SADIA SA
Form 20-F
June 30, 2004

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

FORM 20-F

[ ] REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR 12(g)
OF THE SECURITIES EXCHANGE ACT OF 1934
OR
[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15 (d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2003
OR
[ ] TRANSITION REPORT PURSUANT TO SECTION 13 TO 15 (d)
OF THE SECURITIES EXCHANGE ACT OF 1934

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

Federative Republic of Brazil
(Jurisdiction of Incorporation or Organization)

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

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

Preferred Shares, no par value per share, represented by
American Depositary Shares Name of each exchange on which registered:
The New York Stock Exchange Securities registered pursuant to
Section 12(g) of the Act:
None
Securities for which there is a reporting obligation pursuant to
Section 15(d) of the Act: None

The total number of outstanding shares by Sadia S.A., by class,
as of December 31, 2003, was as follows:

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

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

Yes X No ____

Indicate by check mark, which item of the financial Statements the Registrant has elected to follow:

Item 17 Item 18 X .

Please send copies of notices and communications from the Securities and Exchange Commission to:
Ross Kaufman
Greenberg Traurig, LLP
200 Park Avenue
New York, New York 10166

CONTENTS

GENERAL

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

Presentation of Certain Financial Information

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

FORWARD-LOOKING STATEMENTS

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

PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3. KEY INFORMATION

A. SELECTED FINANCIAL DATA

U.S. GAAP Presentation

The selected financial information for the Company included in the following table should be read in conjunction with, and is qualified in its entirety by reference to, the U.S. GAAP financial statements of the Company and "Operating and Financial Review and Prospects" appearing elsewhere herein. The consolidated financial data for the Company as of December 31, 2003, 2002, 2001, 2000 and 1999 are derived from the audited U.S. GAAP financial statements.

SADIA S.A
CONSOLIDATED STATEMENTS OF OPERATIONS Years
ended December 31, 2003, 2002, 2001, 2000 and 1999
(In thousands of Reais - R$, except numbers of shares and per share amounts)

	2003	200
Gross operating revenue	5,717,525	4,654,75
Value-added tax on sales	(535,337)	(417,28
Sales deductions	(41,345)	(50,33
Net operating revenue	5,140,843	4,187,13
Cost of goods sold	(3,673,011)	(2,903,15
Gross profit	1,467,832	1,283,98
Operating expenses:		
Selling	(975,797)	(876,75
General and administrative	(54,207)	(49,13
Other operating expense, net	(36,819)	(12,77
Total operating expenses	(1,066,823)	(938,66
Operating income	401,009	345,32
Interest expense	(450,198)	(317,75
Interest income and other, net	459,750	266,46
Foreign currency exchange loss, net	60,970	2,70
Income before equity income (loss) of investees and minority interest	471,531	296,73
Income tax benefit (expense):		
Current benefit (expense)	(39,072)	34,63
Deferred tax benefit (expense)	40,099	(46,78
	1,027	(12,15
Income (loss) before equity income of investees and minority interest	472,558	284,57
Equity income (loss) of investees	361	(65
Minority interest	349	33
Income (loss) before cumulative effect of accounting change	473,268	284,26
Cumulative effect of accounting change, net of tax	--	--
Net income (loss)	473,268	284,26
Net income (loss) applicable to preferred stock	305,564	183,53
Net income (loss) applicable to common stock	167,704	100,72
Net income (loss)	473,268	284,26
Basic and diluted earnings (loss) per thousand shares in R$:		
Preferred	717.80	431.1
Common	652.54	391.9
Weighted average number of shares outstanding:		
Preferred	425,695,712	425,695,71
Common	257,000,000	257,000,00
Dividends paid per thousand shares in R$:		
Preferred	170.08	106.8
Common	154.61	97.1

	2001	200

Gross operating revenue	3,977,137	3,257,94
Value-added tax on sales	(293,280)	(316,91
Sales deductions	(81,387)	(59,74
Net operating revenue	3,602,470	2,881,27
Cost of goods sold	(2,322,691)	(2,167,01
Gross profit	1,279,779	714,26
Operating expenses:		
Selling	(720,761)	(563,02
General and administrative	(54,029)	(51,60
Other operating expense, net	(17,136)	(9,17
Total operating expenses	(791,926)	(623,80
Operating income	487,853	90,45
Interest expense	(201,210)	(187,26
Interest income and other, net	144,635	190,51
Foreign currency exchange loss, net	(171,377)	(72,77
Income before equity income (loss) of investees and minority interest	259,901	20,93
Income tax benefit (expense):		
Current benefit (expense)	(38,895)	(86
Deferred tax benefit (expense)	(12,161)	(20,95
	(51,056)	(21,82
Income (loss) before equity income of investees and minority interest	208,845	(88
Equity income (loss) of investees	43	(5,09
Minority interest	439	49
Income (loss) before cumulative effect of accounting change	209,327	(5,48
Cumulative effect of accounting change, net of tax	(5,843)	--
Net income (loss)	203,484	(5,48
Net income (loss) applicable to preferred stock	131,378	(3,42
Net income (loss) applicable to common stock	72,106	(2,06
Net income (loss)	203,484	(5,48
Basic and diluted earnings (loss) per thousand shares in R$:		
Preferred	308.62	(8.0
Common	280.56	(8.0
Weighted average number of shares outstanding:		
Preferred	425,695,712	425,695,71
Common	257,000,000	257,000,00

Dividends paid per thousand shares in R$:		
Preferred	69.75	38.5
Common	63.41	35.0

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

DECEMBER 31,	2003	2002	2001	2000
Cash and cash equivalents and investments in debt and held-to-maturity securities	1,957,753	1,249,783	346,354	220,814
Total Current Assets	3,726,386	2,817,467	1,598,128	1,335,843
Investments in debt and held-to-maturity securities	1,158,586	760,857	609,767	745,471
Property, plant and equipment, net	829,003	860,070	857,653	889,436
TOTAL ASSETS	6,149,453	4,975,627	3,325,305	3,202,793
Total Current Liabilities	2,969,833	2,591,383	1,335,176	1,699,863
Short-term debt and current portion of long term debt	2,030,752	2,052,068	910,386	1,381,123
Long-term debt	1,366,836	1,205,160	889,767	526,413
TOTAL SHAREHOLDERS' EQUITY	1,521,585	1,057,759	967,181	853,778

The exchange rates of Real amounts into U.S. Dollars for the years ended December 31, 1999, 2000, 2001, 2002, 2003and January through May 2004 and most recent exchange rate, are shown in the table below:

COMMERCIAL SELLING EXCHANGE RATES (R$/US$)

	HIGH	LOW	AVERAGE	END OF
1999	2.0648	1.6607	1.8514	1
2000	1.9847	1.7234	1.8295	1
2001	2.8350	1.9320	2.3536	2
2002	3.9552	2.2709	2.9309	3
2003	3.6623	2.8219	3.0715	2
DECEMBER/2003	2.9434	2.8883	2.9264	2
JANUARY/2004	2.9409	2.8022	2.8518	2
FEBRUARY/2004	2.9878	2.9042	2.9303	2
MARCH/2004	2.9410	2.8752	2.9055	2
APRIL/2004	2.9522	2.8743	2.9048	2
MAY/2004	3.2051	2.9569	3.0982	3
JUNE 14, 2004	3.1651	3.1119	3.1349	3

Source: Brazilian Central Bank

B. CAPITALIZATION AND INDEBTEDNESS

Not Applicable.

C. REASONS FOR THE OFFER AND USE OF PROCEEDS

Not Applicable.

D. RISK FACTORS

RISKS RELATING TO BRAZIL

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

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

Prior to 1995, Brazil experienced extremely high rates of inflation. Inflation, along with governmental measures to combat inflation, has had significant negative effects on the Brazilian economy in general. Beginning in December 1993, the Brazilian government introduced an economic stabilization plan called the Real Plan. The primary objectives of the Real Plan were to reduce inflation and develop an environment for sustained economic growth.

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

Year	Rate of Inflation
1993	2,567.34%
1994	1,246.62%
1995	15.24%
1996	9.20%
1997	7.74%
1998	1.78%
1999	20.1%
2000	9.95%
2001	10.38%
2002	25.30%
2003	8.71%

Source: Fundacao Getulio Vargas (FGV)

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

FLUCTUATIONS IN THE VALUE OF BRAZIL'S CURRENCY AGAINST THE VALUE OF THE U.S.

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

Because of inflationary pressures, the Brazilian currency has been devalued periodically during the last four decades. Throughout this period, the Brazilian government has implemented various economic plans and has taken several exchange rate policies, including sudden devaluations, periodic mini-devaluations during which the frequency of adjustments has ranged from daily to monthly, floating exchange rate systems, exchange

controls and dual exchange rate markets. Although over long periods, devaluations of the Brazilian currency generally have correlated with the rate of inflation in Brazil, devaluations over shorter periods have resulted in significant fluctuations in the exchange rate between the Brazilian currency and the U.S. dollar and other currencies.

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

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

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

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

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

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

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

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

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Enforcement of civil liabilities may be difficult

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

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

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

Brazilian counsel has also advised the Company that:

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

to satisfy a judgment against the Company by attaching certain of our assets.

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

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

At the end of 2002, Brazil elected a new president from the Workers Party, Luis Inacio Lula da Silva, known as Lula. In the period leading up to and subsequent to, his election there was substantial uncertainty relating to the policies that the new government would pursue, including the potential implementation of macroeconomic policies that differed significantly from those of the prior administration. This uncertainty resulted in devaluation of the real against the U.S. dollar in that period as well as deterioration in Brazil sovereign risk and certain macroeconomic indexes.

However, the new government has not departed in any material way from previous policy and the main macroeconomic fundamentals had reverted the negative trend registered by the second half 2002. Any

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

RISKS RELATING TO THE COMPANY'S BUSINESS

THE BUSINESS INVOLVES BREEDING OF ANIMALS AND MEAT PROCESSING

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

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

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

ENVIRONMENTAL ISSUES CAN AFFECT COSTS AND ARISE NEW REGULATION REQUIREMENTS

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

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

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

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

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

FMD Cases in Brazil can indirectly affect pork sales

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

RISKS RELATING TO SADIA S.A.

THE COMPANY IS CONTROLLED BY A GROUP OF SHAREHOLDERS

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

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

The Company's ten largest customers in 2003 accounted for approximately 21% of the Company's total domestic sales and approximately 11% of its total gross sales. As a result, if the Company loses any of its ten largest customers or they reduce significantly the amount they purchase from the Company, the Company's revenue and operating income could be materially adversely affected. The Company has been developing new client oriented policies to reduce the concentration of revenues in a small number of clients and to spread the related concentration risk.

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

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

ITEM 4. INFORMATION ON THE COMPANY

A. HISTORY AND DEVELOPMENT OF THE COMPANY

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

The Company is the leader in all of the markets in which it operates within Brazil (see "Market Share"). Sadia is the largest slaughterer and distributor of poultry and pork products, as well as the largest domestic exporter of poultry, according to the Brazilian Chicken Exports Association (ABEF). Sadia Group is also the largest distributor of frozen and refrigerated meat-based products (according to AC/Nielsen). Sadia Group currently has 34,432 employees (December, 2003).

The level of verticalization adopted by Sadia ensures control at all stages of production and distribution of products. The Company's operations include breeding farms for poultry and hog grandparent and parent stock, hatcheries, pork breeding centers, slaughterhouses, processing units, animal feed production plants, representative offices and distribution centers. Sadia introduced the vertical integration of poultry and hog breeding, which was initially adopted in the west of Santa Catarina State. This system is still utilized by the Company. It consists of a partnership between the industry and the rural producers, with a view to obtaining animals for slaughter, raised in highly productive breeding conditions and controlled hygienic-sanitary conditions. Sadia produces one-day chicks and piglets and supplies them to outgrowers, along with feed, transport, technical and veterinary assistance.

The Company has 11 plants within Brazil, and distributes its product line of approximately 684 items through distribution and sales centers spreaded over Brazil, Latin America, the Middle East, Asia and Europe. The table below shows the Company's production capacity:

Production Capacity (2003)

Production and Capacity Table	Capacity - 2003	Production - 2003	Produ
Chicken Slaughtering (Million head/year)	482.0	482.0	450.2
Turkey Slaughtering (Million head/year)	19.6	19.0	19.4
Hogs Slaughtering (Million head/year)	4.0	3.9	3.9
Processed Products (Th. Tons/year)	490.0	405.1	401.2
Margarine (Th. Tons/year)	158.2	144.9	128.9
Animal Feed (Th. tons)	4,176.0	3,765.8	3,658

Source: Sadia S.A.

Within Brazil, Sadia's products are marketed in 330,000 points of sales. The Group has three sales centers within South America, and operates in Paraguay and Bolivia through an exclusive distributor. The Company maintains representative offices in Buenos Aires (Argentina), Montevideo (Uruguay), Santiago (Chile), Worcester (UK), Milan (Italy), Tokyo (Japan) and Dubai (United Arab Emirates). The Company exports around 250 different products to approximately 92 countries.

Company Overview

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

Over the course of its 60-year history, the Company evolved based on two key strategies: the diversification of its portfolio of food products, and investment in quality.

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

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

In July 1998, Sadia was merged with two of its subsidiaries, Sadia Frigobras

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

On December 28, 1999 Sadia acquired the capital stock of Granja Rezende S.A. (primarily a producer and distributor of poultry and pork products) and its wholly owned subsidiaries Rezende Alimentos Ltda., Rezende Oleo Ltda. and Rezende Marketing Comunicacoes Ltda.

Immediately following the acquisition of Granja Rezende, the Company decided to sell Granja Rezende's soybean crushing and oil manufacturing plant, which was not then in operation, and administrative complex.

During 2000, the subsidiary Rezende Alimentos Ltda. was converted from a limited liability company into a corporation and the subsidiary's name was changed to Sadia Alimentos S.A. On December 29, 2000, the then parent was merged into Sadia Alimentos S.A., whose name was then changed to Sadia S.A. The purpose of the merger was to permit an operational and administrative rationalization, and the utilization of tax loss carry forwards.

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

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

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

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

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

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

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

In October 2002, the investment in BRF Trading Company was discontinued. The Company was a joint venture between by Sadia (50%) and Perdigao S.A. (50%).

GROUP STRUCTURE - December 2003

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

Sadia S.A. concentrates all production, slaughtering, distribution and product sales activities within Brazil. Sadia International Ltd. is one of the Company's vehicles for sales outside Brazil, and is a shareholder of the `Churrascaria Beijing' steakhouse, which was established in Beijing in partnership with Sky Dragon, a company linked to the Chinese Ministry of Agriculture. Rezende Oleo and Rezende Mkt. e Comunic. Ltda. are non operational. Sadia G.M.B.H. is a holding that controls Laxness F.C.P.A.Lda., an offshore company responsible for part of Sadia