

SADIA S.A.  
Form 6-K  
August 23, 2005

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

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

For the month of August 2005

Commission File Number 1-15184

**SADIA S.A.**  
(Exact Name as Specified in its Charter)

N/A

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(Translation of Registrant's Name)

Rua Fortunato Ferraz, 365  
Vila Anastacio, Sao Paulo, SP  
05093-901 Brazil  
(Address of principal executive offices) (Zip code)

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

Form 20-F                       Form 40-F

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

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

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

Yes                       No

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



**SIGNATURES**

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

Date: Aug 23, 2005

**SADIA S.A.**

By:/s/ Luiz Gonzaga Murat Junior

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Name: Luiz Gonzaga Murat Junior  
Title: Chief Financial Officer

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**Sadia S.A.**

**Interim financial information  
Six-month period ended  
June 30, 2005 (Unaudited)**

(A translation of the original interim financial information in Portuguese, prepared in accordance with accounting principles derived from the Brazilian Corporation Law and rules of the Brazilian Securities Commission (CVM)).

# Sadia S.A.

Interim financial information (Unaudited)

Six-month period ended June 30, 2005

## Contents

|   |        |
|---|--------|
| <u>Independent accountants' review report</u>     | 5      |
| <u>Balance sheets</u>                             | 6-7    |
| <u>Income statements</u>                          | 8      |
| <u>Notes to the interim financial information</u> | 9 - 47 |

## Independent accountants' review report

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

1. We have reviewed the interim financial information of Sadia S.A. and the consolidated interim financial information of Sadia S.A and its subsidiaries, for the six-month period ended June 30, 2005, which comprises the balance sheets, the income statements, management report and other relevant information, prepared in accordance with the accounting practices adopted in Brazil.
2. Our review was prepared in accordance with the review standards established by IBRACON - Brazilian Institute of Independent Auditors and the Federal Council of Accounting, and included, basically: (a) inquiry and discussion with management responsible for the accounting, financial and operating areas of the Company and its subsidiaries, regarding the main criteria adopted in the preparation of the interim financial information; and (b) review of the information and subsequent events, which have, or may have, a material effect on the financial situation and the operations of the Company and its subsidiaries.
3. Based on our special review, we are not aware of any material changes which should be made to the interim financial information above for it to be in accordance with accounting practices adopted in Brazil and regulations issued by the Brazilian Securities Commission (CVM), specifically applicable to the preparation of interim financial information.

July 22, 2005

KPMG Auditores Independentes  
CRC 2SP014428/O-6

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

## Sadia S.A.

## Balance sheets (Unaudited)

## June 30, 2005 and March 31, 2004

*(In thousands of Reais)*

|   | Parent company   |                   | Consolidated     |                   |
|---|------------------|-------------------|------------------|-------------------|
|   | June 30,<br>2005 | March 31,<br>2005 | June 30,<br>2005 | March 31,<br>2005 |
| <b>Assets</b>                             |                  |                   |                  |                   |
| <b>Current assets:</b>                    |                  |                   |                  |                   |
| Cash and cash equivalent                  | 87,598           | 70,446            | 106,638          | 168,623           |
| Short-term investments                    | 458,642          | 271,22            | 1,836,847        | 1,550,064         |
| Accounts receivable from future contracts | 261              | 268,440           | 23,084           | 279,324           |
| Trade accounts receivable                 | 483,317          | 590,738           | 520,602          | 396,251           |
| Inventories                               | 1,178,352        | 1,184,854         | 1,201,533        | 1,227,291         |
| Recoverable taxes                         | 174,876          | 171,073           | 179,681          | 193,539           |
| Deferred tax credits                      | 16,084           | 19,159            | 17,348           | 20,681            |
| Other credits                             | <u>56,760</u>    | <u>55,834</u>     | <u>66,580</u>    | <u>78,908</u>     |
|   | <u>2,455,890</u> | <u>2,631,764</u>  | <u>3,952,313</u> | <u>3,914,681</u>  |
| <b>Noncurrent assets:</b>                 |                  |                   |                  |                   |
| Long-term investments                     | 76,639           | 364,578           | 76,639           | 364,578           |
| Recoverable taxes                         | 86,565           | 80,662            | 86,565           | 82,065            |
| Deferred tax credits                      | 71,428           | 72,782            | 71,428           | 77,378            |
| Judicial deposits                         | 79,224           | 77,621            | 79,330           | 77,785            |
| Related parties                           | 153,160          | 1,107             | -                | -                 |
| Other credits                             | <u>26,828</u>    | <u>29,963</u>     | <u>27,522</u>    | <u>31,117</u>     |
|   | <u>493,844</u>   | <u>626,713</u>    | <u>341,484</u>   | <u>632,923</u>    |
| <b>Permanent assets:</b>                  |                  |                   |                  |                   |
| Investments                               | 903,570          | 920,934           | 81,628           | 82,559            |
| Property, plant and equipment             | 1,301,981        | 1,191,317         | 1,305,172        | 1,218,316         |
| Deferred charges                          | <u>57,548</u>    | <u>48,710</u>     | <u>58,203</u>    | <u>49,413</u>     |
|   | <u>2,263,099</u> | <u>2,160,961</u>  | <u>1,445,003</u> | <u>1,349,288</u>  |
| <b>Total assets</b>                       | <u>5,212,833</u> | <u>5,419,438</u>  | <u>5,738,800</u> | <u>5,897,892</u>  |

See the independent accountants' review report and the accompanying notes to the interim financial information.





## Sadia S.A.

## Balance sheets (Unaudited)

## June 30, 2005 and March 31, 2004

*(In thousands of Reais)*

|   | Parent company   |                   | Consolidated     |                   |
|---|------------------|-------------------|------------------|-------------------|
|   | June 30,<br>2005 | March 31,<br>2005 | June 30,<br>2005 | March 31,<br>2005 |
| <b>Liabilities and shareholders' equity</b>           |                  |                   |                  |                   |
| <b>Current liabilities:</b>                           |                  |                   |                  |                   |
| Loans and financing                                   | 1,089,946        | 1,059,820         | 1,532,635        | 1,532,657         |
| Accounts payable from future contracts                | -                | 273,303           | 10,432           | 276,913           |
| Trade accounts payable                                | 558,152          | 621,733           | 569,797          | 643,526           |
| Advances from customers                               | 404,765          | 327,309           | -                | -                 |
| Salaries, social charges and accrued vacation payable | 112,185          | 90,806            | 113,430          | 95,690            |
| Taxes payable   | 24,712           | 21,381            | 27,426           | 26,453            |
| Dividends payable                                     | 48,149           | 607               | 48,149           | 607               |
| Employees' profit sharing                             | 13,224           | 8,296             | 14,109           | 8,455             |
| Other accounts payable                                | <u>120,487</u>   | <u>122,805</u>    | <u>138,733</u>   | <u>143,366</u>    |
|   | <u>2,371,620</u> | <u>2,526,060</u>  | <u>2,454,711</u> | <u>2,727,667</u>  |
| <b>Noncurrent liabilities:</b>                        |                  |                   |                  |                   |
| Loans and financing                                   | 578,670          | 835,889           | 1,143,807        | 1,113,296         |
| Employee benefit plan                                 | 78,002           | 82,576            | 78,002           | 82,576            |
| Provision for contingencies                           | 65,272           | 57,851            | 67,566           | 65,680            |
| Deferred taxes  | 13,080           | 10,833            | 13,080           | 14,106            |
| Related parties                                       | 117,520          | -                 | -                | -                 |
| Other accounts payable                                | <u>16,474</u>    | <u>16,800</u>     | <u>16,451</u>    | <u>16,787</u>     |
|   | <u>869,018</u>   | <u>1,003,949</u>  | <u>1,318,906</u> | <u>1,292,445</u>  |
| <b>Minority interest in subsidiaries</b>              | -                | -                 | (823)            | (641)             |
| <b>Shareholders' equity:</b>                          |                  |                   |                  |                   |
| Capital   | 1,500,000        | 1,000,000         | 1,500,000        | 1,000,000         |
| Profit reserves                                       | 292,373          | 767,441           | 292,373          | 767,441           |
| Treasury stock  | (1,189)          | (198)             | (1,189)          | (198)             |
| Retained earnings                                     | <u>181,011</u>   | <u>122,186</u>    | <u>174,822</u>   | <u>111,178</u>    |
|   | <u>1,972,195</u> | <u>1,889,429</u>  | <u>1,966,006</u> | <u>1,878,421</u>  |
| Total liabilities and shareholders' equity            | <u>5,212,833</u> | <u>5,419,438</u>  | <u>5,738,800</u> | <u>5,897,892</u>  |

See the independent accountants' review report and the accompanying notes to the interim financial information.

## Sadia S.A.

## Income statements (Unaudited)

## June 30, 2005 and 2004

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

|  | Parent company     |                    |                    |                    | Consolidated       |                    |                    |                    |
|--|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
|  | Three months ended |                    | Six months ended   |                    | Three months ended |                    | Six months Ende    |                    |
|  | June 30,<br>2005   | June 30,<br>2004   | June 30,<br>2005   | June 30,<br>2004   | June 30,<br>2005   | June 30,<br>2004   | June 30,<br>2005   | June 30,<br>2004   |
| Gross operating revenue:                             |                    |                    |                    |                    |                    |                    |                    |                    |
| Domestic market                                      | 980,460            | 864,697            | 1,943,042          | 1,702,870          | 980,251            | 866,940            | 1,975,474          | 1,707,251          |
| Foreign market                                       | <u>976,925</u>     | <u>811,489</u>     | <u>1,764,976</u>   | <u>1,488,884</u>   | <u>1,064,159</u>   | <u>907,685</u>     | <u>1,971,515</u>   | <u>1,706,066</u>   |
|  | <u>1,957,385</u>   | <u>1,676,186</u>   | <u>3,708,018</u>   | <u>3,191,754</u>   | <u>2,044,410</u>   | <u>1,774,625</u>   | <u>3,946,989</u>   | <u>3,413,317</u>   |
| Sales deductions:                                    |                    |                    |                    |                    |                    |                    |                    |                    |
| Value-added tax on sales and sales deductions        | <u>(205,823)</u>   | <u>(196,159)</u>   | <u>(415,465)</u>   | <u>(375,727)</u>   | <u>(242,468)</u>   | <u>(230,907)</u>   | <u>(503,189)</u>   | <u>(448,767)</u>   |
| Net operating revenue                                | 1,751,562          | 1,480,027          | 3,292,553          | 2,816,027          | 1,801,942          | 1,543,718          | 3,443,800          | 2,964,550          |
| Cost of goods sold                                   | <u>(1,343,429)</u> | <u>(1,049,772)</u> | <u>(2,539,207)</u> | <u>(1,967,557)</u> | <u>(1,324,501)</u> | <u>(1,052,897)</u> | <u>(2,545,301)</u> | <u>(1,994,355)</u> |
| Gross profit   | 408,133            | 430,255            | 753,346            | 848,470            | 477,441            | 490,821            | 898,499            | 970,195            |
|  | (7,696)            | (6,411)            | (13,215)           | (13,512)           | (7,383)            | (7,740)            | (13,860)           | (23,827)           |
| Operating income (expenses):                         |                    |                    |                    |                    |                    |                    |                    |                    |
| Selling expenses                                     | (291,491)          | (251,392)          | (540,271)          | (439,316)          | (314,451)          | (287,258)          | (601,551)          | (513,326)          |
| Administrative and general expenses                  | (15,738)           | (16,026)           | (32,291)           | (32,347)           | (15,738)           | (16,396)           | (32,291)           | (32,717)           |
| Financial income (expenses), net                     | 62,576             | (27,129)           | 27,474             | (73,021)           | 175,335            | (126,540)          | 167,183            | (178,229)          |
| Other operating income/expenses - Net                | (7,696)            | (6,411)            | (13,215)           | (13,512)           | (7,383)            | (7,740)            | (13,860)           | (23,827)           |
| Equity in income of subsidiaries                     | <u>14,525</u>      | <u>(40,376)</u>    | <u>78,722</u>      | <u>(30,148)</u>    | <u>(139,531)</u>   | <u>39,742</u>      | <u>(135,460)</u>   | <u>44,848</u>      |
| Operating income                                     | 170,309            | 88,921             | 273,765            | 260,126            | 175,673            | 92,629             | 282,520            | 266,944            |
| Nonoperating income (expense)                        | (41)               | (406)              | 4,147              | (1,158)            | (48)               | (446)              | 4,129              | (1,199)            |
| Income before income and social contribution taxes   | 170,268            | 88,515             | 277,912            | 258,968            | 175,625            | 92,183             | 286,649            | 265,745            |
| Current income and social contribution taxes         | (22,535)           | (19,163)           | (22,535)           | (27,801)           | (23,070)           | (20,324)           | (23,679)           | (29,977)           |
| Deferred income and social contribution taxes        | (7,999)            | (2,136)            | (18,389)           | (36,222)           | (8,257)            | (2,739)            | (18,887)           | (37,306)           |
| Net income   | 139,734            | 67,216             | 236,988            | 194,945            | 144,298            | 69,120             | 244,083            | 198,462            |
| Minority interest                                    | =                  | =                  | =                  | =                  | <u>255</u>         | <u>57</u>          | <u>1,043</u>       | <u>68</u>          |
| Controlling shareholder equity interest              | 139,734            | 67,216             | 236,988            | 194,945            | 144,553            | 69,177             | 245,126            | 198,53             |
| Outstanding shares net of treasury stock (thousands) | 682,476            | 682,696            | 682,476            | 682,696            | 682,476            | 682,696            | 682,476            | 682,696            |
| Earnings per share - In Reais                        | 0.20475            | 0.09846            | 0.34725            | 0.28555            | 0.21181            | 0.10133            | 0.35917            | 0.29080            |

See the independent accountants' review report and the accompanying notes to the interim financial information.



Sadia S.A.

## Notes to the interim financial information (Unaudited)

### Six-month period ended June 30, 2005

*(In thousands of Reais)*

## 1 Operations

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

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

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

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

## 2 Preparation and presentation of the interim financial information

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

## 3 Summary of the principal accounting practices

### a. *Income statement*

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



## Sadia S.A.

### Notes to the interim financial information (Unaudited)

*(In thousands of Reais)*

***b. Foreign currency***

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

***c. Accounting estimates***

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

***d. Long and short-term investments***

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

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

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

***e. Allowance for doubtful accounts***

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

## Sadia S.A.

### Notes to the interim financial information (Unaudited)

*(In thousands of Reais)*

#### ***f. Inventories***

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

#### ***g. Investments***

Investments in subsidiaries in Brazil and abroad are valued using the equity method of accounting, based on the respective shareholders' equity valued at the same date and in accordance with accounting practices adopted by the Company.

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

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

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

#### ***h. Property, plant and equipment***

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

#### ***i. Deferred charges***

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



Sadia S.A.

## Notes to the interim financial information (Unaudited)

(In thousands of Reais)

### ***j. Current and noncurrent liabilities***

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

### ***k. Provisions***

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

### ***l. Income and social contribution taxes***

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

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

### ***m. Employees' benefits***

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

### ***n. Reclassifications***

Management, aiming at better reflecting the accounting classification of the transactions involving breeding stock and bonuses for clients, made the following reclassifications in the quarterly information, inclusively retroactively for comparability of information:

**i.** Breeding stock in the amount of R\$105,096 at June 30, 2005 (R\$106,706 at March 31, 2005) from the inventory account to the property, plant and equipment account.

**ii.** Bonuses for clients in the amount of R\$29,724 in the first six-month period of 2005 (R\$31,987 in the first six-month period of 2004) from selling expenses to sales deductions.



## Sadia S.A.

### Notes to the interim financial information (Unaudited)

*(In thousands of Reais)*

***o. Supplementary Information***

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

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

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

***p. Consolidated financial information***

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

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

In accordance with the CVM 408/04 Instruction, the Company consolidated the interim financial information of its investment funds Concórdia Foreign Investment Fund Class A and Taurus Fund Limited, where it is the wholly owned investment holder. These investment funds have the sole purpose of centralizing the foreign investment fund portfolio, delegating to third party the administrative functions and maximizing shareholder returns. As of June 30 and March 31, 2005, these investment funds were consolidated in the Company's financial information as they had loans collateralized by its own financial assets.

## Sadia S.A.

## Notes to the interim financial information (Unaudited)

*(In thousands of Reais)*

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

|   | <b>Shareholdings in % at</b> |                           |
|---|------------------------------|---------------------------|
|   | <b>June 30,<br/>2005</b>     | <b>March 31,<br/>2005</b> |
| <b>Sadia International Ltd.</b>                   | 100.00                       | 100.00                    |
| Sadia Uruguay S.A.                                | 100.00                       | 100.00                    |
| Sadia Alimentos S.A.                              | 0.01                         | 0.01                      |
| Sadia Chile S.A.                                  | 60.00                        | 60.00                     |
| Sadia Alimentos S.A.                              | 99.99                        | 99.99                     |
| Churrascaria Beijing Brazil Ltd. (*)              | 50.00                        | 50.00                     |
| Concórdia Foods Ltd. (*)                          | 50.00                        | 50.00                     |
| Sadia UK Ltd.                                     | 100.00                       | 100.00                    |
| <b>Concórdia S.A. C.V.M.C.C.</b>                  | 99.99                        | 99.99                     |
| <b>Rezende Óleo Ltda.</b>                         | 100.00                       | 100.00                    |
| Rezende Marketing e Comunicações Ltda.            | 0.09                         | 0.09                      |
| <b>Rezende Marketing e Comunicações Ltda.</b>     | 99.91                        | 99.91                     |
| <b>Sadia GmbH</b>                                 | 100.00                       | 100.00                    |
| Wellax Food Logistics C. P. A. S. U. Ltda.        | 100.00                       | 100.00                    |
| Sadia Foods G.m.b.H.                              | 100.00                       | 100.00                    |
| Qualy B. V.                                       | 100.00                       | 100.00                    |
| Sadia Japan Ltd.                                  | 100.00                       | 100.00                    |
| <b>Só Frango Produtos Alimentícios Ltda. (**)</b> | -                            | 100.00                    |

(\*) Joint - Ventures

(\*\*) Incorporated on April 29, 2005 (See note 10.)



## Sadia S.A.

## Notes to the interim financial information (Unaudited)

*(In thousands of Reais)*

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

|   | <u>Net income</u>    |                      | <u>Shareholders' equity</u> |                      |
|---|----------------------|----------------------|-----------------------------|----------------------|
|   | <u>June 30, 2005</u> | <u>June 31, 2004</u> | <u>June 30, 2005</u>        | <u>June 31, 2004</u> |
| Financial information - Company   | 236,988              | 194,945              | 1,972,195                   | 1,889,429            |
| Elimination of unrealized profits on inventories in intercompany operations, net of taxes   | (6,189)              | (4,177)              | (20,516)                    | (25,335)             |
| Reversal of the elimination of unrealized result in inventories, net of taxes, resulting from intercompany operations at December 31, 2004 and 2003 | <u>14,327</u>        | <u>7,762</u>         | <u>14,327</u>               | <u>14,327</u>        |
| Financial information - Consolidated  | <u>245,126</u>       | <u>198,53</u>        | <u>1,966,006</u>            | <u>1,878,421</u>     |

**4 Long and short-term investments**

|                                 | <b>Interest %<br/>(annual average)</b> | <u>Parent company</u> |                       | <u>Consolidated</u>  |                       |
|---------------------------------|--|-----------------------|-----------------------|----------------------|-----------------------|
|                                 |  | <u>June 30, 2005</u>  | <u>March 31, 2005</u> | <u>June 30, 2005</u> | <u>March 31, 2005</u> |
| <b>Short-term investments</b>   |  |                       |                       |                      |                       |
| <b>Local currency</b>           |  |                       |                       |                      |                       |
| Investment funds                | 19.72                                  | 177,962               | 190,531               | 357,805              | 438,487               |
| Austrian Bonds indexed in Reais | 17.75                                  | 256,755               | -                     | 256,755              | -                     |
| Treasury bills - LFT            | 17.47                                  | -                     | 36,319                | -                    | 36,319                |
| Others                          | 7.65                                   | <u>93</u>             | <u>91</u>             | <u>93</u>            | <u>91</u>             |
|                                 |  | <u>434,810</u>        | <u>226,941</u>        | <u>614,653</u>       | <u>474,897</u>        |



## Sadia S.A.

## Notes to the interim financial information (Unaudited)

*(In thousands of Reais)*

|                                   | Interest % (annual average) | Parent company |                | Consolidated     |                  |
|-----------------------------------|-----------------------------|----------------|----------------|------------------|------------------|
|                                   |                             | June 30, 2005  | March 31, 2005 | June 30, 2005    | March 31, 2005   |
| <b>Foreign currency</b>           |                             |                |                |                  |                  |
| Investment funds                  | 8.02                        | -              | -              | 1,037,052        | 866,375          |
| Interest-bearing current accounts | 2.80                        | -              | -              | 160,744          | 164,394          |
| Swap contracts                    |                             | 23,832         | 44,268         | 23,832           | 44,268           |
| Interest change contracts         |                             | -              | 11             | 566              | 130              |
|                                   |                             | <u>23,832</u>  | <u>44,279</u>  | <u>1,222,194</u> | <u>1,075,167</u> |
| <b>Total short-term</b>           |                             | <u>458,642</u> | <u>271,220</u> | <u>1,836,847</u> | <u>1,550,064</u> |
| <b>Long-term investments</b>      |                             |                |                |                  |                  |
| <b>Local currency</b>             |                             |                |                |                  |                  |
| Austrian Bonds indexed in Reais   | 17.75                       | -              | 246,657        | -                | 246,657          |
| Treasury bills - LFT              | 17.47                       | 49,803         | 85,655         | 49,803           | 85,655           |
| National Treasury Notes - NTN     | 12.00                       | <u>24,499</u>  | <u>23,455</u>  | <u>24,499</u>    | <u>23,455</u>    |
|                                   |                             | <u>74,302</u>  | <u>355,767</u> | <u>74,302</u>    | <u>355,767</u>   |
| <b>Foreign currency</b>           |                             |                |                |                  |                  |
| Swap contracts                    |                             | <u>2,337</u>   | <u>8,811</u>   | <u>2,337</u>     | <u>8,811</u>     |
|                                   |                             | <u>2,337</u>   | <u>8,811</u>   | <u>2,337</u>     | <u>8,811</u>     |
| <b>Total long-term</b>            |                             | <u>76,639</u>  | <u>364,578</u> | <u>76,639</u>    | <u>364,578</u>   |

Long-term investments as of June 30, 2005 mature as follows:

**Maturity**

2006

2,337



|              |               |
|--------------|---------------|
| 2008         | 49,803        |
| 2010 onwards | <u>24,499</u> |
|              | <u>76,639</u> |

## Sadia S.A.

## Notes to the interim financial information (Unaudited)

*(In thousands of Reais)*

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

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

During the second quarter of 2004, Management decided to dispose of the Brazilian debt securities (Brazil Global and Brazil C Bearer Bonds), which were part of the portfolio of investment funds of its subsidiary abroad, thus reducing the exposure of the Company and its subsidiaries to the volatility of these securities, and recognized a loss of R\$110,000.

**5 Accounts receivable**

|                                     | <b>Parent company</b>    |                           | <b>Consolidated</b>      |                           |
|-------------------------------------|--------------------------|---------------------------|--------------------------|---------------------------|
|                                     | <b>June 30,<br/>2005</b> | <b>March 31,<br/>2005</b> | <b>June 30,<br/>2005</b> | <b>March 31,<br/>2005</b> |
| Foreign:                            |                          |                           |                          |                           |
| Subsidiaries                        | 227,005                  | 345,078                   | -                        | -                         |
| Third-parties                       | 171,735                  | 126,554                   | 440,557                  | 274,880                   |
| Advance on export contracts         | <u>(48,046)</u>          | -                         | <u>(48,046)</u>          | -                         |
| Sub-total                           | <u>350,694</u>           | <u>471,632</u>            | <u>392,511</u>           | <u>274,880</u>            |
| Domestic customers                  | 143,166                  | 126,361                   | 143,174                  | 132,573                   |
| (-) Allowance for doubtful accounts | <u>(10,543)</u>          | <u>(7,255)</u>            | <u>(15,083)</u>          | <u>(11,202)</u>           |
|                                     | <u>483,317</u>           | <u>590,738</u>            | <u>520,602</u>           | <u>396,251</u>            |

As a way of reducing its credit risk and financial indebtedness, the Company maintains a revolving line of credit up to the amount of US\$100 million, through assignment of receivables from the Company's exports. The cost of the operation is an average interest rate of 0,7% p.a. + LIBOR. As a form of significantly reducing credit risk (client and country), credit insurance is contracted covering 90% of the payments to the banks in case of delinquency. In June 2005, the assigned amount of outstanding receivables amounted to approximately US\$ 100 million.

## Sadia S.A.

## Notes to the interim financial information (Unaudited)

*(In thousands of Reais)*

The Company also assigned receivables to a Credit Rights Investment Fund (FIDC) administered by Concórdia S.A. Corretora de Valores Mobiliários, Câmbio e Commodities. This Fund has a total paid-in shareholders' equity of R\$195,000, and whose resources are allocated to the acquisition of Sadia S.A. domestic market receivables with a discounted cost equivalent to 95% of the CDI per senior quota. The receivables assigned to the fund have no recourse to the Company and the fund bears with the collection risk.

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

**6 Inventories**

|  | <b>Parent company</b>    |                           | <b>Consolidated</b>      |                           |
|--|--------------------------|---------------------------|--------------------------|---------------------------|
|  | <b>June 30,<br/>2005</b> | <b>March 31,<br/>2005</b> | <b>June 30,<br/>2005</b> | <b>March 31,<br/>2005</b> |
| Finished goods and products for sale         | 363,497                  | 387,594                   | 384,413                  | 415,516                   |
| Livestock and poultry for slaughter and sale | 409,079                  | 359,777                   | 409,079                  | 359,777                   |
| Raw materials                                | 224,949                  | 251,586                   | 226,787                  | 256,084                   |
| Work in process                              | 51,909                   | 63,868                    | 51,909                   | 71,401                    |
| Packaging materials                          | 34,639                   | 38,376                    | 34,639                   | 38,376                    |
| Storeroom                                    | 20,885                   | 19,845                    | 20,885                   | 22,157                    |
| Products in transit                          | 8,134                    | 7,799                     | 8,318                    | 7,910                     |
| Advances to suppliers                        | 54,785                   | 45,643                    | 55,028                   | 45,704                    |
| Imports in transit                           | <u>10,475</u>            | <u>10,366</u>             | <u>10,475</u>            | <u>10,366</u>             |
|  | <u>1,178,352</u>         | <u>1,184,854</u>          | <u>1,201,533</u>         | <u>1,227,291</u>          |

## Sadia S.A.

## Notes to the interim financial information (Unaudited)

*(In thousands of Reais)***7 Recoverable taxes**

|                                      | Parent company   |                   | Consolidated     |                   |
|--------------------------------------|------------------|-------------------|------------------|-------------------|
|                                      | June 30,<br>2005 | March 31,<br>2005 | June 30,<br>2005 | March 31,<br>2005 |
| ICMS                                 | 112,551          | 87,604            | 113,927          | 108,267           |
| COFINS                               | 61,036           | 54,137            | 61,365           | 54,603            |
| PIS                                  | 18,354           | 15,643            | 18,354           | 15,673            |
| IPI                                  | 50,439           | 53,456            | 50,472           | 53,489            |
| Income and social contribution taxes | 19,004           | 40,838            | 22,064           | 43,509            |
| Others                               | <u>57</u>        | <u>57</u>         | <u>64</u>        | <u>63</u>         |
|                                      | <u>261,441</u>   | <u>251,735</u>    | <u>266,246</u>   | <u>275,604</u>    |
| Short-term portion                   | 174,876          | 171,073           | 179,681          | 193,539           |
| Long-term portion                    | 86,565           | 80,662            | 86,565           | 82,065            |

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

Composed of credits generated by the commercial operations of a number of the Company's units which will be offset against debits of this tax.

**b. Contributions on sales and services - PIS/COFINS**

Composed of credits arising from non-cumulative collection of PIS and COFINS which will be offset against debits of these contributions and/or other federal taxes.

**c. Excise tax - IPI**

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

**d. Income and social contribution taxes**

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

## Sadia S.A.

## Notes to the interim financial information (Unaudited)

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

|  | Parent company   |                   | Consolidated     |                   |
|--|------------------|-------------------|------------------|-------------------|
|  | June 30,<br>2005 | March 31,<br>2005 | June 30,<br>2005 | March 31,<br>2005 |
| Deferred tax asset   |                  |                   |                  |                   |
| Temporary differences  |                  |                   |                  |                   |
| Benefit plan   | 26,520           | 28,076            | 26,520           | 28,076            |
| Provision for contingencies                                      | 22,192           | 19,669            | 22,972           | 22,331            |
| Allowance for doubtful accounts                                  | 9,882            | 8,147             | 9,882            | 8,631             |
| Provision for loss on property, plant and equipment              | 4,634            | 4,648             | 4,634            | 4,648             |
| Employees' profit sharing  | 4,496            | 2,82              | 4,797            | 2,875             |
| Others   | 2,491            | 1,371             | 2,674            | 2,815             |
| Tax loss carryforwards and negative basis of social contribution | 13,908           | 23,693            | 13,908           | 25,166            |
| Summer Plan depreciation   | <u>3,389</u>     | <u>3,517</u>      | <u>3,389</u>     | <u>3,517</u>      |
| Total deferred tax asset   | <u>87,512</u>    | <u>91,941</u>     | <u>88,776</u>    | <u>98,059</u>     |
| Short-term portion   | 16,084           | 19,159            | 17,348           | 20,681            |
| Long-term portion  | 71,428           | 72,782            | 71,428           | 77,378            |
| Deferred tax liability:  |                  |                   |                  |                   |
| Depreciation on rural activities                                 | <u>13,080</u>    | <u>10,833</u>     | <u>13,080</u>    | <u>14,106</u>     |
| Total deferred tax liability                                     | <u>13,080</u>    | <u>10,833</u>     | <u>13,080</u>    | <u>14,106</u>     |
| Net balance  | <u>74,432</u>    | <u>81,108</u>     | <u>75,696</u>    | <u>83,953</u>     |

*b. Realization of deferred tax asset projection*

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

Deferred tax assets in the amount of R\$13,908 arising from tax losses and negative basis of social contribution of

a subsidiary abroad will be realized according to management's estimate within a period of three years.

## Sadia S.A.

## Notes to the interim financial information (Unaudited)

*(In thousands of Reais)***9 Related party transactions and balances**

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

|   | <b>Balance sheet</b>     |                           |
|---|--------------------------|---------------------------|
|   | <b>June 30,<br/>2005</b> | <b>March 31,<br/>2005</b> |
| <b>Accounts receivable</b>                |                          |                           |
| Wellax Food Logistics C. P. A. S. U. Lda. | 222,783                  | 341,638                   |
| Sadia Alimentos S.A.                      | 1,790                    | 884                       |
| Sadia Uruguay S.A.                        | 440                      | 513                       |
| Sadia Chile S.A.                          | <u>1,992</u>             | <u>2,043</u>              |
|   | <u>227,005</u>           | <u>345,078</u>            |
| <b>Interest on shareholders' equity</b>   |                          |                           |
| Concórdia C.V.M.C.C.                      | <u>-</u>                 | <u>4,028</u>              |
|   | -                        | 4,028                     |
|   | <u>-</u>                 | <u>4,028</u>              |
| <b>Loans</b>                              |                          |                           |
| Wellax Food Logistics C. P. A. S. U. Lda. | 152,457                  | -                         |
| Sadia International Ltd.                  | (254)                    | (288)                     |
| Só Frango Produtos Alimentícios Ltda.     | -                        | 439                       |
| Rezende Óleo Ltda.                        | 847                      | 847                       |
| Concórdia S.A. CCVMCC                     | 55                       | 54                        |
| Rezende Marketing e Comunicação Ltda.     | <u>55</u>                | <u>55</u>                 |
|   | <u>153,160</u>           | <u>1,107</u>              |
| <b>Supplier</b>                           |                          |                           |
| Só Frango Produtos Alimentícios Ltda.     | <u>-</u>                 | <u>5,122</u>              |
|   | -                        | 5,122                     |
| <b>Advances from subsidiaries</b>         |                          |                           |
| Wellax Food Logistics C. P. A. S. U. Lda. | (520,264)                | (325,018)                 |
| Sadia International Ltd.                  | <u>(2,021)</u>           | <u>(2,291)</u>            |



(522,285)

(327,309)

## Sadia S.A.

## Notes to the interim financial information (Unaudited)

*(In thousands of Reais)*

|  | <b>Statement of Income</b> |                           |
|--|----------------------------|---------------------------|
|  | <b>June 30,<br/>2005</b>   | <b>March 31,<br/>2005</b> |
| <b>Sales</b>                               |                            |                           |
| Wellax Food Logistics C. P. A. S. U. Ltda. | 1,074,010                  | 1,032,921                 |
| Sadia International Ltd.                   | -                          | 42,186                    |
| Sadia Chile S.A.                           | 6,610                      | 4,508                     |
| Sadia Alimentos S.A.                       | 5,878                      | 3,611                     |
| Sadia Uruguay S.A.                         | 2,499                      | 2,311                     |
| Só Frango Produtos Alimentícios Ltda.      | <u>1,318</u>               | <u>-</u>                  |
|  | <u>1,090,315</u>           | <u>1,085,537</u>          |
| <b>Purchase of Goods</b>                   |                            |                           |
| Só Frango Produtos Alimentícios Ltda.      | <u>16,030</u>              | <u>-</u>                  |
|  | <u>16,030</u>              | <u>-</u>                  |
| <b>Net financial result</b>                |                            |                           |
| Wellax Food Logistics C. P. A. S. U. Ltda. | 36,486                     | -                         |
| Sadia International Ltd.                   | <u>314</u>                 | <u>2,306</u>              |
|  | <u>36,800</u>              | <u>2,306</u>              |

## Sadia S.A.

## Notes to the interim financial information (Unaudited)

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

| Investments                                  | Ownership | Shareholders' equity | Net income (loss) for the period | Equity result    | Investment balances |                   |
|--|-----------|----------------------|----------------------------------|------------------|---------------------|-------------------|
|  |           |                      |                                  |                  | March 31, 2005      | December 31, 2004 |
| Sadia GmbH                                   | 100.00%   | 705,557              | 210,708                          | 86,441           | 705,557             | 678,809           |
| Sadia International Ltd.                     | 100.00%   | 84,221               | (4,180)                          | (15,238)         | 84,221              | 97,648            |
| Concórdia S.A. CVMCC                         | 99.99%    | 50,787               | 2,280                            | 4,164            | 50,787              | 48,432            |
| Rezende Óleo Ltda.                           | 100.00%   | 1,138                | (413)                            | (413)            | 1,138               | 1,138             |
| Rezende Marketing e Comun. Ltda.             | 99.91%    | (25)                 | (3)                              | (2)              | -                   | -                 |
| Só Frango Produtos Alimentícios Ltda.        | 100.00%   | —                    | <u>5,654</u>                     | <u>5,654</u>     | —                   | <u>31,018</u>     |
| Total in subsidiaries                        |           |                      |                                  | 80,606           | 841,703             | 857,045           |
| Goodwill in acquisition of investments       |           |                      |                                  | -                | 60,422              | 62,505            |
| Other investments                            |           |                      |                                  | —                | <u>1,445</u>        | <u>1,384</u>      |
| Total investments of the Company             |           |                      |                                  | <u>80,606</u>    | <u>903,570</u>      | <u>920,934</u>    |
| Other investments of subsidiaries/affiliates |           |                      |                                  | -                | 18,671              | 18,671            |
| Investments eliminated on consolidation      |           |                      |                                  | <u>(214,188)</u> | <u>(840,613)</u>    | <u>(857,046)</u>  |
| Total consolidated investments               |           |                      |                                  | <u>(133,582)</u> | <u>81,628</u>       | <u>82,559</u>     |

| Changes of investments in the period | Shareholding result |                      |           |               |
|--------------------------------------|---------------------|----------------------|-----------|---------------|
|                                      | Write-off           | Provision for losses | Operating | Non-operating |
| Sadia GmbH                           | -                   | -                    | 26,748    | -             |
| Sadia International Ltd.             | -                   | -                    | (13,427)  | -             |
| Concórdia S.A. CCVMCC                | -                   | -                    | 1,204     | 1,151         |
| Só Frango Produtos Alim. Ltda.       | (31,018)            | -                    | -         | -             |
| Rezende Óleo Ltda.                   | -                   | -                    | -         | -             |

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|                                |                 |            |               |              |
|--------------------------------|-----------------|------------|---------------|--------------|
| Rezende Marketing e Com. Ltda. | <u>-</u>        | <u>(1)</u> | <u>-</u>      | <u>-</u>     |
| Total                          | <u>(31,018)</u> | <u>(1)</u> | <u>14,525</u> | <u>1,151</u> |

## Sadia S.A.

## Notes to the interim financial information (Unaudited)

*(In thousands of Reais)*

The accumulated income from equity interest in the parent company is represented by an operating income of R\$78,722 and a nonoperating income of R\$1,884. In the consolidated statement it is represented by conversion losses in the amount of R\$135,460 and a nonoperating income of R\$1,878.

On January 3, 2005 the Company acquired 100% of the shares of Só Frango Produtos Alimentícios Ltda. The acquisition generated goodwill in the amount of R\$ 62,505, which will be amortized within 5 years based on the expected profitability of the investment.

In the Extraordinary General Meeting held on April 29, 2005, the incorporation of the wholly owned subsidiary Só Frango Produtos Alimentícios Ltda. was approved by the shareholders of Sadia S.A., with the aim of obtaining operating and corporate benefits, amongst others, resulting in a significant economy of scale due to the decrease in expenses arising from centralizing and rationalizing administrative and operational activities.

**11 Property, plant and equipment****Parent company**

|                               | Interest<br>(annual average) | Parent company   |                    |                  |                   |
|-------------------------------|------------------------------|------------------|--------------------|------------------|-------------------|
|                               |                              | Cost             | Depreciation       | Residual amount  |                   |
|                               |                              | June 30,<br>2005 | June 30,<br>2005   | June 30, 2005    | March 31,<br>2005 |
| Land                          | -                            | 55,621           | -                  | 55,621           | 55,360            |
| Buildings                     | 4%                           | 699,536          | (318,442)          | 381,094          | 365,700           |
| Machinery and equipment       | 15%                          | 891,064          | (519,992)          | 371,072          | 344,420           |
| Facilities                    | 10%                          | 209,841          | (116,379)          | 93,462           | 90,972            |
| Vehicles                      | 27%                          | 12,073           | (7,599)            | 4,474            | 4,592             |
| Breeding stock                | -                            | 190,865          | (85,770)           | 105,095          | 106,706           |
| Forestation and reforestation | -                            | 23,311           | (7,583)            | 15,728           | 13,257            |
| Others                        | -                            | 1,693            | (1,382)            | 311              | 378               |
| Construction in progress      | -                            | 228,617          | -                  | 228,617          | 145,098           |
| Advances to suppliers         |                              | <u>46,507</u>    | <u>-</u>           | <u>46,507</u>    | <u>64,834</u>     |
|                               |                              | <u>2,359,128</u> | <u>(1,057,147)</u> | <u>1,301,981</u> | <u>1,191,317</u>  |

## Sadia S.A.

## Notes to the interim financial information (Unaudited)

*(In thousands of Reais)***Consolidated**

|                               |                                  | <b>Cost</b>              | <b>Depreciation</b>      | <b>Net value</b>         |                           |
|-------------------------------|----------------------------------|--------------------------|--------------------------|--------------------------|---------------------------|
|                               | <b>Average<br/>Annual rate %</b> | <b>June 30,<br/>2005</b> | <b>June 30,<br/>2005</b> | <b>June 30,<br/>2005</b> | <b>March 31,<br/>2005</b> |
| Land                          | -                                | 55,725                   | -                        | 55,725                   | 55,725                    |
| Buildings                     | 4%                               | 700,245                  | (318,913)                | 381,332                  | 374,687                   |
| Machinery and equipment       | 15%                              | 893,497                  | (521,209)                | 372,288                  | 359,042                   |
| Facilities                    | 10%                              | 210,097                  | (116,460)                | 93,637                   | 91,806                    |
| Vehicles                      | 27%                              | 13,037                   | (7,765)                  | 5,272                    | 5,358                     |
| Breeding stock                | -                                | 190,865                  | (85,770)                 | 105,095                  | 106,706                   |
| Forestation and reforestation | -                                | 23,311                   | (7,583)                  | 15,728                   | 13,257                    |
| Others                        | -                                | 3,074                    | (2,103)                  | 971                      | 1,072                     |
| Construction in progress      | -                                | 228,617                  | -                        | 228,617                  | 145,691                   |
| Advances to suppliers         | -                                | <u>46,507</u>            | <u>-</u>                 | <u>46,507</u>            | <u>64,972</u>             |
|                               |                                  | <u>2,364,975</u>         | <u>(1,059,803)</u>       | <u>1,305,172</u>         | <u>1,218,316</u>          |

- a. The construction in progress is mainly represented by projects related to the industrial units expansion and optimization.
- b. In accordance with CVM Deliberation 193/96 the interest incurred in the period arising from financing of projects for modernization and expansion of the industrial units has been recorded in the respective costs of the construction in progress in the amount of R\$6,767 (R\$4,792 in the period ended on June 30, 2004).
- c. In this quarter the Company disposed of the old administrative center of Granja Rezende for the amount of R\$17.300, generating a gain of R\$165, recorded as nonoperating income.

## Sadia S.A.

## Notes to the interim financial information (Unaudited)

*(In thousands of Reais)***12 Deferred charges****Parent company**

|                       | Rate % | Cost             | Amortization     | Residual value   |                   |
|-----------------------|--------|------------------|------------------|------------------|-------------------|
|                       |        | June 30,<br>2005 | June 30,<br>2005 | June 30,<br>2005 | March 31,<br>2005 |
| Preoperating expenses | 25     | 132,240          | (77,702)         | 54,538           | 46,268            |
| Product development   | 20     | 8,164            | (5,363)          | 2,801            | 2,334             |
| Others                | 20     | <u>349</u>       | <u>(140)</u>     | <u>209</u>       | <u>108</u>        |
|                       |        | <u>140,753</u>   | <u>(83,205)</u>  | <u>57,548</u>    | <u>48,710</u>     |

**Consolidated**

|                       | Rate % | Cost             | Amortization     | Residual value   |                   |
|-----------------------|--------|------------------|------------------|------------------|-------------------|
|                       |        | June 30,<br>2005 | June 30,<br>2005 | June<br>30, 2005 | March<br>31, 2005 |
| Preoperating expenses | 25     | 133,258          | (78,158)         | 55,100           | 46,796            |
| Product development   | 20     | 8,164            | (5,363)          | 2,801            | 2,334             |
| Others                | 20     | <u>543</u>       | <u>(241)</u>     | <u>302</u>       | <u>283</u>        |
|                       |        | <u>141,965</u>   | <u>(83,762)</u>  | <u>58,203</u>    | <u>49,413</u>     |

The Company reviewed its assumptions for the amortization of pre-operating expenses incurred in the implementation of management software, reducing the amortization period from 5 to 4 years. This change in the amortization estimate results from the implementation of a new version of the software, which has been concluded on October, 2004. This change generated additional amortization in the first six-month period of 2004 in the amount of R\$ 5,828.





## Sadia S.A.

## Notes to the interim financial information (Unaudited)

*(In thousands of Reais)***13 Loans and financing - Short-term**

|   | <b>Parent company</b>    |                           | <b>Consolidated</b>      |                           |
|---|--------------------------|---------------------------|--------------------------|---------------------------|
|   | <b>June 30,<br/>2005</b> | <b>March 31,<br/>2005</b> | <b>June 30,<br/>2005</b> | <b>March 31,<br/>2005</b> |
| <b>Short-term</b>   |                          |                           |                          |                           |
| <b>Foreign currency</b>   |                          |                           |                          |                           |
| Financing of working capital obtained from financial institutions which are custodians of structured notes owned by the Company subject to LIBOR variation for 1-month deposits (3.34% in June 2005) plus interest from 0.10% to 0.20% p.a., guaranteed by its own titles | -                        | -                         | 260,561                  | 295,379                   |
| Advanced collection relating to the receivables sold, with no interest  | 40,498                   | -                         | 210,834                  | 95,915                    |
| Advance on export contracts subject to LIBOR variation for 6-month deposits (3.71% in June 2005) plus interest of 3.22% p.a., guaranteed by promissory notes or sureties  | 71,641                   | 107,035                   | 71,641                   | 112,262                   |
| Credit lines for the development of foreign trade, with interest rates from 2.00% to 4.15% p.a., guaranteed by promissory notes or sureties   | -                        | -                         | 6,179                    | 15,317                    |
| Currency swap contracts   | 14,116                   | 5,626                     | 14,116                   | 5,626                     |
| Interest rate swap contracts  | <u>237</u>               | <u>1,347</u>              | <u>237</u>               | <u>1,347</u>              |
|   | <u>126,492</u>           | <u>114,008</u>            | <u>563,568</u>           | <u>525,846</u>            |
| <b>Local currency</b>   |                          |                           |                          |                           |
| Rural credit lines and working capital loans with interest of 8.75% p.a.  | 159,999                  | 158,837                   | 159,999                  | 163,076                   |
| Currency swap contracts   | <u>141,520</u>           | <u>161,041</u>            | <u>141,520</u>           | <u>161,041</u>            |
|   | <u>301,519</u>           | <u>319,878</u>            | <u>301,519</u>           | <u>324,117</u>            |
|   | <u>428,011</u>           | <u>433,886</u>            | <u>865,087</u>           | <u>849,963</u>            |



## Sadia S.A.

## Notes to the interim financial information (Unaudited)

(In thousands of Reais)

|  | Parent company   |                   | Consolidated     |                   |
|--|------------------|-------------------|------------------|-------------------|
|  | June 30,<br>2005 | March 31,<br>2005 | June 30,<br>2005 | March 31,<br>2005 |
| <b>Short-term portion of the long-term debt</b>  |                  |                   |                  |                   |
| <b>Foreign currency</b>  |                  |                   |                  |                   |
| IFC (International Finance Corporation) funding in foreign currency for investment in property, plant and equipment, of which R\$76,775 is subject to interest at the rate of 8.52% p.a., and R\$29,234 at 9.05% p.a., guaranteed by real estate mortgages   | 106,009          | 125,050           | 106,009          | 125,050           |
| Export financing composed of prepayment in the amount of R\$ 229,068 subject to LIBOR variation for 6-month deposits (3.71% in June 2005) and interest of 7.68% p.a. and a line focused on incentives for foreign trade activities in the amount of R\$ 5,613, plus LIBOR variation for 6-month and annual interest of 5.42% p.a., guaranteed by promissory notes or sureties  | 229,068          | 265,760           | 234,681          | 322,520           |
| BNDES (National Bank for Economic and Social Development), credit lines for investments and exports, composed as follows: FINEM in the amount of R\$10,534 subject to the weighted average of exchange variation of currencies traded by BNDES - UMBNDES and fixed interest of 3.50% p.a. and FINAME EXIM in the amount of R\$385 subject to the weighted average of exchange variation of currencies traded by BNDES-UMBNDES and fixed interest of 3.86%, guaranteed by mortgage bonds and real estate mortgage | 10,919           | 21,979            | 10,919           | 21,979            |
| Financing of working capital obtained from financial institutions which are custodians of structured notes owned by the Company subject to LIBOR variation for 1-month deposits (3.34% in June 2005) plus interest from 0.10% to 0.20% p.a., guaranteed by its own titles  | <u>143,510</u>   | <u>1,141</u>      | <u>143,510</u>   | <u>1,141</u>      |
|  | <u>489,506</u>   | <u>413,930</u>    | <u>495,119</u>   | <u>470,690</u>    |
| <b>Local currency</b>  |                  |                   |                  |                   |
| BNDES (National Bank for Economic and Social Development) credit lines for investments and exports, composed as follows: FINAME in the amount of R\$ 7,635 subject to the Long-Term Interest Rate -TJLP (9.75% p.a. in June 2005) and interest of 3.30% p.a., FINAME-EXIM in the amount of R\$ 140,325 subject to TJLP and interest of 3.89% p.a. and FINEM in the amount of R\$ 17,083 subject to TJLP and interest of 3.49% p.a., guaranteed by mortgage bonds and real estate mortgages                       | 165,043          | 210,113           | 165,043          | 210,113           |
| PESA - Special Aid for Agribusiness payable in installments, subject to IGPM variation and annual interest of 9.76%, guaranteed by sureties  | 2,790            | 1,384             | 2,790            | 1,384             |
| Others   | <u>4,596</u>     | <u>507</u>        | <u>4,596</u>     | <u>507</u>        |
|  | 172,429          | 212,004           | 172,429          | 212,004           |
| <b>Short-term portion of long-term debt</b>  | <u>661,935</u>   | <u>625,934</u>    | <u>667,548</u>   | <u>682,694</u>    |
| Total short-term   | <u>1,089,946</u> | <u>1,059,820</u>  | <u>1,532,635</u> | <u>1,532,657</u>  |



## Sadia S.A.

## Notes to the interim financial information (Unaudited)

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

At June 30, 2005 the weighted average interest on short-term loans was 6.83% p.a. (7.47% p.a. at March 31, 2005).

|  | <b>Parent company</b>    |                           | <b>Consolidated</b>      |                           |
|--|--------------------------|---------------------------|--------------------------|---------------------------|
|  | <b>June 30,<br/>2005</b> | <b>March 31,<br/>2005</b> | <b>June 30,<br/>2005</b> | <b>March 31,<br/>2005</b> |
| <b>Foreign currency</b>  |                          |                           |                          |                           |
| Export financing composed of prepayment in the amount of R\$ 487,790, payable in installments up to 2010, subject to LIBOR variation for 6-month deposits (3.71% in June 2005) plus annual interest of 7.68% p.a. and a line focused on the incentive for foreign trade in the amount of R\$ 570,750, subject to LIBOR variation for 6-month deposits plus interest of 5.42% p.a., guaranteed by promissory notes or sureties. | 487,790                  | 612,506                   | 1,058,540                | 946,673                   |
| Financing obtained from financial institutions which are custodians of structured notes owned by the Company, subject to LIBOR variation for 1-month deposits (3.34% in June 2005) plus interest from 0.10% to 0.20% p.a., guaranteed by its own securities  | 143,510                  | 162,677                   | 143,510                  | 162,677                   |
| IFC (International Finance Corporation) funding in foreign currency for investments in property, plant and equipment, of which R\$76,775 is subject to interest at the rate of 8.52% p.a. and R\$29,234 at 9.05% p.a., guaranteed by real estate mortgages   | 106,009                  | 125,050                   | 106,009                  | 125,050                   |

## Sadia S.A.

## Notes to the interim financial information (Unaudited)

*(In thousands of Reais)*

|   | Parent company   |                   | Consolidated     |                   |
|---|------------------|-------------------|------------------|-------------------|
|   | June 30,<br>2005 | March 31,<br>2005 | June 30,<br>2005 | March 31,<br>2005 |
| BNDES (National Bank for Economic and Social Development), payable from 2005 to 2009, composed as follows: FINEM in the amount of R\$34,773 subject to the weighted average of the exchange variation of currencies traded by BNDES - UMBNDES and fixed interest of 3.50% p.a. and FINAME EXIM in the amount of R\$767 subject to the weighted average of the exchange variation of currencies traded by BNDES - UMBNDES and fixed annual interest of 3.86% p.a. guaranteed by mortgage bonds and real estate mortgages | 35,540           | 53,283            | 35,540           | 53,283            |
| Currency swap contracts   | <u>6,416</u>     | <u>3,981</u>      | <u>6,416</u>     | <u>3,981</u>      |
|   | 779,265          | 957,497           | 1,350,015        | 1,291,664         |
| <b>Local currency</b>   |                  |                   |                  |                   |
| BNDES (National Bank for Economic and Social Development), credit lines for investments and exports, payable from 2005 to 2008, composed as follows: FINAME in the amount of R\$14,493 subject to the Long-Term Interest Rate -TJLP (9.75% p.a. in June 2005) and interest of 3.30% p.a., FINAME-EXIM in the amount of R\$202,789 subject to TJLP and interest of 3.89% p.a. and FINEM in the amount of R\$45,469 subject to TJLP and interest of 3.49% p.a., guaranteed by mortgage bonds and real estate mortgages    | 262,751          | 316,625           | 262,751          | 316,625           |
| PESA - Special Aid for Agribusiness payable from 2005 to 2020, subject to IGPM variation and annual interest of 9.76%, guaranteed by sureties   | 140,991          | 127,008           | 140,991          | 127,008           |
| Currency swap contracts   | 27,101           | 35,730            | 27,101           | 35,730            |
| Others  | <u>30,497</u>    | <u>24,963</u>     | <u>30,497</u>    | <u>24,963</u>     |
|   | <u>461,340</u>   | <u>504,326</u>    | <u>461,340</u>   | <u>504,326</u>    |
|   | 1,240,605        | 1,461,823         | 1,811,355        | 1,795,990         |
| Short-term portion of long-term debt  | <u>(661,935)</u> | <u>(625,934)</u>  | <u>(667,548)</u> | <u>(682,694)</u>  |
| Total long-term   | <u>578,670</u>   | <u>835,889</u>    | <u>1,143,807</u> | <u>1,113,296</u>  |

The noncurrent portions of financings at June 30, 2005 mature as follows:

30

## Sadia S.A.

## Notes to the interim financial information (Unaudited)

*(In thousands of Reais)*

| <b>Maturity</b> | <b>Parent company</b> | <b>Consolidated</b> |
|-----------------|-----------------------|---------------------|
| 2006            | 194,874               | 313,436             |
| 2007            | 72,246                | 72,246              |
| 2008            | 76,909                | 76,909              |
| 2009            | 57,055                | 127,567             |
| 2010 onwards    | <u>177,586</u>        | <u>553,649</u>      |
|                 | <u>578,670</u>        | <u>1,143,807</u>    |

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



## Sadia S.A.

## Notes to the interim financial information (Unaudited)

*(In thousands of Reais)***15 Pension plans for employees**

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

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

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

**16 Contingencies**

The Company and its subsidiaries have several on going claims of a labor, civil and tax nature, resulting from its normal business activities. The respective provisions for contingencies were constituted based on the evaluation by the Company's legal counsel, which considered that unfavorable outcomes are likely. Whenever necessary, judicial deposits were made, on June 30, 2005 an amount of R\$ 79,224 (R\$ 79,330 on the consolidated) are recorded.

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

|                   | Parent company   |                   | Consolidated     |                   |
|-------------------|------------------|-------------------|------------------|-------------------|
|                   | June 30,<br>2005 | March 31,<br>2005 | June 30,<br>2005 | March 31,<br>2005 |
| Tax proceedings   | 36,183           | 32,345            | 38,449           | 37,797            |
| Civil proceedings | 14,405           | 11,781            | 14,405           | 12,986            |
| Labor proceedings | <u>14,684</u>    | <u>13,725</u>     | <u>14,712</u>    | <u>14,897</u>     |
|                   | <u>65,272</u>    | <u>57,851</u>     | <u>67,566</u>    | <u>65,680</u>     |

## Sadia S.A.

### Notes to the interim financial information (Unaudited)

*(In thousands of Reais)*

#### **Tax litigation**

The main tax contingencies involve the following cases:

**a. *Income and social contribution taxes on net income***

Provision for income and social contribution taxes on net income amounting to R\$6,897, recorded on the acquisition of the subsidiary Granja Rezende (incorporated in 2002).

**b. *State VAT (ICMS)***

The Company is a defendant in several administrative cases involving ICMS, mainly in the States of São Paulo, Rio de Janeiro and Amazonas (SUFRAMA), totaling a probable contingency estimated at R\$18,174.

**c. *Other tax contingencies***

Several cases related to payment of IOF (Tax on Financial Operations), PIS (Social Integration Program Tax), COFINS (Tax for Social Security Financing) and others totaling a probable loss of R\$13,378.

**d. *Civil litigation***

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

**e. *Labor claims***

There are approximately 1,700 labor claims against the Company. These claims involve mainly the payment of overtime, and health exposure or hazard premiums, none of them involving a significant amount on an individual basis.

## Sadia S.A.

## Notes to the interim financial information (Unaudited)

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

Subscribed and paid-in capital is represented by the following shares with no par value, at June 30, 2005 and March 31, 2005:

|                              | <b>June 30,<br/>2005</b> | <b>March 31,<br/>2005</b> |
|------------------------------|--------------------------|---------------------------|
| Common shares                | 257,000,000              | 257,000,000               |
| Preferred shares             | <u>426,000,000</u>       | <u>426,000,000</u>        |
| Total shares                 | 683,000,000              | 683,000,000               |
| Preferred shares in treasury | <u>(524,288)</u>         | <u>(304,288)</u>          |
| Total outstanding shares     | <u>682,475,712</u>       | <u>682,695,712</u>        |

**b. Changes in shareholders' equity**

|   | <b>Capital</b>   | <b>Profit<br/>Reserves</b> | <b>Treasury<br/>Stock</b> | <b>Retained<br/>Earnings</b> | <b>Total</b>     |
|---|------------------|----------------------------|---------------------------|------------------------------|------------------|
| <b>Balances as of December 31, 2004</b> | 1,000,000        | 767,441                    | (198)                     | 24,932                       | 1,792,175        |
| Net income for the period               | <u>-</u>         | <u>-</u>                   | <u>-</u>                  | <u>97,254</u>                | <u>97,254</u>    |
| <b>Balances as of March 31, 2005</b>    | 1,000,000        | 767,441                    | (198)                     | 122,186                      | 1,889,429        |
| Capital increase                        | 500,000          | (475,068)                  | -                         | (24,932)                     | -                |
| Interest on shareholders' equity        | -                | -                          | -                         | (55,977)                     | (55,977)         |
| Acquisition of shares                   | -                | -                          | (991)                     | -                            | (991)            |
| Net Income for the period               | <u>-</u>         | <u>-</u>                   | <u>-</u>                  | <u>139,734</u>               | <u>139,734</u>   |
| <b>Balances as of June 30, 2005</b>     | <u>1,500,000</u> | <u>292,373</u>             | <u>(1,189)</u>            | <u>181,011</u>               | <u>1,972,195</u> |



## Sadia S.A.

### Notes to the interim financial information (Unaudited)

*(In thousands of Reais)*

#### ***c. Treasury stock***

The Company's treasury stock consists of 524,888 preferred shares acquired for R\$ 1,189 for future sale and/or use in the Plan for Granting of Purchase Options for Shares. At June 30, 2005 the market value corresponded to R\$ 2,386.

#### ***d. Market value***

The market value of Sadia S,A, shares according average quotation of shares negotiated on the São Paulo Stock Exchange - BOVESPA, corresponded to R\$4.55 per share at June 30, 2005 (R\$4.41 at March 31, 2005). Net equity on that date was R\$2.89 per share (R\$2.77 at March 31, 2005).

#### ***e. Interest on shareholders' equity***

In a meeting held on June 23, 2005, the Board of Directors of Sadia authorized payment of interest on shareholders' equity in the amount of R\$0.07718 for each common share and R\$0.08490 for each preferred share, gross of income tax at source. This interest will be attributed to the shareholders as an advance and on account of the results for the year in progress, and will be computed in the calculation of the minimum obligatory dividend that is approved in the next Annual General Meeting.

### **18 Plan for Granting of Purchase Options for Shares**

In the Ordinary and Extraordinary General Meeting of April 29, 2005 the plan for granting of purchase options for shares was approved in its first phase for the officers of the executive committee of the Company. The plan comprises nominative preferred shares issued by the Company available in treasury and has the long-term aim of stimulating the feeling of ownership and commitment to the Company by the participants, and, thus, is in line with the shareholders' interests.

The plan will be managed by a Management Committee, composed of the chief executive officer and the Human Resources Committee of the Board of Directors.

## Sadia S.A.

## Notes to the interim financial information (Unaudited)

*(In thousands of Reais)*

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

The composition of the options granted at June 30, 2005 is presented as follows:

| <b>Grant<br/>date</b> | <b>Number<br/>of shares</b> | <b>Price on the<br/>grant date</b> | <b>Date</b>  |              |
|-----------------------|-----------------------------|------------------------------------|--------------|--------------|
|                       |                             |                                    | <b>Start</b> | <b>Final</b> |
| 06/24/05              | 2,200,000                   | 4.55                               | 06/23/08     | 06/23/10     |

**19 Employees' profit sharing**

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

## Sadia S.A.

## Notes to the interim financial information (Unaudited)

*(In thousands of Reais)***20 Financial result**

|                                   | Parent company   |                  | Consolidated     |                  |
|-----------------------------------|------------------|------------------|------------------|------------------|
|                                   | June 30,<br>2005 | June 30,<br>2004 | June 30,<br>2005 | June 30,<br>2004 |
| <b>Financial expenses</b>         |                  |                  |                  |                  |
| Interest                          | (108,996)        | (114,693)        | (116,952)        | (183,299)        |
| Monetary variations - Liabilities | (5,039)          | (26,198)         | (13,296)         | (32,797)         |
| Exchange variations - Liabilities | 213,584          | (100,560)        | 214,109          | (122,935)        |
| Others                            | <u>(19,748)</u>  | <u>(27,964)</u>  | <u>(26,865)</u>  | <u>(39,432)</u>  |
|                                   | 79,801           | (269,415)        | 56,996           | (378,463)        |
| <b>Financial income</b>           |                  |                  |                  |                  |
| Interest                          | 46,241           | 81,797           | 115,066          | 86,305           |
| Monetary variations - Assets      | 178              | 5,351            | 178              | 7,297            |
| Exchange variations - Assets      | (108,625)        | 99,888           | (19,413)         | 91,131           |
| Others                            | <u>9,879</u>     | <u>9,358</u>     | <u>14,356</u>    | <u>15,501</u>    |
|                                   | <u>(52,327)</u>  | <u>196,394</u>   | <u>110,187</u>   | <u>200,234</u>   |
|                                   | 27,474           | (73,021)         | 167,183          | (178,229)        |

**21 Income and social contribution taxes**

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

|  | Parent company   |                  | Consolidated     |                  |
|--|------------------|------------------|------------------|------------------|
|  | June 30,<br>2005 | June 30,<br>2004 | June 30,<br>2005 | June 30,<br>2004 |
| Income before tax and profit sharing                     | 277,912          | 258,968          | 286,649          | 265,745          |
| Interest on shareholders' equity                         | (55,977)         | (51,349)         | (55,977)         | (51,349)         |
| Income before income and social contribution taxes       | 221,935          | 207,619          | 230,672          | 214,396          |
| Income and social contribution taxes at nominal rate-34% | (75,458)         | (70,590)         | (78,428)         | (72,895)         |
| <b>Adjustment to calculate the effective rate</b>        |                  |                  |                  |                  |
| Permanent differences:                                   |                  |                  |                  |                  |
| Interest on shareholders' equity of subsidiaries         | 27,406           | (9,872)          | 25,319           | (10,882)         |
| Others   | 5,707            | 2,937            | 9,122            | 2,992            |

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|  |                 |                 |                 |                 |
|--|-----------------|-----------------|-----------------|-----------------|
| Provision for income and social contribution taxes on foreign subsidiary | <u>1,421</u>    | <u>13,502</u>   | <u>1,421</u>    | <u>13,502</u>   |
| <b>Income and social contribution taxes at effective rate</b>            | <u>(40,924)</u> | <u>(64,023)</u> | <u>(42,566)</u> | <u>(67,283)</u> |

37



Sadia S.A.

## Notes to the interim financial information (Unaudited)

*(In thousands of Reais)*

### **22 Risk management and financial instruments**

The Company's operations are exposed to market risks, principally in relation to exchange rate variations, credit risk and grain purchase prices. These risks are monitored by the Risk Management Area that uses a specific system to calculate the "VAR -Value at Risk", and permanently monitored by the finance committee, composed of members of the Board of Directors and other finance executives of the Company, who are responsible for defining the Board's risk management strategy by determining the position and exposure limits. In June 30, 2005 the Value at Risk (VAR) of the financial assets and liabilities, for one year, with a 95% of confidence rating, represents R\$ 59,467 (not reviewed).

#### ***a. Exchange rate and interest risk***

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

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

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

Unearned income from contracted operations with future maturities is not recognized in the financial information. The market value of these contracts, if they were settled at June 30, 2005, would give rise to a gain of approximately R\$63,980.

## Sadia S.A.

## Notes to the interim financial information (Unaudited)

*(In thousands of Reais)*

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

|   | <b>Consolidated</b>      |                           |
|---|--------------------------|---------------------------|
|   | <b>June 30,<br/>2005</b> | <b>March 31,<br/>2005</b> |
| <b>Assets and liabilities in foreign currency</b> |                          |                           |
| Cash and short-term investments                   | 1,243,031                | 1,180,387                 |
| Amounts receivable from futures contracts         | 23,084                   | 279,324                   |
| Trade accounts receivable                         | 387,979                  | 271,135                   |
| Loans and financing                               | (1,913,583)              | (1,817,510)               |
| Swap contracts (dollar for IDC)                   | 315,906                  | 477,328                   |
| Suppliers   | (37,012)                 | (36,768)                  |
| Amounts payable for futures contracts             | <u>(10,432)</u>          | <u>(276,913)</u>          |
|   | <u>8,973</u>             | <u>76,983</u>             |

(IDC = Interbank Deposit Certificate)

Consolidated hedge contracts outstanding at June 30, 2005 with their respective payment schedules are as follows:

|                                       | <b>Position</b>          | <b>Payment schedule</b> |             |             |             |             |
|---------------------------------------|--------------------------|-------------------------|-------------|-------------|-------------|-------------|
|                                       | <b>June 30,<br/>2005</b> | <b>2005</b>             | <b>2006</b> | <b>2007</b> | <b>2008</b> | <b>2010</b> |
| <b>Derivative contracts</b>           |                          |                         |             |             |             |             |
| <b>Currency swap contracts</b>        |                          |                         |             |             |             |             |
| Base value - R\$                      | 315,906                  | 152,552                 | 141,07      | 12,908      | 9,376       | -           |
| Base value - US\$                     | 114,701                  | 55,822                  | 51,375      | 4,347       | 3,157       | -           |
| <b>Receivables/payables</b>           |                          |                         |             |             |             |             |
| Asset                                 | 26,169                   | 13,664                  | 12,505      | -           | -           | -           |
| Liability                             | (189,153)                | (92,725)                | (88,224)    | (4,752)     | (3,452)     | -           |
| <b>Rate swap contracts</b>            |                          |                         |             |             |             |             |
| Base value - R\$                      | 621,975                  | 222,407                 | -           | -           | -           | 399,568     |
| Base value - US\$                     | 264,625                  | 94,625                  | -           | -           | -           | 170         |
| Amount receivable                     | 566                      | 247                     | -           | -           | -           | 319         |
| Amount payable                        | (237)                    | (237)                   | -           | -           | -           | -           |
| <b>Futures contracts - US dollars</b> |                          |                         |             |             |             |             |
| Long position - US\$                  | 178,5                    | 178,5                   | -           | -           | -           | -           |
| Short position - US\$                 | 396,75                   | 396,75                  | -           | -           | -           | -           |

**Future market contracts**

|            |          |          |   |   |   |   |
|------------|----------|----------|---|---|---|---|
| Receivable | 23,084   | 23,084   | - | - | - | - |
| Payable    | (10,432) | (10,432) | - | - | - | - |

## Sadia S.A.

### Notes to the interim financial information (Unaudited)

*(In thousands of Reais)*

#### ***b. Credit risk***

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

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

An allowance for doubtful accounts was established for the receivable where management considers that there exists a risk of it not being received. The expenses with doubtful receivable totaled R\$6,518 in the period ended June 30, 2005 (R\$5,420 at June 30, 2004).

#### ***c. Grain purchase price risks***

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

#### ***d. Estimated market values***

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

## Sadia S.A.

## Notes to the interim financial information (Unaudited)

*(In thousands of Reais)*

The market value of the derivatives at June 30, 2005, estimated based on market price quotations for similar contracts, approximated corresponding book values. Estimated market values of financial instruments as compared to accounting balances are presented in the table below:

|   | <b>Consolidated</b>  |                     |
|---|----------------------|---------------------|
|   | <b>June 30, 2005</b> |                     |
|   | <b>Book value</b>    | <b>Market value</b> |
| Cash and cash equivalents                 | 106,638              | 106,638             |
| Short-term investments - Local currency   | 688,955              | 688,955             |
| Short-term investments - Foreign currency | 1,224,531            | 1,229,416           |
| Trade accounts receivable                 | 535,685              | 535,685             |
| Loans and financing                       | 2,676,442            | 2,674,981           |
| Suppliers                                 | 569,797              | 569,797             |
| Future Contracts, net                     | 12,652               | 12,652              |

## Sadia S.A.

## Notes to the interim financial information (Unaudited)

*(In thousands of Reais)**e. Financial indebtedness*

|   | <b>Consolidated</b>  |                  |                  |                       |                  |                  |
|---|----------------------|------------------|------------------|-----------------------|------------------|------------------|
|   | <b>June 30, 2005</b> |                  |                  | <b>March 31, 2005</b> |                  |                  |
|   | <b>Currency</b>      |                  | <b>Total</b>     | <b>Currency</b>       |                  | <b>Total</b>     |
| <b>Local</b>                              | <b>Foreign</b>       | <b>Local</b>     |                  | <b>Foreign</b>        |                  |                  |
| <b>Assets</b>                             |                      |                  |                  |                       |                  |                  |
| Cash and cash equivalents                 | 88,138               | 18,5             | 106,638          | 72,214                | 96,409           | 168,623          |
| Short-term investments                    | 614,653              | 1,222,194        | 1,836,847        | 474,897               | 1,075,167        | 1,550,064        |
| Accounts receivable from future contracts | <u>-</u>             | <u>23,084</u>    | <u>23,084</u>    | <u>-</u>              | <u>279,324</u>   | <u>279,324</u>   |
| Total current assets                      | 702,791              | 1,263,778        | 1,966,569        | 547,111               | 1,450,900        | 1,998,011        |
| Long-term investments                     | <u>74,302</u>        | <u>2,337</u>     | <u>76,639</u>    | <u>355,767</u>        | <u>8,811</u>     | <u>364,578</u>   |
| Total Financial Assets                    | <u>777,093</u>       | <u>1,266,115</u> | <u>2,043,208</u> | <u>902,878</u>        | <u>1,459,711</u> | <u>2,362,589</u> |
| <b>Liabilities</b>                        |                      |                  |                  |                       |                  |                  |
| Short-term financing                      | 473,948              | 1,058,687        | 1,532,635        | 536,121               | 996,536          | 1,532,657        |
| Accounts payable from future contracts    | -                    | 10,432           | 10,432           | -                     | 276,913          | 276,913          |
| Swap contracts - short-term               | <u>253,557</u>       | <u>(253,557)</u> | <u>-</u>         | <u>374,672</u>        | <u>(374,672)</u> | <u>-</u>         |
| Total current liabilities                 | 727,505              | 815,562          | 1,543,067        | 910,793               | 898,777          | 1,809,570        |
| Long-term Financing                       | 288,911              | 854,896          | 1,143,807        | 292,322               | 820,974          | 1,113,296        |
| Swap contracts - long-term                | <u>62,349</u>        | <u>(62,349)</u>  | <u>-</u>         | <u>102,656</u>        | <u>(102,656)</u> | <u>-</u>         |
| Total noncurrent liabilities              | 351,26               | 792,547          | 1,143,807        | 394,978               | 718,318          | 1,113,296        |
| Total Financial liabilities               | <u>1,078,765</u>     | <u>1,608,109</u> | <u>2,686,874</u> | <u>1,305,771</u>      | <u>1,617,095</u> | <u>2,922,866</u> |
| <b>Financial indebttness, net</b>         | <u>(301,672)</u>     | <u>(341,994)</u> | <u>(643,666)</u> | <u>(402,893)</u>      | <u>(157,384)</u> | <u>(560,277)</u> |

**23 Insurance (not reviewed)**

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

## Sadia S.A.

### Notes to the interim financial information (Unaudited)

*(In thousands of Reais)*

#### **24 Private pension plan**

##### ***a. Defined contribution plan***

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

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

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

At June 30, 2005 and 2004, the parent company contributions totaled R\$ 1,012 and R\$970 respectively, and the consolidated contributions, R\$1,039 and R\$986, respectively.

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

At June 30, 2005 the Foundation had a total of 22,871 participants (23,585 on March 31, 2005), of which 19,418 were active participants (20,159 on March 31, 2005).

##### ***b. Defined contribution plan***

As from January 1, 2003, the Company began to adopt new supplementary social security plans under the defined contribution modality for all employees hired by Sadia and its subsidiaries. Under the terms of the regulations, plans are funded on an equitable basis so that the portion paid by the Company is equal to the payment made by the employee in accordance with a contribution scale based on salary bands that vary between 1,5% and 6% of the employee's remuneration, observing a contribution limit that is updated annually. The contributions made by the Company at June 30, 2005 and 2004 totaled R\$1,071 and R\$594 respectively. As of June 30, 2005 this plan had 12,089 participants (12,402 in March 31, 2005).



## Sadia S.A.

## Notes to the interim financial information (Unaudited)

*(In thousands of Reais)***25 Additional information**

The statements of cash flow and added value are presented as additional information to the financial information. As a result of the reclassification of the breeding stock, described in Note 3 n., the statements of cash flows and added value as of June 30, 2004, were adjusted in order to reflect this reclassification and maintain comparability with the information as of June 30, 2005.

**a. Statement of cash flow**

The statement of cash flow was prepared by the indirect method based on accounting records in accordance with the instructions established in NPC 20 of the Brazilian Institute of Independent Auditors (IBRACON).

|   | <b>Parent company</b>    |                          | <b>Consolidated</b>      |                          |
|---|--------------------------|--------------------------|--------------------------|--------------------------|
|   | <b>June 30,<br/>2005</b> | <b>June 30,<br/>2004</b> | <b>June 30,<br/>2005</b> | <b>June 30,<br/>2004</b> |
| <b>Net income for the period</b>  | 236,988                  | 194,945                  | 245,126                  | 198,530                  |
| <b>Adjustments to reconcile net income to cash generated by operating activities:</b> |                          |                          |                          |                          |
| Variation in minority interest  | -                        | -                        | 1,043                    | 68                       |
| Accrued interest, net of paid interest  | (107,913)                | 77,742                   | (144,454)                | 100,390                  |
| Depreciation, amortization and depletion allowances                                   | 88,601                   | 91,778                   | 88,861                   | 92,121                   |
| Equity in income of subsidiaries  | (80,606)                 | 29,036                   | 133,582                  | (45,960)                 |
| Deferred taxes  | 17,067                   | 36,221                   | 18,446                   | 37,306                   |
| Contingencies   | 8,411                    | 2,519                    | 8,582                    | 2,669                    |
| Disposal of permanent assets  | 1,578                    | 803                      | 1,578                    | 798                      |
| <b>Variation in operating assets and liabilities:</b>                                 |                          |                          |                          |                          |
| Trade notes receivable  | 209,54                   | 35,985                   | (170,997)                | 114,984                  |
| Inventories   | (153,227)                | (189,229)                | (136,862)                | (234,204)                |
| Recoverable taxes and others  | (177,334)                | (22,885)                 | (191,322)                | 23,421                   |
| Judicial deposits   | (2,126)                  | 280                      | (2,126)                  | 280                      |
| Suppliers   | 75,813                   | 124,331                  | 82,143                   | 120,485                  |

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|  |         |           |         |          |
|--|---------|-----------|---------|----------|
| Advances from customers                    | 383,294 | (3,842)   | -       | -        |
| Taxes payable, salaries payable and others | (4,355) | (116,873) | (7,912) | (68,836) |

## Sadia S.A.

|   | <b>Parent<br/>company</b> | <b>Consolidated</b>      |                          |                          |
|---|---------------------------|--------------------------|--------------------------|--------------------------|
|   | <b>June 30,<br/>2005</b>  | <b>June 30,<br/>2004</b> | <b>June 30,<br/>2005</b> | <b>June 30,<br/>2004</b> |
| <b>Net cash generated by operating activities</b>       | 495,731                   | 260,811                  | (74,312)                 | 342,052                  |
| <b>Investment activities:</b>                           |                           |                          |                          |                          |
| Funds from the sale of permanent assets                 | 1,267                     | 1,142                    | 1,267                    | 1,200                    |
| Investments in subsidiaries                             | (25,363)                  | (708)                    | -                        | -                        |
| Purchase of property, plant and equipment               | (286,111)                 | (148,431)                | (288,247)                | (105,993)                |
| Portion in the acquisition of a subsidiary, net of cash | (26,807)                  | -                        | (26,807)                 | -                        |
| Short-term investments                                  | (264,050)                 | (681,589)                | (867,305)                | (1,583,957)              |
| Redemption of investments                               | <u>242,041</u>            | <u>541,577</u>           | <u>1,014,352</u>         | <u>1,466,390</u>         |
| <b>Net cash from investment activities</b>              | (359,023)                 | (288,009)                | (166,740)                | (222,360)                |
| <b>Loans:</b>   |                           |                          |                          |                          |
| Loans received  | 421,372                   | 822,016                  | 1,103,407                | 988,320                  |
| Loans repaid  | (471,534)                 | (509,845)                | (828,099)                | (804,720)                |
| Dividends paid  | (82,227)                  | (87,671)                 | (82,227)                 | (87,671)                 |
| Purchase of treasury shares                             | (991)                     | -                        | (991)                    | -                        |
|   | (133,380)                 | 224,5                    | 192,09                   | 95,929                   |
| <b>Net cash from loans</b>                              |                           |                          |                          |                          |
| Cash at beginning of year                               | 84,27                     | 91,13                    | 155,600                  | 230,403                  |
| Cash at end of year                                     | <u>87,598</u>             | <u>288,432</u>           | <u>106,638</u>           | <u>446,024</u>           |
| <b>Net increase (decrease) in cash</b>                  | 3,328                     | 197,302                  | (48,962)                 | 215,621                  |

*b. Statement of consolidated added value*

The statement of added value presents generation and distribution of revenues as presented in the statement of income for the period. Said revenues were basically distributed among human resources, third-party capital, government and shareholders.

## Sadia S.A.

The statement of added-value was prepared based on the model provided by the Institute for Accounting, Actuarial and Financial Research of the University of São Paulo.

|  | <b>Consolidated</b>      |                          |
|--|--------------------------|--------------------------|
|  | <b>January to June</b>   |                          |
|  | <b>June 30,<br/>2005</b> | <b>June 30,<br/>2004</b> |
| <b>Revenues/Income</b>                           | <u>3,880,079</u>         | <u>3,605,563</u>         |
| <b>Revenues generated by operations</b>          | <u>3,900,973</u>         | <u>3,359,231</u>         |
| Sale of products, goods and services             | 3,900,973                | 3,359,231                |
| <b>Income from third parties</b>                 | <u>(20,894)</u>          | <u>246,332</u>           |
| Other operating results                          | 249                      | 2,448                    |
| Financial income                                 | 110,187                  | 200,234                  |
| Equity in earnings of subsidiaries               | (133,582)                | 45,96                    |
| Other nonoperating results                       | 2,252                    | (2,310)                  |
| <b>Raw materials acquired from third parties</b> | (1,968,807)              | (1,513,131)              |
| <b>Services rendered by third parties</b>        | (681,233)                | (575,563)                |
| <b>Added value to be distributed</b>             | <u>1,230,039</u>         | <u>1,516,869</u>         |
| <b>Distribution of added value:</b>              |                          |                          |
| Human resources                                  | 447,019                  | 379,614                  |
| Interest on third-party capital                  | (73,352)                 | 362,850                  |
| Government                                       | 516,911                  | 478,402                  |
| Shareholders (Dividends)                         | 55,977                   | 51,349                   |
| <b>Retention:</b>                                | <u>283,484</u>           | <u>244,654</u>           |
| Depreciation/Amortization/Depletion              | 88,861                   | 92,121                   |

|                  |         |         |
|------------------|---------|---------|
| Retained profits | 188,105 | 147,113 |
| Others           | 6,518   | 5,420   |

46

Sadia S.A.

## **Board of Directors**

**Walter Fontana Filho**  
Chairman

**Eduardo Fontana D'Ávila**  
Member

**Osório Henrique Furlan**  
Member

**Alcides Lopes Tápias**  
Member

**Everaldo Nigro dos Santos**  
Member

**Francisco Silverio Morales Cespede**  
Member

**Marise Pereira Fontana Cipriani**  
Member

**Norberto Fatio**  
Member

**Romano Ancelmo Fontana Filho**  
Member

**Sérgio Fontana dos Reis**  
Member

**Vicente Falconi Campos**

**Member**

Sadia S.A.

**Officers**

Gilberto Tomazoni

**Chief Executive Officer**

Luiz Gonzaga Murat Júnior

**Chief Financial Officer and Investor Relations Director**

Cláudio Lemos Pinheiro

**Administrative and Controllershship Director**

Flávio Riffel Schmidt

**Information Technology Director**

Alfredo Felipe da Luz Sobrinho

**Institutional and Legal Relations Director**

Adilson Serrano Silva

**Human Resources and Management Director**

Alexandre de Campos

**International Sales Director**

Antonio Paulo Lazzaretti

**Technology and Quality Guarantee Director**

Ricardo Fernando Thomas Fernandes

**Grain Purchase Director**

Sérgio Carvalho Mandin Fonseca

**National Sales Director**

Ernest Sícoli Petty

**Supply Director**

Flávio Luís Fávero

**Industrialized Production Director**

Gilberto Meirelles Xandó Baptista

**Internal Market Commercial Director**

Guilhermo Henderson Larrobla

**International Sales Director**

José Augusto Lima de Sá

**International Relationships Director**

Paulo Francisco Alexandre Striker

**Logistics Director**

Roberto Banfi

**International Sales Director**

Valmor Savoldi

**Planning, Logistics and Supplies Director**

Ronaldo Korbagg Muller

**Poultry Production Director**

\* \* \*

Jairo Aldir Wurlitzer

Accounting Manager

CRC/SC 13.937

Giovanni F. Lipari

Accountant

CRC 1SP201389/0-7