Deferral of the Effective Date of FASB Statement No. 133, and 138, Accounting for Derivative Instruments and Certain Hedging Activities issued in June 1999 and June 2000, respectively (collectively referred to as Statement 133).

Statement 133 requires the Company to recognize foreign currency and interest rate swap contracts on the balance sheet at fair value and adjustments to fair value are included in foreign currency exchange gain (loss), net. Prior to adoption of Statement 133, the Company recognized such contracts on the balance sheet at contract value and adjustments to contract value were recorded through income. The adoption of Statement 133 in January 2001 resulted in a cumulative effect of accounting change of R$5,843, net of applicable income tax benefit of R$3,010, which was recognized as expense in the consolidated statement of operations for the year ended December 31, 2001.

(In thousands of Reais - R$, unless otherwise indicated)

o) Reclassifications

Certain reclassifications have been made to prior years' financial statements to conform to the current year presentation.

4. AVAILABLE FOR SALE DEBT AND HELD-TO-MATURITY SECURITIES

During 1999, the Company classified its investments in debt securities as held-to-maturity based upon the Company's then positive intent and ability to hold those securities to maturity. However, due to changes in market interest rates during 2000, the Company's management reevaluated its intent to hold the securities to maturity and reclassified its investments in debt securities to available-for-sale. At the reclassification date, the aggregate carrying amount of the securities was R$645,983 and the aggregate fair value was R$672,100. The resulting unrealized gain of R$26,117 was included in other comprehensive income.

During 2001 the Company received gross proceeds of R$264,186 (R$298,987 in 2000) from the sale of available-for-sale securities and realized gross gains of R$3,030 (R$20,627 in 2000) on those sales. There were no sales of available-for-sale securities during 2002.

The following is a summary of available for sale debt and held-to-maturity securities at December 31, 2002 and 2001:

	AVAILABLE-FOR-SALE DEBT SECURITIES		
	AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES
December 31, 2002			
National treasury notes	134,204	-	(3,724)
Brazil Brady Bonds	857,481	-	(172,944)
Global notes	16,028	-	-
Total	1,007,713	-	(176,668)
	HELD-TO-MATURITY SECURITIES		
December 31, 2002			
Bank deposit certificates	723,999	-	(4,438)
Total	723,999	-	(4,438)

	AVAILABLE-FOR-SALE DEBT SECURITIES		
December 31, 2001			
National treasury notes	111,647	5,341	-
Brazil Brady Bonds	563,976	-	(4,924)
Global notes	10,531	-	-
Total	686,154	5,341	(4,924)

SADIA S.A.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
Years ended December 31, 2002, 2001 and 2000
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4. AVAILABLE FOR SALE DEBT AND HELD-TO-MATURITY SECURITIES (Continued)

The amortized cost and estimated fair value of available for sale debt and held-to-maturity securities at December 31, 2002, by contractual maturity, are shown below:

MATURITY PERIODS	AVAILABLE FOR-SALE-DEBT SECURITIES AMORTIZED COST	ESTIMATED FAIR VALUE	HELD-TO-MATURITY AMORTIZED COST
Due in less than one year	79,949	72,422	721,765
Due in one to three years	118,887	84,764	2,234
Due in three to five years	56,210	39,155	-
Due after five years	752,667	634,704	-
Total	1,007,713	831,045	723,999

5. ACCOUNTS AND NOTES RECEIVABLE, NET

	2002	2
Customer		
Domestic	226,270	251
Export, mainly denominated in U. S. dollars	283,164	147
Allowance for doubtful accounts	(40,480)	(20

(In thousands of Reais - R$, unless otherwise indicated)

	468,954	377

During 2002, 2001 and 2000, no single customer or group represented more than 10% of consolidated sales.

6. INVENTORIES

	2002	20
Finished goods	192,391	208,
Live stock and poultry	413,904	274,
Raw materials	124,806	88,
Work in process	67,580	30,
Packing material	31,188	27,
Stock in transit	2,882	19,
Advances to suppliers	649	5,
Supplies in warehouse and other	27,194	32,
	860,594	685,

7. RECOVERABLE TAXES

	2002	20
Value-added state sales tax- ICMS	65,490	34,
Federal excise tax - IPI	152,662	35,
Income tax withheld at source	18,835	13,
Social integration program contribution - PIS	-	12,
Other	7,108	4,
Total	244,095	100,
Current portion	(130,394)	(72,
Non current portion	113,701	28,

Value-added state sales tax- ICMS

Value-added state sales tax is available to be utilized against ICMS payable.

Federal excise tax - IPI

Federal excise tax - IPI credits includes the tax credit on packing and other material and the presumed IPI incentive on exports. IPI credits are recognized as a reduction of cost of raw materials used in the production process of goods produced for export and are available to be utilized against PIS and COFINS taxes payable.

(In thousands of Reais - R$, unless otherwise indicated)

Income tax withheld at source

Income tax withheld at source represents income tax paid upon redemption of certain investments and is available to be utilized against other federal income taxes payable.

8. PROPERTY, PLANT AND EQUIPMENT

	2002	20
Land	36,362	36
Buildings	451,874	446
Machinery and equipment	751,604	723
Installations	169,995	157
Vehicles	17,971	23
Timber and reforestation	11,132	9
Other	104,955	97
Construction in progress	56,144	34
	1,600,037	1,528
Accumulated depreciation	(739,967)	(67
Total	860,070	85

9. ASSETS AVAILABLE FOR SALE

During 2000 the Company decided it would sell certain farm properties related to its poultry segment and recorded an impairment loss of R$3,385, included in other operating expense, net in the consolidated statement of operations, to write down the assets to their estimated sales value, less cost to sell, of R$15,689. During 2001 the assets were sold at a loss of R$5,689 which is included in other operating expense, net. Also, during 2001 the Company recorded an impairment loss of R$5,164 on assets available for sale, included in other operating expense, net, of which R$3,239 related to the pork segment and R$1,925 was not related to an identifiable segment. No impairment loss was required to be recognized in 2002.

(In thousands of Reais - R$, unless otherwise indicated)

10. SHORT-TERM DEBT

	2002	
Working capital from commercial banks	1,432,941	6
Bank borrowings, secured by accounts receivable	71,273	
	1,504,214	6

Working capital from commercial banks primarily relates to export financing and pre-export advances, of which R$1,241,232 in 2002 and R$486,999 in 2001 are denominated in U.S. dollars with interest at Libor (1.39% at December 31, 2002) plus interest at the rate from 2% to 4.92% in 2002 (interest at the rate from 2.40% to 8.83% in 2001).

Bank borrowings, secured by accounts receivable, represent commitments under recourse provisions to honor export receivables transferred to banks. Historically, the Company has not been called upon to honor any material unpaid amounts.

At December 31, 2002 and 2001, the weighted average interest rates on short-term debt were 5.12% and 8.42%, respectively.

11. LONG-TERM DEBT

	2002	
FOREIGN DEBT (DENOMINATED IN U.S. DOLLARS):		
IFC- International Finance Corporation, (for investment in property, plant and equipment) due in installments through 2008, R$340,161 interest at fixed rate of 8.52%, R$72,156 at fixed rate of 9.05% and R$7,634 interest at Libor (1.39% at December 31, 2002) plus interest at the rate of 2.5%, secured by the related assets with a carrying value of R$125,744.	419,951	3
Export financing, due in installments through 2006, interest at Libor (1,39% in December 2002) plus interest rate of 4.15%, guaranteed by promissory notes	527,345	1

or sureties issued by the Company.

LOCAL DEBT (DENOMINATED IN REAIS):		
BNDES- due in installments through 2008, R$21,366 subject to long- term interest rate- TJLP (10% for 2002) plus interest rate of 3.15%, R$417,037 subject to TJLP plus interest rate of 2.22%, R$80,192 subject to TJLP plus interest rate of 3.49% and R$142,429 subject to weighted average exchange rate variations on currencies held by BNDES- UMBNDES (56% for 2002) plus interest at the rates ranging from 3.5% to 3.86%, secured by the branch facilities of Duque de Caxias, Francisco Beltrao and Faxinal dos Guedes units with a carrying value of R$37,722.	661,024	4

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(TABLE CONT'D)

	2002	
PESA - Special Aid Program for Agribusiness payable in installments to 2020, subject to the - General Price Index -Market - IGP-M (25.3% for 2002) plus interest rate of 9.89%, secured by investments in debt securities with a carrying value of R$71,527	105,130	
Other	39,564	
	1,753,014	1,1
Less current portion of long- term debt	(547,854)	(2
Long- term portion	1,205,160	8

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SADIA S.A.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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11. LONG-TERM DEBT (Continued)

The Company is subject to certain restrictive covenants contained in the IFC agreement. These covenants include a restriction on the payment of dividends in excess of the mandatory amount (see Note 14) without the prior agreement of the IFC if certain working capital and other financial ratios are not met. The Company did not meet one of the financial ratios at December 31, 2002; however, the dividends paid during 2002 and in

(In thousands of Reais - R$, unless otherwise indicated)

February 2003 were in accordance with the mandatory amount. Payments of dividends on future distributable income in excess of the mandatory amount will require approval of the IFC prior to such payments until such time that the Company meets the financial ratio.

At December 31, 2002, long-term debt maturities were as follows:

2003	547,854
2004	292,712
2005	392,879
2006	238,157
2007	94,474
Thereafter	186,938
	1,753,014

12. JUDICIAL DEPOSITS

Judicial deposits are restricted assets of the Company and relate to amounts placed on deposit with the court and held in judicial escrow, pending resolution of related legal matters. The aggregate amounts of judicial deposits the Company has made for certain legal proceedings is approximately R$69 million and R$57 million at December 31, 2002 and 2001, respectively.

13. COMMITMENTS AND CONTINGENCIES

The Company is party to certain legal proceedings arising in the normal course of business, and has made provisions when it believes that it can reasonably estimate probable losses. The Company believes that the provisions made are sufficient to cover probable losses. In connection with certain legal proceedings, the Company has made judicial deposits which will only be released upon a favorable judgment (footnote 12). The aggregate amounts of reserves the Company has established for tax, labor and other litigation is approximately R$57 million at December 31, 2002 and 2001.

13. COMMITMENTS AND CONTINGENCIES (Continued)

During 2001, the Company received a final court decision that it had overpaid social contributions made to the social integration program known as PIS. The credits the Company became entitled to as a result of the court decision in the amount of approximately R$85 million were recorded as a reduction of value-added tax on sales line of the consolidated statement of operations for the year ended December 31, 2001. During 2001, the Company utilized R$72 million of these credits to offset payment of PIS and other federal taxes payable and the remaining R$12 million of credits were used during 2002.

(In thousands of Reais - R$, unless otherwise indicated)

During May 2002, the Company received a final court ruling indicating that the Company had overpaid certain export related taxes paid to the federal government in the amount of approximately R$120 million. The credits the Company became entitled to in the amount of R$78 million, net of legal fees, were recorded as a reduction of cost of goods sold in the consolidated statement of operations for the year ended December 31, 2002. During 2002, the Company utilized R$10 million of the credits to offset payments of PIS and other federal taxes and the remaining R$110 million of credits, included in recoverable taxes at December 31, 2002 (see note 7), are expected to be used to offset federal taxes payable during 2003.

The Company's labor force is represented by collective bargaining agreements. All collective bargaining agreements are re-negotiated annually.

14. SHAREHOLDERS' EQUITY

In accordance with Brazilian Corporate Law a company is permitted to use appropriated and unappropriated retained earnings to increase capital. Such a capital increase must be approved by the Company's Board of Directors. The allocation of the capital increase between preferred and common shares is proportional to the number of shares outstanding. Total unappropriated retained earnings of R$160,223 in 2000 were used to increase capital.

The Company's by- laws provide to pay a mandatory dividend to common and preferred shareholders of at least 28% of annual net distributable income determined in accordance with Brazilian Corporate Law. As from 1997, preferred shareholders are entitled to receive a dividend per share 10% higher than common shareholders. In 2000 and 2001, Sadia paid dividends in excess of the mandatory amount. During 2002 and in February 2003, the Company paid dividends in accordance with the mandatory amount.

14. SHAREHOLDERS' EQUITY (Continued)

The preferred shareholders may not vote at shareholders meetings but have the right to receive priority in repayment of their capital, in the case of liquidation.

Brazilian Corporate Law permits the payment of dividends only in reais, limited to the amounts of research and development and expansion reserves of appropriated retained earnings and unappropriated retained earnings in the financial statements prepared in accordance with Brazilian Corporate Law. At December 31, 2002 and 2001 the Company had in its statutory books the following amounts:

	2002

Appropriated retained earnings:		
Research and development reserve	58,248	46
Expansion reserve	377,243	241
Unappropriated retained earnings	95,473	112

Dividends paid per thousand shares in R$ were as follows:

	2002	2001
Preferred	106.89	69.75
Common	97.18	63.41

Brazilian Corporate Law and the Company's by-laws require that annual appropriations be made to certain reserves (appropriated retained earnings). These comprise mainly (a) 5% of net income (statutory accounts) must be transferred to a legal reserve until such reserve reaches 20% of capital stock under Brazilian GAAP; (b) appropriation of 15% to a research and development reserve which is general reserve for support development of the Company's operations; (c) appropriation from 15% to 60% to a expansion reserve. The legal reserve cannot be used to distribute dividends to shareholders.

The components of appropriated retained earnings at December 31, 2002 and 2001 were as follows:

	2002	2
Legal reserve	32,922	2
Research and development reserve	58,248	4
Expansion reserve	377,243	24
	468,413	30

14. SHAREHOLDERS' EQUITY (Continued)

Costs or losses are not charged to appropriated retained earnings and no part of the appropriation is transferred to income.

In April 2000, the Company's Board of Directors approved a stock award plan for the Directors of the Company. Under the plan, Directors will receive 5%, and may elect to receive an additional 5% or 10%, of their annual bonus in shares of preferred stock based on the market price of the stock at the date of bonus is paid. Shares paid to Directors in lieu of a cash bonus payment are purchased in the market by the Company in the Director's name. Based on the number of preferred shares a Director receives, the Director will be entitled to a cash payment equal to any increase in the market value of the preferred shares as of March 10 of the third year following the bonus payment, provided that the Director still holds the preferred stock and is still a Director of the Company. Based upon the market value of the preferred shares at December 31, 2002 and 2001 no additional amounts were accrued to the Directors during 2002 and 2001. At December 31, 2002, there are 711,000 preferred shares under the plan.

(In thousands of Reais - R$, unless otherwise indicated)

15. INCOME TAXES

Income (loss) before provision for (benefit from) income taxes was as follows:

	2002	2001
Domestic	199,590	210,511
Foreign	97,140	49,390
	296,730	259,901

Brazilian income taxes consist of federal income tax and social contribution. The 2002, 2001 and 2000 statutory rates for these taxes were as follows:

Federal income tax	25.00%
Social contribution tax	9.00%
Combined statutory rate	34.00%

Because the Company is engaged in rural activities, certain related investments can be depreciated for tax purposes on an accelerated basis and the resulting tax losses may be offset against profits generated in other activities.

INCOME TAXES (Continued)

The reconciliation of income tax at the Brazilian statutory rates to income tax expense follows:

	2002	2001	
Income before income taxes	296,730	259,901	
Income tax expense, at Brazilian statutory taxes rates	(100,888)	(88,366)	
Reversal (accrual) of income tax liability on undistributed earnings of foreign subsidiary	3,113	(21,687)	
Permanent differences	(2,134)	(670)	
Valuation allowance	-	32,398	(
Undistributed earnings of foreign subsidiary-	40,756	-	
Non-taxable foreign currency exchange gain	23,791	-	
Benefit from deductibility of interest attributed to shareholders' equity	23,207	27,269	
Income tax expense	(12,155)	(51,056)	(

During 2002, the Company established a new foreign subsidiary. Due to a current tax treaty, earnings generated by such subsidiary are taxed when actually distributed. As the Company intends to reinvest the earnings of this foreign subsidiary, no income tax payment is required. At December 31, 2002, the undistributed earnings of such foreign subsidiary in the amount of R$119,870 are not tax effected. If such cumulative earnings were to be distributed to the Company, approximately R$68 million of taxes would be paid.

Undistributed earnings of the Company's foreign subsidiary amounted to R$113,176 at December 31, 2001. At December 31, 2000 the Company had not provided Brazilian income taxes on undistributed earnings of the foreign subsidiary because those earnings were considered to be permanently invested. Due to the enactment of a tax law during 2001, Brazilian companies with subsidiaries abroad must declare and pay income taxes on profits generated abroad in their Brazilian calendar year tax return. As a result of this change in tax law, during 2001 the Company recorded an income tax liability of R$38,480 applicable to the foreign subsidiary's undistributed earnings though December 31, 2001 (including R$21,687 applicable to undistributed earnings at December 31, 2000 for which income tax had not previously been provided). The undistributed earnings of the foreign subsidiary through December 31, 2001 were entirely taxed during 2002, which resulted in a reversal of R$3,113 of the income tax liability recorded in 2001.

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SADIA S.A.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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15. INCOME TAXES (Continued)

Deferred tax assets and liabilities are comprised of the following:

(In thousands of Reais - R$, unless otherwise indicated)

	2002	200
Deferred tax assets:		
Provision for employee bonuses	-	5,1
Accrued contingencies	18,995	18,6
Tax loss carryforwards	42,620	58,6
Property, plant and equipment	72,125	79,5
Unrealized losses from investments in debt securities	60,067	
Deferred charges	14,247	17,5
Other	5,704	13,1
Total deferred income tax assets	213,758	192,4
Deferred tax liabilities:		
Property, plant and equipment	(36,414)	(38,13
Pension plan	(3,021)	(3,51
Unrealized gains from foreign currency and interest rate swap contracts	(14,297)	
Other	-	(4,08
Total deferred tax liabilities	(53,732)	(45,73
Net deferred tax assets	160,026	146,7
Current portion	(31,740)	(54,65
Non current portion	128,286	92,0

Loss carryforwards have no expiration date and are available to offset up to 30% of future taxable income in any given year. At December 31, 2002, the Company had loss carryforwards of R$121,442 for income tax and R$136,220 for social contribution tax.

16. FINANCIAL INSTRUMENTS

Since much of Sadia's debt is denominated in U.S. dollars, the Company minimizes in part the effects of unfavorable exchange movements by holding cash, cash equivalents and available-for-sale instruments denominated in U.S. dollars. Accordingly, if the real devalues against the U.S. dollar and it results in a foreign exchange loss, the Company records an offsetting gain from these dollar denominated contracts. Additionally to protect against further possible devaluation of the real, the Company enters into foreign currency and interest rate swap contracts.

16. FINANCIAL INSTRUMENTS (Continued)

The Company used the following methods and assumptions in estimating the fair value disclosures of its financial instruments:

Cash and cash equivalents: The carrying amounts reported in the balance sheet for cash and cash equivalents approximate their fair values.

Held-to-maturity securities: The fair value of held-to-maturity securities are estimated based on quoted market prices of comparable contracts.

Investments in debt securities: The fair values of investments in debt securities were estimated principally based on quoted market prices.

Accounts and notes receivable and accounts payable: The carrying amounts reported in the balance sheet for accounts and notes receivable and accounts payable approximate their fair values.

Long and short-term debt: The carrying amounts of short-term debt approximate their fair values. The fair values of long-term debt are estimated using discounted cash flow analyses, based on the Company's current borrowing rates for similar types of borrowing arrangements.

Foreign currency and interest rate swap contracts: The fair values of foreign currency and interest rate swap contracts were estimated based on quoted market prices of comparable contracts. At December 31, 2002 and 2001 the notional amounts of the outstanding contracts were R$812,280 and R$332,671 and the fair values were R$163,548 and R$14,137, respectively. In 2000, the Company recognized foreign currency and interest rate swap contracts on the balance sheet at contract value and adjustments to contract value were recorded through income. In 2001, with the adoption of Statement 133, the Company has recognized these contracts on the balance sheet at fair value and adjustments to fair value were recorded through income. The actual cash settlements on the contracts occur at times specified in each agreement. The Company intends not to terminate any of these contracts prior to maturity. The carrying amounts and fair values of the Company's financial instruments at December 31 were as follows:

	2002		2001	
	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR
Cash and cash equivalents	455,596	455,596	269,550	26
Held-to-maturity investments	723,999	719,561	-	
Investments in debt securities	831,045	831,045	686,571	68
Accounts and notes receivable	468,954	468,954	377,824	37
Short- term debt	1,504,214	1,504,214	698,940	69
Accounts payable (suppliers)	247,176	247,176	175,727	17
Long- term debt	1,753,014	1,753,014	1,101,213	1,10

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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17. SUPPLEMENTARY RETIREMENT PLAN

The Company sponsors a defined benefit pension plan that offers supplementary retirement benefits to the employees, through Attilio Francisco Xavier Fontana Foundation. The pension benefit is generally defined as the difference between (i) 80% of the retiree's average salary during the last 36 months indexed to the date of retirement and (ii) the value of the retirement pension paid by the Brazilian social security system. For retired employees the initial pension payment is subsequently adjusted upwards to recognize cost of living increases and productivity awards granted to active employees. The Company provides for the costs of pension benefits based on a fixed percentage of remuneration, as recommended annually by independent actuaries.

As of January 1, 2001, the Company began sponsoring two new defined benefit plans to its employees and certain employee executives. Such benefit plans generally provide benefits payable as a single lump sum to eligible employees upon retirement. The Company intends to fund these benefits from its operations. The aggregate projected benefit obligation and the aggregate accumulated benefit obligation related to those benefit plans were R$40,707 and R$37,598, respectively, at December 31, 2002 and R$36,906 and R$34,164, respectively, at December 31, 2001.

Information regarding the plans follows:

	2002	2001
CHANGE IN BENEFIT OBLIGATION		
Benefit obligation at beginning of year	427,283	326,583
Net service cost	14,424	13,185
Interest cost	47,167	36,119
Participants contributions (service cost)	4,849	4,391
Plan amendment	-	34,509
Actuarial loss	38,758	31,115
Expenses paid	-	(1,637)
Benefits paid	(22,087)	(16,982)
Benefit obligation at end of year	510,394	427,283
CHANGE IN PLAN ASSETS		
Fair value of plan assets at beginning of year	497,258	408,507
Actual return on plan assets	61,092	101,240
Company contributions	4,331	1,646
Participant contributions	5,089	4,484
Expenses paid	-	(1,637)
Benefits paid	(22,087)	(16,982)
Fair value of plan assets at end of year	545,683	497,258
FUNDED STATUS		
Funded status at end of year	35,289	69,975
Unrecognized transition asset	(9,413)	(11,295)
Unamortized prior service cost	32,112	34,509
Unrecognized net actuarial gain	(49,102)	(82,847)
Net amount recognized	8,886	10,342

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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17. SUPPLEMENTARY RETIREMENT PLAN (Continued)

AMOUNTS RECOGNIZED IN THE STATEMENT OF FINANCIAL POSITION	2002	2001
Intangible asset	28,187	31,767
Prepaid pension plan	18,959	12,739
Accrued benefit liability	(38,260)	(34,164)
Net amount recognized	8,886	10,342
WEIGHTED-AVERAGE ASSUMPTIONS		
Discount rate	11.3%	11.3%
Expected return on plan assets	12.4%	11.3%
Rate of compensation increase	7.1%	7.1%

	2002	2001	2000
COMPONENTS OF NET PERIODIC BENEFIT COST			
Service cost	14,424	13,185	15,5
Interest cost	47,167	36,119	17,8
Expected return on plan assets	(55,589)	(45,716)	(21,47
Amortization of transition asset	(1,882)	(1,882)	(1,88
Amortization of prior service cost	2,397	-	
Recognized net actuarial gain	(996)	(750)	
Net periodic pension cost	5,521	956	10,1

Plan assets at December 31, 2002, included 24,998,558 common shares and 12,566,000 preferred shares of the Company (24,998,558 common shares and 14,166,000 preferred shares at December 31, 2001) with an aggregate fair value of R$57,140. Dividends paid by the Company on shares held by the plan were R$3,473 for the year ended December 31, 2002.

18. SEGMENT AND RELATED INFORMATION

The following information about segments is based upon information used by the Company's management to assess the performance of operating segments and decides on the allocation of resources. This approach is required by FASB Statement No.131 Disclosure about Segments of an Enterprise and Related Information, and has been applied for all periods presented.

The Company has three identifiable reportable segments: Processed products, Poultry and Pork.

The Company evaluates segment performance based on information generated from its statutory accounting records which has been adjusted for US GAAP in the following presentation:

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SADIA S.A.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
Years ended December 31, 2002, 2001 and 2000
(In thousands of Reais - R$, unless otherwise indicated)

18. SEGMENT AND RELATED INFORMATION (Continued)

a) Segment information

	2002	2001	20
NET OPERATING REVENUE			
Processed products	1,796,137	1,599,497	1,441
Poultry	1,883,729	1,642,726	1,192
Pork	473,579	288,198	170
Other	33,690	72,049	76
Total net operating revenue	4,187,135	3,602,470	2,881

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

	2002	2001	20
DEPRECIATION EXPENSE			
Processed products	35,182	36,400	32,
Poultry	36,926	34,724	26,
Pork	9,993	6,546	4,6
Other	637	2,155	3,3
Total depreciation expense allocated to Segments	82,738	79,825	66,
Depreciation allocated to administrative expenses	9,398	9,077	6,9
Total depreciation expense	92,136	88,902	73,
SEGMENT OPERATING INCOME			
Processed products	58,705	82,935	50,
Poultry	239,653	338,570	37,
Pork	40,403	57,079	1,
Other	6,561	9,269	
Total operating income	345,322	487,853	90,
Interest expense	(317,755)	(201,210)	(187,
Interest income and other	266,462	144,635	190
Foreign currency exchange loss	2,701	(171,377)	(72,
Income before income taxes, equity income or loss of investees and minority interest	296,730	259,901	20,

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SADIA S.A.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
Years ended December 31, 2002, 2001 and 2000
(In thousands of Reais - R$, unless otherwise indicated)

18. SEGMENT AND RELATED INFORMATION (Continued)

a) Segment information (Continued)

	2002	2001	200
SEGMENT ASSETS			
Processed products	399,222	390,498	408,
Poultry	309,054	312,173	334,
Pork	105,388	99,087	97,
Other	46,406	55,895	48,
Total property, plant and equipment	860,070	857,653	889,
Reconciling items - corporate assets			
Cash and cash equivalents	455,596	269,550	192,
Held-to-maturity investments	723,999	-	
Available-for-sale debt securities	831,045	686,571	774,
Accounts and notes receivable, net	468,954	377,824	393,
Inventories	860,594	685,115	529,
Other corporate assets	715,302	448,592	423,
Total consolidated assets	4,915,560	3,325,305	3,202,
CAPITAL EXPENDITURES			
Processed products	44,753	18,013	50,2
Poultry	34,692	26,088	55,6
Pork	16,529	8,075	7,0
Other	16,148	51,346	42,7
Total segment capital expenditures	112,122	103,522	155,

b) Export sales by region/market

Europe	572,615	486,149	27
Middle East	534,055	486,149	28
Asia	287,272	212,690	16
Mercosul	50,128	60,769	8
Emerging markets (mainly Russia and other former Soviet Union countries)	483,927	234,291	6
	1,927,997	1,480,048	87

Revenues are attributed to regions based upon where the products are shipped.

(In thousands of Reais - R$, unless otherwise indicated)

All long-lived operational assets are located in Brazil and assets located outside of Brazil consist of a distribution center in Argentina and sales offices located in various countries.

19. CONCENTRATION OF CREDIT RISK

The Company is potentially subject to credit risk with respect to its cash equivalents, investments in debt securities, held-to-maturity securities and derivative contracts. The Company limits its risk associated with these financial instruments by placing them with highly rated financial institutions. The Company does not require collateral for these financial instruments.

Concentration of credit risk with respect to accounts receivable is minimized due to the large customer base. Generally the Company does not require collateral for accounts receivable. An allowance for doubtful accounts has been established against those that management believes will not be fully collected.

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

	2002	2001	2000
Balance at the beginning of the year	(20,622)	(26,642)	(21,634
Amounts charged to expense	(20,784)	(10,935)	(12,358
Write offs	926	16,955	7,35
Balance at the end of the year	(40,480)	(20,622)	(26,642

20. SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

	2002	2001	2000
Income taxes paid	1,333	419	1,35
Interest paid (including exchange variation)	146,151	128,197	129,20

Interest capitalized as part of property, plant and equipment was R$5,768, R$2,499 and R$6,020 for the years ended December 31, 2002, 2001 and 2000, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
Years ended December 31, 2002, 2001 and 2000
(In thousands of Reais - R$, unless otherwise indicated)

21. SUPPLEMENTAL INTEREST EXPENSE AND INTEREST INCOME AND OTHER

	2002	2001	2000
Interest expenses			
Interest and charges on real debt	167,269	64,055	34,1
Interest and charges on U.S. dollar debt	113,972	96,286	116,0
Other	36,514	40,869	37,0
	317,755	201,210	187,2
Interest income and other, net			
Interest income on cash equivalents and investments in debt securities	245,798	117,806	138,4
Gain on sale of securities	-	3,030	20,6
Loss on divestiture of Lapa investment	-	-	(7,96
Other, net	20,664	23,799	39,3
	266,462	144,635	190,5

Interest and charges on real debt includes interest on indebtedness to related parties of R$652 and R$4,698 in 2001 and 2000, respectively.