SADIA S.A.
Form 20-F/A
July 30, 2009

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 20-F/A
Amendment No. 1

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

OR

ý **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2008

OR

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

OR

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

Commission file number 1-15184

SADIA S.A.

(Exact Name of Registrant as Specified in its Charter)

N/A

(Translation of Registrant's name into English)

Federative Republic of Brazil

(Jurisdiction of Incorporation or Organization)

Rua Fortunato Ferraz, 659 Vila Anastácio, São Paulo, SP 05093-901, Brazil

(Address of Principal Executive Offices)

José Luis Magalhães Salazar,

Chief Financial Officer, Administrative,
Investor Relations and Information Technology Officer
Tel. +5511-2113-3897, Fax +5511-2113-3710
Rua Fortunato Ferraz, 659 Vila Anastácio, São Paulo, SP 05093-901, Brazil

(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)

Securities 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 pursuant to Section 12(g) of the Act:

None

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

None

The total number of outstanding shares of each class of stock of SADIA S.A. as of December 31, 2008, was:

257,000,000 Common Shares, without par value per share
426,000,000 Preferred Shares, without 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 ý No o

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 o No ý

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 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 ý No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes o No o

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):

ý Large accelerated filer   o Accelerated filer   o Non-accelerated filer

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

ý U.S. GAAP   o International Financial Reporting Standards as issued by the International Accounting Standards Board   o Other

If "Other" has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow.

Item 17 o Item 18 o.

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 o No ý

CONTENTS

Table of Contents

EXPLANATORY NOTE

This Annual Report on Form 20-F/A is being filed as a first amendment ("Amendment No. 1") to our Annual Report on Form 20-F for the year ended December 31, 2008 ("2008 Annual Report on Form 20-F"), filed with the U.S. Securities and Exchange Commission on June 30, 2009, to amend and restate certain information contained in the following sections of our 2008 Annual Report on Form 20-F: (i) Item 3 (Key Information); (ii) Item 4 (Information on the Company); and (iii) Item 5 (Operating and Financial Review and Prospects).

As required by Rule 12b-15 of the U.S. Securities Exchange Act of 1934 , we are including currently-dated certifications by our principal executive officer and our principal financial officer as exhibits to this Amendment No. 1 under Item 19 of Part III hereof.

For purposes of this Amendment No. 1, and in accordance with Rule 12b-15 U.S. Securities Exchange Act of 1934, our 2008 Annual Report on Form 20-F has been amended and restated in its entirety herein. Except for the certifications referenced above, which speak as of the filing date of this Amendment No. 1, this Amendment No. 1 speaks as of the filing date of our 2008 Annual Report on Form 20-F. Accordingly, other than as set forth above, this Amendment No. 1 does not, and does not purport to, amend, update or restate any other information or disclosure included in our 2008 Annual Report on Form 20-F or reflect any events occurred after the June 30, 2009 filing date of our 2008 Annual Report on Form 20-F in any way.

GENERAL

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

Presentation of Certain Financial Information

References to "preferred shares" and "common shares" refer to the Company's authorized and outstanding preferred shares and common shares, designated as "ações preferenciais" and "ações ordinárias", respectively, each without par value. All references in this document to the "*real*," "*reais*" or "R$" are to the Brazilian *real*, the official currency of Brazil. All references to "U.S. dollars", "dollar", "dollars" or "US$" refer to United States dollars. All references to "km" are to kilometers, and all references to "tons" are to metric tons. All references in this document to prices of products sold by weight are to prices in *reais* per kilogram (kg). References to the processed products are to processed food products and vice versa.

Forward-Looking Statements

This Annual Report on Form 20-F contains statements that constitute forward-looking statements. Those statements appear in a number of places and include statements regarding the intent, belief or current expectations of the Company, its directors or its executive officers with respect to (i) the implementation of the principal operating strategies of the Company, including integration of current acquisitions as well as the conclusion of acquisition or joint venture transactions or other investment opportunities that may occur in the future, (ii) general economic, political and business conditions in our company's markets, both in Brazil and abroad, (iii) the cyclicality and volatility of raw materials and selling prices, (iv) health risks related to the food industry, (v) the risk of outbreak of animal diseases, in particular avian influenza and swine flu, (vi) more stringent trade barriers in key export markets and increased regulation of food safety and security, (vii) strong international and domestic competition, (viii) interest rate fluctuations, inflation and exchange rate movements of the *real* in relation to the U.S. dollar and other currencies, (ix) the declaration or payment of dividends, (x) the direction and future operation of the Company, (xi) the implementation of the Company's financing

Table of Contents

strategy and capital expenditure plans, (xii) the factors or trends affecting the Company's financial condition or results of operations and (xiii) other factors identified or discussed under "Item 3. Key Information D. Risk Factors." Prospective investors are cautioned that any such forward looking statements are not guarantees of future performance and involve risks and uncertainties, and that actual results may differ materially from those in the forward-looking statements. The accompanying information contained in this Annual Report, including without limitation the other information set forth under the heading "Item 5. Operating and Financial Review and Prospects," identifies important factors that could cause such differences.

We undertake no obligation to update publicly or revise any forward-looking statements because of new information, future events or otherwise. In light of these risks and uncertainties, the forward-looking information, events and circumstances discussed in this annual report might not occur. Our actual results and performance could differ substantially from those anticipated in our forward-looking statements.

Table of Contents

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 United States generally accepted accounting principles, or "U.S. GAAP," financial statements of the Company and "Item 5. "Operating and Financial Review and Prospects" appearing elsewhere herein. The selected consolidated financial data of the Company as of and for the years ended December 31, 2008, 2007, 2006, 2005 and 2004 are derived from the Company's audited U.S. GAAP financial statements. U.S. GAAP differs in significant respects from accounting practices adopted in Brazil, or "Brazilian GAAP". Brazilian GAAP is based on: Brazilian Law No. 6,404, dated December 15, 1976, as amended, or "Brazilian Corporations Law," the rules and regulations of the Brazilian Securities and Exchange Commission (*Comissão de Valores Mobiliários*, or "CVM") and the accounting standards issued by the Brazilian Institute of Independent Auditors (*Instituto dos Auditores Independentes do Brasil*).

SADIA S.A.
SELECTED FINANCIAL DATA
As of and for the years ended December 31, 2008, 2007, 2006, 2005 and 2004
(In millions of *reais* R$, except for certain numbers of shares and dividend per share/per ADS amounts)

	2008	2007	2006	2005	2004
Gross operating revenue	**12,191.9**	**9,955.9**	**7,894.1**	**8,327.4**	**7,117.3**
Value-added tax on sales	(1,309.0)	(1,092.1)	(939.7)	(914.2)	(880.0)
Sales deductions	(154.3)	(109.6)	(124.1)	(95.3)	(128.1)
Net operating revenue	**10,728.6**	**8,754.2**	**6,830.3**	**7,317.8**	**6,109.2**
Cost of goods sold	(8,060.4)	(6,325.5)	(5,212.6)	(5,324.4)	(4,292.7)
Gross profit	**2,668.2**	**2,428.7**	**1,617.7**	**1,993.5**	**1,816.6**
Operating expenses:					
Selling	(1,700.1)	(1,477.7)	(1,303.0)	(1,245.9)	(1,144.5)
General and administrative	(186.0)	(99.7)	(96.5)	(81.0)	(52.5)
Other operating income (expenses), net	4.2	18.0	84.0	14.3	15.4
Total operating expenses	(1,881.9)	(1,559.4)	(1,315.5)	(1,312.6)	(1,181.5)
Operating income	**786.3**	**869.3**	**302.2**	**680.9**	**635.0**
Interest expense	(1,049.6)	(338.3)	(310.6)	(311.6)	(336.8)
Interest income and other	188.8	412.6	240.0	248.0	249.8
Foreign currency exchange gain (loss), net	(3,147.0)	28.9	157.0	53.4	39.1

Income before income taxes, equity income of investees and minority interest	**(3,221.5)**	**972.6**	**388.7**	**670.7**	**587.1**

2

Table of Contents

	2008	2007	2006	2005	2004
Income tax benefit (expense)					
Current benefit (expense)	(26.5)	(76.6)	(11.0)	(52.0)	(33.0)
Deferred tax benefit (expense)	728.3	(55.0)	(18.1)	(16.4)	(63.1)
Total income tax	**701.8**	**(131.6)**	**(29.1)**	**(68.4)**	**(96.1)**
Income before equity income of investees and minority interest	(2,519.7)	840.9	359.6	602.2	491.0
Equity income (loss) of investees	(2.9)		(0.2)	1.2	(1.4)
Minority interest	10.3	1.0	1.1	(0.2)	(0.1)
Income (loss) before cumulative effect of accounting change			360.6	603.3	489.5
Cumulative effect of accounting change, net of tax					
Net income (loss)	**(2,512.3)**	**841.9**	**360.6**	**603.3**	**489.5**
Basic earnings per thousand shares in R$(1):					
Preferred	(2,984.55)	1,247.54	531.18	885.08	742.42
Common	(4,964.43)	1,247.54	531.18	885.08	674.93
Weighted average number of shares outstanding:					
Preferred	418,195,712	417,908,212	421,785,712	424,595,712	425,695,712
Common	254,650,000	257,000,000	257,000,000	257,000,000	257,000,000
Diluted earnings per thousand share in R$(2):					
Preferred	(2,984.55)	1,239.11	529.79	884.38	742.42
Common	(4,964.43)	1,239.11	529.79	884.38	674.93
Basic earnings per thousand ADSs in US$(3)					
Preferred	(3,831.26)	7,043.07	2,484.47	3,781.26	2,796.94
Diluted earnings per thousand ADSs in US$(4):					
Preferred	(3,831.26)	6,995.48	2,477.97	3,778.27	2,796.94
Dividends paid per thousand shares in R$(5):					
Preferred	363.32	189.61	287.12	231.96	234.68
Common	363.32	189.61	287.12	210.87	213.34
Dividends paid per thousand shares in US$(6):					
Preferred	208.35	167.49	83.06	137.12	82.4
Common	208.35	167.49	83.06	133.83	74.91
Dividends paid per 100 ADSs in US$(7)	62.51	50.24	24.91	41.14	24.72
Weighted average shares and diluted potential number of shares					
Preferred	418,195,712	422,501,871	423,568,114	425,137,363	425,695,712
Common	254,650,000	257,000,000	257,000,000	257,000,000	257,000,000
Balance Sheet Data:					
Total current assets	7,906,894	5,037,322	4,929,689	4,588,176	3,944,802
Total assets	14,281,751	9,457,887	8,039,757	6,707,284	5,830,973
Total current liabilities	8,820,453	2,653,285	2,493,279	2,625,812	2,766,719
Total liabilities	13,535,153	5,924,923	5,447,114	4,479,167	3,992,609
Total shareholders' equity	746,598	3,532,964	2,592,643	2,228,117	1,838,364

(1) Basic earnings per one thousand preferred and common shares is calculated by dividing net income (loss) deemed available for each class of shares by the sum of the weighted average number of preferred and common shares outstanding during the period. The calculation has been made as if the net income (loss) for each year would be fully distributed (absorbed). In 2008, net losses per share have been allocated equally between common and preferred shares to the point where total shareholders' equity is reduced to the liquidation preference amount and thereafter any remaining losses are allocated fully to common shares.

Table of Contents

(2) Diluted earnings per one thousand preferred and common shares is calculated by dividing net income (loss) deemed available for each class of shares by the sum of the weighted average number of common and preferred shares outstanding, adjusted for the dilutive effect derived from the stock option plan. The calculation has been made as if the net income (loss) for each year would be fully distributed (absorbed). In 2008, net losses per share have been allocated equally between common and preferred shares to the point where total shareholders' equity is reduced to the liquidation preference amount and thereafter any remaining losses are allocated fully to common shares.

(3) U.S. dollar amounts determined based on foreign exchange rate of R$2.3370 per U.S.$1.00, as of December 31, 2008.

(4) U.S. dollar amounts determined based on foreign exchange rate of R$2.3370 per U.S.$1.00, as of December 31, 2008.

(5) Refers to the sum of the dividends in *reais* paid for the respective year divided by the number of common or preferred shares, multiplied by 1,000.

(6) Refers to the sum of the dividends in *reais* paid for the respective year converted U.S. dollars based on foreign exchange rate of R$2.3370 per U.S.$1.00, as of December 31, 2008, divided by the number of common or preferred shares and multiplied by 1,000.

(7) Based on dividends paid per thousand shares in U.S. dollars, adjusted to reflect the ratio of one ADS per three preferred shares. For comparative purposes only, amounts for 2007, 2006, 2005 and 2004 are presented as if the ratio for such years were one ADS per three preferred shares although the ratio at the time was one ADS per ten preferred shares.

Exchange Rates

Until March 4, 2005, there were two legal foreign exchange markets in Brazil: the commercial rate exchange market, or the "Commercial Market," and the floating rate exchange market, or the "Floating Market." The Commercial Market was reserved primarily for foreign trade transactions and transactions that generally required prior approval from Brazilian monetary authorities, such as registered investments by foreign persons and related remittances of funds abroad (including the payment of principal and interest on loans, notes, bonds and other debt instruments denominated in foreign currencies and registered with the Brazilian Central Bank ("*Banco Central do Brasil*, or "Central Bank"). The Floating Market rate generally applied to specific transactions for which the Brazilian Central Bank approval was not required. Both the Commercial Market rate and the Floating Market rate were reported by the Brazilian Central Bank on a daily basis.

On March 4, 2005, the Brazilian Central Bank issued Resolution No. 3,265, providing for several changes in Brazilian foreign exchange regulation, including the unification of the foreign exchange markets into a single exchange market. Additionally, on March 9, 2005, the Brazilian Central Bank issued Circular No. 3,280 containing the regulations for the foreign exchange market and for international investments, which governs the Brazilian foreign exchange market, Brazilian investments abroad and foreign investment in Brazil.

Since the beginning of 2001, the Brazilian exchange market has been increasingly volatile, and, until early 2003, the value of the *real* declined relative to the U.S. dollar, primarily due to financial and political instability in Brazil and Argentina. In 2005, 2006 and 2007, however, on average the *real* appreciated in relation to the U.S. dollar 20.2%, 11.8% and 17.2%, respectively. In 2008, the *real* depreciated against the U.S. dollar by 31.9%. Although the Brazilian Central Bank has intervened occasionally to control unstable movements in the foreign exchange rates, the exchange market has continued to be volatile in 2009 and may continue to be volatile in the future. The *real* may substantially decline or appreciate in value in relation to the U.S. dollar in the future and there can be no guarantees as to whether the Brazilian Central Bank or the Brazilian government will continue to let the *real* float freely or will intervene in the exchange rate market through a currency band system or otherwise.

Table of Contents

The following table shows the selling rate for U.S. dollars for the periods and dates indicated. The information in the "Average" column represents the average of the daily exchange rates during the periods presented. The numbers in the "Period End" column are the quotes for the exchange rate as of the last business day of the period in question.

	Reais per U.S. Dollar			
Year	**High**	**Low**	**Average**	**Period End**
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
2008	2.5004	1.5593	1.8375	2.3370

	Reais per U.S. Dollar	
Month	**High**	**Low**
December 2008	2.5004	2.3370
January 2009	2.3803	2.1889
February 2009	2.3916	2.2446
March 2009	2.4218	2.2375
April 2009	2.2899	2.1699
May 2009	2.1476	1.9730

Source: Brazilian Central Bank/Bloomberg

B. Capitalization and Indebtedness

Not applicable

C. Reasons for the Offer and Use of Proceeds

Not applicable

D. Risk Factors

This section is intended to be a summary of more detailed discussions contained elsewhere in this annual report. The risks described below are not the only ones faced by the Company. Additional risks that the Company does not presently consider material, or of which it is not currently aware, may also affect it. The Company's business, results of operations or financial condition could be harmed if any of these risks materialize and, as a result, the market price of its preferred shares and American Depositary Shares, or "ADSs," evidenced by American Depositary Receipts, or "ADRs," could decline.

Risks Relating to the Company's Business and Industry

The global economic crisis is adversely affecting the Company's business and financial performance.

The Company's business has been materially affected by the global economic crisis in 2008 and 2009, which has increased volatility in its markets and contributed to the net losses we recorded in the second half of 2008 and the first quarter of 2009. The Company has been affected in a number of ways, including the following:

Increases in prices for its commodity raw materials, such as corn and soybeans, through the first three quarters of 2008, which the Company could not fully pass on through selling prices as the global economic crisis affected demand, forced the Company to decrease selling prices,

Table of Contents

particularly with respect to its export markets in dollar terms, increasing the challenge of managing its cost of sales.

Negative macroeconomic trends in the Company's domestic market starting in the fourth quarter of 2008 as the global economic crisis began to affect the Brazilian economy and domestic consumer confidence.

The Company announced a 20% cut in animal protein production for export for the first quarter of 2009 due to weak demand in its export markets. Temporary shutdowns of production of some facilities have adversely affected the Company's margins.

The Brazilian *real* depreciated 22% against the U.S. dollar in the fourth quarter of 2008 compared to the third quarter of 2008, reflecting uncertainty regarding the effect of the global economic crisis. This devaluation in the *real* contributed to a net loss from derivative financial instruments of approximately R$2,365.5 million (U.S.$1,012.3 million). See "Item 3. Key Information D. Risk Factors Risks Relating to Sadia S.A. Our use of derivative financial instruments may negatively affect our operations especially in a volatile and uncertain market."

Partly as a result of the above-mentioned transactions, we were required to increase our total debt to R$8,844.3 million as of December 31, 2008, including R$4,459.6 million of short-term debt, compared to R$4,016.2 million as of December 31, 2007. The incurrence of this short-term debt contributed to a working capital deficit of R$913.6 million as of December 31, 2008.

The factors above and other factors described below and in "Item 5. Operating and Financial Review and Prospects," caused us to record a net loss of R$2,512.3 million for the year 2008. Although the Company seeks to manage its selling prices and production costs, volumes, inventories and working capital through the global economic crisis, it cannot predict when demand will return to historical levels or whether the global economic crisis will have any long-term effects on consumer confidence, selling prices and production costs, demand for particular types of products, volatility of raw material prices or the equilibrium between the Company's domestic and export markets. These factors may therefore continue to adversely affect the Company's business, results of operations and the market price of its preferred shares and ADSs.

Sadia's results of operations are subject to cyclicality and volatility affecting both raw material prices and the Company's selling prices.

Sadia's business is largely dependent on the cost and supply of corn, soy meal, soybeans, hogs, cattle and other raw materials, as well as the selling prices of its poultry, pork and beef products, all of which are determined by constantly changing market forces of supply and demand, which may fluctuate significantly, even in the absence of a global economic crisis, and other factors over which the Company has little or no control. These other factors include, among others, fluctuations in local and global poultry, hog and cattle production levels, environmental and conservation regulations, economic conditions, weather, animal and crop diseases, cost of international freight and exchange rate fluctuations. The food industry, both in Brazil and abroad, is also characterized by cyclical periods of higher prices and profitability, followed by overproduction, leading to periods of lower prices and profitability. The Company is not able to mitigate these risks by entering into long-term contracts with its customers and most of its suppliers because such contracts are not customary in its industry. Sadia's financial performance is also affected by domestic and international freight costs, which are vulnerable to volatility in the price of oil. The Company may not be successful in addressing the effects of cyclicality and volatility on costs and expenses or the pricing of its products, and its overall financial performance may be adversely affected.

Table of Contents

The events of 2008, which were exacerbated by the global economic crisis, illustrate the susceptibility of the Company's business to cyclical market forces. The largest single component of the Company's cost of sales is the cost of grains used in the preparation of feed. In 2008, the average corn price on the Chicago Board of Trade, or "CBOT," was 42.2% higher than the average price in 2007. Soybean prices increased by 40.5% in 2008. The Company is not able to immediately reflect significant variations of raw material prices in its selling prices and, as a result, its financial performance may be adversely affected.

Health risks related to the food industry could adversely affect the Company's ability to sell its products.

The Company is subject to risks affecting the food industry generally, including risks posed by contamination or food spoilage, evolving nutritional and health-related concerns, consumer product liability claims, product tampering, the possible unavailability and expense of liability insurance and the potential cost and disruption of a product recall. Among such risks are those related to raising animals, including disease 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 any actual or perceived health risks associated with the Company's products, including any adverse publicity concerning these risks, could cause customers to lose confidence in the safety and quality of its products, reducing the level of consumption of those products. Even if Sadia's own products are not affected by contamination, its industry may face adverse publicity if the products of other producers become contaminated, which could result in reduced consumer demand for Sadia's products in the affected category.

Raising animals and meat processing involve animal health and disease control risks, which could have an adverse impact on the Company's results of operations and financial condition.

The Company's operations involve raising poultry and hogs and processing meat from poultry, hogs and cattle, which require the Company to maintain animal health and disease control. Sadia could be required to destroy animals or suspend the sale of some of its products to customers in Brazil and abroad in the event of an outbreak of disease affecting animals, such as (i) in the case of poultry, avian influenza (discussed below) and Newcastle disease, (ii) in the case of hogs, cattle and certain other animals, foot-and-mouth disease, classic swine fever, "blue ear" disease and A(H1N1) influenza (discussed below) and (iii) in the case of cattle, foot-and-mouth disease and bovine spongiform encephalopathy, known as "mad cow disease." Destruction of poultry, hogs or other animals would preclude recovery of costs incurred in raising or purchasing these animals and result in additional expense for the disposal of such animals. In 2005, foot-and-mouth disease cases in the states of Mato Grosso do Sul and Paraná affected only cattle, although hogs can also be contaminated. An outbreak of foot-and-mouth disease could have an effect on hogs owned by Sadia, the availability of livestock for purchase, consumer perception of certain protein products or Sadia's ability to access certain markets, which would adversely impact the results of operations and financial condition of the Company. In addition, although Brazilian cattle are generally grass-fed and at less risk of contracting mad cow disease than cattle raised in some other countries, increases in Brazilian cattle production could lead to the use of cattle feed containing animal byproducts that could heighten the risk of an outbreak of mad cow disease.

Outbreaks, or fears of outbreaks, of any of these or other animal diseases may lead to cancellation of orders by our customers and, particularly if the disease has the potential to affect humans, create adverse publicity that may have a material adverse effect on consumer demand for the Company's products. Moreover, outbreaks of animal disease in Brazil may result in foreign governmental action to close export markets to some or all of the Company's products, relating to some or all of the regions in which it operates. For example, due to foot-and-mouth disease cases affecting cattle in the States of

Table of Contents

Mato Grosso do Sul and Paraná, certain major foreign markets, including Russia (which has been the largest importer of Brazilian pork) banned imports of pork from the entire country in November 2005. Russia partially lifted this ban in the second quarter of 2006 for pork products from the State of Rio Grande do Sul in December 2007. Any future outbreaks of animal diseases could have a material adverse effect on the Company's results of operations and financial condition.

Sadia's pork business in its Brazilian and export markets could be negatively affected by concerns about A(H1N1) influenza, also called "swine flu."

In 2009, A(H1N1) influenza, also called "swine flu," spread to many countries. In April 2009, the analysis of samples collected in cases of flu symptoms by the U.S. and Mexican governments identified a new subtype of the Influenza A(H1N1) virus, classified as "A/CALIFORNIA/04/2009," which had not been previously detected in humans or swine. Influenza A(H1N1) is transmitted from one person to another mainly through coughing, sneezing and contact with nasal secretions from infected individuals. According to the World Health Organization, or "WHO," there is no relation between those infected with Influenza A(H1N1) and contact with persons living near swine or the consumption of pork and pork-derived products.

More than 11,000 cases and over 100 deaths worldwide have been recorded since the outbreak of A(H1N1) influenza in Mexico. On June 11, 2009, the WHO declared a flu alert level six, signaling a "global pandemic." Many countries, including Russia and China, have prohibited imports of pork from countries reporting a significant number of cases (Mexico, United States and Canada), but as the WHO and other independent sources have stated that influenza A(H1N1) is not transmitted by pork consumption, those countries reopened their markets to producers from Mexico, the United States and Canada. Even so, some states in the importing countries continue to impose restrictions on pork imports from Mexico, the United States and Canada.

To date, Brazil has a number of documented cases of A(H1N1) influenza. A significant outbreak of A(H1N1) influenza in Brazil could lead to pressure to destroy Sadia's hogs, even if no link between the influenza cases and pork consumption is shown. Any such destruction of Sadia's hogs would result in decreased sales, prevent recovery of costs incurred in raising or purchasing such hogs, and result in additional expense for the disposal of destroyed hogs. In addition, any outbreak of A(H1N1) influenza in Brazil could lead to restrictions on the export of some of the Company's products to key export markets.

Whether or not an outbreak of A(H1N1) influenza occurs in Brazil, further outbreaks of the disease anywhere in the world could have a negative impact on the consumption of pork in key export markets or in Brazil, and a significant outbreak would negatively affect the Company's net sales and overall financial performance. Any further outbreak of A(H1N1) influenza could lead to the imposition of costly preventive controls on pork imports in our export markets. Accordingly, any spread of A(H1N1) influenza, or increasing concerns about this disease, may have a material and adverse effect on the Company.

The Company's poultry business in Brazilian and export markets could be negatively affected by avian influenza.

Chicken and other birds in some countries, particularly in Asia but also in Europe and Africa, have become infected by highly pathogenic avian influenza (the H5N1 virus). In a small number of cases, the avian influenza has been transmitted from birds to humans, resulting in illness and, on occasion, death. Accordingly, health authorities in many countries have taken steps to prevent outbreaks of this viral disease, including destruction of afflicted poultry flocks.

From January 1, 2003 to December 31, 2008, there have been over 424 confirmed human cases of avian influenza and over 261 deaths, according to the WHO, with an increased number of deaths each year since 2003. Various countries in Asia, the Middle East and Africa reported human cases in 2006, 2007 and 2008, and several countries in Europe reported cases of avian influenza in birds. For example, Indonesia became the focus of international attention when the largest cluster of human H5N1 virus cases so far was identified. The H5N1 virus is considered firmly entrenched in poultry throughout much of Indonesia, and this widespread presence has resulted in a significant number of human cases. In 2008, 44 cases were reported worldwide, with 33 deaths, according to the WHO.

To date, Brazil has not had a documented case of avian influenza, although there are concerns that an outbreak of avian influenza may occur in the country in the future. Any outbreak of avian influenza in Brazil could lead to required destruction of the Company's poultry flocks, which would result in decreased sales of poultry by the Company, prevent recovery of costs incurred in raising or purchasing such poultry, and result in additional expense for the disposal of destroyed poultry. In addition, any outbreak of avian influenza in Brazil would likely lead to immediate restrictions on the export of some of the Company's products to key export markets. Preventive actions adopted by Brazilian authorities, if any, may not be effective in precluding the spread of avian influenza within Brazil.

Whether or not an outbreak of avian influenza occurs in Brazil, further outbreaks of avian influenza anywhere in the world could have a negative impact on the consumption of poultry in the Company's key export markets or in Brazil, and a significant outbreak would negatively affect the Company's net sales and overall financial performance. Any outbreak could lead to the imposition of costly preventive controls on poultry imports in the Company's export markets. Accordingly, any spread of avian influenza, or increasing concerns about this disease, may have a material adverse effect on the Company.

More stringent trade barriers in key export markets may negatively affect the Company's results of operations.

Because of the growing market share of Brazilian poultry, pork and beef products in the international markets, Brazilian exporters are increasingly being affected by measures taken by importing countries to protect local producers. The competitiveness of Brazilian companies has led certain countries to establish trade barriers to limit the access of Brazilian companies to their markets. Some countries, such as Russia, impose quotas on Brazilian pork and poultry products, and delays in allocating these quotas or changes in laws or policies regarding these quotas can adversely affect the Company's exports. Ukraine also restricted pork imports for the retail market, on which higher taxes were levied for a period through December 2008. More recently, in March 2009, Ukraine initiated an anti-dumping investigation regarding imports of halves and quarters of poultry, as well as legs and cuts of poultry, in each case originating in the United States and Brazil. If the Ukrainian authorities decide to apply anti-dumping measures, these actions could affect the Company's exports to this country.

The European Union charges protective tariffs designed to mitigate the effects of Brazil's lower production costs on local European producers. In addition, the European Union has a ban on certain types of Brazilian beef that affects sales of fresh premium cuts and some frozen hindquarter cuts. Developed countries also sometimes use direct and indirect subsidies to enhance the competitiveness of their producers in other markets. For example, French producers receive subsidies for their sales of poultry to countries such as Saudi Arabia, a major importer of poultry products. Trade barriers are sometimes applied indirectly to other parties that are crucial to the export of the Company's products. In addition, local producers in a specific market sometimes exert political pressure on their governments to prevent foreign producers from exporting to their market.

Any of the above restrictions could substantially affect the Company's export volumes and, consequently, its export sales and financial performance. If new trade barriers arise in the Company's key export markets, it may face difficulties in reallocating its products to other markets on favorable terms, and the Company's business, financial condition and results of operations might be adversely affected.

Competition from Brazilian and foreign producers could adversely affect the Company's financial performance.

The Company faces strong competition from other Brazilian producers in the domestic markets, which can be split into *in natura* (whole poultry and poultry and pork cuts) and processed products (hams, sausages, frozen food) markets. The Brazilian *in natura* market is highly fragmented, and the Company faces competition from small producers, which have very aggressive pricing strategies. Small regional players may affect locally the Company's performance because of lower-range distribution (lower costs) and international and strong national players are expected to increase their presence in the future. In our export markets, the Company competes with other major vertically integrated Brazilian producers that have the ability to produce quality products at low cost, as well as with foreign producers. To varying degrees, Sadia's competitors may have strengths in specific product lines and regions as well as greater financial resources. In addition, Sadia's poultry and pork cuts, in particular, are highly price-competitive and sensitive to product substitution. Even if the Company remains a low-cost producer, customers may seek to diversify their sources of supply by purchasing a portion of the products they need from producers in other countries, as some of its customers in key export markets have begun to do. The Company expects to continue to face strong competition in all of its markets and anticipates that existing or new competitors may broaden their product lines and extend their geographic scope. Any failure to respond to product, pricing and other moves by competitors may negatively affect Sadia's financial performance.

Increased regulation of food safety could increase costs and adversely affect the Company's results of operations.

The Company's manufacturing facilities and products are subject to regular Brazilian federal, state and local, as well as foreign, governmental inspections and extensive regulation in the food safety area, including governmental food processing controls. Changes in government regulations relating to food safety could require the Company to make additional investments or incur other costs to meet the necessary specifications for its products.

Sadia's products are often inspected by foreign food safety officials, and any failure to pass those inspections could result in the Company being required to return all or part of a shipment to Brazil, destroy all or part of a shipment or incur costs because of delays in delivering products to its customers. Any tightening of food safety regulations could result in increased costs and could have an adverse effect on the Company's business and results of operations.

The Company's export sales are subject to a broad range of risks associated with international operations.

Export sales account for a significant portion of the Company's gross revenues, representing 46.6% of our total net sales in 2007 and 45.8% in 2008. Sadia's major export markets include the European Union, the Middle East (particularly Saudi Arabia), and the Far East (particularly Japan and Russia), where it is subject to many of the same risks described below in relation to Brazil. The Company's future financial performance will depend, to a significant extent, on economic, political and social conditions in its main export markets. Sadia's future ability to conduct business in export markets could be adversely affected by factors beyond its control, such as the following:

- exchange rate fluctuations;
- deterioration in economic conditions;
- imposition of increased tariffs, anti-dumping duties or other trade barriers;
- strikes or other events affecting ports and other transport facilities;

Table of Contents

- compliance with differing foreign legal and regulatory regimes; and
- sabotage affecting its products.

The market dynamics of the Company's important export markets can change quickly and unpredictably due to these factors, the imposition of trade barriers of the type described above and other factors, which together can significantly affect the Company's export volumes, selling prices and results of operations.

The Company's export sales are highly dependent on conditions at a small number of ports in southern Brazil.

The Company ships 65.7% of its exports through the ports of Paranaguá and Antonina in the state of Paraná, 21.0% through the ports of São Francisco do Sul, Itajaí and Navegantes in the State of Santa Catarina and 12.0% through the ports of Santos, in the State of São Paulo, Rio de Janeiro, in the state of Rio de Janeiro, and Rio Grande, in the state of Rio Grande do Sul.

The Company has been affected from time to time by strikes of port employees or customs agents, sanitary inspection agents and other government agents at the Brazilian ports from which it exports its products. For example, in 2005 and in the third quarter of 2007 Brazilian federal government sanitary inspectors went on strike for approximately one month. A widespread or protracted strike in the future could adversely affect the Company's business and its results of operations.

In the fourth quarter of 2008, flooding at the ports of Itajaí and Navegantes damaged port infrastructure and required Sadia to divert part of its exports in the region of Santa Catarina to three other ports: Rio Grande, in the state of Rio Grande do Sul, Paranaguá, in the state of Paraná and São Francisco in the state of Santa Catarina. Sadia had to postpone shipment of 8,000 tons and increased its freight costs to transfer cargo from Itajaí to other ports, adversely affecting its export revenues for the fourth quarter of 2008.

Environmental laws and regulations require increasing expenditures for compliance.

The Company, like other Brazilian food producers, is subject to extensive Brazilian federal, state and local environmental laws, regulations, authorizations and licenses concerning, among other things, the handling and disposal of wastes, discharges of pollutants into the air, water and soil, and the clean-up of contamination. A failure to comply with these laws and regulations, to obtain required authorizations or licenses, or to prevent activities or accidents resulting in environmental contamination could result in administrative and criminal penalties, such as fines, cancellation of authorizations or revocation of licenses, in addition to negative publicity and a requirement to mitigate or compensate for environmental damage. We cannot operate a plant if the required permit is not valid and current. In the event of violations of, or liability arising under, environmental law, we could incur significant unanticipated costs that could have a material impact on our business, cash flow, or results of operations.

The Company has incurred, and will continue to incur, capital and operating expenditures to comply with these laws and regulations. Because of the possibility of new or more stringent regulatory measures or other developments, the amount and timing of future expenditures required to maintain compliance could increase from current or anticipated levels and could adversely affect the availability of funds for capital expenditures and other purposes. Compliance with existing or new environmental laws and regulations could result in significantly increased costs and expenses.

Unfavorable outcomes in legal proceedings may reduce our liquidity and negatively affect us.

We are defendants in civil, labor and tax proceedings and are also subject to consent agreements (*termo de ajustamento de conduta*). We cannot assure you that we will obtain favorable decisions in these proceedings or that our reserves will be sufficient to cover potential liabilities resulting from unfavorable decisions. In the ordinary course of business, we outsource labor to third-parties. See "Item 4. Information on the Company B. Business Overview Production Process." If it were to become necessary to revisit this contractual structure, we would incur additional operating expenses. Even in cases in which we have recorded reserves on our balance sheet to cover potential losses, any obligation to pay amounts in these proceedings would have an effect on our cash position. Unfavorable decisions in these proceedings may, therefore, reduce our liquidity and adversely affect our business, financial condition and results of operations.

Risks Relating to the Proposed Perdigão Transaction

Our proposed business combination with Perdigão S.A., or "Perdigão," is subject to antitrust approvals, and any antitrust approval could be conditioned on divestment of a portion of our business.

On May 19, 2009, the Company signed a merger agreement with Perdigão that contemplates a business combination between Sadia and Perdigão. In the business combination, Perdigão is to be renamed BRF Brasil Foods S.A., or "BRF," and Sadia is expected to become a wholly owned subsidiary of BRF. Holders of common shares and preferred shares of Sadia are expected to receive common shares of Perdigão, and the holders of ADSs representing preferred shares of Sadia are expected to receive ADSs representing common shares of Perdigão. The transaction is described in more detail under "Item 4. Information on the Company A. History and Development of the Company Proposed Business Combination with Perdigão."

In accordance with Brazilian law, Perdigão and Sadia submitted a summary of the terms and conditions of the business combination and other information about each company to the Brazilian *Conselho Administrativo de Defesa Econômica* (the Brazilian government agency with antitrust decision making authority, or "CADE") on June 8, 2009. After an analysis by the *Secretaria de Acompanhamento Econômico* (the Economic Policy Bureau of the Ministry of the Treasury, or "SEAE") and the *Secretaria de Direito Econômico* (the Economic Law Office of the Ministry of Justice, or "SDE"), the CADE will determine whether the business combination negatively impacts consumer conditions in the relevant markets in which Perdigão and Sadia compete or whether they would negatively affect consumers. Brazilian antitrust law does not prevent parties from closing a transaction on a provisional basis until the Brazilian antitrust authorities render a final decision. However, the CADE may ask the parties to sign, and the parties have initiated negotiations with the CADE in connection with, an agreement (an *Acordo de Preservação da Reversibilidade da Operação*, or "Reversibility Agreement") that requires the parties to keep parts of their businesses separate until a final decision is rendered. If the business combination is approved, it will be retroactive to the date on which the transaction closed; however, if the business combination is not approved, it will be unwound retroactively to the closing date. As a condition to approving the transaction, the Brazilian antitrust authorities could impose significant conditions or performance commitments on the combined company, including commitments to divest from certain businesses, risks and product lines, trademarks or production facilities. Any such conditions could materially adversely affect the Company's financial performance and prospects.

Combined, Sadia and Perdigão export to more than 100 countries, and the business combination is subject to approval by foreign antitrust authorities. The European Union requires that the transaction be approved before it can be consummated. Like the Brazilian authorities, those antitrust authorities could impose significant conditions to their approvals, affecting the Company's operations in those regions, particularly in regions in which the Company has a significant market share. Any such conditions could materially adversely affect the Company's export revenues and growth strategy.

Table of Contents

The proposed business combination with Perdigão is subject to approvals (in addition to antitrust approvals) as well as other uncertainties.

The proposed business combination with Perdigão is subject to a number of conditions, in addition to the European antitrust approval described in the preceding risk factor, including the following:

- the approval by the shareholders of Perdigão of a series of corporate actions, including (1) the change in Perdigão's name, (2) the change in the location of BRF's headquarters to Itajaí in the state of Santa Catarina, (3) changes in the composition of BRF's board of directors, (4) the increase in BRF's share capital necessary for the issuance of shares in connection with the business combination and related equity financing, and (5) the merger of shares (*incorporação de ações*) by which a holding company that will hold a controlling interest in Sadia will become a subsidiary of BRF; and

- the approval by the shareholders of Sadia of a number of actions, including (1) the disposition of Concórdia Holding Financeira S.A. (Sadia's banking and brokerage subsidiary), which will not be included in the combined company and (2) changes to the composition of Sadia's board of directors.

If the companies are unable to obtain the necessary approvals, the proposed business combination with Perdigão would not be consummated, and we would not be able to realize its expected benefits.

If we complete the business combination with Perdigão, we may not realize the expected benefits of the transaction, in the time frame anticipated or at all, because of integration or other challenges.

Achieving the expected benefits of the proposed business combination with Perdigão will depend on the timely and efficient integration of the operations, business cultures, marketing practices, branding and personnel of Perdigão and Sadia. This integration may not be completed as quickly as expected, and any failure to effectively integrate the two companies or any delay in that integration could increase Sadia's costs, adversely affect its margins, adversely affect its financial condition or have other negative consequences. The challenges involved in the integration include, among others, the following:

- devising a coherent marketing and branding strategy in our domestic market and our export markets that takes into account the relative strengths of Perdigão's and Sadia's marketing and brands in each of those markets and across their many product lines;

- integrating two of the largest customer distribution networks in Brazil, as well as distribution networks in Perdigão's and Sadia's export markets;

- integrating the extensive production facilities of Perdigão and Sadia in several Brazilian states;

- the potential loss of key customers of Perdigão or Sadia, or both;

- the potential loss of key officers of Perdigão or Sadia, or both;

- distraction of management from the ongoing operations of the Company;

- aligning the standards, processes, procedures and controls of Perdigão and Sadia in the operations of the combined companies; and

- increasing the scope, geographic diversity and complexity of our operations.

The proposed business combination with Perdigão is significantly larger than any transaction that either Sadia or Perdigão has undertaken in the past, and any combination of the challenges described above could adversely affect Sadia's results of operations and prospects and the market price of the common shares or ADSs of the combined company.

The consummation of the transactions contemplated by the proposed business combination with Perdigão might result in an event of default, a termination event or a breach of certain covenants under certain instruments governing a portion of the Company's indebtedness.

Pursuant to the terms and conditions of certain instruments governing a portion of the Company's indebtedness in the aggregate amount of at least R$4.9 billion as of May 31, 2009, including certain derivative financial instruments, the consummation of the transactions contemplated by the proposed business combination with Perdigão may result in an event of default, a termination event or a breach of one or more covenants, as applicable. In particular, the consummation of the transactions contemplated by the proposed business combination with Perdigão will result in a change of control of Sadia S.A. As a result, following the announcement of the proposed business combination with Perdigão the Company has engaged in discussions with its lenders and counterparties under those debt instruments that provide for such change of control as an event of default or termination event in order to seek and to receive from such lenders and counterparties the necessary waivers or consents in accordance with the terms of the applicable debt instruments. Although it is not a condition to the consummation of the business combination, both Sadia and Perdigão have agreed to use their best efforts to obtain any necessary waivers and consents from financial institutions under any contracts that contain covenants or events of default that would be triggered by the business combination. Alternatively, if and to the extent permitted under the applicable debt instruments, the Company may decide to pre-pay all or a portion of such indebtedness. In accordance with the terms of the applicable debt instruments, the Company may be required to pay a premium or a penalty to its lenders or counterparties in order to receive their waiver or consent or to pre-pay the indebtedness outstanding under such debt instruments. The Company can give no assurances as to whether any of its lenders and/or counterparties under the applicable debt instruments will agree to grant its waiver or consent or that the Company will otherwise be able to pre-pay the indebtedness outstanding under such debt instruments. If Sadia or Perdigão are unable to obtain consents under any of this indebtedness, the Company may find it necessary to refinance that indebtedness, which could significantly increase the costs of the business combination.

Risks Relating to Sadia S.A.

Planned capital expenditures may not occur.

In the beginning of 2009, R$609 million of capital expenditures were planned for the year for finishing projects started in the previous years, as well as for improvements to plants and breeders. As a result of the proposed business combination with Perdigão, such plans are subject to change and such expenditures may not be carried out (for more information on the proposed business combination with Perdigão, see "Item 4. Information on the Company A. History and Development of the Company Proposed Business Combination with Perdigão").

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

The Company's ten largest customers in 2008 accounted for approximately 23.9% of its total domestic sales, and its ten largest international customers in 2008 accounted for approximately 43% of its total export sales, the largest of such clients accounting for 7.2% and 11.9% of total domestic and total export sales, respectively. 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 these customers reduce significantly the volumes purchased from the Company, the Company's revenues and operating income could be materially adversely affected.

Table of Contents

Our use of derivative financial instruments may negatively affect our operations, especially in a volatile and uncertain market.

We have used, and we expect to continue to use, derivative financial instruments to manage the risk profile associated with interest rates and currency exposure of our debt, to reduce our financing costs, to access alternative sources of financing and to hedge some of our financial risks. For the year ended December 31, 2008, we had a net loss of approximately R$2,365.8 million (U.S.$1,012.3 million) from financial instruments as compared to a net gain of R$191.6 million (U.S.$108.2 million) in 2007. These losses resulted from a variety of factors (some of which are further described in "Item 8. Financial Information A. Consolidated Statements and Other Financial Information Legal Proceedings Civil Litigation"), including losses related to changes in the fair value of cross currency swaps and other currency derivatives attributable to the variation of the U.S. dollar against the Brazilian *real* and certain activities of the former finance officer. To the extent that any of these factors persist in 2009, we may continue to incur net losses from our derivative financial instruments.

Furthermore, the fair value of derivative instruments fluctuates over time as a result of the effects of future interest rates, exchange rates and financial market volatility. These values must be analyzed in relation to the fair values of the underlying transactions and as part of our overall exposure to fluctuations in interest rates and foreign exchange rates. Since valuation is imprecise and variable, it is difficult to accurately predict the magnitude of the risk posed by our use of derivative financial instruments going forward and to state with certainty that we will not be negatively affected by our derivative financial positions.

Companies experienced a period of greater volatility in the global financial and securities markets as part of the worsening of the financial institutions' crisis which started in 2007. The financial crisis significantly and negatively affected the valuation of our derivative instruments portfolio, primarily the valuation of foreign exchange options and currency derivatives related to debt. As a result of increased volatility and devaluation of the *real* against the U.S. dollar, there were significant changes in the fair value of our derivative instruments portfolio, which triggered the need to make deposits in margin accounts with the counterparties and to incur additional indebtedness to make margin deposits or to settle some of these derivative transactions, negatively affecting our liquidity.

Fluctuations in exchange rates between the Brazilian real and other currencies result in foreign exchange gains and losses under derivative contracts we have entered into.

The current financial crisis, which has continued into 2009, could also negatively affect our derivative financial instruments by weakening the creditworthiness and viability of the financial institutions which act as the counterparties to our derivative transactions. Reduced liquidity or financial losses resulting from exposure to the risk of counterparties could have a material adverse effect on our cash flow and financial condition. The current economic environment could cause our counterparties to breach their obligations to us under our contracts with them by failing to pay us amounts that may become due under our derivative contracts or to seek bankruptcy protection. The instability and uncertainty in the financial markets has also made it difficult to assess the risk of counterparties to derivatives contracts. Any of the foregoing could adversely impact our business, financial condition and results of operations.

Most derivative financial instruments are subject to margin calls in case the threshold set by the counterparties is exceeded. In certain scenarios, the cash required to cover margin calls may be substantial and may reduce the funds available to us for our operations or other capital needs. Some of our derivatives contracts have clauses that reduce the threshold amounts after certain pre-defined credit downgrades by the credit agencies. The change in mark-to-market of some of our derivative financial instruments is reflected in our income statement introducing volatility in our interest net income and our related ratios. In the current environment, the creditworthiness of our counterparties may deteriorate substantially, preventing them from honoring their obligations to us.

The Company is subject to litigation, and the outcome of proceedings it is or may become involved in could have a material adverse effect on its business, operations, financial position, profitability or cash flow.

The Company's businesses is subject to regulation under a wide variety of Brazilian, U.S. federal, state and foreign laws, regulations and policies. We are subject to a variety of legal proceedings and legal compliance risks. We and our subsidiaries, our businesses and the industries in which we operate are at times being reviewed or investigated by regulators, which could lead to enforcement actions, fines and penalties or the assertion of private litigation claims and damages. We are party to a wide range of agreements, contracts and joint ventures with other companies, which could potentially result in litigation, if the parties cannot find a common understanding on certain issues that are in dispute.

In the fall of 2008, the *real* suffered a strong devaluation, including in relation to the U.S. dollar. As a result of such devaluation and certain activities of the former finance officer, it had sustained significant losses on foreign exchange derivative transactions. In connection therewith, Sadia sold certain of its long-term financial investments to address margin calls related to the currency derivatives, which resulted in further losses due to the decrease in the value of such financial instruments as a result of the global economic crisis. In connection with these losses, the Company, as well as certain individuals who were officers and/or directors of the Company during the events at issue, were named in five lawsuits in U.S. courts alleging various violations of U.S. federal securities laws related to losses that the Company incurred with respect to exchange derivative contracts. These five actions have since been consolidated in a single class action lawsuit. Please see "Item 8. Financial Information A. Consolidated Statements and Other Financial Information Legal Proceedings Civil litigation" for information on these proceedings.

In addition, on May 15, 2009, Sadia received a letter from the CVM informing Sadia that the CVM had initiated a preliminary analysis of possible liability of certain individuals who were officers and/or directors of Sadia for losses in connection with the derivative transactions in 2008. The letter states that the proceeding is still at a preliminary stage, and the CVM has not yet specified which laws or regulations have been violated, or whether any violations have occurred at all.

It is not possible to predict whether additional suits will be filed or what the outcome of any such litigation will be. The Company intends to contest the current lawsuits vigorously. However, it is possible that there could be unfavorable outcomes in these or other proceedings. At the current stage of the proceedings it is not possible to determine the probability of loss and/or the amounts involved in any potential loss and the expenses that will be incurred in defending these lawsuits.

Adverse results in any such proceedings and/or the incurrence of significant litigation expenses could be material to the Company's business, operations, financial position, profitability or cash flows.

Sadia is subject to significant tax and other potential liabilities in connection with litigation in Brazil.

Sadia has significant tax and other potential liabilities in connection with litigation in Brazil. As of December 31, 2008 these included (1) tax proceedings in the aggregate amount of R$1,818.5 million (of which Sadia had recorded provisions for probable losses of R$50.9 million (R$22.6 million of income and social contribution payables and R$28.3 million of other tax proceedings)), (2) civil proceedings in the aggregate amount of R$116.6 million (of which Sadia had recorded provisions for probable losses of R$10.2 million) and (3) labor claims in the aggregate amount of R$67.6 million (of which Sadia had recorded provisions for probable losses of R$28.1 million). The difference between the amounts recorded as provisions for probable losses in each of these categories and the total amounts represent liabilities that Sadia's management has judged to be possible or remote, and Sadia therefore did not record any provision in its financial statements for these contingencies. The losses to Sadia could, therefore, be significantly higher than the amounts for which Sadia has recorded provisions. Even for the amounts recorded as provisions for probable losses, a judgment against Sadia would have an effect on Sadia's cash flow if it is required to pay those amounts. The Company may, therefore, incur significant losses and expenses defending these lawsuits, which could materially adverse its results of operations and financial condition.

The Company's level of debt could impair its business and financial condition.

Sadia currently has a substantial amount of debt and may also incur more debt in the future. As of December 31, 2008, the Company had R$8,844.3 million (U.S.$3,784.5 million) of total debt, of which approximately 42.2% (R$3,729.6 million (U.S.$1,595.9 million)) was denominated in Brazilian *reais* and approximately 57.8% (R$5,114.7 million (U.S.$2,188.6 million)) was denominated in foreign currency (primarily U.S. dollars). In addition, as of December 31, 2008, Sadia had R$913.6 million of negative working capital (defined as total current assets minus total current liabilities) and off-balance sheet obligations in the aggregate amount of R$537.7 million. If the transactions contemplated by the proposed business combination with Perdigão are not consummated, Sadia's significant level of debt could have important consequences for the Company, including:

- requiring that a substantial portion of its cash flows from operations be used for the payment of principal and interest on its debt, reducing the funds available to the Company for its operations or other capital needs;
- limiting its flexibility in planning for, or reacting to, changes in its business and the industry in which it operates because the Company's available cash flow after paying principal and interest on its debt may not be sufficient to make the capital and other expenditures necessary to address these changes;
- increasing its vulnerability to general adverse economic and industry conditions because, during periods in which the Company experiences lower earnings and cash flow, it will be required to devote a proportionally greater amount of its cash flow to paying principal and interest on its debt;
- limiting its ability to obtain additional financing in the future to fund working capital, capital expenditures, acquisitions and general corporate requirements;
- making it difficult for the Company to refinance its indebtedness or to refinance such indebtedness on terms favorable to it, including with respect to existing accounts receivable securitizations;
- restricting, directly or indirectly, its ability to take advantage of opportunities that would permit the Company to acquire other businesses;
- placing it at a competitive disadvantage compared to competitors that are relatively less leveraged and that may be better positioned to withstand economic downturns; and
- exposing its current and future borrowings made at floating interest rates to increases in interest rates.

The terms of the Company's indebtedness impose significant operating and financial restrictions, which may prevent it from capitalizing on business opportunities and may impede its ability to refinance its debt and the debt of its subsidiaries.

The instruments governing the Company's consolidated indebtedness impose significant operating and financial restrictions on it. These restrictions may limit, directly or indirectly, its ability, among other things, to undertake the following actions:

- borrow money;

make investments;

sell assets, including capital stock of subsidiaries;

guarantee indebtedness;

Table of Contents

enter into agreements that restrict dividends or other distributions from certain subsidiaries;

enter into transactions with affiliates;

create or assume liens; and

engage in mergers or consolidations.

If the transactions contemplated by the proposed business combination with Perdigão are not consummated, these restrictions may:

impede the Company's ability, and the ability of its subsidiaries, to develop and implement refinancing plans in respect of its debt or the debt of its subsidiaries; and

limit its ability to seize attractive growth opportunities for its businesses that are currently unknown, particularly if the Company is unable to incur financing or make investments to take advantage of these opportunities.

Although the covenants to which the Company is subject have certain exceptions and qualifications, the breach of any of these covenants could result in a default under the terms of its existing debt obligations. Upon the occurrence of such an event of default, all amounts outstanding under the applicable debt instruments as well as all amounts outstanding under other debt instruments, containing cross-default and cross-acceleration provisions, together with accrued and unpaid interest, if any, might become or be declared immediately due and payable. If such indebtedness were to be accelerated, the Company can offer no assurance that in order to repay in full any such indebtedness the Company could sell its assets or raise funds from alternative sources, whether on favorable terms, on a timely basis or at all.

In addition, in connection with the entry into new financings or amendments to existing financing arrangements, the Company's and its subsidiaries' financial and operational flexibility may be further reduced as a result of more restrictive covenants, requirements for security and other terms.

The Company has substantial amounts of debt that matures in each of the next several years beyond 2009, and, if it is unable to secure refinancing on favorable terms or at all, the liquidity problems of the Company could worsen.

The Company currently has a substantial amount of debt and may also incur more debt in the future. As of December 31, 2008, it had R$8,844.3 million (U.S.$3,784.5 million) of total debt, of which approximately 42.2% (R$3,729.6 million (U.S.$1,595.9 million)) was denominated in Brazilian *reais* and approximately 57.8% (R$5,114.7 million (U.S.$2,188.6 million)) was denominated in foreign currency (primarily U.S. dollars). Of its total debt as of December 31, 2008, approximately 34.4% (R$3,037.8 million (U.S.$1.299.9 million)) was short-term debt, and approximately 16.1% (R$1,421.8 million (U.S.$608.4 million)) was the current portion of the long-term debt and 49.6% (R$4,384.7 million (U.S.$1,876.2 million)) was long-term debt. The Company has a substantial amount of debt maturing in the next several years, including debt with an aggregate principal amount of approximately R$1,125.8 million (U.S.$481.7 million), R$938.7 million (U.S.$401.7 million) and R$663.7 million (U.S.$284.0 million) maturing in 2010, 2011 and 2012, respectively. In addition, as of December 31, 2008, Sadia had R$913.6 million of negative working capital and off-balance sheet obligations in the aggregate amount of R$537.7 million. If the transactions contemplated by the proposed business combination with Perdigão are not consummated, the Company may face difficulties in paying or refinancing its debt as it matures beyond 2009.

Table of Contents

Historically, the Company has addressed its liquidity needs (including funds required to make scheduled principal and interest payments, refinance debt, and fund working capital and planned capital expenditures) with operating cash flow, borrowings under credit facilities and proceeds of debt offerings. The global stock and credit markets have recently experienced extreme disruption, including severely diminished liquidity, constrained credit availability and extreme volatility in securities prices. These factors and the continuing market disruption have had, and may continue to have, an adverse effect on the Company, including on its ability to refinance future maturities, in part because the Company, like many public companies, from time to time raises capital in debt and equity capital markets. Continued uncertainty in the stock and credit markets may also negatively impact the Company's ability to access additional short-term and long-term financing, including accounts receivable securitizations on reasonable terms or at all, which could negatively impact its liquidity and financial condition.

In addition, the Company's credit ratings have recently been downgraded by Standard & Poor's and by Moody's. The disruptions in the financial and credit markets also may continue to adversely affect the Company's credit ratings. Any further deterioration of its credit ratings or creditworthiness might negatively impact the availability of financing to the Company and the terms on which it could refinance its debt, including the imposition of more restrictive covenants and higher interest rates.

In years beyond 2009, in the event that the transactions contemplated by the proposed business combination with Perdigão are not consummated and:

- the current pressures on credit continue or worsen,
- the Company's operating results worsen significantly,
- the Company is unable to complete any necessary divestitures of non-core assets and its cash flow or capital resources prove inadequate, or
- the Company is unable to refinance any debt that becomes due,

the Company could face liquidity problems and may not be able to pay its outstanding debt when due, which could have a material adverse effect on its business and financial condition.

The Company must service its U.S. dollar-denominated obligations with revenues generated in reais or other currencies, as it may not generate sufficient revenues in U.S. dollars from its operations to service all its U.S. dollar-denominated obligations, and a devaluation or depreciation in the value of the real, or any of the other currencies of the countries in which it operates, compared to the U.S. dollar may adversely affect the Company's ability to service its debt.

A substantial portion of the Company's outstanding debt is denominated in foreign currencies, primarily U.S. dollars. As of December 31, 2008, the Company's U.S. dollar-denominated debt represented approximately 57.8% (R$5,114.7 million (US$2,188.6 million)) of its total debt (not giving effect to its currency-related derivatives as of such date). The Company's existing U.S. dollar-denominated debt, however, must be serviced by funds generated from sales by its subsidiaries, the majority of which is not denominated in U.S. dollars. Consequently, when it does not generate sufficient U.S. dollar revenues to cover that debt service, the Company must use revenues generated in *reais* or other currencies to service our U.S. dollar-denominated debt. A devaluation in the value of the *real* or any of the other currencies of the countries in which the Company operates, compared to the U.S. dollar, could adversely affect its ability to service its debt. In 2008, the Company's U.S. dollar-denominated operations, together, generated approximately 76.2% of its total net sales in *real* terms and some of the currencies in which our revenues are denominated suffered material depreciations against the U.S. dollar. For example, in 2008 the *real* depreciated approximately 31.9% against the U.S. dollar, the euro depreciated approximately 5.9% against the U.S. dollar and the British Sterling depreciated approximately 27.3% against the U.S. dollar. Although the Company has foreign exchange

Table of Contents

forward contracts in place to mitigate its currency-related risks and expects to enter into future currency hedges, these measures may not be effective in covering all its currency-related risks.

Damages not covered by insurance might result in losses for the Company, which could have an adverse effect on its business.

As is usual in the Company's business, its plants, distribution centers, transports, among others, are insured. However, certain kinds of losses cannot be insured. If an event that cannot be insured occurs, the investment made by the Company may be lost. In addition, the Company can be held judicially liable for any indemnification payments to potential victims in such events.

As an example of disruptions that can occur, activity in Sadia's poultry processing facility located in the city of Toledo, state of Paraná, was interrupted on November 16, 2006 as a result of a fire. The facility was part of, but isolated from, the Company's Toledo production complex and was responsible for approximately 1.5% of Sadia's total revenues. Production at the affected plant was primarily focused on exports and, once production at the Toledo facility was interrupted, the Company used alternative production units which were able to absorb production that would have been undertaken at the Toledo facility due to an average idle capacity of 20%. The Company did not experience a material loss in revenues as a result of the Toledo fire, and existing insurance covered the damages. However, similar or more serious fires at the Company's production facilities could lead to losses in revenue and could cause the Company to incur costs that may not be fully covered by insurance, which would have an adverse effect on the Company's results of operations.

Risks Relating to Brazil

Brazilian economic, political and other conditions, and Brazilian government policies or actions in response to these conditions, may negatively affect our business and results of operations.

The Brazilian economy has been characterized by interventions by the Brazilian government and unstable economic cycles. The Brazilian government has often changed monetary, taxation, credit, tariff and other policies to influence the course of Brazil's economy. For example, the government's actions to control inflation have at times involved setting wage and price controls, blocking access to bank accounts, imposing exchange controls and limiting imports into Brazil. The Company has no control over, and cannot predict, what policies or actions the Brazilian government may take in the future.

Sadia's business, results of operations, financial condition and prospects, as well as the market prices of its preferred shares or ADSs, may be adversely affected by, among others, the following factors:

- exchange rate movements;
- exchange control policies;
- expansion or contraction of the Brazilian economy, as measured by rates of growth in gross domestic product, or "GDP;"
- inflation;
- tax policies;
- other economic political, diplomatic and social developments in or affecting Brazil;
- interest rates;

energy shortages;

liquidity of domestic capital and lending markets; and

social and political instability.

These factors, as well as uncertainty over whether the Brazilian government may implement changes in policy or regulations relating to these factors, may adversely affect the Company and its business and financial performance and the market price of its preferred shares and ADSs.

Inflation, and government measures to curb inflation, may adversely affect the Brazilian economy, the Brazilian securities market, Sadia's business and operations and the market prices of its preferred shares or ADSs.

Historically, Brazil has experienced high rates of inflation. According to the General Market Price Index (*Índice Geral de Preços do Mercado*), or "IGP-M", a general price inflation index, the inflation rates in Brazil were 10.4% in 2001, 25.3% in 2002, 8.7% in 2003, 12.4% in 2004, 1.2% in 2005, 3.8% in 2006, 7.7% in 2007 and 9.8% in 2008. In addition, according to the National Extended Consumer Price Index (*Índice Nacional de Preços ao Consumidor Ampliado*), or "IPCA", published by the Brazilian Institute of Geography and Statistics (*Instituto Brasileiro de Geografia e Estatística*), or "IBGE", the Brazilian consumer price inflation rates were 7.7% in 2001, 12.5% in 2002, 9.3% in 2003, 7.6% in 2004, 5.7% in 2005, 3.1% in 2006, 4.5% in 2007 and 5.8% in 2008.

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 have also contributed materially to economic uncertainty in Brazil in the past and to heightened volatility in the Brazilian securities markets.

Brazil may experience high levels of inflation in future periods. Periods of higher inflation may slow the rate of growth of the Brazilian economy, which could lead to reduced demand for Sadia's products in Brazil and decreased net sales. Inflation also is likely to increase some of the Company's costs and expenses, which it may not be able to pass on to its customers and, as a result, may reduce its profit margins and net income. In addition, high inflation generally leads to higher domestic interest rates, and, as a result, the costs of servicing the Company's *real*-denominated debt may increase, resulting in lower net income. Inflation and its effect on domestic interest rates can, in addition, lead to reduced liquidity in the domestic capital and lending markets, which could affect Sadia's ability to refinance its indebtedness in those markets. Any decline in the Company's net sales or net income and any deterioration in its financial condition would also likely lead to a decline in the market price of its preferred shares and ADSs.

Exchange rate movements may adversely affect Sadia's financial condition and results of operations.

The Brazilian currency has been devalued frequently over the past four decades. Throughout this period, the Brazilian government has implemented various economic plans and exchange rate policies, including sudden devaluations, periodic mini-devaluations (during which the frequency of adjustments has ranged from daily to monthly), exchange controls, dual exchange rate markets and a floating exchange rate system. From time to time, there have been significant fluctuations in the exchange rate between the Brazilian currency and the U.S. dollar and other currencies. For example, the *real* depreciated against the U.S. dollar, on average, by 19.6% in 2002 and 4.8% in 2003. In 2004, 2005, 2006 and 2007 the *real* appreciated 8.8%, 13.4%, 9.5% and 16.3%, respectively, against the U.S. dollar. In 2008 the *real* depreciated 31.9% against the U.S. dollar.

Any 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, as well as to a dampening of export-driven growth. The Company's production costs are denominated in local currency but export sales are mostly denominated

Table of Contents

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. dollar. Any such appreciation could reduce the competitiveness of the Company's exports and adversely affect its net sales and cash flows from exports.

Devaluation of the *real* against the U.S. dollar could create additional inflationary pressures in Brazil by increasing the price of imported products and requiring deflationary government policies. In addition, the prices of soy meal and soybeans, important ingredients of the Company's animal feedstock, are linked to prices in the CBOT, among other variables. Many of the mineral nutrients added to its feedstock must be purchased in U.S. dollars.

The price of corn, another important ingredient of the Company's feedstock, is linked, to a lesser extent, to the CBOT price, among other variables. In addition to feedstock ingredients, Sadia purchases sausage casings, breeder eggs, packaging and other raw materials, as well as equipment for use in its production facilities, from suppliers located outside Brazil that are paid in U.S. dollars or other foreign currencies. When the *real* depreciates against the U.S. dollar, the cost in *reais* of the Company's U.S. dollar-linked raw materials and equipment increases, and these increases could materially adversely affect its results of operations.

Fluctuations in interest rates may have an adverse effect on the Company's business and the market prices of its preferred shares or ADSs.

The Brazilian Central Bank establishes the basic interest rate target for the Brazilian financial system by reference to the level of economic growth of the Brazilian economy, the level of inflation and other economic indicators. From February to July 17, 2002, the Brazilian Central Bank reduced the basic interest rate from 19% to 18%. From October 2002 to February 2003, the Central Bank increased the basic interest rate by 8.5 percentage points, to 26.5% on February 19, 2003, and kept it at this level until June 2003 when the Central Bank began to decrease it, reaching 11.25% in April 2008. In 2008, the Brazilian Central Bank reversed the trend, increasing the basic interest rate to 13.75%.

At December 31, 2008, approximately 32.8% of the Company's total liabilities from indebtedness of R$8,844.3 million was either (1) denominated in (or swapped into) *reais*, bearing interest based on Brazilian floating interest rates, such as the Long-Term Interest Rate (*Taxa de Juros de Longo Prazo*), or "TJLP," the interest rate used in our financing agreements with Brazilian National Bank for Economic and Social Development (*Banco Nacional de Desenvolvimento Econômico e Social BNDES*), or "BNDES," and the Interbank Deposit Certificate Rate (*Certificado de Depósito Interbancário*), or "CDI rate," an interbank certificate of deposit rate that applies to our foreign currency swaps and some of our other *real*-denominated indebtedness, or (2) U.S. dollar-denominated, bearing interest based on LIBOR. Any increase in the CDI, TJLP or LIBOR rates may have an adverse impact on the Company's financial expenses and results of operations.

Changes in tax laws may increase the Company's tax burden and, as a result, negatively affect its profitability.

The Brazilian government regularly implements changes to tax regimes that may increase the Company's and its customers' tax burdens. These changes include modifications in the rate of assessments and, on occasion, enactment of temporary taxes, the proceeds of which are earmarked for designated governmental purposes. For instance, in early 2008, the Federal Government has submitted to the appreciation of the legislature a new tax reform proposal to change the structure of the present corporate income tax, and replace a series of currently existing charges for a new Value-Added Tax, among other issues. The effects of proposed tax reform measures or any other changes that could result from enactment of additional tax reforms have not been, and cannot be, quantified. However, some measures, if enacted, may result in increases to the Company's overall tax burden, which could negatively affect its overall financial performance.

Table of Contents

Restrictions on the movement of capital out of Brazil may adversely affect investors' ability to receive dividends and distributions on, or the proceeds of any sale of, preferred shares and ADSs.

Brazilian law permits the Brazilian government to impose temporary restrictions on conversions of Brazilian currency into foreign currencies and on remittances to foreign investors of proceeds from their investments in Brazil whenever there is a serious imbalance in Brazil's balance of payments or there are reasons to expect a pending serious imbalance. The Brazilian government last imposed remittance restrictions for approximately six months in 1989 and early 1990. The Brazilian government may take similar measures in the future. Any imposition of restrictions on conversions and remittances could hinder or prevent holders of the Company's preferred shares or ADSs from converting into U.S. dollars or other foreign currencies and remitting abroad dividends, distributions or the proceeds from any sale in Brazil of such preferred shares. Exchange controls could also prevent the Company from making payments on its U.S. dollar-denominated debt obligations and hinder its ability to access the international capital markets. As a result, exchange controls restrictions could reduce the market prices of the Company's preferred shares and ADSs.

Risks Relating to Our Shares and ADSs

Non-Brazilian holders of ADSs and preferred shares may face difficulties in protecting their interests because the Company is subject to different corporate rules and regulations as a Brazilian company and its shareholders may have less extensive rights.

Holders of ADSs will not be direct shareholders of the Company and will be unable to enforce the rights of shareholders under its by-laws and the Brazilian Corporations Law.

The Company's corporate affairs are governed by its by-laws and the Brazilian Corporations Law, which differ from the legal principles that would apply if it was incorporated in a jurisdiction in the United States, such as the State of Delaware or New York, or elsewhere outside Brazil. Even if a holder of ADSs surrenders its ADSs and becomes a direct shareholder, its rights as a holder of the Company's preferred shares under the Brazilian Corporations Law to protect its interests relative to actions by the Company's board of directors or executive officers may be fewer and less well-defined than under the laws of those other jurisdictions.

Although insider trading and price manipulation are crimes under Brazilian law, the Brazilian securities markets are subject to different levels of regulation and supervision than the U.S. securities markets or the markets in some other jurisdictions. In addition, rules and policies against self-dealing or for preserving shareholder interests may be less well-defined and enforced in Brazil than in the United States and certain other countries, which may put holders of the Company's preferred shares and ADSs at a potential disadvantage. Corporate disclosures also may be less complete or informative than for a public company in the United States or in certain other countries.

Restrictions on the movement of capital out of Brazil may adversely affect ADS holders' and shareholders' ability to receive dividends and distributions on, or the proceeds of any sale of, the Company's preferred shares and the ADSs.

Brazilian law permits the Brazilian government to impose temporary restrictions on conversions of Brazilian currency into foreign currencies and on remittances to foreign investors of proceeds from their investments in Brazil, whenever there is a serious imbalance in Brazil's balance of payments or there are reasons to expect a pending serious imbalance. The Brazilian government last imposed remittance restrictions for approximately six months in 1989 and early 1990. The Brazilian government may take similar measures in the future. Any imposition of restrictions on conversions and remittances could hinder or prevent holders of the Company's preferred shares or the ADSs from converting into U.S. dollars or other foreign currencies and remitting abroad dividends, distributions or the proceeds from any sale in Brazil of the Company's preferred shares. Exchange controls could also prevent the Company from making payments on its U.S. dollar-denominated debt obligations and hinder its ability to access the international capital markets. As a result, exchange controls restrictions could reduce the market prices of the Company's preferred shares and the ADSs.

ADS holders and shareholders of the Company may not receive any dividends or interest on shareholders' equity.

The Company has paid dividends or interest on shareholders' equity in previous years. The payment of dividends depends, on the one hand, on the Company's net income and, on the other hand, on the approval by its shareholders of such distributions based on it being advisable in the light of the Company's financial condition. Given that the Company has faced net losses in the fiscal year ending on December 31, 2008, the Company will only be able to pay dividends or interest on shareholders' equity on its preferred and common shares once the net losses are fully absorbed and there is a net income for the corresponding fiscal year. There can be no assurances as to future payments by the Company of dividends or interest on shareholders' equity.

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 a shareholders' agreement dated May 2, 2005, as amended. Holders of preferred shares and 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, such as the proposed business transaction with Perdigão. See "Item 4. Information on the Company A. History and Development of the Company Proposed Business Combination with Perdigão." In addition, the controlling shareholders have the ability to elect our directors and officers and 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. The interests of the controlling shareholders may differ from the Company's interests or those of our other shareholders. For more information, see "Item 7. Major Shareholders and Related Party Transactions".

Non-Brazilian holders of ADSs and preferred shares may face difficulties in serving process on or enforcing judgments against the Company and other persons.

Sadia is a corporation (*sociedade anônima*) organized under the laws of Brazil, and all of its directors and executive officers and its independent public accountants reside or are based in Brazil. Most of the assets of the Company and of these other persons are located in Brazil. As a result, it may not be possible for non-Brazilian holders of ADSs and preferred shares to effect service of process upon the Company or these other persons within the United States or other jurisdictions outside Brazil or to enforce against the Company or these other persons judgments obtained in the United States or other jurisdictions outside Brazil. Because judgments of U.S. courts for civil liabilities based upon the U.S. federal securities laws may only be enforced in Brazil if certain conditions are met, holders may face greater difficulties in protecting their interests in the case of actions by the Company or its directors or executive officers than would shareholders of a U.S. corporation.

Judgments of Brazilian courts with respect to the Company's preferred shares may be payable only in reais.

If proceedings are brought in the courts of Brazil seeking to enforce the Company's obligations in respect of the preferred shares, the Company may not be required to discharge its obligations in a currency other than *reais*. Under Brazilian exchange control limitations, an obligation in Brazil to pay

Table of Contents

amounts denominated in a currency other than *reais* may only be satisfied in Brazilian currency at the exchange rate, as determined by the Central Bank, in effect on the date the judgment is obtained, and such amounts are then adjusted to reflect exchange rate variations through the effective payment date. The then prevailing exchange may not afford non-Brazilian investors with full compensation for any claim arising out of or related to the Company's obligations under the preferred shares or the ADSs.

Holders of ADSs could be subject to Brazilian income tax on capital gains from sales of ADSs.

Historically, any capital gain realized on a sale or other disposition of ADSs between non-Brazilian holders outside Brazil was not subject to Brazilian income tax. However, a December 2003 Brazilian law (Law No. 10,833, or "Law No. 10,833/03") provides that "the acquirer, individual or legal entity resident or domiciled in Brazil, or the acquirer's attorney-in-fact, when such acquirer is resident or domiciled abroad, shall be responsible for the retention and payment of the income tax applicable to capital gains earned by the individual or legal entity resident or domiciled abroad who disposes of property located in Brazil." The Brazilian tax authorities have issued a normative instruction confirming that they intend to assess income tax on capital gains earned by non-Brazilian residents whose assets are located in Brazil. It is unclear whether ADSs representing our preferred shares, which are issued by the ADS depositary outside Brazil, will be deemed to be "property located in Brazil" for purposes of this law. Accordingly, we cannot determine whether Brazilian tax authorities will attempt to tax any capital gains arising from the sale or other disposition of the ADSs, even when the transaction is consummated outside Brazil between non-Brazilian residents.

We may become a passive foreign investment company, which could result in adverse U.S. tax consequences to U.S. investors.

Based on our audited financial statements, relevant market and shareholder data, and the projected composition of our income and valuation of our assets, including goodwill, we do not believe that we were a passive foreign investment company, or PFIC, for U.S. federal income tax purposes for 2008 and we do not expect to be a PFIC for 2009 or in the future, although we can provide no assurances in this regard. If we become a PFIC, U.S. holders of our preferred shares or ADSs may become subject to increased tax liabilities under U.S. tax laws and regulations and will become subject to burdensome reporting requirements. The determination of whether or not we are a PFIC is made on an annual basis and will depend on the composition of our income and assets from time to time. Specifically, for any taxable year we will be classified as a PFIC for U.S. tax purposes if either (i) 75% or more of our gross income in that taxable year is passive income or (ii) the average percentage of our assets (which includes cash) by value in that taxable year which produce or are held for the production of passive income is at least 50%. The calculation of the value of our assets will be based, in part, on the quarterly market value of our preferred shares, common shares, and ADSs, which is subject to change. See "Item 10. Additional Information E. Taxation U.S. Federal Income Tax Considerations Passive Foreign Investment Company."

Brazilian taxes may apply to a gain realized by a non-Brazilian holder on the disposition of preferred shares to another non-Brazilian holder.

The gain realized by a non-Brazilian holder on the disposition of preferred shares to another non-Brazilian holder (other than a disposition of shares held pursuant to Resolution No. 2,689, as amended, issued by the Brazilian Monetary Council (*Conselho Monetário Nacional*, or "CMN")) is generally viewed as being subject to taxation in Brazil. Pursuant to Law No. 10,833/03, Brazilian tax authorities may assess income tax on capital gains earned by non-Brazilian residents in transactions involving assets that are located in Brazil. In this case, the tax rate applicable on the gain would be 15% (or 25% in the case of a non-Brazilian holder organized under the laws of or a resident of a tax haven). For additional discussion of the tax consequences of a disposition of our preferred shares, see "Item 10. Additional Information E. Taxation."

The relative volatility and limited liquidity of the Brazilian securities markets may negatively affect the liquidity and market prices of our preferred shares and the ADSs.

The Brazilian securities markets are substantially smaller, less liquid and more volatile than major securities markets in the United States. The BM&F Bovespa Securities, Commodities & Futures Exchange, or the "São Paulo Stock Exchange" or "Bovespa," had a total market capitalization of R$1,375.3 billion or U.S.$588.5 billion, at December 31, 2008 and an average daily trading volume of R$5,525.5 million for 2008. By contrast, the New York Stock Exchange, or "NYSE," had a market capitalization of U.S.$10.18 trillion at December 31, 2008 (U.S. domestic listed companies) and an average daily trading volume of U.S.$268.2 billion for 2008. The Brazilian securities markets are also characterized by considerable share concentration. The ten largest companies in terms of market capitalization represented approximately 52.4% of the aggregate market capitalization of the São Paulo Stock Exchange at December 31, 2008. In addition, the ten most widely traded stocks in terms of trading volume accounted for approximately 59.6% of all shares traded on the São Paulo Stock Exchange in 2008. These market characteristics may substantially limit the ability of holders of the ADSs to sell preferred shares underlying ADSs at a price and at a time when they wish to do so and, as a result, could negatively impact the market prices of these securities.

Developments and the perception of risks in other countries, especially emerging market countries, may adversely affect the market prices of the Company's preferred shares and ADSs.

The market for securities issued by Brazilian companies is influenced, to varying degrees, by economic and market conditions in other emerging market countries. Although economic conditions are different in each country, the reaction of investors to developments in one country may cause the capital markets in other countries to fluctuate. Developments or adverse economic conditions in other emerging market countries have at times resulted in significant outflows of funds from, and declines in the amount of foreign currency invested in, Brazil. For example, in 2001, after a prolonged recession, followed by political instability, Argentina announced that it would no longer continue to service its public debt. The economic crisis in Argentina negatively affected, for several years, investors' perceptions of Brazilian securities. Economic or political crises in Latin America or other emerging markets may significantly affect perceptions of the risk inherent in investing in the region, including Brazil.

The Brazilian economy also is affected by international economic and market conditions generally, especially economic and market conditions in the United States. Share prices on the São Paulo Stock Exchange, for example, have historically been sensitive to fluctuations in U.S. interest rates as well as movements of the major U.S. stock indexes.

Developments in other countries and securities markets could adversely affect the market prices of the Company's preferred shares or ADSs and could also make it more difficult for the Company to access the capital markets and finance its operations in the future on acceptable terms or at all.

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 7, 1944 as S.A. Indústria e Comércio Concórdia. As a public company, it is subject to the requirements of the Brazilian Corporations Law and the rules and regulations of the CVM.

Sadia is Brazil's leading refrigerated and frozen protein products company, according to A.C. Nielsen do Brasil S.A., and operates 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) 2113-3686, 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. The Company's U.S. agent is Puglisi & Associates, 850 Library Avenue, Suite 204, Newark, Delaware 19711, Gregory Lavelle, Managing Director, telephone number 302-738-6680.

When the Company's predecessor was established in 1944, through the acquisition by Attilio Fontana of the meatpacker Concórdia Ltda., located in the city of Concórdia, in the western part of the state of Santa Catarina, Brazil, Attilio Fontana's business consisted of a wheat mill and an unfinished slaughterhouse for hogs.

In 1971, the Company changed its name to Sadia Concórdia S.A. Ind. e Com. and became a public company listed on the São Paulo Stock Exchange. The Company's current listing registration on the São Paulo Stock Exchange is under Sadia S.A.

In May 1977, members of the family of the founder, Mr. Attilio Fontana, established a shareholders' agreement, which was amended on May 2, 2005, in which occasion it was extended until May 2010. For more information on such agreement, see "Item 7. Major Shareholders and Related Party Transactions A. Major Shareholders Shareholders' Agreement."

In July 1998, Sadia S.A. was created by the merger of Sadia Concórdia S.A. into Sadia Frigobrás S.A., consolidating its operations in a single public company listed on the São Paulo Stock Exchange. This merger simplified its corporate structure, emphasized the Company's brand, and reduced administrative expenses.

In April 2001, the Company listed its ADSs on the New York Stock Exchange, providing investors with a channel to buy the Company's securities outside of Brazil. In June 2001, the Company adhered to Bovespa's Level 1 of corporate governance, certifying its commitment to transparency and fair disclosure of information.

In August 2001, Sadia opened a distribution center, or "DC" in Jundiaí, state of 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, a wholly-owned subsidiary of the Company, was created in December 2001, and its subsidiary, Laxness F.C.P.A. Lda., or "Laxness," was incorporated in April 2002, with the aim of leveraging exports to the European market. Sadia GmbH is a holding company with no operational activity. In February 2005, Laxness changed its name to Wellax Food Logistics C.P.A.S.U. Lta., or "Wellax." Wellax is responsible for the largest part of Sadia's export operations and is also acting as a financing entity of the Company by obtaining export-financing loans from international banks and investing the proceeds in debt securities.

In 2004, Sadia began the expansion of its 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.

Table of Contents

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 Só Frango Produtos Alimentícios Ltda., or "Só Frango," a company based in Brasília with a total slaughtering capacity at the time of the acquisition of 150,000 chickens per day. In March 2005, Só Frango was merged into Sadia.

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

In November 2005, Sadia decided to return to the beef segment, which it had left in 1997, 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 and the food services segment.

In order to improve corporate governance levels and to more closely align the interests of its common and preferred shareholders, in 2005 Sadia granted tag-along rights to the holders of its non-voting preferred shares, giving such preferred shares the right to be included in a public offering resulting from the sale of control of the Company and for shareholders to receive a price for such shares equal to 80% of the price paid for common shares representing control.

In 2007, the Company formed Concórdia Holding Financeira S.A., or "Concórdia Financeira," a holding financial company which controls a bank (Concórdia Banco S.A., or "Concórdia Banco," created in 2008) and a brokerage firm (Concórdia S.A. Corretora de Valores Mobiliários, Câmbio e Commodities, or "Concórdia Corretora," created in 1983). For more information on the Company's bank and brokerage firm, see "Item 4. Information on the Company C. Organizational Structure" and "Item 7. Major Shareholders and Related Party Transactions B. Related Party Transactions."

In 2008, the Company entered into a joint venture with Kraft Foods Global Brands, LLC, to engage in activities of manufacturing, marketing and distribution of cheese, including the products currently sold by Kraft under the *Philadelphia* brand, and cheeses and cheese spreads sold under the *Sadia* brand in Brazil. The initial investment to set up the business amounted to R$30.0 million.

On May 19, 2009, the Company signed a merger agreement with Perdigão that contemplates a business combination of the two companies. In the business combination, Perdigão is to be renamed BRF Brasil Foods S.A. and Sadia is expected to become a wholly owned subsidiary of BRF. Holders of common shares and preferred shares of Sadia are expected to receive common shares of BRF, and the holders of ADSs representing preferred shares of Sadia are expected to receive ADSs representing common shares of BRF. The transaction is described in more detail under " Proposed Business Combination with Perdigão" below.

Sadia and Perdigão export to more than 100 countries, and the business combination is subject to approval by Brazilian and foreign antitrust authorities, including in the European Union. The European Union requires that the transaction be approved before it can be consummated. The Brazilian and foreign authorities could impose significant conditions to their approvals affecting our operations in those regions, particularly in regions in which we have a significant market share.

Reclassification

Certain prior year amounts have been reclassified to other line items in order to conform to current year presentation standards. These reclassifications are not material to the consolidated financial statements and had no impact on the Company's net income.

Table of Contents

Investments (Capital Expenditures)

In the last three years Sadia increased its level of capital expenditures. The investments made by Sadia have increased its production capacity and placed it in a favorable condition to support organic growth without requiring significant new capital expenditures in the coming years, other than those described under " Investment Plans" below. Due to the downturn in the economy generally and its financial condition since the second half of 2008, Sadia has significantly reduced its projected level of capital expenditures for the foreseeable future in order to improve its short-term liquidity.

The most significant investment in the period between 2006 and 2008 was made in the agroindustrial site of Lucas do Rio Verde, in the state of Mato Grosso. This project contemplated the construction of a poultry slaughtering unit, one pork slaughtering unit and one processing unit. Out of the total estimated investment amount of approximately R$1.5 billion, R$1.0 billion came from the Company and the remaining R$0.5 billion came from a group of outgrowers. The outgrowers were indirectly financed by the National Economic and Social Development Bank (*Banco Nacional de Desenvolvimento Econômico e Social*, or "BNDES") to build the pork and poultry farms that feed the agroindustrial plant. Construction started in the second half of 2006 and the plant startup happened in the second semester of 2008, with the slaughtering of poultry and the production of processed products. It is estimated that this project will be fully operational by the end of 2010. The project contemplates that 190 broiler modules (which together produce 500,000 day-old chicks per day) and 115 hog modules (which together produce 5,000 piglets per day) will be equipped with advanced technology to ensure animal wellness, higher productivity and, therefore, better competitivity. Currently, the plant operates at 30% of its full capacity utilization. In 2009, the Company has invested R$166 million in the Lucas do Rio Verde project to date.

In 2008, Sadia's capital expenditures totaled approximately R$1.7 billion, including the acquisitions made during that year. The poultry segment received the largest amount, of R$640.2 million (37.3%), followed by the segment of processed products, which received R$507.5 million (29.6%); R$314.8 million were destined to the pork segment (18.4%), R$6.9 million to the beef segment (0.4%), and investments in other areas totaled R$244.8 million (14.3%).

With those investments, besides starting up its largest plant in Brazil in Lucas do Rio Verde (state of Mato Grosso), Sadia built its first plant in the northeast region, in Vitória de Santo Antão (state of Pernambuco), finished the new processed products plant at the Toledo unit (state of Paraná) and expanded the plants in Uberlândia (state of Minas Gerais) and Brasília (Federal District), as well as the beef slaughtering capacity in Várzea Grande (state of Mato Grosso). In 2009, the Company has invested R$82 million in the Vitória de Santo Antão project to date.

The Company also acquired, in 2008, 100% of the capital stock of Avícola Industrial Buriti Alegre Ltda. Goiaves, a producer of poultry products, for the amount of R$53.9 million, and 73.94% of the capital stock of Baumhardt Comércio e Participações Ltda., which owns a plant of processed products with its own meatpacker in Santa Cruz do Sul (state of Santa Catarina), for the amount of R$5.4 million. In addition, the Company entered into a joint venture with Kraft Foods Global Brands, LLC to engage in activities of manufacturing, marketing and distribution of cheese, including the products currently sold by Kraft under the *Philadelphia* brand, and cheeses and cheese spreads sold under the *Sadia* brand in Brazil. The initial investment to set up the business amounted to approximately R$30.0 million.

In the course of the first quarter of 2009, the Company finalized an investment in its first industrial unit built outside of Brazil, a meat processing plant in the city of Kaliningrad, Russia. This investment was started in November 2007 and was developed in partnership with Fomanto Investments Limited, or "Fomanto," an affiliate of a Sadia distributor in Russia, through a joint venture. A total amount of approximately US$76 million in equity was invested in the venture until the first quarter of 2009, of which 60% was invested by Sadia.

Sadia, through its subsidiary Sadia GmBH, is currently in negotiations to sell to its partner Fomanto the Company's 60% equity stake in Investeast Ltd.'s capital, a joint venture headquartered in Cyprus, holding the totality of the shares issued by Concordia Ltd (owner of the manufactured products plant located in Kaliningrad, Russia, which began to operate on a commercial scale in the beginning of 2009), for the amount of U.S.$77.5 million. The transaction is presently being documented and will require the execution of the definitive documents and the release of all obligations undertaken by Sadia and its affiliates in relation to the joint venture, including those with the IFC International Finance Corporation mainly the A and B loans. This decision does not change the Company's market strategy in the Russian market. Fomanto has already assumed responsibility for fully financing Investeast Ltd. The transaction is subject to approval by the Board of Directors and the shareholders of Sadia S.A.

Sadia ended 2007 with capital expenditures totaling approximately R$1.1 billion. Out of this total, R$196.0 million were directed to the production of processed food 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 directed, in large part, to information technology and logistics projects. As a strategy to remain competitive and reduce the risk in its operations through diversification, Sadia invested in the expansion of its product portfolio, particularly breaded chicken products and processed pork products. In December 2007, to strengthen the Company's presence in the segment of frozen processed products, Sadia acquired Big Foods Ind. de Produtos Alimentícios Ltda., or "Big Foods," a company owning an industrial complex located in Tatuí, state of São Paulo, for R$53.5 million. Big Foods specializes in the production of processed food (ready-to-eat sandwiches, lasagnas, pizzas, breads, rolls, cheese breads and other pasta and bakery items), and has an annual production capacity of 20 thousand tons.

A portion of the 2007 capital expenditures were also used to expand its Brasília unit, to modernize the Concórdia and Chapecó (state of Santa Catarina) units and to improve internal technological processes.

In 2006, Sadia had capital expenditures totaling approximately R$1.0 billion, including R$60.0 million for the Jundiaí and Uberlândia distribution centers and R$58.0 million for the Uberlândia margarine plant (capital expenditure started in 2005). The Company's capital expenditures in 2006 were directed towards poultry (37.9%), processed food products (31.2%), pork (14.7%), beef (0.8%) and other investments (15.0%).

Investment Plans

In view of the current downturn in global economic and financial conditions, and since the second half of 2008, the Company reviewed and suspended some of the projects it had already announced, such as the ones in Mafra, in the state of Santa Catarina, Campo Verde in the state of Mato Grosso and a processing plant in the Middle East. The Company cannot assure that any of these projects will be resumed.

In the beginning of 2009, R$609 million of capital expenditures were planned for the year for the conclusion of projects started in the previous years, as well as for improvements to plants and breeders. Such plans are subject to change as a result of the proposed business combination with Perdigão. For more information on the proposed business combination with Perdigão, see " Proposed Business Combination with Perdigão" below.

Table of Contents

Proposed Business Combination with Perdigão

On May 19, 2009, the Company signed a merger agreement with Perdigão that contemplates a business combination of the two companies (the "Merger Agreement"). In the business combination Perdigão is to be renamed BRF Brasil Foods S.A. (the new name for the combined company) and Sadia is expected to become a wholly owned subsidiary of BRF.

The business combination is subject to the approval of holders of common shares of each of Perdigão and Sadia, as well as approval by antitrust authorities. See "Item 3. Key Information D. Risk Factors Risks Relating to the Perdigão Transaction." A number of steps of the merger must be approved at separate extraordinary general meetings of the common shareholders of Perdigão, Sadia, and HFF Participações S.A., or "HFF," a holding company formed by the controlling shareholders of Sadia for purposes of the acquisition, that are currently scheduled to take place on July 8, 2009. As a result of these meetings, if merger is approved:

- Perdigão will change its corporate name to BRF Brasil Foods S.A., move its headquarters to Itajaí in the State of Santa Catarina, and change its certificate of incorporation so that its Board of Directors has nine to 11 members and a co-chairman structure;

- Concórdia Holding, parent company of Concórdia Corretora (brokerage firm) and of Concórdia Banco (bank), is not part of the merger and, consequently, will be sold to Sadia's shareholders before the business combination with BRF;

- Holders of common shares of HFF will receive 0.166247 common shares of BRF for each share they hold without any further action by those holders; and

- HFF will become a wholly owned subsidiary of BRF.

Additional separate extraordinary meetings of the common shareholders of Perdigão and Sadia are currently scheduled to take place on August 18, 2009. As a result of these meetings, if approved, holders of common and preferred shares of Sadia will receive 0.132998 common shares of BRF for each common share or preferred share, respectively, they hold without any further action by those holders.

We believe the merger aligns with the strategic growth plan of the two companies in both the domestic and export markets and will allow Perdigão and Sadia to coordinate their operations. We believe that this business combination will be a positive step, by allowing the companies to generate economic synergies.

As described above, following the merger of HFF, Perdigão will amend its certificate of incorporation to expand the Board of Directors, three of whom will be elected by the current controlling shareholders of Sadia, and are expected to serve until the 2011 annual shareholders' meeting. The Board of Directors of BRF will have a co-chairman structure, where neither of the co-chairmen will have a casting vote in the case of a tie.

The merger between Perdigão and Sadia is conditioned upon approval by the relevant antitrust authorities in Europe and other jurisdictions and subject to review by the antitrust authorities in Brazil. Such authorities may not approve the transaction or impose significant conditions that could affect its completion, including performance of the transaction or divesture of specific subsidiaries, product lines, brands or factories. During the review period by antitrust authorities, the companies may be subject to specific obligations that require unaltered market conditions. In Europe, analysis by the relevant antitrust authorities is a pre-condition to closing of the business combination.

The relevant antitrust authorities may decide to impose significant conditions or performance commitments on the combined company, including commitments to divest from certain businesses, risks and product lines, trademarks or production facilities, on the transaction, and the merger may be delayed or impaired because market conditions may not be altered for as long as the transaction is subject to review by regulators. For further information regarding approval by antitrust authorities and other risks relating to the proposed Sadia transaction, see "Risk Factors Risks Relating to the Proposed Perdigão Transaction"

B. Business Overview

Sadia is a leader in almost every segment in which it is present within Brazil, with a product portfolio of over 700 items. According to the Brazilian Chicken Exports Association, or "ABEF," the Company was the largest Brazilian exporter of poultry in 2008. According to the Brazilian Pork Production and Export Association, or "ABIPECS," Sadia was the second largest Brazilian pork exporter and the largest Brazilian slaughterer in 2008. According to AC Nielsen, Sadia is also the largest Brazilian distributor of frozen and refrigerated meat-based products, and the leader in the Brazilian market for margarine. As of December 31, 2008, the Sadia Group had 60,580 employees. In 2008, Sadia sold 1,084.6 thousand tons of poultry, 133.8 thousand tons of pork, 56.1 thousand tons of beef and 1,051.3 thousand tons of processed products, including frozen and refrigerated meat-based products and margarine, generating gross operating revenues of R$12.2 billion.

The Company believes that its 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. Sadia produces day-old chicks, turkeys and piglets and supplies them to rural producers (generally referred to as outgrowers), along with feed, transport, technical and veterinary assistance. The outgrowers raise such animals in highly productive breeding conditions and controlled hygienic-sanitary conditions, after which period Sadia pays the outgrowers a commission fee for their production when the outgrowers return the animals to Sadia for slaughtering.

Sadia exports around 1,000 different items to more than 100 countries, including Japan and Russia and various countries in the Middle East and Europe. 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; and margarine and refrigerated desserts.

Sadia owns 18 plants across ten different states in Brazil and two plants abroad, in Kaliningrad, Russia and in Geleen, Netherlands. In addition, 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.

Table of Contents

Business Strategy

Sadia's business strategy is designed to recover the Company's growth and increase 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 extensive domestic distribution network supported by efficient logistics, attention to customer needs across the product lines and in all distribution channels and highly favorable production economics in Brazil, the Company will be able to recover growth and 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 which is 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 services sales channels for domestic business. Sadia has increased its focus on, and plans to continue focusing on meeting the needs of, retail sales outlets, and institutional and food services sales channels, such as restaurants, rather than concentrating solely on wholesale and 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 system 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 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 comparative advantages of operating in Brazil low cost grains and labor, favorable weather and competitive outgrower related costs coupled with the Company's operating efficiency, allow it to be an effective competitor in international markets. Sadia intends to continue to be among 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 allow quality and cost control throughout the entire production process.

Expand product portfolio, with emphasis on higher value-added processed food 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 its emphasis on the production of higher value-added processed food products, and the Company currently has a processed food product portfolio that numbers over 700 items.

Continued brand differentiation. Sadia has developed its brand across its entire product line, and believes that its brand is among its most valuable assets. The Company intends to continue to invest in the development of branded products through quality assurance, packaging and advertising campaigns, with a view to continue developing brand loyalty and the perception of premium quality that is currently associated with the Sadia products.

Table of Contents

Maintain a balance between exports and domestic sales. The Company's competitive advantages in the production of poultry and pork give it access to international markets and low-cost export financing. Sadia has had recent success in increasing sales abroad, as well as the number of markets in which it is present and the number of products that it sells. The Company believes that this diversification is important for its business.

Invest in environmentally sound projects and initiatives. Sadia has been increasingly active in seeking to assure that its business is environmentally sound and in adopting measures beyond mere compliance with regulations. Sadia intends to invest significantly in this aspect of its business going forward. One example is the "3S Program" Sadia Sustainable Swine Production Program, which consists of selling certified carbon emission reductions under the Clean Development Mechanism provided for by the Kyoto Treaty, and using the proceeds to finance social initiatives in the outgrowers home areas.

On May 19, 2009, the Company signed a Merger Agreement with Perdigão that contemplates a business combination of the two companies. Pursuant to the Merger Agreement, the business combination of Perdigão and Sadia will lead to the formation of BRF Brasil Foods S.A. (the new name for the combined company). The Company believes the merger aligns with the strategies set forth above in both the domestic and export markets. The business combination is subject to the approval of Perdigão and Sadia common shareholders, as well as approval by antitrust authorities. See "Item 3. Key Information D. Risk Factors Risks Relating to the Proposed Perdigão Transaction."

The Company's Operations

The Company's operations are organized in four main segments: "processed products" (frozen and refrigerated products and margarines), "poultry" (chicken and turkey), "pork" and "beef".

In 2008, approximately 44.2% of the Company's total net operating revenue was derived from the processed products segment, 42.4% from poultry, 6.7% from pork, 3.5% from beef and 3.3% from other activities such as the grain and by-products segment, hog and poultry breeding, and sale of products with limited shelf life, among others. In 2007, approximately 42.8% of the Company's total net operating revenue was derived from the processed products segment, 43.1% from poultry, 7.1% from pork, 3.8% from beef and 1.6% from other activities. Of the Company's total net operating revenue in 2006, approximately 45.4% was derived from the processed products segment, 42.1% from poultry, 7.2% from pork, 4.5% from beef and 1.4% from other activities.

In 2008, 54.2% of the Company's gross operating revenue was derived from domestic sales and the remaining 45.8% was derived from exports. In 2007, domestic sales represented 53.4% of gross operating revenues and exports were responsible for the remaining 46.6%. In 2006, domestic sales represented 56.8% of gross operating revenues and exports were responsible for the remaining 43.2%.

Activities related to feed, by-products (feathers, eggs, blood) and sale of products with limited shelf life, among others, are included in the "other" line item in the tables below. Effective in 2008, the line item for "other" in gross operating revenues also includes the impact of operational hedges (hedges accounted for in gross operating revenues instead of being recorded in the interest income and other, net and foreign currency exchange gain (loss), net lines, consisting mainly of foreign currency exchange derivatives). See note 21A to the consolidated financial statements.

Table of Contents

The following tables present sales volumes and gross operating revenue (prepared and presented in accordance with US GAAP) for the years ended 2008, 2007 and 2006:

	Sales Volumes (ton)		
	2008	**2007**	**2006**
Domestic Market	**1,120,429**	**998,426**	**928,626**
Processed Products	919,755	813,057	723,086
Poultry	131,651	132,004	155,485
Pork	48,048	43,767	41,022
Beef	20,975	9,598	9,033
Export Market	**1,205,340**	**1,148,302**	**963,959**
Processed Products	131,577	110,975	76,470
Poultry	952,935	880,790	762,479
Pork	85,748	108,928	81,382
Beef	35,080	47,609	43,628
Consolidated	**2,325,769**	**2,146,728**	**1,892,585**
Processed Products	1,051,332	924,032	799,556
Poultry	1,084,586	1,012,794	917,964
Pork	133,796	152,695	122,404
Beef	56,055	57,207	52,661

	Gross Operating Revenue (R$ Million)		
	2008	**2007**	**2006**
Domestic Market	**6,606.8**	**5,319.9**	**4,482.0**
Processed Products	5,208.8	4,149.8	3,513.5
Poultry	624.3	559.4	492.3
Pork	272.1	190.4	154.5
Beef	112.1	56.0	40.6
Other(*)	389.5	364.3	281.1
Export Market	**5,585.1**	**4,636.0**	**3,412.0**
Processed Products	667.8	477.5	361.6
Poultry	4,135.5	3,281.5	2,373.0
Pork	489.7	484.1	371.1
Beef	234.2	272.5	254.7
Other(*)	57.8	120.4	51.6
Consolidated	**12,191.9**	**9,955.9**	**7,894.0**
Processed Products	5,876.7	4,627.3	3,875.1
Poultry	4,759.9	3,840.9	2,865.3
Pork	761.8	674.5	525.6
Beef	346.3	328.5	295.3
Other(*)	447.3	484.7	332.7

(*) Other: feed, by-products (feathers, eggs, blood) and sale of products with limited shelf life, among others.

Table of Contents

The following table presents the breakdown, in percentage terms, of gross operating revenue by segment for the years ended 2008, 2007 and 2006:

	Gross Operating Revenue by Segment (%)		
	2008	2007	2006
Processed Products	48	46	49
Poultry	39	39	36
Pork	6	7	7
Beef	3	3	4
Other(*)	4	5	4

(*) Other: feed, by-products (feathers, eggs, blood) and sale of products with limited shelf life, among others.

The following information, which is broken down by operating segment, is based upon information used by the Company's management to assess the performance of operating segments and decide on the allocation of resources. This information has been prepared and presented in accordance with Brazilian GAAP that is adjusted for US GAAP presentation. The main adjustments refer to the following items: amortization of other tangible and intangible assets; recognition of the benefit plan earnings and fair value of guarantees granted to counterparties. The Company has four identifiable reportable segments: Processed Products, Poultry, Pork and Beef.

(R$ Thousand)	2008	2007	2006
Net operating revenue			
Processed products	4,737,876	3,745,713	3,102,397
Poultry	4,552,887	3,774,731	2,872,845
Pork	715,079	624,117	494,571
Beef	372,795	334,995	309,353
Other(*)	350,004	143,635	97,535
Adjustments for US GAAP presentation	0	130,885	(46,401)
Total net operating revenue	10,728,642	8,754,076	6,830,300

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

(R$ Thousand)	2008	2007	2006
Depreciation expense			
Processed products	(172,981)	(116,679)	(92,214)
Poultry	(172,399)	(131,053)	(100,080)
Pork	(25,520)	(21,358)	(15,223)
Beef	(17,196)	(14,059)	(11,660)
Other(*)	(9,202)	(5,555)	(4,072)
Total depreciation expense allocated to Segments	(397,299)	(288,704)	(223,249)
Depreciation allocated to administrative expenses	(17,418)	(17,451)	(17,320)
Adjustments for US GAAP presentation	13,637	59,175	35,185
Total depreciation expense	401,080	(246,980)	(205,384)

(*) Primarily attributable to administrative and selling assets.

Table of Contents

(R$ Thousand)	2008	2007	2006
Segment operating income			
Processed products	321,132	362,257	194,494
Poultry	303,637	248,286	100,204
Pork	33,293	46,862	35,489
Beef	13,124	3,635	11,482
Other(*)	23,301	8,690	2,087
Adjustments for US GAAP presentation	90,965	199,512	(41,533)
Total operating income	785,452	869,242	302,223
Interest expense	(925,936)	(332,378)	(310,442)
Interest income and other	180,591	241,735	282,904
Foreign currency exchange gain (loss), net	(3,146,991)	54,056	104,219
Adjustments for US GAAP presentation	(114,582)	139,884	9,812
Income before income taxes, equity income or loss of investees and minority interest	(3,221,466)	972,539	388,716

(*) Other operating income is primarily attributable to administrative and selling income.

Segment assets			
Processed products	988,622	713,064	715,248
Poultry	1,952,143	1,498,736	1,018,005
Pork	677,465	390,458	275,533
Beef	123,296	134,616	104,340
Other(*)	587,090	283,912	220,312
Adjustments for US GAAP presentation	(142,435)	(123,378)	(178,458)
Total property, plant and equipment	4,186,181	2,897,408	2,154,980
Reconciling items corporate assets			
Cash and equivalents and market securities	3,779,660	2,369,309	2,550,602
Accounts and notes receivable, net	790,467	523,558	678,598
Inventories	1,851,020	1,168,936	1,084,454
Other corporate assets	2,909,228	1,098,791	929,259
Adjustments for US GAAP presentation	765,195	1,399,885	641,864
Total consolidated assets	14,281,751	9,457,887	8,039,757
Capital expenditures			
Processed products	507,514	195,969	302,648
Poultry	640,186	614,660	367,581
Pork	314,804	136,417	143,032
Beef	6,890	44,442	7,786
Other(*)	345,125	93,442	234,331
Adjustments for US GAAP presentation	100,315	(134,678)	(85,776)
Total segment capital expenditures	1,714,204	950,052	969,602

(*) Other assets consist primarily of investments in infrastructure and distribution centers.

Processed Products

As a result of the Company's strategy of concentrating on higher value-added, higher margin products, the processed products segment results have increased significantly over the last ten years.

Table of Contents

Volumes sold have increased an average of 9.3% per year since 1998. Sales of processed products accounted for 48.2% of the Company's gross operating revenues in 2008. Sadia owns 15 processing plants in Brazil, some of which process more than one product. Fourteen plants process meat and meat products, two plants produce margarine, two plants produce pizza and one plant produces pasta and desserts. These plants are located either close to the Company's suppliers of raw materials or close to the main domestic centers of consumption.

The processed products segment comprises a wide range of products, including: refrigerated products (hams, sausages, frankfurters, bolognas, salamis, cold cuts, product portions, refrigerated pasta and desserts), frozen products (hamburgers, breaded products, ready-to-eat dishes and pizzas) and margarine, the majority of which are sold under the *Sadia* brand. Margarine and sausages each represent approximately 17% of processed products revenues, while no other product represents more than 8% of processed products revenues. In 2008, 88.6% of the Company's total gross operating revenue in this segment was from the domestic market, with the remaining 11.4% derived from exports. The Company's total gross operating revenue from this segment grew 27.0% from 2007 to 2008. The Company launched 31 new processed products in 2008, compared to 25 in 2007 and 41 in 2006.

The Company produces most of the poultry and pork that it uses as raw materials in the production of its processed products but purchases any beef used from selected suppliers.

The Company believes that the use of chicken meat as a raw material for processed products should grow substantially for the following reasons: (i) the Company anticipates an increase in the range of chicken-based products (such as breaded products) both in Brazil and internationally, (ii) the Company anticipates an increasing share of chicken meat in the composition of other processed products, such as sausages, frankfurters and bolognas both in Brazil and internationally, and (iii) the Company anticipates that the global trend toward chicken and away from beef will accelerate as consumers seek the best prices, since beef is more feed-intensive (making it more expensive) while chicken is a low-feed intensive protein. Moreover, the development of specialized products (boiled and roasted products) for institutional and foreign markets should also contribute to the increase in chicken production.

The following table presents the Company's gross operating revenue from sales of processed products for 2008, 2007 and 2006:

	Gross Operating Revenue (R$ Million)		
	2008	**2007**	**2006**
Processed Products	**5,876.7**	**4,627.3**	**3,875.1**
Refrigerated(*)	4,756.9	3,721.9	3,224.7
Frozen	1,119.8	905.4	650.4

(*) Includes margarine.

In order to maintain its market share, Sadia will continue to concentrate on launching higher value-added products. The Company launched 31 new products in 2008, versus 25 new product launches in 2007 and 41 new product launches in 2006.

Poultry, Pork and Beef

In 2008, we recorded gross operating revenues from non-processed products of R$5,867.9 million, which represented 48.1% our total gross operating revenue. In 2007, we recorded gross operating revenues from non-processed products of R$4,843.9 million, which represented 48.7% of our total gross operating revenue. In 2006, we recorded gross operating revenues from non-processed products of R$3,686.3 million, which represented 46.7% of our total gross operating revenue. In 2008, poultry, pork and beef sales accounted for approximately 87.0% of our total export revenue, while such sales accounted for approximately 87.1% and 87.9% in 2007 and 2006, respectively.

Table of Contents

Sadia owns 11 chicken slaughterhouses, three turkey slaughterhouses and five pork slaughterhouses. In addition, the Company has one beef slaughterhouse in the state of Mato Grosso. The table below shows the Company's sales volumes in millions of units for the years ended December 31, 2008, 2007 and 2006:

	Sales Volumes (Million Heads)		
	2008	**2007**	**2006**
Poultry	840.8	751.8	666.9
Hogs	4.8	4.4	4.0
Beef	0.21	0.23	0.25

The following table shows the Company's gross operating revenue from non-processed products for the years ended December 31, 2008, 2007 and 2006:

	Gross Operating Revenue (R$ Million, except for % amounts)					
	2008	**% of Total**	**2007**	**% of Total**	**2006**	**% of Total**
Poultry	**4,759.9**	**81.1%**	**3,840.9**	**79.3%**	**2,865.3**	**77.7%**
Whole	1,896.4	32.3%	1,618.4	33.4%	1,239.8	33.6%
Parts	2,619.1	44.6%	2,037.7	42.1%	1,491.2	40.5%
By-products	244.3	4.2%	184.8	3.8%	134.3	3.6%
Pork	**761.8**	**13.0%**	**674.5**	**13.9%**	**525.6**	**14.3%**
Beef	**346.3**	**5.9%**	**328.5**	**6.8%**	**295.3**	**8.0%**
Total	**5,868.0**	**100.0%**	**4,843.9**	**100.0%**	**3,686.2**	**100.0%**

Based on publicly available market information, Sadia estimates that its share of total domestic poultry production was approximately 15.7% in 2008, compared to a 15.1% and 14.7% share in 2007 and 2006, respectively. According to ABEF, Sadia had a 23.3% share of the Brazilian poultry export market in 2008, compared to a 23.5% and 25.9% share in 2007 and 2006, respectively. The turkey production market is shared with other competitors, but the Company was still the market leader in terms of total slaughter in 2008, with approximately 61.5% of total slaughter, as compared with 57.7% of total slaughter in 2007 and 63.2% in 2006. In 2008, Sadia's poultry operations accounted for 39.0% of total gross operating revenues, compared to 38.6% in 2007.

According to ABIPECS, Sadia had a 12.8% share of domestic pork slaughtering in 2008 and a 17.4% share of the Brazilian pork export market. This is comparable to results for 2007 and 2006, when the Company had a 12.4% and 11.2% share of the Brazilian pork slaughtering market and a 18.3% and 14.5% share of the Brazilian pork export market, respectively. In 2008, Sadia's pork operations accounted for 6.2% of total gross operating revenues, compared to 6.8% in 2007.

In November 2005, Sadia decided to resume its beef operations, a segment the Company had previously withdrawn from in 1997, based on the belief that the segment represents a complementary business to the Company's other activities. Sadia's strategy in this sector continues to be to concentrate sales towards the export market; for the domestic market the Company will focus its efforts on premium beef cuts and the food services segment. In 2008, Sadia's beef operations accounted for 2.8% of total gross operating revenues, versus 3.3% in 2007.

Other

Operations organized under "other" activities include feed, by-products (feathers, eggs, blood) and sale of products with limited shelf life, among others. In 2008, revenues from "other" activities accounted for 3.7% of total gross operating revenues, compared to 4.9% in 2007. Effective in 2008, the line item for "other" in gross operating revenues also includes the impact of operational hedges (hedges accounted for in gross operating revenues instead of being recorded in the interest income and

Table of Contents

other, net and foreign currency exchange gain (loss), net lines, consisting mainly of foreign currency exchange derivatives). See note 21A of the consolidated financial statements.

Production Process

We are a vertically integrated producer of poultry and pork products. We raise poultry and hogs, produce animal feed, slaughter the animals, process poultry, pork and beef meat to produce processed food products, and distribute unprocessed and processed products throughout Brazil and in our export markets.

The following graphic is a simplified representation of our meats production chain.

Meat Production Chain

Poultry

At the beginning of the poultry production cycle, we import chicken and turkey eggs from the United States that we then hatch in our hatcheries and raise on Company owned farms. These birds produce eggs that are then also hatched, producing our parent breeding stock. In 2008, we maintained an average parent breeding stock of approximately 8,408 million breeders that produce hatchable eggs. The parents produce the hatchable eggs that result in day-old chicks that are ultimately used in our poultry products. We produced 842.0 million day-old chicks, including chickens and turkeys, in 2008. We hatch these eggs in our 12 hatcheries, eight of which produce day-old chicks and four of which produce day-old turkeys. The average length of our production cycle from the purchase of breeder chicks until the product is processed and ready for transport is 365 days.

We send the day-old chicks and day-old turkeys, which we continue to own, to outgrowers (i.e., outsourced farmers), whose operations are integrated with our production process. The farms operated by these outgrowers vary in size and are near our slaughtering facilities. These integrated outgrowers are responsible for managing and growing the poultry in their farms under the supervision of our veterinarians. There are no employment agreements between the Company and the outgrowers. The payments to outgrowers are based on performance rates determined by bird mortality, the feed-to-meat conversion ratio and average weight, and are designed to cover their production costs and provide net profits. We provide feed, veterinary and technical support to the outgrowers throughout the production process. We have partnership agreements with more than 6,000 integrated poultry outgrowers. Some of these farmers also produce and sell corn that we use to produce animal feed.

Poultry are slaughtered through a process by which they are electrically stunned. After heating the carcasses to a temperature of 55/60ºC, they are plucked and gutted by automatic machines. The gutting process is subject to health control and inspection by the competent authorities, the *Serviço de Inspeção de Produtos Animais* "SIPA," the Animal Based Product Inspection Agency), as well as internal quality assurance inspections. The carcasses are then moved for cooling or freezing at respective temperatures of 6ºC and -12/-18ºC, and are then packaged according to the required standards of the SIPA. At this stage, the whole birds are either distributed to the consumer market as fresh meat or used as raw material in processed products. At December 31, 2008, we had a fully automated slaughtering capacity of 17.7 million heads of poultry per week.

Pork

We produce the majority of the pork we use in our products. We also purchase some pork from local producers. We purchase the remainder of our pork on the spot market (less than 10% of our total pork needs in 2008).

We produce grandparent, parent and piglet stock on our own farms. We then supply these piglets to separate integrated outgrowers who raise the hogs until they reach slaughtering weight. We then transport the hogs from these outgrowers to our slaughtering facilities. We have agreements with a total of approximately 3,200 integrated outgrowers. We monitor the production of the hogs by these outgrowers and provide them feed, veterinary and technical assistance. The average length of our production cycle from the birth of hogs until the product is processed and ready for transport is 185 days.

The hogs are slaughtered through a process in which they are stunned electrically and then bled. After heating the carcasses to a temperature of 60/64ºC, their bristles are removed by automatic machines. The animals are then dried, flamed, brushed and gutted, which process is subject to health inspection by the competent authorities (SIPA), as well as internal quality assurance inspections. After cooling to a temperature of 5ºC, the carcasses are cut up and processed. At December 31, 2008, we had a pork slaughtering capacity of 100,769 heads per week.

Beef

We do not raise cattle at our facilities. We purchase cattle from producers in state of Mato Grosso that are within a limited radius of our facility. These cattle have all been branded at birth and

Table of Contents

therefore are of verifiable origin. We transport the cattle to our facilities, where we slaughter the cattle and cut and package the beef.

At December 31, 2008, we had a beef slaughtering capacity of 6,581 thousand heads per week.

Processed Foods

We sell a variety of processed foods, some of which contain poultry, pork and beef meat that we produce. We use special cuts of beef, pork, chicken and turkey, as well as selected parts thereof, for the production of hams, sausages, frankfurters, bologna, hamburgers, pressed ham and related products. The processed food products segment also includes salamis, cold cuts, product portions, refrigerated pasta and desserts (refrigerated products), breaded products, ready-to-eat dishes and pizzas (frozen products), and margarine, the majority of which are sold under the Sadia brand. Seasonings and secondary raw materials are applied to each product type or line according to established criteria and procedures to ensure consistency of 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 preparing an emulsion, cooling and crystallizing the product, placing the product into containers, and then packing these containers into boxes.

Feed

We produce the feed consumed at the farms operated by our integrated outgrowers of poultry and hogs. We provide feed to our integrated poultry and hog outgrowers as part of our partnership arrangements with them. We also sell animal feed to local hog producers at market rates. Animal feed sales accounted for R$162.1 million in 2008 (13% of our gross sales), R$181.7 million in 2007 (1.8% of our gross sales) and R$84.1 million in 2006 (1.1% of our gross sales).

We own 12 feed production plants and lease another four of such plants. The basic raw materials used in animal feed production are corn and soy meal mixed with other macro and micronutrients. In 2008, we purchased approximately 43.6% of our corn from rural producers and small merchants, 32.5% through cooperatives and 22.4% from trading companies such as Bunge, Cargill, ADM and others, and imported the remaining 1.5%. The corn is grown primarily in the states of Santa Catarina, Paraná, Rio Grande do Sul and the central-west region of Brazil. We buy soy meal from major producers such as Clarion, ADM, Bunge, Amaggi and Louis Dreyfus, and we produce a portion of soy meal from crushing of soy purchased in the market.

The prices of corn, soybeans and soy meal fluctuate significantly. See "Item 5. Operating and Financial Review and Prospects Principal Factors Commodity Prices."

Other Raw Materials

We purchase other materials required for our products, such as prepared animal intestines (for sausage casings), cardboard boxes and plastic (for packaging), micronutrients for animal feed, spices and veterinary drugs from third parties, both in the domestic and international markets (except for cardboard boxes, which are currently purchased solely in the domestic market). We must import and therefore pay for some of these products in U.S. dollars.

Table of Contents

Principal Markets Where the Company Competes

In 2008, Sadia derived 45.8% of its gross operating revenues from exports, versus 46.6% in 2007. 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 such markets. This information has been prepared and presented in accordance with Brazilian GAAP and is adjusted for U.S. GAAP. Refer to note 24 of the consolidated financial statements for details on the primary differences between Brazilian GAAP and U.S. GAAP.

	Exports Gross Operating Revenues (R$ Thousand)		
	2008	**2007**	**2006**
Europe	1,237,091	1,256,325	889,171
Middle East	1,493,445	986,240	787,838
Asia	1,042,731	691,273	533,295
Americas	928,237	643,770	528,453
Emerging markets (mainly Russia and other former Soviet Union countries)	883,556	946,428	719,706
Adjustments for US GAAP presentation	0	111,955	(46,426)
Total	5,585,060	4,635,991	3,412,037

Revenues are attributed to regions based upon the location where the products are shipped to. All of the Company's operational assets are located in Brazil, the Netherlands and in Kaliningrad, Russia. For more information on the Company's investment in Russia, see "Item 4. Information on the Company A. History and Development of the Company Investments (Capital Expenditures)."

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 (from 0.8 to 1.3 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 food products, poultry parts and whole birds.

In 2008, 74% of the Company's exports were to clients located in investment-grade countries.

Market Overview Domestic and International Markets

Overview of Brazil's Poultry, Pork and Beef Position in the World

The potential growth of the Brazilian domestic 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 been the need to build a comprehensive distribution network in Brazil, as well as to establish a network of outgrowers.

Poultry

Brazil is the third largest producer, and the leading exporter, of poultry in the world, according to tonnage data compiled by the United States Department of Agriculture, or "USDA," as of April 2009. Brazil's production, consumption and export volumes for poultry have increased significantly over the past five years, with Brazil having assumed the number one position as global exporter in 2004. This development can be explained by a shift of large Brazilian companies to the production of poultry for export, as well as by the competitiveness of Brazilian poultry. Sanitary problems in producing countries that were traditionally the main producers of poultry, such as the Bovine Spongiform Encephalophy, or "BSE," cases in Europe, avian influenza cases in Thailand and both BSE and avian influenza cases in the United States have changed the world poultry trade dynamics. The reduced competition from major

Table of Contents

exporting countries affected by sanitary issues and the competitive cost of Brazilian poultry favors Brazil as the most competitive exporter of quality poultry cuts. Additionally, several new markets in Europe, Africa and the Middle East have opened to Brazilian poultry producers, and the number of markets to which Brazil has access was approximately 120 in 2008, according to ABEF. The USDA projects a decrease in global production and exports for 2009 and an increase in consumption volumes for poultry. For Brazil, the USDA estimates that the Brazilian poultry market will have a volume growth of 3.2% in production, 2.6% in exports and 3.4% in consumption in 2009 compared to 2008.

In 2008, the European Union was the largest market for Brazilian poultry exports, mainly poultry parts. The increase in poultry exports to the European Union also reflects a significant increase in exports of processed poultry. The European Union market accounted for nearly 80% of all processed poultry exports from Brazil. In 2008, Hong Kong was the second largest market for Brazil's poultry exports, mostly poultry parts. Saudi Arabia, traditionally Brazil's largest single export market for poultry, now ranks third. Saudi Arabia accounted for nearly 36% of all Brazilian poultry exports to the Middle East. Japan was the fourth largest destination for Brazilian poultry in 2008, also mainly poultry parts.

The following tables identify Brazil's position within the global poultry industry for the years indicated:

	Poultry Panorama(1)				
Primary Poultry Producers	**2005**	**2006**	**2007(2)**	**2008(2)**	**2009(3)**
	(In thousands of tons "ready to cook" equivalent)				
U.S.A.	18,334	18,473	18,889	19,357	18,515
China	10,204	10,354	11,296	11,900	12,138
Brazil	**9,710**	**9,708**	**10,763**	**11,543**	**11,910**
European Union (27 countries)	10,088	9,598	10,110	10,320	10,350
Mexico	2,512	2,606	2,698	2,819	2,811
Others	17,135	18,453	19,568	20,610	20,766
Total	**67,983**	**69,192**	**73,324**	**76,549**	**76,490**

Primary Poultry Exporters	**2005**	**2006**	**2007(2)**	**2008(2)**	**2009(3)**
	(In thousands of tons "ready to cook" equivalent)				
Brazil	**2,900**	**2,658**	**3,099**	**3,457**	**3,546**
U.S.A.	2,618	2,609	2,926	3,465	3,003
European Union (27 countries)	855	820	759	865	805
China	331	322	358	285	215
Thailand	488	450	524	383	360
Others	469	394	483	619	580
Total	**7,432**	**7,120**	**7,962**	**9,074**	**8,509**

Primary Poultry Consumers	**2005**	**2006**	**2007(2)**	**2008(3)**	**2009(3)**
	(In thousands of tons "ready to cook" equivalent)				
U.S.A.	15,676	15,966	15,982	15,857	15,641
China	10,104	10,392	11,450	12,064	12,408
European Union (27 countries)	9,970	9,496	10,127	10,247	10,345
Brazil	**6,811**	**7,050**	**7,665**	**8,087**	**8,364**
Mexico	3,065	3,216	3,280	3,458	3,475
Russia	2,263	2,483	2,678	2,859	2,915
Others	19,283	20,291	21,753	22,998	23,079
Total	**67,172**	**68,894**	**72,935**	**75,570**	**76,227**

(1) Includes chicken, special poultry and turkey.

(2) Preliminary data.

(3) Estimated.

Source: USDA April 2009.

Table of Contents

Pork

According to tonnage data compiled by the USDA, Brazil is the fourth largest producer and exporter, and the sixth largest consumer, of pork in the world. Brazil's production, exports and consumption of pork has increased over the last five years, although not as significantly as they have for poultry. The USDA projects an increase in global production and consumption of pork in 2009, but a decrease of approximately of 2.5% in Brazil's pork exports for the year. Contraction in Brazilian exports reflects financial difficulties in importer countries as well as a decrease in exports from Russia due to decreasing quotas of imports there.

Brazilian pork breeding and slaughtering companies continue to increase their 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. 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 a higher percentage of prime cuts, more meat per carcass and more nutritious and healthier meat. In addition, the production increase was also due to better genetic potential of breeders.

Russia remains Brazil's largest destination for pork exports as demand growth exceeds Russian meat producers' ability to respond. Brazil has been affected less than its competitors by the sharp rise in the price of soy meal 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 market for Brazilian pork exports with a 20.5% market share by volume, followed by Ukraine, the third largest market for Brazilian pork exports, with 9.3% of market share by volume.

The following tables identify Brazil's position within the global pork industry for the years indicated:

	World Pork Panorama				
Main Pork Producers	**2005**	**2006**	**2007(1)**	**2008(2)**	**2009(2)**
	(In thousands of tons weight in equivalent carcass)				
China	45,553	46,505	42,878	46,150	48,700
European Union (27 countries)	21,676	21,791	22,858	22,530	22,100
U.S.A.	9,392	9,559	9,962	10,599	10,339
Brazil	**2,710**	**2,830**	**2,990**	**3,015**	**3,010**
Russian Federation	1,735	1,805	1,910	2,060	2,145
Canada	1,920	1,898	1,894	1,920	1,960
Others	11,565	11,768	12,208	12,167	12,064
Total	**94,551**	**96,156**	**94,700**	**98,441**	**100,318**

Main Pork Exporters	**2005**	**2006**	**2007(1)**	**2008(2)**	**2009(2)**
	(In thousands of tons weight in equivalent carcass)				
U.S.A	1,209	1,359	1,425	2,117	1,837
European Union (27 countries)	1,143	1,284	1,286	1,715	1,250
Canada	1,084	1,081	1,033	1,129	1,150
Brazil	**761**	**639**	**730**	**625**	610
China	502	544	350	223	210
Chile	128	130	148	142	130
Others	179	187	190	186	192
Total	**5,006**	**5,224**	**5,162**	**6,137**	5,379

Table of Contents

Main Pork Consumers	2005	2006	2007(1)	2008(2)	2009(2)
	(In thousands of tons weight in equivalent carcass)				
China	45,139	46,051	42,726	46,357	48,790
European Union (27 countries)	20,632	20,632	21,507	20,970	20,905
U.S.A.	8,669	8,640	8,966	8,811	8,884
Russian Federation	2,486	2,639	2,803	3,112	2,894
Japan	2,509	2,452	2,473	2,486	2,476
Brazil	**1,949**	**2,191**	**2,260**	**2,390**	**2,400**
Others	12,805	13,315	13,814	14,143	13,822
Total	**94,189**	**95,920**	**94,549**	**98,269**	**100,171**

(1) Preliminary data.

(2) Estimated.

Source: USDA April 2009.

Beef

Brazil is the largest exporter, the second largest producer and the third largest consumer of beef in the world, according to tonnage data compiled by the USDA. The USDA projects a decrease in global production, consumption and an increase in exports of beef in 2009. We believe that the economic crisis and its potential effect on consumer habits may lead customers to look for cheaper meats (such as poultry and pork) and non-animal proteins (such as vegetables), which would likely cause decreases in beef consumption.

	World Beef Panorama				
Main Beef Producers	2005	2006	2007(1)	2008(1)	2009(2)
	(In thousands of tons weight in equivalent carcass)				
United States	11,318	11,980	12,096	12,163	12,105
Brazil	**8,592**	**9,025**	**9,303**	**9,024**	**8,935**
China	5,681	5,767	6,134	6,100	6,000
European Union (27 countries)	8,090	8,150	8,188	8,100	8,200
Argentina	3,200	3,100	3,300	3,150	3,010
India	2,250	2,375	2,413	2,470	2,475
Others	17,548	17,762	17,464	17,531	16,923
Total	**56,679**	**58,159**	**58,898**	**58,538**	**57,648**

	World Beef Panorama				
Main Beef Exporters	2005	2006	2007(1)	2008(1)	2009(2)
	(In thousands of tons weight in equivalent carcass)				
Brazil	**1,845**	**2,084**	**2,189**	**1,801**	**1,675**
Australia	1,388	1,430	1,400	1,407	1,350
India	617	681	678	625	600
U.S.A	316	519	650	856	826
New Zealand	577	530	496	533	525
Others	2,572	2,273	2,230	2,343	2,254
Total	**7,315**	**7,517**	**7,643**	**7,565**	**7,230**

Main Beef Consumers	2005	2006	2007(1)	2008(1)	2009(2)
	World Beef Panorama				
	(In thousands of tons weight in equivalent carcass)				
U.S.A	12,664	12,833	12,829	12,452	12,554
European Union (27 countries)	8,550	8,649	8,691	8,362	8,520
Brazil	**6,795**	**6,969**	**7,144**	**7,252**	**7,290**
China	5,614	5,692	6,065	6,062	5,968
Argentina	2,451	2,553	2,771	2,733	2,614
Mexico	2,428	2,519	2,568	2,591	2,538
Others	17,702	18,153	19,240	18,317	17,554
Total	**56,204**	**57,368**	**58,308**	**57,769**	**57,038**

(1) Preliminary data

(2) Estimated

Source: USDA April 2009

Brazilian Domestic Market

Brazil is the fifth largest country in the world, both in terms of land mass and population. It had an estimated population of 191.5 million people as of May 2009, according to data from the Brazilian Institute of Geography and Statistics (*Instituto Brasileiro de Geografia e Estatística*), or "IBGE." Brazil had an estimated gross domestic product, or GDP of R$2.9 trillion for 2008, representing an 11.2% increase over GDP of R$2.6 trillion for 2007, in each case in nominal terms. The global economic recession that erupted in 2008 particularly affected the Brazilian economy during the fourth quarter of 2008 and the first half of 2009. The Brazilian Central Bank forecasts that the Brazilian GDP in 2009 will decrease 0.71% compared to 2008. Disposable income per capita declined between 2001 and 2004, though it rebounded from 2005 to 2008. Real income and nominal salaries in Brazil in 2008 were 3.4% and 9.9% higher, respectively, than those in 2007. Due to the global economic crisis, however, these economic developments may not result in increased domestic food consumption going forward. The IPCA inflation rate was 4.5% in 2007 and 5.9% in 2008, continuing a trend of moderate inflation rates when compared with Brazil's historical experience of high rates of inflation.

In the first quarter of 2009, industry activity slowed, mostly due to contraction in external demand. In the domestic market, deterioration in the labor market did not significantly affect retail sales.

Brazil is a large consumer of meat, with estimated per capita meat consumption of 87.8 kilograms in 2008, according to the USDA. Poultry and beef are a major food staple and protein source in the Brazilian domestic market. Pork is also an important protein source in the country, although Brazilians consume considerably more beef and poultry than pork.

Demand for poultry, pork and beef products is directly affected by economic conditions in Brazil. The overall trend toward improved economic conditions in recent years has generally supported increased demand for processed food products, as well as traditional fresh and frozen poultry and pork products. However, declines in disposable income between 2001 and 2004 partially offset other positive economic developments that contributed to demand. More recently, in the fourth quarter of 2008, the worsening of the global economic and financial crisis began to affect demand for our products in the Brazilian market. These negative trends began to affect domestic consumer confidence in the fourth quarter of 2008 and have continued to do so in 2009. For information about certain expected macroeconomic trends for 2009, see "Item 5. Operating and Financial Review and Prospects D. Trend Information."

Table of Contents

The Brazilian domestic market is highly competitive, particularly for fresh and frozen poultry and pork products. There are several large producers, most notably Sadia and Perdigão, but also Aurora Cooperativa Central Oeste Caterinense Ltda., or "Aurora," and Seara Alimentos S.A., or "Seara" (which is now owned by Cargill). The large producers are subject to significant competition from a substantial number of small producers that operate in the informal economy and offer lower quality products at lower prices than do the major producers. For that reason, we and our main competitors have, in recent years, focused on producing and selling higher value-added processed food products because these products support better margins than do fresh and frozen poultry and pork products which are more similar to commodities in nature.

Among processed foods products, specialty meats and frozen processed meats have experienced considerable growth in recent years. Based upon information compiled by A.C. Nielsen do Brasil S.A., the specialty meats market in Brazil accounted for net sales of R$14.0 billion in 2008, representing an 11% increase over R$12.6 billion in 2007. Based upon information compiled by A.C. Nielsen do Brasil S.A., the frozen processed meats market represented net sales of approximately R$2.5 billion in Brazil in 2008, a 14% increase over R$2.2 billion in net sales in 2007. The processed foods sector is more concentrated in terms of the number of players. Consumption of processed products is influenced by several factors, including the increase in consumer income and marketing efforts, with a view to meeting consumer demand for more value-added products. We believe that processed food products represent an opportunity for further growth in coming years.

The size of the Brazilian margarine market was approximately R$2.3 billion in 2008, according to A.C. Nielsen do Brasil S.A.

Export Markets

The global trade in poultry, pork and beef products has grown in recent years, according to the USDA, and meat consumption among major countries has also grown. Brazilian export volumes of chicken grew at an accumulated rate of 11% in 2008, in terms of volume, from 3,287 thousand tons to 3,646 thousand tons. However, Brazilian exports of pork decreased at an accumulated rate of 13% in 2008, from 606 thousand tons to 529 thousand tons. In addition, Brazilian exports of beef decreased at an accumulated rate of 14% in 2008, from 1,615 thousand tons to 1,383 thousand tons. The worsening of the global economic and financial crisis in the fourth quarter of 2008 led to significant weakness in demand for pork, beef and poultry at the end of 2008, and this weakness has continued in the first half of 2009.

Brazil has become a leading participant in global export markets due to natural advantages, including low feed and labor costs, and gains in efficiencies in animal production. We, like other large Brazilian producers, have built on these advantages to develop the scope and scale of our businesses.

Global demand for Brazilian poultry, pork and beef products is significantly affected (depending on the export market, trade barriers, sanitary requirements and disease-related bans) by religious considerations, economic conditions and other factors. Trade barriers may include quotas on imports from Brazil (e.g., in Russia), protective tariffs (e.g., in the European Union), direct and indirect subsidies for local producers, licensing requirements (e.g., in China) and outright bans on imports. Most countries require sanitary agreements with Brazil before Brazilian products may be imported (e.g., the United States has no sanitary agreement with Brazil covering poultry, beef and pork products and therefore will not accept Brazilian poultry, beef and pork import). In addition, outbreaks of animal disease may result in bans on imports (e.g., in Russia, which banned imports of Brazilian pork products because of outbreaks of foot-and-mouth disease affecting cattle in two Brazilian states). The Middle East, which constitutes an active region for poultry sales by Brazilian producers, does not import pork products due to Muslim religious bans on the consumption of pork. Above all, economic conditions in a particular export market (whether national or regional) may influence levels of demand for all types of poultry, pork and beef products as well as processed products.

Global trade in poultry products has been negatively affected by the spread of highly pathogenic avian influenza (H5N1 virus), particularly in Asia but also in Europe and Africa. Since the beginning of 2003, there have been 424 confirmed human cases of avian influenza and 261 deaths, according to the World Health Organization, with an increased number of deaths each year since 2003. Human cases were reported in various countries in Asia, the Middle East and Africa in 2006, and several countries in Europe reported cases of avian influenza in birds. Avian influenza has not yet been detected in Brazil or elsewhere in the Americas. A similar virus strain has been detected in North America, with low pathology. If this animal disease is detected in Brazil, or if it begins to be transmitted from human to human, global demand for poultry products is likely to decline for a period whose length cannot be predicted.

Similarly, global trade in pork products has been negatively affected in 2009 by the spread of A(H1N1) influenza, also called "swine flu," in many countries. More than 11,000 cases and over 100 deaths worldwide have been recorded since the outbreak of A(H1N1) influenza in Mexico, and on June 11, 2009, the WHO declared a flu alert level six, signaling a "global pandemic." Many countries, including Russia and China, have prohibited imports of pork from countries reporting a significant number of cases (Mexico, United States and Canada), but as the World Health Organization, or "WHO," and other independent sources have stated that influenza A(H1N1) is not transmitted by pork consumption, those countries have since reopened their markets to producers from Mexico, the United States and Canada. Still, some states in countries that import pork continue to impose restrictions on pork imports from Mexico, the United States and Canada. Whether or not an outbreak of A(H1N1) influenza occurs in Brazil, further outbreaks of the disease anywhere in the world could have a negative impact on the consumption of pork in our export markets or in Brazil. Any further outbreak of A(H1N1) influenza could lead to the imposition of costly preventive controls on pork imports in our export markets.

In export markets, we and other Brazilian producers compete with local and other foreign producers. Traditionally, Brazilian producers have emphasized exports of frozen whole and cut poultry, and frozen pork and beef cuts. These products, which are similar to commodities in nature, continue to account for the substantial portion of export volumes in recent years. More rec