SADIA SA
Form 20-F
June 26, 2003

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

FORM 20-F

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

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

Federative Republic of Brazil
(Jurisdiction of Incorporation or Organization)

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

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

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

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

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

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

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

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

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

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

CONTENTS

GENERAL

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

Presentation of Certain Financial Information

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

Forward-Looking Statements

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

PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3. KEY INFORMATION

A. SELECTED FINANCIAL DATA

U.S. GAAP Presentation

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

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

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

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

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

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

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

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

COMMERCIAL SELLING EXCHANGE RATES (R$/US$)

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

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

Source: Brazilian Central Bank

B. CAPITALIZATION AND INDEBTEDNESS

Not Applicable.

C. REASONS FOR THE OFFER AND USE OF PROCEEDS

Not Applicable.

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D. RISK FACTORS

RISKS RELATING TO BRAZIL

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

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

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

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

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

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

Source: Fundacao Getulio Vargas (FGV)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

ENFORCEMENT OF CIVIL LIABILITIES MAY BE DIFFICULT

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

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

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

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

Brazilian counsel has also advised the Company that:

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

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

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

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

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

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

RISKS RELATING TO THE COMPANY'S BUSINESS

THE BUSINESS INVOLVES RAISING OF ANIMALS AND MEAT PROCESSING

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

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

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

ENVIRONMENTAL ISSUES CAN AFFECT COSTS AND ARISE NEW REGULATION REQUIREMENTS

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

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

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

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

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

FMD CASES IN BRAZIL CAN INDIRECTLY AFFECT PORK SALES

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

RISKS RELATING TO SADIA S.A.

THE COMPANY IS CONTROLLED BY A GROUP OF SHAREHOLDERS

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

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

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

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

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

ITEM 4. INFORMATION ON THE COMPANY

A. HISTORY AND DEVELOPMENT OF THE COMPANY

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

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

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

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

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

Production Capacity (2002)

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

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

Source: Sadia S.A.

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

COMPANY OVERVIEW

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

GROUP STRUCTURE - DECEMBER 2002

[GRAPHIC OMITTED]

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

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

BUSINESS OVERVIEW

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

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

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

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

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

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

Source : Sadia

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

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

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

Breakdown of Gross Operating Revenue (in %)

BREAKDOWN OF GROSS OPERATING REVENUE

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

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

PROCESSED PRODUCTS

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

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

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

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

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

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

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

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

POULTRY AND PORK

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

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

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

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

Turkeys	19.4	20.9	18.8
Hogs	3.9	3.6	3.3

Source : Sadia

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

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

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

Source : Sadia

PRODUCTION PROCESS

PROCESSED PRODUCTS

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

POULTRY

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

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

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

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

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

PORK

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

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

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

INDUSTRY OVERVIEW - DOMESTIC AND INTERNATIONAL MARKETS

Processed Products

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

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

Frozen Processed Products

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

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

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

Source: ACNielsen

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

Refrigerated Processed Products

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

Brazilian Market for Refrigerated Processed Products

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

Source: ACNielsen

Margarine

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

PRINCIPAL MARKETS WHERE THE COMPANY COMPETES

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

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

POULTRY - BROILER AND TURKEY

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

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

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

BROILER PRODUCTION (000 METRIC TONS)

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

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

BROILER CONSUMPTION (000 METRIC TONS)

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

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

TURKEY PRODUCTION (000 METRIC TONS)

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

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

TURKEY CONSUMPTION (000 METRIC TONS)

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

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

KEY EXPORTERS

United States

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

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Brazil

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

European Union

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

Thailand

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

BROILER EXPORTS (000 METRIC TONS)

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

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

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

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TURKEY EXPORTS (000 METRIC TONS)

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

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

KEY IMPORTERS

China

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

European Union

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

Hong Kong

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

Japan

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

Mexico

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

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

Russia

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

Saudi Arabia

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

BROILER IMPORTS (000 METRIC TONS)

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

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

TURKEY IMPORTS (000 METRIC TONS)

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

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

PORK

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

PORK PRODUCTION (000 METRIC TONS - CARCASS WEIGHT EQUIVALENT)

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

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

PORK CONSUMPTION (000 METRIC TONS - CARCASS WEIGHT EQUIVALENT)

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

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

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KEY EXPORTERS

UNITED STATES

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

BRAZIL

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

CANADA

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

EUROPEAN UNION

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

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PORK EXPORTS (000 METRIC TONS - CARCASS WEIGHT EQUIVALENT)

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

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

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

KEY IMPORTERS

UNITED STATES

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

HONG KONG

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

JAPAN

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

Mexico.

MEXICO

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

RUSSIA

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

PORK IMPORTS (000 METRIC TONS - CARCASS WEIGHT EQUIVALENT)

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

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

SEASONAL NATURE OF BUSINESS

Chicken and pork. Not seasonal in nature.

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

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

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RAW MATERIALS

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

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

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

MARKETING

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

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

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

Business Strategy

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

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

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

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

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

Logistics

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

Distribution

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

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

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

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

Transport

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

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

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

Shipment of Exports

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

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

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

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

MARKET SHARE

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

Ranking in Brazil - 2002

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

* by revenue

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

Processed Products

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

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

Brazilian Margarine Market

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

Source: Nielsen

Poultry

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

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

Pork

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

Investments in Operations

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

Environment

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

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

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

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

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

Human Resources

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

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

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

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

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

Employee Benefits

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

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

Total Quality Program

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

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

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

BRAZILIAN FOOD SECTOR REGULATION

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

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C. ORGANIZATIONAL STRUCTURE

OWNERSHIP

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

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

D. PROPERTY, PLANTS AND EQUIPMENT

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

OPERATING UNITS

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

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

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

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