

SADIA S.A.
Form 20-F
June 27, 2008

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 20-F

(Mark One)

REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2007

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Date of event requiring this shell company report

For the transition period from _____ **to** _____

Commission file number 1-15184

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SADIA S.A.

(Exact name of Registrant as specified in its charter)

N/A

(Translation of Registrant's name into English)

Federative Republic of Brazil

(Jurisdiction of incorporation or organization)

Rua Fortunato Ferraz, 659

Vila Anastácio, São Paulo, SP

05093-901, Brazil

(Address of principal executive offices)

Securities registered or to be registered pursuant to Section 12(b) of the Act.

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

Securities registered or to be registered pursuant to Section 12(g) of the Act.

None

(Title of Class)

(Title of Class)

SEC 1852 (02-08)

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Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act.

None
(Title of Class)

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.

257,000,000 Common Shares, no par value per share
426,000,000 Preferred Shares, no par value per share

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

Yes No

Note Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 from their obligations under those Sections.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP

International Financial Reporting Standards as issued
by the International Accounting Standards Board

Other

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Indicate by check mark which financial statement item the registrant has elected to follow.

Item 17 Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

(APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PAST FIVE YEARS)

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court.

Yes No

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

Ross Kaufman, Greenberg Traurig, LLP

200 Park Avenue, New York, New York 10166

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GENERAL

Unless otherwise indicated, all references contained herein, to the Company, to Sadia, or to Sadia Group are references to Sadia S.A., a corporation organized under the laws of the Federative Republic of Brazil (Brazil), and its consolidated subsidiaries: Sadia International Ltd; Big Foods Ind. de Produtos Alimentícios Ltda.; Sadia GmbH; Rezende Marketing e Comunicação Ltda., Rezende Óleo Ltda., Sadia Overseas Ltd. and Concórdia Holding Financeira.

Presentation of Certain Financial Information

References to preferred shares and common shares refer to the Company's authorized and outstanding preferred stock and common stock, designated as ações preferenciais and ações ordinárias, respectively, each without par value. All references herein to the real, reais or R\$ are the real, the official currency of Brazil since July 1, 1994. All references to (i) U.S. dollars, dollars or US\$ refer to United States dollars, (ii) km to kilometers, and (iii) tons to metric tons.

Forward-Looking Statements

This annual report contains certain forward-looking statements as defined in Section 21E of the U.S. Securities Exchange Act of 1934 with respect to the financial condition, results of operations and business achievements/ performance of Sadia and certain of the plans and objectives of management of the Company with respect thereto. These statements may generally, but not always, be identified by the use of words such as should, expects, estimates, believes or similar expressions. Such statements include, but are not limited to, statements under the following headings: (i) Item 4. Information on the Company; and (ii) Item 5. Operating and Financial Review and Prospects. This annual report also contains forward-looking statements attributed to certain third parties relating to their estimates regarding the growth of markets and demand for products. By their nature, forward-looking statements involve risk and uncertainty because they reflect the Company's current expectations and assumptions as to future events and circumstances that may not prove accurate: the factors discussed in Item 3. Key Information Risk Factors, among others, could cause the Company's actual financial condition, results of operations and business achievements/ performance to differ materially from the estimates made or implied in such forward-looking statements.

PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3. KEY INFORMATION

A. Selected Financial Data

U.S. GAAP Presentation

The selected financial information for the Company included in the following table should be read in conjunction with, and is qualified in its entirety by reference to, the U.S. GAAP financial statements of the Company and *Operating and Financial Review and Prospects* appearing elsewhere herein. The consolidated financial data for the Company as of December 31, 2007, 2006, 2005, 2004 and 2003 are derived from the audited U.S. GAAP financial statements, which differ in certain respects from

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accounting practices adopted in Brazil (defined as Brazilian GAAP). Brazilian GAAP is determined by the requirements of Law No. 6,404, dated December 15, 1976, as amended (Brazilian corporate law), and the rules and regulations of the Comissão de Valores Imobiliários, or CVM, the Brazilian Securities Commission.

SADIA S.A.

SELECTED FINANCIAL DATA

Years ended December 31, 2007, 2006, 2005, 2004 and 2003 (In thousands of reais - R\$, except numbers of shares and per share amounts)

	2007	2006	2005	2004	2003
Net Operating Revenue	8,754,076	6,830,300	7,317,842	6,109,225	5,081,717
Operating Income	869,242	302,223	680,903	635,029	401,009
Net income	841,977	360,560	603,268	489,501	473,268
Basic earnings per thousand shares in R\$:					
Preferred	1,247.54	531.18	885.08	742.42	717.80
Common	1,247.54	531.18	885.08	674.93	652.54
Diluted earnings per thousand share in R\$:					
Preferred	1,239.11	529.79	884.38	742.42	717.80
Common	1,239.11	529.79	884.38	674.93	652.54
Dividends paid per thousand shares in R\$:					
Preferred	189.61	287.12	231.96	234.68	170.08
Common	189.61	287.12	210.87	213.34	154.61
Total Current Assets	5,037,322	4,929,689	4,588,176	3,944,802	3,645,379
Total Assets	9,457,887	8,039,757	6,707,284	5,830,973	6,149,453
Total Current Liabilities	2,653,285	2,493,279	2,625,812	2,766,719	2,969,833
Total Liabilities	5,924,923	5,447,114	4,479,167	3,992,609	4,627,868
Total Shareholders Equity	3,532,964	2,592,643	2,228,117	1,838,364	1,521,585
Weighted average number of shares outstanding:					
Preferred	417,908,212	421,785,712	424,595,712	425,695,712	425,695,712
Common	257,000,000	257,000,000	257,000,000	257,000,000	257,000,000

The exchange rates of *real* amounts into U.S. dollars for the years ended December 31, 2003, 2004, 2005, 2006, 2007 and January 2008 through May 2008 are shown in the table below:

Year Ended December 31,	Reais per U.S. Dollar			End of Period
	High	Low	Average	
2003	3.6623	2.8219	3.0715	2.8892
2004	3.2051	2.6544	2.9257	2.6544
2005	2.7621	2.1633	2.4341	2.3407
2006	2.3711	2.0586	2.1771	2.1380
2007	2.1556	1.7325	1.9483	1.7713

Months Ended	Reais per U.S. Dollar	
	High	Low
January 2008	1.8301	1.7414
February 2008	1.7681	1.6715
March 2008	1.7491	1.6700
April 2008	1.7534	1.6575
May 2008	1.6949	1.6294

B. Capitalization and Indebtedness

Not applicable

C. Reasons for the offer and use of proceeds

Not applicable

D. Risk Factors

Risks Relating to Brazil

Brazilian political and economic conditions, and the Brazilian government's economic and other policies, may negatively affect demand for Sadia's products as well as net sales and overall financial performance.

The Brazilian economy has been characterized by frequent and occasionally extensive intervention by the Brazilian government. The Brazilian government has often changed monetary, taxation, credit, tariff and other policies to influence the course of Brazil's economy. The Brazilian government's actions to control inflation and implement other policies have involved interest rate increases, wage and price controls, currency devaluations, freezing of bank accounts, capital controls and limits on imports.

Sadia's results of operations and financial condition may be adversely affected by the following factors and governmental reaction to them:

- fluctuations in exchange rates;

- interest rates;
- inflation;
- tax policies;
- exchange controls;
- energy shortages;
- liquidity of domestic capital and lending markets; and
- other political, diplomatic, social and economic developments in or affecting Brazil.

Uncertainty over whether the Brazilian government will change policies or regulations affecting these or other factors may contribute to economic uncertainty in Brazil and to heightened volatility in the Brazilian capital markets. These and other developments in the Brazilian economy and governmental policies may adversely affect the Company and its business.

Inflation and government actions to combat inflation may contribute significantly to economic uncertainty in Brazil and could adversely affect the Company's business.

Historically, Brazil has experienced high rates of inflation. Inflation, as well as certain government efforts to combat inflation, has had significant negative effects on the Brazilian economy. Inflation rates were 25.31% in 2002, 8.71% in 2003, 12.41% in 2004, 1.21% in 2005, 3.86% in 2006, 7.75% in 2007 and 2.38% in the first quarter of 2008, as measured by the *Índice Geral de Preços-Mercado*, or the IGP-M. The Brazilian government's measures to control inflation have often included maintaining a tight monetary policy with high interest rates, thereby restricting availability of credit and reducing economic growth. Inflation, actions to combat inflation and public speculation about possible additional actions also contributed materially to economic uncertainty in Brazil.

If Brazil experiences high levels of inflation in the future, the rate of growth of the Brazilian economy may be slowed, which would lead to reduced demand for the Company's products in Brazil. Inflation also is likely to increase some of Sadia's costs and expenses, which the Company may not be able to pass on to its customers and, as a result, may reduce profit margins and net income. In addition, high inflation generally leads to higher domestic interest rates, and, as a result, the costs of servicing its *real*-denominated debt may increase. Inflation may, in addition, hinder access to capital markets, which could adversely affect the Company's ability to refinance its indebtedness. Inflationary pressures may also lead to the imposition of government policies to combat inflation that could adversely affect its business.

Foreign exchange variations between the Brazilian real and the US dollar may raise the cost of servicing our foreign currency denominated debt and adversely affect our overall financial performance.

The Company's results of operations are affected by exchange-rate fluctuations between the Brazilian *real* and the U.S. dollar.

The *real* appreciated 13.4% in 2005, 9.5% in 2006, 20.5% in 2007 and 1.3% in the first three months of 2008 against the dollar. On March 31, 2008, the U.S. dollar/*real* exchange rate was US\$1.00 per R\$1.7491.

Devaluation of the *real* relative to the U.S. dollar could result in additional inflationary pressures in Brazil by generally increasing the price of imported products and services and requiring recessionary government policies to curb demand. In addition, a devaluation of the *real* could weaken investor confidence in Brazil. On the other hand, appreciation of the *real* against the U.S. dollar may lead to a deterioration of the country's current account and the balance of payments and may dampen export-driven growth. A significant devaluation of the *real* in relation to the U.S. dollar or other currencies could reduce the Company's ability to meet debt service requirements of its foreign currency-denominated obligations.

Export revenues and the Company's margins are also affected by the *real* fluctuations in relation to the U.S. dollar. Production costs are denominated in local currency but export sales are denominated in U.S. dollars or euros. Financial revenues generated by exports are reduced when translated to *reais* in the periods in which the Brazilian currency appreciates in relation to the U.S. currency.

In addition, fluctuations in the value of the *real* relative to the U.S. dollar can affect the market value of the ADSs. Devaluation of the *real* may reduce the U.S. dollar value of distributions and dividends on the ADSs and may also reduce the market value of the preferred shares and the ADSs.

Restrictions on the movement of capital out of Brazil may hinder investors' ability to receive dividends and other distributions as well as the proceeds of any sale of preferred shares.

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

Government restrictions on capital outflow may hinder or prevent the custodian in Brazil, or if investors have exchanged ADSs for the underlying preferred shares, from converting the proceeds

relating to the preferred shares into U.S. dollars and remitting those proceeds abroad. Investors could be adversely affected by delays in obtaining any required governmental approval for conversion of Brazilian currency payments and remittances abroad in respect of the preferred shares underlying the ADSs. In addition, the Brazilian government may institute a more restrictive exchange control policy in the future.

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

Developments in other emerging markets may adversely affect the market price of the preferred shares and ADSs

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

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

Enforcement of civil liabilities may be difficult

The Company is organized under the laws of Brazil. Most of the Company's directors and officers and many of its advisors reside in Brazil and substantially all of the assets of these persons and of the Company are located in Brazil. As a result, it may not be possible to effect service of process upon these persons within the United States or other jurisdictions outside of Brazil. Similarly, it may not be possible to enforce, judgments of non-Brazilian courts, including judgments predicated on civil liability under the U.S. securities laws against the Company or its directors and officers.

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

- It fulfills all formalities required for its enforceability under the laws of the country that granted the foreign judgment;

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

Brazilian counsel has also advised the Company that:

- As a plaintiff, a holder may bring an original action predicated on the U.S. securities laws in Brazilian courts and that Brazilian courts may enforce liabilities in such actions against the Company, its directors, and certain of its officers and advisors;

- If a holder resides outside Brazil and owns no real property in Brazil, such holder must provide a bond to guarantee court costs and legal fees in connection with litigation in Brazil; and
- Brazilian law limits the ability of a judgment creditor of the Company to satisfy a judgment against the Company by attaching certain of its assets.

Risks Relating to the Company's Business

The business involves breeding of animals and meat processing subject to a variety of risks which may impact the results of our operations.

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

The prices charged for products and costs of production are subject to significant volatility which may adversely affect the Company's results

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

Environmental issues and new regulation requirements can affect costs

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

Competition in both domestic and foreign livestock and food processing sector is very strong and the Company's performance may be adversely affected by increased competition

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

Protectionist measures could restrict Company exports affecting thereby the Company's sales performance

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

FMD Cases in Brazil can indirectly affect pork and beef sales and adversely impact the results of the Company

Although the detected Foot and Mouth Disease (FMD) cases in the northeast region of Brazil in the past have affected only cattle, swine can also be contaminated. Cases of FMD have been identified in the states of Mato Grosso and Paraná. Sadia has animal breeding facilities located in the states of Santa Catarina and Minas Gerais, internationally recognized FMD free regions. An outbreak of FMD could have an effect on livestock owned by Sadia, the availability of livestock for purchase by Sadia, consumer perception of certain protein products or Sadia's ability to access certain markets.

An outbreak of Avian Influenza could require the destruction of a significant portion of the Company's flocks

Outbreaks of a highly pathogenic strain of avian influenza (AI) virus, known as H5N1, have been reported in Europe and Asia. Earlier outbreaks were reported during late 2003 and early 2004 in eight countries in Asia. At that time, more than 100 million birds in the affected countries either died from the disease or were destroyed in order to try to control the outbreak. The virus, which is believed to be spread from region to region by infected wild birds, represents a significant risk to flocks, which if infected must be destroyed to assure containment of the virus. No AI has been detected in Brazil and climatic conditions and distance from previous outbreaks reduce the likelihood of any outbreak. In 2003, through a joint effort of the Brazilian Ministries of Agriculture, Health and Environment, Brazil implemented a program to monitor and test birds with potential to carry the Avian Influenza virus from the South Pole.

In addition to the animal health requirements, which are part of the Brazilian National Poultry Health Program, Brazil has adopted a range of measures intended to limit the possibility of an outbreak of AI, including: tightened controls at ports and airports for travelers arriving from Asia; a prohibition on the imports of paddy rice from Asia; restrictions on visits to Brazilian poultry farms by travelers from Asia; and restrictions on the importation of poultry genetics.

Additional preventative measures have been discussed and the Brazilian government has proposed and approved the adoption of a National Plan for the Prevention and Control of Newcastle Disease and the Prevention of Avian Influenza (*Plano Nacional de Controle e Prevenção da Doença de Newcastle e de Prevenção de Influenza Aviária*) which will conform with OIE (World Organization for Animal Health) standards. These measures are intended to assure international markets that Brazil maintains sanitary barriers between states. Specific measures include regulation of animal transportation, traceability, blood tests, designated laboratories and other controls to monitor production conditions on a regional basis. These measures are intended to permit the early detection of contamination in one region and to prevent the spread of that contamination to other regions within Brazil. Because the virus that causes AI is destroyed by cooking, it is generally agreed that the consumption of contaminated poultry does not present a threat to human health.

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Despite measures adopted by the Company, the Brazilian government, and other poultry producers, no assurance can be given that the Company will not be affected by AI, either directly or through limitations on exports imposed by importing countries.

Risks relating to Sadia S.A.

The Company is controlled by a Group of Shareholders and the interests of the controlling group may conflict with those of other shareholders

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

If the Company loses any of its largest clients, or if they significantly reduce the amount they purchase from the Company, its revenue and operating income could be materially adversely affected

The Company's ten largest customers in 2007 accounted for approximately 22% of total domestic sales and the ten largest international customers in 2007 accounted for approximately 36% of our total export sales. While the Company has been developing new client-oriented policies to reduce the concentration of revenues, if it loses any of its ten largest customers or if they reduce significantly the amount they purchase from the Company, revenues and operating income could be materially adversely affected.

The Company's ability to export could be adversely affected by port labor disputes and disruptions and by import restrictions

The Company's ability to export is dependent, in part, on factors beyond its control, including the lack of transport facilities due to strikes or other causes, or the enactment of Brazilian laws or regulations restricting exports in general or its products in particular. Any of these could affect the Company's revenue and operating income.

ITEM 4. INFORMATION ON THE COMPANY

A. History and Development of the Company

Sadia S.A. is a publicly held company, incorporated in Brazil on June 7th, 1944, and therefore is subject to the requirements of Law No. 6,404, dated December 15th, 1976, as amended by Law 9,457/97 (Brazilian Corporate Law), and the rules and regulations of the *Comissão de Valores Imobiliários* - CVM, the Brazilian Securities Commission.

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Sadia is Brazil's leading refrigerated and frozen protein products company, operating in the processed product, poultry, pork and beef segments. The Company believes that its brand name and distinctive logotype are among the most widely recognized and admired in Brazil and in the foreign markets in which it sells its products, associated with quality, tradition and value. The Company's central administrative headquarters are located at Rua Fortunato Ferraz, 659, Vila Anastácio, São Paulo, state of São Paulo, Zip Code 05093-901, Brazil, telephone number (55 11) 2113-3302, and the Company's website is www.sadia.com.br or www.sadia.com and e-mail address is ri@sadia.com.br. Materials posted on the website are not deemed incorporated by reference into this annual report nor made a part hereof.

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

At the end of the 1980s and early 1990s, the Company's policy of expansion gave way to rationalization of management and cost structures through reduction by merging a number of companies

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in the Sadia Group. Sadia began the 1990s having controlling ownership in 21 companies, and began to concentrate its operations in the production of processed meat products.

In 1997, the Company sold its cattle slaughterhouse in Barra do Garças, state of Mato Grosso, four soybean processing facilities (crushing and refining), 12 grain purchasing and warehousing centers, and also transformed its Várzea Grande slaughterhouse, state of Mato Grosso, into a plant for the production of processed meat products. In addition, product transportation, which had been made by a fleet of owned vehicles, was outsourced to specialized transportation companies.

In July 1998 Sadia was created by the merger of Sadia Concórdia S.A. into Sadia Frigobrás S.A., consolidating its operations in a single public company, simplifying its corporate structure, emphasizing the Company's brand, and reducing administrative expenses.

In December 1999, Sadia acquired the capital stock of Granja Rezende S.A. (primarily a producer and distributor of poultry and pork products) and its wholly owned subsidiaries Rezende Alimentos Ltda., Rezende Óleo Ltda. and Rezende Marketing Comunicações Ltda. Immediately following the acquisition of Granja Rezende, the Company decided to sell Granja Rezende's soybean crushing and oil manufacturing plant and administrative complex.

During 2000, the subsidiary Rezende Alimentos Ltda. was converted from a limited liability company into a corporation and the subsidiary's name was changed to Sadia Alimentos S.A. On December 29, 2000, the then parent was merged into Sadia Alimentos S.A., whose name was then changed to Sadia S.A. The purpose of the merger was to permit an operational and administrative rationalization, and the utilization of tax loss carry forwards. In August 2002, Granja Rezende S.A. was merged into Sadia, aiming at cost reduction both through standardization and through rationalization of the administrative and operational activities as well as by resulting reflections of financial and fiscal nature.

In April 2001, the Company listed its American Depositary Receipts (ADRs) program on the New York Stock Exchange, providing investors an alternate channel to buy its stocks. In June 2001, the Company adhered to Bovespa's Level One of corporate governance, certifying its commitment to transparency and fair disclosure of information.

In August 2001, Sadia opened a distribution center (DC) in Jundiaí, São Paulo, to supply the São Paulo state region, considered the largest market in Brazil. The Jundiaí DC, is a technological milestone for the Company with 20,000 square meters of area.

Sadia GmbH was created in December 2001, and its subsidiary, Laxness F.C.P.A. Ltda. (Laxness), was incorporated in April 2002, with the aim of leveraging exports to the European market. In February 2005, Laxness changed its name to Wellax Food Logistics C.P.A.S.U. Ltd (Wellax).

In 2004 Sadia began the expansion of the Uberlândia unit in order to improve the facility and make it one of the Company's most modern facilities in Brazil. In November 2004, the Company opened a distribution center in Ponta Grossa, state of Paraná, giving Sadia greater capacity and efficiency in its export processes.

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Also in November 2004, Sadia's preferred shares were authorized to be traded on the Madrid Stock Exchange, by the International Latin American Market, Latibex, under the symbol XSDI.

In January 2005, Sadia acquired 100% of S6 Frango Produtos Alimenticios Ltda. (S6 Frango), a company based in Brasilia with a total slaughtering capacity of 150,000 chickens per day (at the time of the acquisition). In March 2005, S6 Frango was merged into Sadia.

The increase in liquidity of Sadia's shares throughout 2005 led to the listing of its preferred shares at the Bovespa Index, known as Ibovespa, starting in September 2005.

In November 2005, Sadia decided to return to the beef segment due to the belief that it represents a complementary business to the Company's activities. Sadia's strategy in this segment is to concentrate sales towards the export market; for the domestic market the Company will focus its efforts on premium beef cuts.

In order to improve corporate governance levels and to more closely align interests among its shareholders, in 2005 Sadia granted 80% tag-along rights to the holders of non-voting preferred shares, satisfying market expectations.

In 2006 Sadia invested approximately R\$970 million. The investments in 2006 were directed towards poultry, processed products, beef and some facilities expansion.

In 2007, Sadia invested R\$ 1.1 billion, distributed among processed products; poultry, pork and beef production; information technology and logistics projects. As a strategy to remain competitive and reduce the risk in its operations, Sadia invested in the expansion of its product portfolio, particularly of breaded chicken products and processed pork products. In December 2007, to strengthen the Company in the segment of frozen processed products, Sadia acquired Big Foods, an industrial complex located in Tatuí, SP, specialized in the production of ready-to-eat sandwiches, lasagnas, pizzas, breads, rolls, cheese breads and other pastry items. Sadia also built its first industrial unit outside of Brazil in the city of Kaliningrad, Russia, based on a joint venture made with a local partner.

Reclassification

There have been no reclassifications made in the financial statements.

Investments

In the last years Sadia has continually increased its level of capital expenditures.

Sadia maintained its investments in 2007 with a firm commitment to growth and focus on its core business and the potential for international growth. Sadia ended 2007 with investments of R\$1.1 billion. Out of this total, R\$ 196.0 million were destined to the production of processed products (18.1%); R\$ 614.7 million to poultry production (56.6%); R\$ 136.4 million to pork production (12.6%); R\$ 44.4 million to beef production (4.1%) and the remaining R\$ 93.4 million (8.6%) were destined, mostly, to information technology and logistics projects. In December 2007, Sadia acquired Big Foods, an industrial complex located in Tatuí, SP, specialized in the production of processed food, for R\$ 53.5 million. The annual production capacity of Big Foods is 20 thousand tons of processed products.

The works for the expansion of the Uberlândia unit, which became one of the most modern units among the 15 operated by the group in Brazil, were completed in 2007. The investment in this project totaled R\$ 400 million, distributed among the years of 2004/2007,

The investment in the Russia plant which was finalized by the beginning of 2008 comprises a meat processing unit, developed in partnership with a Sadia distributor in that country. This plant consumed R\$150 million of total investments, of which approximately R\$ 92 million was invested by Sadia .

A portion of the resources contemplated in 2007 were also used to expand the Brasília unit, to modernize the Concórdia and Chapecó (SC) units and to improve internal technological processes.

In 2006, Sadia invested R\$969,6 million, including R\$85.0 million for the Jundiaí and Uberlândia distribution centers and R\$60.0 million for the Uberlândia margarine plant. The investments in 2006 were directed towards poultry (38%), processed products (31%), pork (15%), beef (1%) and the projects at Lucas do Rio Verde and Russia (15%).

In 2005, an amount of R\$ 742.4 million was invested, of which R\$ 194.6 million (26.2%) was directed towards the processed products segment, R\$ 372.8 million (50.2%) towards poultry, R\$ 27.0 million (3.6%) to pork and the remaining R\$148.0 million (20%) to other projects, mainly to information technology. These investments were made in order to supply the growing demand in the domestic and export markets.

As part of the 2005 investment plan, in January 2005 Sadia acquired 100% of S6 Frango Produtos Alimentícios Ltda. (S6 Frango), for R\$70.3 million. S6 Frango was active in poultry slaughtering and processing as well as in the production of animal feed meal. Its product line ranges from whole chicken, special frozen and chilled cuts to sausages and cold cut meats. With 1,700 employees, S6 Frango generated R\$220 million in gross revenues in 2004 and had a slaughtering capacity of 150,000 chickens per day. In April 2005, S6 Frango was merged into Sadia S.A.. Sadia is expanding this capacity over the next five years to 300,000 chickens per day, which should generate 2,000 new direct jobs and around 12,000 indirect jobs. All operations with out growers and suppliers, as well as S6 Frango s job positions, have been maintained. Through this acquisition, the Company strengthened its presence in the central region of Brazil, close to raw material producers and to main centers of consumption.

Investment Plans

Plans for 2008 contemplate investments of R\$1.6 billion, which will be destined to processed products (R\$556 million), expansion in pork and poultry capacity mainly in the Lucas do Rio Verde unit (R\$558 million), towards the beef segment (R\$70 million), breeding stock (R\$150 million), the Pernambuco distribution center (R\$60 million) and to various expansion and enlargement projects, IT and infrastructure.

The most significant investment, in the period from 2006 to 2009, is destined to the agroindustrial Site of Lucas do Rio Verde, in Mato Grosso. This project contemplates the construction of a poultry slaughtering unit, one swine slaughtering and one processing unit. The works started in the second half of 2006 and the plant startup is scheduled for the second semester of 2008. Out of the total estimated amount, R\$ 800 million shall come from the company and the remaining R\$700 million shall come from the group of integrated farmers. They will be indirectly financed by the National Economic and Social Development Bank (BNDES) to build the aviaries and poultry farms that will feed the agroindustrial plant. The amount will be directed towards the construction of a poultry slaughter house, with a slaughter capacity of 114 million heads per year; a slaughter and industrialization hog unit, with slaughter capacity of 1.25 millions animals per year, one processing unit and a feed mill factory.

Additional information on this investment plan are as follow:

- For the second semester of 2008, the poultry slaughter houses will operate with 20% of capacity. In 2009, it is expected that these units will operate with 100% of capacity.
- The pork slaughter houses will operate in the first quarter of 2009 with 40% of capacity. In 2010, it is expected that these units will operate with 100% of capacity;
- The expected additional annual revenue for poultry is R\$600 million by end of 2009, and the expected additional revenue for the hog unit is R\$400 million by end of 2009;
- The tax incentives will be similar to those obtained in other states in the Midwest and better than those obtained in the southern states of Brazil.

In 2008, Sadia will construct another plant abroad. With the aim of increasing market share in the Middle East, this unit, which will be set up in the Arab Emirates to produce poultry and beef processed products, will receive investments of US\$ 100 million.

B. Business Overview

Sadia is the leader in almost every segment in which it is present within Brazil (see Market Share), with a product portfolio of over 1,000 products. According to the Brazilian Chicken Exports Association (ABEF), the Company was the largest Brazilian slaughterer and exporter of poultry in 2007. According to the Brazilian Pork Production and Export Association (ABIEPCS) Sadia was the largest Brazilian pork slaughterer and exporter in 2007. Sadia is also the largest domestic distributor of frozen and refrigerated meat-based products (according to AC Nielsen), and leader in the Brazilian market for margarine. As of December 31, 2007, the Sadia Group had 52,422 employees, one of the largest employers in Brazil. In 2007, Sadia sold 1,012.8 thousand tons of poultry, 152.7 thousand tons of pork, 57.2 thousand tons of beef and 924.0 thousand tons of processed products, including frozen and refrigerated meat-based products and margarine, generating gross operating revenues of R\$10.0 billion and net income of R\$842.0 million.

The Company's high degree of vertical integration ensures control at all stages of production and distribution of products. Sadia's operations include breeding farms for poultry and hog grandparent and parent stock, hatcheries, pork breeding centers, slaughterhouses, processing units, animal feed production plants, representative offices and distribution centers. The Company pioneered the vertical integration of poultry and hog breeding in Brazil, initially in the state of Santa Catarina. Today, with the exception of beef, all operations employ a system of vertical integration, consisting of a partnership with rural producers, with a view to obtaining animals for slaughter, raised in highly productive breeding conditions and controlled hygienic-sanitary conditions. Sadia produces one-day chicks and piglets and supplies them to outgrowers, along with feed, transport, technical and veterinary assistance.

Sadia exports around 1,000 different products to approximately 100 countries. It currently produces a range of products that includes: frozen, refrigerated, salted and smoked pork cuts, lard, bacon, ingredients for feijoada (a Brazilian pork and bean stew); frozen and refrigerated pork and chicken

giblets; whole frozen and seasoned chickens; frozen and refrigerated poultry cuts and parts; marinated and partially cooked chicken parts; whole frozen and seasoned turkeys; frozen and seasoned turkey cuts and parts; breaded chicken parts; raw, cooked and smoked hams; tender gammons, hams, cold cuts and related products; Parma-type hams; smoked chickens and turkeys; cooked and smoked turkey hams and turkey-based cold cuts; partially cooked and frozen products, such as beef, turkey and chicken meatballs; beef, turkey and chicken-based hamburgers; pork, turkey and chicken based frankfurters; sausages; bolognas; salamis; coppa; turkey-based hams; cold cuts in general; chicken, meat and pork-based patés; beef, poultry and fish-based frozen ready-made dishes and pasta; frozen ready-made foods for heating and serving as meals and snacks, such as breaded poultry, fish and appetizers, frozen pizzas and refrigerated fresh pasta; margarine and refrigerated desserts.

Sadia owns 15 plants within 8 different states in Brazil and one plant abroad, in Kaliningrado, Russia. Sadia distributes its product line of over 1,000 items through distribution and sales centers located throughout Brazil, Latin America, the Middle East, Asia and Europe.

Business Strategy

Sadia's business strategy is designed to give continuity to the Company's growth and increase its profitability. The Company believes that with the recognition of its brand name as a symbol of quality, tradition and value Sadia means healthy in Portuguese an unequalled domestic distribution network supported by excellent logistics, attention to customer needs across the product line and in all distribution channels and highly favorable production economics in Brazil, the Company will be able to achieve both increased growth and increased profitability, while maintaining its commitment to its employees, outgrowers, suppliers and residents of the communities in which it does business. The principal elements of this strategy are as follows:

- **Increase domestic market penetration through expanded distribution.** Sadia has an extensive distribution network, supported by an outsourced transportation fleet, superior knowledge of wholesale, retail and institutional sales channels, integrated logistics planning and strategically located distribution centers, trans-shipment points and facilities. The Company plans to continue to develop and improve its distribution network and systems in every product category.
- **Focus on retail sales, institutional and food service sales channels for domestic business.** Sadia has increased, and plans to continue focusing on meeting the needs of retail sales outlets, institutional and food service sales channels, such as restaurants, rather than concentrating on wholesale outlets, such as large supermarkets and distributors.
- **Continue to increase service and market responsiveness.** Sadia intends to remain the leader in Brazil in the markets that it serves by maintaining high standards of customer service and continuing to be responsive to the changing needs of varying market segments. As part of this strategy, it has structured its operations, distribution and logistics so that it can fill orders of varying sizes depending on the particular demands of the market segment. In export markets, the Company seeks to provide raw and processed products. It intends to remain close to its customer base, providing decentralized and rapid order fulfillment and personalized service, including attention to refrigeration quality in customers' facilities.

- **Maintain low-cost product and operating efficiency.** The natural advantages of operating in Brazil grains, labor, weather, out-grower and related costs added to the Company's operating efficiency, permit it to compete in international markets. Sadia intends to continue to be amongst the lowest cost producers and distributors of protein products in the Brazilian and international markets. The Company's vertically integrated operations and attention to operating efficiencies, permit quality and cost control throughout the entire production process.
- **Continued brand differentiation.** Sadia has developed its brand across the entire product line both in the domestic and international markets, and that is amongst its most valuable assets. The Company intends to continue to invest in the development of branded products, through shipping, packaging, advertising campaigns, with a view to continue to develop brand loyalty and the perception of premium quality that is associated with the Sadia products.
- **Increase production, through organic growth, investment in production capacity and acquisitions.** Sadia's goal is to expand production capacity at its existing facilities and to build new plants, while also continuing to focus on its core business.

- **Maintain exports and domestic sales volumes approximately equal.** The competitiveness of the production of poultry and pork gives the Company access to international markets, economies of scale and low-cost export financing. Sadia has had success in increasing sales in foreign markets, such as Russia, where it previously did not have a presence, and increasing the number of markets in which the Company is present and the products that it sells. Sales to international markets and domestic markets, in substantially equal amounts, provides an important hedge against volatility in any particular market.
- **Invest in environmentally sound projects and initiatives.** Sadia has been increasingly active in seeking to assure that its business is environmentally sound, beyond mere compliance with regulations, and it intends to invest significantly in this aspect of the business, an example is the 3S Program - Sadia Sustainable Swine Production Program, which will consist in selling carbon certified emission reductions under the Clean Development Mechanism signed at the Kyoto Treaty to finance social initiatives in the outgrowers area.
- **Expand product portfolio, with emphasis on higher value-added processed products.** Sadia believes that continuous product innovation is essential to meet the needs of customers and consumers. As the market for frozen ready to eat products has grown, both domestically and internationally, Sadia has sought to meet the challenge by increasing emphasis from poultry and pork production to production of processed food products, including a product portfolio that now numbers over 700 products.

The Company's Operation

The Company's operations are organized into four segments: processed products (frozen and refrigerated products and margarines), poultry (chickens and turkeys), pork and beef.

In 2007, 46.6% of total gross operating revenue was derived from the processed products segment, poultry 38.6%, pork 6.8%, beef 3.3% and 4.9% from other activities. Of the Company's total gross operating revenue in 2006, 49.0% of total gross operating revenue was derived from the processed products segment, poultry 36.3%, pork 6.7%, beef 3.7% and 4.2% from other activities, such the grain and by-products segment, hog and poultry breeding, boiled beef, beef-parts and resale of products. In 2005, 44.5% was derived from the processed products segment, poultry 41.4%, pork 8.9%, and 5.2% from other activities.

Activities related to the grains and by-products currently consist of the crushing of soy to obtain the meal used as a raw material in the production of feed for the company's stock and that of the integrated producers.

The following tables present sales volumes and gross operating revenue (prepared and presented in accordance with US GAAP) for the years ended 2007, 2006 and 2005, as shown:

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Sales Volumes (ton)

	2007	2006	2005
Domestic Market	998,426	928,626	823,573
Processed Products	813,057	723,086	647,062
Poultry	132,004	155,485	142,177
Pork	43,767	41,022	34,334
Beef	9,598	9,033	
Export Market	1,148,302	963,959	1,006,047
Processed Products	110,975	76,470	91,593
Poultry	880,790	762,479	808,636
Pork	108,928	81,382	105,818
Beef	47,609	43,628	
Consolidated	2,146,728	1,892,585	1,829,620
Processed Products	924,032	799,556	738,655
Poultry	1,012,794	917,964	950,813
Pork	152,695	122,404	140,152
Beef	57,207	52,661	

Gross Operating Revenue (R\$ Million)

	2007	2006	2005
Domestic Market	5,319.9	4,482.0	4,251.7
Processed Products	4,149.8	3,513.5	3,289.1
Poultry	559.4	492.3	512.1
Pork	190.4	154.5	148.3
Beef	56.0	40.6	
Other	364.3	281.1	302.2
Export Market	4,636.0	3,412.0	4,075.7
Processed Products	477.5	361.6	412.3
Poultry	3,281.5	2,373.0	2,937.6
Pork	484.1	371.1	592.4
Beef	272.5	254.7	
Other	120.4	51.6	133.4
Consolidated	9,955.9	7,894.0	8,327.4
Processed Products	4,627.3	3,875.1	3,701.4
Poultry	3,840.9	2,865.3	3,449.7
Pork	674.5	525.6	740.7
Beef	328.5	295.3	
Other	484.7	332.7	435.6

(*) Other: Grains and by-products, pig and chicken breeding and products resale

The following table presents the breakdown of gross operating revenue in percentage terms by segment, for the years ended 2007, 2006 and 2005, as shown:

Gross Operating Revenue by Segment (%)

	2007	2006	2005
Processed Products	46	49	44
Poultry	39	36	41
Pork	7	7	9
Beef	3	4	
Other (*)	5	4	5

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

The following information about segments is based upon information used by the Company's management to assess the performance of operating segments and decide on the allocation of resources and has been prepared and presented in accordance with Brazilian GAAP that is adjusted for US GAAP presentation. The Company has four identifiable reportable segments: Processed Products, Poultry, Pork and Beef.

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(R\$ Thousand)	2007	2006	2005
Net operating revenue			
Processed products	3,745,713	3,102,397	3,147,296
Poultry	3,774,731	2,872,845	3,199,246
Pork	624,117	494,571	732,710
Beef	334,995	309,353	
Other (*)	143,635	97,535	239,186
Adjustments for US GAAP presentation	130,885	(46,401)	(596)
Total net operating revenue	8,754,076	6,830,300	7,317,842

(*) Other net operating revenue is primarily attributable to grains and by-products.

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(R\$ Thousand)	2007	2006	2005
Depreciation expense			
Processed products	(116,679)	(92,214)	(60,863)
Poultry	(131,053)	(100,080)	(80,336)
Pork	(21,358)	(15,223)	(16,853)
Beef	(14,059)	(11,660)	
Other	(5,555)	(4,072)	(7,294)
Total depreciation expense allocated to Segments	(288,704)	(223,249)	(165,346)
Depreciation allocated to administrative expenses	(17,451)	(17,320)	(12,829)
Adjustments for US GAAP presentation	59,175	35,185	(4,088)
Total depreciation expense	(246,980)	(205,384)	(182,263)

(R\$ Thousand)	2007	2006	2005
Segment operating income			
Processed products	362,257	194,494	273,684
Poultry	248,286	100,204	269,766
Pork	46,862	35,489	94,586
Beef	3,635	11,482	
Other	8,690	2,087	2,798
Adjustments for US GAAP presentation	199,512	(41,533)	40,069
Total operating income	869,242	302,223	680,903
Interest expense	(332,378)	(310,442)	(324,231)
Interest income and other	241,735	282,904	248,203
Foreign currency exchange gain (loss), net	54,056	104,219	159,602
Adjustments for US GAAP presentation	139,884	9,812	(93,825)
Income before income taxes, equity income or loss of investees and minority interest	972,539	388,716	670,652

Segment assets			
Processed products	713,064	715,248	624,619
Poultry	1,498,736	1,018,005	750,504
Pork	390,458	275,533	147,724
Beef	134,616	104,340	
Other	283,912	220,312	143,359
Adjustments for US GAAP presentation	(123,378)	(178,458)	(142,897)
Total property, plant and equipment	2,897,408	2,154,980	1,523,309

Reconciling items - corporate assets			
Cash and cash equivalents	2,369,309	2,550,602	2,663,689
Accounts and notes receivable, net	523,558	678,598	509,615
Inventories	1,168,936	1,084,454	992,490
Other corporate assets	1,098,791	929,259	690,825
Adjustments for US GAAP presentation	1,399,885	641,864	327,356
Total consolidated assets	9,457,887	8,039,757	6,707,284

Capital expenditures			
Processed products	195,969	302,648	194,587
Poultry	614,660	367,581	372,761
Pork	136,417	143,032	26,982
Beef	44,442	7,786	
Other	93,442	234,331	91,662
Adjustments for US GAAP presentation	(134,678)	(85,776)	56,365
Total segment capital expenditures	950,052	969,602	742,357

Processed Products

As a result of the Company's strategy of concentrating on higher value-added, higher margin products, the processed products segment results increased significantly as from the second half of the 1990s. Average volumes sold increased 11.7% per year since 1998. Sales of processed products accounted for 46.5% of the Company's gross operating revenues in 2007.

Sadia owns ten plants in Brasil that manufacture processed products, eight of which are dedicated to meat processing, two to margarine and two to pizza, pasta and desserts production. These plants are located close to their suppliers of raw materials or to the main domestic centers of consumption.

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

Processed products in the domestic market, accounted for 89.7% of the total gross sales of this segment, with the remaining 10.3% directed towards exports. The total sales from this segment grew 19.4% as compared to 2006.

Most of the raw materials used derive from poultry and pork produced by the company. By contrast, selected suppliers, who are subject to inspection by the Federal Agriculture Ministry, produce all beef that is processed by the Company.

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

The following table presents gross operating revenue from sales of processed products in 2007, 2006 and 2005:

Gross Operating Revenue (R\$ Million)

	2007	2006	2005
Processed Products	4,627.3	3,875.1	3,701.4
Refrigerated	3,721.9	3,224.7	3,084.7
Frozen	905.4	650.4	616.7

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Sadia is the Brazilian leader in frozen and refrigerated processed products according to AC Nielsen's surveys. The Company's market position is supported by significant investments in its brand, distribution channels and in quality control.

	Position	Brazilian Market Share (2006) Market Share by Revenue (%)	Period
Frozen Processed Products	1 st	43.3	October/November-06
Refrigerated Processed Products	1 st	31.1	November/December-06
Margarine	1 st	45.4	October/November-06

Source: AC Nielsen

In order to maintain market share, Sadia will continue to concentrate on launchings of higher value-added products. In 2007, the Company launched 25 products, against 41 products in 2006 and 76 products in 2005.

Poultry, Pork and Beef

In 2007, sales of non-processed products reached R\$4,843.9 million, and accounted for 48.7% of the Company's total gross operating revenue. In 2006, sales of non-processed products reached R\$3,686.3 million, and accounted for 46.7% of the Company's total gross operating revenue. In 2005, sales of

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non-processed products reached R\$4,190.4 million, and accounted for 50.3% of Sadia's total gross operating revenue. In 2007, poultry, pork and beef sales accounted for approximately 87.1% of total export revenue, in 2006 for approximately 87.9% and in 2005, 86.6%.

Sadia owns nine chicken slaughterhouses, three turkey slaughterhouses, and four pork slaughterhouses. In addition, the Company has one beef slaughterhouse in the state of Mato Grosso, which became operational as of November 2005. The table below shows slaughtering volumes of the Company for the years ended December 31, 2007, 2006, and 2005, in millions of units:

Slaughtering Volumes (Million Heads)

	2007	2006	2005
Poultry	751.8	666.9	650.1
Hogs	4.4	4.0	3.8
Beef	0.23	0.25	0.07

The following table shows gross operating revenue from non-processed products, for the years of 2007, 2006 and 2005:

Gross Operating Revenue (R\$ Million)

	2007	2006	2005
Poultry	3,840.9	2,865.3	3,449.7
Whole	1,618.4	1,239.8	1,492.9
Parts	2,037.7	1,491.2	1,811.0
By-products	184.8	134.3	145.8
Pork	674.5	525.6	740.7
Beef	328.5	295.3	
Total	4,843.9	3,686.2	4,190.4

In 2007, Sadia had a 15.1% share of chicken production in Brazil, in terms of tons and a 23.5% share of the Brazilian poultry export market. This compares with results for 2006 and 2005, when the Company had a 14.7% and 10.3% share of domestic chicken production and a 25.9% and 25.8% share of the Brazilian poultry export market, respectively. Sadia introduced turkey production to the Brazilian market in 1973, when its consumption was virtually non-existent. This market is shared with other competitors, but the Company was still in the leadership position, with 57.7% of total slaughter in 2007, as compared with 63.2% of total slaughter in 2006 and 65.6% for 2005.

Approximately 70.0% of the Company's pork production is used in its processed products segment. The remainder is sold as fresh meat cuts in the domestic and international markets. According to the Brazilian Pork Producers Association (ABIPECS), in 2007, Sadia had a 12.4% share of Brazilian pork production, and a 18.3% share of the Brazilian pork export market. This compares with results for 2006 and 2005, when the Company had a 12.1% and 14.2% share of Brazilian pork production and a 14.5% and 14.2% share of the Brazilian pork export market, respectively.

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In November 2005, Sadia decided to resume its beef operations because it believes that it represents a complementary business to the Company's activities. Sadia's strategy in this sector is to concentrate sales towards the export market; for the domestic market the Company will focus its efforts on premium beef cuts. In 2007, it accounted for 6.8% of total Gross Operating Revenues. In 2006, it accounted for 3.7% of total Gross Operating Revenues.

Production Process

Processed Products

The Company uses special cuts of beef, pork, chicken and turkey, as well as selected and shaped fragments for the production of hams, sausages, frankfurters, bologna, hamburgers, pressed ham and related products. Seasonings and secondary raw materials are applied to each product type or line,

according to established formulas, in order to ensure consistency, color, texture and flavor. The presentation of final products is achieved by shaping, casing, cooking and freezing in special machines. Products are then subjected to quality controls and distributed to the consumer market after having been packaged, labeled and boxed.

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

Poultry

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

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

The one-day-chicks produced by parent stock are supplied to integrated outgrowers who are responsible for raising the birds. Sadia has contracts with approximately 6,300 outgrowers, to which the Company provides feed, technical and veterinary assistance to allow such outgrowers the outgrowing process up to the time the birds reach slaughtering age, which for chickens is normally 34 days (at a weight of 2.0 kg). There are no employment agreements between the Company and the outgrowers, who generally carry out this activity in order to supplement their income. Most outgrowers farm on a small scale and raise six flocks per year (each flock consists of approximately 14,000 chickens). The Company remains the owner of the birds, and at the end of each production cycle, pays a commission fee based on a performance index that is calculated as a function of indicators such as bird mortality, feed to meat conversion ratio and average weight. The fee paid to the integrated farmers covers the outgrowing costs, raw materials, labor and their net profit.

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

Pork

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The Company produces grandparent, parent and piglet stock on its own farms, 90% of the parent stock produced by the Company is supplied to integrated outgrowers who receive feed, medicine and technical assistance by way of support. These parent animals produce hogs that are sold to the Company for slaughter, after the fattening process is completed. The remainder of the parent stock produced by Sadia is sold to piglet producers, who also receive feed, medicine and technical assistance. The Company repurchases the piglets at market prices and distributes them to integrated outgrowers, who after the fattening process sell such pigs to Sadia for slaughtering.

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

Beef

Sadia acquires cattle for slaughter at our Várzea Grande unit from producers in the state of Mato Grosso, within a limited radius of our facility, whose cattle have been branded at birth and therefore are of verifiable origin. Currently the Company is able to slaughter almost 2,000 heads of cattle per day.

Principal markets where the Company competes

In 2007, Sadia had an average of 46.6% of its gross operating revenues provided from exports. This ratio was 43.2% for 2006 and 48.9% 2005. The table set forth below presents the main regions of the world where the company has commercial relations and the discussion that follows describes the main trends and expectations for its markets. This information has been prepared and presented in accordance with Brazilian GAAP and is adjusted for U.S. GAAP. Refer to Note 23 of the consolidated financial statements for details on the primary differences between Brazilian GAAP and U.S. GAAP.

Exports Gross Operating Revenues (R\$ Thousand)

	2007	2006	2005
Europe	1,256,325	889,171	978,318
Middle East	986,240	787,838	1,047,615
Asia	691,273	533,295	635,907
South America	643,770	528,453	542,151
Emerging markets (mainly Russia and other former Soviet Union countries)	946,428	719,706	872,333
Adjustments for US GAAP presentation	111,955	(46,426)	(627)
Total	4,635,990	3,412,037	4,075,697

Revenues are attributed to regions based upon where the products are shipped. All long-lived operational assets are located in Brazil and in Kaliningrad as well as sales offices located in various countries.

Europe is a large purchaser of poultry cuts and processed products. Sadia maintains a traditional presence in the Middle East, with market leadership and strong brand recognition. Middle Eastern countries primarily consume whole birds of low weight (up to 1.4 kilograms) and processed products. With respect to Eurasia, which comprises the Caucasus region and Russia, the Company exports mainly pork and poultry cuts and processed products. The main exports to Asia are special poultry cuts, pork carcasses and cuts. In the Americas, sales are concentrated primarily in processed products, poultry parts and whole birds. Secondary markets include regions with great potential for growth in the medium term.

Seventy six percent of the Company's exports in 2007 were to investment grade countries.

Market Overview Domestic and International Markets

The potential growth of the Brazilian market for processed food, poultry, pork and beef, and Brazil's low production costs are attractive to international competitors. The main barrier to such companies has nevertheless been the need to build a wide ranging refrigerated distribution chain, and a network of integrated producers.

The following analysis was prepared based on information mainly gathered from: The USDA (United States Department of Agriculture), CONAB (Brazilian National Supply Company), ABEF (Brazilian Poultry Exporters Association) and ABIPECS (Brazilian Pork Meat Exporters Association) and AC Nielsen reports.

Brazilian Processed Products Market

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

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

Frozen Processed Products

In 2007, the Brazilian market for frozen processed products accounted for sales of R\$1,454.4 million. Approximately 79.7% of this total is attributable to the two largest companies, Sadia and Perdigão.

	2007	2006	2005
Sales (R\$million)	1,454.4	1,286.3	1,214.3
Change %	13.1%	5.9%	10.3%
Volume (thousand tons)	171.8	157.1	143.4
Change %	9.3%	9.5%	8.5%

Source: AC Nielsen

Due to the characteristics of frozen processed products with production concentrated among a small number of companies, and supply aimed at a more restricted group of consumers, Sadia believes that volume sales of frozen processed products will maintain their trend of around 9.8% annual average growth registered between 2005 and 2007. In any case, since the market for frozen processed products is still far from mature in Brazil, the Company believes that medium and long-term prospects for this segment are highly positive based on the trend over the preceding years.

Refrigerated Processed Products

In 2007, the Brazilian market for refrigerated processed products accounted for sales of R\$6,752.4 million. The two largest companies in this market together accounted for approximately 50.6% of net sales, according to AC Nielsen, with the remaining share being split among a large number of small companies.

	2007	2006	2005
Sales (R\$million)	6,752.4	6,163.0	5,094.9
Change %	9.6%	21.0%	16.2%
Volume (thousand tons)	973.2	893.5	744.0
Change %	8.9%	20.1%	10.1%

Source: AC Nielsen

Margarine

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In 2007, the Brazilian market for margarine accounted for sales of R\$1,541.0 million. The three largest producers (including Sadia as the largest) accounted for 83.7% of the market.

	2007	2006	2005
Value (R\$million)	1.540,5	1,541.0	1,527.5
Change %	0,0%	0.9%	1.8%
Volume (thousand tons)	324,3	326.8	302.3
Change %	-0,8%	8.1%	5.7%

Source: AC Nielsen

Poultry

Domestic Market

The Brazilian poultry market is a complex sector where a few large companies share the market with small producers. According to UBA's 2008 annual report, the four largest chicken producers in

Brazil accounted for 38.5% of Brazilian production in 2007. The low concentration in the market increases competitive pressure in the segment. Prices are subject to supply and demand imbalances.

Many of these small producers operate under low quality standards because of the large number of producers and government difficulties to inspect producers on a regular basis. Additionally, there is widespread belief that tax evasion practices among these producers reduce their costs as compared to producers such as Sadia that comply with applicable regulations.

Growth in Brazilian per capita consumption of poultry over the last four years is expected to continue as the UBA forecasts a 1.6% growth for 2008 as compared to 2007.

(p) preliminary; (f) forecast

Source: USDA / ABEF

In the local market, poultry export business in Brazil has grown more rapidly since the mid 1990s. This can be explained by the production shift of large Brazilian companies' exports, as well as by the competitiveness of Brazilian poultry. Sanitary problems in the main producing countries such as the Bovine Spongiform Encephalopathy (BSE) cases in Europe, avian influenza problems in Thailand and both BSE and avian influenza cases in the United States have changed the world broiler trade dynamics. The reduced competition from major exporting countries affected by sanitary issues and the competitive cost of Brazilian poultry favors Brazil as the most competitive exporter of quality poultry cuts and mechanically de-boned chicken meat. Additionally, several new markets in Europe, Africa and the Middle East have opened to Brazilian chicken, and the number of markets which Brazil has access was 142 in 2007, according to ABEF.

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Brazilian Broiler Exports Destination (thousand tons)					
	2007	07 V.A. %	2006	06 V.A. %	06/05 %
Middle East	984	30%	748	29%	32%
Asia	810	25%	738	29%	10%
Africa	262	8%	289	11%	-9%
EU	561	17%	243	9%	131%
Russia	194	6%	182	7%	7%
South America	174	5%	132	5%	32%
Other	302	9%	255	10%	18%
Total	3,287	100%	2,587	100%	220%

Source: ABEF

For 2008, the USDA has revised upwards the projected Brazilian broiler production to 4.0% higher than the 2007 10.2 million tons production. The projected increase in production reflects the firm domestic demand derived from higher employment rates and consumer purchasing power as the economy improves and continues to boost demand for animal proteins. In addition to that, expansion in the export

market will likely continue in view of higher world demand for broilers due to the reduction of the concern over Avian Influenza, estimated increase in exports to traditional markets due to the Brazilian products competitiveness and efforts by Brazilian poultry exporters in new markets.

According to the UBA Report, whole broiler exports in 2007 reached nearly 1.2 million tons, compared to the 0.9 million tons in 2006 and 1.0 million tons in 2005. Exports of broiler parts reached 1.8 million tons, up 12.4% over 2006. Brazilian broiler exporters' strategy is to increase profitability by focusing on higher value products, such as broiler parts and further processed products, which increased significantly in 2007 by 22.1% in volume, reaching 155,341 tons.

The European Union was, in 2007, the largest market for Brazilian broiler exports, mostly broiler parts. The increase in broiler exports to the European Union also reflects a significant increase in exports of processed broilers. The European Union market accounted for nearly 80% of all processed broiler exports from Brazil.

In 2007, Hong Kong was the second largest market for Brazil's broiler exports, mostly broiler parts.

Saudi Arabia, traditionally Brazil's largest single export market for poultry, now ranks third. Saudi Arabia accounted for nearly 39% of all Brazilian broiler exports to the Middle East.

Japan was the fourth largest Brazilian destination of broilers in 2007, also mostly broiler parts.

International Poultry Market

Expansion in the export market is expected, in view of the reduction of the concern over Avian Influenza (HPAI). According to the FAO, properly cooked poultry is safe to consume a conventional cooking temperatures at or above 70°C in all parts of a food item) will inactivate the H5N1 virus. Moreover, there is no epidemiological evidence to indicate that people have been infected with the H5N1 virus following consumption of properly cooked poultry or eggs. It is thus expected that as consumers become more aware of the true dangers of HPAI, the level of poultry consumption will not be affected.

According to the USDA, world economic growth is projected to increase at a 3.5% average annual rate between 2008 and 2017, after averaging 2.9% annual average between 2001 and 2007. Strong economic growth in developing countries, particularly important for growth in global food demand, is projected at 5.8% percent annually for 2008-17. Macroeconomic stability and growth in low and some middle-income countries may result in higher consumption of red meat and poultry, providing new growth opportunities for domestic producers and world suppliers. The forecast economic environment will promote investment in meat production and processing capacity in many major livestock and poultry producing countries.

Moreover, increases in worldwide real per capita GDP in 2006 and 2007 continued to fuel rising livestock and poultry consumption and hence production. Asian economies particularly China, Hong Kong, Taiwan, and Thailand are forecast to experience growth, likely fostering meat

consumption as consumers will have more disposable income.

According to USDA, Broiler production is bound to slightly decline in late 2008 and early 2009 due to high feed costs, recovering later in the second half of 2009, when livestock and poultry prices are generally forecast higher due to lower meat supplies.

According to FAO, per capita consumption of poultry in developed countries is more than three times that of developing countries. This difference is even more accentuated for certain countries. In 2007, for instance, while India is expected to have consumed 1.8kg poultry per capita, United States are expected to consume more than 25 times that amount with 45.4kg.

According to the USDA, China and the European Union are expected to be net broiler meat importers again in 2008 on the basis of continued strong demand, higher domestic prices, and strengthening currencies. China imports are expected to grow about 10% in 2008, while EU imports are expected to be unchanged.

According to the USDA, broiler meat exports by major traders are forecast to reach 7.7 million tons in 2008. The 2007 increase of 11.4% in broiler meat exports is the result of increased trade by a number of countries including Brazil, Argentina, China, Thailand, and the United States.

According to the USDA, in 2007, Russian poultry production is expected to increase by an additional 11.1% in 2008, as the sector continues to benefit from heavy investment. Despite these

investments, Russia will continue to be the worldwide leader in poultry imports with a forecast 1.2 million tons for 2008.

Japan's total broiler consumption in 2008 is projected to stay flat from the level achieved last year at 1.9 million tons. The USDA also expects a slight decrease of 0.8% in the Japanese poultry imports, as a consequence of the weaker outlook for food service demand.

Saudi Arabia poultry imports for 2008 are expected to reach about 490,000 tons, an 4.3% increase compared to 2006 volumes.

Sadia believes there is a great potential market in the Middle East. In seeking new opportunities, Sadia was the first Brazilian food company to enter the Egyptian market.

The USDA projects that the European Union broiler meat consumption will have a slight increase of 1.3%, reaching 8.2 million tons. Imports on the other hand, are expected to increase by 1.6%, to 650,000 tons in 2008.

In 2008, Chinese broiler meat imports are projected to reach 600,000 tons, a 24.5% increase from the previous year. The United States continues to be the only country that can sell poultry products for direct consumption in China's retail sector.

	World Broiler Balance (thousand tons)					
	2007			2008 (f)		
	Production	Consumption	Exports	Production	Consumption	Exports
China	11,500	10,585	358	12,500	11,570	390
Brazil	10,305	7,120	2,922	10,895	7,450	3,100
EU	8,111	7,490	623	8,200	7,940	700
Mexico	2,730	3,148		2,825	3,146	
India	2,300	2,200		2,400	2,400	
Russia	1,350	1,184	59	1,500	2,680	
Argentina	1,280	2,400		1,400	1,249	155
Japan	1,241	1,915		1,225	1,913	
Thailand	1,050		297			
Iran	1,153	1,194	139	1,150		
United States	16,211	13,901	2,524	16,536	14,005	2,524
Total	57,231	51,137	6,922	58,631	52,353	6,869

(f) forecast

Source: USDA

	World Broiler Imports			
	2007		2008 (f)	
	Volume	%	Volume	%
China	482	6.9%	600	8.3%
EU	640	9.2%	650	8.9%
Mexico	400	5.7%	400	5.5%

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Russia	1,222	17.5%	1240	17.1%
Japan	696	10.0%	690	9.5%
South Africa, Republic of	239	3.4%	244	3.4%
Saudi Arabia	470	6.7%	490	6.7%
United Arab Emirates	238	3.4%	260	3.6%
Hong Kong	215	3.1%	245	3.4%
United States	28	0.4%	27	0.4%
Others	2,354	33.7%	2,418	33.3%
Total	6,984	100%	7,264	100.0%

(f) forecast

Source: USDA

Pork

Domestic Market

Pork companies are subject to the same problems as those in the poultry market, including unfair competition with small and low quality producers. Although these problems influence product quality, there is a failure on the part of the consumer to perceive the quality risks involved and price dumping is widely practiced. According to ABIPECS 2007 annual report, the four largest pork producers in Brazil were responsible for 34.7% of Brazilian pork production in 2007.

(p) preliminary; (f) forecast

Source: USDA / ABIPECS

Brazilian pork breeding and slaughtering continues to increase the efficiency of production. Measured by the average birth rate of piglets, productivity doubled since the 1970s, and the birth rate reached 24 animals per female. At 160 days old, animals weigh 100 kg on average, and are ready to be slaughtered. Research developments have also contributed to help reduce fat by 31%, cholesterol by 10% and calories by 14% in pork produced in Brazil. This enhancement allows for better productivity of prime cuts, more meat per carcass and more nutritious and healthier meat. Besides, the production increase was also due to better genetics potential on breeders. In the last three years, the number of animals slaughtered by breeder increased 12.5%, from 19.2 to 21.6 animals per breeder and per year.

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Brazilian pork exports increased by 14.8% in volume in 2007 to 606,513 tons, from 528,195 tons in 2006. In terms of market value, pork exports increased to more than US\$1.2 billion in 2007 from almost US\$1.0 billion in 2006, an increase of 18.7%.

	Brazilian Pork Exports							
	Tons			Thousand US\$				
	2007	%	2006	%	2007	%	2006	%
Russia	278,724	46.0	267,689	50.7%	667,528	54.2	622,249	60.0%
Hong Kong	106,224	17.5	73,908	14.0%	169,100	13.7	95,917	9.2%
Ukraine	54,747	9.0	50,469	9.6%	93,854	7.6	75,158	7.2%
Singapore	31,914	5.3	25,254	4.8%	68,893	5.6	54,359	5.2%
Argentina	29,726	4.9	19,176	3.6%	55,204	4.5	35,011	3.4%
Angola	16,882	2.8			23,851	1.9		
Albania	13,794	2.3			22,068	1.8		
Uruguai	11,533	1.9			21,818	1.8		
United Arab Emirates	6,973	1.1			19,416	1.6		
Moldovia	10,383	1.7	20,792	3.9%	12,597	1.0	41,764	4.0%
Other	45,613	7.5	70,908	13.4%	76,639	6.2	112,730	10.9%
Total	606,513	100.0	528,195	100.0%	1,230,968	100.0	1,037,187	100%

Source: Abipecs

Russia remains Brazil's major destination as demand growth exceeds Russian meat producers' ability to respond. Russia accounted for 50.7% of total Brazilian exports volumes in 2006, declining to 46.0% in 2007. Brazil retains its favorable cost position enabling it to be competitive in Russia and other price sensitive markets in spite of its strong currency. Brazil has been affected less than its competitors by the sharp rise in the price of soymeal and corn as its large processing companies have built large new facilities in the midwest where soy and corn are more cost competitive than in traditional meat-producing states in the southern part of Brazil.

Hong Kong is the second largest Brazilian market for pork exports with a 17.5% volumes market share, followed by Ukraine, the third largest market for Brazilian pork exports, with 9.0% of market share in volumes.

Pork production in Brazil is expected to keep the same growth rate of 2007 (nearly 1.9%) in 2008, achieving 3.0 million tons.

International Market

Pork volumes are still recovering after a year of supply shortfalls due to large scale outbreaks of blue ear disease, higher feed prices, and lower sow inventories. Pork inventories are forecast to expand as sow inventory is rebuilt. However, slaughter rates may remain relatively low, as producers hold back female stock. The world pork production is forecast at 93 million tons in 2008.

There is an increasing awareness that meat trade flows are becoming largely dictated by sanitary conditions and regulations. Exporters worry that market access, driven by trade policy, as well as veterinary and food safety controls, could become easily susceptible to non-tariff trade barriers, especially when those controls are not based on technical criteria. In this very uncertain environment, exporting countries are trying to maintain a competitive position in lucrative markets. At the same time, importing countries are seeking to ensure fairness for their domestic producers, while also safeguarding the health and economic needs of their consumers.

Similar to poultry, it is projected that in the coming years most of the growth in pork consumption will derive from the emerging economies. Not only are low and middle-income countries increasing their per capita consumption, but they are also gradually accounting for a greater share of world consumption. According to the USDA, China's pork consumption accounted for 46.1% of world consumption in 2007 and it's expected to account for 46.0% in 2008. The EU's share of pork consumption is forecast to decrease from 22.3% in 2007 to 22.0% in 2008.

EU pork production is expected to marginally fall as producers respond to higher feed prices. As production declines, high EU prices are expected. Exports are projected to grow 1.4%. The European Union retains the second position in exports and is forecast to account for 23.7% of total pork exports.

The United States market is currently signaling producers to expand production. Production in recent years has been export driven. While only 8.2% of U.S. pork production was exported in 2002, 15.9% of American pork production is expected to be exported in 2008. In 2008, U.S. pork exports are forecast to reach 1.7 million tons.

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In 2003, the Russian government published the resolutions that established poultry quota and beef and pork tariff rate quotas (TRQ). The Russian TRQ establishes country specific quotas for the EU, Paraguay, United States and a general quota for all other countries. As processed pork, unlike other types of pork, is not under the TRQ, imports of processed pork have increased.

Pork meat bans were introduced by Russia at the end of 2005 (affecting Brazil and Poland) and in the beginning of 2006 (affecting Ukraine) which created a state of uncertainty for importers looking to fill their TRQ allocations. In 2006, Russia partially lifted the ban for the states of Mato Grosso, São Paulo and Rio Grande do Sul and remained in this situation throughout 2007. In 2008, Brazil had no changes concerning the referred status. Efforts to assure sanitary warranty are being made by the Brazilian Government to lift the ban in Parana, Santa Catarina and introduce Minas Gerais as a eligible state to export to Russia.

	World Pork Balance (thousand tons)					
	2007			2008 (f)		
	Production	Consumption	Exports	Production	Consumption	Exports
China	44,200	44,048	350	44,700	44,580	330
EU	22,600	21,257	1,282	22,500	21,315	1,300
Brazil	2,990	2,260	730	3,110	2,340	770
Russia	1,910	2,803		2,030	2,939	
Vietnam	1,832	1,855	19	1,850	1,861	19
Canada	1,850	984	1,033	1,790	969	1,010
Philippines	1,245	1,270		1,250	1,276	
Japan	1,250	2,472		1,240	2,504	
Mexico	1,150	1,514	81	1,180	1,540	90
Korea, Republic of	1,043	1,506	13	1,085	1,550	15
United States	9,962	8,964	1,424	10,684	9,384	1,694
Other	5,626	6,581	220	5,711	6,666	253
Total	95,658	95,514	5,152	97,130	96,924	5,481

Source: USDA

According to the USDA, Japan is expected to remain the world's largest pork importer in 2008, importing 1,250 thousand tons, 3.3% above the 2007 volumes.

	World Pork Imports			
	2007		2008 (f)	
	Volume	%	Volume	%
Japan	1,210	23.8%	1,250	24.1%
Russian Federation	894	17.6%	910	17.6%
Korea, Republic of	447	8.8%	460	8.9%
Mexico	445	8.8%	450	8.7%
Hong Kong	302	5.9%	310	6.0%
China	198	3.9%	210	4.1%
Canada	171	3.4%	185	3.6%
Australia	141	2.8%	160	3.1%
Singapore	97	1.9%	97	1.9%
Ukraine	82	1.6%	65	1.3%
United States	439	8.6%	420	8.1%
Other	656	12.9%	666	12.8%
Total	5,082	100.0%	5,183	100.0%

(f) forecast

Source: USDA

Beef

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According to the USDA Annual Report, the world supply of beef continues to be tight due to the negative impacts of bovine spongiform encephalopathy (BSE), foot and mouth disease (FMD)-related trade restrictions and to the drought in 2007 (mainly in Australia), which was responsible for several losses. Total beef production by major traders is forecast to stay flat in 2008, at 54.6 million tons. Brazil and China are the only leading producers forecast to present a production growth. Brazilian production is expected to increase by 3%, to a record of 9.7 million tons in 2008. China production is forecast to expand nearly 3%, to 7.7 million tons.

	World Beef Balance (thousand tons)					
	2007 (f)			2008		
	Production	Consumption	Exports	Production	Consumption	Exports
United States	12,096	12,830	649	12,171	12,828	687
Brazil	9,470	7,311	2,189	9,710	7,540	2,200
EU-27	8,175	8,674	139	8,125	8,575	100
China	7,480	7,404		7,730	7,682	